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Pamela Cohen – Invisible Advantage

Chapter Nine

REPUTATION

Corporate reputation is a company's most enduring and lasting asset.
—Leslie Gaines-Ross, Chief Knowledge Officer
Burson-Marsteller

In a sense a company's reputation is the ultimate intangible. It's literally nothing more than how the organization is perceived by a variety of people. It is slippery, volatile, easily compromised, impossible to control, amorphous. It is also all-too-widely ignored by corporate executives, who are prone to throw up their hands in despair at something so difficult to grasp. But reputation isn't so different from the other intangibles. Like them, it is subject to definition, analysis, and management. And the payoff from systematically managing a company's reputation can be enormous.

How is reputation defined?

Since reputation is a matter of perception, researchers usually attempt to quantify it through surveys. What companies do you most admire? How would you rank them on the following criteria?

Not surprisingly, methodologies differ. *Fortune*, which conducts the granddaddy of reputation surveys for its annual "Most Admired Companies" feature, surveys business executives and sell-side analysts. The *Financial Times* limits its own survey—for its "World's Most Respected Companies" list—to chief executives. Harris Interactive and the New York City–based Reputation Institute annually interview a sample of the general public. (The results are published in the *Wall Street Journal*.) Other researchers—Burson Marsteller, Corporate Branding LLC, and others—use their own approaches. Survey questions differ as well. Where *Fortune* focuses on eight attributes, the Reputation Institute uses 20. Reputation Institute Executive Director (and New York University professor) Charles Fombrun charges that both the magazine and the *Financial Times* wind up giving too much weight to financial indicators, precisely because they limit their surveys to businesspeople. Ask employees and consumers, he says, and you'll get "quite different points of view on whom they regard highly."[1]

Yet it's easy to overrate the differences. For one thing, some companies show up on nearly everybody's list—General Electric and Wal-Mart are two examples—and there's invariably a good deal of overlap. This suggests that reputation, however quantified, exists independent of the precise measuring tool. For another, the particular kind of reputation that a company seeks to manage depends in good measure on the nature of its business. Sears or Disney may be more interested in its reputation among the general public than a company that sells primarily to business customers. Finally, no company's reputation exists in a vacuum. A couple of years ago, Lucent Technologies made *Fortune*'s list, while Xerox made the Reputation Institute's. It's a safe bet that neither company will be on anybody's list unless and until it gets back on its financial feet.

Reputation is not the same as brand, though the two intangibles are obviously related. *Brand* refers to the cluster of attributes and emotions customers associate with a particular product or set of products, including those products' value and functionality. *Reputation* refers to what a variety of stakeholders—not just customers but suppliers, other businesses, investors, employees, regulators, and the community at large—think of a whole company. While the *Exxon Valdez* disaster didn't change anybody's opinion of the quality of Exxon Corp.'s products, it certainly affected many, many people's perceptions of the company as a whole.

Why it matters

However it's defined, reputation matters precisely because we live in an Intangibles Economy. *Employees* have a choice of where they work, even in a downturn (as recent experience has shown). If a company's value resides largely in the talent it attracts and in the intellectual property they generate, then the ability to attract the best people is priceless. *Investors* have a choice as well. A company's ability to attract capital depends on its reputation as well as on its financial results—in part because reputation seems to correlate with long-term financial performance. In our Measures That Matter study, several indicators related to reputation, including customer perception and environmental and social policies, ranked among the intangibles valued by the Wall Street professionals we surveyed.

Customers in particular like to do business with companies they respect, and shun companies that they don't. According to the Millennium Poll on Social Responsibility, close to 50 percent of American consumers say they "reward or punish companies' actions by buying or not buying their products or speaking out against the company."[2] A survey conducted for the Reputation Institute found that nearly a quarter of consumers had boycotted a company during the previous 12 months simply because they didn't

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[1] quoted in Christy Eidson and Melissa Master, "Top ten…most admired…most respected: Who Makes the Call?" Across the Board, March 2000. This article summarizes some of the key methodological differences.
[2] Leslie Gaines-Ross, *Seasons of a CEO*, PUB INFO TK

agree with its policies or actions. "I would get a tow truck before I used Exxon or Mobil gas," a 51-year-old woman told the *Wall Street Journal* in 2001. "I used Mobil all the time before the merger, but I believe I must take a stand over that horrible, disgraceful Alaskan oil spill by not giving Mobil or Exxon another cent."[3] The spill, it should be remembered, occurred more than a decade earlier.

Any large company, moreover, runs the risk of experiencing a major catastrophe. A product is found—or believed—to be flawed (Firestone tires, Intel chips). A product makes somebody sick (Coke) or pollutes the environment (Exxon). A company has a horrendous accident (Union Carbide) or runs afoul of the law (Archer Daniels Midland). Such events typically have devastating short-term consequences on a company's stock price. Intel lost $3 billion in market cap after a minor flaw was discovered in one of its chips. Texaco lost more than $1 billion after allegations surfaced of racial discrimination in the executive suites. The event in question need be no more than unproved allegations. In 1995, Motorola lost about $6 billion in market cap after the first stories appeared linking cell phone use with cancer.[4]

How a company handles such a catastrophe goes far toward determining how great the repercussions will be. But so does the company's prior reputation. In the Tylenol scare some years back, as is well known, Johnson & Johnson followed a model strategy, immediately acknowledging the seriousness of the situation and taking fast, costly steps to get Tylenol off the shelves. Perrier took its water off the market when it discovered possible contamination in the source; McDonald's UK stopped selling British beef in the wake of the mad-cow scare. The three companies drew on and enhanced their reputation in so doing. Intel, in the flawed-chip fiasco, was more or less a model of what not to do, first denying that the flaw existed and then denying its importance. Still, Intel was able to recover relatively quickly because of its prior reputation. Exxon's reputation, by contrast, still lags, even though the company has long since recovered financially.

As with so many aspects of business, the Internet has added a new urgency to the management of reputation. Information—true or false—is spread instantly, all over the globe. Anticorporate sites, such as walmartsucks.com, have proliferated, and serve as repositories for grievances of all sorts, real and imagined. Warren Buffett once said that it takes 20 years to build up a reputation and five minutes to ruin it; in the age of the Internet that's no longer hyperbole.

Research suggests that more and more businesspeople are coming to understand the importance of reputation. In a poll of nearly 600 CEOs conducted by Chief Executive magazine and the Hill and Knowlton Corporate Reputation Watch, 94 percent of respondents agreed that reputation was "very important" in the realization of a company's strategic objectives, and 37 percent reported that they were formally measuring their

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[3] Ronald Alsop, "Survey Rates Companies' Reputations, and Many Are Found Wanting," *Wall Street Journal*, February 7, 2001

[4] Source: Charles Fombrun. Cited in "Managing Reputation with Image and Brands," Stephen J. Garone, The Conference Board, Report #1212-98, 1998

companies' reputations.[5] All of which begs the question: have corporate executives learned to manage this intangible? Doing so effectively creates an invisible advantage—while failing to do so can create a highly visible *dis*advantage.

Managing Reputation: Monsanto

Back in 1979, the chemical giant Monsanto was taking a hard look at its business. Then-CEO Jack Hanley was worried about continuing to focus on chemicals. It was a commodity business. Regulatory pressures were mounting. The industry was viewed poorly by environmentalists, and Monsanto's stock price was languishing. So Hanley launched a foray into agricultural biotech, pouring hundreds of millions of dollars into research and development. The "new" Monsanto story would impress Wall Street, executives believed. It could also do some good in the world. Monsanto was hopeful that the genetically engineered crops it was beginning to develop would prove just as fruitful as the Green Revolution of the 1950s and 60s: they would provide more food and better food for more people.

Jump cut to 2001. In Italy, 120 tons of Monsanto corn (maize) suspected of containing genetically engineered materials not approved by the European Union are seized in a police raid. In Brazil, a mob of over a thousand protesters breaks into one of Monsanto's experimental farms and proceeds to yank genetically modified (GM) corn and soybean crops out of the ground. While less aggressive, the anti-GM wave begins to appear in the United States as well. Protesters picket not only Monsanto's headquarters in St. Louis, but also some of the company's larger customers. At Starbucks Corp.'s annual meeting, picketers rally against the use of GM soy and corn products (as well as milk produced with bovine-growth hormones). McDonald's and several other large fast-food chains announce that they will no longer use Monsanto's GM potatoes. Kellogg's phases out the use of GM products in Europe—not for safety reasons, "just to please customers," the company states.[6] Meanwhile, U.S. farmers cut back on the number of GM seeds they plant, fearing loss of international sales.

What happened? Ironically, Monsanto had done most of what it set out to do. The nearly $10 billion company had become a leader in the production of genetically modified seeds. Those most familiar with Monsanto's products—farmers—are big fans of the GM products, which improve the production of major crops. Scientists have told the U.S. Food and Drug Administration that genetically modified foods offer definite health benefits by delivering more nutrients, reducing spoilage, and lowering chemical contamination. Monsanto's sales rose from TK in DateTK to TK in DateTK. It has been praised for its workplace culture and for being a leader in the introduction of new products and business processes. On the negative side, it was criticized even by its friends for poor public relations and overaggressive marketing, particularly overseas—pushing

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[5] Peter Haapaniemi, "What's in a Reputation?" *Chief Executive*, March 2000
[6] Golden, Frederic, "Who's Afraid of Frankenfood?" *Time Magazine*, November 29, 1999

new biotechnology products into areas too rapidly or without giving people the freedom to evaluate the new technology.[7]

At any rate, neither its successes nor its failures meant much in the face of the protest. Dubbing Monsanto's products "Frankenfoods," green activists pummeled the company's reputation, and with it the stock price. In June 1998, Monsanto was meeting Wall Street's financial expectations—revenues up 28 percent, earnings up 5 percent—yet its stock hit a new 52-week low, losing 35 percent of its value in a year. (The stock market as a whole was then in the midst of the 1990s bull market; the S&P 500 was up 30 percent for the same twelve months.) "The valuations are based on perceptions—not reality," said agribusiness analyst Sano Shimoda. "But in this case, perception—consumer confidence—has become reality."[8] When Monsanto's subsequent attempt to merge with American Home Products failed, then-CEO Robert Shapiro must have thought things couldn't get any worse. They did. Shapiro gave a keynote address on genetic engineering at the State of the World Forum in San Francisco later that year. He was hit in the face with a tofu creme pie, courtesy of Frankenfoods protesters.

Monsanto finally merged with Pharmacia & Upjohn in April 2000, renaming the combined entity Pharmacia. In October 2000, Pharmacia decided to spin off a new Monsanto, consisting of only the agriculture business, in a partial IPO. This time, the company had apparently learned its lesson about the importance of managing reputation and customer perception. "Monsanto is determined to ride out the GM backlash," said a Reuters report, "and has adopted a new low-key approach heavy on education and outreach, and light on the aggressive promotional moves of years past."[9] The new company comes complete with "The New Monsanto Pledge", a declaration outlining five key elements including dialogue, transparency, respect, sharing, and delivering benefits. (The original Monsanto Pledge was made in 1990 as a statement of environmental responsibility.) In line with its first key element—dialogue—in June 2001 the company formed a wheat industry advisory committee composed of a cross-section of industry experts to counsel Monsanto on the role of biotechnology products in wheat.

Monsanto's new approach to managing its reputation has likely contributed to the steady growth of its stock price since the recent IPO. In contrast with past stock performance, even though the company's revenues and earnings have been down, the stock has gone from under $5 per share in October 2000 to nearly $38 per share by June 2001. Its performance was 54.5% above the S&P 500 in the first two quarters of the year. No doubt protests and lawsuits will follow the company wherever it goes, and transforming its image will forever be a challenge give the nature of its business. But while Monsanto may never be on the good side of all environmentalists, at least it is trying to show that it is a company that is concerned and wants to understand all implications, both positive and negative, of genetic engineering. "Carrying out the biotechnology acceptance

[7] http://www.public.iastate.edu/~rjsalvad/reports/s00/GMOhunger/hungergmo.html
[8] "Monsanto Stock Take a Beating Amid Biotech Worries" *St. Louis Post-Dispatch,* October 3, 1999
[9] Carey Gillam, "Monsanto Moving FrankenFood (GM Food) Forward," *Reuters,* March 31, 2001

strategy," says spokeswoman Lori Fisher, "longer term, that would be key to our company's future."[10]

Managing reputation: lessons

What can a company do to manage its reputation? It's rarely a matter of simply taking out more corporate "image" ads (though a strong, consistent image advertising campaign can certainly help). We recommend a five-step process:

1. Take stock. What is your company's reputation now? Is it "most admired"—or is it at the opposite end of the list? If your company isn't included on somebody's U.S. or global list, there are research firms who will sell you information on where you stand in your industry. Or you may need to do some research of your own. It'll be worth it. Monitor your reputation on the Internet as well. In the Chief Executive/Hill and Knowlton survey, only 11 percent of CEOs said that their companies kept a regular eye on their online reputations, even though they knew it was important to do so. "A disconnect between awareness and action," said a report on the survey.[11]

Assessing your company's reputation, of course, means knowing what you're measuring.What are the values that you would like to stand behind your company's reputation? Reputations aren't created from nothing; they reflect real principles and priorities. Sometimes the values that stand behind a reputation are intrinsic to the company's business—Wal-Mart's everyday low prices, Merck's commitment to human health. In other cases the values reflect internal or external commitments: a "great place to work" workplace, a commitment to the environment, a commitment to a cause or charity. Ronald McDonald is as important a part of McDonald's corporate reputation as its hamburgers, maybe more.

2. Count. Equally important, what are the metrics that are most appropriate for tracking progress or deterioration in reputation? Customer surveys are surely useful, but so are indices such as published reports in the media or in the investment community. The British telecommunications provider NTL tracks the number of people who apply for jobs through the company's Web site. "We see that as a testament to the strength of our reputation," says the company's group marketing director.[12] Interestingly, the companies that enjoy the best reputations also tend to use all sorts of measurement more than other companies do. The Hay Group conducted a survey of the "Global Most Admired" companies on the 2000 *Fortune* list and found significant differences on this score between these companies and their less-admired counterparts. The Most Admired are more likely to chart customer-relations indicators such as satisfaction and loyalty. They are more likely to track retention and career development. "In contrast with those of their peer companies, senior executives of the Most Admired Companies believe that many of these performance measures encourage cooperation and collaboration. Many executives

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[10] Carey Gillam, "Monsanto Moving FrankenFood (GM Food) Forward," *Reuters*, March 31, 2001
[11] Peter Haapaniemi, "What's in a Reputation?" *Chief Executive*, March 2000
[12] Jane Simms, "Our Actions Speak Louder Than Words," *Marketing* (London), August 3, 2000

reported that such measures help their companies to focus on growth, operational excellence, customer loyalty, human capital development, and other critical issues"—all issues, it might be added, that affect a company's reputation.[13]

3. Take charge. Who is responsible for cultivating your company's reputation? Chances are, nobody is—or that this is just one among many responsibilities supposedly shouldered by the CEO. Reputation cuts across divisions, departments, brands, and locations, yet it affects them all. The corporate communications department can help you get a message out, but it shouldn't be in charge of determining what the message is to be. That is ultimately the province of the CEO, but he or she will need help from a variety of senior managers. Some companies, such as investment bank UBS Warburg, have hired reputation managers.[14] At Monsanto, reputation became so important that it engaged the entire executive team.

4. Take action. Reputations are made, not born. They are the result of deliberate choices. A reputation for sterling customer service, such as Nordstrom's or L.L. Bean's, comes about because the company is willing to invest large amounts of money in staff training, refunds for returns, and so on. A reputation for quality manufacturing such as Toyota's is built by years of dedication to process improvement. At the same time, small, specific decisions can make a big difference. Remember Paul O'Neill's commitment to safety when he took over Alcoa (page TK). This was a commitment backed by action, and it had the result not only of improving Alcoa's reputation as a good place to work but improving it across the board.

Other actions? In December 2000 Disney decided to discontinue use of its cartoon characters on cell phones, because of the often-expressed fear that the phones pose a health hazard. "Disney is the highest-profile company so far to take action to protect itself and its reputation in the event that cell phones are proved to be harmful," said a news report at the time.[15] When Unilever bought out Ben and Jerry's, the big food conglomerate was faced with the challenge of maintaining the little ice-cream company's commitment to social change and environmental protection; otherwise it would risk losing the very cachet (and intangible value!) that it was buying. After some prodding from company cofounder Ben Cohen, Unilever supported his proposal for a $5 million venture-capital fund aimed for businesses in low-income neighborhoods.[16] It also launched programs—tied to new ice-cream flavors—of making contributions to a children's playground-building organization and to scholarships for students at historically black colleges.[17]

5. Communicate. Press releases, image advertising, awards and grants, speeches by the CEO—all the tried-and-true forms of business communication can help build reputation. But it's often more effective to branch out a little. Who are your company's allies? Its

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[13] "Measuring People Power," Fortune, October 2, 2000
[14] ibid.
[15] Carolyn Aldred, "Disney Cutting Cell Phone Ties," *Business Insurance*, December 11, 2000
[16] John Tagliabue, "In a Global Fight, Sprinkles Are Extra," *New York Times,* August 19, 2001
[17] Stephanie Thompson, "Ben & Jerry's Keeps Its Folksy Focus," *Advertising Age,* February 12, 2001

biggest critics? Monsanto formed its advisory committee. Some timber companies have sought out environmental groups, just to hear what they had to say and explore the possibility of a partnership. Compaq Computer went so far as to seek out the creator of a web site called whateveryoudodontbuyacompaq.com. “We had several dialogues,” said Barry Bates, a senior manager of information and analysis for quality and customer care, “where a member of our team in a customer advocate role helped bring this guy around. Now, after almost a year, he has been added to our preproduct launch distribution. We send him the products—he kicks the tires—just to get his feedback. He doesn’t have the Web site up any longer. He’s now—not necessarily an advocate, but at least someone with a voice and a level of expertise that we want to listen to.”

Like any intangible, reputation affects, and is affected by, a company’s management of other intangibles. But most companies will find they want to focus on it directly, as well as indirectly.