Reputation rules

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In 2010, five of the world's leading companies — BP, Toyota, Goldman Sachs, Johnson & Johnson and Hewlett-Packard — battled major crises.

There was a lot at stake in each of these situations: Mishandling a crisis can destroy decades of goodwill, and in extreme cases, can even destroy a company itself.

In Reputation *Rules: Strategies for Building Your Company's Most Valuable Asset*, Daniel Diermeier, the IBM Professor of Regulation and Competitive Practice and director of the Ford Center for Global Citizenship, asserts that the 24/7 news cycle and rise of social media have made reputation management a higher strategic priority than ever.

"It used to be that if you did well by customers, treated employees fairly and delivered value to shareholders, then a good reputation would follow," Diermeier says. "But what used to be sufficient just isn't enough anymore. Every business decision that we make can be put on a bigger stage, and companies have to be ready for these challenges."

The impetus for Reputation Rules stemmed largely from Diermeier's work with MBA students and participants in executive programs — especially the CEO Perspective Program, which Diermeier co-founded in 2005.

"It is striking, despite their different personalities and business challenges, that 'reputation' is among the top things that almost all CEOs are worried about," Diermeier says.

In the book, Diermeier offers dozens of case studies and examines strategies and principles for achieving the best outcomes. At its most basic, reputation management starts with avoiding reputational risks whenever possible, he asserts.

To build trust, companies must leverage their corporate social responsibility efforts to gain a reputational benefit, as Wal-Mart did with its Hurricane Katrina relief efforts.

Reputation management must also be integrated into a company's strategy. Diermeier asserts that it's a capability — rather than a function — that is based on an appropriate mindset and supported by processes and company culture. Crises, however, can provide valuable opportunities for building and reinforcing a company's culture and values.

"It's critical how you handle failures," Diermeier says. "These are teachable moments, opportunities to reinforce what your company stands for."

Diermeier cites a bribery scandal at General Electric in the early 1990s. Though an investigation revealed that only one employee had knowledge of the bribes, the company fired, demoted or reprimanded 20 others who should have realized what was going on. "GE was very conscious of the need to send a message: 'You will be held just as accountable for damage to our reputation as if you didn't meet your sales numbers,'" Diermeier says.

In a world of increased reputational risks, all businesses need to build reputation management capabilities at the enterprise level.

"Ask yourself whether your brand or your reputation is a critical success factor for you," Diermeier says. "If it is, then you must ask if your company has the mindset, values and processes to manage reputational risks. What I've tried to provide in this book is a guide on how to do this."

Provided by Northwestern University

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