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diamonds *Nick Kochan on lessons in protecting 'reputational capital' if corporate disaster strikes*

Name is everything, and loss of name potentially business threatening. As companies realise what havoc the loss of a good **reputation** can wreak on their brand and stock value, they will pay more attention to how they are presented and rated by the media, customers, and all stakeholders.

That is the view of the American academic Charles **Fombrun** who, writing in the context of the Perrier disaster, the Tylenol tampering incident and the Salomon Brothers debacle, says companies are frequently ill-prepared to rally to the defence of **reputation** when it comes under challenge.

"**Reputations** deserve greater attention from both practitioners and researchers because they create economic value," he says. The author believes image embodies the company's uniqueness, a key competitive tool.

Ramming the message home, he recommends that businesses consider appointing a Chief Reputation Officer to look after the intangible elements in their name and brands: "Much as companies appoint a chief financial officer to safeguard financial capital, a chief operating officer to monitor operations . . . so they might benefit from appointing a Chief Reputation Officer to watch over the company's intangible assets."

Defining a company's reputation is the first task of the CRO. The author suggests adapting the "360 degree" method. Devised by General Electric to assess employees, this involves canvassing colleagues of the member of staff in question for their many perspectives. The corporate equivalent, called here the Reputation Audit, is to take the pulse of the best performers in the sector and use that to benchmark performance. That can be the spur for a public relations, media, employee or institutional offensive to reassert a battered reputation.

Bad news is often the last thing companies want to hear until the publicity threatens their survival. Then they act in panic. But Salomon took a prudent line and the author recounts its story with a pace and detail that are largely absent in this bright and breezy, but insubstantial, analysis of modern-day public relations.

The Salomon crisis arose because of the attempts by one bond dealer to control the bond markets. Shades here of Nick Leeson, except that in Salomon's case the dealer was first warned by the

regulators. He and his bosses chose to ignore the admonition and paid a high price. Salomon was charged with 46 lawsuits alleging fraud in securities trading, price manipulation by purchasing Treasuries at above the legal limit (a serious racketeering offence), and misrepresentation. The bank fought its way to survival in a number of stages.

First it suspended the offending traders and accepted the resignation of senior members of the bank including John Gutfreund, Thomas Strauss and John Merriweather. The bank's largest shareholder, Warren Buffett, stepped in as the shareholder's friend. In the interest of restoring that most precious of corporate assets, namely good reputation, he made a clean breast: "The most important job is to come clean in an aggressive way to regulators . . . My job is to clean up the sins of the past and capitalize on the enormous attributes the company has."

Salomon's lawyers Wachtell, Lipton Rosen and Katz were replaced, and independent consultants were hired to analyse the investment bank's reputation and failings. The system of management and supervision was shaken up and Buffett imposed greater controls on risk exposure by increasing the internal borrowing rate. He also steered the company over regulatory and legal hurdles.

"The Salomon saga presents a vivid example of how managers can actively return from the brink and rebuild reputational capital damaged by a scandal," Fombrun concludes.

The author's excitement at Buffett's powers of life-saving is matched by his enthusiasm for J. P. Morgan's skill at pleasing all the people. The bank is apparently particularly generous to local not-for-profit organisations and educational projects. The tone of uncritical enthusiasm for gesture management slips when the author admits that the bank's corporate citizenship is not "merely a charitable act but is a form of enlightened self-interest". At the same time as Morgan donates its redundant furniture to not-for-profit organisations, it seeks to sell them its banking services - one suspects at full price.

No responsible company can overlook the importance of managing its reputation and identity. Acquiring a good name for customer service, corporate citizenship, employee benevolence or political correctness will do no harm when the unexpected public relations problem hits. But this book goes too far when it argues that there is such a thing as "reputational capital". The sad truth is that you only know the full value of your name if you lose it.

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