

Daniel Diermeier is the author of *Reputation Rules: Strategies for Building Your Company's Most Valuable Asset* (McGraw-Hill, April 2011)



## CEOs must lead the way in reputation management

**CEOs and board members routinely list reputation** as one of the company's most valuable assets. The only other item CEOs rate comparatively is "people." Yet while companies have succeeded in building effective people-management processes with the CEO as the ultimate owner of the process, the same can't be said of reputation management.

Most companies view reputation as a corporate function, not a core capability, and this attitude is based on the following beliefs:

- A good reputation naturally follows from good business practices and doing right by one's customers, employees, and suppliers.
- If there is a problem, it can be safely delegated to PR, legal, or outside advisers.
- Reputation management requires little else but common sense and the willingness to do the right thing.

But each one of these beliefs is flawed.

First, the need to manage a company's reputation actively is critical for any organization. Moreover, this importance will likely increase, not decrease, in the near future. Good business practices are important, even necessary, but they alone are not sufficient for successful reputation management.

Second, the responsibility for reputation management lies with CEOs who can't – and shouldn't – simply delegate it to specialists such as lawyers or PR experts. Though such experts play a key role in the reputation management process, they should not own it.

Communication is vital in any reputation-management process, but this must be tightly integrated with the business. The approach is similar to the status of HR departments, which are much more effective in companies where the CEO owns the people process. HR plays a key role in the daily management of people by enabling and facilitating much of this process, but the CEO must own the process itself.

Most reputational challenges arise out of a specific business context and thus require management and execution as an integral part of business decisions. In many cases, the best way to manage reputational risk is to improve the capabilities of CEOs by helping them develop a sixth sense for risks and opportunities, supported by well-designed processes, rather than adding another corporate layer.

**“DECISIONS CREATE A RECORD TODAY THAT IS THE BASIS FOR A COMPANY'S STORY TOMORROW”**

Reputation management requires the right strategic mindset, supported by processes, values, and culture. Reputational challenges put a company on a public stage in an age of intense media coverage. What looked like a good decision a few months ago in the context of typical business processes driven by cost savings and value creation might now look problematic – even monstrous. Reputational challenges arise from any area of decision-making, but leaders tend to not consider reputation impact in making decisions.

The key skill for a CEO is the ability to maintain an external perspective throughout the decision-making process and incorporate this into the design of the business decision. There must be a realization that decisions create a record today that will serve as the basis for a company's story tomorrow. Assessing reputational risk means anticipating what a crisis would look like and taking proactive steps to prevent and prepare. But effective processes must support this strategic mindset.

First, companies must develop a proper governance structure that should mirror their organizational structure. A cross-functional council is preferable to a separate corporate function, unless that function is endowed with sufficient influence and resources.

Second, companies must have an intelligence capability. Reputational challenges can emerge from anywhere in a company's operations or external business environment. Lack of intelligence capabilities jeopardizes a company's ability to manage such issues proactively.

CEOs must also understand that even the most advanced reputation management system is implemented by people. They need to assess the situation, evaluate its risk, and make the appropriate decision. Getting this right requires not only a strategic mindset, but also values and culture to provide guidance to individuals. We can't expect every employee to correctly assess the reputational risk of an issue, but we can expect them to raise a red flag when something does not "look right." It is here the CEO's leadership matters most. •

*Daniel Diermeier is IBM professor of regulation and competitive practice at the Kellogg School of Management at Northwestern University and director of the Ford Motor Company Center for Global Citizenship.*

Celebrate with the best in the PR industry as we reveal the winners in New York City on March 10.

Reserve your tickets today at [prweekus.com/awards](http://prweekus.com/awards)

**R** | **PRWeek**  
AWARDS 2011