

CHAPTER

1

**REPUTATION
MANAGEMENT**

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In 1998 Abercrombie & Fitch published a back-to-school catalog with a section advocating that college students drink creatively, rather than just participate in the standard beer binge. The section, headed “Drinking 101,” contained recipes for the Woo-Woo, the Beach Hemorrhage, and other potent mixtures. The organization Mothers Against Drunk Driving was irate. Within days, NBC’s Today Show was set to interview MADD’s president, but the clothing company refused to send a spokesperson (issuing just a brief statement). The question is: Should the company have sent a spokesperson?¹

When that question is asked of communication or PR majors (this book’s co-author John Doorley has done this with many classes) most students say yes; often the teacher is the only dissenter. The reason for dissent: The company had not formulated any policy expressing embarrassment, let alone shame, and there was no commitment to mitigate the damage—for example, recall the catalog and help wage responsibility-in-drinking campaigns. Most college students are not of drinking age, and the company appeared to care little about the health of the people who wear their clothing. What could the spokesperson have said, in lieu of repudiation and correction, that would not have made the matter worse? For as Will Rogers was fond of saying: “When you find yourself in a hole, the first thing to do is stop digging.”

Eventually, of course, the company had to issue statements and provide stickers for existing catalogs that advocated responsibility in drinking. MADD and most PR observers agreed it was too little too late.

It turns out that A & F has published catalogs for its young audiences with nude models and been criticized for not featuring people of color. The company discontinued its 2003 “Christmas Field Guide” catalog after it caused more controversy over the sexually explicit nature of several articles. Since then, A & F has launched a slightly more responsible version of the catalog in Europe, but slogans on its products have offended many different groups in the United States. A sample list of boycotters includes Asian American groups, women’s organizations, Christian schools, the State of West Virginia, and USA Gymnastics.

However, it seems that A & F is not concerned about its reputation with older audiences, believing perhaps that the younger audiences will not care about the social issues and may even want their clothing all the more. One has to hand it to the company: it is a bold marketing strategy, and a very risky reputation strategy, especially over the long term. Creating demand is one thing, but alienating the people who pay the bills, as well as groups that devote their lives to a cause, is another. (By the way, what is the name of that organization of mothers that almost single-handedly forced the United States government into the nationwide drinking-age limit of 21?)



Shakespeare called it “the purest treasure mortal times afford.” Men have fought duels and killed for it. Companies and other institutions have succeeded or failed because of it. Warren Buffett said: “If you lose dollars for the firm by bad decisions, I will be very understanding. If you lose reputation for the firm, I will be ruthless.” It seems that Mr. Buffett was paraphrasing Othello: “He who steals my purse steals trash ... but he that filches from me my good name ... makes me poor indeed.”²

The business scandals of the first years of the twenty-first century demonstrated how important it is to build, maintain, and defend reputation. The scandals spread to nonprofits, government, universities, and sports, and the public seemed to tire of the press reports. But fatigue did not convey immunity, so people demanded change: tougher laws, more governance, and greater accountability. At the same time, academic researchers and public relations professionals intensified efforts to quantify and manage reputation, heretofore thought of as an intangible asset.

Reputation scholar Charles Fombrun, professor emeritus, Stern School of Business, New York University, an editor-in-chief of the journal *Corporate Reputation Review*, defines reputation as the sum of the images the various constituencies have of an organization.³

John Doorley and Fred Garcia (this book’s coauthors) accept that definition but also like their own—which leads us to:

**Reputation = Sum of Images =
Performance + Behavior + Communication**

This definition helps make it clear that performance and behavior, as well as communication, are critical components of reputation.

REPUTATIONAL CAPITAL

Just as people develop social capital that helps them build relationships and careers, corporations and other organizations develop reputational capital that helps them build relationships and grow their organizations.

A good reputation has both intangible and tangible benefits. It is important for stakeholders, from customers to employees to consumer advocates, to feel good about an organization, and it is important to build a good reputation to sustain an organization through the tough times. But a reputation is worth much more than that. Companies with the better reputations attract more and better candidates for employment, pay less for supplies, gain essentially free press coverage that is worth as much if not more than advertising, and accrue other benefits that actually contribute to profits.

Reputation adds value to the actual worth of a company—that is, market capitalization (the number of shares outstanding times the price per share) is often greater than just the book value or liquidation value of assets. The reputation component of market capitalization, reputational capital, is a concept closely related to “goodwill,” and it is worth many billions of dollars in many large corporations. It has a value in not-for-profits, government, and universities as well. For instance, a good reputation helps a university attract students and donors.

Although CEOs agree that reputation has a value—is an asset—few firms actually treat it as such. Few companies or nonprofits take a rigorous, quantifiable approach to reputation management—measuring, monitoring, and managing reputation assets and liabilities—yet such an approach is intrinsic to the concept of asset management. Most organizations have no idea what their reputations are worth, yet reasonable measurements can be agreed upon and taken. Most companies do not have a system in place for regular, periodic accountability on variations in reputation, yet without such a system opportunities will be missed and problems will become magnified. Measurement, acknowledgment, and planning make possible proactive behaviors and communications to take advantage of reputational opportunities and minimize problems—thereby building reputational capital.

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The formula $R = P + B + C$ applies to the reputations of individuals as well as organizations. Within a period of weeks in the late summer of 2009, four Americans behaved badly in an extraordinary way in public: tennis great Serena Williams threatened and verbally assailed a judge at the U.S. Open; Kanye West jumped on stage at the MTV Video Music Awards to wrest the microphone from one artist because he thought another deserved the VMA; Michael Jordan retraced decades-old interpersonal squabbles at his induction into the Basketball Hall of Fame; and Congressman Joe Wilson of North Carolina yelled, “You lie” when U.S. President Obama was addressing a joint session of Congress in what is usually a reverential forum. At the same time, in other countries, leaders like Prime Minister Berlusconi of Italy continued to demonstrate that inappropriate behavior seems to have no limits.

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The formula demonstrates that reputation is cumulative. So when a famous individual behaves badly, he or she cannot generally make up for it with a press conference, no matter how sincere or eloquent the apology. Similarly with organizations, communication is not enough to right a wrong. A reputation is built on performance, behavior and communication and it can generally be repaired only by working on all three aspects.

IDENTITY

To reputation scholars like Fombrun, “identity” is the *raison d’être* of an organization. It is, simply, what the organization stands for above all else. To distinguish this concept from other uses of the term (such as corporate identity programs that try to position

the company in a particular way through all its communications and graphic vehicles), Paul Verbinnen of Citigate Sard Verbinnen coined the term “intrinsic identity.” (We use that term in this book.)

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Of course organizations, like individuals, have multiple identities. Research by George Cheney of the University of Colorado, in *Rhetoric in an Organizational Society: Managing Multiple Identities*, is consistent with the proposition that multiple identities need not pose any conflicts, as long as there is a clear, dominant identity.⁴ Johnson & Johnson, for example, seeks not just to develop, make, and market quality healthcare products for patients, it also seeks profits large enough to attract shareholders, reward employees, and stoke research. But the commitment to serving patients and the healthcare community, as expressed in the company’s credo and demonstrated in the response to the Tylenol® tampering crises in 1982 and 1986, has clearly been the dominant identity over the years.

Other companies, such as the venerable General Electric and the relative upstart Starbucks, have each stayed true to a dominant identity: respectively developing and marketing consumer and technology products of the highest quality, and employing the best people to obtain, market, and sell quality coffee and collateral products in a warm and welcoming venue. Starbucks is not at all embarrassed to proclaim the ideals of mutually beneficial and profitable relationships with employees and communities. A description of its 2009 ad campaign on the Starbucks blog says, “value today has new meaning. It’s not about what’s cheapest—it’s about what’s best—for [consumers], their families, their communities and the world around them.”⁵

Other organizations, sadly and notably, have recently failed to stay true to the dominant identities that made them successful:

Lehman Brothers

Lehman Brothers was one of the oldest and most respected investment banks in the United States. After posting record high earnings in 2007, the bank firmly entrenched itself in the following year’s subprime mortgage crisis caused by bad mortgage loans and borrowers defaulting on payments. Lehman folded, resulting in the largest bankruptcy filing in U.S. history. An exchange of emails disclosed by the

But when subprime mortgages presented the opportunity to earn large amounts of money quickly, the Lehman executives ignored those values and lost in the end.

House Oversight Committee reveals one major cause of the collapse. A memo from managers suggested that top executives forgo their 2008 multimillion dollar bonuses. The email said, “It would send a strong message to both employees and investors that management is not shirking accountability for recent performance.”⁶ The Lehman executive committee dismissed the memo as a joke, and CEO Dick Fuld even told his top people not to “worry.” Throughout its history, Lehman had a reputation for making values-driven decisions. But when subprime mortgages presented the opportunity to earn large amounts of money quickly, the Lehman executives ignored those values and lost in the end.

The Catholic Church

The scandals over the sexual abuse of young children by some priests, which came to light starting in the Boston Archdiocese in 2002, were shocking and horrible enough. Catholics and non-Catholics recognized that evil could exist anywhere. But what drove many Catholics away from the church was the cover-up by the church hierarchy, from bishops to cardinals. In numerous instances, they knowingly sent offending priests to other parishes without telling the legal authorities or the people in the new parish, leaving the priests free to commit the same crimes over and over. The average priest believes he exists to give spiritual and emotional guidance to the people in his parish, but many of the bishops and cardinals forgot that *raison d'être*; instead, they believed they had to protect the church's image at all cost.

In his first public statement as Boston's new archbishop, Sean P. O'Malley made explicit reference to the need to return to the Church's intrinsic identity:

We can only hope that the bitter medicine we have had to take to remedy our mismanagement of the problem of sexual abuse will prove beneficial, making all of us more aware of the dreadful consequences of this crime and more vigilant and effective in eradicating this evil from our midst. How we ultimately deal with the present crisis in our Church will do much to define us as Catholics of the future. If we do not flee from the cross of pain and humiliation, if we stand firm in who we are and what we stand for, if we work together, hierarchy, priests, religious and laity, to live our faith and fulfill our mission, then we will be a stronger and a holier Church.⁷

Many believe that Pope John Paul II did not do enough to recognize the victims of these crimes, and from a public relations standpoint, he did not. The pope attempted to minimize the issue with general statements and expected his American bishops to manage the problem. His successor, Pope Benedict XVI, understood that this strategy was not working. In almost every public appearance during his first papal trip to the U.S. in 2008, he acknowledged the horror of the incidents and he encouraged victims and others alienated by the scandals to find comfort in their faith. He publicly apologized. In Washington, D.C., Pope Benedict met privately with victims from the Archdiocese of Boston. He vowed to fix the problem, and he assured the victims that he understood the problem on an emotional level.⁸

The New York Times

To its credit, *The New York Times* broke the story itself in a front-page exposé on May 11, 2003. Reporter Jayson Blair had plagiarized content from other newspapers, had fabricated whole stories, and had invented scenes for stories that appeared in the paper, including major front-page ones over a period of years. There were warning signs

bold and numerous enough to have stopped him early on, but the top editors ignored them. Why did the people charged with seeing that the country's "newspaper of record," the one that exists to report "all the news that's fit to print," publish the unfit? An explanation that makes sense is that one of the paper's other identities—including its commitment to affirmative action (Blair is African American) and a desire not to rock the boat about a reporter thought to be a favorite of the executive editor—superseded, in this case, its commitment to quality. So while the paper can be proud of its various identities, it cannot be anything but humbled by its failure to live up to its commitment to quality journalism, above all else.

In the wake of the Blair scandal, *The Times* has reaffirmed its commitment to its intrinsic identity, and has established numerous structures, including a public editor and a standards editor, to try to assure that it is not distracted from its mission again.

For in difficult times, what the employees believe the organization stands for will determine what they will do.

It is important for employees to understand and be committed to the organization's dominant intrinsic identity. For example, if the CEO truly believes the organization is committed above all else to quality products, but the average sales person believes the dominant identity is the sales quota, there exists a prescription for disaster. For in difficult times, what the employees believe the organization stands for will determine what they will do, just as surely as it did with Blair and the church.

Another benefit of a clear identity is that it can drive behavior, performance, and communication, as it should. Then internal and external constituencies will all understand what the organization is about.

CAN REPUTATION BE MEASURED?

Fombrun maintains that reputational capital is the difference, averaged over time, between market capitalization and the liquidation value of assets. Many chief financial officers disagree with that formula, believing that the difference overstates the value of reputational capital. But even those CFOs agree that much of that difference is reputational capital. The more common approach to measuring reputation is to take comparative measures against similar organizations. The annual *Fortune* magazine survey of the World's Most Admired Companies is among the most widely known and respected by both industry leaders and academics. But it surveys only three constituencies: senior executives, (outside) board members, and securities analysts. A more comprehensive approach would include surveying all the major constituencies, including employees, customers, and the press.

Another is the Harris-Fombrun Reputation Quotient (by Harris Interactive in association with Charles Fombrun). It evaluates reputation among "multiple audiences," according to twenty attributes that are grouped into what are referred to as "dimensions of reputation": products and services; financial performance; workplace environment; social responsibility; vision and leadership; and emotional appeal. The results of that survey are widely covered by the press.

CAN REPUTATION BE MANAGED?

There are many organizations with “reputation management” in their names and their number has increased markedly since the Sarbanes-Oxley Act became law in the wake of U.S. corporate scandals. Yet most of them are actually reputation measurement organizations that offer little in the way of reputation management. There are many conferences on reputation management, yet they too focus on measurement or only on specific parts of reputation management, such as crisis communication. They do not produce a plan or a document that aims to manage reputation as other assets are managed—including the pluses and the negatives associated with any asset.

Some academics believe that reputation can be managed, while others believe it cannot be. While more research in the field of reputation management is needed, the pro-management body of academic literature is certainly as strong as the contrary studies, if not stronger. And one thing is certain, as recent business scandals have demonstrated in the sharpest relief: reputations can surely be mismanaged, and in many cases, not managed at all. There is a clear need for a new approach that will help companies and other organizations measure, monitor, and manage their reputations, and the factors that contribute to reputation, organization-wide, over the long term.

“INTANGIBLE ASSET”—THE WRONG PERSPECTIVE

The reason most organizations do not have formal programs to manage reputation is that they view it as something “soft”—intangible. Yet as nebulous as reputation can seem, it has real, tangible value (dollars, for example) that can be measured. So the historical view of reputation as an intangible asset is the wrong approach. Moreover, such a view is analogous to that of some parents who say they need not be that concerned about their young children’s character, because “they will be influenced by their peers anyway when they become teenagers.” Such *laissez-faire*—whether in parenting children or organizations—is a prescription for disaster, as recent history has clearly demonstrated.

So the historical view of reputation as an intangible asset is the wrong approach.

Like all other assets—a building or a product, for example—reputation has its liability side. So any reputation management plan has to measure, monitor, and establish a plan for managing both the reputation assets and vulnerabilities/liabilities. The important thing is to have a plan. If the following is not an ancient proverb, it should be: “If you don’t know where you’re going, any road will take you there.” And you might end up in the wrong place.

So a major question for leaders of organizations is: Can reputation be managed? It follows that those who believe it can be managed—perhaps not totally, but which asset can be?—must establish a plan to do so, as they would for any other asset.

IT'S ALL ABOUT BUILDING THE RELATIONSHIP

By Kenneth P. Berkowitz, Esq.

A critical first step in reputation management, it seems to me, is the building and cultivation of relationships with key constituencies. Show me a successful PR practitioner or lobbyist, and I will show you someone who has developed strong individual relationships and cultivates them in a planned, concerted way on an ongoing basis. Building and maintaining relationships, as is true of reputation, should be viewed as a full-time effort.

The best way to establish a relationship is to understand that it must benefit both parties—in this case, the organization as well as other constituencies, the government including regulatory agencies, news media, customers, suppliers, employees, and other important constituencies including bloggers and other social media contacts as possible.

It should come as no surprise, therefore, that a critical first step is to identify the critical constituencies of the organization. Practitioners should then identify or, as necessary, conduct research to determine the constituency's needs and then use that information for the benefit of both parties, what the academics call the “two-way symmetrical” model (Media Relations, Chapter 3). What often happens is that PR departments do the research and then try to exploit it for the organization's benefit alone (“two-way unsymmetrical”); this seldom proves a productive strategy over the long run. And once an established relationship “sours,” it may prove to be unsalvageable.

Along those lines, relationships have to have a degree of unselfishness in order for the parties to be respectful of each other. It's a dot-connected world—word gets around. And a PR practitioner or company lobbyist cannot afford just to disconnect from a relationship when it becomes unproductive: for example, when the reporter retires or a legislator loses an election, or when the constituency acts against the interest of the organization.

Disagreement must be anticipated, as one can never expect both parties to be in agreement on all issues. So that this aspect of relationship management is not viewed as “soft” and static or unmanageable, formal strategies and objectives should be established and monitored. The strategies and objectives should also force practitioners to go out and meet face-to-face on an ongoing basis with their constituencies, which is a hard thing even for some public relations people and lobbyists to initiate. You almost need to treat your constituencies as sales people would treat their customers. Here are five such strategies that I have encouraged my colleagues to implement over the years:

- 1 Target key areas that really matter to your organization. Public relations practitioners and lobbyists have to focus first on areas where the organization has business or other interests, particularly areas where they can make a difference. It does little good to try to meet with reporters at each of the one hundred top dailies, or to establish relationships with every congressional or state legislative staffer (and remember that staff can be as important as the elected official). While you need to target the capitals (Brussels, Washington, and the state capitals, for example), absolutely do not forget the communities where the organization has a large business, factory, distribution facility, or employee base. A more

challenging need today is to try to be aware of and establish some contact or relationships with bloggers or social media sites.

- 2 Target the leaders but do not stop there. This can be a very difficult challenge unless you have sufficient resources at your disposal. Research can identify who the thought leaders are within particular constituencies and who or what influences their views on issues. Seek to cultivate relationships with as many of them and/or their staffs as possible. But do not stop here; instead, identify others (individuals or organizations) who may have important roles to play. And remember, do not limit yourself to one political party. Had you just focused on Republicans in the Bush or Reagan years, you would have paid the price when the Democrats took control.
- 3 Identify the emerging players. Who are the up-and-coming staffers and journalists (or even bloggers), for example? A particularly good time to establish relationships is when a new official is elected or a staff member or reporter comes on board. PR practitioners who cultivate those people before they become major players can hope to establish strong relationships before anyone else even tries to. Once the staffer or journalist reaches the top, stand in line.
- 4 Use your organizational resources. Work with key groups in your organization so that you have all the necessary data and facts at your disposal depending on the particular issues. Do not be fearful of bringing your experts to meet with constituencies. While preparation is critical, it is often the expert that reporters or governmental representatives would appreciate meeting with on an issue. It does not undermine your relationship, but should strengthen the other party's view of you and your organization. At the same time, make sure that you are always kept in the "loop."
- 5 Always be the first to tell the "news" to your constituency—particularly if it is bad news. This is very important in maintaining strong relationships and credibility. Once a person has heard from others, it becomes extremely difficult to change views or opinions and could undermine existing relationships. The U.S. healthcare industry, which I have always been proud to be a member of, is embroiled in controversy over healthcare reform, pricing, access, and other significant issues. Never before has the industry faced such grave challenges. Yet few industries produce the societal benefits the healthcare industry does. If the U.S. industry is to continue to lead the world in the discovery, development, and marketing of medicines and other healthcare products, we must rebuild our reputation. And if we are going to succeed we have to build stronger and more productive relationships with all our constituencies. One relationship at a time.



COMPREHENSIVE REPUTATION MANAGEMENT

"Comprehensive Reputation Management" provides a formal framework for managing reputation (copyright 2003, John Doorley). It is one way for an organization to get its arms around this asset, and a way to manage reputation problems, vulnerabilities, and opportunities. It has been vetted before the leadership of the Conference Board, many industry leaders and CEOs, numerous academic

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researchers, and heads of corporate communications at thirty major companies. Paul Verbinnen and Rich Coyle of Sard Verbinnen made significant contributions.

Comprehensive Reputation Management =
A long-term strategy for measuring, auditing, and
managing an organization's reputation as an asset.

Comprehensive Reputation Management
is to reputation what risk management is to other assets

This strategy results in the management of an organization's intrinsic identity (what it stands for) and external images, giving an organization a methodology for working to bring the two together. The Comprehensive Reputation Management methodology is applied to the major areas of an organization—for example, finance, human resources, investor relations, manufacturing, marketing, and public affairs. Each area gets involved in a process that is a way of approaching total reputation management—(performance and behavior) + communication—and is distinct from brand management (the marketing value of a name) or corporate identity programs (which usually boil down to institutional advertising).

These are the six major components of Comprehensive Reputation Management:

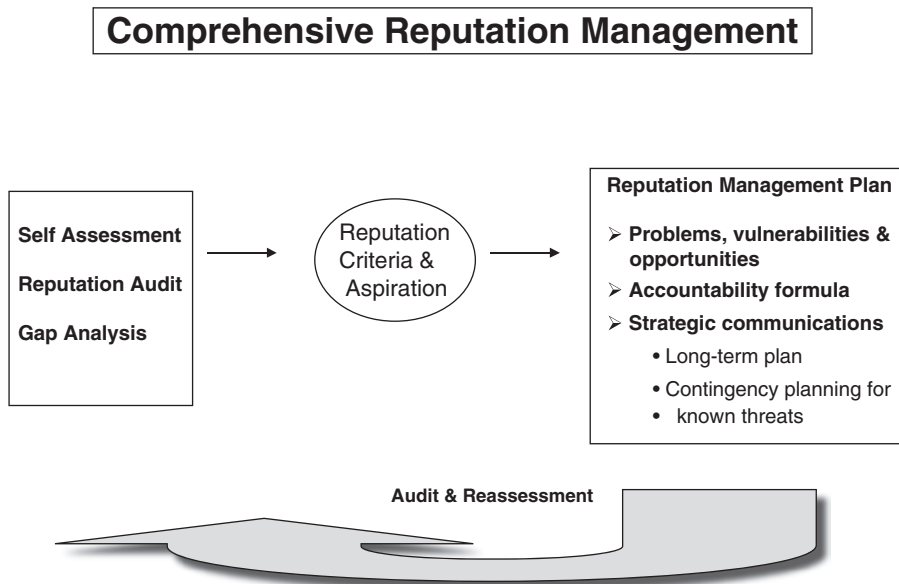


Figure 1.1

1. *Customized Reputation Template*

The measurement tool begins with a basic template that is then customized for each organization. In some cases, the organization may simply want to improve its ranking in an established poll, such as *Fortune* magazine's, which is based on eight criteria or attributes: innovativeness, quality of management, employee talent, financial soundness, use of corporate assets, long-term assets, long-term investment value, social responsibility, and quality of products/services. Certain of the financial measures may be more important to some companies than to others, as might be environmental performance and community relations (under "social responsibility") and so on.

Reputation Criteria: Basic Template for Comprehensive Reputation Management program includes:

- Innovation
- Quality of management
- Employee talent
- Financial performance
- Social responsibility
- Product quality
- Communicativeness (transparency)
- Governance
- Integrity (responsibility, reliability, credibility, trustworthiness)

The first six are the time-tested *Fortune* criteria, with the three financial measures collapsed to one. Communicativeness is part of the template because there has now been more work done to demonstrate the link between an organization's transparency and its reputation. (See reference to Corporate Reputation Review paper in the Best Communication Strategy section, later in this chapter.) Governance is listed because it is now, especially post Sarbanes-Oxley, an important part of the reputation mix. Integrity is this model's way of encompassing the four character traits that research by Fombrun and others has shown to have a direct effect on reputation: responsibility, reliability, credibility, and trustworthiness.

The basic template can then be customized for the particular organization, and the resultant customized template becomes senior management's acknowledgment of which reputation factors are most important. The customized template becomes the tool for measuring changes in reputational capital. The template can also be customized by constituency, because different constituencies care more about different attributes.

2. *Reputation Audits of Internal and External Constituencies*

One audit assesses what employees believe to be the intrinsic identity (what the organization stands for) and compares that with what senior leadership believes the intrinsic identity to be. The gap between the two views is analyzed and a plan (part of the Reputation Management Plan) to converge them is created. A second audit measures how external constituencies view the organization, and the sum of those constituency

images constitutes reputation. The gap between identity and reputation is analyzed, and a plan (part of the Reputation Management Plan) to converge the two is created.

3. Reputational Capital Goals

Goals are established for performance within an industry group, for example, or versus competitors. For example, a company might establish a goal of moving up into the top quartile of its industry sector. Progress toward that goal can then be measured, monitored, and managed.

4. In Accountability Formula

This is based on changes in reputation measured against the customized template. If the organization is slipping according to one reputation attribute (for example, communicativeness) particular departments, such as public relations, can be given the responsibility of correcting that impression through proactive communication initiatives.

5. A Reputation Management Plan

This is the deliverable that the Comprehensive Reputation Management process produces. It is a strategic performance (behavior) and communication plan for convergence of identity and reputation—a plan to move the images the various constituencies hold about the organization closer to the Intrinsic identity. The very act of having to list their reputational assets and liabilities helps the various units focus on reputation management. The Reputation Management Plan includes: a summary of the internal and external audits; measures of reputational capital; a statement of reputation challenges and potential problem areas by company or organizational unit; the respective goals and opportunities; and corporate or organizational message strategies. With objectives, strategies, timelines, and so forth, the Reputation Management Plan becomes a strategic guide for units of the organization to follow, short—and—long term.

6. Annual Follow-Up Audit and Assessment According to the Standards in the Reputation Management Plan.

CONFUSING COMMUNICATION WITH PERFORMANCE BEHAVIOR

Pushmi-pullyu

In Kurt Eichenwald's *Conspiracy of Fools*, Enron CEO Kenneth Lay proclaims to his public relations officer Mark Palmer, not long before the collapse of the company:

“The reason we can’t right the ship is we’re not doing a good job in dealing with the press.”⁹ In other words, Lay saw a communication problem, not a performance or behavior problem. On the other hand, a major article about professional basketball in *The New York Times Magazine* of February 13, 2005, maintained that the National Basketball Association does not have a “drug problem or a thug problem (or a PR problem).” Instead, the players, despite their unprecedented athleticism, do not play with teamwork, the way the sport used to be played. “It has a basketball problem.”

In the contest between the steak and the sizzle the steak will, inevitably, prove more important.

Or, as in Enron’s case, the sizzle will always evaporate. Wendy’s television commercial from the 1980s, “Where’s the beef?” said it best.

In *The Story of Doctor Dolittle*, by renowned children’s author Hugh Lofting, the good doctor comes across a mythical, rare animal in Africa. It is a llama-like creature with one head at the front, where it would normally be, and one at the base of its spine, and it is called Pushmi-pullyu. “Lord save us,” cries the duck. “How does it make up its mind?”¹⁰

The **Pushmi-pullyu metaphor** (devised by John Baruch, LittD, former CEO of Reed & Carnrick) is a fitting one to represent the problem that public relations and corporate communication practitioners face: the confusion of behavior or performance with communication—of the substantive issue with the communication about it. While the communication objectives and strategies should always be in synch with the business objectives and strategies, they are distinct. Communication cannot make a bad product good, at least over the long run. Of course it can make a good or fair product seem worse, as it did with the Exxon Valdez crisis in 1989. (Many observers agreed that Exxon did a pretty good job operationally in cleaning up the oil spill, but the communications were a disaster.) In 2006, the mishandling of communication regarding the hunting accident involving Vice President Dick Cheney clearly made the matter worse, and played right into the hands of the press and its insatiable appetite for sensationalism.

Pushmi-pullyu is a syndrome that explains the generations-old lament of corporate and organizational communicators about their lack of a “seat at the table.” The reason this has been a problem, of course, is that, too often, an organization develops an ill-advised product or position, or takes such an action, and then asks the communications group to justify it. The performance/behavior head is turning in one direction and saying one thing, and then it expects the communication head to turn and speak in a different direction.

The Pushmi-Pullyu Syndrome: A pattern of behavior whereby an organization performs or behaves in one way but expects the communications professionals to explain that performance away. Assembled in that fashion, two heads are not better than one—and they should be merged so that performance/behavior and communication can turn and talk in a confluent direction.

Reframing the Problem

In 2002, this book’s coauthor Fred Garcia was called into a company to consult on what the communication people called a “*Fortune* magazine problem.” They said *Fortune* was working on a story about the company’s chairman, a flamboyant, politically connected

executive who had borrowed millions of dollars from the company to support a lavish lifestyle. The chairman's business and political enemies were pointing to the lifestyle, and to other personal foibles and business failures, and the company's stock was suffering. Investors and analysts were asking questions but getting no satisfactory answers. It seemed like the worst mix of Enron, Tyco, and WorldCom. Company leadership was also concerned that the weakening stock price could lead to a hostile takeover.

Fred asked the company leadership what would happen if *Fortune* magazine should be persuaded not to run a story: would the problem be solved? They acknowledged that they would still be as vulnerable to takeover and to critics' capitalizing on the company's weakness in other ways. "You don't have a *Fortune* magazine problem," Fred told them, "you have a governance problem." He met with the general counsel and several board members. They discussed various scenarios under which they could remedy the company's weaknesses. Regardless of the scenario, one thing was consistent: success required the chairman to resign and to repay his loans to the company. The only meaningful question was timing: could he leave before the company suffered more harm, or would he resist, leading to calls by shareholders and others for his resignation, declines in the stock price, and eventually his ouster? Given the alternatives, the Board persuaded the chairman to leave quickly. He resigned within two weeks, and repaid his loan. The company's stock price rebounded. There was no takeover. And no *Fortune* article.

The solution to the struggle represented by the Pushmi-pullyu metaphor—the solution to the push and pull of substance and communication—is to have the entire organization behave and communicate as one.

THE EDELMAN PUBLIC ENGAGEMENT MODEL

In 2008, Richard Edelman, the president and CEO of Edelman, the world's largest independent public relations firm, delivered the inaugural Grunig Lecture, sponsored by the Institute for Public Relations, at the University of Maryland. He spoke about a communication model—of which he is the most notable advocate—called the Public Engagement Model. The address came almost 25 years after Professor Jim Grunig of the University of Maryland coauthored with Professor Todd Hunt of Rutgers University the four models explained on page 000 of this text.

Given Mr. Edelman's perhaps unparalleled success in public relations, it is wise to take special note of the model he helped pioneer. For context, he believes that public relations is more than just a tool for communicating decisions. Organizations should—and will, he maintains—incorporate the discipline into business strategy and policy.

As proof that communication strategy needs reassessing, he cites several trends he thinks will permanently influence business practices: the collapse of financial institutions, the rise of government regulation, the disappearing line between mainstream and new media, the dispersion of authority, and the growing expectations for social responsibility in the private sector.

The public engagement model, which will deftly handle these trends and the new professional environment they create, has four attributes.

- 1 Democratic and decentralized. As opposed to the “top-down” pyramid approach of making and communicating decisions, public engagement relies on a sphere of cross-influence. Organizations establish key messages and introduce a conversation that allows all interested parties to participate, adapt, and influence. A good example is the 2008 Obama presidential campaign, which gave five million volunteers the autonomy to contact voters, attract funds, and communicate through social media. By receiving a stake in the organization’s goals, the public becomes excited about its products and services.
- 2 Inform the conversation. Public relations has historically relied on one-way communication of researched messages delivered through the media. Mr. Edelman’s public engagement model requires organizations to become resources on particular areas of expertise. In addition to engaging the media, an organization can post information on its website, host virtual and physical discussion forums, create wikis and blogs, and publish reports and speeches. The emphasis is on facilitating a dialogue about the subject rather than focusing on a few tested messages.
- 3 Engagement with influencers of all types. Academic or professional credentials no longer dictate who is influential. Personal experience or passion for the subject can validate a person as an influencer. A campaign that educates a specific section of the population, which consequently spreads the message to wider audiences, communicates more effectively than a single credentialed spokesperson dictating to the public. In 2008, Johnson & Johnson’s Family Health Institute in China correctly guessed that mothers were the perfect vehicles to promote its new programs addressing unmet needs in China’s healthcare system. Every family consults Dr. Mom, so in targeting mothers, J&J earned a reputation as a healthcare company that cares.
- 4 Reputation is built on policy and communication. Organizations must put their stated standards into practice. Policy and communication have to be congruent or an organization is “destined to fail.” Edelman often discusses this element of public engagement in terms of corporate social responsibility. He suggests that the private sector partner with the social sector in making decisions and gathering support from the public. Unilever promoted its laundry detergent through the “Dirt is Good” campaign. Together with nonprofits focused on obesity and youth, the company encouraged children to stay healthy through playing outside and “getting dirty.” By going beyond consumer need, the global campaign aligned with the company’s mission and increased its market share.

Notes

Richard Edelman, “Public Engagement,” *Richard Edelman 6 A.M.*, October 30, 2008, http://www.edelman.com/speak_up/blog/archives/2008/10/public_engageme.html.



REPUTATION MIS-MANAGEMENT: LESSONS FROM THE FINANCIAL CRISIS

The causes and effects of the Great Recession of the last years of the first decade of the new millennium were many and, admittedly, complex—including, arcane financial instruments, and massive greed on the part of not just bankers and business leaders but average consumers as well. Data have been compiled, analyzed, peer reviewed and published. The tomes already published will be followed by Ph.D. theses, Pulitzer Prize winning series, and bestsellers.

Out of this morass of facts and theories has emerged a consensus that the seminal causes were with the real estate industry and the banks, who often collaborated to sell property to people who could be expected to pay for it only if the value of property continued to rise. With American consumers leading the way—spurred on by government policies that fostered home ownership with or without the ability to pay—the cycle of profligate lending and spending spread worldwide. When property values leveled off and then plunged, so too did the worldwide economy.

The complicit parties, from consumers to banks to governments to regulatory agencies, failed to live up to the intrinsic identities that had served them well over the ages.

While it is true that the financial instruments that accompanied this cycle were novel and complex, and while it is true that the greed that arose was novel in its creativity and pervasiveness, there is a simplicity to be found in the story that explains how it happened and how a similar catastrophe might be prevented from happening again. And for professional communicators, the lesson to be learned is only partly one of communication. For in the final analysis, the complicit parties, from consumers to banks to governments to regulatory agencies, failed to live up to the intrinsic identities that had served them well over the ages. And they failed to protect their reputations, by failing to protect the component parts.

**Reputation = Performance (P) + Behavior (B) +
Communication (C)**

The Performance Failure

When property values and other economic indicators fell, the reputations of the real estate and banking industries fell, and then, as was inevitable, business overall. In its 2008 Reputation Quotient Report, Harris Interactive reports that Americans have an extremely low opinion of banks. According to the survey, the financial services sector has such little public support that even the tobacco industry enjoys a better reputation.¹¹

The Behavior Failure

Leading up to the collapse, when the economy was on the ascent, executive compensation continued to rise. It became a caricature of unfairness, viewed much like outsized pay to top athletes, except that consumers often felt they had no recourse, could not even withhold the price of a ticket to the game. Even though executive compensation outpaced by far the rate of growth in wages for average workers, the protests were not strong enough to force more moderate executive pay practices based on performance.

As people started to lose money and jobs, leading business figures seemed unaware of public sentiment. Witness the infamous jet rides of the Detroit auto executives to the Congressional hearings in November 2009.

The Communication Failure

Were the Detroit corporate communicators consulted before the CEOs took their private jets to Washington? Were they consulted over the decades of collapse of an industry that had once led the United States economy and the world? Were they just seen as communicators, whereas they should have been involved in the performance and behavior considerations as well?

Of course many industries lost reputation during the financial crisis. In general, the closer the consumer connection, the greater the loss—to wit, energy, apparel, food, and retail in general.

It will be interesting to see how the professional communicators in the U.S. fare with the major healthcare reform initiatives that will continue at least well into 2010. Can the pharmaceutical company communicators convince their stakeholders that the industry supports reform, not only because it will bring new customers but also because it is good for society? Can the health insurance industry communicators convince their stakeholders that they support expanded insurance coverage not only because it will bring new customers but because what is good for the insurance industry is good for society?

In his September 2009 speech on the anniversary of the Lehman collapse, President Obama praised community banks for “being responsible lenders [and] doing the right thing.”¹² During the early months of the financial crisis, banks with assets of less than \$5 billion outperformed their larger competitors in nearly every measure important to stakeholders. While it is still too early to make definitive conclusions about the economic mess, analysts are closely monitoring the practices of small banks. Even after accepting money from the Troubled Asset Relief Program (TARP) because the government deemed them too big to fail, a number of the larger institutions remain at a collective low point. On the other hand, many of the small banks, which simply rely on maintaining accountability and making sensible business decisions, are weathering the crisis with relative ease.

The investment bank Goldman Sachs accepted \$10 billion in TARP funds in October 2008, but paid it back with interest in June 2009 as soon as the U.S. government

would allow repayment. During the worst months of the Great Recession, Goldman reported positive earnings results that were much better than the other major investment banks. It seemed that the better Goldman performed the more criticism it received from journalists, bloggers and the traditional media. In 2009, major exposés appeared in *Vanity Fair*, *New York* magazine and *Rolling Stone*, among others, criticizing the firm for relentless profiteering and perpetuating all of the major market bubbles in the last century and a half. It was called, “a great vampire squid wrapped around the face of humanity.”¹³

But Goldman leadership views reputation through a different lens. The *New York Times*’s DealBook blog reported that, during an August 2009 meeting with a CreditSights analyst, Goldman executives claimed that the “negative image of the firm portrayed in the popular press had not damaged its franchise with its institutional clients nor adversely impacted its funding levels, liquidity access or stock valuation.” The analyst said that, “Goldman Sachs’s view is that it must keep striving to deliver value for its shareholders and doing what it thinks is in the best interests of the firm in spite of some recent negative press in the media.” Goldman’s own perspective considers the views of securities analysts, Goldman customers, and others to whom financial performance is the major criterion.

But if one views reputation as singular, the way most reputation scholars do—that is, an organization, or an individual, has just one reputation, which is the sum of the views of all its stakeholders—then the company leadership should not be so sanguine. For example, its executive bonuses seem way out of bounds to most people. Goldman, despite its remarkable strengths, has been tarred by the same brush that painted the entire investment banking industry.

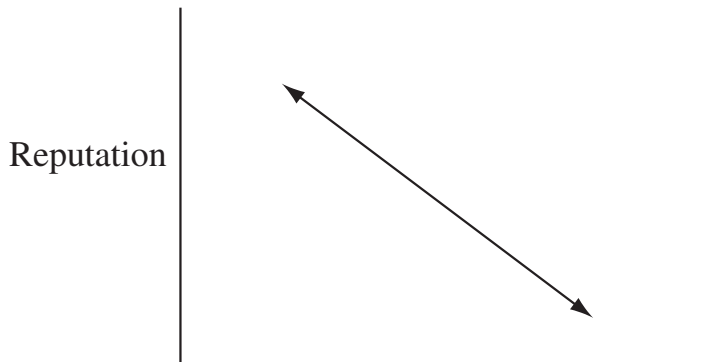


Figure 1.2 Tom Matteini is president of Jeffrey & Foster, a small printing company that has held its own for 60 years against the behemoths—in the New York City market no less. He conceived this chart: “Actions that put at risk what you stand for—with us it’s printing quality, reliability, and competitive pricing—inevitably lower reputation. But you have to be willing to lose some of the bids and some revenue. Sometimes, you just cannot compete on price.”

The Identity Failure

For millennia, banks made loans only to people who had enough resources and income to repay them. What banks stood for, simply, was soundness in lending and investing. In the late 1980s, one bank after another started making loans on the prospect that the properties offered as collateral would appreciate. Often, the banks sold the dangerous loans to other banks, absolving the original lender of vulnerability—for a while. The practice became so lucrative that too many banks felt they could not pass it up. Smart consumers—who had always stood for hard work and living thriftily-- bought into the illusion that they could live in a house they could not afford.

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THE TEN PRECEPTS OF REPUTATION MANAGEMENT

These precepts are meant to help professionals who spend their workdays communicating on behalf of organizations. Because the precepts are intended to help with reputation management, they have as much to do with performance and behavior as with communication. These Precepts are the same ones the authors listed in the 1st edition, with some new examples for currency. We ask the reader to review them to see how well they have stood the tests of the financial crises and other reputational challenges that have occurred since the 1st edition.

1. *Know and honor your organization's intrinsic identity.*

Jim Burke, the CEO of Johnson & Johnson during the Tylenol® tampering cases of 1982 and 1986, said he deserved little credit for the extensive product recalls, which were undertaken at much risk to the franchise and the finances of the company. He explained that the company credo—its intrinsic identity—puts the health of the patient first. That credo begins: “We believe that our first responsibility is to the doctors, nurses, and patients, to mothers and fathers, and all others who use our products and services.”¹⁴ When a company acts always in ways that reflect its first responsibility to the people who use its product, and people are dying after using its product, the decision to pull its product is an easy one.

The Johnson & Johnson case stands in stark contrast to the sexual abuse scandal in the Catholic Church, where bishops put what they perceived to be the interest of the organization above the emotional and spiritual well-being of the people they exist to help. Of course organizations have multiple identities (for example, quality products and competitive profitability), but as George Cheney and other researchers have demonstrated, the identities must be compatible, and one must be dominant. That dominant, or intrinsic, identity must be clear to the members of the organization. It is what the

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2. Know and honor your constituents.

The American Red Cross, among the most successful and highly regarded charities in U.S. history, had good intentions when it decided to withhold from the families of the victims of 9/11 some of the monies donated for them. The fund had generated an overwhelmingly generous response, and the leadership of the Red Cross reasoned that not all the monies were needed by the families, and that it would be prudent to save some to help when future disasters, man- and God-made, strike. Donors were outraged, and a major crisis ensued.

The moral: do not presume to know the will of your constituents, and do not presume that good intentions alone are sufficient to protect against criticism that the organization is acting against the interests of its key constituents.

3. Build the safeguards strong and durable, for they are the infrastructure of a strong reputation.

Former U.S. Federal Reserve Chairman Alan Greenspan maintains that greed was the root cause of most of the recent business scandals, but he acknowledges that weakened safeguards let the greed flourish. Two stories illustrate this point. According to the U.S. Securities and Exchange Commission, the misuse of company funds by the Rigas family at Adelphia Communications represents “one of the most extensive financial frauds ever to take place at a public company.” Not only did the internal controls—from company lawyers to accountants to the board of directors—fail to function, the external ones—from auditors to bankers to regulators—did as well. Likewise, former Wall Street financier Bernard Madoff pleaded guilty to 11 federal crimes tied to charges that he defrauded his clients of \$65 billion in a Ponzi scheme. In spite of several SEC investigations and red flags raised by analysts and competitors, Madoff’s operation remained intact for 20 years. According to reports, authorities only made cursory investigations into his business practices and usually in search of specific offences. The moral: strong, efficient safeguards, internal and external, are in an organization’s best interests.

4. Beware the conflict of interest, for it can mortally wound your organization.

Few firms in history had better reputations than Arthur Andersen, and a statue of the company namesake and founder stood tall at the company’s training facility as a reminder of what he stood for: the meticulous and rigorous auditing and reporting of a client’s finances. Andersen’s primary duty was to the shareholders of companies whose books it audited. But by 2001 Andersen’s imperative to boost revenues and profits had eroded structures intended to assure the independence of auditors. Andersen allowed itself to act in its own short-term interest and against the interests of its clients’ shareholders. The compromising of audit standards and auditor independence was discussed publicly within and outside the firm for years before the damage became apparent and severe.

After the Enron/Andersen scandal broke in late 2001 and early 2002, a committee of some of society's most respected leaders, including former U.S. Federal Reserve Chairman Paul Volker and former Merck CEO P. Roy Vagelos, was convened to save it. But by then the firm's intrinsic identity—meticulous, honest auditing—had already been so compromised that the core had been ruined; Andersen was convicted of a crime and soon closed its doors. The conviction was later reversed, but by then the firm had gone out of business and thousands of employees had lost their jobs.

Paul Volker once said that it is only the people or organizations that have not accomplished very much who could be free of all potential conflicts. Nevertheless, the test for labelling something as a major conflict of interest might be as simple as the one used by U.S. Supreme Court Justice Potter Stewart to label pornography: it may be hard to define, but you know it when you see it.

5. Beware of the “CEO Disease,” because there is no treatment for it.

It is the same malady the Greek gods said destroyed so many tragic figures, and it is called hubris. Chief executives command tremendous incomes, power, and prestige. Thousands of employees almost genuflect when they walk by, and powerful people from all sectors of society treat them with deference. It must be difficult not to fall into certain traps, such as wanting to be surrounded by employees who always agree with them. Ask anyone who has worked in corporate communication for a long time: There is a “CEO Disease” (and heads of governments, nonprofits, and universities are not immune).

One of the manifestations of hubris is an inability to see that a looming problem requires immediate attention. Many CEOs mishandle initial phases of a crisis out of either arrogance or willful blindness, caused by a misplaced sense of invincibility. The outcome is otherwise manageable crises that result, ultimately and after much hardship, in the CEO's ouster. The year 2004 saw more forced CEO turnover than any year since such statistics have been compiled. According to the consulting firm Booz & Company's annual CEO succession survey, the “giant sucking sound heard in the business world during 2004 was the extraction of chief executives from seats of power ... The first quarter of 2005 brought headline-generating forced successions at Disney, Hewlett-Packard, Boeing, and AIG, linked to shareholder dissatisfaction, scandal, or both.”¹⁵ The trend continued until the beginnings of the most recent recession, when further Booz surveys discovered that “the nature of the recession is leading boards of directors of Western companies to stick with the leaders they know.” However, government intervention and market volatility, as well as performance, can determine CEO turnover in the new economic climate.

6. Beware of organizational myopia, for it will obscure the long-term view.

Especially during times of crisis, organizations tend to focus on the short term. It's part of the corporate and organization condition, and not falling into that trap is one of the lessons of crisis management (Chapter 12). Sometimes organizations are given plenty of advance notice of issues looming large, but few heed the warning signs.

7. *Be slow to forgive an action or inaction that hurts reputation.*

Warren Buffett said it best to a group of Salomon Brothers managers after a 1991 trading scandal hit the bank in which he had an interest. The quote, at the beginning of this chapter, bears repeating: “If you lose dollars for the firm by bad decisions, I will be very understanding. If you lose reputation for the firm, I will be ruthless.”

8. *Do not lie.*

People tell lies, most of which are small and harmless, and some of which may even be good things (“Honey, do I look heavy in this dress?”). Similarly, organizations are not always completely forthcoming with information and, indeed, that is sometimes a very good thing (Media Relations, Chapter 3). But lying is of course a slippery slope, eventually dragging the organization into a deep hole from which there is no extrication. Organizations can often get away with lying for a while, but that’s all. Sometimes, efforts to mislead have significant adverse consequences, a lesson learned by President Nixon with Watergate, President Clinton in the Monica Lewinsky scandal, and by Martha Stewart, who was prosecuted, convicted, and imprisoned for lying to law enforcement officers.

9. *Dance with the one that “brung” you.*

This aphorism, popular within sports teams, applies to organizations as well as individuals. By the fall of 2000, it was becoming clear that Firestone tires were leading to traffic accidents, and many of them were on the Ford Explorer. Bridgestone-Firestone blamed Ford and vice versa. A business and public relations crisis ensued, and in May 2001 the two companies severed their business relationship that had endured for almost one hundred years. Most analysts agreed that the crisis was compounded by the lack of cooperation, and although the relationship was later revived, the damage had been done. Likewise, it is not uncommon today for a firm that is downsizing to give pink slips to employees, and then have a security guard publicly usher them to the gate—even those employees with excellent, long-term records. Thankfully, however, many other companies take monumental initiatives to be loyal to their employees, customers, and other constituencies. Aaron Feurstein, owner of Malden Mills in Lawrence, Massachusetts, was able to retain all his employees after a fire destroyed his factory in 1995. He said he would simply not abandon his employees, and quoted

A family-owned company based near Stuttgart, Germany, that employs 8000 people manufacturing laser tools for the automobile industry had been able to avoid any layoffs.

from the Torah, or Jewish Law: “He is poor and needy, whether he be thy brethren or a stranger.” Similarly, a family-owned company based near Stuttgart, Germany, that employs 8000 people manufacturing laser tools for the automobile industry had been able to avoid any layoffs (at least through the end of 2009), despite the downturn in the German and worldwide economy. “The responsibility I have for our employees is what is dearest to my heart,” Nicola Leibinger-Kammuller, the family member who heads the company, told *The New York Times*. “It’s not the family wealth. It’s not our standing with the public.”¹⁶

10. *Reputation is an asset and must be managed like other asset*

11. *Reputation is intangible, but it has great, tangible value (worth many billions of dollars in large corporations, for instance)*

It is therefore an asset. Failure to acknowledge reputation as an asset can be self-fulfilling. By ignoring reputation and factors that harm or help it, companies often behave and communicate in ways that cause harm to the reputation. Successful stewardship of reputation not only protects against the downside, but can affirmatively enhance the enterprise value of an organization. Because the component parts of reputation (performance/behavior and communication) can be managed, one should devise a strategy and plan to measure, audit, and manage it on an ongoing basis.

**Reputation = Sum of Images =
Performance and Behavior + Communication**

SAFEGUARDING A BRAND: GENERAL ELECTRIC

By Gary Sheffer

Communication and public affairs professionals are confronting daunting challenges. Macro economic and social forces are thwarting our efforts to protect and enhance the reputations of individuals and institutions.

The biggest obstacle we face: A disintegration of public trust in America's business leaders. Admittedly, since the dawn of commerce, "The Businessman" has been criticized. But today, the public cynicism and anger generated by contemporary business villains—from Wall Street CEOs to convicted Ponzi-scheme practitioners—has created an environment in which conventional assumptions about the motives of business people have been almost completely reversed: It used to be that most businessmen and women were presumed honest, with a few exceptions. Today, there's an assumption that most business executives are corrupt; and the burden of dis-proof rests squarely on executives' shoulders.

At GE, we are redoubling our efforts to safeguard a brand it took 131 years to build. To that end, the communications and professionals inside our company are taking the following steps:

- ***We're redefining performance*** by bringing the outside world into our company. At GE, this translates into an increased emphasis on engagement with investors, for without results we cannot exist. We have also increased alignment with social interests, because without public trust and support we cannot endure.

- ***We're running our reputation like a campaign***, with the same intensity and rapid-response strategies employed by political pros. Inside GE, we call it "Campaign GE," a way of rallying ourselves around our goals: to help GE win by telling the GE story in a compelling, persuasive manner to build trust and create commercial opportunities.
- ***We're getting into the news business***. In October 2008, we launched GE Reports, a no-frills company news source that disseminates the facts about GE. At first, its goal was to respond to market misinformation and speculation about GE. Today, it's a online "media outlet" where we break news about the company. It has quickly become one of the most trafficked corporate web sites, with about a 4,000 visitors daily.
- ***We're expanding our public affairs capability***. Since the economic crash of 2008, government's presence in the business world has increased dramatically. New government regulation and legislation is certain. As a result, we've added people worldwide to interface internally and externally with government and other external stakeholders.



REPUTATION MANAGEMENT: THE BEST CORPORATE COMMUNICATION STRATEGY

The remaining chapters of this book flow from a discussion of ethics (Chapter 2), to a discussion of approaches to working with the various corporate communication constituencies (Chapters 3–10), to ways of handling certain major responsibilities (Chapters 11–13), to the challenges facing those who seek to build a career in corporate and organizational communication (Chapter 14).

The premise of Chapter 1—that reputation can be measured, monitored, and managed—begs for the adoption by corporate communications departments of a long-term strategy of reputation management, customized for the particular constituencies, and in synch with an intrinsic identity that the entire organization understands and believes in.

A growing body of scholarship shows links between reputation and business performance, and the ability of public relations, particularly corporate communications, to impact reputation.

A growing body of scholarship shows links between reputation and business performance, and the ability of public relations, particularly corporate communications, to impact reputation. Such studies include:

- *Harvard Business Review*, "Reputation and its Risks," Eccles, et al, 2007. "This article provides a framework for proactively managing reputational risks. It explains the factors that affect the levels of such risks and then explores how a company can sufficiently quantify and control them." The authors of this article maintain, unlike the positions taken by the authors of most articles on reputation management, that corporate communication is not the best department to oversee the reputation management process, since corporate communication has too large an interest in communication. But as the formula for reputation

given in this chapter illustrates, communication is just one of the three components of reputation (along with performance and behaviour). Another weakness with this HBR article is that it focuses exclusively on the risks to reputation, with never a mention of the fact that reputation management calls for capitalizing on the positive aspects of reputation as well as minimizing the risks.

- *Journal of Public Relations Research*, “Measuring the economic value of public relations,” Yungwook Kim, 2001. “This study established a two-step model to measure the economic value of public relations by testing two relationships: the impact on reputation as a goal of public relations, and the economic impact of reputation on companies’ bottom lines.” The study showed a positive causal relationship between public relations and reputation, and a positive causal relationship between reputation and revenue.
- *Southern Economic Journal*, “A latent structure approach to measuring reputation,” Quagraine et al., 2003. “The study provides estimates of reputation as a dynamic latent variable that is determined by price premiums and market data.” It showed a positive effect between reputation and the prices a company can charge.
- *Corporate Communications*, “Measuring corporate reputation,” Bradford, Stewart Lewis, 2001. “This paper considers how corporate reputation is most influenced by the actions of an organization rather than a successful (or otherwise) PR campaign, and how a communication strategy can best influence reputation.” The paper established that it is important to measure and manage reputation by constituency.
- *Corporate Reputation Review*, “The concept and measurement of corporate reputation ...,” de la Fuente Sabate et al., Winter 2003. “This paper ... leads us to a new definition of corporate reputation, one that not only introduces the perceptions of how the firm behaves towards its stakeholders, but also takes into account the degree of transparency with which the firm develops relations with them.” The paper established that information transparency (communicativeness) affects reputation and the ability to do business. Positive reputations have a positive effect on a company’s ability to do business.

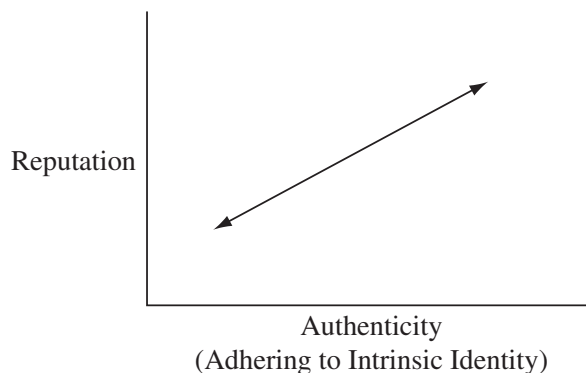


Figure 1.3

Since reputation is the sum of performance/behavior and communication, an effective corporate communication strategy must be that inclusive. As with individuals, the relationships an organization has will succeed or fail based on performance/behavior and communication. In other words, relationships must be sound and aggressively fostered. Such a strategy can ensure that the organization moves forward, avoiding the Pushmi-Pullyu Syndrome and the reputation pitfalls.

THE EXPANDED REPUTATION FORMULA

Ray Jordan, vice president of public affairs and corporate communication at Johnson & Johnson, told authors Doorley and Garcia that he believes professional communicators should understand the reputation formula first postulated in the first edition of this book: $R = P + B + C$. But he challenged us to include a consideration of intrinsic identity: “Isn’t it always true that what an organization stands for, and how well it lives up to that standard, will significantly affect its reputation.”

So we took up that charge, starting with the word “authenticity,” which the Arthur W. Page Society calls the “coin of the realm for successful corporations and for those (including the communication officers) who lead them.” In its 2007 report, *The Authentic Enterprise* (see Sidebar article in this chapter), the Page Society states that any corporation that wants to establish a distinctive brand (reputation) must, “more than ever before, be grounded in a sure sense of what defines it—why it exists, what it stands for and what differentiates it in a marketplace of customers, investors and workers.”

To be authentic is to have “integrity” and it follows then that a failure to live up to what one stands for is a failure of integrity or authenticity. The word integrity is linked with being whole, or undivided, which explains why everything inevitably falls apart once integrity or authenticity fails. “Once you lose integrity,” John Haldeman said of his role in the Watergate scandal, “the rest is easy.” Put more positively, an organization’s reputation will be in direct proportion to its authenticity.

The Authenticity Factor (Af)—the authors’ response to Ray Jordan’s challenge—is the indicator of how well an organization (or person) lives up to its intrinsic identity. When there is authenticity, the organization is whole, undiminished. On the other hand, when integrity or authenticity fails, the Authenticity factor is a fraction. The organization is divided, and its reputation will decline, because it will be a fraction of the sum of $P + B + C$.

It is not important to try to assign numbers to the factors in the following equation. What is important for communicators and other leaders to understand is that reputation depends on each of the factors. Therefore, reputation can only be managed by managing all the components in the equation. Communicators, in order to do their jobs, need that “seat at the table,” need to be involved not just in the communication.

After much thought, research and peer review, we got back to Ray Jordan with the following formula:

$$\text{Reputation} = (\text{Performance} + \text{Behavior} + \text{Communication}) \times \text{Authenticity factor}$$
$$R = (P + B + C) \times Af$$

Ray thought it represents a “step forward—it has simplicity and applicability.”

ARTHUR W. PAGE SOCIETY: EXECUTIVE SUMMARY

A task force of the Arthur W. Page Society set out to examine the evolving role of the senior communications executive in 21st-century business. As our team pursued its mission, we found ourselves confronting phenomena that go far beyond the future of public relations. The relevance of these phenomena was confirmed in a new study, commissioned for this report, in which we surveyed chief executive officers on their perceptions of how their own jobs are being reshaped.

Businesses and institutions today are facing a rapidly changing landscape:

- the emergence of a new digital information commons;
- the reality of a global economy; and
- the appearance and empowerment of myriad new stakeholders.

Together, these forces have created a global playing field of unprecedented transparency and radically democratized access to information production, dissemination and consumption. They are overturning the corporation’s traditional ability to segment audiences and messages and to manage how it wishes to be perceived. Today the corporation’s relationship with one constituency is readily visible to all constituencies, who are multiplying in number and growing in sophistication. Further, some of these new players are not legitimate stakeholders at all, but rather simply adversarial or even malicious. At the same time, powerful new possibilities are being opened up for the corporation to reach genuine stakeholders, to advance its policy interests, to build its brand and enhance its reputation.

In such an environment, the corporation that wants to establish a distinctive brand and achieve long-term success must, more than ever before, be grounded in a sure sense of what defines it—why it exists, what it stands for and what differentiates it in a marketplace of customers, investors, and workers. Those definitions—call them values, principles, beliefs, mission, purpose or value proposition—must dictate consistent behavior and actions.

In a word, authenticity will be the coin of the realm for successful corporation and for those who lead them. But when we describe the emerging business model as “the authentic

enterprise,” two important caveats are necessary. The first is that we are not suggesting that business of the past were somehow inauthentic. Rather, it is the general arena of judgment and differentiation that has changed—and changed fundamentally. That in turn requires a corresponding change in how the corporation operates. Its actions and reputation, which used to be safeguarded by a cadre of professionalized functions, are now the responsibility of everyone in the enterprise. What used to be controlled within the company’s “four walls” is now spread across multiple partners, communities and individuals around the globe.

This implies that companies must think in different ways about the roles of senior management and the responsibilities of all employees. In our study, CEOs described the need for their companies to capitalize on the new realities. Many of the changes required involve stakeholder relationships and public perceptions, so CEOs are looking for their Chief Communications Officers to take a more strategic and interactive role within the senior leadership of the company. And because the authentic enterprise requires a highly coordinated approach across marketing, human resources, legal, finance and other corporate functions, as well as line management, more than ever, leaders will need to hone their collaboration skills.

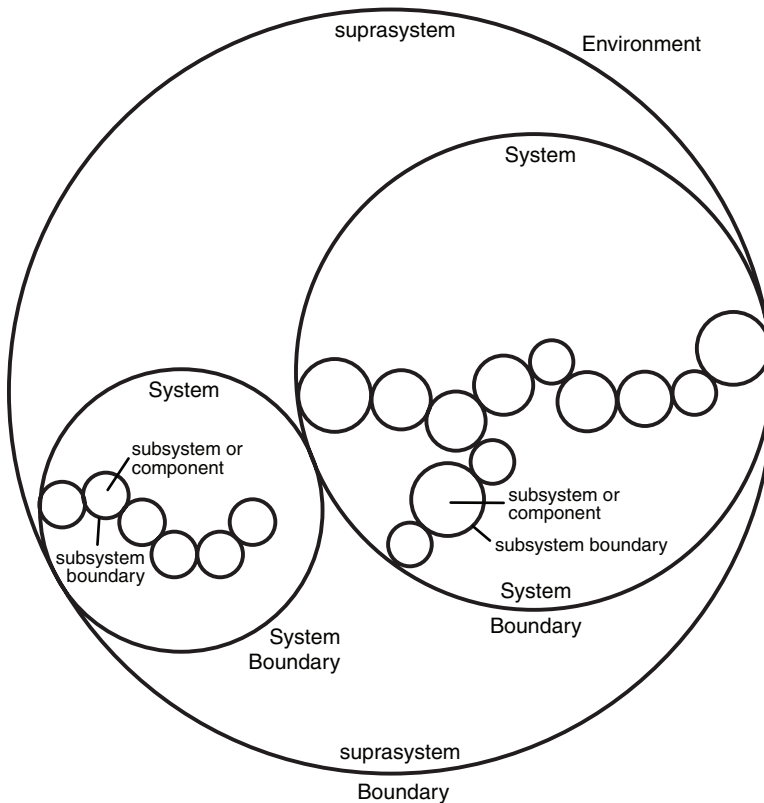


Figure 1.4

SYSTEMS THEORY

Communication is the means by which an organization functions, and it is axiomatic that the better the communication the more productive the organization. That proposition is supported by communication theories, most notably in the case of corporate communication by General Systems Theory. It provides a communication framework which conceives of organizations as living things composed of interrelated components or parts. It provides a way of thinking of an organization not as an amalgam of distinct, seemingly unrelated disciplines, such as finance, customer service, or research, but rather as a whole that comprises components bound together by certain commonalities. As a system, the organization is part of a community that is part of other communities and they all interact, wittingly or unwittingly, in a planned or unplanned way. Systems theory can help communicators and leaders of organizations adopt a working philosophy that communication is the only way to unity and synergy within the organization, and to openness and harmony with systems (for instance, publics) in the environment outside the organization.

“One of the fundamental concepts of General Systems Theory can be traced to Aristotle,” explains Rutgers University Communication Professor Brent Ruben, “who said in *Politics* that a state is composed of villages, which are in turn made up of households, which contain families.¹⁷ Conceiving of entities in terms of wholes and interrelated parts is a basic concept in the general system framework of today.”

The modern-day father of systems theory in organizational communication was Ludwig von Bertalanffy, who conducted his research in the 1950s and 1960s. He was influenced by researchers who were working at the time to identify and express the generalities that tie the scientific disciplines together, so that biology and physics, for example, could be viewed in an interrelated way, rather than as separate, highly specialized fields. For example, cybernetics, which can produce a self-regulated machine that can perform functions greater than any part could, represents a specific application in the physical sciences; Gestalt psychology, which approaches psychotherapy from the perspective of the whole person, including the diverse systems of which he is a part, as opposed to an analytical approach, represents an application in psychotherapy.

Within the communication framework of systems theory, an organization can be pictured as a series of systems and subsystems within a supra system (see Figure 1.4). For example, a company could be pictured as a system, the departments as subsystems, and the particular industry as the supra system that functions within the environment of society. Of course, each supra system, system, and subsystem has a boundary and contains components (individuals). The boundaries are porous, opening subsystems to systems to supra systems to the environment. Subsystems and components are identified by the processes they perform. (Systems figure reproduced with the permission of Ruben, Gibson et al. of Rutgers University.)

Systems theory provides a framework for organizational communication based on the following properties and principles common to all systems. The properties and principles have implications for all communication enterprises, with employee communication, media relations, government relations, investor relations, and community relations being among the most obvious:

- Just as in a **biological system** where information flows from one cell to another,

information in an organization flows across the borders in what theorists like Professor Ruben call the “metabolism of information.” It follows that the more effective the communication, the more productive the organization.

- No part of a system, no person within an organization, can exist by himself or herself. This is the theoretical basis for tearing down the “silos,” which became a theme throughout industry in the 1990s.
- Systems are dynamic. Feedback, from one component to another and with the environment, is essential. Implications for dialogue and engagement are clear in communication enterprises ranging from classroom learning to employee communication. The old communication model of sender-receiver may work for thinking in terms of transferring information; it is not helpful for understanding more complex processes involved with attitudes and behavior.
- Participation in the system is mandatory. One cannot not communicate. (That is the phrase attributed to communication scholars Watzlawick, Beavin, and Jackson).¹⁸ Engagement is essential.
- Human communication systems are “open systems.” As opposed to closed, self-contained systems, which, for example, produce predictable chemical reactions in a test tube, the reactions of the things that go into an open system cannot be precisely calculated in advance; that is, the output cannot be calculated from the input. The open system has properties distinct from its parts; the total, therefore, is not equal to the sum of the parts.
- There are generalities that tie the parts together but one must be careful here. To say something meaningful about the whole—for example, the employee audience is to omit specifics about the parts. “The key is to find the optimum degree of generality,” Professor Ruben states. The implications for audience segmentation (internal or external audiences) are clear.
- The environments within and surrounding the supra system, systems, and subsystems shape those parts, and the reverse is true as well. Likewise, the environment shapes the individual’s view of reality, and the individual actually shapes the environment. That is, the environments of a company (everything from the physical and cultural environments within and around the company to the country in which the company is based) shape the employees and vice versa. This point illustrates the great potential of communication.

“The systems approach,” Professor Ruben states, “has been a particularly useful foundation for what may be thought of as the quality approach to organizations. The dominant metaphor for the Quality School is team, which relies on communication for success.” Sports metaphors about teamwork may be clichéd, but they have solid foundation in theory as well as practice.

Systems Theory: A framework that supports many of the principles expressed in the following chapters.

Professor Ruben: “Communication is the lifeblood of human systems. It is the means through which leadership functions, the mechanism by which parts relate to one another, the process by

which systems relate and adapt to their environments. In organizations, quality and effective multidirectional communication go hand in hand.”



BEST PRACTICES: REPUTATION MANAGEMENT



- 1** Understand and value the components of reputation, including integrity, governance, and communicativeness (transparency).

- 2** Establish a formal mechanism periodically to monitor, measure and manage reputation.

- 3** Establish a formal mechanism—for example, a regularly scheduled meeting of senior officers, or a “Reputation Management Plan”—to manage reputation on an ongoing basis. The very act of establishing and adhering to a formal mechanism clearly expresses leadership’s commitment to protecting the reputation asset.

- 4** A formal mechanism (for example, a Reputation Management Plan) can help your organization converge brand reputation and the broader corporate reputation with intrinsic identity (what the organization stands for).



RESOURCES FOR FURTHER STUDY

- Alsop, Ronald J., *The 18 Immutable Laws of Corporate Reputation, A Wall Street Journal Book* (New York: Free Press, 2004).
- Argenti, Paul, *Corporate Communication* (Dartmouth University, The Amos Tuck School of Business Administration: McGraw-Hill, 1998).
- The Corporate Communication Institute at Fairleigh Dickinson University.
- The Corporate Reputation, an electronic newsletter by Peter Firestein, president of Global Strategic Communications Inc., at <http://www.firesteinco.com/reputation>. Corporate Reputation Review: An International Journal, Henry Stewart Publications.
- The Expressive Organization: Linking Identity, Reputation and the Corporate Brand, Fombrun, Charles J., *Reputation: Realizing Value from the Corporate Brand* (Boston: Harvard Business School Press, 1996).
- The Institute of Public Relations, <http://www.ipr.org.uk/reputation>.
- Chris Matthews, *Life's A Campaign: What Politics Has Taught Me About Friendship, Rivalry, Reputation and Success* (New York: Random House, 2007).
- Measurement of "intangible assets." Refer to the work of Professor Baruch Lev of New York University, the Stern School, <http://www.stern.nyu.edu/~blev/main.html> - 9k.
- Morley, Michael, *How to Manage Your Global Reputation: A Guide to the Dynamics of International Public Relations* (New York: New York University Press, 2002).
- Morley, Michael, *The Global Corporate Brand Book* (London: Palgrave Macmillan, 2009).
- Ross, Leslie Gaines, *CEO Capital: A Guide to Building CEO Reputation and Company Success* (New York: John Wiley & Sons, 2003).
- Schultz, Majken, Hatch, Mary Jo, and Holten, Mogens (eds.), *Larsen* (New York: Oxford University Press, 2000).
- The Authentic Enterprise, Arthur W. Page Society, 2007, <http://www.awpagesociety.com>

QUESTIONS FOR FURTHER DISCUSSION



- 1** Why do you think *The New York Times* was for so long blind to reporter Jayson Blair's plagiarism and fabrications?

- 2** Why is it that most by far of the organizations that claim to provide reputation management services are really selling reputation measurement? Do they really not know the difference?

- 3** Can you think of examples of the Pushmi-pullyu syndrome in your organization? Should that animal, exciting though it may be to watch, ever be permitted to exist in an organization?

- 4** Are companies whose products largely share the company name (Coca-Cola, Johnson & Johnson, etc.) at an advantage or disadvantage in terms of reputation management?

- 5** Is it easier to manage the reputation of an organization in a free or totalitarian society?

- 6** During the Great Recession, many great enterprises collapsed—including: Fannie Mae, Freddie Mac, Lehman Brothers, Bear Stearns, AIG, General Motors, Chrysler and scores of banks. Is it an oversimplification to say it all happened because of a failure to manage reputation?

- 7** Arcane fields like physics, economics and chemistry build stature and credibility by offering formulas—for example, if you mix these chemicals together, the following result will occur. Why do you think there are so few formulas (for instance, $R = I/I \times P + B + C$) in public relations and corporate communication?

- 8** Public relations is an emerging social science. Draw some similarities and lessons from other social sciences?
