WHAT’S IN A NAME?

With reputations at risk, companies seek new ways to bolster and protect images
By Robert Preer

A popular carmaker’s vehicles accelerate suddenly, causing deaths and injuries, which trigger lawsuits and investigations. An airline known for customer service is grounded for a week by an ice storm, while stranded passengers vent their frustration on social media. A coach in one of the nation’s most respected college football programs is accused of child rape, which higher-ups may have known about but failed to report.

In the digital age, corporate reputations built over decades can be shattered overnight. The rise of social media and the easy availability of information on the Internet have empowered groups outside of companies — consumers, shareholders, employees, advocacy groups, and watchdogs. Organizations that have invested great resources in shaping their image and brand can lose control of both in the time it takes a rumor to spread online.

“In the constellation of risks a company has to deal with on
a daily basis, reputational risk is one of the greatest,” Elena A. Iankova, senior lecturer of management, says. “Events can undermine public trust. When a company becomes associated in the popular imagination with health safety issues, pollution, or child labor, it can lose sales and find it hard to recruit talented staff.”

The challenge of building and preserving corporate reputations is getting new attention from business scholars, specialists, and practitioners. For many years, companies simply handed the task of managing reputation to their communications or public relations departments. But the latest thinking in the field links reputation management with all aspects of business strategy, while developing new approaches to corporate social responsibility, corporate citizenship, and ethics.

“Reputation is a corporate asset,” Dana Radcliffe, senior lecturer in both management and business ethics, says. “In some industries, it is your most important asset.”

Simon Barker, MBA ’04, senior vice president at global consulting firm Marsh & McLennan Companies, believes most businesses are still struggling to discover how best to approach reputation management. “Companies have the capability to do the right thing to protect corporate reputation and to grow their businesses,” he says. “They are already spending millions of dollars on issues management, crisis management, and corporate social responsibility. But too often they go about it the wrong way.”

REPUTATIONS IN NEED OF REPAIR

The results of surveys both in the United States and abroad show how far corporations have to go to improve their reputations.

A Harris Interactive poll in 2013 found 44 percent of respondents viewed corporate America’s reputation as either poor, very poor, or terrible. Asked their opinions about 60 well-known American companies, those surveyed by Harris identified only six with great reputations, down from 16 in 2011.

A Gallup survey in June 2013 on public confidence in institutions found big business near the bottom. Only 22 percent of respondents said they had a great deal or quite a lot of confidence in big business. A third of those surveyed reported very little or no confidence in big business.

The Edelman Trust Barometer, issued each year for the past 13 years by the global public relations firm Edelman, showed trust in business plummeting worldwide after the financial crisis then rising slightly in recent years, paralleling the economic recovery. In the most recent Edelman global survey, about 50 percent of respondents said they trusted business to do what is right, while only 18 percent trusted business leaders to tell the truth.

High-profile scandals have hurt the reputations of business leaders generally, according to Edelman, which cited the cases of former McKinsey Managing Partner Rajat Gupta and Livestrong founder Lance Armstrong.

Barker says companies typically are not organized well for reputation management or for responding to a crisis. “Particularly for large multinationals what you find is a hierarchical reporting structure, in which information is not being shared fast enough. When we work with a company, what we try to do, in many cases, is break down some of these silos in order to increase understanding of the risk and to speed decision making.”

William G. Raisch, MBA ’81, director of New York University’s International Center for Enterprise Preparedness, believes that companies need to take a broad view of reputation risk. “To the extent that you isolate responsibility for reputation management, you are definitely vulnerable,” he says. “I think the most promising approach, which corporations have been adopting to varying degrees, is to take a more holistic view of risk across the firm.”

AWAY FROM THE SPIN CYCLE

Simon Barker had been working in the Washington, D.C., office of Edelman public relations for about four years when he began to question the standard approach of public relations firms to reputation.
“We were dealing with companies and governments,” Barker recalls. “When someone contacts a large firm like Edelman, the issue is pretty much over. The company realizes they haven’t handled it well, and they’re in big trouble.”

About all that Barker and his colleagues could do then was to craft a communications strategy. “We worked on what we were going to say, who were we going to talk to, which editorial boards we would contact — basically, how we were going to spin our way out of it. There was no real ability to change the decisions the company had made that had gotten them into the spot that they found themselves.”

To take his profession to the next level, Barker decided to go back to school. He enrolled at Johnson, where he delved into issues like risk management, corporate social responsibility, and business strategy while earning his MBA. After graduation, he worked for three years with Visa International as vice president in charge of issues management, then moved to the consulting firm Marsh & McLennan, where he has worked as senior vice president for the past five-and-a-half years. Barker is a leader of Marsh & McLennan’s reputational risk and crisis management practice.

“We go to companies and talk to them about reputation and encourage them to understand its contribution to their businesses. We help them to incorporate it into their decisions,” Barker says. “While it has some of the same dynamics as public relations — something has gone wrong and they need support — the perspective we bring is a much broader look at issues, strategy, and what companies need to do.”

**A NEW PERSPECTIVE ON REPUTATION**

Barker is now in the midst of writing a book on corporate reputation based on what he has learned in his career and at Johnson. The core of his ideas — and what he says companies need to master — is what he calls “outside-in” thinking. In retail, outside-in has come to mean seeing things from the customer’s perspective. In reputation management, it means seeing things from the perspective of many stakeholders, including customers, employees, investors, the media, and regulators, and actively incorporating those expectations into strategy and decision making.

Taking an outside-in perspective can lead to business decisions different from those that would result when managers are looking from inside-out, according to Barker. He describes a client whose business had to close in the aftermath of a mass shooting that took the lives of four people. The company faced a decision whether to continue paying its employees, many of whom were part-time, while the business was closed.

“The standard policy was that if employees were not working, they don’t get paid,” Barker says. “Reputation has to be viewed as a strategic input to corporate decision making, not a byproduct. By looking at the issue in a different way, the company realized that its employees are its ambassadors and the people most directly affected by the shooting. If you tell them they aren’t going to get paid after seeing the people they work with shot, they are probably never going to come back. In the age of social media, the story will come out, and the damage to your reputation could be quite profound.”

The company took Barker’s advice, kept paying its employees, and also offered counseling and contributed to funds for victims and their families. The employees came back, and the company’s reputation was unharmed.

Raisch of NYU says that companies should not only see the perspective of outside stakeholders but also engage actively with these groups and individuals. “The more successful entities work proactively with NGOs, regulators, the media, legislators, and critics — especially critics,” he says.

Engagement with critics opens the possibility of compromise and also builds valuable trust, according to Raisch. “By proactively engaging critics of the firm, you have the opportunity, first and foremost, to understand their issues, even if you don’t agree with their positions,” he says. “Also, you have the opportunity to understand where they are going in the future, and you can start to prepare for that.”

By engaging with critics, a firm also will have a chance to adapt its positions and avoid conflicts that could become lightening rods, according to Raisch.

If relations with critics are frank, consistent, and trust-based, a firm can gain other, unexpected benefits, Raisch says. “Sometimes your critics can be your best defenders,” he says. “They may not give up their primary tensions with you, but if you have a relationship based on trust, they can dispel spurious or unfounded criticisms more effectively than anything your company can say.”

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—Fred Keller, CEO, Cascade Engineering
Banner benchmark

Johnson & Johnson’s response to the Tylenol tampering case has long been regarded as the model of how companies should respond to a crisis. In 1982, seven people in Chicago died after taking Extra-Strength Tylenol capsules that had been laced with poison. The company immediately recalled 31 million bottles of Tylenol and halted all production and advertising. The company collaborated with authorities to find the killer and offered a $100,000 reward. Later, the company reintroduced Tylenol in tamper-proof packaging with steep price discounts. The company’s stock, which fell when the crisis hit, recovered in less than a year. The brand also recovered quickly and has remained one of the top-selling pain relievers in the United States and the world.

Pepper in cyberspace

In November 2011, campus police at the University of California, Davis, pepper-sprayed demonstrators from the Occupy movement in an attempt to disperse them. The protestors were seated on a path in the university quad. The incident was captured on numerous cell phone videos, which were uploaded to YouTube and picked up by mainstream and online media. The videos, which feature a university police lieutenant casually spraying demonstrators in the face at point-blank range, went viral on the Internet, sparking more student protests, as well as formal investigations by the university and state government. Commentators compared the police action in California to the police brutality inflicted on civil rights protestors in the South in the 1960s. The UC Davis pepper spray incident became a signature moment in the Occupy movement.

A bad break goes viral

Canadian musician Dave Carroll’s $3,500 guitar was destroyed after he had checked it as baggage on a 2008 United Airlines flight from Chicago to Omaha. After the airlines denied his request for compensation, he composed a country song, “United Breaks Guitars,” and recorded it with his band, Sons of Maxwell. The song was a hit on both YouTube, where it received half a million views three days after its release, and on iTunes, where it was number one in downloads from the iTunes music store the week after its release. The success of the song brought a flood of negative publicity to the airline. United eventually apologized to Carroll and offered him $3,000 in compensation, but a music store already had provided him with two new guitars to use in a subsequent video. In 2012, Carroll published a book, United Breaks Guitars: The Power of One Voice in the Age of Social Media.

MEASURING GOOD WORKS

Discussions of corporate reputation frequently turn to matters of corporate social responsibility and ethics. It stands to reason that a company’s reputation will be enhanced if the organization behaves responsibly and ethically.

Cascade Engineering CEO Fred Keller believes that businesses should take the lead in solving problems in their communities. While providing jobs and contributing to the local economy, companies can also address social and environmental concerns and behave in an ethical fashion, according to Keller, a visiting senior lecturer of management at Johnson.

“Reputation is something we don’t try to manage at our company. We work at trying to do the right thing. We believe if we do that, we’ll probably have a pretty good reputation,” Keller says.

Headquartered in Grand Rapids, Michigan, with facilities throughout North America and Europe, Cascade Engineering specializes in plastic injection molding. It is a leading multibusiness manufacturer in transportation, recycling, office furniture, and renewable energy industries.

Cascade Engineering runs a fundraising program for breast cancer research, trains welfare recipients for careers in the company, promotes antiracism awareness, and maintains a diverse roster of other environmental and social initiatives. Every year, the company issues a “triple bottom line” report, a practice adopted by many firms to demonstrate their performance on social, environmental, and financial criteria.

The concept of triple bottom line — sometimes referred to as “People, Planet, Profit” — was developed by the British consultant
In June 2011, a photograph surfaced on Twitter of a sign that appeared to be posted in the kitchen of a McDonald’s restaurant. Above the company logo were instructions to charge African-American customers an additional $1.50 as insurance after a string of robberies.

The photograph went viral on social media. For one weekend, what had become known as “ Seriously McDonald’s” was the highest trending topic on Twitter. The sign was, of course, a hoax, and the furor later subsided after the company responded with a social media blitz of its own.

But while the reputation of McDonald’s suffered no long-term damage, the episode revealed the vulnerability of companies to anyone with malicious intent. The rise of social media has handed a megaphone to critics, who now can level charges and distribute them widely with no supporting evidence. Sometimes the public will give more credibility to the anonymous attack than the statement from a corporate spokesperson.

“We live in an age of instantaneous communication,” says Bill Raisch, MBA ’81, director of the International Center for Enterprise Preparedness at NYU. “The filtering and fact checking that traditional media channels provided is bypassed. Misinformation and cascading responses can escalate into a reputational crisis.”

A group in one country with grievances against a multinational corporation can quickly enlist allies in another country, Elena Iankova, senior lecturer of management, points out. “It is much easier to mobilize protests and boycotts. What would have been local or regional now becomes international,” she says.

The emergence of social media also has brought new scrutiny to companies, according to Simon Barker, MBA ’04, senior president at Marsh & McLennan Companies. The WikiLeaks exposure of Bank of America’s lending policies should be a lesson to companies that today no corporate secrets are safe from public scrutiny, he says.

“One difficulty with social media is that it can distort the relative importance of events,” Barker says. “That makes social media difficult to manage. You are never really sure what is going to become the next issue.”

According to Barker, the fundamentals of how companies can protect their reputations in the age of social media haven’t changed: consider the perspectives of outsiders, pay attention to issues, embrace responsible practices, and be prepared to respond in a crisis.

“There has been a decline in trust in corporations, and the cause of it is not social media,” Barker says. “It has resulted from a lack of attention to corporate reputation over a long period of time.”

Dana Radcliffe, senior lecturer in business ethics, says, “Consumers have been empowered by the Internet. It behooves companies manage their reputations, and the best way to do that is to manage your business well so you have satisfied customers.”

While social media has brought challenges to companies, it also has provided opportunities, according to Deb (King) Garber, MBA ’99, global brand manager at Hewlett-Packard.

“We try to be very active on social media because it is a wonderful gauge of how we’re doing — where we’re doing well and where we might have some opportunities,” Garber says. “We use it to help understand our customer’s needs, preferences, and perceptions, especially around emerging IT areas like cloud and mobility. It also helps us identify potential customer issues and intervene. For example: If someone is struggling with one of our printers, we need to be actively listening so that we can quickly respond and provide a solution.”

Fred Keller, visiting senior lecturer of management and CEO of Cascade Engineering, says his company has used social media to highlight its accomplishments in communities. In 2009, the company launched its “Pink Cart” program, selling pink plastic garbage and recycling containers to haulers and municipalities with each sale contributing $5 to the American Cancer Society’s breast cancer awareness programs. The company promoted the initiative with a social media campaign that has attracted approximately 800 Twitter followers and over 57,000 Facebook “likes.”

Barker compares social media to the village market of ancient days. “If you sold a bad product then, you heard about it right away. Social media makes it possible to recreate those relationships.”

Savvy companies monitor social media actively and try to answer customer complaints quickly, according to Barker. “They know that if they resolve an issue through social media, they will get credit for it, and there will be a halo effect,” he says.
John Elkington in 1997 to measure what he considered the three main aspects of sustainability.

Management Professor Mark Milstein, director of Johnson’s Center for Sustainable Global Enterprise, says that while the triple bottom line approach has helped firms to be more aware of social and environmental issues, measuring performance has been difficult. “Companies have found it a bit easier to try to identify measures that relate to environmental performance, such as how much carbon dioxide you put out and what your wastewater looks like,” Milstein says. But there are no generally accepted accounting principles for social return.

That’s why the Center for Sustainable Global Enterprise takes a different approach to business and sustainability: framing social and environmental challenges as unmet market needs. The center attempts to get companies to address these needs from a business perspective by fostering entrepreneurship and business innovation to create enterprises whose very foundation is grounded in competitive products and services that solve those challenges.

In East Africa, students from the center developed a plan for establishing a network of franchises to sell inexpensive solar products in remote or very poor areas. In Belize, the center and its students worked with a consortium of private companies and government agencies to develop a plan to promote sustainable tourism that can promote economic growth while preserving the landscape and ecosystem.

“Looking at corporate social responsibility through a reputation lens is natural for most managers,” Milstein says. “The harder thing is to really understand the nature of problems in the world today and then to develop a product or service for the marketplace that will allow your company to make money by helping to solve these problems.”

LIVING VALUES

For many years, Hewlett-Packard (HP) was among the most respected names in corporate America. A founding company of Silicon Valley, HP was known for its generosity toward its employees and commitment to responsible business practices. But starting in 2005, the company found its once solid reputation dented by a series of troubles — the firing of three CEOs, a sexual harassment charge, uncertainty around the personal computer division, thousands of layoffs, and plunging share values.

Deb (King) Garber, MBA ’99, global brand manager at HP, says the company is climbing back from its problems and rebuilding its reputation under Meg Whitman, who became CEO in September 2011.

“She has been very consistent. Her message internally is, ‘Look, we are going to say exactly what we are going to do and do exactly what we say.’ She believes in transparency. We’ve been doing that quarter after quarter to try to regain consistency and credibility in the marketplace,” Garber says.

And throughout its troubles, HP has maintained corporate responsibility programs initiated more than 50 years ago. Employees are afforded the opportunity to participate in up to four hours of volunteer work a month during business hours. The company collaborates with nonprofit organizations on community, education, health, and environmental initiatives. The company also has strived to reduce its carbon footprint and eliminate waste across its supply chain.

Radcliffe says it really is not complicated for companies to build and maintain their reputations.

“A good guiding principle is to walk the talk,” he says. “Most companies have codes of conduct and mission statements. Some companies are very diligent about making sure their employees embody these values, while for others, these are just books on a shelf.”

Keller is fond of quoting Ralph Waldo Emerson on reputation: “Who you are speaks so loudly I can’t hear what you’re saying.”

“I think that applies to reputations of companies,” he says. “Your reputation is out there. It’s important to be who you are and to do what you think is right.”