

By Invitation: Reputation roulette

by Phillip Rudolph

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A corporation's good name is something that is not only vital for continuing in business, but is increasingly easy to lose.

"The reputation of a thousand years may be determined by the conduct of one hour" – Japanese proverb

I was reading an article about the Duke University lacrosse scandal in a recent issue of the New York Times, when the following quote caught my eye: "Duke has been a wake-up call. People always thought big-time coaches might be the face of the institution, but Duke proved it can be the athletes who are the face of the institution."

For those of you unfamiliar with the case, three college athletes at prestigious Duke University in North Carolina were arrested earlier this year and charged with the rape of an exotic dancer who had been hired to entertain the lacrosse team. The legitimacy of the rape charges has been subject to serious doubt. But there can be no doubt at all about the negative reputational impact this incident has had on the school.

For those of you who want to have some fun with the above quote, let's play a little game of reputation Mad-Libs. I'm going to restate the quote, suggesting categories of words to insert into key spots:

"[Insert the name your company] has been a wake-up call. People always thought big-time [CEOs] might be the face of the institution, but [insert the name your company] proved it can be the [insert any of the following, or insert your own suggestion: employees, suppliers, licensees, franchisees, advertising agencies, investigators] who are the face of the institution."

Bad news sells

I suspect you're one step ahead of me. What Duke University appears to be discovering is something that should be readily apparent to businesses (and to universities) in this era of "gotcha" advocacy and instant global communication. Anyone has the power to impact an organisation's reputation.

And while this is certainly true for those who make positive impacts, we see it far more commonly on the other side of the ledger.

Examples in the business context are legion. Here are a few.

(1) In the late 1990s, a number of vendors making shoes for a prominent footwear company – a recognised global brand – caused serious reputational damage to that

company as a result of labour conditions that reportedly existed at the vendors' facilities. The footwear company carries some degree of stigma, rightly or wrongly, to this day, and yet I challenge any of you to tell me (without recourse to Google or a similar resource) the names of those vendors. (I bet you can tell me right now the name of the footwear company.)

(2) A mid-level lawyer precipitated the events that led to the untimely demise of one of the former "big five" accounting firms – a demise that flowed directly from the stark reality that a company in the business of selling credibility cannot easily survive a direct attack on its own. (Note, by the way, that the US Supreme Court overturned a jury finding of legal liability against the company. In this instance, the death penalty flowed not from legal culpability, but from self-inflicted reputational wounds.)

(3) An independent Colombian bottler of a US-based, globally-recognised soft drink brand, through alleged complicity in the murder of a union organiser, set in motion a series of events that saw the company's products removed from a significant number of college campuses across America.

(4) Senior executives and the chairman of the board of a Silicon Valley high-tech giant either, it is alleged, sanctioned or were, at minimum, recklessly careless in the triggering of arguably illegal surveillance of fellow board members and executives, as well as journalists covering the company. The ensuing news storm has made the company the new poster child for irresponsible corporate behaviour.

From the top down

What's my point? My point is that businesses for which value increasingly is made up of intangibles like goodwill and reputation would be wise to recognise how easily reputation can be lost or damaged. And this can be as a result of the actions of people that include, but are by no means limited, to "the usual suspects" in the executive suites.

While it would be naïve of me to suggest that companies can build systems to eliminate such risks, it would be just as naïve of companies to suggest that they are doing everything they can and should do to protect their valuable reputations (and corresponding shareholder value).

In this context, the following 27 September, 2006, statement from Warren Buffett to Berkshire Hathaway's managers (known by Buffett as "The All-Stars") is most instructive. You may want to cut it out and post it on the wall of your office or cubicle.

"Somebody is doing something today at Berkshire that you and I would be unhappy about if we knew of it. That's inevitable: we now employ well over 200,000 people and the chances of that number getting through the day without any bad behaviour occurring is nil. But we can have a huge effect in minimising such activities by jumping on anything immediately when there is the slightest odour of impropriety. Your attitude on such matters, expressed by behaviour as well as words, will be the most important factor in

how the culture of your business develops. And culture, more than rule books, determines how an organisation behaves."

Cut out the word "Berkshire". Insert the name of your own company or organisation.

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