Revving up your reputation

In the new social media landscape, corporations are more susceptible than ever to external attacks. What can brand managers do to avoid long-term reputational damage and restore value quickly in the event of a crisis?

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The field of reputation management has evolved in recent years to become a more widely understood component of a firm's overall value. Reputation is now a key driver of market value, as the composition of corporate worth continues to shift away from physical assets. The Quoted Companies Alliance and BDO recently estimated that 28% of a UK corporation's value is now derived from reputation, making this a £1.7 trillion commodity among publicly traded companies. As we better understand the tangible impact of this intangible asset on market value, more time, energy and resources are being dedicated to protecting it.

However, even with a sharpened focus on reputation, corporations are more susceptible than ever to external attacks. Gone are the days when big business could lobby, litigate or ignore its way out of crisis. We have moved quickly from a daily news cycle to a 24-hour news cycle and on to an instant, unfiltered news cycle, where information is delivered unvetted, 140 characters at a time.

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Professionally aggrieved activist groups are as organised as ever, latching on to well-meaning reputational concepts such as 'sustainability' and 'transparency' to push anti-corporate agendas disguised as larger causes. Individual consumers are now empowered not only to lodge complaints, but also to see them grow into widespread petitions and awareness campaigns. The media is an increasingly vague and disperse entity, with almost no barriers to entry, standards of accountability or incentives more pressing than page clicks.

Put succinctly, the playing field has shifted dramatically and, as a result, corporate reputations are as vulnerable as ever.

While it is important to make proactive efforts to maintain and improve reputation through improved business operations and processes, marketing and public relations, without a clear understanding of the modern crisis landscape, efforts to protect brand value are incomplete and often misguided.

This article examines corporate vulnerability to reputation-destroying crises, identifies some common reactive missteps by those under threat of attack and attempts to provide insight as to how brand managers can avoid long-term reputational damage and restore value quickly.

We are all targets

"The Rise of NGO Activism", a recent paper by Daubanes and Rochet for the Centre of Economic Research at ETH Zurich, provides an illuminating view of anti-corporate activism around the world. The authors characterise organised activism as a means of changing corporate behaviour in the absence of public policy change. They find that non-government organisations (NGOs) are taking the fight directly to corporations in a David versus Goliath fight, in which Goliath is paranoid enough about his own reputation to give in quickly. They write: "Opposition to super-big corporations and projects seems inherent to the rise of NGOs, both because big businesses are typically suspected of causing the greatest harm, and because they are more vulnerable to reputational risks."

The proliferation of social networking has led to the mainstream media prioritising speed over accuracy, and page-clicks over news value

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The direct cost of NGO activism has also plummeted as social media has become more pervasive. Where activists once faced corporate marketing, lobbying and public relations budgets which dwarfed their own, they can now organise online cheaply and effectively. After all, it was a petition campaign on change.org, not a government action, which caused Bank of America to voluntarily drop a $5 debit card fee.

NGOs are often a catalyst for progress and work amicably with other stakeholders in government and industry to shed light on injustice. However, some consider publicly attacking corporations and brands to be an end in itself – one that drives public awareness and in turn fundraising and influence.

Of course, social media attacks are not limited to established organisations. An individual consumer complaint is often much harsher and more likely to go viral than that of an NGO. NGOs at least ostensibly operate with a defined purpose; angry consumers or aggrieved online justice warriors sometimes attack for no known reason other than to gain attention for themselves. While online complaints are often legitimate, there is nothing to stop a mischievous commenter from completely fabricating an attack.

A recent trend in the United States is the so-called 'bigoted restaurant receipt' hoax. A prominent example occurred in 2013, when a New Jersey waitress posted a photo on Facebook of a receipt from her restaurant showing a customer neglecting to add a gratuity to his bill, instead leaving a note disapproving of her homosexuality. After the post went viral, the waitress received thousands of dollars in PayPal contributions from anonymous sympathetic donors. The problem? She fabricated the entire thing.

That did not stop the mainstream media from picking up the story and running with it; which brings us to the third inherent corporate reputational vulnerability. The media's response to the proliferation of social networking has been to prioritise speed over accuracy and page clicks over news value. The modern media climate allows for an individual complaint to spill into established news outlets, picking up credibility and visibility along the way. Suddenly a company finds itself not only scrambling to determine the veracity of a damaging claim, but also handling intense media scrutiny and follow-on complaints from other consumers, as well as anticipating potential legal actions and intense oversight from government regulators.

A corporation or brand's relationship with NGOs, the general public and the media is usually not adversarial at first blush. However, natural incentives dictate that when a crisis breaks out, friends can easily become enemies, and their ability to do lasting reputational damage is enhanced by the modern advocacy and media landscape.

Understanding what resonates

Reputation management depends on demonstrating competency in six key business processes, as outlined by Todd Miller and Nir Kossovsky ("Reputation is the new IP", *IAM* issue 37): ethics, innovation, quality, safety, sustainability and security. These all contribute to a reputational baseline which largely dictates how resilient a firm or brand is in the face of crisis or attack. The rapid decline of any one of these processes can bring about swift reputational deterioration and trigger a crisis which threatens a company's livelihood.

Crisis preparation must plan for how to communicate the strength and success of each process. It should also give communicators and management the flexibility to prioritise certain processes over others, based on what will be most effective in staving off immediate and long-term reputational damage. The owners of each process will generally seek to emphasise their own area of expertise. For example, the head of compliance may push a company's impeccable ethics protocols as a leading message during a product recall, when consumers simply want to hear responses to their ongoing safety and performance concerns.

Sustainability and corporate social responsibility (CSR) – laudable and valuable peacetime pursuits – are two reputational elements that ironically may pose the greatest long-term risks to companies and brands. Sustainability was born as a common-sense strategy for businesses to increase long-term value by enhancing the lives of human beings, who make up their workforce and consumer bases, and the planet, which provides the obvious benefit of allowing us all to exist.

The concept has expanded remarkably in recent decades to encompass a litany of environmental, social, labour and general transparency issues. Again, many of the outcomes of the sustainability movement have been net positives for civilisation. However, with respect to reputation management and crisis, there are two key problems with the fetishisation of the issue.

First, there are significant diminishing marginal returns to an emphasis on sustainability. It is true that the general public does not wish to consume products or services which are sourced or created using unsavoury processes. For instance, when Nike's reputation took a significant hit over allegations of labour impropriety in certain manufacturing facilities, the company was right to take decisive action to stamp out exploitative conditions at overseas sweatshops. The issue was serious, highly visible and directly related to the production of Nike products. Nike put in place clear and enforceable global labour standards and backed them up with regular audits and publicly available data.

What is less clear is whether the general public cares about a corporation's commitment to social or environmental issues which are not directly affected by its model. Going above and beyond basic social responsibility considerations has drastically diminishing returns on the margin for brands and corporations. Yet there is a CSR arms race in the corporate world; and while sustainability officers tout the value that their efforts are bringing to the company as a whole, it is more likely that they are spending an outsized amount of time pleasing a narrow activist population rather than their actual customers.

Urmi Ashar underscores this problem beautifully ("Protecting the ultimate intangible", *IAM* issue 52):

> *Companies are increasingly investing in corporate social responsibility (CSR) with the goal of building a reputation reserve which can be leveraged over the long term. The Boston Consulting Group estimated that in 2008, the world's leading listed companies invested 1% to 2% of their earnings before interest, taxes, depreciation and amortization in CSR measures. But what is the demonstrable return on investment for such investments? Matthias Vonwil and Robert Wreschniok have questioned the CSR myth, asking, "Shouldn't the focus be more on solving the real problems in-house?" Sometimes, ill-thought-out social engagement strategies and PR blitzes can even open the door to reputational risk if they are ultimately exposed as empty window-dressing marketing devices. In such cases the company and its leadership lose credibility and gain a reputation for being inauthentic.*

This leads to the second major problem with an emphasis on sustainability above all else. The very activists and NGOs that you are seeking to placate are never satisfied. Either CSR is exposed as empty window dressing or it is merely an incremental step in the right direction.

Pushes for greater sustainability have become a Trojan horse for activists who recognise that they have leverage when it comes to advocating for companies to lead on social and environmental issues, even when their business operations have little to no impact on those issues. Procter & Gamble (P&G) is not only expected to be a leading consumer products company, but must also cure infectious disease in the developing world, save multiple endangered species and stamp out illiteracy around the globe. If and when those problems are solved, the NGOs will have a long list of additional priorities for P&G to fund.

To be clear: brands and corporations should absolutely maintain robust sustainability commitments and engage in myriad CSR efforts. These activities have demonstrably positive reputational effects. However, executives must be clear eyed about the benefits of such work and not be deluded into thinking that consumers will flock to a brand because of CSR, or that NGOs will be satisfied with sustainability efforts as conducted today.

When crisis hits

Whether crisis comes in the form of a product recall, a government intervention that threatens a company's livelihood, an activist attack or a damaging media investigation, communications alone will never preserve a reputation. Corrective action is the only option: fix the problem and then credibly convince stakeholders that it is fixed for good.

The first step is to understand what the problem is. It seems simple, but the instinct of many companies is to speak first and figure out the details later. When Toyota was hit with a sudden unintended acceleration issue in which its cars were speeding out of control, the company reacted hastily to attempt to explain the cause of the problem as a massive recall was underway. It offered a variety of conflicting explanations, each in concert with a separate product recall. The inconsistent accounts of the cause of the problem led to consumer confusion and unrest, leading to additional and avoidable deterioration in the brand's reputation.

While a diagnosis of the problem is being performed and corrective action is being taken, communicators should begin implementing internal and external communications protocols. Crisis management is the opposite of traditional marketing – it is a containment discipline. Crisis communications should be tightly controlled from the top of the organisation and outbound messaging should be as limited as possible.

Every action should be viewed in the context of avoiding an extension or exacerbation of the crisis. Considering getting your message out directly to consumers via social media? Think of the glee with which the unaccountable masses will mock you without consequence. Wondering how best to educate rank-and-file employees about the facts of the matter? Consider that they will be fielding questions from friends and family in social situations the minute they leave the office. Eager to tell your side of the story? Understand that sometimes your side of the story is neither compelling nor helpful.

Companies in crisis should also exercise caution with traditional advertising. A good rule of thumb is to suspend ongoing advertising campaigns when a crisis hits. Touting the positive attributes of any of your products rings a bit hollow when you are busy digging your way out of a reputational disaster. At worst, companies attempting to drive up positive perception will be accused of trying to distract attention away from a problem rather than dealing with it head on.

Will you recover?

The question that excites the chattering class of pundits the most is: will company X ever rebound from this crisis?

The most relevant current case study is Volkswagen. The car maker has been found guilty of one of the most brazen and purposeful acts of corporate deception since Enron. This was not an incidental mechanical flaw; it was a deliberate attempt to deceive regulators into allowing its cars to emit harmful gases into the atmosphere above and beyond acceptable levels. Volkswagen has settled with the

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Nike's reputation took a significant hit over allegations of labor impropriety in its overseas manufacturing facilities, and took decisive action to stamp out exploitative conditions at overseas sweatshops

Volkswagen's reputation was muddied after it was found guilty of deliberately attempting to deceive regulators into allowing the company to emit harmful gases into the atmosphere above and beyond acceptable levels. Will this have a lasting impact on the company's reputation?

PICTURE: VILLOREJO/ SHUTTERSTOCK.COM

US government and the plaintiffs' bar for a staggering $14.7 billion, and has seen tens of billions of dollars of market value wiped out as a result of its actions.

Yet I do not believe that the lasting impact on the company's reputation will be devastating.

Volkswagen's scandal does not deal with any of the key components that automobile consumers value: safety, reliability, performance and cost. If anything, skirting emissions requirements increases performance and decreases cost. Volkswagen is guilty of violating the tenets of ethics and sustainability – two key drivers of reputation, to be sure, but not priority criteria for brand loyalty in the automotive sector.

If you valued each component of reputational value equally, you would not reach this conclusion. However, it is important to consider ethics, innovation, quality, safety, sustainability and security separately when dealing with crisis. Which attributes do a specific company's customers value? Which attributes do potential adversaries such as NGOs, government agencies, trial lawyers and activist investors value, and how much traction will they gain by attacking a company over its deficiencies in those areas?

Each company's ability to return to its reputational baseline is unique, based on the size and scale of the crisis and the incentives to which each of its stakeholders and adversaries respond. Perhaps the most important thing that a brand or corporation can do to stave off long-term reputational decline is take stock of its crisis landscape well in advance of reputational attack, so as to be poised to respond correctly in the face of adversity. **WTR**

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