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BUSINESS

As Economy Slows, Reputation Takes On Added Meaning

By GEORGE ANDERS
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As the nation's economy cools, some well-known companies are stumbling in painful ways. Starbucks is switching chief executives and struggling to reconnect with customers. Circuit City Stores is trying to right itself amid skidding sales and a more than 70% drop in its stock price last year. And the pharmaceutical industry seems to have lost its ability to develop meaningful new drugs.

What's gone wrong? The details vary but, in each case, companies with longstanding records of success are acting as though their trusty playbooks suddenly have vanished.

Rushing to the scene are lots of experts with advice about sustaining or repairing a corporate reputation in tough times. Their tips may seem obvious, or even preachy in boom times. But when the economy stalls, nervous bosses are more eager for help. Besides, this is too alluring an area for management consultants and public-relations specialists to ignore. Reputation consulting offers plenty of face time with CEOs, as opposed to less glamorous work counseling operating units.

Among the advisers now in demand is **Reputation Institute**, founded by Charles Fombrun, a former management professor at New York University. The firm's active client list has doubled in the past year to 100 companies. It has offices on four continents and 60 employees, up from 37 a year earlier.

"Mending reputations can't be done overnight," says Kasper Nielsen, Reputation Institute's managing partner. He takes companies through a seven-step analysis of what's causing their reputation to suffer, followed by a close look at which constituencies -- employees, customers or investors -- are affected and what they are seeking.

Then it's time for the hard work of figuring out what aspects of company conduct are helpful and what needs to be fixed.

In many cases, Mr. Nielsen advises turning to outsiders -- such as environmental groups or corporate-governance scholars -- to validate progress if a company's own assessments have lost credibility.

In extreme cases, Mr. Nielsen says, a company's hopes of recovery may depend on ousting the top executives who brought on the problems, so that new leaders can make a fresh start.

"A lot of companies care about reputation only after a crisis hits," Mr. Nielsen says. "Then they want to know, can you fix things? They don't **integrate reputation into their everyday processes** That's dangerous. You have to do a lot of things right to build up a reputation platform."

At Tyco International, Edward Breen inherited a corporate reputation in tatters when he became CEO in mid-2002. The company's previous chief, Dennis Kozlowski, had been ousted amid fraud allegations. Investors were nervous about Tyco's heavy debt load. Employees told Mr. Breen that the company's standing had sunk so low that they were too ashamed to wear Tyco logo shirts to their children's soccer games on the weekend.

It took about a year for a true recovery to take hold, Mr. Breen recalls. "Employee morale was my single biggest concern, aside from our liquidity issues," he recalls. "I was especially worried about our 30,000 front-line salespeople. That's a very tough job if you're embarrassed about your company. If they seized up, we'd be in deep trouble."

To address morale, Mr. Breen says, he visited dozens of Tyco facilities around the world and briefed employees about the company's new management, new governance structures, new code of ethics and its progress in debt refinancing. He made sure question time was at least as long as his prepared remarks, so that employees could feel personally engaged with the new boss.

Mr. Breen also said he avoided the temptation to promise a rapid rebound. "People saw how fast our reputation went down, and they hoped we could rise back as quickly," he said. "But you can't. It's a slower process, and in some ways, it's never-ending. This is a marathon, not a sprint."

An intriguing test of reputation maintenance is playing out these days at American Airlines, which is negotiating a new contract with its pilots. The carrier, a unit of AMR Corp., won major concessions from its pilots in 2003, when the airline industry was in bad shape. The pilots now are pressing for catch-up pay increases of as much as 60%, contending that management is getting rich as the industry revives, and that employees also should prosper.

American's pilots last year elected a hard-line new president, Lloyd Hill, who says his membership is "frustrated with management." Both sides say contract talks could drag on for more than a year.

Whether bargaining-table friction will hurt American's appeal to customers is anyone's guess. Pilots say they fear the airline's reputation could suffer if management snubs them. American spokeswoman Tami McLallen says she hopes such snarls don't arise. For her optimistic view to come true, American will need to persuade its pilots that burnishing the carrier's reputation is their best choice, too.

"Reputation is invisible, but it's an enormously powerful force," says Alan Towers, a New York adviser to companies concerned about reputation issues. He encourages CEOs themselves to assume the role of chief reputation officer.

A different approach comes from Richard Edelman, CEO of the Edelman public-relations firm in New York. In a recent public survey, his firm found that companies fared best when CEOs blended traditional high-level communications with peer-to-peer efforts, in which passionate customers and employees helped to tend to the company's image.

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