PART

I

Digital World, Digital Reputation

CHAPTER

1

Your Digital Reputation in World 2.0

The childhood taunt got it half right. Sticks and stones *will* break your bones, but words *can* hurt you. Just ask a former Arthur Anderson employee, a Mattel executive, or Chick Edwards. Who, you ask, is Chick Edwards?

Chick Edwards is the owner and developer of a 47-lot subdivision in Kennewick, Washington. In late 2007, he sold one of his houses to an Army reservist who moved in with his wife and young son. In mid-2008, the reservist was called to active duty and his then-pregnant wife and son moved to be with her family on the East Coast. They left behind a weed-filled 2.5-acre lot that had not been landscaped. Edwards was not happy.

He told a local newspaper reporter, "I really don't give a (expletive) where he is or what his problem is. It doesn't matter to me." Edwards insisted that the reservist had violated homeowner's association covenants that required landscaping be completed within a year after a home's occupancy permit is issued. The reservist "doesn't have the right to walk away from his obligation," said Edwards. As the developer, he is the only member of the homeowners' association. "I have most of the property still, so I am the homeowners' association," he told the reporter. The article concluded with a final Edwards' quote: "This is a contract. I don't like the way his property looks. This clown gets to do what he wants, and I'm mad as hell."

If the story had gone no further than the print edition of the *Tri-City Herald*, I'm sure it would have caused a stir—angry readers, a few letters to the editor perhaps—but we are in World 2.0, and that makes all the difference. The story went up on the paper's web site where people could comment, and they did.

"Sorry you're such an awful, awful person . . . maybe you'll learn when no one else buys your lots, you *******."

"I for one will let everyone I know NOT to even consider purchasing a lot from you. You can have your development all to yourself. You deserve yourself as a neighbor."

"I can't understand how you could be so cold! Mr. Edwards I think you should have to take Lt. Jensen's place in Kuwait while he comes home to clean up his yard for you."

"You are not worthy to be living in the United States that our sons and daughters are fighting for right now. May God, karma, or whatever you believe in come full circle and bite you where you live."

One of the people commenting posted Edwards' phone number and web site address—something no responsible newspaper editor would do—and called for others to tell Edwards directly how they felt about him. An updated newspaper article added this quote from a potential homebuyer: "I am simply amazed that a member of this community can think that treating people like this will gain them recognition or business in some way. My wife and I are in the market for a new home with a couple of acres of land, but I will be sure to skip this offering while looking."

Even worse, the story was no longer local: A Seattle radio station picked it up and interviewed Edwards on the air, where he excused his intemperate remarks by saying he'd been having "a bad hair day" when he spoke to the newspaper reporter. *The Seattle Times* picked up the story, and two days later, it was still the most-read article on that paper's site (and its readers also had some harsh things to say about Edwards).

The story also hit social sites like plime.com and craigslist, and attracted blog commentary from as far away as Chicago (and now it's in a book). According to Matt McGee, who writes about small business marketing, Edwards was getting bombarded with angry e-mails and eventually stopped answering his phone. "Although local real estate agents would never admit to it," says McGee, "chances are good that a lot of them would warn their clients about moving into Edwards' development. And he has about zero chance of ever restoring the Google search engine results position on a search for his name." So much for any reputation as a conscientious, hard-working member of the community.[1]

Welcome to World 2.0

Globalization, sustainability, corporate responsibility, and financial transparency are major trends impacting the way that organizations engage their employees, customers, partners, investors, and other key constituencies. At the same time, the explosion of social networks, e-communities, and the blogosphere are dramatically transforming the communications landscape; both traditional and social media are dynamically forging new vehicles for the creation and distribution of content.

This is World 2.0, the evolving environment that businesses have to understand if they are to be productive and survive. We are evolving from the way things *were* done to a new way of doing things. We saw it in politics with the Obama presidential campaign. We are seeing it in healthcare; old pharma now having to understand DNA-based development. We are seeing it in technology; the Internet is moving into Web 2.0 with new tools. We are seeing the decline of newspaper and television news due to more user-generated and web-based instant distribution and access to news and information.

Senior executives are talking about moral purpose. What should the company stand for? What is our reputation? They realize the organization will be judged in part on their ethics and their morality.

The way companies organize around their customers is changing. They have to listen to their complaints, suggestions, and ideas in a way they did not have to, say, twenty years ago. They have to engage in dialogue with customers, so marketing is changing radically. Customers—indeed all stakeholders—demand transparency, authenticity, and responsiveness from the organizations they care about.

True, there was always some demand for transparency, authenticity, and responsiveness but, compared to today, it was weak, localized, and ineffective. Today you can't hide. You also can't just shout from the highest mountaintop about how great you are. Today organizations have to show modesty, understanding, and a willingness to listen. Understand that you are going to be doing business more transparently and accept that you have lost control, if you ever really had that much control anyway. Conversations are happening all around you, your market, and your company. All C-level executives will have to understand the new forces shaping the environment in which they work if they hope to survive.

As an extension of World 2.0, you should understand that the Web is not a channel—it's not like a television set or a billboard. I believe the digital universe is just as important as, or equal to, the physical world. So the Web and how you and the organization relate to it is not simply marketing's assignment or an information technology function. It affects individuals and the entire organization, whether a small business or a large corporation.

The Risks to Reputation

What is more important than a positive personal, professional, and corporate reputation? A good reputation builds customer loyalty, helps attract talented employees, and earns shareholder confidence. As recent economic history has demonstrated, banks that don't trust each another—"trust" being a key element in one's reputation—won't loan money. In a very real sense, a good reputation is a lot like money in the bank.

"Reputation risk may well be the biggest risk challenge facing global companies today," Ansi Vallens said in a recent *Risk Management* article. In the 2005 study Vallens cited, 52 percent of the 269 risk executives surveyed said that reputation risk was more significant than regulatory risk (41 percent), human capital risk (41 percent), IT risk (35 percent), market risk (32 percent), and credit risk (29 percent). These executives spoke from experience: 28 percent reported that their firms had suffered major financial loss from a reputation-damaging event.[2]

Unfortunately, your reputation is not something you can control like product quality, service response time, advertising taglines, or the research and development budget. Although everything you do—or don't do—can affect your reputation, ultimately it's all about how customers, employees, suppliers, shareholders, and regulators perceive you or your company. Good, bad, or indifferent, your reputation resides in *their* minds.

According to an annual Harris Interactive survey released in June 2008, seven out of 11 industries saw their reputation decline in 2007 from 2006's ranking, and 16 of the companies with the worst marks fell even further. At the same time, the study found "a strong statistical correlation exists between a company's overall reputation and the likelihood that consumers will purchase, recommend or invest in a company or its products and services." Robert Fronk, senior vice president, senior consultant, reputation strategy at Harris Interactive, says that the survey "has shown in recent years that companies that pay attention to enhancing their reputation see bottom line results. The companies with a good reputation have stayed near the top of the list and those with bad reputations have gotten worse."

Ken Powell, chairman and CEO of General Mills, notes, "Reputation can be measured in recognition, employee recruitment and retention, even stock price multiple. But in the end, we believe the most important measure is trust. General Mills values its reputation tremendously, and we constantly strive to remain worthy of the trust of our customers, consumers, employees, investors and communities."[3]

Because reputation is not based on facts or hard data, Vallens notes, reputation risk can be difficult to identify: "Why is it that some companies are punished for not achieving expected earnings, while other companies make gains even if their earnings fall short? In many cases, the winning companies not only recognize the value of reputation, but actively manage it. The U.S. auto industry is a good example. Though quality levels for American-made cars now rival those manufactured in Japan, the Japanese cars still lead in reputation. Why? Because the Japanese automakers understand that reputation is their greatest asset."

Reputation Equity

Honda, Toyota, and Renault-Nissan are onto something here. "Reputation equity" is the slack someone is willing to cut you or the business when you make a mistake. The greater your reputation equity, the more you can screw up without being destroyed. The lower your reputation equity, the more likely you are to be hammered when you do screw up. And because organizations are made up of human beings, we inevitably screw up at some point.

Okay, if reputation is an asset, just how much is it worth? If your entire business depends on trust, it may be worth the entire company. Even before Enron's spectacular collapse, Arthur Andersen had been caught red-handed massaging the financial reports of its clients. Apparently, the company placed profit before reputation despite the fact that its reputation was its principal asset. Once it lost its reputation in the Enron debacle, clients left in droves and the firm collapsed.

Fortunately, most reputation issues are not as dramatic. In 2005, United Technologies Corp. became concerned after surveys showed that most investors viewed the corporation as a sleepy Northeast company. Management asked Communications Consulting Worldwide to study how public perceptions affect a company's stock price. CCW, led by sociologist Pamela Cohen and former Ernst & Young strategist Jonathan Low, spent months building an elaborate computer model using data United Technologies had amassed over the years: studies tracking consumer perceptions of its brands, employee satisfaction, views of stock analysts and investors, corporate press releases, thousands of newspaper and magazine articles, and two years' worth of UTC financial information and daily stock movements. In the end, Cohen and Low concluded that 27 percent of UTC's stock market value was attributable to intangibles like its reputation.[4]

As one result of this reputation study, United Technologies initiated a new advertising campaign to promote its reputation in mid-2006. Did it make any difference? While no doubt other factors were at play, UTC's stock price did rise 21 percent between June 1, 2006 and December 31, 2007. So, as always, reputation is important, and you may be able to put a dollar value on it. What's new?

Your Digital Rep

What's changed are the opportunities and challenges of managing reputation equity in a world without borders, thanks to the immediacy and reach of digitization. The explosion of social networks, e-communities, and the blogosphere are dramatically transforming the communications landscape. In this digitally flat world, one furious blogger can damage your personal or company reputation as other bloggers and commentators spread the word. You can't afford to ignore the danger to your digital rep, as Chick Edwards found out the hard way.

The good news is that you can build and protect your digital rep by communicating directly with key stakeholders through online interaction rather than only through traditional channels—word-of-mouth, newspapers, magazines, and television. You have to let the world know what you think, what you believe, and what you do that makes a difference.

In the last 20 years, "interest in reputation, and the value it has been given by both business audiences and the general public, has grown immensely," says Dr. Leslie Gaines-Ross, chief reputation strategist for Weber Shandwick. "In fact, media coverage of reputation alone has increased 108 percent over the past five years. Reputation management is now considered a legitimate body of knowledge, with a number of emerging new disciplines, including reputation recovery. Also, the sheer number and severity of corporate falls from grace in the last few years—coupled with the emergence of revolutionary ways of transmitting information, influential microconstituencies, and widespread mistrust of business—have magnified the need for a viable framework for the repair and recovery of damaged company reputations."

One reason executives care so much about this topic is that they now recognize how hard it is to maintain a reputation (or, looking at it another way, how easy it is to lose one). Gaines-Ross was surprised at how many of *Fortune* magazine's most admired companies slipped in the rankings over time. More than half of the top-ranked American companies in 2002 were not as highly-ranked in their industries by 2007. "The figures are even more compelling when we examined the world's most admired companies—79 percent of industry leaders in 2002 were not most admired in 2007," she says. "Looking ahead, companies that lead their industry today have much less than a 50/50 chance of being most admired five years from now."[5]

Roadmap for Reputation Management

In this digitally-flat World 2.0, doing nothing is not an option—unless you want someone else to define your digital rep for you. But what exactly should you do? Use Figure 1.1, the Reputation Management Process, as a roadmap for managing reputation equity.

Your first step is to determine who your key stakeholders are and what issues they care about. As important as the defining issues of the 21st century may be—poverty, education, health, economic development, globalization, the environment, corporate responsibility, and transparency—your stakeholders may be just as concerned about microissues unique to your company or community. So think local as well as global.

Also understand how stakeholders see your reputation in the context of the issues that matter the most to them. Do you have a sterling reputation when it comes to product quality but a tarnished reputation on environmental affairs? Remember, this is all about *their* perceptions. Chapter 2 outlines tools for monitoring and measuring your personal or company reputation and discusses how to apply the results to make content and distribution better, more effective, more engaging, and more useful.

Next, set priorities and objectives for managing your reputation. Issue by issue, what kind of reputation would you like to have among

(1) Identify your key stakeholders and the issues that matter most to them (and to you)

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(2) Analyze your reputation among these stakeholders, especially as related to the key issues

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(3) Set priorities and goals for reputation management

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(4) Identify online opportunities for contact with stakeholders

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(5) Implement creative approaches to promote dialogue on key issues

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(6) Monitor and measure your reputation, then tweak tactics as needed

Figure 1.1 The Reputation Management Process

each stakeholder group? Where are the gaps between the reputation you desire and the reputation you actually have? Which issues and stakeholders are your top priorities?

Now you're ready to think about engaging, involving, and influencing your stakeholders. Chapter 3 introduces what I'm calling "the open source reputation," which is similar to the idea of open source computing: all participants contribute to creating your reputation. The open reputation requires specific strategies for engagement, content, building online environment, creating places, and distribution. In Chapter 4, I discuss particular strategies and tactics for engaging different stakeholders online to build and enhance reputation equity. Once you've got your engagement strategy and your content, what are your online opportunities for contacting stakeholders? Every organization has many communities with which it needs to work to build and manage reputation equity: customers, prospective customers, employees, vendors, stockholders, regulators, and so on. Chapter 5 describes ways to distribute your online content to the places where and when it will do the most good.

What are the new roles and new jobs companies need to implement an effective reputation management strategy? Who in your organization is going to be responsible for all of this? Chapter 6 outlines some ideas for the organizational requirements, including the possibility of naming a Chief Reputation Officer.

Chapters 7, 8, and 9 focus on your own reputation, earning digital reputation equity as a small business, and earning it as a substantial corporation. Thanks to Google and other search engines, strangers can assign you a reputation without your knowledge. If you are Chick Edwards, people will form one impression. If you are Warren Buffett, people will, it's fair to say, form another. Your reputation is your good name, and as you live these days, dropping nuggets of information as you go (a blog, an Amazon review, a court appearance, a letter to a magazine editor), someone can retrieve the nuggets easily to judge you as a potential employee, accountant, lawyer, consultant, or developer.

A small business may not be able to spend as much on earning, protecting, and defending its digital reputation as a major corporation, but it does not have to. The number of stakeholders is smaller, the business itself is less complex, and (generally) it does not have layers management and functional silos that can make earning a reputation a slog.

And while the principles of earning a digital reputation are the same whether you are an individual, running a small business, or the CEO of a large corporation, the CEO (generally) has resources the others do not. I will talk about the special problems all three face in Part III.

A new—and key—element in earning your digital reputation is the YouTube juggernaut. Chapter 10 discusses where it came from, where it is (it's the second largest search engine in the world—larger than Yahoo!), and how you can use it. Whether you own a local restaurant or pilot a multibillion dollar corporation, you have to be YouTube savvy.

It is not enough to proactively do things online to build reputation equity. The world being the nasty place that it can be, you must protect your digital rep on an ongoing basis and defend it when you or your company is under digital attack from negative comments, legitimate gripes, and slander. What can your investor relations people do online if they think Wall Street analysts are spreading negative rumors about your firm? What can a company do online to counter innuendos and lies about products, services, or policies? A crisis requires more than defending your reputation—you're facing an event that can potentially destroy it. What if the Immigration and Naturalization Service arrests 200 of your employees and closes your plant? What if your toys are found to be tainted with lead paint? What if a patron says she's found a human finger in your chili? Whether the crisis stems from external factors or an internal failure, Chapter 11 lays out digital steps you can take to minimize the damage to your reputation equity.

Even though reputation resides in the minds of your stakeholders, you have many opportunities online to get your news and views to stakeholders. However, as Chapter 12 explains, traditional public relations is giving way to a next-generation public affairs function for the digital environment. Who are the most influential or most-read bloggers—and therefore, where should you be placing content or commenting on content? What are the top e-communities—and where should you participate? What about product marketing and investor relations?

Arguably, the most effective effort to build a reputation using digital media was the Obama presidential campaign. Chapter 13 is a case study describing the campaign's online strategy for contacting supporters, recruiting volunteers, answering smears, and communicating the candidate's history and views—all of which contributed to a successful Election Day.

Chapter 14 looks at the future of reputation. Ultimately, what you do is more important than what you say. And here's where that idea of reputation as "money in the bank" comes into play. The best-managed companies can survive setbacks such as product recalls because its managers and employees have worked to earn a positive reputation over time. Stakeholders know the company is not in the habit of, say, selling lead-tainted toys. As I say in this chapter, trust and transparency go a long way toward protecting and rebuilding reputation equity.

So let's start with how you learn what people are saying about you behind your back.