

ISSUE 61 WINTER 2010

## The Good, the Bad, and the Trustworthy

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BY PAUL A. ARGENTI, JAMES LYTTON-HITCHINS,  
AND RICHARD VERITY

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by Paul A. Argenti, James Lytton-Hitchins, and Richard Verity

**C**ompanies, both big and small, risk their reputation each day. No matter how good things seem to be — earnings are on the rise or a new product is a smash hit — serious threats can instantly damage a company's reputation, sending even the most respected businesses into a tailspin from which they might not fully recover for years. Environmental accidents, manufacturing mishaps, executive misconduct, financial irregularities, product recalls, and online attacks by special interest groups, for starters, are now commonplace. Many businesspeople seem to think, watching the recent public excoriation of BP, Toyota, Goldman Sachs, and other companies, that the most appropriate way to manage reputational risk is to significantly increase spending on crisis management: Invest in lobbying, “apology advertising,” and a crackerjack public relations agency that can swoop in to make such problems go away.

However, this approach will no longer fly, because the public is growing increasingly cynical about corporate behavior. Some companies' hapless responses to accidents and other incidents have made business seem generally out of touch and

untrustworthy. At the same time, the strategic value of a good corporate reputation seems to be growing stronger. The 2010 “Trust Barometer” survey by the PR firm Edelman 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. Given this intriguing sentiment, what can companies do to safeguard their reputation and their brands — and beyond that, to enhance and even realize strategic value from them?

## Reputation Strategies

The answer starts with taking a long, hard look at your company's current reputation management strategy and determining whether it is still tenable. In the past, companies adopted one of four possible strategies; all four were effective to some degree. However, today only two, numbers 3 and 4 in the list below, are viable.

**1. Reckless negligence.** This strategy involves continuing with business as usual: doing little or nothing to improve your capabilities in health, safety, and environmental management, assuming that you can cut corners and shave costs without reprisal. You believe that whatever chances you are taking will

be justified as long as you keep your prices low, your customers satisfied, and your quarterly shareholder expectations met. Perhaps 25 to 30 percent of the companies in the industrialized world and in emerging markets have chosen this strategy. These companies are one misfortune away from irreversible damage to their reputation. Some food companies that ignore the growing concerns about obesity and health are in this category.

**2. Deceptive virtue.** You put your best face forward through public relations or rebranding campaigns, corporate philanthropy, sustainability programs, and espousal of high-quality business practices, building yourself a reputation for being farsighted and responsible — even if you aren't. As long as the company is well managed, competent, and reasonably lucky, this strategy works. But if your actual core values and business practices don't match the image you present to the world, you're taking a huge gamble. Comparatively few companies have adopted this narcissistic strategy; those that have include tobacco companies in the 1960s, pharmaceutical companies defending killer drugs in the 1990s, and the highest-profile corporate falling stars of the 2000s, including Enron and, more recently, some of the biggest banks.

The seismic events of the past few years have shown that these two strategies are untenable. They leave companies too exposed — to populist outrage, competitors, litigation, and the loss of a license to operate. Moreover, as they falter, new rivals with better reputations (and better reputation management strategies) can always step in and fill the gap.

**3. Benign competence.** You set out to be an efficient and effective company with just enough emphasis on responsible management of your reputation. You comply with regulations and make adequate investments in building your capabilities for health, safety, and environmental management as well as investing in corporate communications. However, the fact is that these capabilities are “table stakes.” Like



the finance and legal support functions in most companies, these capabilities have to be sufficiently developed to substantially reduce reputational risk, but they do not have to be world-class. Under this strategy, your reputation is not the center of your business, nor should it be, although you may invest in systems that monitor this risk. You are focused on delivering quality products and services and fulfilling your obligations to customers and shareholders. Perhaps 50 percent of the companies in the world fall into this category.

**4. Trustworthiness as a competitive advantage.** This strategy —

adopted either by choice or because circumstances have left you no alternative — involves making reputation management a critical capability of your organization. This capability distinguishes you from the competition, attracts both employees and customers, and can earn you an enviable reputation among customers, investors, regulators, suppliers, and policymakers.

Being a reputation-driven company is a painstaking endeavor, in which you pay as much attention to maintaining transparency and living up to your public promises as to developing the next great product. For example, Walmart is making significant progress toward trustworthiness around environmental sustainability in particular, by walking the talk in its logistics, operations, and sales practices. The retailer is both changing consumers' buying habits — by offering a wider array of green products — and transforming its core business operations with responsible sourcing and packaging, supply chain transparency, increased fuel efficiency in its vehicles, greater energy efficiency in its stores, and waste minimization due to increased recycling. As a result, Walmart is well on the way to achieving three sustainability objectives previously considered impossible: being supplied solely by renewable energy, creating zero waste, and selling environmentally sustainable products. At least 55 percent of the seafood in Walmart stores is certified as having been caught with sustainable fishing practices, all its large electronics equipment and personal computers are manufactured without hazardous materials, and it has sold more than 350 million energy-efficient compact fluorescent lightbulbs in the United States.

### The Path to Trustworthiness

The pursuit of trustworthiness is not a purely altruistic practice. It is a choice that some companies make to establish themselves in an age when corporate reputation matters. This doesn't mean that to be trustworthy a company must be flawless. But the company must at the very least admit mistakes and accept responsibility for them, gain the commitment of all employees to fix broken business practices that cause harm or that no longer reinforce the business strategy, and offer a realistic plan to deliver on its promises in the future.

A strategy of benign competence is an easier and more suitable path for many companies — and frequently, it's not a bad choice. Trustworthiness is almost always harder to implement; companies choosing that course will probably need to change deeply embedded habits and instill new capabilities. However, if they make it work, they have the chance to create a sustainable strategy for growth that could beat the competition no matter how industry conditions change.

There are five strategic pillars for becoming a trustworthy, reputation-driven company:

**1. Facilitate dynamic strategy development and execution.** Trustworthy companies must become market-driven, by developing deep insight into the needs and perceptions of their stakeholders, and into the issues confronting customers, communities, employees, and shareholders, among others. Nimble systems should be developed to enable frontline employees to participate in dialogues with management about what is working and to fix problems before they escalate. In addition, strategic communications must be

derived from the overall corporate strategy and become a central part of every senior executive's responsibility. One example of a company succeeding at this is Avon Products, which has created a so-called 360-degree communications program. It is the public face of an ambitious grassroots turnaround strategy that

"Simplicity" repositioned its brand around the world. These efforts have helped provide a clear road map for all employees to follow in acting as one company.

**3. Nurture reputational capital.** Internal business practices must institutionalize the alignment of the company's reputation with its actual

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has placed the cosmetics company closer to its customers in global communities, enabling it to better cater to the needs of women across specific age groups and social strata.

**2. Foster the key behaviors for a one-company culture.** Implementing a market-driven strategy in a complex world requires companies to build a globally integrated culture that enables employees at all levels to consistently practice trustworthy behaviors in all facets of the business. This should be accomplished with transparency inside and outside the company, and it increasingly demands the help of a fully integrated corporate communications function that supports senior leadership. The transformation of Philips over the last decade from a high-volume electronics firm into a much more diverse healthcare, lighting, and consumer lifestyle company is a noteworthy example. Having established a coherent business portfolio and simplified the company's global operating model, Philips CEO Gerard Kleisterlee launched two major communication campaigns: "One Philips" revitalized the company's identity internally, and "Sense and

behavior. This typically involves closing any gaps that may exist between corporate identity and image. To recognize these gaps, trustworthy companies maintain agile reputation "radar" systems, in which decision makers are continually informed of how outsiders see the company, and of strategic opportunities for or risks to reputational capital. Nurturing reputational capital also typically requires rethinking corporate social responsibility programs as vehicles for competitive advantage, distinguishing the company's practices and overall capabilities from those of competitors.

**4. Harness social media to strengthen relationships.** Companies must empower employee communities with new collaboration skills and tools. They should facilitate dialogues with key constituents to better understand what matters to them and to address emerging problems early. During the 2008–09 recession, Ford Motor Company took advantage of its website and social media platforms to launch live conversations among suppliers, dealers, and customers. These were designed to bring Ford's bright per-

formance — bright compared with the looming bankruptcies and bailouts involving rivals GM and Chrysler — to everyone's attention.

**5. Integrate rigorous crisis management policies and procedures to quickly address behavioral lapses.** Rapid response capabilities at local, regional, and corporate levels are critical to applying the five rules of protecting the organization's reputation during a potentially damaging incident: frame the problem; tell the story you want to tell; execute a practical plan that mitigates the problem, minimizes the damage, and offers concrete steps to rebuild confidence among directly affected constituents; tell the truth; and transform the crisis into strategic opportunities to build reputational capital.

Once you have decided to become a trustworthy company, there is no turning back. Organizations that fail to develop trustworthiness completely or simply lose their way are vulnerable to significant criti-

cism and backlash — which can result in a complete loss of credibility. The choice between neglect and building trustworthiness as a core capability may well become vital for competitive advantage in a world looking for institutions it can count on for the long term. +

Reprint No. 10401

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**strategy+business** magazine

is published by Booz & Company Inc.

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