Building Trust through Reputation Management
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Trust in business, as measured by professional polling agencies, academics, and media surveys, has been on the decline for over 35 years in the United States. Due to a variety of corporate scandals at the beginning of the 21st century and the financial crisis that has lingered into this decade, that decline has accelerated even more dramatically in the past year. In fact, a 2011 Gallup Poll reveals that less than 20% of Americans now have confidence that business acts responsibly.¹

This stems, in part, from a succession of corporate scandals that started in 2001 with the infamous dissolution of Enron, and that has continued with the fall of storied investment banks Bear Stearns, Merrill Lynch, and Lehman Brothers; the SEC investigations into prominent financial institutions including Goldman Sachs and AIG, and the BP Deepwater horizon disaster of 2010, to name only a few. These events, coupled with the adoption of digital communications platforms such as social networks, have created a perfect storm: never has there been such public awareness of corporate malfeasance, and never have there been so many channels with which constituents can voice their concerns.

The Occupy Wall Street movement is an excellent recent symbol of the skepticism and anger that permeates the current business environment. This movement, which started in September 2011 as a largely peaceful protest over growing income inequity in the United States, captures the current zeitgeist for mistrust. Protesters focused on the growing inequity between executive compensation and unemployment, and made extensive use of social media, publishing an online daily newspaper to communicate news and marching orders to participants. Organizers also executed a branding campaign for the movement based on the slogan “we are the 99%”, meant to highlight the growing income gap between the top 1 percent of earners and the remaining 99 percent. Although critics derided the movement for its lack of clear focus and actionable objectives, by early 2012, Occupy Wall Street had spread to cities around the globe, including Paris, London, Berlin, Hong Kong and Rome.²

Occupy Wall Street’s dramatic growth underscores a central irony of today’s environment: never has trust in business been lower, yet never has it been more

important. The 2012 Edelman Trust barometer also found that people believe that trust, transparency, and honest business practices influence corporate reputation more than the quality of products and services or financial performance of a company. Clearly, companies that can establish and maintain trustworthiness in this environment have a competitive advantage. Edelman’s and other studies suggest that in today’s environment, corporate reputation has emerged as a key factor influencing consumer behavior and ultimately, a company’s financial performance. Understanding the relationship between trust and reputation is therefore one of the critical challenges of our time.

The Current Environment for Reputation and Trust in Business

As referenced above, a number of factors have come together over the course of the last decade to catalyze a massive decline in trust: a wake of corporate scandals and a turbulent economy; intense public scrutiny of business; disillusionment over excessive executive pay; and the growth of digital communications platforms. In the past year, all of this seems to have erupted into historically low levels of trust in business, and a focus on corporate reputation.

In this section, we will look at three case studies that help define the current environment for reputation and trust from different perspectives. The first looks at how social media can play into the erosion of trust; the second underscores the importance of authenticity in times of crisis; and the third illustrates how poor leadership can escalate a reputational crisis.

Netflix Gets Lost in the (e)Mail

Perhaps no single phenomenon has changed the nature of trust in business more than the emergence and continuing adoption of digital communications platforms. As Courtney Barnes and I wrote about in our 2009 book Digital Strategies for Powerful Corporate Communications, this phenomenon grew as a result of globalization, stakeholder empowerment, and the network revolution. The rapid spread of information has lead to greater scrutiny of business. Before the digital explosion at the turn of the twenty-first century, corporations’ reputations were shaped by one-dimensional messaging that was pushed down the corporate ladder and disseminated without discussion. But, with an ever-growing list of new tools, stakeholders—companies’ employees, customers, or shareholders—have

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become empowered to talk back. Social communities and blogs give stakeholders the ability to disseminate their own messaging about an organization, and to share and build communities around that information. The rise in corporate scandals and credit crisis, combined with the emergence of these new channels, has radically altered the business landscape.

This convergence has occurred on a global level: technology has strengthened communication channels around the world to produce what Canadian philosopher Marshall McLuhan foresaw decades ago—the creation of a world so interwoven by shared knowledge that it becomes a “global village.” This trend has had a monumental impact on trust in business, particularly over the last decade.

Through the Internet, people have discovered and invented new ways to share relevant knowledge with blinding speed. The data are staggering: by the end of 2011, nearly 80% of the world’s population had a mobile cellular phone subscription, and more than 32% regularly used the Internet. Collectively, we created nearly 1.8 trillion gigabytes of information last year. These numbers translate into communications issues that simply didn’t exist in the corporate world 10 years ago. The current global connectivity accentuates the volume at which negative feelings can be heard, and makes it difficult for companies to prevent negative—and positive—news from reaching people. Data suggest that these numbers will only continue to increase as consumers assume further control of corporate reputations and communicate with each other in real time, 24/7.

An excellent case of how this instantaneous interaction/feedback/accountability loop can torch a corporate reputation is Netflix’s 2011 faulty pricing and business strategy. In July 2011, Netflix announced that it was separating its DVD and streaming services and creating two separate pricing plans. The decision was presented by Netflix as one that would give its customers more choice, when in reality, subscription prices had actually been raised by 60 percent for its DVD service. This triggered a storm of criticism online that translated into a serious decline in subscriptions: between June and September 2011, the company lost 800,000 subscribers and more than $2 billion in market value.

In September, CEO Reed Hastings issued a public apology, at the same time making a further announcement that Netflix was rebranding its DVD service under a new name, “Qwikster”. A month later, Qwikster was cancelled.

This chain of announcements and apologies and reversals damaged both Netflix’s reputation and stock price. Prior to the restructuring of its services, Netflix had been celebrated as a company known for its market penetration and ability to deftly cross technological divides. Netflix was the nine-time consecutive winner of the ForeSee

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7 John Gantz and David Reinsel. IDC IView: Extracting Value From Chaos. June, 2011. Sponsored by EMC.
Results Top 100 Online Retail Satisfaction Index, an annual metric that is based on “the scientific methodology of the American Customer Satisfaction Index (ACSI), which predicts sales, loyalty and word of mouth recommendations”. Where exactly did Netflix go wrong, and how did its communications strategy hurt its reputation and ultimately erode the trust of its customers?

In many ways, Netflix’s mistake was not the proposed price increase: while a 60% jump is substantial, Netflix could have rationalized to its customers that because the cost of licensing content was rising, the old subscription fee of $10 was not sustainable. Moreover, the company was understandably taking strides towards evolving with the digital revolution, rather than against it, like many of its competitors (including Blockbuster and Borders).

The real error was the way Netflix communicated to its customers, and its lack of awareness of what mattered to them. Netflix’s decision to split its services was a fairly typical consultant-driven choice: management acted in secret, without gathering feedback from the marketplace. In the past, this strategy might have worked. The concept may have fallen flat, but silently, without the thunderous echo that can reverberate online. 20 years ago, maybe even ten, Netflix would have been in control of its own misstep and had time to fix the problem and implement a solution before putting its reputation on the line.

In its failure to communicate with perhaps its most important constituency- Netflix customers – the company missed something intangible: subscribers liked knowing they could get a DVD, even if they didn’t use the service. As French writer Antoine de Saint-Exupéry wrote, “What is essential is invisible to the eye.” In this case, Netflix didn’t account for the emotional attachment its customers had to the DVD service and the drama that would ensure from its cancellation.

Had Netflix engaged with its customers online, it could have avoided considerable damage to both its reputation and financial bottom line. One of the benefits of the two-way conversation enabled by social media is the opportunity to communicate directly with constituents. On Facebook and Twitter, customers can be included in corporate decisions, and in fact, in today’s environment, they must be. Stakeholders’ access to social media tools lends them a profound ability to impact a business’s success or failure. Messaging no longer belongs to the company alone, but can be disseminated and reinterpreted by special interest groups, lone bloggers, activist investors, and any other individual with a laptop and an opinion. Had Netflix invested resources to establish a more intimate understanding of its customers’ identities and preferences, a

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14 Antoine de Saint-Exupéry, The Little Prince, first published 1943.
clear picture of an innovation that would have enhanced their brand identity might have emerged, along with the awareness of the risks and failures that could derail that innovation.

The broader lesson is that a company’s communications strategy must correlate with its desired outcome. If you want your audience to understand a message, explain it to them clearly. But if you’re trying to sell them something, you need to get them involved in the process. And today, that means using digital and social media to communicate with key constituencies.

**BP Blows a Gasket**

While Netflix’s branding crisis severely damaged their corporate reputation, it passed the moral smell test: no one died, and no animals or environmental ecosystems were harmed in the process. The BP Deepwater Horizon oil spill, however, traded in more than DVDs. It traded in human lives, and was one of the biggest natural disasters in US history. While some members of the public might have been willing to forgive BP for what might have been a series of accidents or the fault of one of its partners, the context of the spill in the company’s overall PR and reputation strategy pushed many from healthy skepticism to rage.

In July of 2000, BP launched what has since become known as one of the greatest greenwashing campaigns in the history of advertising, a $200 million corporate advertising and public relations campaign designed by Ogilvy & Mather with the goal of positioning BP as environmentally friendly. Not only did the company introduce a new corporate slogan, “Beyond Petroleum”, but it replaced its green shield logo with the Helios symbol, a green and yellow sunburst. Some found this campaign refreshing for a large oil company, but those who knew the industry found it ludicrous. The campaign focused on BP’s smallest energy sector, renewable energy, while ignoring its major one: the business of extracting oil. Although BP spent $45 million to purchase a solar energy company in 1999, that investment dwarfs in comparison to the $26 billion spent on ARCO (a drilling operations company) the year before.¹⁶ Prior to 2010, BP had been accused of environmental regulations, oil and propane gas price manipulation, safety violations, falsifying inspection reports, and hazardous substance dumping, not to mention its involvement in the highly controversial oil sands project in Alberta, Canada.¹⁷ The oil sands investment, in particular, was criticized by many environmental activists as an environmental disaster and a forewarning of a company that prized profit over responsibility. It’s clear in retrospect that BP had already been at the center of great controversy prior to the Gulf leak.

Environmental irresponsibility aside, BP also showed signs of a significant management problem. Leaks in the Alaskan pipeline, exploding tanks in Texas, financial issues in London, and a sordid affair and resignation from its CEO all pointed to a failure of management that made the campaign aspirational more than rational. In fact, the White House Oil commission ultimately concluded that the cause of the Deepwater explosion and subsequent leak was “a systematic management failure at BP” that was in place long before 2010.  

Despite these realities, the campaign seemed to work. Sales from 2004 to 2005 rose from $192 billion to $240 billion then to $266 billion in 2006. Moreover, a Landor Associates survey of consumers found that 21% of them thought BP was the most green oil company. BP claimed that from 2000-2007, its brand awareness went from 4 percent to 67 percent. Perhaps because of this success, incoming CEO Tony Hayward decided to move the company back to its more traditional focus on extraction and finances, rather than marketing. In 2008, Hayward reduced spending on corporate advertising to $53.5 million, down from $75 million in 2007; in 2009, that number was further reduced to $32.8 million. By the time Deepwater exploded, most of the communications infrastructure that had been in place just a few years before was gone. BP had not only reduced its investment in brand equity, but the most recent marketing campaign it could point to was one that was completely at odds with reality. Had Deepwater been the disaster of Exxon Mobil, the public may have been less surprised. The 1989 Exxon Valdez disaster had been the worst oil spill of its kind in US history. Even Shell, the perpetrator of decades of environmental neglect in Nigeria, was more likely to be associated in the eyes of the public with environmental irresponsibility. But BP, in a failure to articulate and authenticate their brand in relation to their culture and business, had positioned themselves as the “good guys” in the energy sector.

As the disaster unfolded in the summer of 2010, any reputational capital that BP still had in place through the campaign began to erode. Protests in front of BP’s London headquarters, boycotts at BP gas stations and 24-hours news coverage of the “BP Oil Spill” helped to degrade trust and belief in BP’s brand image, as well as leading to a 52% drop in stock value, net quarter loss of $17 billion, and over $3 billion in clean up costs. Perhaps worse was BP’s ensuing marketing campaign, a series of apologetic ads that promised to make things right, including a widely ridiculed message from CEO Hayward, who only days before had been caught in an insensitive gaffe claiming he “wanted his life back”. In the spirit of repentance, BP senior executives gave up their bonuses in

2010 in an effort to restore trust in the company, but by 2011, were awarded a 3000% increase, the highest over the past 30 years.  

Two years later, the company continues to dig itself out of endless litigation and public mistrust. BP represents a cautionary tale of the role authenticity must play in modern marketing campaigns. Reputation is more than just another public relations strategy or ad campaign. It is the basis for trust.

Listening Skills Lead to Problems at News Corporation

Newspapers may be black and white, but corporate reputations rarely are. The phone hacking scandal that forced the U.K.’s News of the World to shut down in July 2011 was so shocking that it’s hard to imagine, in retrospect, that it could have been avoidable. The events themselves may have unfolded the same – clearly, whatever corporate culture in which such acts could have occurred had been simmering for many years—but the response of the executives running the paper, not the facts themselves, was what ultimately brought things to a boil.

In June 2007, British newspaper The Guardian exposed that a murdered school girl’s phone messages were hacked and deleted at the height of the investigation into her disappearance by journalists at News of the World. At the time the messages were hacked, the victim had not yet been found, and her mother, along with the police investigating the case, believed that Milly had checked her messages and was still alive. Along with this heart-wrenching betrayal, the 168-year-old tabloid had hacked into the phones of other crime victims, members of the royal family, prominent celebrities and politicians.

The story became one of the most damaging to ever hit the international news media, and as the days passed, more and more twisted details emerged: revelations ranging from the attempted suicides of staffers to an executive-level conspiracy against the police added a macabre layer to an already shocking story. Public ire was such that News Corp managers hired security guards out of fear for their personal safety.

At the center of the company’s fall was the Murdoch family, not only the legendary founder Rupert, but his son Andrew, who was at the time News Corp’s Chief Executive. When the scandal broke, Andrew’s first reaction was silence: under the guidance of his legal counsel, Andrew did not initially publicly comment on the story. Worse, as the weeks passed and Andrew was called to testify in Parliament, he denied knowledge of the dubious methods by which his journalists had obtained information.

This “I didn’t know” argument was what ultimately undermined News Corp’s reputation. Rather than demonstrating remorse and transparency, Murdoch’s poor decision-making seemed to escalate the story. The Murdoch name was already tarnished with a destructive reputation and alleged history of manipulating politicians for personal gain, and public trust in the family and their companies continued to wane. As a result, nearly six months later, News Corp is still playing catch-up with both the U.K. and U.S. governments as well as media outlets, who, one suspects, have been waiting for this moment a long time.

Imagine how things could have been different: had James Murdoch come forward a few months ago and said that News Corp had conducted an internal investigation with a strong outside group of esteemed citizens; that he had found that some reporters were hacking phones and that this had been condoned by managers like Rebekah Brooks, who was being let go immediately; that he acted contrite, apologetic and said all the right things about behavior such as “this cannot be condoned”, and had talked about a new strategy as he took the reins from his father, Rupert.

In this scenario, Andrew would have gotten control of the story early enough to shape its destiny, and his company’s. And, perhaps most important of all, he would have seemed prepared to handle a crisis of this magnitude.

Summary

The above example along with Netflix and BP illustrate how a poorly managed reputation—whether because of a lack of understanding of social media or a lack of transparency and authenticity—can hurt not just a company’s image, but also its bottom line.

However, reputation does not only involve risk. As we will see in the next section of this chapter, companies that successfully build strong reputations benefit from higher share prices, and high customer loyalty and forgiveness. First, we must develop a thorough understanding of why an organization must align its identity, vision, and values to achieve a strong reputation.

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SECTION II: Surviving the Current Crisis through Reputation Management

In the changed environment for business, corporate reputation has gained visibility and importance in the eyes of many constituencies. Reputation is now an integral driver in a company’s success and credibility, but many managers who have not thought about corporate reputation continue to underestimate its value. This error is partly due to a lack of understanding about what corporate identity, brand, image, and reputation are all about, and what they can do for a business. Skeptics should understand that an inappropriate identity can be as damaging to a firm as poor financial performance. Individuals are seeking trust and transparency, and if perceptions about a company fail to mesh with reality, constituents will take their money elsewhere.

What are Identity, Brand, Image, and Reputation?

A company’s identity is the actual manifestation of the company’s reality as conveyed through the organization’s name, logo, motto, products, services, building, stationery, uniforms, and all other tangible pieces of evidence created by the organization and communicated to a variety of constituencies. Constituencies then form perceptions based on the messages that companies send in these tangible forms. If the images accurately reflect an organization’s reality, the identity program is a success. If the perceptions differ dramatically from the reality, then either the strategy is ineffective, or the corporation’s understanding of itself needs to be modified. 26

Because identity is the only part of reputation management that an organization can actually create and control, it is critical that it is strategically shaped. One of the key factors that contributes to a successful corporate identity is a careful brand: a name or logo that differentiates the goods and services of one seller from those of its competitors. Branding is much more complex and nuanced than a swoosh or a pair of golden arches, however. A brand can provoke an emotional reaction from the consumer; a brand is a promise that sets an expectation of an experience. As marketing expert Kevin Keller explains, “the power of a brand lies in the minds of consumers.” 27 A company’s value can be considerably influenced by the success of its corporate branding strategy. Coca-Cola, for instance, has a value that far exceeds its total tangible assets because of its strong brand name. 28

An organization’s image is a function of how constituencies perceive the organization, based on all the messages it sends out through names, logo, and self-presentation. It is the organization as seen from the viewpoint of its constituencies. But image is in the eye

28 Intrabrand, Best Global Brands 2011.
of the beholder: depending on the vantage point of a particular constituency, a company can have many different images. For example, employees will perceive their company’s image differently than customers. Even customers who have never interacted with a product will have preconceived notions (just because you’ve never eaten a McDonald’s hamburger doesn’t mean you don’t have certain perceptions about the company and the product). Large, diversified companies may also struggle to define their images. What is the image for a company as large as Tata, or one as diverse as General Electric?

Reputation is the sum of all of an organization’s constituencies’ perceptions. It differs from image in that it is built gradually, and is therefore not simply a perception in any moment of time. It differs from identity because it is a product of both internal and external constituencies, whereas identity is constructed by the company itself. A strong reputation has important strategic implications for a company, as we shall see.

**Why Reputation Matters**

The importance of reputation is evidenced by several prominent surveys and rankings that seek to identify the best and worst among them: Fortune’s “Most Admired” list, BusinessWeek and Interbrand’s “Best Global Brands” ranking, and the Reputation Institute’s Global RepTrak Pulse studies. These highly publicized rankings are evidence of what many business leaders already know: that companies with strong reputations have financial and competitive advantages and experience greater stability.  

Reputation is a source of tangible economic value. According to the 2008 Hill and Knowlton Corporate Reputation Watch, more than 90% of analysts agree that if a company fails to look after the reputational aspects of its performance, it will ultimately suffer financially. Reputation does indeed correlate with higher market valuation and stock price, and with less stock price volatility. A comprehensive study by the Munich-based Market-Based Management Institute compared the reputation and stock-market performance of 60 blue-chip companies over the course of five years. The 25% (Top25) of companies with the best reputations considerably outperformed the companies with poorer reputations and, compared to price movements on the DAX 30 in general, the Top25 returned greater yield with lower risk.

The less tangible entities of a strong reputation can also result in competitive advantage. Companies with strong reputations attract and retain the best talent, as well as loyal customers and business partners, all of which contribute positively to growth and success. Reputation “calls attention to a company’s attractive features and widens the options available to its managers; for instance, whether to charge higher or lower

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prices for products and services, or to implement innovative programs."  

Companies whose corporate communications promote sincerity and accuracy have greater operating leverage and the power to buck negative trends in the economy and in their respective industries. Being able to weather a corporate crisis is a particularly valuable position in an age of skepticism and mistrust, where information travels at lightning speed. 

Jet Blue, for example, learned how important stores of goodwill can be in times of crisis. But on February 14, 2007, the airline faced a reputational crisis that put customer loyalty to the test: during a particularly nasty nor’easter, the airline had an operational meltdown that resulted from a combination of bad luck, flawed decision-making, and multiple systematic failures. The airline canceled more than 1,000 flights, incurring millions of dollars in losses and tarnishing its sterling reputation among customers who were stranded at its hub, JFK Airport. Yet, after a publicity nightmare and an enquiry from Congress, CEO and founder David Neeleman was inspired to search for inventive solutions to win back his constituents’ loyalty. Some of those solutions, like the industry’s first ever customer bill of rights, were groundbreaking, and helped JetBlue to regain, if not exceed, its reputational standing in the eyes of its customers. 

Against the backdrop of the current business environment, organizations are increasingly appreciating the financial and competitive advantages of a strong reputation. How does an organization know where it stands? How does it build trust? Since reputation is formed by the perceptions of all of their constituencies, companies must first uncover what those perceptions are and then choose their reputation strategy accordingly. 

Measuring and Managing Reputation

You can’t manage what you don’t measure. This adage rings especially true when looking at corporate reputation. In assessing its reputation, an organization must examine the perceptions of all of its constituencies. Only when perceptions and identity are in alignment will a strong reputation result. 

Many consulting firms, like the Reputation Institute (RI), have developed diagnostics for helping companies conduct this research. Nearly all of these tools require constituency research. The RI’s RepTrak Alignment Monitor, for example, conducts extensive internal analysis of employee alignment. Such tools exist because companies run into trouble when they do not practice the values that they promote internally. Walmart is perhaps


one of the best examples of a company that has frequently been entangled in contradictions between the values it espouses and its employees’ perceptions. The company, which defines its three basic beliefs and values to be respect for the individual, service to its customers, and striving for excellence, has been embroiled in a constant stream of lawsuits, including what would have been the largest employment discrimination class action in US history. However, Walmart has made significant attempts to close the gap that exists between its identity and image in other areas of its business, as we shall later discuss.

Summary

An organization with a clear corporate identity that represents its underlying reality and is aligned with the images held by all of its constituencies will be well on the path towards achieving a strong reputation, an irreplaceable asset in an intensely skeptical global business environment. Reputational success, once earned, must be managed, measured and nurtured through an effective reputation management strategy.

SECTION III: Reputation Management Strategies that Build Trust

Once a strong corporate reputation is established, what strategies can a company employ to safeguard that reputation and beyond that, to maximize trust?

Focus on Values & Principles-based Leadership

As mentioned earlier, the level of concern about corporate responsibility and trust has increased dramatically in recent years, and has been amplified by the ability of digital platforms to democratize access to information. Stakeholders are increasingly demanding value for their money when purchasing goods and services, and are also expecting to see a strong set of values in the companies with which they do business. As we’ve seen before, companies that embrace digital tools to engage individual stakeholder groups in the context of their corporate responsibility efforts will prosper over those who forgo opportunities to communicate.

Ever the innovator, CEO Howard Schultz of Starbucks incorporated a revolutionary crowdsourcing strategy into his plan to transform the coffee retailer, following years of overexpansion and sliding stock prices. Schultz’s challenge was to “rekindle an emotional attachment with customers,” and in 2009, the brand created www.mystarbucksidea.com, a forum where customers could literally submit ideas on

how to make the brand better. The ideas were categorized, and users could then vote on which ones they thought should be implemented. Schultz also invested heavily in Starbucks’ “shared planet” campaign, which marketed the company’s dedication to being “bigger than coffee.” Whether these crowdsourcing and CSR initiatives can be directly related to a bump in stock price is difficult to prove, but Starbucks’ popularity, at least, has grown in the three years since these programs were implemented: in 2010, Starbucks reported record fiscal revenue of US$10.7 billion. Schultz was able to intuit that Starbucks customers wanted more than just coffee.

Another company whose brand has transcended the products it sells is PepsiCo, whose “refresh” campaign positively illustrates the current shift towards value and values. PepsiCo understands what academic Dennis Whittle argues is a “value-oriented” paradigm, in which progressive corporate leaders know that engaging their companies and employees in social enterprise efforts pays off—internally by attracting and retaining high quality workers, and externally with positive impacts on their brand.

Starting in January 2010, Pepsi decided to take a massive gamble in their marketing strategy: they pulled their multi-decade, multi-million dollar Superbowl opening ad and traded it in for a $20 million social campaign. At its core, the Pepsi Refresh Project is about getting the global community to nominate projects that need funding in local communities. Participants enter online by uploading a video or project profile and lobbying the community for votes. In the past two years, the company has contributed over $40 million to small scale, community-based social enterprise efforts. More importantly, in return for their initial $20 million investment, Pepsi has donated to community service around the country, built strong relationships with customers, built their brand, encouraged a two-way flow of communication between their company and their customers, increased consumer awareness, and generated exposure of their products. Year after the campaign was implemented, it had assisted Pepsi in attaining over 56,000 followers on Twitter, 700,000 views on YouTube, and over 3 million “likes” on Facebook.

Although the financial return on the Refresh campaign is hard to measure, PepsiCo is building its reputational capital for years to come, which may be a critical factor to survival in an environment where its core products are being increasingly called into question in the nation’s ongoing debate over nutrition and healthcare. Even if Americans start to question PepsiCo products from a healthcare perspective, they may be persuaded to remain loyal because of the company’s focus on social enterprise.

Focus on Strategic CSR

The Pepsi Refresh project underscores the argument that in today’s environment, corporate social responsibility (CSR) plays a significant role in forming customers’ perceptions of a brand. Reputational risk now transcends simply staying out of trouble; rather, stakeholders are far more proactive in seeking out information about companies and wanting to know more about what they stand for. Study after study demonstrates that “good corporate citizenship” directly correlates with the strength of a company’s reputation, and its bottom line.41

Consumers are increasingly preoccupied with the values and reputations of the companies with which they interact: the 2010 Cone Cause Evolution Study, for example, reveals that 83% of Americans want more of the products, services, and retailers they use to support causes. 85% of consumers have a more positive image of a product or company when it supports a cause they care about, and 90% of consumers want companies to communicate to them the ways in which they are supporting causes.21 Strategically directed CSR programs can be key vehicles for the creation of competitive advantage.42

When a company understands what each of its constituencies is concerned about, what matters to them, and what they already think about the company, it is well positioned to structure the right kinds of CSR programs. Walmart is an example of a company that has made significant progress in enhancing its corporate reputation by focusing its CSR efforts on one of the key issues which its constituents have most publicly been concerned about—environmental sustainability. In 2005, Walmart hired a sustainability and energy think-tank to conduct an efficiency overhaul and audit, and then outlined three clear environmental goals: to be supplied entirely by renewable energy, to create zero waste, and to sell products that sustain resources and the environment. The implementation of the plan cost Walmart more than US$500 million, but by talking the talk in its logistics, operations, and sales practices, the retailer has hugely enhanced its perceived environmental impact.43 In the 2010 Newsweek Green Rankings, a ranking of the top 100 global companies based on their environmental impact, green policies and performance, and reputation, Walmart ranked 39th, up from 59th the year before.44

To summarize, CSR programs can greatly contribute to a company’s reputational capital and provide a distinct competitive advantage in an environment where constituencies increasingly expect responsible and accountable behavior, along with profit. To respond to this demand, executives must manage and measure stakeholders’ perceptions, and implement new and creative ways to position themselves.

41 For examples, see the 2010 Cone Cause Evolution Study, the annual Edelman Trust Surveys, and Reputation Institute’s Global RepTrak Pulse reports.
In the area of reputation management, one of the most unforgivable mistakes is an insincere apology. The Susan G. Komen for the Cure Foundation recently learned this lesson the hard way when their founder and CEO decided to pull funding from Planned Parenthood, without enacting a solid reputation management strategy.

Since 2007, Susan G. Komen has provided hundreds of thousands of dollars to Planned Parenthood in funding toward breast cancer care, screenings and referrals, but in March 2011, decided to abruptly end their commitment to the family provider. Initially, Komen claimed that it was halting funding because Planned Parenthood is under investigation in Congress. Komen later defended its decision as being part of an ongoing effort to exact "stronger performance criteria for our grantees," but many Planned Parenthood supporters have accused Komen of caving to pressure from powerful conservative groups and letting politics play a role in women’s reproductive rights and healthcare.

Instead of getting ahead of the announcement, Komen tried to quietly end the relationship, severely underestimating the backlash from its power base. As the news spread online, politicians, celebrities, breast cancer survivors and women’s activist groups from all over the country became involved in the discussion. Komen CEO and Founder Nancy Brinker appeared on MSNBC 48 hours later to defend her organization’s decision, but she appeared nervous and uncomfortable, and was not able to confidently express why the Congressional investigation necessitated the cut. The next day, prominent Washington Post Columnist Sally Quinn called Brinker out for compromising the organization’s mission. Brinker responded in a letter of her own, but she changed her story, claiming this time that Planned Parenthood’s screening program was inefficient, which would have been a valid reason were it not obvious that Brinker was covering up for the previous, more thinly veiled explanation. In her letter, Brinker apologized, but she didn’t say for what, or explore the mistakes she made. Nor does she offer a concession: critics wanted to see Planned Parenthood’s funding restored, but Brinker merely hinted that it was eligible to reapply, making the overall letter appear insincere.

Komen bungled the communications of the entire Planned Parenthood scandal from the start. Leaders who make public apologies cannot stop halfway—they must describe what they are sorry for, what mistakes they realize they’ve made, and what they plan to do to keep them from ever happening again in the future. That level of sincerity allows for a clear-cut, actionable plan to repair the crisis, and begin to reestablish trust with constituents.

Harness Social Media to Build Trust

The Susan G. Komen example above illustrates a change that has emerged out of an increasingly digital world: whereas corporate communications professionals formerly fed their messaging to stakeholders in a one-way conversation, they now find themselves at the mercy of the people they once controlled, and their organizations’ reputations hang in the balance. The Komen/Planned Parenthood scandal erupted from an old-fashioned press release, and less than 24 hours after the announcement, Komen faced a massive social media backlash from angry people flocking to its message boards, Twitter and Facebook wall to announce that they would no longer donate to the breast cancer charity. In this instance, Komen underestimated the degree to which digital communications have evolved. Their stakeholders have gained enormous influence in shaping corporate messaging and virtually stole Komen’s news out from under them. Komen would have been in a stronger position had it announced the news differently and actually had a conversation with its many passionate followers.47

Many companies have learned exactly this lesson: in a crisis, embracing social media as a means of enhancing conversations with inflamed stakeholders can be hugely beneficial. Dell is an example of a company that decided early on to embrace social media rather than ignore it. Back in 2005, the computer manufacturer’s reputation was thrown for a loop when an irate blogger named Jeff Jarvis lambasted the company for poor customer service (“Dell Hell,” he called it). Within hours, hordes of customers who were in agreement with Jarvis’s claims posted comments on his blog and their own, creating a maelstrom of negative publicity.48 The company struggled for months as a result of failing to address the criticism, but in July 2006 it launched its own blog, where executives could last join the conversation. The blog allowed customers to comment freely on this and later crises, and in February 2007 Michael Dell launched IdeaStorm.com, a permanent forum in which customers could give the company advice.49 Metrics showed that the company’s customer-service rating rose significantly immediately afterwards. In fact, Dell’s communications team estimates that since Dell began using social media, negative comments about the company have gone down by 30%.50

Focus on Structure

Dell executives recognized that, in order to remain competitive, they needed to rethink the way they positioned themselves internally to have a positive impact externally. By 2009, IdeaStorm employed a chief blogger and a team of 42 people who worked hand in hand with the broader corporate communications function. Dell evolved its

organizational structure to meet changing stakeholder demands, integrating an entirely new division within its communications function and giving it visibility within the company.\(^\text{51}\)

This is a critical lesson: at world-class companies, digital communications has morphed from a backroom tactical department to a strategic liaison between an organization and its many stakeholder groups. HP, as well, employed a digital communications team to facilitate conversations between its constituents during a period of incredible change, its 2002 merger with Compaq. Recognizing the challenges behind aligning different cultures and information management systems, HP executives developed @HP, a business-to-employee portal that acted as a gateway to the merging HP and Compaq intranets. The platform served as the infrastructure to communicate messages to all 88,000 plus employees around the globe, and ensured that the right messages were delivered to the right internal audiences. The intranet embodied the new corporate culture.\(^\text{52}\)

*Focus on Authenticity & Transparency*

The kind of transparency practiced at HP during its $87 billion merger with Compaq might strike some as scary in an age when a lone employee blogger can derail even the most thought-out strategy, but in fact the reverse is true. Radical transparency is exactly what is needed to survive in the current business environment, assuming a brand is built on authenticity.

Given that less than half of all members of the public now have trust in business, finding a way to talk positively to restore consumer confidence is more important than ever. Many companies, however, are afraid to talk much at all. In an era where every company should be looking to build trust, too many, like News Corp. in the previous example, have gone quiet. Worse, many are living up to the public’s negative impressions of cost-cutting measures during a recession, scaling back on community efforts and reducing employee benefits to cut costs and please shareholders.\(^\text{53}\)

Companies willing to address problems head-on are the ones who will win back confidence. After the credit crisis first erupted in 2007, the banks whose reputations remained intact were those that communicated most transparently. As an example, JPMorgan decided in one of the worst financial markets in history to take the opportunity to encourage discussion about its customers’ concerns. JPMorgan set up a new website called The Way Forward that acknowledged consumer fears while also reassuring them with an appeal to values of responsible investing. In addition, CEO Jamie Dimon stepped out as one of the most visible leaders in the sector, actively

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\(^{51}\) “FIR Interview: Dell Chief Blogger Lionel Menchaca.” *Social Media Today.* September 1, 2011.

\(^{52}\) Peter Eschbach and Jeremy Morgan. “Unlocking The Value Of HP’s Employee Portal.” *PR News.*

\(^{53}\) [www.recessionwire.com](http://www.recessionwire.com)
collaborating with Washington in setting the terms of the bailout plan.\textsuperscript{54} Compare that with Goldman Sachs, whose hallowed reputation sustained a considerable blow at the height of the crisis after CEO Lloyd Blankfein referred to himself and the company as doing “God’s work”.\textsuperscript{55}

Why JPMorgan stood out from all of the other banks that issued apologies and reassuring messaging in the wake of the credit crisis is that its message rang true. The bank didn’t lay off employees in 2009, or reduce bonuses. The way JPMorgan ran its business in the wake of the crisis—especially the way it treated its employees—resonated with customers. Radical transparency worked for JPMorgan because the messaging was on point:

“Our commitment to corporate responsibility extends to every facet of our business – in both good economic times and bad. We are proactively assisting customers and clients as well as supporting efforts to achieve financial market stability throughout these unprecedented economic times.”\textsuperscript{56}

The message is clear: we’re acknowledging that the current environment is challenging, but we won’t forsake our values in bad times.

This kind of authenticity is even more important in the era of social media, when it is so easy for consumers to find their own information to test the veracity of a company’s claims. Volkswagen, for instance, tried to get out of having to fix a design flaw in their seatbelts by saying customers were using them incorrectly—a stance that blew up in their face online.\textsuperscript{57} By contrast, Dell’s IdeaStorm actually encourages consumers not only to talk to one another but also to offer advice to management. With social media tools, it’s now a given that customers will talk amongst themselves. The smartest companies are those that preempt the conversation in a meaningful way.

\textit{Summary}

Companies must take a long, hard look at their reputation strategies and determine if they are still viable in the current era of customer mistrust. In the past, many companies may have pushed messages in one-way conversations that no longer make sense in the era of two-way, interactive conversations enabled by digital communications platforms. Being a reputation-driven company that drives and maintains customer trust is a painstaking endeavor that now requires principles and

\begin{itemize}
  \item \textsuperscript{54} Paul A. Argenti. “Digital Strategies For Powerful Corporate Communications.” \textit{The European Financial Review}. February 17, 2011.
  \item \textsuperscript{55} Jonathan Weil, “Blankfein Invokes God and Man at Goldman Sachs”, November 11, 2009, \url{www.bloomerg.com}
  \item \textsuperscript{57} Paul A. Argenti. “Authenticity Above All.” \textit{Tuck Today}. Fall 2009.
\end{itemize}
values-based leadership, a clear cut action plan in times of crisis, and an understanding of and willingness to embrace social media. As if that weren’t a long enough list, they must also communicate all of the above with attention to transparency and authenticity. Those that rise to the challenge, however, will gain competitive advantage in world that is looking for institutions it can trust in the long-term.

SECTION IV: Conclusion: What Success Will Look like

From an executive’s vantage point, the current landscape is a daunting place. The ongoing economic recession and growth of digital platforms has produced an environment in which business fortunes change overnight. Perhaps even more unsettling is that we are living in a time when one of the most commonly accepted tenants of our society-- that businesses operate in our best interests-- has collapsed. In the face of this instability, how do we move forward? Two years ago the answer might have been increased government regulation. One of the most remarkable results from the 2012 Edelman Trust Barometer is that government has experienced an even more dramatic drop in trust than business; in fact, 17 out of 25 countries reported that they now mistrust government.\(^{58}\)

The way forward looks strikingly like a retreat from the espoused corporate values of 20 years ago, when executives made top-down strategic decisions and could dismiss or even punish signs of discontent. Now, employees and customers have more channels with which to communicate their dissatisfaction with corporate decisions, and they don’t seem to have much faith in the people making them anyways. The voices that constituents do seem to listen to are their own, and those of their peers. One need only look at the recent history of peer-to-peer trust to realize that it mirrors the public’s trust in business.

Since the term was first tracked and measured in 2003, trust in peers jumped consistently until 2009, when it began to feel the effects of the financial crisis. The subsequent drop in peer trust from 2009 to 2010 reflects a shift to trust in sources of specialized expertise and authority during the crisis. But events in Europe, Japan and elsewhere over the last 12 months have undermined trust in authority, and driven a return to trust in peers.

Peer to peer trust is now higher than ever: regular people and employees are twice as trusted spokespersons as government officials or CEOS.\(^{59}\) Additionally, there’s been a huge rise in “trust in person like yourself”, which explains the incredible growth of social media: people want to exchange information with their peers, not be fed messaging

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\(^{59}\) Ibid.
that they don’t feel they can trust. The message behind all of this seems to be that executives should act less like CEOs, and more like one of their employees.

The rankings of the world’s most reputable companies support this trend. The RepTrak 100, a leading measurement tool, reveals that having strong and visible leaders, such as as Bill Gates, Larry Page and Sergey Brin, helps position companies as visionaries, but the results also show that a high profile leader doesn’t have to be present for a company to make the top 10. BMW, SONY, Volkswagen, Intel, and Daimler are all in the top 10 without a strong public profile of their leaders.60

Smart businesses will take advantage of this dispersion of authority. They will engage in authentic and transparent conversations with their employees and customers, empowering them to continue driving the conversation among their peers not only about the company’s performance, but also its broader role in society.61 They will act less like autocrats and instead take a more democratic approach to decision-making. Through these strategies, they will harness that most rare commodity in today’s environment: the trust of their constituents that is the lifeblood of any business looking to sustain itself in the long-term.

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The author wishes to thank Georgia Aarons for her invaluable research assistance on the development of this chapter.