# BUILDING REPUTATION

Long ignored, intangible assets are now gaining increased notice. In the last few years, it has begun to be recognised that intangible assets may well provide companies with a more enduring source of competitive advantage than even patents and technologies; the venerable names of companies like 3M, Procter & Gamble, McKinsey & Company, and Johnson & Johnson are, quite literally, as good as gold.

Although many managers today are willing to admit that intangible assets like reputations do have value, most still demonstrate inconsistent attention to the practices necessary to sustain corporate reputations. Companies where reputation is valued, and understand the economic returns to reputation take great pains to build, sustain and defend that reputation by following practices that (1) shape a unique identity and (2) project a coherent and consistent set of images to the public. Examples of these practices include:

- Carrying out ambitious programmes that champion product quality and customer service with an eye to keeping consumers happy.
- Demonstrating sensitivity to the environment, not only because it is socially responsible but because actions that safeguard the environment also dovetail with marketing programs to generate sales.
- Hiring internal staff and retaining specialized public relations agencies to safeguard communications through the media.
- Demonstrating "corporate citizenship" through philanthropy, propone activities, and community involvement.

These efforts are "enlightened" investments. They reflect a commitment to long term reputation building as well as short term self interest. They create economic value because they reinforce a company's competitive position and improve its long run chances of achieving and maintaining success.

The proliferation of such a subjective rankings as "best managed," "most innovative," and "most admired" attests to the growing popularity of reputation as a tool for assessing companies. Every year the widely read business magazines of Business India, Business Today and Business World publish a survey of analysts and managers that ranks the top 10 companies on various dimensions. It indicates the widespread, almost voyeuristic interest that we take in such corporate pageants and horse races. Operating as most of us do in a cloud of uncertainty about what the "true" performance of a company is, we find ourselves eagerly drawn to these summary appraisals. The rankings crystallise for us on the outside what everybody else thinks about the “net” performance of the company. On the one hand, CEOs value reputation because it defines a company and motivates its people. On the other, it creates a yardstick that makes CEOs claim that winning a place among the top 10 companies in these surveys as one of the company's goals.

Questions of reputation are of particular concern to knowledge-based institutions like consulting firms, law firms, investment banks, hospitals, and universities; their most valuable assets the services they provide are largely intangible. Economists call the services of these groups "credence goods"-goods that are bought on faith, that is to say, on conditions forced service groups to compete for clients. They began to recognise that they relied on their reputations to attract customers and market their services; that their reputations were a significant form of capital that went unrecorded on their balance sheets. In the last few years, professional service firms have come to see exploiting, sustaining, and defending reputation as more vital strategic concerns.

In recent years, many prominent companies also found their reputations sullied, and so called attention to the importance of protecting and defending reputational capital. Consider the icon of modern business, IBM, a company with a computer franchise that once seemed impregnable and management practices that appeared beyond reproach. For much of the last century, IBM consistently ranked among the best-managed companies in the world, a place employees were enormously pound to work. In the late 1980s, however much changed: The reputation of the company affectionately known as "Big Blue" took a nosedive; in Fortune's survey of America's most admired companies, IBM fell from number 1 in 1986 to number 7 in 1987. By 1994, IBM was ranked a pedestrian 354 in the magazine's annual survey, and connection to the company had become a source more of embarrassment than pride to customers, suppliers, and employees as the press repeatedly detailed the company's mishaps.

Various accidents and scandals have also helped to magnify the hidden value of a company's reputation and called attention to its defense. One example is investment banker Salomon Brothers. In 1991, Salomon was struck by a scandal that threatened the banks hard won franchise in trading government bonds and indeed, its very existence. It took considerable savvy on the part of Salomon's board of directors to shore up the bank's reputation with regulators, clients and employees. The bank's adroit strategy of self defense ultimately preserved its reputational capital. If top executives are to sustain their companies' intangible wealth, they will have to master just such judo-like skills.

Few large firms have built as much reputation in the last decade as pharmaceutical giant Johnson & Johnson. Most of the company's reputation derives from the reactions of its managers to seven cases of cyanide poisoning attributed to ingestion of the company's number 1 pain reliever, Tylenol, in 1982 and 1986. After one victim died, the company immediately recalled all outstanding Tylenol inventory, set up hotlines, launched an advertising campaign, and offered rewards for information leading to the arrest of the murderer.

These active steps earned the company enormous public sympathy and consumer trust, enabling recapture of more than 90 percent of its former customers. It was, in fact, a seemingly miraculous comeback for a brand that analysts and investors had all but condemned. When

**J&J's actions set a model for the industry in its social**

and investors had all but condemned. When asked, managers later explained their decisive actions on the basis of the company's core values, enshrined in "The Credo," a set of widely shared principles that specify the company's obligations to consumers, employees, local communities, and stockholders and that form the core of the company's identity.

**responsiveness, creating virtually overnight a favorable reputation for the company.**

Contrast J&J's actions with those of the Exxon Corporation following its 11 million gallon spill of crude oil into Prince William Sound, off the shores of Valdez, Alaska, in March1989. After the spill, investors depreciated Exxon's stock by 10 per cent, or some $6 billion. Since then, the company has been castigated on multiple fronts, especially for its (a) failure to take quick and decisive action, (b) lack of credible concern for victims, (c) reluctance to take responsibility, and (d) poor communication with the media. Probing below the surface, one can easily trace these reactions to the "Exxon Way," a ponderous, insular culture that champions analysis over action and so moves slowly; that centralises decision making and so constrains local responsiveness; that eschews visibility and so shuns publicity.

The differences between J&J and Exxon are stark. They call our attention to the everyday practices that compel managerial decisions that we either applaud or condemn. As is the case for individual athletes, details are what separate Olympian companies from mere mortals. By doing the little things well on a consistent basis, companies like J&J improve the likelihood that they will act responsibly when faced with a crisis and so will earn a favorable reputation.

Recent hoaxes perpetrated on soft drink maker PepsiCo present a high-profile illustration of the link between **reputation and identity**. In June 1993, dozen or so complaints of needles and other objects in cans of Pepsi-Cola suddenly swept the country. The Associated Press identified at least 50 reports of tampering in 23 states. Nearly all involved cans of Diet Pepsi, and objects claimed to have been found in the cans included syringes, a crack vial, a bullet, and a glob of glue as well as needles.

To PepsiCo managers, this was no laughing matter. Product tampering had nearly destroyed Johnson & Johnson's Tylenol brand in 1982 and 1986. Whereas J&J managers reacted with an extensive show of concern for consumers, followed by a quick and costly product recall, PepsiCo managers responded harshly and bluntly. Consistent with their repartition for contentiousness (who could forget the cola wars?), PepsiCo took to the media and aggressively denied the possibility of tampering in its production process. Top managers insisted that a national recall of Diet Pepsi cans was unwarranted. The company prepared video footage for news broadcasts to demonstrate the impossibility of inserting a syringe into cans. Craig Weatherup, Pepsi's president of North American operations was selected to make six personal appearances on morning and evening news programs to showcase the company's position: that tampering was impossible even in conceivable. Despite initial public protest, Pepsi stood its ground.

Days later, the federal commissioners of the Food and Drug Administration, an active partner in presenting Pepsi's case to the public - proved the company right. The complaints of tampering had been entirely fabricated. Some 20 arrests were quickly made. Vindicated by the outcome, Weatherup claimed: "This development reinforces what we've believed all along that this is not a manufacturing problem and that consumers should not be alarmed about any alleged problem with Pepsi products."

The point is this: Reputation and identity go hand in hand. Pepsi's top brass responded to the crisis in ways that were entirely consistent with its corporate identity. All companies should do the same. For one, it's no good projecting attractive images of yourself that you can't live up to. Sooner or later, someone out there will refuse to judge the book by its cover and will call you on the gap between reality and perception. At the same time, if you've invested in creating and maintaining a successful brand name, why not find ways to capitalise on that name with your company's different constituencies?

### THE REPUTATIONAL AUDIT

> “Some time ago, I read a brief op-ed piece written by a public relations consultant. The author deplored the industry's lack of strategic insight, its failure to understand that the purpose of public relations is to help a company to exploit and defend its reputation. He also proposed that companies appoint a chief reputation officer to do the job. Eager to know if his peers had heeded him, I met the author, Alan Towers, at his midtown office in Manhattan, only to hear him describe his continuing frustration with PR professionals who were concerned more about quick "deliverables" than about fundamental questions of strategic merit. As he put it: "PR practitioners are insecure. They worry about one thing: quick results. They recognize that reputations are important, but it's hard for them to see any immediate payoff from working on the reputation level. Getting stories into the press has clear returns. Reputation tends to only count, when a crisis has already hit. Then they want you for damage control."
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His speech must sound strangely familiar. Companies rely heavily on their human resource departments not only for the traditional operational duties of employee recruitment, training and compensation but for the more strategic tasks of controlling and shaping the internal climate and culture of their companies - their identities. Similarly, the same could happen to departments of public relations and investor relations if the professionals would recognise their roles as caretakers of their companies' reputation capital.

As noted public relations expert James Grunig commented: "For public relations to be valued by the organisations it serves, practitioners must be able to demonstrate that their efforts contribute to the goals of these organisations by building long term behavioural relationships with strategic publics those that affect the ability of the organisation to accomplish its mission." It's also the case for investor relations, as noted in a recent article in the New York Times: "At some companies.... many consider investor relations nothing more than a public relations function, where there is only coincidental concern for stockholders or the availability of meaningful information....But many companies are getting wiser. They realise that institutional investors prefer to put money into companies that provide lots of information and that good investor relations can help their stock price."

Increasingly, companies are recognising that relationship building must take place not only with employees and the general public but also with customers, investors, the local community, and the media. In a world where intangibles like reputation matter least as much as tangible assets like plant and equipment, competitiveness demands strong relationships with all constituents. Indeed, some analysts estimate that the stock price and so the reputation capital of many diversified companies would probably be at least 20 per cent higher if those companies helped investors make better sense out of the diversity in their portfolios.

Unfortunately most companies deal with their publics in a fragmented manner. For the most part, they relegate them to distinct functional silos - finance, marketing, human resources - with minimal opportunity for contact or coordination. Doing so reflects a poor understanding of the determinants of corporate reputation. It also imperceptibly damages a company's competitiveness and profitability while increasing its risk and vulnerability to crisis. To exploit reputational capital and build more resilient companies, we will have to institute new roles and structures in our companies, as well as better, more creative scripts for the managers who run them. The reputation audit is a systematic effort designed to help managers assess the practices that support a company's reputation with its constituents.

### CREATING A NEW EXECUTIVE ROLE

Much as companies appoint a chief financial officer to safeguard financial capital, a chief operating officer to monitor operations and a chief information officer to control and manipulate corporate databases, so might they benefit from appointing a chief reputation officer (CRO) to watch over the company's intangible assets. The CRO's tactical responsibilities would include oversight of pricing, advertising, quality, environmental compliance, investor relations, public affairs, corporate contributions, and employee, customer and media relations. Rather than literally do each of these jobs, the CRO would act as a corporate guide, working with specialists in each area to help them see the reputation consequences of their decisions.

With or without the title, such a position would help to signal the importance and make explicit the hidden value of the company's reputation. It would also encourage other mangers to more systematically relate knowledge drawn from brand marketing, public relations, organisation theory, and strategic management. The CRO would recognize the difference tasks that a company must undertake to build, sustain and defend its reputational capital. In all aspects however, it's a role that emphasises close coordination with the traditional functions of marketing, finance human resources, and operations.

## BUILDING REPUTATION

New companies are well aware of how difficult it is to launch a business without a track record. As every salesperson will tell you, its not easy to get the ear of an established buyer when you're trying to sell them an untested products. Conversely, that same salesperson will readily attest to the value of having a highly regarded corporate name to get you in the door.

Start-up companies are not the only ones to face the challenge of having to build reputation. Large companies launching new divisions as well as older companies changing their names face similar issues.

The questions listed below should provoke extensive debate about a company's competitive strategy and corporate culture. They place discussion about reputation matters where they belong-as a centre piece in the formulation and implementation of business and corporate strategy.

- What kind of company do we want to be? What are our defining traits?
- How do those internal features correspond to current perceptions of our company by our different audiences?
- How can our internal features build competitive advantage against rivals?
- How distinctive is our reputation from the rest of the industry's reputation?
- How accurate and consistent are the images that we project to our different audiences?
- How can we strengthen our relationship with our key audiences?

## SUSTAINING REPUTATION

Coherent self-presentation and consistent projection of reinforcing images help to build and maintain favorable appraisals by constituents. More central to the task of maintaining reputation, however, are two sets of programs: (1) internal monitoring programmes that secure compliance to a set of principles and (2) external relations programs that manage the interface with key constituents.

Internal monitoring programs address two areas that have enormous potential impact on a company's reputation: product quality and organisational integrity. To manage product quality well is to signal to employees the importance the company places on meeting its implicit contracts. All employees must believe that a company is serious about its product claims. Of course, that's long been a strength of the Japanese and German programmes of quality management. As many management gurus have pointed out, German and Japanese employees take inordinate pride in the products their

**They must recognise that if the company's reputation is to act as a credible warranty in a transaction with a customer, the product must**

take inordinate pride in the products their companies make. Their companies support well-crafted programmes that train socialise employees to help make this possible.

**regularly live up to its quality claims.**

Numerous programs are put in place to help companies address external constituencies. Environmental programmes convey concern about a company's effects on the planet. Community programmes signal an interest in helping to solve the problems of the town or region in which the company operates. Investor relations programmes try to satisfy the needs of the company's major fiduciaries while government relations programmes examine the interface of the company's interests with regulatory bodies. Media relations programmes deal with the informational needs of the press; and public relations coordinates them all.

When well executed, these internal and external programmes can help a company to elicit positive feelings from constituents and sustain its reputation. The difficult challenge is to coordinate the multiple message that are broadcast by the various and sundry professionals involved in managing these different programmes. By being structurally empowered, a chief reputation officer could perhaps ensure that the dialogue between functions is institutionalised.

In order to focus attention on sustaining reputation, an empowered CRO would ensure that the following questions are addressed systematically:

- What are we doing to maintain healthy relationships with all of our constituents?
- How well do we monitor our images with each of our different audiences?
- Could we improve our reputation by developing better, more consistent images?
- What kind of activities should we engage in to sustain our reputation?
- Do our employees understand and appreciate the importance of our reputations? Do our customers, suppliers and rivals? The local government and community? The public at large?
- How much money should we give to charity? Through a foundation or direct giving? How much publicity do we want from corporate giving?
- How can we obtain favorable reviews and ratings in the media?
- How can we generate more favorable appraisals by financial analysts?

### DEFENDING REPUTATION

All too often companies become aware of such reputation issues only when it's too late-when a scandal looms or a crisis has already hit. Generally, the problem is allowed to develop because top managers are weary of taking valuable time away from operating duties to postulate unlikely contingencies.

After all it's difficult to anticipate the future, and everyone agrees that the future never conforms to expectations. The result? Very few effective crisis preparedness programmes.

In matters of reputation, however, it remains true that the best kind of self defense is - as the saying goes - a good offense. Much as physicians distinguish between acute care-emergency situations that require immediate attention - and primary care - the everyday practice of health maintenance that helps prevent illness - so should managers participate in actions designed to avoid damaging a company's health. To safeguard a hard-earned reputation, a company must take preventive action long before a crisis occurs. It means empowering the company as a whole, and someone in particular - perhaps a chief reputation officer? - to act as the primary care physician, to ask probing questions that link managerial initiatives to their effects on the heath of a company's identity and reputation.

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