

Managing corporate risk and reputation

These days a successful CEO has to operate more like a national president or foreign minister, exercising hard power and soft power in equal measure. In the 21st century, a company's ability to stand out will be defined more by its relationships with the outside world and its image than by its quarterly numbers and its financial strength. And it is the job of the CEO, says **Richard Edelman**, to set the tone from the top

As the new millennium dawned, business was in the ascendant. The power of the free market was unleashed, with millions of jobs created each year. Stock markets were ebullient, as retail investors and employees poured retirement savings into equities.

Chief executives were icons of the new economy, lionized on morning business television and in cover stories in the leading news magazines. Companies established within the previous decade were touted as best in class, often on the basis of fast-rising stock prices.

Then came the reckoning of the past three years. Financial scandals engulfed several of the high-flyers, including Ahold, Enron, Tyco and Worldcom, as well as established firms such as Arthur Andersen.

Employees have been devastated by a double dose of bad news – a precipitous decline in their retirement plans and massive job cuts that have ensued from the global recession. Professional services firms, from accountancy groups to investment banks, to law firms, to mutual fund managers, have been exposed as having questionable ethical practices. A trust void has resulted, opening the way for new players such as non-governmental organizations (NGOs) to claim a major role in global governance.

Many chief executives have responded to this “perfect storm” by focusing on achieving quarterly financial results and reducing their visibility with stakeholders beyond Wall Street.

This heads-down, risk-averse behaviour is

having exactly the opposite effect of what is intended by the CEOs. The pendulum has swung too far in the direction of the quiet leader.

Thankfully, the era of the imperial CEO is over. Command and control behaviour is not acceptable in today's business climate. Neither is the not-at-home CEO, who fails to engage public communities on shared challenges or to interact with those critical of the company's behaviour.

The Economist recently noted: “Effective communication skills are a relatively new requirement, the result of the increasing intrusion of the outside world. A corporate leader must talk convincingly. Motivating a large workforce requires a gift to present a clear vision persuasively. A leader who cannot inspire trust and convey authenticity will find the task difficult.”

The traditional model of communications, the pyramid of authority – where companies distribute controlled information through elites to the mass audience – is simply outmoded.

Today, corporate reputation is shaped by the interactions between and among an array of involved and equally empowered interest groups – including employees, regulators, trade partners, academics, consumer enthusiasts, investors, NGOs and media. Corporations now operate in a sphere of cross-influence, where ideas are continuously exchanged and subjected to re-examination.

With many of the world's economies growing again, now is the time to adopt a new model of communications. Rather than opting out or returning to a disastrous over-reach, CEOs have an opportunity to frame a middle way.

There is a clear analogy for business in the foreign policy model propounded recently by professor Joseph Nye, dean of the Kennedy School of Government at Harvard. He talks about the hard power of military force and coercion, while soft power is based on attraction and intellectual legitimacy.

For a chief executive, hard power is in making the numbers; soft power is about values, ideals and leadership. Soft power has the ability to inspire and to justify corporate decisions, which may be founded on hard power considerations.

Just as the US should not rely exclusively on its hard-power, leading-edge armed forces, CEOs cannot operate effectively by failing to explain the context of decisions and to establish a vision for the company.

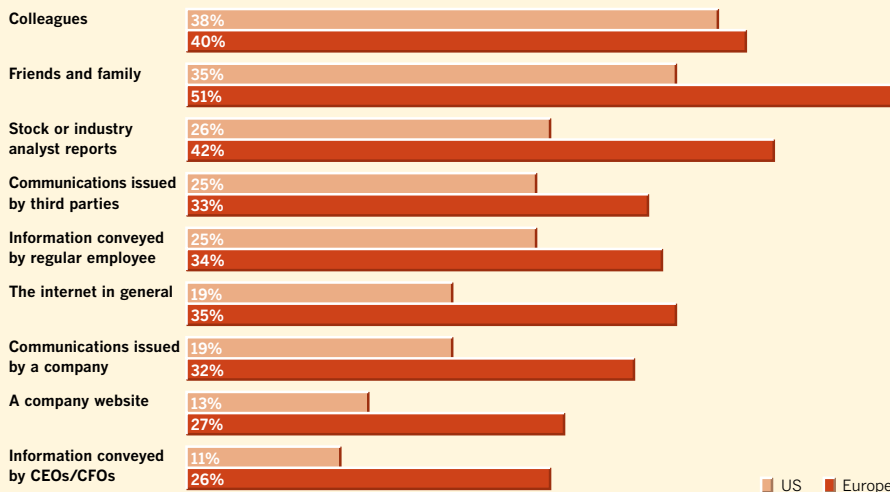
There is a true involvement imperative for CEOs. They need to exert leadership on the public stage, interacting with key players in government, civil society and the community. Their personal initiative is required on complex issues such as drug pricing, intellectual property protection, global trade and obesity.

The absence of CEOs from the stage relinquishes the spotlight to all manner of opponents, from disgruntled employees to demagogic public officials.

At the same time, CEOs must be custodians of the corporate brand, which acts as an umbrella for workplace values, product excellence and social responsibility. They must forge relationships with multiple stakeholders based on continuous communication, respect and transparency.

The new model should be based on the following guiding principles:

Credibility of information sources



Source: Edelman Trust Barometer, January 2003

» **Media outreach:** The key to effective corporate reputation is trust, built by regular interaction with multiple stakeholders. The media are a critical link to all of these audiences. Edelman's vice-chairman Michael Deaver, former deputy chief of staff to president Ronald Reagan, notes that effective communications relies on constant repetition of one or two messages in all kinds of media.

Edelman's Trust Barometer finds that 80% of opinion leaders in Europe and the US are much more likely to believe something they hear, see or read in many different sources. Information "pings" around a sphere of cross-influence, in which stakeholders consistently test the veracity of claims made in traditional media and now in newer forms such as weblogs or "blogs".

This global echo chamber has forced all of us to establish individual webs of trust, reliable sources we can count on. In a world of continuous partial attention, a battery of spokespeople, from the CEO to credible third parties such as academics or doctors, should be utilized to achieve frequency of message delivery.

» **Employees are central actors:** Employees are the key audience for CEOs seeking to build effective corporate reputation, because great companies today are constructed from the inside out. According to the Trust Barometer, the most credible information source is "colleagues at the company" (40%), followed by "friends and family" (35% in US, 51% in Europe). This is in stark contrast to the credibility of information conveyed by "CEOs and CFOs" (11% in US, 26% in Europe).

As the former director of flight operations of a major airline noted after the resignation of its CEO (once details of secret executive compensation and guaranteed pension plans were leaked): "How can you restore employee morale when you jump into the lifeboat ahead of everybody else?"

The task of a CEO is to get employees on side by creating a master narrative that coherently articulates the company's vision and ideals. Progress toward that goal is then reported regularly to the employees, who become allies in

achieving the mission by propagating the message to a broader audience.

» **Apply the paradox of transparency to consumers:** Consumers are now important participants in the global dialogue, not simply passive recipients of information. Smart companies will embrace the paradox of transparency as a basic business practice, speaking directly to consumers.

In the past, business kept most important matters under a protective code of silence, until ready to launch a product or announce a policy change. A better way to proceed is to disclose what you know as soon as you can, then commit to further communication as more facts are known.

For instance, British Nuclear Fuels (BNFL) has changed its process for considering a new nuclear facility. In the past, it would find a site, announce its intention to build, defend the plan against opposition, then proceed or abandon the project.

Now, BNFL describes the need for a facility, engages interested stakeholders, agrees on a plan after dialogue and amendment of a proposal, and then implements the project. Imagine what would have happened on genetically modified seeds had Monsanto followed a similar process of involving end-consumers early on in a dialogue on risk and benefit.

» **Align CSR with business goals by forging partnerships with NGOs:** Chief executives should consider corporate social responsibility (CSR) programmes as a critical part of business process. NGOs such as Greenpeace and Amnesty International have truly become the "fifth estate" in global governance.

The Trust Barometer shows that NGOs are the most trusted brands in Europe for the third consecutive year. They are now super-brands with large memberships and important credentials as watchdogs on multinational business, perceived to be beyond the control of individual national governments.

CSR programmes are not a panacea, but they do hold special appeal to employees, investors

and younger consumers. A company cannot buy reputation simply with full-page advertisements in the business press.

Top management should establish a set of behaviours that are consistent with the goal of good corporate citizenship and completely aligned and integrated with business goals. These objectives can be set in cooperation with NGOs, which can lend credibility to the effort by benchmarking against competitors and assisting in outreach to local communities.

» **Lead through crisis:** Crisis is a crucible in which corporate reputation can be reinforced or ruined. It is critical that the CEO should be seen internally and externally as marshalling all corporate resources to manage the issue at hand.

The CEO at this point becomes the face of the corporation, a rallying point for employees and a person to count on for consumers. His decisions must be seen as based on sound ethics and in the public interest, acting before government imposes a change in behaviour.

The company must quickly establish a central source of information on the crisis, whether a website or a toll-free phone number, or both, and provide regular briefings by experts to feed the global 24-hour news cycle. Managed correctly, crisis provides a unique opportunity to advance the firm's values and reputation.

The conclusion is clear. A strong fabric of corporate relationships is necessary in a multinational operating environment. Lord Browne, group chief executive of BP, observes that access to capital was the key differentiator in the 1990s, but that relationships will be the major source of strategic distinction in the 21st century.

Strong corporate reputation is built through continuous communication with interdependent stakeholders, including employees, media, investors, consumers, regulators, academics and retailers.

The single-thread approach of sole concentration on the demands of the financial community ignores the complexity of the business world. Some issues require personal leadership by the CEO, partnership with government or NGOs and a long-term time horizon.

The real message for CEOs is that proper corporate risk management calls for true involvement in the issues of the day and a strong voice to assure the company's interests are served. **GA**



CV RICHARD EDELMAN

Richard Edelman is president and chief executive officer of Edelman, the world's largest independent public relations firm.