The leader's role in managing reputation

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The leader of an organisation has a central role in managing reputation. Leaders can personify their company to many different stakeholders. Their personality will influence that of the organisation they lead. In a crisis internal and external stakeholders may insist that the leader accepts a prominent role. Research indicates that while the reputation of the leader and organisation are distinct from one another, they are strongly associated. Where the leader adopts the role of company spokesperson nearly half of corporate reputation may emanate from his or her own image. Other senior managers, for example the manager of a local branch, should also recognise their role in managing reputation among employees and among the local customer base and community. Our research shows that the external reputation of a service business is heavily influenced by the employees' views of their employer's reputation. Employees develop their view from their experience at work, something which is influenced by company culture, created in turn by the style of its leaders.

The potential role

The leader is a significant symbol for any organisation and what the leader says and does can be more important symbolically than operationally when it comes to managing reputation. For example at a time of crisis the way the leader responds can have a major impact on reputation (Vidaver-Cohen, 2004). The leader also acts as a major source of information about the organisation, both internally to employees and externally, not only to financial markets, but also to the media, local and national government and increasingly so to the public and to the company's customers and potential customers. The source credibility literature suggests that the effectiveness of any source of information depends upon how trustworthy that source is perceived to be (McCracken 1989). It follows that how trustworthy a

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leader appears to be will influence our views of how much we can trust what is said, and by implication whether we can trust the organisation itself.

Our focal issue in this chapter is then the relationship between leader reputation and organisation reputation, one that is more claimed than tested (Gaines-Ross 2003, Laurance 2004). The second area we examine is the leadership role that any manager may have in their organisation. Most studies of the influence of leadership reputation rely on media content analysis or opinion surveys rather than on research among stakeholders and so we lack objective evidence of the links between the reputation of the leader and that of the led with the public. What limited evidence we have also tends to ignore the role of middle management in managing and projecting a positive reputation. First then the CEO role, one that should embrace an overall responsibility for reputation, even to the point of being akin to being the "corporate brand manager". Many also argue that because the reputation of any organisation involves many line function areas, that only at this most senior level do these sometimes disparate aspects of reputation management come under one authority (Davies *et al* 2003). That said how much responsibility should there be for reputation issues at the CEO level? The role is complex enough without having yet another responsibility added to it.

The spill-over from leader to corporate reputation

Commercial research into practitioners' opinion of the contribution of leader reputation to corporate reputation suggests a very high interaction, with nearly half of the latter believed to emanate from the former. Our own work in the field of political imagery tends to support this figure. Politics offers an excellent laboratory to study the interaction between the leader's reputation and that of the organisation. Unlike in business, political leaders *have* to seek media attention and the "customer", in this context the voter, will also be relatively aware of the identity of the competing leaders and of their parties.

Our approach to measuring reputation is to use the personification metaphor, to ask respondents to our research to imagine that an organisation has come to life as a human being and to give him/her a personality test. The test, what we call the Corporate Character Scale has various dimensions, just like its human equivalent, Table 1. We can use the same scale when assessing the leader's reputation.

Table 1. The Corporate Character Scale: Dimensions and Items

Dimension	Items
Agreeableness	Friendly, pleasant, open, straightforward, concerned, reassuring, supportive, agreeable, honest, sincere, trustworthy, socially responsible
Enterprise	Cool, trendy, young, imaginative, up-to-date, exciting, innovative, extrovert, daring
Competence	Reliable, secure, hardworking, ambitious, achievement oriented, leading, technical, corporate
Chic	Charming, stylish, elegant, prestigious, exclusive, refined, snobby, elitist
Ruthlessness	Arrogant, aggressive, selfish, inward-looking, authoritarian, controlling
Informality	Casual, simple, easy-going
Machismo	Masculine, tough, rugged

In 2001 and 2005 just prior to general elections in the UK the reputation of the three main parties and that of their leaders was measured (Davies and Mian 2010) and compared. Figure 1 shows the data for 2001 for the two main parties, Labour, headed by Tony Blair, and the Conservatives (the party of Margaret Thatcher), led by William Hague. The third party, the Liberal Democrats, was led by Charles Kennedy. The figure shows the average scores from 876 voters and compares the reputation of leader and party. These are clearly similar in profile. But while the scores given by voters correlate strongly and positively, the average scores for the two are still statistically distinct. We tested the directionality of the spillover between leader and party imagery and found that the notion of a leader's reputation shaping that of the party was more convincing than *vice versa*. In other words, there is a stronger spillover from leader to corporate reputation.

By 2005 Tony Blair's reputation had been damaged by Britain's involvement in the second Gulf war. In particular his ratings for agreeableness, the dimension including trust, had declined, particularly among voters for other parties. The ratings for the Labour party from Labour voters were relatively unaffected but amongst those loyal to other parties ratings had declined. On average 45% of the variance in the reputation of the party could be explained by that of the leader, confirming the data from opinion surveys, but as most commercial sectors would not have media prominent CEO's heading all businesses, we would expect the spillover effects in the commercial sector to be somewhat lower. Nevertheless, using your CEO could appeal as a very cost effective way to manage corporate reputation.

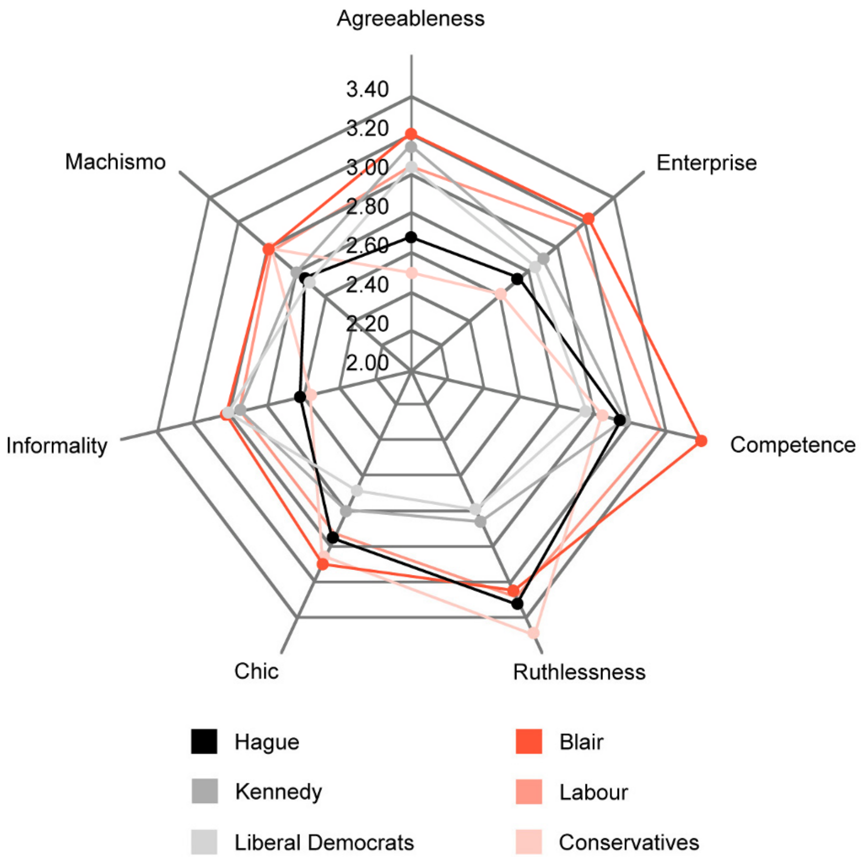

Fig. 1. Average scores for party and leader reputation 2001

By 2006 the Labour party realized that Tony Blair had become an electoral liability for the next general election as his influence over their party's reputation would become increasingly negative. Historians may wonder in 100 years time why the most successful leader of the Labour party was dumped almost immediately after winning a third consecutive election and overseeing a period of almost unprecedented economic growth in Britain. The answer is one word, "reputation". It had nothing to do with his actual ability in the role as prime minister.

The curse of the charismatic CEO

Having just read our first two sections, our reader should not jump to the conclusion that leader reputation is a panacea for corporate reputation management. The link between CEO and corporate reputation can be a double-edged sword, first if the leader's image falters, revenue may suffer before the leader can be replaced (Khurana 2002). The fortunes of the world's largest jewellery retailer did not survive the ill-judged jokes of its CEO, Gerald Ratner, who in a speech to a business audience explained that his low prices were due to his products being 'crap'. The joke went well but was publicised by two tabloid newspapers to a very different audience the following morning, his customers, to whom any jewellery was a significant purchase and often a present to a loved one. Customers of Martha Stewart's business empire, after she had been found guilty of lying to government investigators looking into her well-timed personal stock sale in late 2001, would also have been influenced by the changing image of the founder in their attitude and behaviour towards the company she led. This time the company survived the negative associations of its leader but it was certainly damaged by them.

Many companies carry the name of their founders or are associated with them; examples would include Disney, Sainsbury, Gucci and Laura Ashley. Many CEOs also choose to play the role with external stakeholders of being the company spokesperson, by being presented to the media as a personality or even by appearing in consumer advertising (Park and Berger 2004). A frequently quoted example of both is that of Richard Branson and the Virgin Group where the Virgin brand image is associated with the image of Branson the person. The Virgin-Branson reputation is full of anomalies. He himself has made a career out of playing David to the other guy's Goliath, attacking British Airways dominance of the North Atlantic as monopolistic, taking on Coca-Cola, the world's number one brand and launching his own brand of Cola at a cheaper price. Yet not all Virgin products represent value for money and not all Virgin businesses have been successful. Despite this Branson is trusted over other business leaders and the Virgin brand represents a marketing franchise second to few others. He has had his critics but the mud from any business crises never seems to stick to him.

One view of him is that of a master publicist, someone with a sure touch when it comes to the media. A Virgin train derailed in the North of England. A passenger died and many were injured. The accident followed a number of similar events and the media were quick to look to where they should allocate blame, to the train company or to the owners of the track, Network Rail? Fortunately for Branson the head of Network Rail quickly acknowledged that the problem lay at his company's door. But Branson had already moved on, almost ignoring the accident itself and instead praising his employees (and in particular the engine driver) for their bravery. The media descended on the local hospital to interview a bandaged and bemused looking driver, protesting that he was no hero (which made it even more attractive to see him as one). A tragedy had been turned into positive media coverage. The problems will come for Virgin should Branson lose his touch or the media turn on him as they have on many before.

How to replace a charismatic leader once he retires is another issue as the Bernard Matthews company found to their cost. The turkey meat company was founded in 1950 under its owner's name. By the 1980s it was big enough to advertise on national television and the ads were fronted by Matthews himself. He and his catchphrase (he described his products as "bootiful" in a strong rural accent) were synonymous with the company. His ageless picture was used on much product packaging. In 2007 an outbreak of avian flu turned people away from the product almost overnight. The public could not understand why Matthews had not come forward to front for his company, not realising that he was now in his late 70s, underlining the need to plan the succession of any media-prominent CEO whose persona is inextricably associated with that of the business.

A change of leadership will often be accompanied by a decline in share price while the replacement of leaders thought to be past their sell by date can see prices rise. In 1996, the value of shares in Sunbeam increased by half when it was announced that Al Dunlap had been hired as CEO. The following year $3.8 billion was added to AT&T's market capitalisation on the day that C. Michael Armstrong was named the new CEO. In 2002 Tyco International shares jumped 46% the day after it was announced that respected Motorola executive Ed Breen was the new leader of the troubled conglomerate.

The leader is a significant symbol of the organisation, the mere presence of a Ford or a Disney in the company hierarchy is something that attracts media comment for better or for worse. How such individuals behave influences our opinion of their corporate brand. Think for a second about the personality of Paris Hilton, not in charge of the hotel business that her family gave their name to, and in reality far more associated with her own branding activities in perfume and jewellery, but ask yourself how much spillover is there from her persona to the hotel chain's imagery? Does her rather spicy lifestyle add a certain cachet to an otherwise undifferentiated brand? If the Ford on the car company's board had similar racy associations, would it have been easier to obtain a premium price for Ford cars?

The personality of the leader

To many stakeholders, particularly employees, the leader can personify the organisation (Grunig 1993). We believe too that leader personality can influence the culture of the organisation. Culture is that tricky word that can mean a whole host of things to different people but which fundamentally stands in our opinion for 'how we do things around here'. The cumulative experience of an employee will define their view of the employer's reputation, this perspective increasingly being referred to as the employee brand. Our work shows clear links between the employee view of reputation and that of the customer, particularly in a service organisation where there is direct contact between employees and customers. So organisational culture influenced by the leader can be a potent force to influence customers. After all it is the actual experience that customers receive, rather than what they are told it will be, that determines how the customer will see the business.

However the personality of the CEO can also have a negative impact on corporate culture. This infusion process can be divided into two parts. First there is their recruitment strategy. Recruiting and keeping the people who fit the organisational culture is particularly important for organisations with strong leadership. Larry Ellison the co-founder and CEO of the Oracle Corporation, (listed 14th on Forbes's list of the world's richest (Forbes 2008)) reportedly valued intelligence more than maturity and experience when recruiting employees. But one analyst commented "I don't know if they got the smartest people but they definitely got the most arrogant" (Parthasarathy 2003). Despite his charismatic leadership and success with Oracle, Larry Ellison is criticized for being arrogant and ruthless, and for shaping Oracle's aggressive culture and identity (Sto 2002). He appeared to hire similar people, who in their turn recruited others cast in the same mould, producing a distinctive culture but one which had its darker side.

The second aspect of the same process by which the CEO's style can have a negative influence is through setting systems for reward and sanction. Many leaders believe that the most appropriate way to treat their key employees is by offering large bonuses and stock options. The effect this can have on an organisation's culture and ultimately on reputation is all too obvious in the recent banking crisis where the enormous financial incentives paid to employees appear to be at the heart of an industry that lost sight of the traditional values associated with banking – conservatism and prudence. CEOs set the tone for their organisations. They can be ruthless in sacking people who do not perform up to expectation or do not fit the organisational culture, even though they might be reasonably successful. At Enron employees were appraised twice a year in a process known as 'rank and yank' (Gladwell, 2002). Employees had to obtain a rating or ranking from their peers on a three-point scale. Those who fell into category B or C, instead of A, faced the strong possibility of being 'yanked' within the next year (Swartz and Watkins, 2003). This ruthless process created an internal culture that spilt over into how Enron treated its customers.

Charismatic leaders are often risk taking, insecure and narcissist (House and Howell, 1992). Many appear to be intolerant of any challenge to their authority and the elimination of dissent helps their accumulation of power at the centre. To survive members replace their pre-existing beliefs and values with those of the organisation and its leaders.

In summary, the infusion of the positive aspects of CEO personality into organisation culture (visionary, honest, and competent) helps achieve a positive reputation and consequently growth, member identification and affinity, while the infusion of negative aspects of personality (dominance, narcissism, ruthlessness) driven by personal ambition and the pursuit of short term profitability, can be destructive to the organisation's reputation and future success.

The leader's role in a crisis

Earlier we described how one CEO Richard Branson, handled a crisis involving an accident which led to the death of one of his customers. In any similar situation the media and the public will look to see and hear the reaction of the company's head. Many CEOs are media shy or feel they lack the skills to deal with aggressive questioning and delegate the burden of facing the cameras and journalists. But most recognize the need for the leader to represent the organisation at a time of crisis. How leaders deal with such circumstances appears to us to differ widely, not only within a single culture but also across cultures. Within Western society there appear to be two options when the media and the authorities are looking for someone to blame: Option 1 express concern but don't apologise or admit guilt as this implies an acceptance of legal liability; Option 2 express remorse, or even admit guilt as the reputational damage in the longer term from rejecting responsibility and deflecting blame can be far greater than any compensation claims. Two examples then to illustrate the disbenefits of such denial.

In 2002 a high-speed train derailed just outside of Potters Bar station in the south of England. Seven died and others were injured, some very seriously. The cause of the incident was quickly discovered to be a set of faulty points. Responsibility for track maintenance lay with Jarvis, a diversified engineering and construction company. Jarvis' reaction was to imply that sabotage was the likely explanation. However in 2003 a government investigation decided that the principal cause of the accident was poor maintenance of the points. In 2004 Jarvis finally admitted liability and offered compensation, but by then the reputational damage had been done. The media had already decided who was to blame and a typical story about another Jarvis company would have started with a reminder to the reader, "Jarvis, the company that was responsible for Potters Bar…", even though that particular subsidiary had nothing to do with railway maintenance.

In 2006 confectionery manufacturer Cadbury withdrew large amounts of products from the market following concern over salmonella contamination. The company had taken some months to report the problem and when the news broke it denied that there was any risk to health, a claim that was challenged by an independent medical expert. Subsequent press releases from Cadbury expressed concern but fell short of accepting responsibility for the hospitalisation of scores of consumers. While it is difficult to prove whether food poisoning has been caused by any particular source, the circumstantial evidence here was strong, with the same strain of virus being involved and many of those hospitalised recalling consumption of a Cadbury product prior to falling ill. The incident cost the company more in the short term in recall costs while long term effects on sales appear to be negligible. But can one be sure? Probably no: for example a relatively minor incident in 2007 over incorrect product labelling made the pages of the newspapers whereas normally this would have been ignored.

In both cases the same point emerges. Journalists are human beings who have good memories. If they feel that they have been mislead by a corporate's denial of liability, they are likely to change their attitude towards that firm. Trust is a central issue in reputation. Trust stems from experience, and if the organisation appears to be bending the truth then trust evaporates.

We are fascinated by the differences between the expectations of society following a crisis in Eastern societies. In 2000 up to 15,000 people in Japan fell ill after consuming milk products from Snow Brand, a leading

Japanese dairy foods company. The cause of the problem was poor hygiene in one factory. The company tried to downplay the event, very much as would be the norm in the West, but even appeared reluctant to recall the suspect product. Sales fell and eventually the President and other senior executives resigned in atonement for what had happened. The new CEO made clear statements of regret. He acknowledged the mistakes of the past and showed a determination to move forward by implementing significant change. One essential feature of showing contrition in Japan is for senior managers to appear in public and for them to bow low to demonstrate their sorrow. How low they bow is used by the public apparently to assess the genuineness of their contrition.

While we are certainly not advocating identical behaviour in the West, the use of apology by the CEO would appear to us to be something worthy of consideration. There appears to us to be a battle between two sources of advice at a time of crisis. The legal department, with cause for concern about liability and breach of insurance conditions. will advocate reticence in accepting blame. However the reputation function might well offer the competing view that an apology will defuse the situation and allow the company to move on with limited short and long term damage to reputation. As reputation is worth typically the equivalent of half a year's turnover, losing that can be far more damaging commercially than most compensation claims.

The role of other leaders

The CEO is not the only leader who can influence a company's reputation. Other senior executives may well be better placed or better able to deal with the media. The Finance director will have a special role with the markets and the financial media. However in our work we have found many examples of how far more junior managers in large organisations have a key leadership role to play in managing reputation.

We have worked with a number of retail organisations. While each store in a chain may look very similar to the others, business performance can differ markedly. Retailers commonly put this down to local differences and to the "manager effect", the belief that some managers are inherently better at gaining sales than others. Now this is odd, as managers have limited discretion in modern retailing. They do not negotiate with suppliers nor influence which products are stocked or how they are priced. In sectors such as grocery they cannot even decide upon how products are displayed. Strict budgeting makes it difficult to influence staffing levels. So how can managers have such a marked effect? In our work with service companies we generally measure the reputation among staff and customers for a number of branches. We find small but significant differences in the views these two stakeholders hold of the different retail outlets, and these differences often explain large differences in financial performance, particularly in sales growth.

Take for example one fashion retailer. The sales in one store were declining while in others they were growing. There were significant differences in one aspect of reputation, the one we label as informality (casual, simple and easy-going). The core customer is a young mum with children who she takes shopping with her. Such clientele value the laid back approach of staff who do not appear phased by children and their tendency to behave inappropriately at times. After all the employees themselves are often young mums too, working part time and on a work pattern that is also quite casual. Loud pop music is often the norm. We hated the places but then we were not the core customer. But our dislike gave us the clue as to why another branch was doing badly. The new manager, like ourselves, was uncomfortable with the laid back culture. Her previous job had been with another chain store but one where the culture was more regimented and orderly. She had been trying to change the behaviour of her staff to align more with what she had been trained to expect at her previous employer, with a negative effect first on her staff and then on her customers.

We worked with a food retailer for some years, helping to train their managers to be ‘local brand managers’ for their company. We emphasised how the attitude and behaviour of their staff would influence customers almost at a subliminal level. A new director for stores took a more aggressive approach in line with a change in company policy. Costs were to be cut. We started to see a rise in the scores we were recording for ruthlessness (arrogant, aggressive, selfish, inward-looking, authoritarian, and controlling). Managers reported an increase in pressure and many admitted that they were passing this on to their teams. Simultaneously suppliers had been complaining in the media about price pressures, for example farmers claiming that the price they received for milk was now below their cost of production. The increasing reputation for ruthlessness had a negative impact on sales, while one for agreeableness (pleasant, open, straightforward, concerned, reassuring, supportive, honest, trustworthy) which correlated positively was if anything decreasing. Worse, managers’ satisfaction often correlated positively with their perceptions of how ruthless the organisation was: it certainly didn’t for employees and customers. We worked on ways whereby managers could absorb the ruthlessness that they were experiencing and focus instead on passing on more agreeableness to their employees.

In summary, a company's reputation is fundamentally a function of the way it treats people, mainly its staff and its customers. The leader plays a special role in signalling how this is to be through policy but also through his/her own behaviour. Managements have a special role in transmitting this to their own staff. In turn the micro-behaviours of staff transmit the same policy and culture to customers.

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