PART I

CHAPTER 1

REPUTATION MATTERS

> "In today's world, where ideas are increasingly displacing the physical in the production of economic value, competition for reputation becomes a significant driving force, propelling our economy forward."
>
> —Alan Greenspan, former Federal Reserve chairman[1]

> "A risk to its reputation is a threat to the survival of the enterprise."
>
> —Peter J. Firestein[2]

A TIPPING POINT

On August 29, 2005, America suffered its biggest disaster since September 11, 2001. Hurricane Katrina hit the north-central Gulf Coast of the United States at 6:10 a.m. with a particularly catastrophic blow to New Orleans. Levees were soon breached, and the South would never be the same.

Thousands of homes were destroyed, leaving tens of thousands of people instantly homeless. As the waters overwhelmed coastal communities, television stations broadcasted dramatic, heart-wrenching images—citizens stranded on roofs waving in desperation to search helicopters, living rooms filled with shattered remains of what were once their homes, and families standing on highways searching for missing loved ones.

Distressing media coverage continued day in and day out, for weeks, and then for months. Even after the waters had long since receded, personal, emotional stories continued to make news. Media accounts of unredeemable flood insurance, undelivered trailers for the homeless, and mounting tales of emotional and physical distress seemed to be never-ending.

The government response at city, state, and federal levels was considered grossly inadequate from the start. Evacuation before and after the hurricane hit was poorly planned and sluggish. Little thought was given to the special needs of the infirm and helpless. Some policemen failed to show up for work. Corpses floated unclaimed amidst the debris in the Lower Ninth Ward. As evacuees squeezed into the Superdome and reports of looting increased at an alarming rate, U.S. President George W. Bush miscalculated the urgency of the crisis and remained vacationing at his Texas ranch.

Several days later, the president visited the suffering port city in a flyover on Air Force One. At an impromptu press conference at the New Orleans airport runway after the flyover, the president praised the head of the Federal Emergency Management Agency (FEMA), Michael Brown. However, Brown would ultimately be the target of more criticism in the coming months than perhaps anyone else involved in Katrina's aftermath. Only as it became increasingly clear that FEMA was unable to provide adequate transportation, food, and shelter did President Bush fire Brown and replace him with an experienced emergency disaster relief admiral.

Two years later, the hard-hit Gulf Coast is still getting back on its feet. Although after-effects of Katrina continue to linger, signs of progress are now visible. Permits and licenses for New Orleans vendors for the 2007 Mardi Gras were up 310 percent from 2006.[3] A Kaiser Family Foundation 2007 study based on New Orleans residents found that some progress was being made in restoring basic services, reopening schools, launching new businesses, and growing its population.[4]

Hurricane Katrina will forever stand as an example of how the American government failed to address one of the country's most serious modern-day catastrophes. Most every American agreed that assistance for Hurricane Katrina victims was received too little, too late. The majority of Americans (58 percent) in a CBS News poll disapproved of the government's handling of relief efforts one week after the hurricane hit.[5] Response to Katrina by the federal government, FEMA, and state and local government was regarded by most Americans as poor (77, 70, and 70 percent, respectively).[6] Equally disturbing, Americans believed that the disaster's response had worsened the already battered overseas image of the United States.[7] Worse still, the American public was left with the impression that the administration's response to the deadly hurricane reflected a lack of compassion and management ability.

Hurricane Katrina had a powerfully negative impact on perceptions of President Bush and his cabinet. The government's missteps served as a negative tipping point for the Bush administration's reputation. Its poor handling of the disaster took on epic proportions and was viewed as intrinsic to the core of the administration's character. Each mistake generated a whole new set of problems. It was not just the administration's failure to anticipate and react in time to the deadly hurricane, but also the magnitude of this failure that led to a material loss in the president's and his administration's reputation.

The traditional rally of support for a president during the aftermath of a national emergency such as the September 11 terrorist attacks was nowhere to be found. Coupled with growing dissatisfaction with the war in Iraq, popular support for the administration reached a point of no return. Unfortunately for President Bush, the administration's past and future actions would thereafter be viewed through the lens of another devastating event.

With no appropriate and effective reputation recovery program for the handling of Hurricane Katrina and the continuing violence in Iraq, the November 2006 midterm Senate, House, and gubernatorial elections were all but preordained. Both houses of Congress gained Democratic majorities, thereby demonstrating just how irreparably damaged the administration's reputation, and that of the political party it represented, had become.

This is not to say that local political issues did not play a role in Hurricane Katrina's devastation. New Orleans Mayor Ray Nagin and Louisiana Governor Kathleen Blanco were both heavily criticized for not ordering New Orleans residents to evacuate early enough. Emergency evacuation plans were implemented less than one day before the hurricane hit, and many people were unable to find safe routes out of the city.

REPUTATION ADVANTAGE

Reputation matters. Reputation means how positively, or negatively, a company or similar institution is perceived by its key stakeholders—the people or entities that the company or institution relies on for its success. For many for-profit companies, typical stakeholders might include customers, employees, suppliers, or financial analysts. For governments or political entities such as the Bush and Blair administrations, stakeholders are, above all, the electorate.

As described in greater detail in the next chapter, reputation loss can strike any company or group. Unfortunately for many companies that have built great reputations, the much-touted adage "the bigger they are, the harder they fall" holds true. Stakeholders can lose confidence in even the most highly admired companies that fail them. Although it may take a catastrophe before stakeholders ultimately lose faith in the great branded companies, it does happen, and then the fall from grace can be fast and furious. Hubris has no place in business. All are susceptible to reputation damage.

If its reputation is strong, a company in crisis is granted the benefit of the doubt by its stakeholders. They expect companies to do the right thing. Even when inevitable mistakes are committed, stakeholders will afford highly regarded companies an additional opportunity to make amends—an opportunity they are not likely to grant the less regarded. When stakeholders view companies in a positive light, they give companies license to continue to operate and grow.

Reputation also contributes directly to a company's health by providing competitive advantage and differentiation. When stakeholders hold a company in high regard, they generate sales by recommending or buying its products/services. They support its ability to invest and grow by recommending or buying its stock. Stakeholders who hold a company in high esteem are more likely to recommend the company as a good place to work, allowing it to attract, develop, and keep the best employees. Those who admire companies spread positive word-of-mouth across a wide social network.

Companies burdened by a tainted reputation have less opportunity to continue business as usual, which further hampers their reputation-comeback efforts. Steps that would otherwise be viewed with optimism, or at least equanimity, are viewed with suspicion and doubt.

Good reputations do more than raise capital and attract the best talent. Admired companies generate additional sales from loyal customers, attract the right strategic and business partners, assure the public that the company will behave ethically, provide a buffer when problems arise, and sometimes permit companies to charge premium prices. Not to be ignored in this age of regulatory watchdogs is how a positive reputation reduces friction with government officials and legislators.

For these reasons and more, there are very real, tangible, ''hard'' payoffs to maintaining a good reputation. Weber Shandwick's *Safeguarding Reputation*™ research found that a hefty 63 percent of a company's market value is attributable to reputation, according to global business influencers.[8] Executives in all regions of the world agreed with this high valuation. The average compound shareholder returns of the top 10 2006 *Fortune* Most Admired Companies substantially exceeds that of Standard & Poor's (S&P) 500 companies over five- and one-year periods (see Exhibit 1.1). A Pennsylvania State University survey also found that reputable companies from 1983 to 1997 provided considerably better returns on investment compared to the S&P 500—22 percent versus 16 percent, respectively.[9] Reputation is clearly a quantifiable asset and a proven wealth generator.

Good reputation yields ''soft'' payoffs as well. Companies report that after being named as a ''best company to work for,'' resumes pour in. A leading economist estimated that companies included on the *Working*

EXHIBIT **1.1** *Good Reputations Pay*

Top 10 Fortune *America's Most Admired Companies*	*2003–2006*	*2001–2006*
General Electric	9.2%	1.2%
Starbucks	28.8	30.0
Toyota Motor	18.4	20.8
Berkshire Hathaway	9.3	7.8
Southwest Airlines	−1.6	−3.6
FedEx	17.6	16.3
Apple	99.6	50.6
Johnson & Johnson	10.8	4.2
Procter & Gamble	11.0	12.5
Goldman Sachs	27.6	17.5
Top 10 Average	23.1	15.7
Top 10 Median	14.3	14.4
S&P 500	10.4	6.2

The 2006 survey findings were reported in the March 19, 2007, issue of *Fortune*.
Compound annual return.
Notes: To exclude currency effects, Toyota's returns are calculated from yen data.
Google ranked eighth, but three- and five-year returns were unavailable, as Google went public on August 18, 2004.

Mother "100 Best Companies for Working Mothers" list are worth 3 to 6 percent more than their peers that did not make the list.[10] As *Workforce* magazine wrote: "The effort doesn't always pay off in a high ranking, but a high ranking always pays off in invigorating a company's reputation among recruits, employees, shareholders, investors, and customers."[11] Making *Fortune*'s Best Places to Work list opens wide the recruiting door, as financial services giant Edward Jones found out—job applications went from 7,000 to 400,000 one year after landing on the list.[12]

In sharp contrast to the multiple payoffs of good reputation are the real costs of a poor reputation. Least-admired 2006 *Fortune* Most Admired Companies perform considerably worse than the average S&P500 company.[13] These numbers are not surprising since the reason for a poor reputation may be due to a company's poor financial performance. But it is also true that a poor reputation may be part of a vicious cycle. Poorly regarded companies have a hard time attracting talent, new business, new partnerships, referrals, customers, and higher pricing compared to highly regarded companies. Companies that suffer from reputation failure have to work harder and longer than companies held in high esteem.

As Hurricane Katrina tragically demonstrated, losing reputation is a defining moment for a company, country, institution, or individual. Benjamin Franklin once advised that "glass, china, and reputation are easily cracked, and never well mended." Franklin was only partially correct. Yes, reputations are inherently fragile and can tumble without warning overnight. However, the repair process has greatly improved since the eighteenth century. Today, companies can expect to do more than merely patch a tattered reputation back together. As this book demonstrates, rebuilding a strong reputation is well within the realm of possibility. If the right steps are taken, reputation restoration is likely.