
Commentary: Should an organization devote communication dollars to making the CEO famous?

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Hutton, Goodman, Alexander, and Genest (2001) argue that “the most reputable or admired companies” tend to have well-known CEOs (p. 247). Hutton et al. (2001) cite “studies by Fortune, the Financial Times and many other publications and research organizations”, plus give Microsoft, AOL, Southwest Airlines, General Electric, Berkshire Hathaway, and Intel as cases in support of their argument. If making an organization’s CEO a celebrity drives reputation, an interesting question is whether an organization should devote substantial communication dollars to making the CEO famous. Recent high-profile CEO disgraces would suggest that CEO fame is a double-edged sword. This article explores industry-based and anecdotal evidence of the benefits and risks associated with a high-profile CEO, and outlines an area for further research. To date, although there is some industry research on this topic, it appears to have been paid scant academic attention. This article is a preliminary exploration of ideas, and the author welcomes feedback and discussion on the best ways to test whether the frequent perception of a correlation between CEO profile, corporate reputation, and corporate performance is accurate, and/or whether and how the relationships may be causal.

In the past, tangible assets (physical product, plant, equipment, and land) gave companies competitive advantages. According to Itami and Roehl (1987), rapid changes in domestic and global markets altered this paradigm. The globalisation of business, increasing sophistication and expectations of customers, and increasing need for businesses to differentiate physical products from the competition, made intangible assets increasingly significant in gaining competitive advantage (Nakra, 2000). Coupled with increased

importance of reputation in overall value has come increased scrutiny. Conger, Lawler, and Finegold (2001), argue that media coverage of business will continue to grow as a result of increased shareholder activism. From this hothouse of high stakes and high scrutiny, ‘reputation management’ has emerged as yet another ‘buzzword’ in business communication. The concept has received some academic attention (Dowling, 2001; Fombrun, 1996; Garbett, 1988), but far more industry attention (see for example widespread use of the term on websites by communication consultancies providing a range of public relations, advertising, and marketing functions, such as Madland & Wara, 2002; Corebrand, 2002; Hill & Knowlton, 2003). Jack Bergen, president of the U. S. Council of Public Relations Firms, has stated that “a growing body of research is showing that a good reputation - including the reputation of the chief executive officer himself [sic] - is as important to corporate success as the latest information management systems” (cited in Klein, 1999, p. 32). Gaines-Ross and Cakim (2002) cite a Burson-Marsteller study showing that the role of the CEO in overall corporate reputation has increased from 40% in 1997 to 48% in 2002 (p. 33).

Fombrun (2000) sees corporate reputation management as crucial for obtaining and maintaining everyday stakeholder support, but particularly for weathering a crisis. Klein (1999) agrees, arguing that, “Psychologically, a company with a solid reputation earns the benefit of the doubt in times of crisis. Tylenol shook off product tampering. UPS survived a labor walkout. Nike sails on despite foreign labor concerns,” (Klein, 1999, p. 32). Yet in terms of the particular contribution of the CEO at times of crisis, Regester and Larkin (1997) argue that a high-profile leader may increase the

chance of a negative outcome, as they tend to also be risk taking and autocratic.

Both Fombrun (2000) and Klein (1999) argue that intangible assets including reputation can be quantitatively measured (by deducting book value from market value), and that positive reputation impacts directly on market value:

There's also a bottom-line impact. In four of the last five years, an investor who owned stock in *Fortune's* Most Admired Companies would have earned returns that handily beat the Standard & Poor's 500. In fact, a 1997 Ernst & Young study, 'Measures That Matter', found that as much as 40 percent of the average company's market value is based on non-financial assets, including its reputation. (Klein, 1999, p. 32)

How much of that measurable value may be attributed to a company's leader, however, remains unclear. Industry studies, for example the 2002 Hill & Knowlton Corporate Reputation Watch, cite impressive figures such as "in the United States, 80% of the respondents said that the reputation of the chief has an influence on the entire corporation" (CEOgo, 2002). A 2001 Australian study, conducted by Wirthlin Worldwide for Burson-Marsteller, found that 52% of a company's overall corporate reputation was attributable to the CEO (cited in Fox, 2001). In the U.S., a Burson-Marsteller study of 1,155 CEOs, senior managers, financial analysts, institutional investors, business media, and government officials found that the CEO's reputation played an enormously important role in the valuation of the company (2003). Burson-Marsteller's research suggested that a positive CEO reputation directly influenced a range of stakeholders including shareholders, potential shareholders, financial and industry analysts, and potential employees, with between 80% and 95% of those surveyed saying they would engage in supportive behaviours purely as a result of positive CEO reputation (cited in CEOgo, 2002). Such claims, however, have not been tested in rigorous and independent academic studies, and there is some suggestion that some industry measurements of reputation are unsound (Serious flaws, 2001).

Much of the reputation management discussion in the industry and industry media seems circular. Public relations company Burson-Marsteller owns the *Fortune* Most Admired Companies and *Fortune/Roper* Corporate Reputation Index databases that track *Fortune* 500 companies' performance against reputation attributes, and from which much of the media coverage of the importance of CEO reputation is generated. Dr. Leslie Gaines-Ross, who used to work at *Fortune*, and is author of a book on this topic, *CEO Capital: A Guide to Building CEO Reputation and Company Success* (2002) is now a senior executive at Burson-Marsteller. When Burson-Marsteller's website proclaims that "research confirms what every executive knows to be true: CEO and corporate reputation are inextricably linked and have a proven impact on a company's bottom line" (2003), it is clearly Burson-Marsteller's own research to which it refers, as they cite no other. The circularity continues in media coverage. Freelance writer Klein (1999) for example, in her article in *Communication World*, lists Burson-Marsteller and Ernst & Young among several companies providing reputation management services and measuring tools for purchase, yet also bases much of her article's argument for the importance of reputation management on studies by Ernst & Young and Burson-Marsteller (Klein, 1999, p. 32). Both Klein (1999) and Kartalia (1999) cite Kim Graham Lee of Walker Information on the importance of reputation management in articles while also making it clear that Walker Information has developed and is marketing a commercial reputation measurement software package.

Even respected academic Fombrun worked in conjunction with PR company Shandwick, which sells reputation management services, to develop his RQ, a reputation measure that he claims is a valid empirical instrument (2000). Commercially-sponsored studies aside, then, how can we begin to accurately measure what impact the CEO's profile has on the levels of support in the goodwill bank? And what of the risk aspects that industry studies such as Burson-Marsteller's (2003) do not appear to address; for example what happens when the

CEO's personal reputation is mixed or becomes suddenly negative?

The CEO as public figure

As a consequence of the move to more public scrutiny of senior executives, the last three decades have seen more and more CEOs becoming public figures. During the '80s many were feted by the media as heroes, earning praise as "tribunes of an economic era in which profits and growth only went up" (CEOs: Why they're, 2002). CEO successes and lifestyles have provided interesting fodder for the media; Tomasic also sees increased media interest in CEOs as linked to privatisation, globalisation of security markets, the emergence of corporate governance experts, and the rise of large investors, such as pension funds (Tomasic, 2000).

Particularly in recent times, however, many of the media favourites have come crashing down. The best-known examples are Enron Corp.'s Kenneth Lay and Jeffrey Skilling. Both were celebrities in success but now stand as superstars in failure. (For more on the impact of Enron's collapse on stakeholder groups, see U.S. House of Representatives, 2001.) Likewise in Australia, HIH's Rodney Adler and One.tel's Jodee Rich went from being feted to flogged in the media after corporate collapses, with public outcry over their disgrace prompting the federal government to introduce new legislation to limit CEO payouts (Fabro, 2002).

Danko argues that, during times of increasing wealth and widespread economic growth, "no one cared about record CEO payments" (Danko, 2002, p.10). Danko argues that economic slowdown and public narcissism and bragging have increased the chances of high profile CEOs being knocked down by the media (Danko, 2002). When the gap between the picture the CEO paints of their own and corporate performance and the reality becomes too wide, Danko argues, the media punish swiftly and cruelly. Former Vivendi CEO Jean-Marie Messier provides an example of media turnaround that supports Danko's argument. Once hailed as an icon of French business, Messier became the target of broad criticism for his management style (Vivendi officially

changes leaders, 2002). Described as flamboyant and colourful, Messier's personal style in the media meshed with his corporate strategy of aggressive growth driven by buy-outs (Neligan, 2002). When the economy's growth slowed, however, concerns were raised that the company had paid too much for its acquisitions, and the media focus on Messier's personal style also soured. He was criticised for relocating to New York and living in "a 20 million Euro apartment paid for by the company" (Neligan, 2002). Even though Messier grew Vivendi into the world's second largest media firm, the board held him responsible for an 80% decline in the company's value (Vivendi's Messier steps down, 2002).

Trustworthiness

According to the U.S. survey conducted by Wirthlin Worldwide and Burson-Marsteller in 1999, 82% of corporate stakeholders consider trustworthiness the critical item in building a company's reputation (cited in Credibility Should, 1999). Frost and Cooke (1999) argue that stakeholders must be able to rely on a company's service, and therefore an organization must make sure that its actions match its words. Fombrun (2000) differentiates between an organisation's image, and its identity. The image is the perception in stakeholders' minds; identity is the reality. Fombrun argues that "strong reputations are built on companies being genuine" (2000, n.p.). It's an approach that sits well with the main thrust of public relations theory development in recent years towards ensuring that PR promotes a reality, rather than a façade (e.g. Grunig & Hunt, 1984).

Ethically, it seems logical, indeed essential, then, that the focus on the realism of the overall corporate reputation should be extrapolated to the representations made of the individual at its helm; most likely there is also an economic benefit from presenting a realistic picture of the CEO. Fry (1997), for example, argues that people respect Virgin because they trust its founder, Sir Richard Branson, to behave in a way that is consistent with his public persona. Certainly mismatches between CEO image and

reality damage overall reputation. O'Connor (2002) suggests that corporate scandals like Enron and WorldCom have led to a global crisis of confidence in business leaders. Deutsch and Treaster (2002) argue that the actions of a few CEOs have made life difficult for all of them. After large corporate scandals like Enron and WorldCom, CEOs in general have been frequently depicted as exploiters of the system who are out for themselves (CEOs: Why they're, April, 2002). The combination of turmoil in corporate America, the malaise on Wall Street, and CEO pay or exit packages that are out of tune with the economy and corporate performance have blemished the CEO's image (CEOs: Why they're, April, 2002). In Australia, media pressure on CEO exit packages has become intense. One recently departing corporate leader, AMP's chairman Stan Wallis, refused his \$1.6 million retirement payout. Such is media interest in the topic of 'golden handshakes', that Wallis' actions generated 889 media mentions nationally in the week following his announcement (News Value, 2003). Other CEOs have been less willing to turn their back on payouts. In refusing to pay its sacked chief executive, Paul Batchelor, a 'golden handshake' higher than \$1.4 million, and inviting him to take legal action if he disagreed, AMP has been described in the media as choosing "the right course in a public relations sense" (Knight, 2003, n.p.). Financial journalist Knight (2003) writes that "the market is desperate to see some real action on huge payouts to executives that companies have seen fit to fire" (n.p.). She sees the subsequent AMP share price fluctuation as directly linked to the relatively low Batchelor pay-out: "The market reacted favourably to this decision, sending AMP's share price up 29c to \$6.45" (Knight, 2003, n.p.). This positive response occurred despite Batchelor's promise to "consider alternatives available" to him, which Knight (2003) interprets as meaning legal action is "almost a certainty" (n.p.). Academic work in this area might seek both to clarify measures of the links between CEO profile and share price in times of crisis, and to articulate guidelines for companies keen to trade on CEO fame. One possible suggestion in the latter area is that, before investing in making the CEO famous,

companies perform a vulnerability audit. How trustworthy is the CEO, not just in image, but also in reality? Many companies conduct integrity testing on employees and job applicants at lower levels of the corporate hierarchy (Brown & Cothorn, 2002); what about integrity testing for the CEO? Those who pass the test and are trustworthy not only in image but also in identity are a clearly a less risky proposition for profile building. But has acceptance of public relations as management counselling evolved to the level where CEOs would accept such scrutiny from the PR department? The practical and even emotional impediments to such a proposal are likely to be high.

The CEO as leader of the company's vision and strategy

Fombrun's (2000) reputation quotient (RQ) is based on six attribute categories; emotional appeal, products and services, financial performance, vision and leadership, workplace environment, and social responsibility (n.p.). CEO profile potentially can impact on all of these categories to varying degrees, but will particularly impact on perceptions of vision and leadership.

The CEO is "the leader of the company's vision and strategy" (Schreiber, 2002, p. 213). A lack of strategic vision is one of the reasons often cited for CEO failure (Building CEO, 2002). For example, media coverage of former Coca-Cola CEO M. Douglas Ivester and former Compaq CEO Pfeiffer illustrates this statement. Ivester lost his status when his management style didn't accord with how the company wanted to be perceived and the company's stock price fell (CEO coaching brings, Jan, 2000). Pfeiffer "had to go" because of a strategy that appeared to pull the company in the opposite direction from its established culture and vision (Wilcox, 1999). *USA Today* wrote that Compaq's board removed Pfeiffer for lack of "an Internet vision" (Levy, 1999, n.p.).

One proposal worthy of further exploration may be for the communication department to subject the CEO to assessment against established leadership measures, for example transformational leadership characteristics (c.f.

Price, 2003), before deciding whether to invest in personal profile raising. As with integrity testing, however, the corporate climate may not necessarily be receptive to such an idea.

Vulnerability

Fombrun (2000) argues that a corporate reputation must be distinctive. Potentially, the celebrity CEO could provide that point of difference where products, services, financial performance, etc., were similar. But linking a company's reputation too heavily to a single person is risky in at least two ways. Firstly, Fry (1997) argues that a single mistake or wrongdoing by a famous CEO can destroy the company's reputation. Kartalia (1999) argues that it can take 30 years to build a reputation, yet it can be wiped out in only 30 seconds. An example is former World Online CEO Nina Brink. World Online's shares lost more than two-thirds of their value after the company's reputation was tarnished by a controversy over Brink's share sales before an initial offering in March 2000 (Hunt, 2000).

The second risk relates to what happens to a company's reputation when a famous CEO leaves. An example is former Cadence Design Systems CEO Joe Costello. Collet (1998) argues that Costello's image was so entangled with Cadence that nobody could think about a Cadence without him. When Costello left, the stock price fell rapidly, and the newly appointed CEO had problems restoring trust (Collet, 1998). Even rumours about CEO departure have been perceived to impact on share price; for example speculation about a General Electric without Jack Welch is thought to have contributed (along with a slumping economy) to a 33% drop in the share price (Brady, 2001).

Fox (2001), however, argues that changes in share price after appointment of a new CEO are usually quickly corrected, because the market is driven by numerous additional factors. She suggests that the key to success for a newly appointed CEO has little to do with public profile, but rather everything to do with getting on with the job. The new CEO must a) get to know stakeholders inside-out in order to communicate effectively, b) quickly build strategic alliances with both the board and

senior management team, and c) disclose a coherent strategy within 100 days (Fox, 2001).

Almost every aspect of CEO profile, then, is debatable. There is no consensus about impact on share price, the most easily measured stakeholder support indicator. Clearly more research is needed.

Directions for future research

There has been recent discussion in accounting literature on ways to more conclusively measure intangible assets; basing reputation measurement in approaches suggested in this literature (for example Wolverton, Lennhoff, Vernor, & Marchitelli, 2002) may help to subsequently develop clearer guidelines for reputation management. Public relations theorists, in other words, should not develop theory on reputation management in isolation but should look to an interdisciplinary approach. One academic study that may provide a useful starting point for methodologies to isolate CEO impact is by Scott and Lane (2000), who assess the role of managers in creating a sense of solidarity and shared identity among stakeholder groups. Likewise, Rindova and Fombrun (1999) have investigated the role of senior management in "how firms imprint their identity ... on constituents" (p. 706). Yet none of these studies specifically addresses CEO media profile, and in general the study of reputation remains an area characterised by definitional vagueness and uncertain measures (Hutton, Goodman, Alexander, and Genest, 2001, p. 247). Wolfe and Putler (2002) argue that "the concepts of organizational culture, reputation, and identity would appear to be good candidates for future study" (p. 77) and this is particularly applicable to the sub-category of CEO reputation.

Conclusion

Much of the industry literature suggests that a company's reputation is increasingly linked to the CEO's reputation, and CEO training and media promotion are becoming big business. Before devoting substantial communication dollars to making the CEO a media performer, however, organisations should look carefully at

the origins of much of the information, and think through some of the complexities and risks associated with CEO fame. The issues are not as clear-cut as some of the enthusiastic commentary on CEO reputation would make them appear.

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