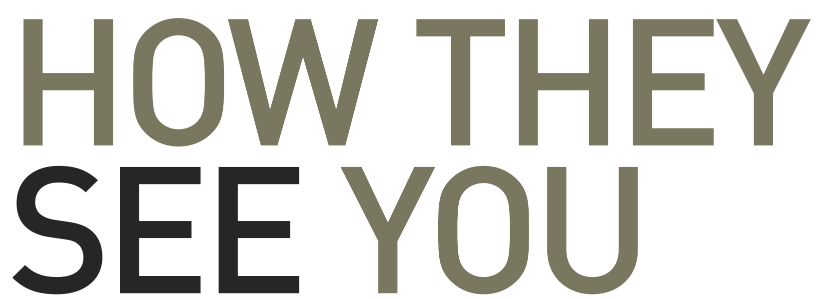

IT'S NOT WHAT YOU DO THAT COUNTS— IT'S HOW IT'S PERCEIVED.

BY JAY STULLER

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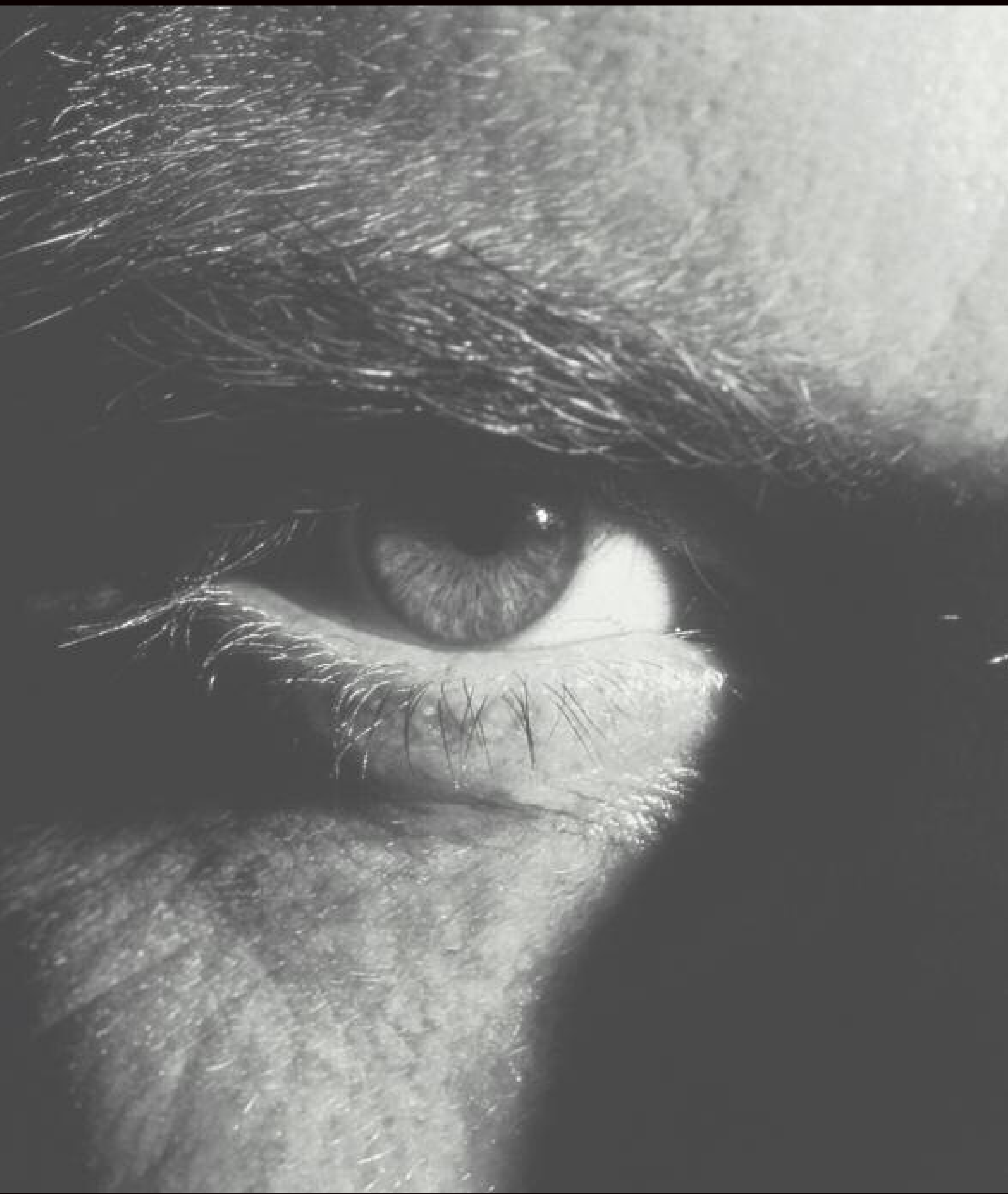


WHAT'S WRONG WITH A CEO FLYING ON A PRIVATE JET? USUALLY NOTHING—UNLESS, THAT IS, HE'S ON HIS WAY TO THE NATION'S CAPITAL TO PLEAD FOR RESCUE FUNDING FOR HIS COMPANY.

When auto executives journeyed from Detroit to Washington late last year to ask Congress for financial assistance, how could anyone familiar with the roles of CEOs take umbrage with their use of the company Gulfstream or Citation? Such modes of transport for chief executives are not only customary but arguably necessary given issues of security, speed, and convenience. Regardless, although the American auto industry got its bailout, it was only after the Big Three endured humiliating slaps from Congress, the media, comedians, and the public over the sheer gall of flying in private luxury while asking for taxpayer cash.

But the outpouring of spite had roots much deeper than a travel gaffe could inspire. The faux pas was merely the last straw for U.S. carmakers that lost money by producing fuel-inefficient vehicles of average quality, that stuck with product lines lacking the hybrid technologies of sustainable environmental stewardship, and that only grudgingly accepted tougher emissions and mileage standards—a resistance that persists even now. There was, and continues to be, a sense that a vital industry let down the nation.

In short, the American auto industry's reputation, already heavily dented, suffered a major crash. Regardless of how car manufacturers managed their operations, it was clear that they had mismanaged their images.

It used to be that to earn a reputation as a good corporate citizen, a company had to make philanthropic contributions to the United Way, various local causes, or perhaps a signature program—maybe a major symphony or *National Geographic* special. It was a highly obligatory, feel-good "right thing to do," often without great alignment with a business strategy. And if a firm didn't know or didn't do the right thing, it would at least try to avoid doing the wrong thing.

Reputation management is complicated today, and it was growing more so even before today's recession obliterated the trust that consumers and government had in financial institutions. With twenty-four-hour business TV channels and new media focused on the daily affairs of corporations—instead of quarterly reports and occasional analyst briefings—business is operating under hot klieg lights of relentless scrutiny. What's more, individuals and institutions that have no direct investment in a firm, and who don't live in the shadows of a factory or office park, can—if they self-select and find anything substantial with which to disagree—bring hell upon an unsuspecting target.

And that hell is much more than an aggravating nuisance, for if we've learned anything over the past year, it's how quickly perceptions can destroy an organization's market capital and viability.

In an era when trust in business ranks as low as faith in the U.S. Congress—and misbehavior, avarice, and predatory intent are assumed rather than suspected—corporations are increasingly vulnerable. And since the proverbial little guy's beef can quickly go populist and viral, he's capable of throwing not only rocks but entire glass houses—the cuts from which have clearly changed how companies deal with consumer, government, media, and nongovernmental perceptions of their behavior as well as their fiscal and social worth.

Indeed, managing reputation, something intangible yet vital to a firm's success, is far more nuanced in the twenty-first century and goes well beyond traditional crisis management. Organizations that have earned—and that can maintain—high levels of esteem and trust are better able to position themselves to sail through the storm surge now swamping entire industries. But before you can begin building—or rebuilding—your firm's reputation, here's how to start thinking about it.

THE CAPITAL OF REPUTATION

Constructing a positive corporate reputation is a long, intricate, and chancy proposition, but one that can yield huge benefits. Consider Toyota and its bottomless reserve of public goodwill. When the activist group Bluewater Network challenged Toyota's environmentally friendly image as merely the result of effective marketing in 2005, the public shrugged and continued buying Camrys and Corollas. A year later, when the automotive press exposed Toyota vehicles' quality issues, the public again shrugged and bought. And although the Japanese carmaker earns its best margins—*just like Detroit does*—from husky sport-utility vehicles, Toyota continues to bask in the aura of the Prius. Indeed, about the time that fuel approached $5 a gallon last summer, the Reputation Institute, a New York-based organization that studies, measures, and consults with corporations on this issue, ranked Toyota highest in its third annual Global Pulse 2008 survey, which measures consumers' respect, trust, esteem, admiration, and good feelings for the world's six hundred largest companies.

"Toyota has developed an image of superior quality and reliability, and it's helped them a great deal," J.D. Power and Associates executive Tom Libby told the *Pittsburgh Post-Gazette*

in 2006, with the company facing several design and quality crises. "It takes more than a few incidents to change perception, and perceptions are built up over a long period of time." The carmaker shook off transmission problems by alerting dealers and quickly recalling and fixing the problem vehicles.

And these days, Toyota has gone green, taking its image far beyond that of building quality autos, with an environmental hue that would be the envy of any company. (Of course, not every organization can follow Toyota's lead with similar results—Wal-Mart has done some impressive things for the environment, but it struggles to get credit because the company's critics are especially loud over so many other issues.)

"Toyota can sell huge numbers of big Land Cruisers and Tundra pickups," Libby added. "But thanks to the good-guy image they have from aggressively marketing a hybrid, they tend to get a free pass on a number of environmental issues.

PREVIOUS PAGE PHOTOGRAPHY BY HANS NELEMAN/RISER/GETTY IMAGES

The Prius is a very visible 'halo vehicle.'" Such an intangible asset holds far more value for a company than one may realize. In fact, for as many as half of all businesses, the worth of intangibles may exceed that of hard assets, enhancing an organization's relationship with its employees and their commitment to the enterprise, as well as bolstering a firm's standing as a great employer.

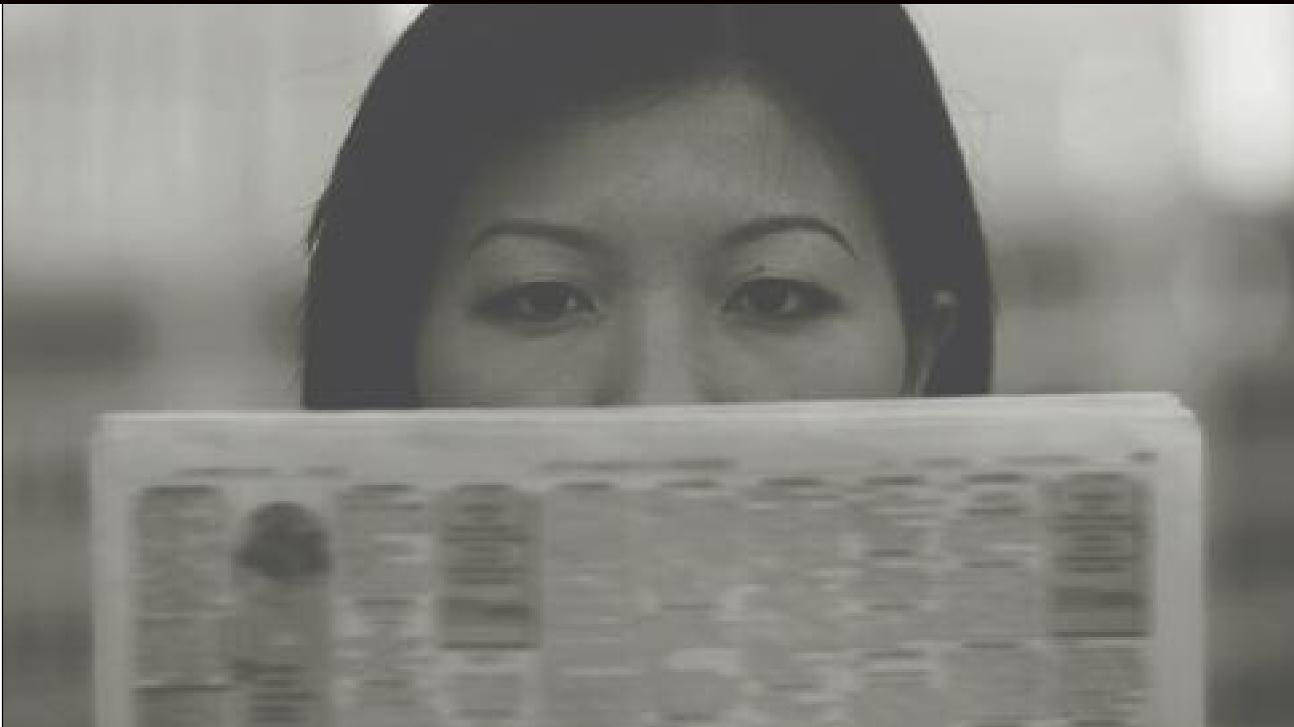
Intangibles may never show up on a balance sheet, but they are at the heart of what's known as reputation capital, which accounts for about 65 percent of an average company's market value. For businesses that live and die by their brand—Kraft, Coca-Cola, Google—reputation may even account for 95 percent of their hard market capital. Of course, physical assets remain awfully important for manufacturers in most industries, but it is reputation capital that is often much more at risk than operations involving machinery, power plants, and steel.

"On one hand, I tend to think that in this current state of economic turmoil, quite a few bets are off when you talk about corporate reputation. The dynamics in so many sectors are simply out of whack," says Kasper Nielsen, a Reputation Institute managing partner. Indeed, even the most virtuous image can vanish in an instant. When investors lost trust in Washington Mutual, Lehman Brothers, and several other once-reputable financial firms last year, the companies' fates were sealed in a New York nanosecond.

"Nonetheless, restoring trust with consumers, lenders, and all stakeholders has never been more important," Nielsen adds. "Washington Mutual is gone and is part of Chase. Now, if you have a customer who trusted WaMu but doesn't like Chase, is that sentiment going to change? Chase could be sitting on a gold mine. How the leadership and governance develops—and relates to employees and customers—will determine Chase's new reputation and ultimate success."

ROOTED IN CRISIS

The field of reputation building and maintenance has its genesis in crisis management. A focus on corporate reputation emerged in the 1980s as a result of imbroglios that included Union Carbide's catastrophic Bhopal incident, the Tylenol tampering case, and the huge and damaging tiff between Texaco and Pennzoil. *Across the Board*, the precursor to this magazine, covered the emerging field twenty-one years ago and featured



the consulting work of former American Motors chairman Gerald Meyers and his book *When It Hits the Fan—Managing the Nine Crises of Business*. But even while counseling businesses and teaching a class on crisis management at Carnegie Mellon's Graduate School of Industrial Administration, Meyers was arguing that companies should emphasize measures to *prevent* emergencies. (For a look back at that article, go to www.tcbreview.com.)

There's a big difference, however, between damage control on specific things like exploding gas tanks and shredding tires—both of which do great reputational harm—and a systematic plan to build a good reputation and maintain it during more subtle and insidious assaults. The latter demands a change in thinking by senior management. Indeed, proactively dealing with so-called soft issues and treating them as serious and important is one of the more revolutionary evolutions in corporate governance. In fact, Reputation Institute studies find that senior managers already rank reputation damage as the leading risk facing their companies. And yet, fewer than half of these leaders say that their companies have a strategic plan in place to mitigate potential harm.

"In the past, CEOs didn't often spend time wondering what an action might look like if it were spread across the front page of the local newspaper," says Jon Harmon, VP of communication and reputation at Navistar, a manufacturer of trucks and engines. "Stuff happened, and then they called the public-relations guy to try to clean it up." Harmon, who previously headed media relations at Ford and has seen his profession change over the past quarter century, explains that he now sees more executives willing to consider how their actions might be characterized by outside observers. To solidify the importance of reputation to Navistar, Harmon had asked the company to add "reputation" to his title, "since so much of the discipline involves communications with employees and a wide range of stakeholders."

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MAKING THE LISTS

Up through the mid-1990s, it was a fairly common belief among top executives that, other than customers and maybe

WHERE HAVE ALL THE REPUTATIONS GONE?

BY LESLIE GAINES-ROSS

As the economy sinks and more CEOs and employees lose their jobs, someone needs to ask where all the corporate role models have gone. I think about the answer to this question often. Have all those most admired, most respected, most responsible, most innovative, most diverse, most wealth-creating, most accountable, and most valued companies vanished, or are they simply waiting for someone to rewrite the rules for reputation-building today?

Reputation has become deeply entrenched in our global conversation. It was not always that way. Since 2000, reputation mentions have grown 88 percent in the top-tier global media. Reputation specialists are now in great supply. "Reputation expert" numbers over 25 million hits in search engines compared to ten years ago, when they could be counted on one hand. Reputation rehab is growing more popular and populated these days. Ousted former Merrill Lynch CEO John Thain just entered treatment for handing out nearly $4 billion in bonuses to ex-colleagues and sprucing up his office for $1.2 million. Richard Fuld, CEO of now-defunct Lehman Bros., never passed the twelve-step regimen without an apology, and fraudster Bernie Madoff's detox is beyond hope. Royal Bank of Scotland's former bosses were given a 10 percent discount for at least admitting that the takeover of ABN Amro was a "bad mistake."

As business leaders hit new reputation lows, most pundits and reputation experts are finding it more difficult to name companies to "best of" reputation lists. So what's around the corner for reputation repairers looking to mend the good names of companies and CEOs? Here are three suggestions for rebooting reputation over the next twelve to eighteen months.

First, as companies continue to announce layoffs, reputations will be built and destroyed on how well job losses are communicated and how fairly the process is handled. In recent years, corporate responsibility had come to mean how workers in emerging markets are treated as they produce goods and services. In the months ahead, reputations will be built on how transparent and fair leaders are in treating their employees and, particularly now, in communicating workforce reductions. As one recently departed and highly distraught employee posted on www.firedfornow.com: "On a Wednesday I received an e-mail from my boss ordering me to fire one of my subordinates. I spoke to her on Friday morning—it was painful and horrible. On Friday afternoon my boss fired me! What an a**!!!!!!!!" In defense, leaders might want to take note of Starbucks' founder and CEO Howard Schultz's straightforward employee memo on upcoming layoffs and store closings.

Second, reputations built on safety will rise in importance. Consumers, vendors, legislators, and other stakeholders will want to know how safe a product is before buying, flying, or eating it. The public will want assurances from companies that they are taking the necessary precautions to safeguard their physical and psychological safety. Investors will want guarantees that their money is out of harm's way. Talent will find ways to determine whether boards have secure risk-management systems in place. Citizens will not stand for government agencies that are lax in their inspections or are in cahoots with industry leaders. As I see it, safety will replace innovation as one of the most important elements of a good reputation. Risk is out; security is in.

THE PUBLIC WILL WANT ASSURANCES FROM COMPANIES THAT THEY ARE TAKING THE NECESSARY PRECAUTIONS TO SAFEGUARD THEIR PHYSICAL AND PSYCHOLOGICAL SAFETY.

Last, companies that listen and engage employees and customers online will be tomorrow's reputation kings and queens. Our recent research among global business leaders on managing reputations online found that word of mouth is an essential reputation ingredient today, ahead of financial performance, talent, and corporate responsibility. CEOs are woefully stuck at the Web 1.0 level and need to embrace Web 2.0 social-media tools to spread their companies' merits far and wide. Companies that reach out to bloggers and posters with solutions to problems will prevail. As Dell CEO Michael Dell said after his computers were famously maligned online, "I'd rather have that conversation in my living room than in somebody else's." Giant retailer Best Buy's bottom-up internal social-networking site lets store employees have their own Facebook-like profiles, create wikis, initiate topics of conversation, and discuss Best Buy policies. Management does not always have to go beyond its own four walls to learn firsthand how it is doing and what needs to be fixed.

No doubt about it: Reputations will fluctuate radically in 2009 but rebound slowly in 2010. How to manage that rebound is just now becoming clearer. Reputation experts have their work cut out for them.

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employees, their most important stakeholders were securities analysts. An industrial disaster or scandal could hurt business, but it was analyst recommendations that most influenced a firm's stock. And since stock price and market cap were the foundations for compensation, it's no wonder analysts were courted. There was also a belief that analysts were influenced *only* by their particular research and were disinterested in and immune to advertising and what the likes of *Fortune*, *The Wall Street Journal*, and *BusinessWeek* said.

However, Charles Fombrun, a former professor of management at New York University's Stern School of Business, disproved that notion through his seminal and proprietary research. After Fombrun had crafted messages about a company to create carefully worded advertising and press releases to influence news stories, he found that within a few months, those very words began to appear in analyst reports. Even so, Fombrun, who co-founded and is now chairman of the Reputation Institute, concedes in retrospect that he had "doubts whether the majority of mainstream business would buy into the concepts of reputation management. So many companies had an introverted personality when it came to interacting with the world. Actively building reputation capital takes an extroverted culture."

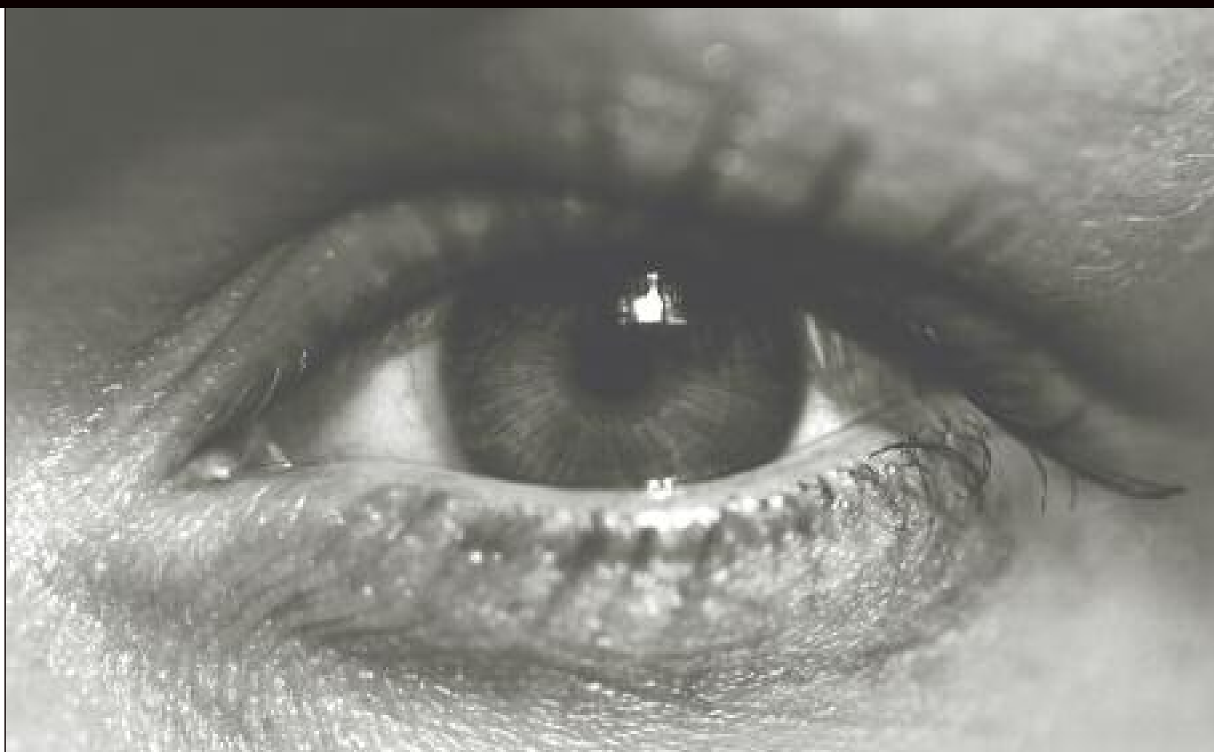
What finally began to flip the field were numerous rankings and the increasingly clear and tangible benefits of landing high on *Fortune*'s Most Admired Companies lists. Likewise, when *U.S. News & World Report* and other publications began ranking the best places at which to work, analysts began valuing the highest-ranking organizations, and those companies began to see more value in developing a good image. And, of course, when they discovered the ease with which they could attract top talent when ranked as a best place to work, and the practical benefits that followed, companies began to actively attempt to get on those lists.

(The same was true for business schools, which found it remarkably easy to attract paying applications after a high *U.S. News & World Report* ranking.)

What's more, as large PR agencies and groups such as the Reputation Institute began looking into the influence of a broad range of stakeholders, the game changed once more. "As we began to develop ways to measure the reputation quotient of organizations," says Kasper Nielsen, "companies began to truly manage their reputations."

OWNING VS. MANAGING

Although branding remains a key driver in developing a good corporate reputation, "we're starting to see a disconnect between the promise of a brand and a reputation that, ultimately, is owned by stakeholders," Nielsen explains. That is, where the field of reputation management used to be an inside-out activity,



CONSUMERS AND OTHERS WHO COMMENT PUBLICLY ON YOUR COMPANY, INCLUDING NGOs AND THE MEDIA, NOW OWN YOUR REPUTATION.

that dynamic has reversed. "Consumers and others, including NGOs and the media, who comment publicly on your company now own your reputation," he maintains. "That's become a frightening thought for many corporate leaders. Some are even angry at the suggestion and say it can't be true. But it's clear that corporate media relations doesn't really *own* the reputation, nor does human resources, legal, investor relations, or any other department. They all, however, have to be involved in its *management*."

The players watching over the business landscape—the true owners of your organization's reputation—comprise an evermore intricate web of interest groups and critics that never stop for breath. They make numerous demands, including that companies develop corporate social-responsibility programs, and they examine in great detail the social and environmental impacts of everything a business does. Stakeholders also still expect philanthropy, although smart firms choose causes more naturally aligned with their main business.

"We all know what goes into being a good corporate citizen. There's an accepted norm for good behavior," Navistar's Jon Harmon says. "But since reputation is about what others think of you, that means a whole different kind of engagement from what's been done in the past." It means actively engaging in a range of activities that may even include peer-to-peer communication.

For example, for a reporter at a leading trade magazine, Navistar will likely arrange a drive in a new truck. "But if we identify a blogger who is influential in a specific area of the trucking industry," Harmon explains, "we probably won't pull a new truck up into his driveway. However, we will have one of our experts interacting with him, answering questions and engaging in a dialogue. That blogger doesn't need to talk with the CEO and likely doesn't even care. In fact, he'd probably rather talk with an engineer."

Active engagement also means reaching out to opponents, even those who claim to dislike the company. A recent *BusinessWeek* article on Archer Daniels Midland noted that CEO Patricia Woertz has pursued a "counterintuitive" strategy of "reaching out to longtime ADM critics, who fault the company for practices they say range from industrial pollution to rainforest destruction." In reality, this is anything but counterintuitive, since reputation experts agree that simply giving critics an in-person voice is a major step toward an acceptable accord, even if there's never total agreement. Navistar and ADM are doing what the Reputation Institute calls the "reputing process," which involves actions, initiatives, and communications that make a company relevant to stakeholders.

Finally, to understand the value of successful reputation management, look no further than Johnson & Johnson. No, not their Tylenol incident years back—rather, did you notice last summer that the company sued the American Red Cross? Thought not.

Back in the 1800s, Johnson & Johnson granted the ARC the right to use one of the company's brand images as its logo, that now-famous red-cross symbol. For more than a century, there was no conflict. But when the ARC began licensing the symbol for marketing purposes, Johnson & Johnson lawyers realized that if they didn't bring a suit, the company would lose a valuable trademark. Was it worth the potential reputational hit to bring corporate litigation against a beloved nonprofit?

In filing the lawsuit, Johnson & Johnson made it clear to stakeholders that the company wasn't seeking money. Management also pointed out that valued partnerships and initiatives between the company and the Red Cross would continue. So once a judge ruled that Johnson & Johnson had taken sufficient steps to protect its trademark, all elements of the suit—and counterclaims by the Red Cross—were dropped. From beginning to end, the story failed to climb out of the back pages.

Other business don't always fare so well, since there will inevitably be leaders who fail to examine the ramifications of their actions. Citigroup, for example, as of January had received about $45 billion in taxpayer bailout money. But to ostensibly avoid a PR disaster, the firm subsequently canceled its order for a $50 million corporate jet. Unfortunately for the bank, it grounded its plans to buy the plane only after feeling pressure from President Obama and an angry public. As a result, the damage to its image was already done. Another piece of the bank's shrinking reputation capital vanished—once again, over a corporate jet. ■