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Insularity: the Hidden Killer of Corporate Reputation

BP has paid dearly for failure to see its actions in the context of broad social interests

By Peter Firestein

Six weeks into the Deepwater Horizon disaster, as the blown oil well continued to spew crude into the Gulf of Mexico and the enormity of its damage started to become evident, BP (BP) Chief Executive Tony Hayward told reporters that no one wanted a solution to the mounting catastrophe more than he. "I want my life back," he said on May 31.

In light of the 11 deaths the explosion caused—lives no one would be getting back— Hayward's comment appeared to be a callous PR gaffe at best. He seemed to say his greatest motivation for getting the well capped was an end to the personal inconvenience the episode was causing him. This self-centered comment seemed to upset people as much as the environmental and economic effects of the disaster. It also seemed emblematic of why the well had exploded in the first place: the insularity of BP's culture and the company's failure to recognize its effects on the society of which it was a part.

The temptation to take the insular view is not unique to BP. It periodically lures great organizations into self-destructive decisions. Several years ago a number of drug companies, including Merck (MRK) and GlaxoSmithKline (GSK), adopted the view that they could withhold from the public information on possible side effects of some of their top products—Vioxx in Merck's case, Paxil in GlaxoSmithKline's. Merck lost its management. Both companies became big losers in fines and legal fees paid and in loss of reputation.

Dangers of the Echo Chamber

Such ill-advised strategies are often the result of a company dialogue restricted to a narrow group of individuals who confer only with each other. You could characterize

such deliberations as occurring in an echo chamber. Even the most accomplished professionals can, in such closed circumstances, persuade each other to pursue strategies whose lack of good sense would be apparent to almost any thoughtful person outside their small circle.

At BP, a counterpoint has been playing out for years between two conflicting cultural elements—one insular and another that is open to broader social considerations. The company has, at times, displayed a remarkable ability to accommodate the interests of populations it affects. From 2003 to 2005, BP developed what was then the largest infrastructure project in the world—a thousand-mile pipeline extending from the Caspian Sea through three countries to the Mediterranean. In the process, BP set new standards in corporate social responsibility. It interviewed thousands of people along the way to find the route that least disrupted their lives and had the least impact on the environment. It published on its website, without editorial intervention, the findings of independent environmental councils. It undertook a policy of rigorous social responsibility, investing tens of millions of dollars in clinics, schools, water systems, and other assets in affected communities.

But around the time the company was completing this project, one of its Texas facilities exploded, killing 15 people and injuring 180. The accident came after repeated regulatory warnings about unsafe conditions. Less than a year later, BP spilled crude from an Alaska pipeline as a result of its failure to carry out a basic maintenance procedure.

Which is the Real BP?

How do you reconcile the two BPs? Was the real BP the one that took such exceptional care over the social and environmental effects of its Caspian-Mediterranean pipeline? Or was it the one that failed to implement the safety functions that should have been standard operating procedure for such a company? The lives lost in Texas and the Gulf suggest that BP's gestures at social responsibility were, in fact, expressions of a peripheral strategy aimed at luring public opinion in one direction while the company went in another. The inspiration behind its social responsibility programs never penetrated BP's normal operating processes. While admirable initiatives, they did not become part of its culture.

The great competence that carried Tony Hayward to the top of BP proved insufficient to save him from the damaging effects of his insularity. He came undone not from professional failure, but from a blindness to the larger interests he was expected to serve. The same insularity that caused the company to fail at protecting the environment also prevented Hayward from understanding the human devastation the blowout caused. It allowed him to descend into a self-centered communication that led ultimately to his public humiliation.

A Policy of Inclusion Can Save You

A very candid CEO once told me that the reason he insisted on transparency was to protect himself from himself. "If everybody can see what I'm doing," he told me, "I'm less likely to do something stupid."

No management team can see the world clearly enough to understand all the risks inherent in its business strategies. So inclusion of diverse voices in the executive conversation is critical. Tony Hayward could have found protection from his personal tone deafness if he had understood the importance of hearing other points of view. This could have saved him from his unforgettably disastrous performance before a Congressional subcommittee in June—when he claimed he knew nothing of procedures aboard the Deepwater Horizon, although he was responsible as CEO and had had two months to investigate. His stonewalling tactic reduced the chance that he would make a damaging comment. But the stonewalling also sealed his fate. It took no account of the fact that the company's neglect of its obligations had threatened a way of life for many thousands of people.

Since then, BP has retained new advisers and has begun slowly to retake control of its public face. The thrust of this effort lies primarily in trying to show it is not a distant British interloper, but a company with deep roots in the Gulf region. When Bob Dudley, a Mississippi native, replaces Hayward as CEO on Oct. 1, he will become the first non-Briton to lead the company. Meanwhile, BP's ads show company employees who are native to the Gulf assuming responsibility for cleaning up. They'll be there until the job is done, they assure us. But it is unfortunate for BP's reputation, its future business, and the welfare of millions of small investors that this openness came only as a last resort.

Questions for companies seeking to shake their insularity:

- Do you use internal reservoirs of expertise—such as PR, investor relations, and governmental affairs groups—to provide perspective? Or are they simply order-takers waiting for instructions from the executive suite?

- Does your management convene these groups on a regular basis to hear their perceptions?

- Are your outside advisers limited to PR, branding, advertising, and marketing—to those dedicated to building your image? Or do you also seek the views of nongovernmental organizations and other sources of possibly adverse viewpoints that could reveal unseen risks to your reputation?

- Do you listen when they speak?

In the end, no company of size has a public presence devoid of potential conflict or controversy. In addition, the degree of vulnerability that conflict brings cannot be known. Still, the board and management have a choice: They can explore their vulnerability by soliciting candid viewpoints that might be difficult to listen to. Or they can read about it in the papers.

Peter Firestein is author of *CRISIS OF CHARACTER--Building Corporate Reputation in the Age of Skepticism.* He advises corporations on how to create the structures and strategies needed to improve relationships with both external and internal constituencies. Peter is originator of The Open Perception Study, a forward-looking methodology that identifies investor sentiment. He publishes *The Corporate Reputation Monthly* and a corporate reputation blog. For more information at www.peterfirestein.com .