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"People Just Don't Seem to be Listening": A Case for a Functional Approach to Reputation Management

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"PEOPLE JUST DON'T SEEM TO BE LISTENING"

A CASE FOR A FUNCTIONAL APPROACH TO REPUTATION MANAGEMENT

Stephen E. Gustafson, B.A.

An Abstract Presented to the Faculty of the Graduate School of Lindenwood University in Partial Fulfillment of the Requirements for the Degree of Master of Arts in Communication

2003

ABSTRACT

This paper focuses on the growing study of corporate reputation management and the potential benefits of focusing management attention on building, sustaining, and defending the corporate brand's reputation. Specifically, the purpose of the paper is to provide a logical justification for major corporations to add the role of *chief reputation officer* to their organizational structures in order to properly manage this significant intangible asset.

Secondary research of print and electronic news media coverage was conducted to document a case history of the reputation crisis and ultimate demise of Big Five accounting firm Andersen (more commonly known as Arthur Andersen). The case history was developed to provide a significant example of the negative consequences of ignoring corporate reputation management.

Because the study of corporate reputation management is relatively new, definitions of *corporate reputation* and *reputation management* are also presented to introduce the basic tenets of reputation management science. These definitions are drawn from the related disciplines of reputation management, corporate communications, brand management, corporate branding, identity, image, public relations, and integrated marketing communication. A review of multi-disciplinary literature indicated a lack of consistency in the definitions that may be hindering the widespread adoption of formalized corporate reputation management.

Secondary research on the concept of chief reputation officer revealed two academics and one practitioner coming from the reputation management perspective who have previously argued for the adoption of the role. However, the arguments lacked a comprehensive list of responsibilities, clear and tangible support such as short case histories, and fully developed justification and rationale. To rectify the deficiencies of these existing arguments, the paper offers an executive summary for corporate senior management and boards of directors to justify the chief reputation officer by detailing the role's breadth and depth of responsibilities and providing a comprehensive list of the substantial benefits created by a good corporate brand reputation.

Further support for the chief reputation officer role and formalized reputation management is provided through analysis of unplanned communications involved during the Andersen reputation crisis. The effect of negative unplanned communications from stakeholders and negative brand associations that spilled over from the accounting industry's reputation commons added credence to the theory that poor reputations feed on themselves.

An assessment of the research and related case histories indicated that management of corporate reputation involves complex internal and external factors that are well beyond the purview of the public relations and corporate communications functions. It also indicated that reputation is affected by multi-dimensional relationships between corporate brands and their stakeholders that can best be managed by a full-time senior executive who is singularly focused on building, sustaining, and defending the corporate brand's reputation.

"PEOPLE JUST DON'T SEEM TO BE LISTENING"

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Stephen E. Gustafson, B.A.

A Culminating Project Presented to the Faculty of the Graduate School of Lindenwood University in Partial Fulfillment of the Requirements for the Degree of Master of Arts in Communication

2003

COMMITTEE IN CHARGE OF CANDIDACY:

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Dedication

This paper is dedicated to my family who has provided support and patience during the hours necessary to complete my Masters degree. Their love is a strong foundation for every thing I do.

Acknowledgements

I owe many thanks to Professor Michael Castro for prompting me to develop this project and for serving as an enthusiastic Chairperson and Advisor. Michael has also been a caring faculty advisor throughout my time at Lindenwood University and I appreciate his involvement in my Masters program very much.

Special thanks goes to Adjunct Professors Tom Dehner and Michael Kramer who went above and beyond the call of duty by serving on my candidacy committee. It was a true honor and privilege to have them devote their personal time to reviewing my work. Tom inspired this paper by introducing me to the concept of reputation management. Michael, through his effective teaching style and methods in my first class at Lindenwood, also served as an inspiration to me to keep learning and growing.

Last but not least, I thank my colleague, Suzanne Wood, for proofing my work on this project. It meant a lot to have an accomplished professional and friend offering valuable advice.

Each of these fine people has made a difference in my life and I will be forever grateful for knowing them and learning from them.

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Chapter I

INTRODUCTION

"It should be perfectly clear that Andersen will not tolerate unethical behavior, gross errors in judgment or willful violation of our policies."

– Joseph F. Berardino, former Managing Partner and CEO, Andersen[1]

A Cautionary Tale of Reputation Failure

Major reputation crises of 2001 and 2002 point out the critical need for major organizations to practice strategic reputation management through the implementation of a chief reputation officer function. Even though public relations practitioners and university professors have recommended the creation of this function for approximately the last 10 years, the business community has not embraced the theory of its potential benefits. Some critics claim the responsibility for reputation management lies squarely on the shoulders of the Chief Executive Officer. Other critics focus on the title itself arguing that it amounts to nothing more than executive title inflation. But these arguments ignore the depth and breadth of reputation management responsibilities and challenges as well as the importance of reputation as an intangible asset and its role in helping to ensure a sustainable future for organizations.

Managing corporate and brand reputations requires a focused, holistic approach rather than just skilled application of corporate communications and public relations spin. In 2001 and 2002, a sobering list of once highly respected

1 (Norris, "For Andersen")

organizations including the U.S. Roman Catholic Church, Enron, the Masters Tournament, Martha Stewart Living Omnimedia, Kmart, General Electric, the 2002 Salt Lake City Olympic Games, ImClone Systems, WorldCom, Xerox, Lucent Technologies, the American Red Cross, Adelphia Communications, McDonald's, Merrill Lynch, Tyco, and many others was tainted by the specter of a poor reputation that couldn't be simply spun away by simple public relations. Some such as Kmart and McDonald's felt the stings of ongoing media reports detailing poor earnings and related news stories criticizing their alleged operational and management missteps. The Catholic Church, Enron, WorldCom, Tyco, and a seemingly endless number of others were brushed with the tar of scandal. Changing market conditions and poor company strategy or tactical execution to adapt to those changes created reputational damages. Poor judgment and lack of consideration of stakeholder opinions and beliefs caused others. But a staggering number clearly grew out of warped organizational values and an apparent disregard for the long-term sustainability afforded by an excellent reputation.

Of course, organizational reputation crises can often result in human reputation crises. When GE received scrutiny of its financial dealings, revelations of his perk-filled severance package and affair with an editor of the Harvard Business Review assailed Jack Welch, the company's highly praised former chairman. The President of the United States, George W. Bush, had to fend off criticism of his close ties to Enron and his failing to follow the law when he sold shares of Harken Energy Corporation in 1990 while serving on its board of

directors ("Bush"). His Vice President, Dick Cheney, also had to defend his personal and political ties to Enron and the accounting practices of oil services company Halliburton during his tenure as its chief executive officer. Martha Stewart's image and wealth took a beating due to allegations of insider trading violations with ImClone Systems. And Boston's Cardinal Bernard Law was forced to resign over ongoing revelations of his covering up numerous cases of sexual abuse by Catholic priests in his archdiocese.

Each resulting story has the potential to add to the list of often-cited examples of reputation management crisis case histories. These cases include the Pepsi syringe tampering scare, the *Exxon Valdez* oil spill, the Perrier benzene contamination, Michael Milken and his role in the collapse of investment banker Drexel Burnham Lambert, and what is considered to be one of the most respected applications of reputation crisis management, Johnson & Johnson's successful fight to save the Tylenol brand from seven cases of cyanide poisoning due to product tampering in 1982 and 1986.[2]

Despite the sheer number of significant reputation crises during 2001 and 2002, the compelling story of Arthur Andersen's self-destruction will stand out as a landmark case history for years to come. Andersen (the collective name used by Andersen Worldwide SC and its member firms such as Arthur Andersen LLP in the United States) was one of the so-called Big Five accounting firms that also included Deloitte & Touche, Ernst & Young, PricewaterhouseCoopers and

---

[2] Many of these cases are so commonly cited that there is little variety in the literature: Pepsi syringe tampering scare (Campbell 138-139; Seitel 68; Newsom, Turk, and Kruckeberg 495), Exxon Valdez oil spill (Campbell 52; Seitel 168; Davies, et al. 99; Dowling 253; Newsom, Turk, and Kruckeberg 496-497), Perrier contamination (Fombrun 204; Davies et al. 110-111; Dowling 271), and Johnson & Johnson Tylenol poisonings (Aaker 122; Fombrun 29; Davies, et al. 100-101; Dowling 255; Newsom, Turk, and Kruckeberg 494; Seitel 42-47).

KPMG. During most of its 89-year history, Andersen had built a powerful corporate "super-brand" (Dowling 214-215) with a sterling reputation of trust, accountability, and integrity. The firm employed 85,000 worldwide, practicing in 84 countries with 28,000 employees in the United States alone. Billings from accounting, auditing, and various consulting services had reached $9.3 billion (Babington and Rigby). Then, ensnared in the scandalous collapse of energy giant Enron Corporation, Andersen's corporate life was essentially snuffed out over the course of forty-one weeks spanning from November of 2001 to August of 2002.

The demise of Andersen is a story worth telling for the many cautionary lessons it reveals about corporate and brand reputation management. While the following account details many of the significant events and resulting news media coverage, it does not attempt to cover all of the related stories and negative associations that swirled around Andersen and undoubtedly influenced its stakeholders' opinions. These include the detailed coverage of Enron's collapse; Andersen's attempts to sell off major regional practices around the world; scrutiny of the Securities and Exchange Commission and its chairman, Harvey Pitt; the loss of confidence in American corporations due to the various scandals and bankruptcies; the ongoing reporting of weak financial markets partially caused by investor concern over accounting scandals and the accounting industry's "reputation commons problem." King, Lenox, and Barnett (2000) suggested that a reputation commons problem exists when firms in an industry are "tarred by the same brush" as a firm with a damaged reputation, leading

stakeholders to punish the entire industry. They explained that "a firm's reputation may be tied to other firms, and so reputation may be a common resource shared by all members of an industry."

Using Andersen's demise as a major case history, specific examples from other organizations' reputation problems, and support from recent literature on reputation management and related disciplines, this paper will offer a justification for the chief reputation officer role by illustrating the true scope and importance of the position.

A Renowned Reputation Unravels

The story of Andersen's end begins with the collapse of Enron Corporation in the autumn of 2001. Houston, Texas-based Enron had been the seventh largest corporation in the United States based on reported annual revenues. It had evolved over the prior fifteen years from a regional natural gas provider to a trader of natural gas, electricity, and other commodities. Investors dumped Enron stock in response to the news that the company had been hiding over $1 billion in debt to bolster profits through the misuse of an accounting practice known as off-balance-sheet-accounts. Selling for over $80 per share in January of 2001, Enron's stock had plummeted to $0.67 by its last day of trading on the New York Stock Exchange in January of 2002. The collapse resulted in shareholder lost value of over $63 billion ("The Enron Scandal").

Andersen had been Enron's accounting firm since the company was created by the merger between two natural gas companies, InterNorth and

Houston Natural Gas, in 1985 ("Enron Timeline"). The accounting firm had provided internal auditing, consulting, and external auditing services, and had certified the financial statements of Enron throughout its history.

The informal onset of Andersen's reputation crisis publicly started with an article from the New York Times on the Web on November 23, 2001. Writer Floyd Norris foreshadowed the coming crisis by commenting that 2001 had been the worst year for Andersen's reputation due to its ties to Enron and because the Securities and Exchange Commission (SEC) had earlier filed civil fraud complaints against Andersen for its work with Waste Management and against one of its partners who audited Sunbeam. Both client companies had been found guilty of fraudulent accounting practices. Norris also raised the question: "Has Arthur Andersen become the black sheep of the accounting industry?" Although Andersen's Managing Partner and Chief Executive Officer, Joseph F. Berardino, had been invited to comment, he declined to be interviewed for the article ("From Sunbeam").

Then Andersen's reputation crisis formally began on Friday, November 30 when the Wall Street Journal Online reported that the SEC had subpoenaed records from Andersen to expand its investigation of Enron (Weil, "SEC Starts"). Like the New York Times on the Web article the week before, it too mentioned the firm's recent brushes with the SEC in connection with the audit failures of Sunbeam and Waste Management.

On the same day, Andersen took its first step in trying to publicly manage the crisis. It issued a news release announcing that rival firm Deloitte & Touche

would expand its existing peer review of Andersen's U.S. accounting and audit practice to include its procedures in its Houston office, home of the Enron account team. The release noted that Andersen had taken the action in light of Enron's financial reporting firestorm. It also quoted CEO Berardino pointing out that, "Maintaining the trust and confidence of investors is a central tenet of our firm. We invest hundreds of millions of dollars each year to improve our auditing tools and skills so that investors can rely on the Andersen signature as a sign of quality financial reporting" (Andersen, "Scope").

Just two days later, the magnitude of Andersen's reputation crisis was clearly defined when Enron Corporation filed for Chapter 11 bankruptcy protection, the largest bankruptcy in U.S. history (until the even bigger collapse of WorldCom in 2002).

On the heels of Enron's bankruptcy announcement, it was clear that the Big Five accounting firms knew they had a major public relations problem to deal with. They correctly recognized that the implications of Enron's collapse did not just affect Andersen; it created a reputation commons problem for the entire accounting industry. On December 4, the CEOs of the Big Five accounting firms put "on a rare show of solidarity" and issued a statement in reaction to increasing scrutiny by their publics ("Big Five"). The CEOs' statement opened with an admission of the problem:

> As with other business failures, the collapse of Enron has drawn attention to the accounting profession, our role in America's financial markets and our public responsibilities. We recognize that a strong, diligent, and effective profession is a critically important component of the financial reporting system and

> fundamental to maintaining investor confidence in our capital markets. We take our responsibility seriously. [. . .]
>
> Working together, our five firms are committing our attention and resources to evaluate and chart a course to address issues important to investors. We are also committed to future action based on insights gained from current events. (AICPA)

The next blow to Andersen's and the accounting industry's reputations came with two articles by the Washington Post on December 5, just three days after Enron's bankruptcy filing. In the first, writer David S. Hilzenrath took the accounting field to task. He began by pointing out that an Andersen study had found that the number of corporations that had retracted and corrected earnings had doubled to the level of 233 in the prior three years. Questioning whether the public could depend on auditors, Hilzenrath reported that major accounting firms had a history of failed audits at companies such as Sunbeam, Waste Management, Xerox, MicroStrategy, and Rite Aid Corporation ("After Enron").

"Increasingly, the way these firms do business is at odds with the accounting industry's public watchdog mission," Hilzenrath suggested as he introduced a list of alleged conflicts of interest. First, he claimed firms often made more money selling consulting services to their audit clients than they did from auditing their finances. Second, auditors had often left their accounting firms for positions with the companies they had audited, a situation that the Securities and Exchange Commission believed could lead to conflicts of interest and "improper compromises." Third, the accounting profession had a history of not accepting responsibility for failed audits or fraudulent accounting. Rather than providing the public with full disclosure, they would often invoke client

confidentiality to protect their audit clients. Fourth, compensation arrangements made in advance of an audit often discouraged thorough accounting practices. Under a fixed dollar contract scenario, accounting firms lost profit margin as the number of hours involved increased, therefore, they would not dig into a company's finances any further than necessary to protect account profitability. Hilzenrath summed up the situation with "These developments compound the more basic, underlying conflict: The auditors are hired, fired and paid by the companies they are responsible for auditing" ("After Enron").

In his second article of December 5, Hilzenrath reported that Andersen's role in the Enron debacle sounded familiar to its failed audits of the Baptist Foundation of Arizona from 1995-1997, as well as Charles Keating's Lincoln Savings and Loan that went on to symbolize the U.S. savings-and-loan crisis after it failed in 1989. He noted that Andersen had "paid tens of millions of dollars to settle claims by federal regulators and private investors over its work for Keating" ("Two Failures").

Hilzenrath created more headaches for Andersen and the other Big Five firms for two more days with lengthy articles titled "Auditors Face Scant Discipline" and "Accountants Urged to Do Better Job." Both questioned the credibility and accountability of the Big Five.

On December 12, Andersen's CEO Berardino testified before two congressional subcommittees of the House Committee on Financial Services that were investigating Enron's collapse. Although Berardino admitted that his firm had made errors in judgment while working with Enron, he blamed the energy

trader's management for its downfall, claiming that it had not revealed key information to Andersen's audit team. Berardino also testified that his firm had told Enron's audit committee that some of Enron's actions might be illegal ("Enron's Collapse").

The night before his testimony, Berardino had spoken with the Chicago bureau chief of BusinessWeek. Berardino was asked who was at fault for Enron's collapse – Andersen, Enron, the press, or the marketplace? "I think we're all in the fact-gathering stage, and the thing that I've been encouraged by, walking around Capitol Hill today, is our lawmakers are in a fact-gathering stage," he replied. "Let's just let this play out a little bit" (O'Connell).

The Wall Street Journal Online revealed on December 14 that Andersen had served as Enron's outside auditor while performing internal auditing as well. The article noted that this arrangement was raising questions about the firm's independence from Enron. A securities-law professor at Southern Methodist University questioned Andersen's independence: "It certainly runs totally contrary to my concept of independence. I see it as a double duty, double responsibility and, therefore, double potential liability" (Weil, "Arthur Andersen's").

The Crisis Accelerates

A deeply troubling announcement from Andersen on January 10, 2002, would redefine the magnitude and accelerate the denouement of Andersen's reputation crisis. Andersen had informed federal agencies investigating the

collapse of Enron that members of the firm had destroyed "a significant but undetermined number" of documents related to its work for Enron. The SEC characterized the revelation as "an extremely serious matter" (Weil, Emshwiller, and Paltrow). "I have never in my life heard of people in an accounting firm doing something like this," declared the former chief accountant for the SEC, Lynn Turner. "People in these accounting firms are well-educated professionals and supposedly well aware of their professional responsibility to the public" (Weil, Emshwiller, and Paltrow).

The same day, Andersen hired and borrowed the reputational halo of former Missouri Senator and Episcopal minister John Danforth to review its "records management policy and to recommend improvements." The news media was generally very enthusiastic about this latest reputation crisis management strategy. Journalists praised Danforth as a masterful choice because of his exemplary reputation for decency and integrity. Slate writer David Plotz commented on Andersen's move: "Arthur Andersen --- whose PR strategy seems to be *Today is bad --- let's make tomorrow even worse!* --- committed a miraculous act of good sense last week" (Plotz).

After Andersen's disclosure that it had destroyed Enron related documents, former SEC Chairman Arthur Levitt Jr. said that the incident proved that tighter controls were needed for the accounting industry. As SEC Chairman, Levitt had advocated eliminating practices that could create conflicts of interest by banning auditors from serving as consultants for their clients. He had argued that independence would be compromised by the potential profits from

consulting. Levitt was stopped from implementing his reforms in 2000 by lawmakers in Washington and three of the Big Five firms including Andersen (Schroeder).

Andersen played another reputation management strategy card on January 15 by firing David Duncan, the partner who it claimed had directed the massive destruction of Enron documents after the SEC began its investigation. However, an article in the New York Times the next day noted that the fired partner's alleged actions would likely result in criminal investigations further hampering Andersen's attempts to reassure its stakeholders that its audits could be trusted. A quote from Paul R. Brown, the accounting department chairman at the Stern School of Business of New York University, summed up the company's situation: "They have taken a permanent hit to their reputation." New York Times writer Norris recognized the critical importance of reputation in the article: "The services of an accounting firm are of no use to a company if investors will not trust the auditor's report. That is clearly a risk Andersen faces, even if it manages to avoid charges" ("For Andersen").

In commenting on Duncan's termination in the same article, Andersen's CEO Berardino said, "Based on our actions today, it should be perfectly clear that Andersen will not tolerate unethical behavior, gross errors in judgment, or willful violation of our policies." He also admitted, "The integrity of this firm is in question. Our reputation is our most important asset."

Andersen's next attempt at reputation damage control was running full-page advertisements in the January 16 editions of the New York Times, Wall

Street Journal, and Washington Post. The ads featured an open letter from Berardino who attempted to paint a sincere picture of the company's efforts to react responsibly to Congress, the SEC, and its other stakeholders. Berardino stated that the firm was facing "the most difficult and challenging episode" in its history. He also claimed that Andersen "would deal with these issue's candidly and directly," noting that this was an "obligation and a necessary element of maintaining our trust with clients, regulators and the public" ("An Open Letter").

Whatever goodwill may have been created from the full-page ads was likely destroyed by global news stories the following day reporting that Andersen had been alerted to Enron's growing financial crisis in August 2001. Whistle-blower Sherron Watkins, Enron's Vice President of Corporate Development, had called an acquaintance in Andersen's Houston office to discuss her concerns. A spokesperson for the congressional committee investigating the affair commented, "It is now clear to us that key players at Andersen as well as Enron knew of the growing problems months before the company imploded" ("Andersen 'warned'").

So what were Andersen's other clients thinking just over eight weeks into the crisis? The Associated Press noted that Andersen's clients had "fallen conspicuously silent" in their support. Peter Knutson, an associate professor emeritus at the University of Pennsylvania's Wharton School of Business summed up the dilemma: "I don't envy a board chairman who has to stand up at an annual meeting and say 'We have decided to retain Arthur Andersen.' Because the question is going to come, 'Why do you want to hire a firm with that kind of baggage?'" And a spokesperson for Andersen client Valero Energy, a $26 billion

oil refiner and gasoline retailer, acknowledged her company's concern about its auditor's unfolding crisis: "We're watching it very carefully. For the sake of our credibility, we're going to have to watch theirs" (Carpenter).

The Wall Street Journal Online reported January 26 that the House Energy and Commerce Committee had released the contents of an e-mail that indicated that Andersen knew during the early days of October 2001 that there was "heightened risk of financial-statement fraud" at Enron. An Andersen risk-management specialist had sent the e-mail to auditors on the Enron account after a test of the company's financial statements raised red flags (Hamburger and Weil).

On January 28, CEO Berardino pleaded for sympathy from the Chicago media in an effort to save the firm from possible extinction:

> I'm here today to speak up on behalf of a group of victims you haven't heard much about—the 85,000 honest, hard-working people of Andersen, including 28,000 in the United States and 5,500 here in Chicago who had nothing to do with Enron, but who are still being hurt by its fallout.
>
> This firm did not develop its reputation for integrity overnight. It earned it by doing the right thing 365 days a year over 90 years. One honest professional at a time. Our 100,000 clients worldwide—and many times more alumni of this firm—know personally the integrity of our 85,000 people. ("Statement to Chicago Media")

But news in the following days more than countered his plea. Headline after headline on January 29, 30, and 31 brought a seemingly endless barrage of damaging stories and negative brand associations for Andersen to grapple with. An article in the New York Post once again recapped the firm's history of accounting scandals with Boston Chicken, Sunbeam, and Waste Management

among others. It argued that each of these companies had in common "the see-no-evil auditing expertise of the Arthur Andersen LLP accounting firm." New York Post writer Christopher Byron also criticized Andersen's attempts to impact public opinion by arguing that since companies and investors pay auditors for their services, "it is inevitable that auditors rarely disagree with the managements of the companies they audit." Then Bryon cautioned readers to remember his observation whenever they heard CEO Berardino expound "about his firm's rock-solid integrity and its covenant of trust with the public" (Byron).

Next, the news media reported that Delta Air Lines, an audit client since 1949, was considering dropping Andersen as its auditor. The Wall Street Journal Online noted that Delta's potential switch "would be the most significant defection since the controversy broke late last year over Andersen's role in Enron's collapse." The article also observed that Delta's defection, "would mark the first concrete indication that the accounting firm is having trouble retaining big clients and could encourage additional companies to change auditors as well." Noting the firm's poor chances of landing new business under the circumstances, the writers cited comments from Ray Ball, an accounting expert at the University of Chicago's Graduate School of Business. "It's a brave CEO who's willing to get on board with Andersen at the moment," said Ball. "It would be very difficult to get that through the board and stockholders because of the reputation effect" (Brannigan and Opdyke).

Additional bad news came in the form of a class action lawsuit filed by lawyers representing angry Enron employees. Andersen was named as a

defendant along with several Enron executives and the trustee for Enron's employee retirement plan, the Northern Trust Company. Randy McClanahan, one of the plaintiffs' lawyers, commented that "Enron executives were profiting from an elaborate shell game, using the hard-earned retirement savings of their loyal employees" ("Andersen Named").

Then the largest stakeholder group affected by Enron, Andersen, and other alleged corporate accounting scandals made its feelings known. Late in the evening of January 29, the Wall Street Journal Online posted a story with the headline, "Accounting Woes Roil Stock Markets as Nervous Investors Stampede Exits." Writers E. S. Browning and Jonathon Weil asserted that,

> It's not the economy anymore, stupid. It's the accounting.
>
> Tuesday was the day that the smoldering corporate accounting scandal, which started with Enron Corp. and quickly spread to Arthur Andersen LLP, reached a wide group of U.S. companies and seriously singed their stock prices. Accounting problems surfaced at companies ranging from banking to oil, prompting fears of new mini-Enrons and spurring a sell-off of shares at the slightest whiff of trouble.
>
> As a result, despite broadly upbeat economic news, the stock market took a tumble, with shares falling to their lowest levels in three months.

On the January 30, stories detailed a claim by the United States Government Accounting Office (GAO) that Andersen had missed a $644 million error on an audit for NASA in 1999. The Houston Chronicle reported that the GAO, "blamed Andersen for 'excessive reliance on representations by NASA management' and said the firm did not do adequate auditing work to justify

signing off on the space agency's books." A GAO spokesperson declared that, "Their work did not meet professional standards [. . .]" (Reinert).

Meanwhile in Britain, Andersen was compelled to issue a press release defending itself from opposition party claims that it had an unusually close relationship with the country's Labour Party. The firm had been working with the current government despite Prime Minister Margaret Thatcher and her Conservative party banning Andersen from gaining government contracts in 1982 because of audit failures at the corrupt carmaker Delorean. This past reputation crisis had cost Andersen $62 million in settlement costs (Greising).

The Los Angeles Times reported that Andersen's reputation had been shredded. Writers Frammolino and Leeds suggested, "What John Wayne was to westerns, Andersen was to accounting." The authors cited comments from Bill Cummings, an accounting professor at Northwestern Illinois University and a past president of the American Accounting Association's Midwest region. "The conscience of the industry, essentially, appeared to sell out," Cummings said. "I think it's pure and simple. It's greed and the allure of the big-money clients."

An article on SmartPros.com, a Website targeted to accountants and other professionals, pointed out that, "According to past business failures and a handful of investigations into Andersen's auditing practices, this isn't the first time Andersen has approved inaccurate accounting." It noted that Seattle-based discount retailer Costco had received letters from shareholders about its 18-year relationship with Andersen and would be "forced to address the issue." It also reported that Andersen was dealing with regulatory scrutiny regarding its

relationship with an Australian client. The Australian Royal Commission was looking into the collapse of $2.8 billion HIH Insurance: "Australia's largest corporate failure that rivals the magnitude of Enron's collapse and impact on the United States" ("Andersen's Woes").

During this same period the January 28, 2002, edition of BusinessWeek magazine devoted its cover to a special report called "Accounting in Crisis: What Needs to Be Done." A fanciful photograph of two disembodied hands accompanied the headline—one entering figures on a ledger while the other erased another set of figures. Inside the story called for widespread accounting reform stating that, "The accounting industry, which largely regulates itself, has steadfastly resisted change, even in the face of repeated audit failures and scandals. That's about to change. The size and scope of the Enron disaster is simply too huge to ignore." The writer further chastised the Big Five accounting firms saying that they "had yet to acknowledge the need for fundamental change to their independence rules" (Byrnes 44-48).

By this time, Enron and Andersen were increasing their finger pointing at each other. C.E. Andrews, Andersen's Global Managing Partner, issued a statement on February 2 criticizing the findings of a report issued the same day by Enron's Special Committee investigating its financial failures:

> The report issued today by Enron's special committee is troubling on many levels. Nothing more than a self review, it does not reflect an independently credible assessment of the situation, but instead represents an attempt to insulate the company's leadership and the Board of Directors from criticism by shifting blame to others. More importantly, the report overlooks the fundamental problem—the fact that poor business decisions on the

> part of Enron executives and its Board ultimately brought the company down. [. . .]
>
> While we are disappointed with the report's contents, we are not surprised. This report fits Enron's established pattern of the last several months of attempting to shift blame to others. Company leadership and others with a governance role have had little to say about these decisions, and have generally declined to speak publicly or to appear before independent investigative committees of the U.S. Congress. ("Andersen's Statement")

The following day brought what would turn out to be Andersen's last bold move to salvage the firm and rebuild its reputation. CEO Berardino announced that Andersen had selected former Federal Reserve Board Chairman Paul A. Volcker to serve as chairman of an Independent Oversight Board charged with "making fundamental changes in its audit practice." The accounting firm also noted that the Independent Oversight Board would have "full authority to mandate changes [. . .] as it may find necessary and desirable." Berardino attempted to cloak the firm in Volcker's highly respected reputation by praising him as "one of the most independent and innovative thinkers in American finance." Andersen's news release also quoted Volcker commenting on the accounting industry's crisis: "Some months ago, in addressing the International Conference of Financial Executives, I stated that my concern was that 'the profession of auditing and accounting is in crisis.' That crisis is now evident to everyone" ("Andersen Sets Stage").

With a cover featuring the White House and the headline, "The Enron Mess: How Sticky Will It Get," the February 4, 2002, edition of Time featured stories about the accounting crisis. The first named a number of companies

receiving scrutiny because of their accounting or disclosure practices including Kmart, GE, Tyco, EDS, Xerox and IBM (Kadlec). Another asked whether lawmakers, including former Vice-Presidential candidate, Joseph Lieberman, could afford to block reform for auditing laws as they had reportedly done in the past (Frank).

On February 5, Kris Maher of the Wall Street Journal Online pointed out that accounting students were getting skittish about the scandal issue as well as going to work for Arthur Andersen. Her article quoted the chairman of the systems and accounting graduate programs at the Kelley School of Business at Indiana University with, "I think that all of the Big Five firms and all of the accounting profession have reason to be concerned about the impact this will have on students." Maher reported that many accounting firms were already having trouble attracting new talent before the scandal. She noted that, "According to the American Institute of Certified Public Accountants, the number of students enrolled in accounting programs dropped 25% between 1995 and 2000."

Independent accountants were the next to make their feelings known about the burgeoning crisis in a story published online on February 6. In a Website poll conducted of more than 1,600 independent accountants by AccountantsWorld.com, an online community of accountants with 50,000 registered members, 88.9 percent of respondents felt that Andersen's actions in the Enron scandal had damaged the image of accountants ("Independent Accountants").

During week 13 of the crisis, the February 12 edition of the Palm Beach Post reported that the Florida Board of Accountancy was considering revoking or suspending Andersen's state license. The article noted that Florida's action joined Connecticut and several other states that were considering banning Andersen. The Regulated Industries Committee of the Florida Senate had requested the board to investigate Andersen in hopes of avoiding "an Enron-like meltdown of a Florida-based company" (Ostrowski).

In addition to regulatory stakeholders, a survey of the opinions of another critical stakeholder group, senior financial executives at the 1,000 largest publicly-held companies in America, proved that Andersen and the rest of the accounting industry had a serious credibility crisis to overcome. Schulman, Ronca & Bucuvalas, a New York market research firm, had conducted telephone interviews with a random sample of 100 senior financial executives from February 5 through 8. The study found that 82 percent of respondents believed that Enron's collapse was a "'significant problem' for the 'credibility of auditing and accounting.'" And even more chilling for Andersen, half of the respondents said that their firms would not consider using Andersen in the future ("Financial Officers").

Everything Andersen said or did was getting close scrutiny by the press including its reputation management efforts. For example, the firm was also getting criticism for its third ad in a series of crisis advertising developed by Chlopak, Leonard, Schechter and Associates, a Washington firm noted for its crisis communication work. New York-based branding consultant, Alan Siegel,

said that the ads were "a waste of time" and not credible. "It's disingenuous for Andersen to say, 'We're learning, we're studying the situation.' This company has been in business 100 years, they're the Good Housekeeping Seal of Approval of accounting, and they say they're going to learn from this?" (Ahrens).

Clients Start to Close the Books

Until now, Andersen had only lost smaller client companies due to the Enron scandal. However, the Wall Street Journal Online reported on February 13 that SunTrust Banks had announced it was ending its 60-year relationship with Andersen and hiring PricewaterhouseCoopers as outside auditor. Interestingly, SunTrust Banks formally stated that its decision was not related to Andersen's role in the scandal at Enron. However, insiders said that the bank's board had indeed taken it into consideration in reaching its decision (Mollenkamp).

Andersen's reputation took yet another blow during week 14 of the crisis when the firm announced that the United Kingdom's Accountants' Joint Disciplinary Scheme was investigating it. The inquiry grew out of an investigation of Andersen's former client SSL International PLC by the United Kingdom's Serious Fraud Office. Andersen defended its work for SSL and pointed out that their former client may ultimately be cleared of wrongdoing ("Andersen is Subject").

During the same week, Andersen looked to limit its liability by trying to negotiate a universal settlement of between $700 million and $800 million with employees, creditors, and shareholders of Enron. The Wall Street Journal pointed

out that if the settlement were accepted, it "would mark the biggest litigation settlement ever by a Big Five accounting firm over an audit failure." Once again, the newspaper reminded its readers of Andersen's earlier accounting scandals with Waste Management and Sunbeam in which Andersen paid shareholders settlements of $75 million and $110 million respectively (Pacelle, Brown, and Weil).

Andersen suffered two more reputational and financial setbacks in week 15 of the crisis. First, pharmaceutical giant Merck announced that it had severed its 31-year relationship with Andersen, selecting PricewaterhouseCoopers for its new outside auditor. Then, Andersen agreed to pay $217 million to settle on the Baptist Foundation of Arizona lawsuit without admitting or denying blame ("Andersen suffers").

Andersen's next indignity was being abandoned by its own industry. A coalition consisting of the American Institute of Certified Public Accountants and the other Big Four accounting firms notified Andersen on February 27 that it was being removed from the industry's lobbying group. The Wall Street Journal Online reported that the coalition was concerned "that the firm's damaged reputation is tarnishing the group's ability to effectively lobby Capitol Hill and that reforms under consideration by the firm could go far beyond what the rest of the industry is willing to accept" (Schroeder and Hitt).

After taking initial wounds from SunTrust Banks and Merck, Andersen's client base began hemorrhaging during the week of March 4, 2002. First, Freddie Mac, the shareholder-owned, government sponsored mortgage banker, said it

would replace Andersen with PricewaterhouseCoopers after more than 30 years of working together (Bryan-Low and Hilsenrath). The next day brought the end of a 53-year relationship with Delta Air Lines when the airline awarded Deloitte & Touche its auditing business (Harris and Bryan-Low). Within its story about the Delta loss, the Wall Street Journal Online starting running an ongoing graphic (which over time would essentially become a death watch titled "Client Countdown") that showed the number of clients leaving Andersen and the firms picking up the defectors (Figure 1). Then, on Monday, March 11, freight courier FedEx said that it would drop the accounting firm in favor of Ernst & Young ("Fedex to Drop").

In order to try to maximize the reputation management benefits of its touted reform strategy, Paul A. Volcker announced a list of actions Andersen would take to help polish its image. The list included separating the auditing and consulting businesses, improving internal oversight, rotating partners on assignments every five years, and a "cooling off" period before partners could leave Andersen to take positions with client firms. All of the measures were designed to show stakeholders that Andersen was willing to reduce the potential for conflicts of interest (Bryan-Low and Geyelin).

Despite this latest dramatic move to shore up the Andersen reputation, Wall Street Journal reporters Bill Richards and Scott Thurm again brought up its past brushes with accounting scandals the following day, March 13. Noting lawsuits related to flawed audits at Boston Chicken, Baptist Foundation of Arizona, Sunbeam, Colonial Reality, and Waste Management and a "botched"

consulting assignment at collectibles marketer Department 56, the article detailed the settlement amounts for each case as well as a $7 million payment to the SEC in 2001 for fraud charges. The reporters claimed all of the settlements had happened within four years of their story.

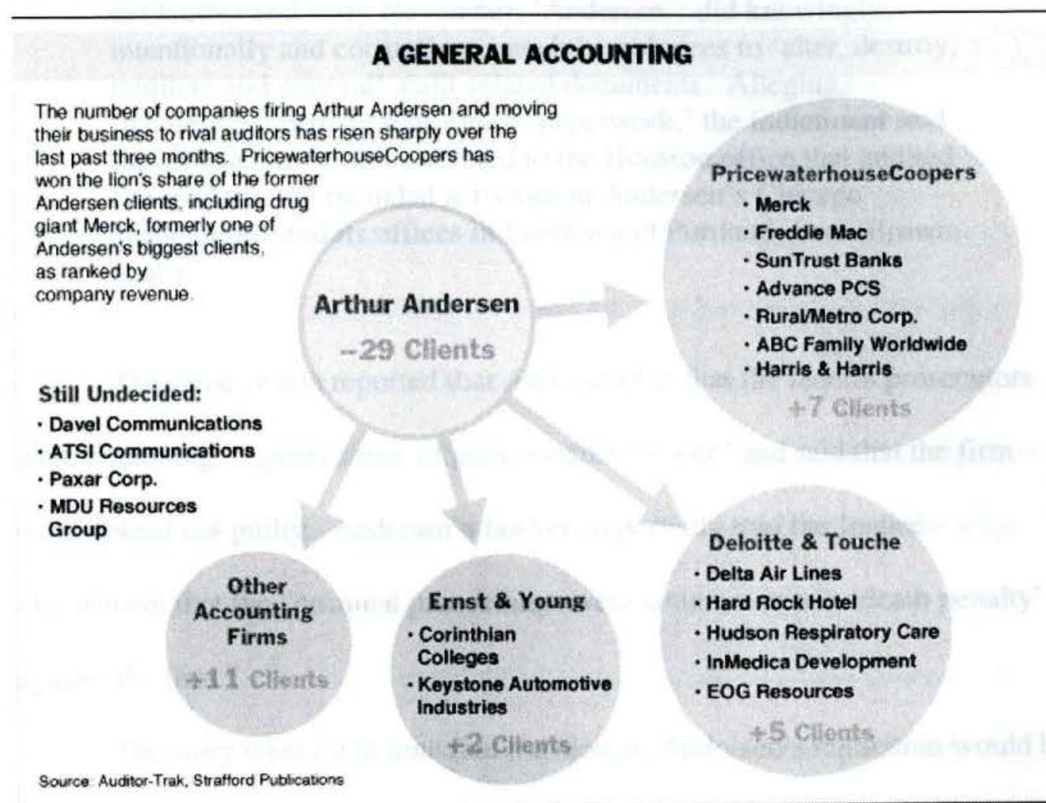

Fig. 1. Arthur Andersen client defections as of March 8, 2002. SOURCE: Auditor-Trak, Strafford Publications (qtd. in Harris and Bryan-Low).

"It's a Free-For-All Now"[3]

[3] Attributed to an anonymous Big Five partner commenting about Andersen partner defections in: Ken Brown, et al. "Andersen Indictment in Shredding Case Puts Its Future in Doubt as Clients Bolt." Wall Street Journal Online 15 Mar. 2002. 24 Jan. 2003 <http://online.wsj.com/article_print/0,,SB1016158286140770080,00.html>.

Then, on Thursday, March 14, just a little over 16 weeks since the beginning of the accounting firm's reputation nightmare, federal prosecutors charged Andersen with one felony count of obstruction of justice. The Wall Street Journal offered a summary of the allegations:

> A federal grand jury in Houston alleged that for a one-month span in October and early November, 'Andersen…did knowingly, intentionally and corruptly persuade' employees to 'alter, destroy, mutilate and conceal' audit-related documents. Alleging, 'wholesale destruction of tons of paperwork,' the indictment said the obstruction wasn't confined to the Houston office that audited Enron Corp. but included activities in Andersen's Chicago headquarters and its offices in London and Portland, Ore. (Brown, et al.)

The same article reported that Andersen felt that the federal prosecutors were exhibiting "a gross abuse of governmental power" and said that the firm would plead not guilty. Andersen's lawyers reportedly told the Justice Department that the "criminal proceedings were tantamount to a 'death penalty' against the firm."

The story went on to note that the blow to Andersen's reputation would be the hardest thing to counter in light of the indictment: "More clients will bolt, and partners as well." Trying to counter this image, a spokesperson for Andersen claimed that its partners "were fired up" and "going to fight this." However, a partner at one of the Big Five firms commented on partner defections stating, "I've got a dinner every night with an Andersen partner. It's a free-for-all now."

More clients dumped Andersen during the week including Kerr-McGee, Household International, SouthTrust, and Riggs National Corporation (Goff). By

March 18, several clients including Wyeth, Sara Lee Corporation, Brunswick Corporation, Polaris Industries, and Northeast Utilities had left. In addition, the General Services Administration announced it would not award any new federal contracts to Andersen while it faced the obstruction of justice charge (Bryan-Low).

Article after article speculated on Andersen's potential demise and the dramatic loss of its global reputation. With headlines ranging from "A Cultural Meltdown at Andersen" (Hopkins) in local newspapers such as the Philadelphia Inquirer to "A Global Reputation Falls Apart" (Martin) in global publications such as the Financial Times, the press created a global deathwatch for the once venerable firm. Peter Martin of the Financial Times noted that, "Accountants are watching Andersen's struggles with astonishment and fear. Although they have always known how important reputation was to their business, the speed with which the firm has started to unravel has taken everyone by surprise."

On March 20, Andersen pleaded innocent to the obstruction of justice charge and ran more full-page ads in the New York Times and Wall Street Journal that once again received scathing news media criticism. Allen Wastler, managing editor of CNN/Money, characterized the ads as a "pity play" with misplaced "Victorian outrage." He scornfully described the following ad copy as whiney: "When late-night comics gang up to make jokes about your firm, you know you're in a tough place. We acknowledge the obvious, but forgive us if we don't find the humor" (Wastler).

The ads featuring the headline "Why we're fighting back" marked a change in Andersen's crisis management and public relations strategy. Part of a defiant publicity campaign including public rallies by employees in Washington, Philadelphia, and Houston; grass-roots lobbying; and employees wearing "I am Andersen" and "Save Andersen" T-shirts; the ads described the indictment as "tragically wrong" and "a political broadside rather than a focus on the facts" ("Bean Counters").

More bad news was brought to light on Friday, March 22 when the Wall Street Journal reported that the SEC was examining Andersen's role as auditor for Global Crossing, Qwest Communications International, and WorldCom. The agency was investigating each of the three telecommunications firms for improper accounting (Pulliam and Berman).

Nervous clients moved their business during the week of March 25 including Calpine, Apache, Pennzoil-Quaker State, Callaway Golf, and First Financial Bankshares. These latest defections brought the number of publicly owned clients lost to 66 and many more such as International Paper were considering switching accountants (Benson and Bryan-Low).

Then, on Tuesday, March 26, after only 15 months in the position, Berardino resigned as CEO, bowing to pressure from Andersen's partners. Berardino had announced his resignation on CNN, giving a concise and accurate assessment of the effectiveness of the firm's crisis management strategy. Saying that he had "'been trying to make a negative into a positive,' adding that 'people just don't seem to be listening'" (Frank and Pacelle). Berardino also summed up

his personal leadership crisis over the last few months: "The decisions I've had have not been between good and bad, they've been between bad and worse (Brown and Wilke).

Still trying to rescue the dying firm, Andersen's partners approved Paul Volcker's plan to separate the auditing and consulting divisions on March 28 during a nationwide teleconference. Volcker claimed that the firm had a strong desire to return to its "audit-only roots" ("Volcker Names").

Another revelation surfaced on April 1, almost 20 weeks since the crisis began. Professional Services Insurance, the firm that was to pay Andersen's $217 million settlement for the Baptist Foundation of Arizona fraud lawsuit, was revealed to be insolvent and therefore unable to pay the claim. The insurance company's insolvency was blamed on Andersen failing to make a $100 million premium payment (Weil and Spurgeon).

News stories informed stakeholders that Carl Bass, a member of Andersen's Professional Standards Group charged with ensuring audit quality, was talking with federal investigators about his oversight role on the Enron account. Bass had repeatedly questioned Enron's accounting practices starting as early as 1999. This caused disputes with Enron that led the firm to ask David Duncan, the lead auditor on the account, to have Bass removed from the account. Bass was removed and given other assignments in 2000 (Hamburger, Schmitt, and Wilke).

The week of April 8 brought additional client defections bringing the total account losses to 160 for 2002. Bolting clients included International Paper,

Oracle, Walgreen (Blumenthal and Bryan-Low), and Qwest Communications International (for all services except auditing), itself a subject of a SEC probe into its accounting (Shawn Young). Halliburton, the firm's largest remaining client with billings of $26.5 million in 2001, also announced that it was considering replacing Andersen as well. The firms' relationship dated back to 1946 (Blumenthal and Bryan-Low).

Andersen's reputation and long-term outlook took another substantial blow on Tuesday, April 9 when former partner David Duncan pleaded guilty to obstruction of justice. Duncan testified that, "On Oct. 23, I instructed local people at Arthur Andersen to begin destroying documents, with the knowledge and intent that those documents would be unavailable to the SEC and others." Duncan told the federal court in Houston he accepted that his "conduct violated federal criminal law" and that he was "fully responsible" (Wilke, Weil, and Barrionuevo).

Then Andersen's knowledge that it had been risking its valuable reputation for some time came to light in articles by the Financial Times and Wall Street Journal. Financial Times writer Peter Spiegel reported that CEO Berardino had sent partners a confidential memo dated September 5, 2001, that warned them that Andersen's "reputation was becoming sullied." Berardino ordered the firm to "'scrub' clients clean" and "walk away from those that present unacceptable risk." Spiegel noted, however, that Andersen partners had decided to keep Enron after a similar "scrub" even though they believed that some of Enron's accounting was essentially "intelligent gambling." He also reported that Terry Hatchett, who

was the head of the firm's North American practice, had sent a memo to management in June 2001 arguing that, "the 'scale and frequency' of lawsuits and regulatory actions against the firm was causing a 'great risk to our brand and the financial well being of our firm.' "

Berardino's memo published in a newsletter called the Partner Report defined the problem as a "strategic issue" for the firm. "We cannot afford losses due to failed audits, flawed consulting projects or unhappy clients," wrote Berardino. "Our reputation won't tolerate it and our balance sheet won't support it—certainly not if costs continue to escalate." Berardino also observed "such problems are getting more frequent and serious." In what the Wall Street Journal described as "an almost spooky misreading of events to come," it reported that the memo also stated, "The good news is we do not face challenges beyond our control, we have the power, tools and ability to successfully address and mitigate threats to our firm. We know all we need to know to get this right, it's a matter of focus, discipline and will" (Brown).

"Out Here We Don't Call Audit Audit"[4]

When Andersen probably thought things could not get any worse, the press kept digging and finding more damning and embarrassing revelations. Federal investigators said it had transcripts of videotapes recorded for Andersen between 1998 and February 2001 that showed the close relationship between Enron and Andersen. On one tape, Richard Buy, then Enron's Chief Risk Officer,

[4] Attributed to Patricia Grutzmacher, an Andersen auditor working at Enron (Dugan, Berman, and Barrioneuvo).

commented "Arthur Andersen's penetration or involvement in the company is probably different than anything I've experienced. … They are kind of everywhere and in everything." Buy also said that Andersen was part of Enron's Project Armageddon designed to identify risk—"you know, the very unlikely event that could just bring Enron down." Ironically, one Andersen auditor may have inadvertently identified such an event by saying on another videotape, "Out here we don't call audit audit" (Dugan, Berman, and Barrionuevo).

Client losses continued unabated with Halliburton announcing on April 17 that it was moving its account to KPMG. Marriott, another big Andersen client, also revealed it might dump the firm even though it had said near the end of March that it would retain Andersen (Bryan-Low and Barrionuevo).

Friday, April 26 brought more major "setbacks" when the Justice Department did not accept Andersen's latest attempt at settling the case and when a federal judge refused Andersen's request to delay the obstruction of justice trial scheduled for May 5 ("Andersen Settlement Bid").

Sadly, not only Andersen's auditors were in trouble. Nancy Temple, an Andersen attorney, was revealed to be under investigation by the U.S. Justice Department (McBride). Temple had sent an email on October 12, 2001, to Michael Odom, the risk management partner in Andersen's Houston office who then forwarded it to David Duncan. Temple's email read in part, "It might be useful to consider reminding the engagement team of our documentation and retention policy. It would be helpful to make sure that we have complied with the

policy." Duncan and Odom would testify that the email prompted the destruction of Enron-related documents (Beltran).

In an article titled "Andersen Employees Begin to Bail Despite Firm's Insistence on Viability," the Wall Street Journal reported on the impact of the crisis. It noted that Andersen's Human Resources Department in Hartford, Connecticut was letting other companies come to its offices and interview its employees. It also observed that "Andersen essentially has three assets: staff, reputation and a client list. All three are gone, or leaving as fast as they can" (Brown and Bryan-Low).

The early days of May brought Andersen more negative associations reported by the news media. During testimony for the Baptist Foundation of Arizona Liquidation Trust's case against Andersen, an expert witness claimed Andersen "did not live up to the minimum requirements in the rules set up for auditors." He also criticized Andersen for apparently doing little to look into fraud allegations against the foundation in 1997 and 1998 (Brady).

On May 6, the Wall Street Journal Online reported that Andersen had suspended Paul Volcker, bringing its attempt at drastic reforms to help its reputation and its chances for survival to an end ("Paul Volcker Says"). Volcker would later claim that Andersen's partners were not enthusiastic about making the radical changes to the firm ("Volcker Says Andersen").

Then, on the following day, it was reported that federal prosecutors would present evidence in an attempt to prove that Andersen's senior partners and

lawyers knew of a cover up of its activities at Enron (Wilke, Raghavan, and Barrionuevo).

Andersen's sullied reputation was the catalyst for a major setback on May 7, the first day of its trial. The federal judge ruled that federal prosecutors could use evidence of Andersen's "past misconduct" to make the case that the firm had motive to obstruct justice. The ruling allowed Justice Department lawyers to bring up audit failures at Waste Management and Sunbeam. During 2001, Andersen had settled with the SEC over a civil fraud complaint regarding the Waste Management audits. Andersen had agreed as part of the settlement that it could be held in contempt of court if it violated securities-law in the future. Using its past offenses against it, Matt Friedrich, a Justice Department lawyer, "portrayed the firm as a serial offender" (Weil and Barrionuevo, "Andersen Runs").

Lead trial lawyer Rusty Hardin undoubtedly reinforced Andersen's growing image of avoiding accountability during trial proceedings on May 9. Hardin "unequivocally signaled" that the firm's legal team would argue that Andersen had done nothing wrong when it destroyed documents related to Enron. This despite the fact that Andersen had tried to take the high road in managing its reputation earlier in the crisis by claiming that "Andersen's policies and reasonable good judgment were violated" (Weil and Barrionuevo, "Andersen Now").

Andersen's credibility suffered again when James A. Hecker, a partner who worked in its Houston office, testified that the firm knew of problems at

Enron prior to the start of the SEC's investigation of the energy trader. Hecker claimed that Enron's Vice President of Corporate Development, Sherron Watkins, a former Andersen auditor who had worked with Hecker, had called and told him of her concerns about Enron's accounting practices. Hecker had in turn informed David Duncan and other Andersen associates referring to the situation as " 'smoking guns' that you can't extinguish." Although he did not work on the Enron account, Hecker testified that staff in the Houston office considered Enron a "high-risk client" (Barrionuevo and Weil, "Partner").

Embarrassing both Andersen and Vice President Dick Cheney, the news media reported during week 25 of the reputational crisis that Cheney had been featured on a marketing videotape created for Andersen prior to Cheney's election. Cheney, as CEO of Halliburton, was one of several senior executives of major client firms that effusively endorsed Andersen on the tape. The Wall Street Journal Online started its story by quoting Cheney as saying Andersen offered "over and above just sort of the normal by-the-books auditing arrangement" (Raghavan and Cummings).

On Monday, May 13, David Duncan testified that he knowingly obstructed justice when he ordered fellow members of the Enron account team to follow Andersen's "document-retention policy." Considered the government's leading witness against Andersen, Duncan admitted that he knew that the instruction would lead to staff members destroying, rather than saving, important Enron accounting documents and work papers (Barrionuevo and Weil, "Duncan"). The following day, Duncan continued his testimony saying he had

ordered the destruction of documents because he was afraid of potential lawsuits and regulatory investigations that could harm the accounting firm (Weil and Barrionuevo, "Duncan Says Fear").

Client defections continued as the trial went on with Friendly Ice Cream Corporation and Major League Baseball moving to Ernst & Young and Deloitte & Touche respectively ("Bids and Offers"). By May 16, the Wall Street Journal Online was reporting that 421 clients had dropped Andersen due to the Enron debacle ("Client Countdown," May 16).

More bad news was being generated outside of the trial. On May 20, the Texas State Board of Public Accountancy moved to revoke Andersen's Texas license to practice accounting because of its role in Houston-based Enron's collapse. The board also recommended that Andersen pay at least $1 million in fines and penalties (Associated Press). After appropriate hearings were held, Andersen ultimately lost its Texas accounting license on August 16, 2002 (Reuters, "Andersen Loses").

Both the government and Andersen's lawyer, Rusty Hardin, offered closing statements on June 5 and the fate of Andersen was placed in the hands of 12 Texas jurors late that night (Barrionuevo and Weil, "Trial"). The jurors deliberated until June 12 when they informed the court that they were deadlocked and therefore unable to reach a verdict. U.S. District Judge Melinda Harmon directed them to try to reach a verdict noting that a second trial would result in more time and expense (Barrionuevo and Weil, "Andersen Jury").

Then in crisis week 30, after dying a little bit each day for over six months and having lost 755 clients (Figure 2), Andersen and the remnants of its once proud reputation were finally taken off life support. On Saturday, June 15, 2002, the federal jury convicted Andersen of a single felony count of obstructing an official government proceeding. The conviction came on the tenth day of jury deliberations. It effectively ended Andersen's 89-year life by barring it "from auditing the financial statements of companies registered with the Securities and Exchange Commission" (Weil and Barrionuevo, "Arthur Andersen is Convicted").

Despite the fact that prosecutors had relied on David Duncan as its star witness, some jurors claimed they had based their guilty verdict not on the actions of an accountant, but on the actions of another professional—Andersen in-house lawyer, Nancy Temple. Jurors felt that Duncan's testimony lacked significance since he had struck a cooperation agreement with the government. Instead, jurors focused on their finding that Temple had tried to persuade Duncan to remove her name from a memo because it might increase "the chances that I might be a witness, which I prefer to avoid" (Hays, "Jury Convicts"). Prosecutors had charged during the trial that Temple had been the catalyst for the destruction of Enron documents at the firm's offices in Houston, Portland, London, and Chicago because of her reminders to follow Andersen's "euphemistically dubbed 'document-retention' policy" (Weil and Barrionuevo, "Arthur Andersen is Convicted"). Unlike Duncan, Temple did not testify at the trial after taking her Fifth Amendment rights.

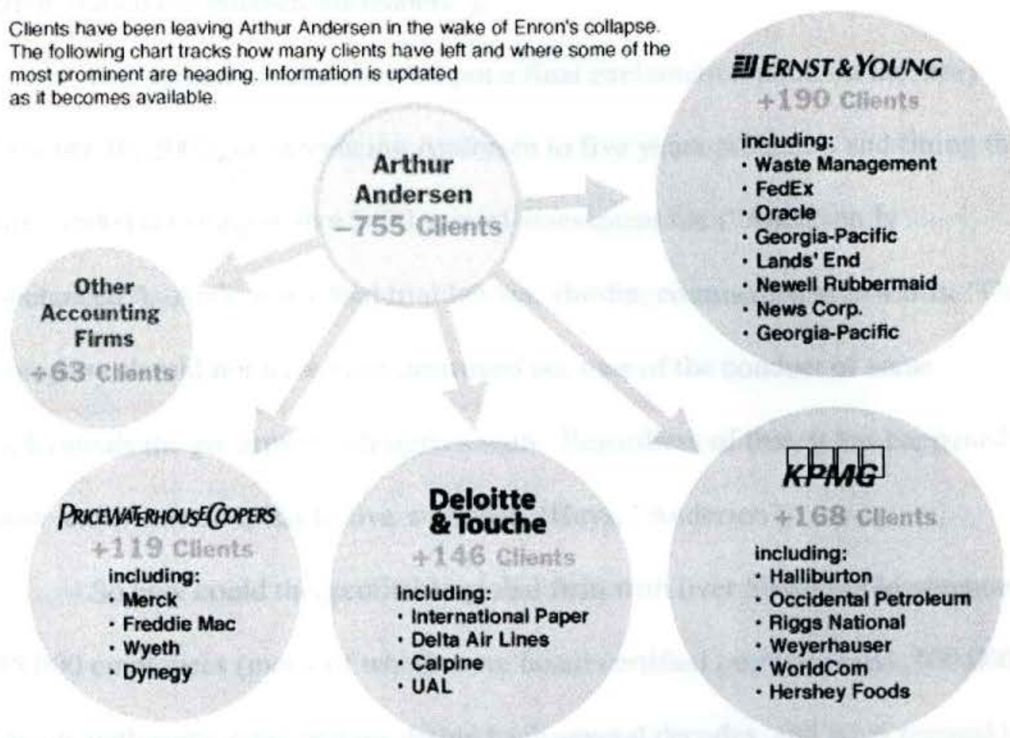

Fig. 2. Arthur Andersen client defections as of June 14, 2002. SOURCE: The Wall Street Journal, DowJones Newswires (qtd. in "Client Countdown" 14 June 2002).

"Andersen Is Dead"[5]

Although Reuters reported on August 29 that Andersen Worldwide Chief Executive Aldo Cardoso had uttered the words, "Andersen is dead" ("Cardoso"), Saturday, August 31, 2002, marked the company's official death as an accounting powerhouse. For this was the day Andersen stopped auditing publicly traded companies and surrendered its accounting licenses in every U.S. state. By this time, 41 weeks into an unprecedented reputation crisis, Andersen was down to

[5] Attributed to Andersen Worldwide Chief Executive Aldo Cardoso (Reuters, "Cardoso").

less than 3,000 employees in the United States from the 28,000 it had when the crisis started ("Andersen Surrenders").

U.S. District Judge Harmon put a final exclamation point on the story October 16, 2002, by sentencing Andersen to five years probation and fining the firm $500,000 along with a $400 special assessment fee ("Andersen Is Sentenced"). Andersen's lead trial lawyer, Hardin, commented afterwards, "Our company should not have been destroyed because of the conduct of some individuals the government disagrees with. Regardless of that, it has happened now and (Andersen) has to live with that" (Hays, "Andersen").

So how could this profitable global firm with over $9 billion in revenues, 85,000 employees (many of whom were board certified professionals), 100,000 clients with some relationships dating back several decades, and what seemed to be a rock solid, legendary reputation suddenly cease to exist as a viable business? Why did it lose its corporate life so quickly due to a poor reputation while Enron, Tyco, WorldCom, Martha Stewart Living Omnimedia, and all the other organizations tainted by scandal during the same period still exist as of this writing?

Of course, the simple answer to this question is that Andersen failed to manage its reputation as a strategic asset to ensure long-term organizational viability. Despite the fact that Andersen had suffered through series of highly visible reputation crises linked to their work for client firms such as Delorean, Colonial Realty, Sunbeam, Waste Management, and the Baptist Foundation of Arizona that had cost the firm hundreds of millions in settlements and fines from

1982 to 2001 (Huffington 193), no action had been taken to get its reputational house in order. Although Berardino and other senior managers had identified Enron as "one of some 50 clients deemed 'maximum risk,' while 700 more were considered high risk" (Byrne 53), the firm ignored the enormity of these undeniable warning signs while focusing on short term profits. Even though it had well-established control procedures to guard against rogue behavior by auditors, it apparently compromised those safeguards to kowtow to Enron, its largest client (Hamburger, Schmitt, and Wilke). And through it all, no one appeared to have had functional responsibility for ensuring that Andersen's reputation and therefore its lifeblood as a professional services firm was being nurtured and protected. However, these examples do not adequately illustrate all the factors that contributed to, or illuminate the lessons that can be learned from, the death of a firm that many people considered the gold standard of accounting.

Project Outline and Purpose

As noted earlier, this paper's purpose is to provide a justification for major organizations to add a chief reputation officer position to their senior management organizational structures. The preceding case history of Andersen's last of many reputation crises and its resulting demise has been introduced in chapter one as a topical, substantial example of the consequences of ignoring corporate reputation management. With this case now added to the reputation crisis literature as a frame of reference for the reader, chapter two will review current literature from multiple disciplines regarding the definitions of corporate reputation and

reputation management. Once the reader has reviewed these broad, basic tenets of reputation management science, chapter three will focus on existing literature pertaining specifically to the chief reputation officer concept. Rather than take a multi-disciplinary approach, the chapter will narrowly focus on the works of three writers, two academics and one practitioner, coming from the reputation management perspective. Chapter four will present an executive summary justifying the chief reputation officer by detailing the role's breadth and depth of responsibilities and incorporating the latest thinking on the subject into one comprehensive recommendation. Then, Chapter five will complete this project by returning to the Andersen case history to provide selective analysis of the company's crisis and further support for the chief reputation officer position.

Chapter II

LITERATURE REVIEW

"What isn't matter is what matters."

– Jeffrey F. Rayport, Professor Harvard Business School[6]

A Multidisciplinary Approach

The following literature review is based on a multidisciplinary research approach that included works from leading academics in the areas of reputation, image, identity, branding, corporate communications, integrated marketing communications, public relations, and corporate values. Also considered were works by practitioners and consultants in the areas of marketing communications, crisis communications, business strategy, auditing, brand strategy, and public relations. As is often the case, many of those authored by practitioners and consultants varied widely in quality and were undoubtedly written to serve as self-promotion for the authors and their firms. However, some offered either strategic or tactical value in the form of reputation management case histories or how-to tips.

This multidisciplinary approach was required and beneficial for several reasons. First, the field of reputation management science is relatively new and therefore there are few major works on the subject. Second, reputation management is intricately intertwined with other fields of study, some of which

6 Quoted from the Introduction to: David E. Carter. Branding: The Power of Market Identity. New York: Hearst Books International, 1999.

are also relatively new, such as corporate branding, brand management science, and integrated marketing communications. Third, the practice of reputation management requires a holistic approach that includes a wide array of corporate disciplines and practices. And fourth, very few pages have been devoted to the theoretical concept of the chief reputation officer. Therefore, a multidisciplinary review overcomes some of these limitations and adds depth and breadth to the subject by including closely related concepts from converging fields of study.

The Elusive Definition of Corporate Reputation

Perhaps one of the obstacles in gaining support for the chief reputation officer function is the lack of a commonly understood definition of corporate reputation. Mouritsen (2000) suggested that reputation is not easily defined (209), an observation that is readily confirmed after reviewing the literature. In fact, Davies et al., in Corporate Reputation and Competitiveness (2003), described reputation as "a woolly concept, a mixture of constructs" (57). These constructs include corporate identity, corporate image, corporate branding, and brand equity. However, many of these constructs have definitions that are very similar to the definition of corporate reputation depending on an individual discipline's perspective. Dowling (2001) noted that, "consultants, managers, and many academics [incorrectly] use the terms corporate identity, corporate image, and corporate reputation interchangeably" (18). Davies et al. concurred with Dowling's assessment and pointed out, "because the study of corporate reputation management is relatively new, some of its terminology has yet to be

standardized" (61). Therefore the many definitions of reputation, as well as the related concepts of corporate identity, corporate image, corporate branding, and brand equity, likely confuse perceptions of the meaning and value of reputation management and the role of the chief reputation officer.

One of the most often cited resources pertaining to reputation management is Charles Fombrun's seminal work Reputation: Realizing Value from the Corporate Image (1996). In it he offered a working definition of corporate reputation: "A corporate reputation is a perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all of its key constituents when compared with other leading rivals" (72).

Harris and de Chernatony contributed to the literature by cataloging a number of definitions of corporate reputation in 2000. They noted that many interpret reputation as "the accumulated perceptions of an organization or brand, encompassing a historical perspective." These definitions include "reputations represent publics' cumulative judgments of firms over time" from Fombrun and Shanley (1990) and "reputation is an aggregate composite of all previous transactions over the life of the entity, a historical notion, and requires consistency of an entity's actions over a prolonged time" from Herbig and Milewicz (1995). Others included were Weigelt & Camerer's (1988) definition, "a set of attributes ascribed to a firm, inferred from the firm's past actions" and Marwick and Fill's (1997), "a reflection of the historical, accumulated impacts of previously observed identity cues and possible transactional experiences." Fombrun and Rindova

(1996) described corporate reputation as "a collective representation of a firm's past actions and results" (qtd. in Harris and de Chernatony 5).

The authors observed that credibility was another theme found in definitions. They noted that Herbig and Milewicz (1997) defined reputation as "the estimation of the consistency over time of an attribute of an entity… based on the entity's willingness and ability to perform an activity repeatedly in a similar fashion." They also cited Fombrun and Rindova (1996) proposing that reputation "describes the firm's ability to deliver valued outcomes to multiple stakeholders" (qtd. in Harris and de Chernatony 5).

This multiple stakeholder perspective was another theme. Gray and Balmer (1998) defined it as "the estimation of a body's reputation." Saxton's (1998) view was that reputation is "the reflection of an organization over time as seen through the eyes of its stakeholders and expressed through their thoughts and words." And Fombrun and Rindova (1990) proposed that reputation involved both internal employees and external stakeholders (qtd. in Harris and de Chernatony 5-6).

Harris and de Chernatony also cited two other perspectives. First, they suggested that reputation involves a comparison of a brand's or company's standing versus its competitors. They cited Fombrun and Rindova from 1996: "it gauges a firm's relative standing … in both its competitive and institutional environment." Second, Schweizer and Wijnberg (1999) add further depth to the definition by approaching it from the perspective of buyer behavior: "a firm's corporate reputation is a shorthand evaluation of the stock of information about

that firm in the possession of a particular actor or group of actors that is used by those actors to make decisions, involving a certain degree of risk with regard to the firm, without feeling the need to collect more information" (qtd. in Harris and de Chernatony 6).

Other definitions abound. Mouritsen noted Klein's (1997) definition:

> An effect of various streams of cues, each established in relationships with external 'stakeholders', who often, on the basis of very limited information, construct ideas about firms and their conduct. Reputation is formed by an ambiguous assemblage of hunches about what firms stand for. It is, therefore, a fragile resource, the management of which is far from trivial. (in Mouritsen 208-209)

Saxton (1998) argued that a "company's reputation comes from everything the company, its employees and others say about the company, how the company behaves, and the strategies it tries to enact. Stakeholders learn about a company from a variety of sources, some of which are difficult for the company to manage and control" (qtd. in Mouritsen 209).

The definition of corporate reputation becomes even more muddled when related concepts are introduced. According to Davies et al. (2003), while some authors define corporate identity in terms of graphic design or "tangible imagery (logo, building design, colour, etc.)," Davies and his colleagues preferred to call those elements "corporate visual identity." They then offered the following definitions:

> *Image* is taken to mean the view of the company held by external stakeholders, especially that held by customers [. . .].

Identity is taken to mean the internal, that is the employee's, view of the company [. . .].

Reputation is taken to be a collective term referring to all stakeholders' views of corporate reputation, including identity and image. (61)

Grahame Dowling (2001), of the Australian Graduate School of Management, offered four definitions in an attempt to separate the concepts of corporate identity, corporate image, corporate reputation, and corporate super-brand:

Corporate identity: the symbols and nomenclature an organization uses to identify itself to people (such as the corporate name, logo, advertising slogan, livery, etc.).

Corporate image: the global evaluation (comprised of a set of beliefs and feelings) a person has about an organization.

Corporate reputation: the attributed values (such as authenticity, honesty, responsibility, and integrity) evoked from the person's corporate image [a stakeholder's view of a company's image].

Corporate super-brand: the trust, confidence, and support that flow from the person's corporate reputation [a stakeholder's view of a company's reputation]. (19)

Dowling argued that the fit between corporate image and a person's value system results in corporate reputation:

If some beliefs and feelings about a company (ie., its image) fit with a person's values about the appropriate corporate behaviour, then the individual will form a good reputation of that company. This applies for both internal stakeholders (e.g., employees) and external stakeholders (e.g., customers). In effect, a good corporate reputation represents a tight 'fit' between the image of the company and the individual's free-standing value system. (21)

For his definition of corporate identity, Fombrun (1996) ignored visual identity elements and incorporated the often cited concept of organizational identity from Albert and Whetten (1985):

> Corporate identity describes the set of values and principles employees and managers associate with a company. Whether widely shared or not, a corporate identity captures the commonly understood features that employees themselves use to characterize how a company approaches the work it does, the products it makes, and the customers and investors it serves. Corporate identity derives from a company's experiences since its founding, its cumulative record of successes and failures. It describes the features of the company that appear to be central and enduring to employees. (in Fombrun 36)

Fombrun then distinguished corporate image from corporate identity:

> Sometimes a corporate image accurately mirrors the company's identity; more often than not, the image is distorted (a) as the company tries to manipulate its public through advertising and other forms of self-presentation, or (b) as rumors develop from the unofficial statements of employees to peers, analysts, and reporters. In due course, different images form, some consistent, some less so. (37)

He then offered the related concept of corporate reputation:

> As evaluators rate a company against a peer group of others, an overarching reputation crystallizes from the plethora of images produced. Based on the American Heritage Dictionary's description of the word "reputation," we define a corporate reputation as the overall estimation in which a company is held by its constituents. A corporate reputation represents the "net" affective or emotional reaction—good or bad, weak or strong—of customers, investors, employees, and the general public to the company's name. (37)

Coming from a corporate communications perspective, Argenti and Forman (2002) defined corporate identity as "the many physical attributes of a company, including names, brands, and symbols," corporate image as "how each constituency views your organization," and corporate reputation as "the cumulative impact of the images all constituencies have of your organization" (57).

Gregory and Wiechmann (1999) claimed they would clear up the "confusion in terminology" with their definitions of identity and image (unfortunately they failed):

> The basic elements of corporate identity are the name and logo (also called the mark or symbol) of the company. Identity is concerned with the planned visual elements in their many varied applications that are used to distinguish one corporation from all the others—the use of the company name and logo on stationery and business cards, building and vehicle signs, point-of-purchase displays, collateral materials, and, of course, advertising. [. . .]
>
> In short, corporate identity is a visual statement of who and what a company is. [. . .]
>
> Corporate image is the combined impact made on an observer by all of a corporation's planned and unplanned visual and verbal communications as well as by outside influences. It's the sum total of a company's advertising and the sudden decline in the company's stock price. It's the success of a brand-new product line and the nervous pitch of an inexperienced salesperson. It's the appointment of a new CEO and the welcome behavior of a company truck driver who helps a stranded motorist. It's anything and everything that influences how a corporation is perceived by its various target publics or by even a single customer. (63-65)

Determining a definitive meaning of corporate reputation is further complicated by terminology from the study of brand management science. For

example, the intangible asset of brand equity is comprised of many of the same constructs found in the intangible asset of corporate reputation. Brand management science pioneer David Aaker's (1996) definition for brand equity "is a set of assets (and liabilities) linked to a brand's name and symbol that adds to (or subtracts from) the value provided by a product or service to a firm and/or that firm's customers" (8). Aaker contended that brand equity is comprised of brand name awareness, brand loyalty, perceived quality, and brand associations.

Knapp (2000) suggested a similar definition for brand equity: "the totality of the brand's perception, including the relative quality of products and services, financial performance, customer loyalty, satisfaction, and overall esteem for the brand. It's all about how consumers, customers, employees, and all stakeholders feel about the brand" (3).

In addition to brand equity, one writer's definition of the term brand is very similar to the many definitions of corporate reputation. The CEO of John Hancock Financial Services, David F. D'Alessandro (2001), suggested, "A brand is more than just advertising and marketing. It is nothing less than everything anyone thinks of when they see your logo or hear your name" (164). He also noted that the "information revolution" has added things such as a company's environmental record, labor practices, quality controls, customer service, as well as Internet rumors to constituents' perceptions of a brand (xiv).

Brand asset management consultant Scott Davis (2000) offered a definition of corporate branding that is similar to others' definitions of corporate reputation and that also incorporated the discipline of integrated marketing

communications: "a composite of all the experiences, encounters, and perceptions a customer has with a company. It implies that all internal and external communications are aimed at presenting a single, unified message. Corporate branding strives to build trust in the company, not in a particular brand or service" (31).

Despite the fact that their work was published as recently as 2002, Low and Kalafut ignored the widely recognized concept of corporate branding as well as the service sector when they proposed their simplified distinctions between brand and reputation. They defined brand as "the cluster of attributes and emotions customers associate with a particular product or set of products, including those products' value and functionality." The researchers and experts on intangible assets defined reputation as "what a variety of stakeholders—not just customers but suppliers, other businesses, investors, employees, regulators, and the community at large—think of the whole company" (110).

The field of integrated marketing communications also involves corporate branding, corporate identity, corporate image, and corporate reputation. In their seminal work from 1994, Schultz, Tannenbaum, and Lauterborn argued "In a parity marketplace, the only real differentiating feature that a marketer can bring to consumers is what those consumers believe about the company, product, or service and their relationship with that brand. The only place that real product or brand value exists is within the minds of the customers or prospects" (45).

Duncan and Moriarty (1997) subsequently defined integrated marketing as "a cross-functional process for managing profitable brand relationships by

bringing people and corporate learning together in order to maintain strategic consistency in brand communications, facilitate purposeful dialogue with customers and other stakeholders, and market a corporate mission that increases brand trust" (9). The authors also argued that brands exist within the minds of individual stakeholders and that they are "formed and reformed based on a "bundle" of brand messages that stakeholders automatically integrate." Here again, the concept of corporate reputation is inherently woven within related terminology.

The multidisciplinary nature of the study of corporate reputation management and the resulting lack of consistency in defining terminology led Hatch and Schultz (2000) to characterize it as "the Tower of Babel in identity research" (11). And while they believed that this leads to "conceptual confusion," they argued that simplified common language would rob the concept of identity [and its related concepts] of "information richness." Still, the numerous and often conflicting definitions of corporate identity, corporate image, corporate reputation, brand equity, corporate branding, and brand may be making it difficult for senior managers to recognize and understand the value of reputation management. However, the fact that so many converging fields of study as illustrated in figure 3 are all essentially endorsing the positive value of corporate reputation regardless of their definitions, it is conceivable that the strength of this collective voice will create a greater awareness and an appreciation for reputation management and its proposed champion, the chief reputation officer.

Selected Disciplines' Definitions of Corporate Reputation and Related Terms						
Field of Study	Reputation Management	Brand Management	Corporate Branding	Corporate Identity	Integrated Marketing Communication	Corporate Communication
	↓	↓	↓	↓	↓	↓
Terminology	Corporate Reputation	Brand Equity	Brand	Corporate Image	Brand Value	Corporate Reputation
Definition	A perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all of its key constituents when compared with other leading rivals[7]	A set of assets (or liabilities) linked to a brand's name and symbol that adds to (or subtracts from) the value provided by a product or service to a firm and/or that firm's customers[8]	Nothing less than everything anyone thinks of when they see your logo or hear your name[9]	It's anything and everything that influences how a corporation is perceived by its various target publics or by even a single customer[10]	What... consumers believe about the company, products, or service and their relationship with that brand[11]	The cumulative impact of the images all constituencies have of your organization[12]

Convergence

Fig. 3. A comparison of definitions of corporate reputation and related terms. SOURCE: Author.

7 Fombrun 72

8 Aaker 8

9 D'Alessandro 164

10 Gregory and Wiechmann 65

11 Schultz, Tannenbaum, and Lauterborn 45

12 Argenti and Forman 57

Reputation Management is Not Public Relations

Recognizing the potential scope and responsibilities of the chief reputation officer requires an understanding of reputation management and the many disciplines and managerial practices involved. Ironically, the public relations field, which has a major role to play in reputation management and could see its role and value greatly expand through corporate adoption of the chief reputation officer function, may be inadvertently clouding that understanding.

Newsom, Turk, and Kruckeberg (2000) noted that certain practitioners in the public relations field, especially in the United Kingdom, have adopted the name reputation management in place of public relations in hopes of improving the image of public relations and to better describe their function (72). In addition, the recent edition (2002) of a widely adopted college textbook on advertising defined reputation management as a long-term process that resides solely within the realm of public relations (Arens 342). While some public relations practitioners use the term in an attempt to counter the negative connotations of the word spin, Seitel (2001) claimed that other public relations practitioners use reputation management as another name for issues management that he describes as a component of crisis management, itself a component of public relations (205).

These limited and inconsistent definitions from the public relations field may be confusing the concept of reputation management leading some CEOs and boards of directors to think, "We already have a public relations function" and

hastily discount the concept as superfluous or tactical in nature rather than having any strategic importance.

Despite the growing adoption of the term by the field of public relations, Davies et al. (2003) questioned whether public relations "is evolving into a Reputation Management role" noting that the field is "rarely seen as strategic," practiced by managers with journalism or media backgrounds, and typically involved in short-term and tactical activities (33). Davies and his colleagues argued that the public relations role is too narrow to accommodate the broader scope of reputation management: "The implications of the changes in the business environment include the need to match better the organization to its environment rather than try to promote a positive picture whatever the reality" (39). They also contended that the role of public relations in the corporate environment has already been surpassed by the broader role of corporate communications or corporate affairs (57).

One of Australia's leading researchers and writers on marketing, Professor Grahame Dowling (2002), also discredited the idea of reputation management being solely a public relations practice. He claimed that " The management of an organization's desired image and reputation is too important to be outsourced to an ad agency, public relations group, or corporate design firm, although each of these groups may play a crucial role in helping to build this strategic asset" (viii).

Professor Charles Fombrun (1996), Director of the Reputation Institute at the Stern School of Business, New York University, also rejected the notion of reputation management being just another term to describe public relations.

While he acknowledged that companies have relied on public relations to shape the perceptions of external constituents such as customers, he proposed that if the public relations generated images don't match the "core characteristics" of the company, the images will break down over time. Contending that companies need enduring and resilient reputations to survive scandals, crises, and attacks, Fombrun declared, "This is not the stuff that traditional public relations is made of. What is needed to sustain reputation is a strong and supportive infrastructure of interwoven managerial practices" (60-61).

Even one of public relations' own, Davis Young (1996), discounted the concept of public relations being synonymous with reputation management: "Public relations is not reputation management. Rather, it is an outgrowth of reputation policy" (11).

The academic literature confirms the idea that reputation management is far more than a public relations subject and supports Fombrun's assertion that interwoven managerial practices are necessary to sustain reputation. Schultz, Hatch, and Holten Larsen (2000) pointed out that the related concepts of reputation, identity, and corporate brand involve the crossing disciplines of communication, marketing, organization studies, accounting, and strategy (3). Within these broad disciplines, the literature review revealed that a holistic approach to reputation management involves managerial practices and concepts such as:

- corporate mission and vision
- corporate principles, values, and ethics

- corporate identity (organizational identity and symbols—names and logos)
- organizational personality
- organizational integrity
- corporate culture
- corporate brands
- product or service brands
- integrated marketing communications
  - product and service advertising
  - corporate advertising
  - sales promotion
  - public relations
  - media relations
  - investor relations
  - customer relations
  - community relations
  - government relations
  - competitor relations (reputation commons management)
- cause-related marketing
- corporate communication
- brand equity management
- customer service

- human resources (labor and recruiting practices and employee relations)
- supplier relations
- quality
- social responsibility
- corporate philanthropy
- pricing policies and strategies
- corporate alliances
- corporate image
- corporate governance
- compensation policies for executives and employees
- competitiveness
- corporate stories
- crisis management
- change management

So what is the definition of reputation management? A review of the academic literature did not reveal a simplified, viable definition. Schultz, Hatch, and Holten Larsen (2000) noted that "reputation as strategy means that concern for corporate reputation drives organizational and managerial processes both within corporations and between corporations and their stakeholders" (5).

Davies et al. (2003) offered several concepts in defining reputation management:

> Our perception of reputation can also be shaped in part by the deliberate actions of the entity we are appraising, motivated to mould our perceptions to create a favourable disposition towards it. An individual or organization can manage our view of their reputation through what it chooses to communicate to us. Formal communication will dominate this process when the entity is something we cannot or do not interact with. [. . .]
>
> Central to our view on Reputation Management is the idea that identity influences image, that the views of employees of their organization will influence the views of customers. [. . .]
>
> Equally central to our thinking about Reputation Management in organizations is the notion of harmonization. Superior reputations exist when those aspects of reputation that satisfy customer facing employees also satisfy customers. [. . .]
>
> Reputation management is about ensuring that the same emotional attachments satisfy and motivate both key staff and customers. (74-75)

Fombrun (1996) proposed that in order to have a positive reputation, a corporation must invest heavily to build and maintain good relationships with all of its constituents. It also requires measuring and monitoring how the company is relating to its four major constituencies: employees, investors, customers, and communities. Fombrun argues that this practice of managing favorable reputations pays off over time with a number of tangible benefits: "premium prices for products, lower costs of capital and labor, improved loyalty from employees, greater latitude in decision making, and a cushion of goodwill when crises hit" (57).

In order for a company to establish programs necessary to actively relate with various constituents, Fombrun asserts that it must audit its "reputational

profile" or its position against its competitors. He contends that this reputational audit process requires a three-step approach:

> Stage 1: A diagnostic review of the company's current identity, images, and reputation.
>
> Stage 2: A strategic analysis of trends, plans, and competitive positioning that defines the company's desired future state.
>
> Stage 3: A review of the company's plans for managing the transition toward the future state. (206-207)

Practitioners have tried to define reputation management with mixed results. For example, Griffin (2002) failed to offer a definition at all despite writing the book Reputation Management and titling its second chapter "Definition of Terms: What is Reputation Management?" His work also suffered by coming from the limited U.K. public relations paradigm versus the holistic reputation paradigm. Edelman Public Relations Worldwide has an overly simplified definition that fails to define the full scope of reputation management: "Reputation management is the orchestration of discreet initiatives designed to promote and protect one of the company's most important assets—its corporate reputation—and to help shape an effective corporate image" (qtd. in Marconi 3).

The defunct public relations industry magazine called Reputation Management used definitions from two different perspectives—the public relations counselor view and the corporate management view. The combination of these two perspectives offers the most encompassing definition of the practice in a relatively concise manner:

> (1) a counseling discipline that recognizes the importance of reputation as an organizational asset and seeks to ensure the management decisions are taken in an environment in which reputational implications are fully understood, evaluated, and considered so that an organization's behavior earns it a strategically appropriate reputation with important stakeholders; and (2) a results-oriented management function that seeks to leverage reputation as an asset, enlisting important stakeholder groups, including employees, consumers, communities, and investors, to assist the organization in the achievement of its strategic design, and seeking to minimize the resistance of those groups to legitimate management objectives. (in Marconi 2-3)

While reputation management may be difficult to adequately define in simple terms, recognition of its benefits is growing due to the widespread adoption of corporate brand management strategy. This involves the corporation or organization as a brand (Andersen) versus an individual line brand of product or service (Sprite). Corporate brands have been commonplace in areas such as automotive and financial services where the corporation brand is the same as the products or services. However, de Chernatony (2001) pointed out that more companies are moving towards corporate branding to cut costs and better manage product categories versus individual line brands. Professor de Chernatony cites Mitchell (1997) to add depth to the understanding of this new branding model that intrinsically incorporates reputation management:

> We have moved from the industrial age, which stressed tangible assets, to the information age which seeks to exploit intangibles such as ideas, knowledge and information. The new branding model is therefore one which emphasises value through employees' involvement in relationship building. Internally brand management is becoming culture management and externally it is customer interface management. In the new branding mode corporate branding internally signals messages about the desired culture and externally it reduces the information overload problems

> from line branding, decreasing customers' information processing costs. Corporate branding facilitates consumers' desires to look deeper into the brand and assess the nature of the corporation. A further reason for corporate branding is that through building respect and trust with one of the corporation's offerings, consumers are more likely to accept the corporation's promises about other offerings. (in de Chernatony 22-23)

Whether studied within the fields of corporate branding, reputation management, brand management, identity, image, corporate communications, public relations, or integrated marketing communication, the broad review of literature covered in this chapter reveals that the subject of corporate reputation and its management has been getting a lot of recent attention from academics and practitioners alike. However, the inconsistent terminology as well as the apparent lack of a commonly understood definition of reputation management and its practices could be hindering widespread adoption of formalized corporate reputation management programs. Some of the literature noted that academics and practitioners alike have recognized these problems and are working together to clear up the confusion. A unified voice using a common reputation management mantra would help to create heightened awareness and a persuasive argument, opening the way for the role of chief reputation officer and a holistic approach to the management of corporate reputation.

Chapter III

SELECTIVE REVIEW AND EVALUATION OF RESEARCH

"No one is really minding the shop."[13]

– Charles J. Fombrun, Executive Director of the Reputation Institute

The Origin of the Chief Reputation Officer

Despite an extensive review of the latest thinking on corporate reputation management, the literature revealed scant academic or practitioner thinking on the subject of the chief reputation officer. Although the concept of the chief reputation officer is not new, the inadequate weight of the literature has undoubtedly resulted in a lack of awareness and perceived importance of the concept and its benefits. This is undoubtedly the primary reason behind the lack of adoption of this critical management position.

The origin of the concept of chief reputation officer can be traced to a 1991 New York Times op-ed article written by public relations consultant Alan Towers (Fombrun 192; Towers). Towers' thesis claimed it was time for corporate America to embrace the idea of a senior executive called a chief reputation officer who would be charged with exploiting and defending a company's reputation. His recommendation was apparently triggered at the time by major reputational failures of Eastern Airlines, E. F. Hutton, and Continental Airlines that were forced out of business or into bankruptcy. In contrast, he cited several companies

13 Fombrun commenting on the lack of a chief reputation officer role in major organizations (196).

such as Disney, Merck, and Johnson & Johnson as excellent examples of companies that used their reputations to create competitive advantage (Towers).

Towers argued that companies significantly risk their reputations by failing to consider the potential reputational affects of their business decisions. To counter this, Towers claimed that the chief reputation officer would be responsible for raising employee awareness of the importance of a good reputation. He theorized this awareness would result in greater sensitivity regarding reputation that would help "steer company decision-making." In addition to this corporate reputation champion role, Towers proposed that the chief reputation officer would also have oversight responsibilities for "pricing, advertising, quality, environmental compliance, investor relations, public affairs, and employee and customer relations." The chief reputation officer would work with specialists in each of these reputation critical areas to ensure that the company's culture respected the value of its reputation and took every means to protect it from damage (Towers).

The Leading Academic Perspective

In 1996, Charles Fombrun, Director of the Reputation Institute at the Stern School of Business, New York University, cited Towers' recommendation for the chief reputation officer role and adopted it as a major part of his argument for formalized corporate reputation management. Fombrun proposed that the role was a logical extension of executive level organizational structure:

> "Much as companies appoint a chief financial officer to safeguard financial capital, a chief operating officer to monitor operations, and a chief information officer to control and manipulate corporate databases, so might they benefit from appointing a chief reputation officer (CRO) to watch over the company's intangible assets." (197)

Part of Fombrun's argument claimed that while companies were beginning to recognize the importance of relationship building with all major constituents, many had an ineffective, fragmented approach to dealing with the strategy. He observed that companies relegated responsibility for relationship building to "distinct functional silos—finance, marketing, human resources—with minimal opportunity for contact or coordination." The professor suggested that this uncoordinated effort across functional silos showed that companies do not understand how reputations are ultimately formed. More importantly, he argued that this could damage "a company's competitiveness and profitability while increasing its riskiness and vulnerability to crisis" (193-194).

Professor Fombrun suggested that a company's reputation is derived from the quality of its relationships with:

- customers
- investors
- employees
- competitors
- the local community
- government
- the public at large (194)

He noted that in order to communicate and manage relationships with these constituents, companies have traditionally invested in staffing and

discretionary budgets for separate internal departments devoted to each individual constituency. Typically these departments include:

- customer-service relations
- investor relations
- employee relations
- community relations
- government relations
- public relations (194-196)

Fombrun argued that while these departments represent strategic efforts to shape image and build reputation, the lack of coordination across the functions and business units results in inconsistent and incoherent messages to constituents and a lack of combined power and position to affect corporate decision-making. Fombrun summed up the situation: "What this says is that in terms of reputation management, no one is really minding the shop" (196). In order to rectify this, he proffered Towers' chief reputation officer concept:

> The CRO would recognize the different tasks that a company must undertake to build, sustain, and defend its reputational capital[14]. In all aspects, however, it's a role that emphasizes close coordination—a matrix arrangement—with the traditional functions of marketing, finance, human resources, and operations." (197-198)

In Fombrun's view, the creation of the position would signal the importance of reputation management and expose the intangible value of the company's reputation. As a champion for building, sustaining, and defending corporate reputation, he proposed that the position would encourage other

[14] Fombrun defined reputational capital as "the excess market value of its shares—the amount by which the company's market value exceeds the liquidation value of its assets" (92). He also described it as "a form of intangible wealth that is closely related to what accountants call 'goodwill' and marketers term 'brand equity'" (11).

company managers to systematically apply related knowledge from their own areas of expertise such as brand marketing, organization theory, and public relations (197).

Outlining the role's broad responsibilities, Fombrun began with an updated list from Towers that added management oversight of media relations and corporate contributions to his original list of pricing, advertising, quality, environmental compliance, investor relations, public affairs, and employee and customer relations. Fombrun agreed with Towers' suggestion that rather than do each of these jobs, the chief reputation officer would consult with specialists in these areas to make them aware of the "reputation consequences of their decisions" (qtd. in Fombrun 197).

Fombrun pointed out that both new as well as established companies often have the objective of building reputation. In these situations, the chief reputation officer would focus on helping to define the key character traits of the corporation that comprise its identity. He suggested that the following questions from the chief reputation officer would foster internal debate regarding the company's strategy and culture:

- What kind of company do we want to be? What are our defining traits?
- How do those internal features correspond to current perceptions of our company by our different audiences?
- How can our internal features build competitive advantage against rivals?
- How distinctive is our reputation from the rest of the industry's reputation?
- How accurate and consistent are the images that we project to our different audiences?

- How can we strengthen our relationship with our key audiences? (200-201)

In sustaining the corporate reputation, Fombrun saw the chief reputation officer developing two sets of programs: "(1) internal monitoring programs that secure compliance to a set of principles and (2) external relations programs that manage the interface with key constituents" (201). The internal monitoring programs would focus primarily on product or service quality and the integrity of the organization; Fombrun contended that both have the potential for significant impact for a firm. Programs to address external constituencies would include environmental programs, community relations programs to address local or regional interests, investor relations, government relations, and media relations. Fombrun argued that when well executed, these internal and external programs could help a corporation sustain its positive reputation. The chief reputation officer would serve as the catalyst to improve communications between the functions involved to coordinate the multiple messages delivered by these numerous programs (201-202).

Within these internal and external programs, the chief reputation officer would also be responsible for reviewing monitoring systems and compensation policies to reduce the possibility of a reputation crisis due to employee rogue behaviors (332-335) and reputation audits to determine the company's position compared to competitors (206). The subject of reputation audits will be detailed more fully in the following chapter.

In addition to responsibility for building and sustaining reputation, the chief reputation officer would also be in charge of defending a corporation's reputation. Fombrun noted that although there are many factors that could lead to a reputation crisis, very few companies have developed "crisis preparedness programs" (203). He surmised that this was because top managers do not want to take time away from operational duties to develop contingency plans for future events that may or may not happen. Fombrun went on to note that there is a tendency to ignore crisis management planning or to prepare lengthy crisis management process manuals that may never be used (203). Arguing that this situation was unfortunate, Fombrun quoted corporate image expert Clive Chajet:

> Since it's virtually impossible to imagine in detail every potential nightmare, the real requirement is to have an overall plan for dealing with crises, to establish the context in which your later actions may be judged. This, in turn, mandates an attitude that both in good time and in bad, image matters. (qtd. in Fombrun 203)

In Fombrun's view, the chief reputation officer would work with internal public relations departments and outside public relations firms to manage reputation crises. Public relations firm Hill & Knowlton noted that these crises might include "labor disputes, takeover contexts, industrial accidents, financial irregularities, product tampering and recalls, bankruptcies, controversial legislation, natural disasters and other major client problems" (quoted in Fombrun 204).

Acting as the leading defender of corporate reputation, Fombrun argued that the chief reputation officer would have the time and resources to focus on the following questions:

- What could go wrong in our business?
- How good are we at anticipating rogue behavior, unethical acts, scandals, and other forms of crisis that might threaten our reputation?
- How prepared are we to react to unanticipated events?
- What kinds of behavioral controls and monitoring systems have we put in place to prevent a crisis from occurring?
- What kinds of compliance programs do we have in place to safeguard the integrity of our actions? To deal with unusual events? Who's in charge of these programs? (206)

An External Auditor Perspective

Glen Peters (1999), a partner in the Reputation Assurance division of accounting firm PricewaterhouseCoopers, also advocated the creation of the chief reputation officer. Using a similar opening argument as Fombrun, Peters noted that while a chief financial officer is responsible for a company's financial condition and the vice president of marketing has brand responsibility, no one appears to be responsible for its corporate reputation. He acknowledged that while the chief executive officer has ultimate responsibility for corporate reputation, he or she could not adequately fulfill the role of chief reputation officer because of responsibilities for "a million other things" (167).

In order for the role to have the necessary power to effectively manage corporate reputation, Peters contended that the chief reputation officer position must be a senior board-level appointment. Distinguishing the difference between

the chief reputation officer and the existing position of ethics officer at some organizations, he noted that the ethics officer is a lower level position related to compliance with the law rather than broad responsibility for reputation management (168).

Peters' list of the chief reputation officer's responsibilities differed considerably from Fombrun's recommendations. In Peters' view, the position would be responsible for the following:

- To agree to the priorities of the reputational principles annually.[15]
- To commission research and to manage the stakeholder consultation dialogue.[16]
- To ensure that appropriate communications and education with all stakeholders are conducted on aspects of reputation.
- To be responsible for ensuring that all parts of the company carry out reputation assurance self-assessment checks as part of an annual planning cycle, and that appropriate actions and plans are prepared to protect vulnerable areas.
- To engage suitable external verifiers who can validate the extent to which self-assessment matches reality.
- To prepare external reports on reputational values.[17]
- To be the person who decides how to deal with a major reputation crisis. (167-168)

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15 In defining reputational principles, Peters argued that corporate reputation "has an etiquette that translates into how a company behaves with regard to certain common principles that build integrity and trust with stakeholders. These principles reflect the wider expectations of stakeholders (customers, society, suppliers, employees and shareholders)" (17). Such principles include "meeting guarantees" (266), "promoting environmentally sustainable products and services" (266), "respecting and promoting human rights" (262), and "disclosure of relevant information" (263). The recommended annual prioritization of these principles would recognize that some principles are more important than others to a company's specific stakeholders (124-125). For example, stakeholders of a software company may not be as concerned about environmental performance as stakeholders of a chemical company. Once prioritized, a company would develop an annual plan of strategies and programs to conform to the principles.

16 Stakeholder consultation dialogue simply means the various ways a company can engage with its stakeholders. This could mean employee town hall meetings, 800 number consumer hotlines, focus group studies, and formal and informal consultations with nongovernmental organizations such as Greenpeace, Friends of the Earth, and CARE (156-157).

17 Peters describes these as reports created to inform stakeholders on how a company is conforming to its "principles of reputation." He suggests that the reports should offer an assessment of the company's current performance and areas for future improvement (155).

In addition, Peters advocated that the chief reputation officer should be involved in evaluating decisions related to entering new markets and developing new products as well as arguing for resources to deal with "headwind principles" (168). He defined headwind principals as stakeholder pressures that can affect a company's ability to move ahead (148-149). For example, Anheuser Busch balancing the concerns of Mothers Against Drunk Driving while trying to grow additional market share.

Lastly, since Peters was obviously attempting to attract new clients for his firm, he recommended that the chief reputation officer would supervise two levels of independent auditing. The first would be an internal auditor that would assure management that reputational principles are consistently applied throughout the organization. The second level of assurance would be an external auditor from a firm such as PricewaterhouseCoopers that could bring their experience with other organizations to help clients compare their reputations and reputation management practices with other firms (169).

An Academic Change Management Perspective

While Dowling (2001) stopped short of advocating the chief reputation officer per se, much of his writing inherently supported the role of the position. For example, he noted that it would seem logical that every company would have a formal corporate reputation management program considering that strategy researchers contend that reputations are among the most significant assets for any firm (11). Dowling, a Professor of Marketing at the Australian Graduate School

of Management, offered an assessment of the current corporate reputation management situation:

> Given the financial value of an above-average reputation [. . .], and the various case studies and research findings that suggest that good reputations are more valuable than bad ones, one would expect every organization to have a programme to actively manage its corporate reputations. Some big companies do have a [*sic*] formal programmes. Others assign *de facto* responsibility to the corporate affairs department. For many others, however, there is no person or programme or budget to oversee this crucial strategic asset. (11)

He offered four reasons why many firms do not have reputation management programs. First, he argued that many managers simply do not understand the true value of a good reputation. Second, Dowling suggested that many managers do not understand how reputations are created nor do they know whether constituents have positive or negative thoughts regarding their firms. Third, managers lack a conceptual framework for accurately measuring their reputations and therefore do not have good information to determine whether the company has a reputation problem or not. And fourth, if a company cannot determine what people think of the firm, it cannot properly manage this important intangible asset. In fact, Dowling observed that trying to take action on poor information may actually do more harm than good (11-12).

While some believe reputation management is the responsibility of the chief executive officer, Dowling discounted the idea in the preface of Creating Corporate Reputations. He claimed that reputation management was "too

important to be captured by the chief executive officer (CEO)—although he or she must champion the cause (viii).

Later in his work, he seemed to suggest a role similar to the chief reputation officer while discussing the management of reputation change through the formation of what he called an Image Management Team. Dowling suggested that the chief executive officer would lead this committee comprised of a cross-functional team of senior managers from marketing, public relations, operations, human resources, strategic planning, and marketing research as well as a "project officer" to get the other managers organized (243-244). Considering that Dowling's Image Management Team concept would involve corporate vision, policies, strategy, control mechanisms, compensation, stakeholder research, image design and implementation, internal and external marketing, crisis management, and ongoing reputation audit, it is not hard to visualize his proposed "project officer" as the same as Fombrun's chief reputation officer (Dowling 243-249). Although the term *project* would seemingly denote a relatively short-term task or process, the proposed ongoing and long-term responsibilities of the Image Management Team indicates that "project officer" does not adequately describe the function.

In addition to the Image Management Team, Dowling offered a significant number of factors throughout his work that must be managed to ensure a good corporate reputation. The scope, corporate significance, and coordination of each factor beg the need for the chief reputation officer role. These factors include vision and mission (67-84); company policies (86-102); organizational culture

(104-121); corporate communication (123-148); corporate image advertising (151-160); corporate identity (161-185); country, industry, partner, and brand images (186-207); reputation and image measurement (211-230); image management and change (231-251); and crisis communication (252-276).

What's missing?

With so few significant writers and thinkers on the subject of the chief reputation officer role, it is no wonder that the global business community has failed to take advantage of its promise. While Fombrun, Peters, and Dowling all appeared to have a similar stance on the need for someone to manage corporate reputation, they differed greatly in their approach to justifying the position and this too could be clouding an understanding and appreciation of the position. They all argued for a senior management position that would coordinate and help steer the decision making of the many functional managers involved in the determination of reputation. They also agreed that a formalized reputation management strategy would involve a broad scope of responsibilities including measuring, monitoring, and auditing stakeholder perceptions of corporate reputation; overseeing the potential reputational impact of internal programs and policies such as compensation, customer service, product quality, and environmental compliance; reviewing the consistency and cohesion of the many messages that are sent to stakeholders through a variety of functional silos such as public affairs, human resources, marketing, and investor affairs; managing reputation crisis planning and implementing reputation defense strategies; and

being a highly-visible advocate for the reputation principles that are important to the company's stakeholders.

However, after reviewing the broad selection of multi-disciplinary literature consulted for this project, there are a number of deficiencies in these authors' arguments. First, each offered unique ideas that are not incorporated in the others' works and therefore there is no comprehensive list of responsibilities for the position. Second, other literature revealed additional responsibilities that should be owned by the chief reputation officer. For example, several writers have suggested that corporate stories are significant and unique differentiating qualities that offer companies competitive advantage in today's world of commodity brands (van Riel 157-181; Shaw 182-195; Holten Larsen 196-207). The management of developing, sustaining, and consistently communicating these corporate stories internally and externally should be directed by the chief reputation officer. And none of the authors suggested that the chief reputation officer be involved in the strategic management of reputation commons and the potential problems that could come from the shared resources of an industry's reputation. Lastly, the authors' points are not always clear and lack tangible support such as meaningful real life examples or short case studies. For example, Fombrun recommended that the chief reputation officer should have oversight responsibility for pricing. However, there is no accompanying justification or rationale for this argument.

To rectify this situation, the following chapter will present an executive summary of the responsibilities of the chief reputation officer. Although designed

for quick review by a time starved senior executive, the summary will provide a comprehensive list of duties with accompanying support that will help clearly communicate and illustrate the true scope and benefits of the chief reputation officer position.

Chapter IV

RESULTS

"The way to gain a good reputation is to endeavor to be what you desire to appear."
– Socrates[18]

Introduction to the Executive Summary

The following executive summary is designed to offer an executive level proposal to persuade senior management and boards of directors on the merits of adding a chief reputation officer to the ranks of senior management. It synthesizes the latest thinking regarding the benefits of the position as well as the scope of responsibilities this manager would have. While Modern Language Association style considerations such as in-text citations are necessary for this project, they would not be included in a final version for presentation to corporate management. If necessary, endnotes should replace the in-text citations in order to provide documentation if the company's culture dictates. Otherwise, there would typically be no need for documentation unless the management team requests selected material after the presentation.

While it could be argued that any major organization could benefit from the role of chief reputation officer, there are organizational or brand profiles that have more urgent needs for a functional approach to reputation management. In

18 "Resources: Quotes on Reputation." Reputation Institute. 17 May 2002 <http://www.reputationinstitute.com/sections/resource/rsrc_quotes.html>.

terms of priority of need, knowledge-based organizations such as accounting firms, advertising agencies, investment banks, consulting firms, major universities, and law firms have the greatest need for the chief reputation officer position. Their services, referred to as credence goods by economists, are intangible in nature so their viability and profitability hinge on a good reputation (Fombrun 7). The next level of need for a chief reputation officer would be brands based on real personalities such as Ralph Lauren or Martha Stewart Living that are inexorably entwined with their namesakes and, as Martha Stewart has learned, very vulnerable to reputational crises. In Stewart's case, allegations of an insider trading violation involving her selling stock in ImClone Systems cost Stewart a reported $400 million in lost stock value, legal fees, and lost business opportunities ("Martha Stewart Says"). Next in terms of need are organizations that have a monolithic brand identity (Schmitt and Simonson 66), otherwise known as a dominant corporate brand (Aaker 242). These organizations use the "same name and logo, signage and aesthetics for all their divisions and on all their brands" (Schmitt and Simonson 66). This would typically encompass the two previous categories of professional services firms and personality brands as well as other firms using a single brand. The next group of organizations needing the benefits of the chief reputation officer would be those expressing themselves through endorsed brands (Schmitt and Simonson 68). Endorsed brands typically involve the monolithic or corporate brand endorsing the product brand. For example, General Mills is the endorser brand for Cheerios. And last but not least in priority would be organizations with branded identities (Schmitt and Simonson

67-68). Usually found in consumer package goods companies, the parent company name is not used in branding. For example, Tide and Crest are top brands from Procter and Gamble but consumers may be unaware of the brands' parent company because the corporate brand is not featured in brand marketing communications.

Executive Summary – The Benefits of a Good Corporate Reputation

Companies have traditionally achieved competitive advantage by building up better physical assets and infrastructures, lowering their cost of capital, and hiring the best human resources (Davies et al. x). In recent years, the business and academic communities have recognized that companies also create competitive advantage through intangible assets such as intellectual property, innovation, brand equity, and reputation. Some writers even consider reputation to be the ultimate intangible (Low and Kalafut 6-7). This is because companies can create strategic, competitive advantage from their reputations by being better regarded than their competitors in the eyes of their stakeholders.

This competitive advantage from a strong reputation is created from the combination of many strategic benefits. A company with a superior reputation can often charge premium prices for its products and services; lower its marketing costs; have greater latitude in making decisions (Fombrun 11); gain loyalty from its employees; obtain lower costs for capital and labor (Fombrun 57); benefit from a reservoir of goodwill during crises due to fraud, sabotage, and boycotts (Fombrun 57; Gregory and Wiechman 168-169), as well as during sudden

financial market declines (Jones, Jones, and Little 14); attract the best job applicants (Fombrun 76); produce high levels of employee morale (Fombrun 77) and job satisfaction (Dowling 12); attract loyal customers (Fombrun 77); and benefit from improved stability during times of economic downturn due to customer loyalty and repeat purchases (Fombrun 78).

A strong reputation serves as a key differentiator when compared to other brands. Dowling argued that it positively affects consumer brand choice (qtd. in Harris and de Chernatony 2) by adding psychological value to products and reducing perceived risk to consumers (Dowling 12). Strong reputations also help open the door to new products or brand extensions, enhance the effectiveness of advertising and sales force efforts through increased credibility (Dowling 12), provide leverage in trade channels (Dowling 13), and "contribute to the success of corporate alliances" (Paine 48). It is also often the key point of difference, and one that is not easily duplicated, for service companies that in turn can lead to above-average profits (Davies et al. 15).

Firms with strong reputations are also better positioned to attract the best alliances such as manufacturing partners, sponsorship opportunities, franchisees, and distribution channel partners. They can also attract the best professional services firms such as law firms and advertising and promotion agencies (Dowling 13).

Companies with superior reputations have typically earned them in part by having stringent controls over employee actions thereby creating the benefit of less risk of crisis from rogue behavior (Fombrun 78). This internal discipline and

a good reputation with stakeholders might also offer some protection against attacks from pressure groups or nongovernmental organizations (NGOs).

The bottom line benefits of a good reputation are significant. A good reputation drives the value of a company's reputational capital (goodwill) (Fombrun 92). It can also increase revenues by adding value to products, services, and licenses (Fombrun 108). Research also suggests that good corporate reputations can "increase the length of time that firms spend earning superior financial returns" and "reduce the length of time that firms spend earning below-average financial returns" (Dowling 16). Other corporate strategy research supports the theory that a good reputation can lead to higher profits than industry rivals. This is attributed to "inhibiting the mobility of rival firms, acting as a barrier to entry into markets, issuing signals to consumers about the quality of the firm's products and possibly enabling the firm to charge higher prices, attracting better job applicants, enhancing access to capital markets, and attracting investors (Dowling 16).

Paine suggested other payoffs: "Reputations tend to feed on themselves, and well-respected companies are often in the spotlight as recipients of awards, subjects of media commentary, and grantees of scarce opportunities" (Paine 49). She added that this reinforces their reputational standing allowing them to reduce costs for marketing, public relations, and employee recruitment.

Conversely, companies with weak reputations are often at risk of aggressive competitive activity (Davies et al. 66), analysts undervaluing their share prices, journalists giving them more attention and criticism, greater price

sensitivity by consumers, and poor employee morale (Dowling 13). Reputational damage can also result in lost business opportunities (Paine 49). And as the Andersen case points out, companies with weak reputations are often at high risk during a crisis.

The Role of the Chief Reputation Officer

Despite the fact that reputation is such a critical intangible asset, experts in the field of corporate reputation management have determined that many companies do not practice holistic reputation management, confusing the concept with public relations or its related functions. While these companies may have departments focused on public relations, investor relations, customer service, and employee relations, they do not have a function, role, budget, or program devoted to their firm's overall reputation management (Davies et al 51; Dowling 11; Fombrun 196).

Some business writers have argued that the chief executive officer is ultimately responsible for the quality of a corporation's reputation; however, the CEO is already charged with meeting various objectives tied to sales, costs, profits, and new products as well as answering to constituents such as employees, shareholders, and analysts (Aaker 346). In fact, the Tuck School of Business at Dartmouth College conducted research that determined CEOs of Fortune 500 companies estimate they spend between 50 to 80 percent of their time communicating to constituencies (Argenti and Forman 64). With this in mind it is

unreasonable to think that the CEO would have the time necessary to concentrate on the multi-faceted functional requirements of corporate reputation management.

In order to correct this organizational deficiency, major corporations should appoint the position of chief reputation officer and empower it with the legitimate authority (Hersey, Blanchard, and Johnson 230-231) of a senior management position reporting to the chief executive officer. From a macro viewpoint, the chief reputation officer would be responsible for building, sustaining, and defending the corporate reputation (Fombrun 198-206). Ideally, a qualified candidate for the position would have a strong background in business or brand strategy and corporate communications.

One of the chief reputation officer's primary objectives would be to achieve "strategic consistency" by coordinating "all messages that create or cue brand images, positions, and reputations in the minds of customers and other stakeholders" (Duncan and Moriarty 70). In order to accomplish this objective, the scope of oversight for this senior level position would include all aspects of the company's identity, strategies, operations, policies, and communications that could impact the value of the company's reputational capital. Specifically, the chief reputation officer would have oversight of pricing, product and service quality, environmental compliance, corporate philanthropy, and all integrated corporate and marketing communications including product and corporate advertising, promotion, public relations, investor relations, employee and labor relations, media relations, community relations, government relations, supplier relations, industry relations, and customer service relations. Other major

responsibilities to achieve this objective would include working with other members of the senior management team on key issues such as creating, revising, and communicating the corporate mission and vision; sustaining and managing corporate stories; and sustaining or changing the organizational culture—defined by Uttal as "the system of shared values (what is important) and beliefs (how things work) that interact with a company's people, organizational structures, and control systems to produce behavioral norms (the way we do things around here)" (qtd. in Dowling 107).

The chief reputation officer should also have oversight of brand extensions and expansion into new markets; alliance relationships with key suppliers, professional service providers, licensees (instances where the corporation is granting the use of its brand or intellectual property to a third party organization), and licensors (where the corporation has been given the rights to use another organization's brand or intellectual property).

The chief reputation officer will also have management responsibility for measuring, monitoring, and auditing aspects of the corporate brand reputation and image (Dowling 211-230; Peters 136-141; Fombrun 208; Davies et al. 50-51; Travis 233; Davis 215-226) and developing plans to adjust company strategies to develop a "desired future state" (Fombrun 207) as necessary. While different functions such as public relations and customer service would actually manage the day-to-day aspects of these measurement practices, the chief reputation officer would analyze and synthesize the data to develop an overall picture of the

corporate brand reputation and create a plan to increase reputational capital and reduce reputational liabilities.

Lastly, the chief reputation officer will defend the corporate reputation by being responsible for crisis management planning, crisis management, and crisis recovery planning.

Rationale for Chief Reputation Officer Responsibilities

Since experts in the field of integrated marketing communication believe stakeholders form perceptions from four broad sources of brand messages, it is vitally important that the chief reputation officer have all of the oversight responsibilities outlined above. The proposed responsibilities incorporate recognition of the reputational significance of these sources that include planned messages, product messages, service messages, and unplanned messages (Duncan and Moriarty 77-90). Planned messages include both internal and external corporate communications such as advertising, promotion, news releases, personal selling by the sales force, in-store merchandising such as permanent and temporary displays, events, sponsorships, direct mail, shareholder meetings, annual reports, annual sales meetings, announcements concerning new stock issues, corporate Internet and Intranet content, employee and distribution channel partner newsletters, internal closed circuit television networks, training manuals and software, recruitment advertising, and interviews by company specialists for trade magazines (78). Product messages are what "customers and other stakeholders infer from the product itself (e.g., performance, appearance,

durability), its pricing, its design, and where and how it's distributed" (82). Service messages originate from interactions (in-person, by phone, e-mail, or online) between stakeholders and a company's customer service representatives, truck drivers, secretaries, receptionists, delivery people, agents, installers, repair people, and technical support staff (84). Unplanned messages cover a wide variety of messages outside of the company's control. These include "brand or company-related news stories [produced by the news media], employee gossip, actions of special interest groups, comments by the trade and by competitors, findings by government agencies or research institutions, and the proverbial word-of-mouth that one hopes will confirm the other brand messages" (86-87).

To put this in perspective, the following section provides additional rationale and short case studies to illustrate the importance of each of the chief reputation officer's proposed responsibilities.

Pricing

Pricing is a sensitive strategy that can negatively affect stakeholders' perceptions regarding brand value and reputation. For example, after more than seven years of trying to push customers to online banking and ATM machines by charging them $3 to talk to a live bank teller, Bank One Corporation discontinued the fee in December of 2002. The teller fee was controversial with bank customers and had been maligned by Washington politicians and late night talk show comedians like Jay Leno. Removing the fee was one of several steps Bank

One took to try to win back disgruntled customers and improve its competitiveness (Williamson).

MetLife, the number one U.S. life insurer, received negative publicity from the news media in February 2003 when it reached a $250 million settlement in a class action lawsuit regarding its past pricing practices. Black policyholders had accused the company of charging them higher premiums than whites. The practice of selling small-value burial insurance to blacks at higher prices than whites had been common throughout the insurance industry until the 1970s. Some companies had continued the pricing strategy in some areas of the United States until the late 1990s (Reuters, "MetLife").

Stakeholders of software companies such as Microsoft and Oracle have been very vocal in their criticism of the firms' pricing policies for software licenses. In January of 2003, Microsoft agreed to pay up to $1.1 billion in vouchers to consumers in California who alleged that the company had used the power of its monopoly to overcharge for its software. However, this did not represent the end of the problem for Microsoft. Lawyers for the plaintiffs claimed that the settlement, one of the largest ever for a California antitrust case, would set the standard for similar class-action lawsuits against Microsoft in 16 other states (Ostrom and Mintz).

Product and Service Quality

Without a doubt, one of the keys to a good reputation is providing customers with high quality products and services. In order to sustain reputation,

the chief reputation officer must be involved in internal programs designed to monitor the corporation's compliance with product and service quality guidelines and objectives (Fombrun 201).

Aaker noted that perceived quality is both a brand association and a brand asset:

- Among all brand associations, only perceived quality has been shown to drive financial performance.
- Perceived quality is often a major (if not the principal) strategic thrust of business.
- Perceived quality is linked to and often drives other aspects of how a brand is perceived. (17)

He also pointed out that brands must be protected from developing a reputation for shoddiness because it is very difficult and maybe even impossible to erase customer doubts and regain a quality reputation (20). Many cases regarding poor product and service quality support this. Bon Vivant was forced into bankruptcy within three weeks of a banker dying from eating one of its canned soups that contained botulism (D'Alessandro 121). Perrier never fully recovered its share of market after traces of benzene were detected in its bottled water in 1990 (D'Alessandro 122-123). And it is highly doubtful that the Firestone brand will ever be able to win back the majority of its former customers after the tread separation problems it had with its ATX, ATX II, and Wilderness AT tire brands. Marketing consultant Jack Trout claims that when the tire crisis erupted in 2000 there were "4,700 articles, press releases, and interviews about Ford Explorers rolling over, people dying or being injured, the dangers of tread separation, and many unanswered questions about what went wrong. Hundreds of

millions of dollars in media space communicated one simple idea: Firestone made a lousy tire." (97)

Consumer perceptions of poor service experiences can vary greatly. In the restaurant industry for example, poor service may be defined as slow wait staff, bad tasting or cold food, filthy bathrooms, or a server who never refills your water glass. But Denny's restaurants experienced a much more serious customer service problem in the early 1990s that not only severely damaged its reputation but also threatened its long-term livelihood. The restaurant chain was charged with race discrimination by African-American customers, including Secret Service agents assigned to President Bill Clinton, who claimed they had been denied service or asked to prepay for their food before it was served (Adamson, McNatt, and McNatt 14-18). Denny's settled a class action lawsuit regarding the charges in 1994 that cost the chain $54 million and eventually repaired its reputation through what can best be described as a cultural revolution within its parent company, Advantica.

<u>Environmental Compliance</u>

Environmental disasters such as the massive oil spill in Alaska caused by the Exxon *Valdez*, the deaths of 3,000 residents in Bhopal, India from breathing toxic fumes from a Union Carbide plant, Pacific Gas & Electric's cover-up involving contaminated water, and the dumping of carcinogenic chemicals at Love Canal by Hooker Chemical Company are all dramatic examples of the potential magnitude of environmental reputation crises. While some of these

events were the result of rogue behavior or sabotage by employees rather than gross corporate neglect of compliance processes, they still illustrate the sensitivity of constituents regarding environmental protection issues.

But environmental sensitivity goes far beyond environmental disasters. From the late 1980s to 1990, McDonald's was hit with a barrage of criticism for its use of polystyrofoam clamshell boxes to package Big Macs and Quarter Pounders (Argenti and Forman 227). The fast food restaurant chain faced protests from schoolchildren picketing outside of restaurants and received thousands of hostile letters including many that were accompanied by the plastic clamshells. McDonald's eventually dropped the packaging in favor of a more environmentally friendly paper wrapper. Although the company had adamantly defended its polystyrofoam packaging, the president of McDonald's U.S.A, Edward H. Rensi, observed, "our customers just don't feel good about it. So we're changing" (qtd. in Argenti and Forman 227-228).

<u>Corporate Philanthropy</u>

Corporate philanthropic activities are among the many planned message sources constituents use in forming perceptions of the corporation. The chief reputation officer would work with senior management to review and develop the corporation's philanthropic activities to help build and sustain the firm's reputation. This effort would include leading the management team in considering three questions proposed by Argenti and Forman:

- Is your business involved in philanthropic activities?

- Do the philanthropic activities help both the community and the firm? If so, how?
- Are the activities well suited to the company's vision, mission, and overall strategy? (197)

The answers to these questions will help guide the management team to a focused approach that can both maximize its reputation objectives while serving its communities and the public good.

Corporate philanthropy has evolved from uncoordinated donations to a multitude of charities and causes to a more strategic effort that is sometimes referred to as social investing (Argenti and Forman 200). This strategic approach helps companies support causes that are closely linked to their products and services as well as their vision, mission, and values. For example, Microsoft has helped libraries throughout America with donations of Gateway computers and Microsoft software, Avon sponsors events to raise money for breast cancer causes, Weyerhauser supports environmental programs, and Disney is involved in children's causes (200-205).

Integrated Marketing and Corporate Communications

Many experts in the fields of reputation management, integrated marketing communication, and corporate communication argue for strategic communication consistency to control planned, product, and service message sources. This helps to avoid sending contradictory messages to constituents. For this reason, the chief reputation officer requires oversight responsibility for all the various ways the corporation engages its constituents in mass or interpersonal communication

channels. The functional areas involved would include advertising, promotion, public relations, customer-service, investor relations, government relations, community relations, and employee relations among others.

Just because a message falls into the planned message source category doesn't mean it cannot negatively affect the corporate reputation. For example, Nike launched a controversial advertising campaign during the 1996 Atlanta Olympic Games that reportedly upset millions of consumers. The Nike campaign "featured images of an athlete vomiting on a track against a backdrop of headlines such as 'You Don't Win Silver, You Lose Gold'" (Bedbury 45). Before it owned the concept of safety as its product positioning, Volvo had built a reputation for ruggedness and durability. Unfortunately in 1990, it harmed its credibility by running a commercial that featured a 10,000-pound monster truck driving over a Volvo roof without damaging the car. Although the concept was based on a real event, the Volvo in the commercial had been rigged with steel and wooden supports for the commercial. This led the Texas Attorney General to charge the firm with misleading and deceptive advertising. Ironically, the commercial's tagline was "A car you can believe in" (Trout 138).

Seemingly innocent forms of marketing communications can also create problems. John Hancock Financial Services commissioned research into the popular practice of naming stadiums after company names. While 15 percent of consumers said that the practice would make them more likely to purchase the company's products, more than twice as many said they would be "actively

hostile" to a company that changed the name of a facility to the company's name (D'Alessandro 106).

The chief reputation officer should also consider potential reputation fallout from inconsistent corporate communications during mergers and acquisitions. Pinsdorf recounts a fascinating case history of failed corporate communications regarding the merger between insurance giants INA and Connecticut General, now known as CIGNA. Wall Street had met news of the merger with euphoria and the business press praised it for having enormous potential to cut costs and improve profits. In the excitement of the overwhelming positive reaction to the merger, management made guarantees to employees at the merging firms' headquarter cities that would start a disastrous chain of events:

> Initially, INA's CEO, Ralph Saul, said, "Not only will it [the merger] not have any adverse effect on jobs in the Philadelphia area, but over the long run it will have a positive effect." Later, Saul said, "Ninety-nine percent of the people will stay right where they are." The story soon soured. Newspaper headlines began to read: "Layoffs begin of a multitude almost unheard of in the insurance industry, but were called 'absolutely necessary' to cut expenses and save $40 million in 1983." And next: "Company gives generous payment; hopes to retire some additional employees as layoffs continue." And a final quote from Saul, "If we could get it through people's heads that one of the reasons for the merger was cost avoidance . . . After all, we are running a business." (239)

A series of questionable decisions including the appointment of dual CEOs brought criticism from the press that had touted the merger. Then, 4,000 jobs were cut that had a negative effect on employee morale. Management conducted a 46-city road show over five days to try to sell employees on the job

cuts and quiet fears. Despite pep rallies and other communications, employees began to question the veracity of what they were being told and morale worsened. CIGNA's stock sank to the high 20s from a pre-merger high of 55 3/8 and it would take the company several years to deal with the problems management created (Pinsdorf 241-242).

Management of industry relations is a critical responsibility for the chief reputation officer. One of the major objectives in this area is the strategic management of the industry's reputation commons. A reputation commons is likely to exist "when stakeholders have difficulty differentiating firms but have the ability to sanction firms" (King, Lenox, and Barnett). If one firm overexploits the shared reputation resources, it can potentially create a reputation commons problem for the other companies in its industry if stakeholders cannot distinguish the quality or performance of each company. Reputation management researchers have also referred to this phenomenon as industry-wide spillover: "a crisis for one is a loss for all; your reputation is partly your company's, partly your industry's" (Fombrun and Rindova 85).

Andersen overexploited its reputation causing a major reputation commons problem for the other members of the Big 5 accounting firms as well as the entire industry. Other significant examples of reputation commons problems illustrate the importance of this issue. For example, an event study of the 1989 Exxon *Valdez* oil spill revealed the negative impact the event had on the market value of other major oil companies such as Shell (Fombrun and Rindova 85-86). Similarly, the reputation of the nuclear power industry was damaged by the

actions of a single firm that caused the Three Mile Island incident (King, Lenox, and Barnett).

The chief reputation officer would use a number of strategies to manage the reputation commons. These might include auditing competitive firms to determine any potential threats to the reputation commons such as poor employee safety records, violations of environmental laws, abusive labor practices, and employee compensation and incentive systems that could lead to rouge behaviors. If threats exist, the chief reputation officer would also conduct reputation audits to determine whether stakeholders can distinguish between the quality of the firm and its competitors that threaten the industry's reputation. If not, programs would be initiated to educate stakeholders and elevate the reputation of the firm from the reputation commons. To support this effort, the chief reputation officer could choose to form an alliance with a reputable stakeholder group to help add credibility to the firm's claims of superior performance (King, Lenox, and Barnett). For example, McDonald's teamed with the Environmental Defense Fund to consult with it in developing environmentally friendly packaging.

Working with industry groups and representatives from competitive firms, the chief reputation officer could also advocate trade association codes of conduct, industry self-regulatory measures and sanctions (King, Lenox, and Barnett), trade association image advertising campaigns, and federal and state regulation or legislation.

Corporate Vision and Mission

Since reputation is such a significant intangible asset, the chief reputation officer should be actively involved in determining the company's vision, mission, and strategy. The chief reputation officer could add their expertise to these processes by providing the management team with an assessment of the corporation's current reputation and how it would either positively or negatively impact the organization's strategic planning. This assessment would aid decision making by factoring in how the corporation's various constituencies will respond to new strategic initiatives (Argenti and Forman 57).

The chief reputation officer would also consult with the senior management team using reputation as a performance measure of the company's initiatives in achieving its vision, mission, and strategies. Fombrun advocated the concept of reputation as a corporate performance measurement:

> Reputation is a potentially powerful means of measuring a company's overall performance in a marketplace made up not only of customers but of employees, investors, suppliers, distributors, and other observers. By drawing attention to a company's relative success at meeting the common interests of all its constituents, a reputational audit provides a useful vehicle for simultaneously gauging a company's economic, financial, social, and environmental performance. (399)

Argenti and Forman observed that "preserving a core, long-term vision that will evolve over time, proves much more beneficial in attempting to construct a strong reputation" (Argenti and Forman 74). They added, "unless you and your employees know who your company is and what vision propels it forward, you cannot expect any of your constituencies to understand the corporate reality you are working to create." One of the ways the chief reputation officer can

contribute to assuring an understanding of the corporate vision and aligning the corporate reputation with the desired corporate reality is through the management of corporate stories.

<u>Corporate Stories</u>

Working with the organization's corporate communications specialists, the chief reputation officer will have oversight responsibility for the development and management of corporate stories. Cees B. M. van Riel, a director of the Reputation Institute and a Professor of Corporate Communication at Erasmus University in the Netherlands, suggested that the narrative quality of corporate stories could contribute to a positive corporate reputation and create competitive advantage. He claimed that "communication will be more effective if organizations rely on a so-called sustainable corporate story as a source of inspiration for all internal and external communication programs. Stories are hard to imitate and they promote consistency in all corporate messages" (158). Van Riel concluded that four criteria had to be met for sustainable corporate stories to be effective in enhancing the level of prestige and trust among internal and external constituents:

> The story has to be perceived by these groups as 'relevant' (describing those activities that appear to have added value), 'realistic' (describing what the company really is and does), 'sustainable' (finding the right balance between the competing demands of all stakeholders), and 'responsive' (really stimulating people to have an open dialogue with the organization). (180)

The chief reputation officer will be responsible for assuring these four criteria are met as well as striving to ensure that the corporate stories are institutionalized through the telling and retelling by influential corporate storytellers (van Riel 180).

Van Riel also argued that "no matter how appealing a story may be, appreciation for that story can only be maintained if the discrepancies between what is told and what is actually done by organizational members are as limited as possible" (180). The potential harmful effects inherent in van Riel's warning could be seen in numerous news media accounts of the dramatic discrepancies between the modern day actions of Andersen auditors and the corporate stories used as institutionalized legends of integrity within the organization.

Organizational Culture

The chief reputation officer will also act as a highly visible champion for reputation management throughout the organization. As such, the chief reputation officer will be responsible for helping to create a corporate culture that recognizes and respects the value of a good reputation. Specific duties in this champion role would include employee training on the benefits of a good reputation and how their every day actions can positively or negatively impact constituents' perceptions and beliefs. The chief reputation officer will also consult with functional managers and specialists to help them recognize the potential reputation consequences of their decisions and behaviors (Fombrun 197).

Since corporate values and ethical considerations are believed to be so important to building and sustaining corporate reputation, the chief reputation officer would also serve on the corporate ethics committee and play an active role in ethics programs, values initiatives, and cultural change programs. Specific areas for concentration should include reviewing policies and practices that could lead to potential conflicts of interest such as compensation plans and lax control systems that may inadvertently reward rogue behavior. Many prestigious firms such as Merrill Lynch, Bankers Trust, Salomon Brothers, and Prudential Securities suffered reputation scandals related to these factors and others such as Andersen, E. F. Hutton, and Drexel Burnham Lambert ultimately paid for similar scandals with their corporate lives.

But scandal and loss of corporate reputation due to warped cultural norms has not been restricted to financial related firms. The Beech-Nut Nutrition Corporation lost sales, profits and its reputation when consumers found it was deceptively selling a product labeled as *apple juice* that contained nothing more than water, sugar, and flavoring. The firm's deception was triggered by its management's discovery that a vendor had been supplying bogus ingredients that had found their way into 700,000 cases of apple juice marketed as "100 percent pure" and "all natural." Management decided to push the tainted inventory through its distribution channels rather than absorb the costs of destroying the inventory. After investigations by the U.S. Food and Drug Administration, the company pleaded guilty to fraud and misbranding in a federal court. The charges had also prompted several civil suits including one by a group of supermarket

retailers. The brand never regained its reputation and the deception cost the company an estimated $25 million in out-of-pocket costs (Paine 73-74).

Brand Extensions and Market Expansion

Attempting to extend a brand or expand into new markets can also result in a loss of reputational capital if such decisions are not weighed carefully. Classic examples of reputation damage from over extension come from the fashion industry where reputation is arguably the primary asset of fashion designers. American fashion designer Halston's reputation was ruined with prestige retailers such as Bergdorf Goodman after the Halston name was licensed to mass retailer J. C. Penney in the 1980s. And prominent fashion label Gucci watered down its prestigious reputation in the late 1980s by putting its name on more than 22,000 items. This overexposure resulted in a 25% drop in sales of Gucci fashions in the United States in 1989 (Fombrun 230-233).

With regard to brand extensions, Peters suggested that new products must pass a reputability test: "Is the product going to meet customers' expectations? Is your advertising [. . .] a faithful representation of what you are selling? Can you realistically fulfill the written or implied guarantees that go with the product or service?" (175).

Alliances

Alliances of one form or another are an unavoidable common practice in today's business environment. Many companies such as Nike are marketers

rather than manufacturers and rely on contract manufacturers to produce their goods. Firms also count on suppliers to provide components for their products—Ford Motor Company's decades long relationship with Firestone was an excellent example of this until the parties were drawn into an acrimonious public dispute over dangerous tread separations on Firestone tires used as original equipment on Ford Explorers. Other alliances include sponsorships of major arts and sporting events ranging from the latest tour by the Rolling Stones to World Cup Soccer. Companies also license their brands for use by other firms such as California Pizza Kitchen giving Kraft the right to use its brand on a line of frozen pizzas sold through supermarkets.

While alliances are vital and beneficial to a corporation, there are things that can go wrong in these relationships that can create "negative brand associations" (Aaker and Joachimsthaler 219) and a loss of reputational capital. Marketing relationships with celebrities can often be risky because of unplanned messages from the celebrity's public comments and behaviors. For example, consider the negative brand associations inadvertently produced by Hertz use of O.J. Simpson as a celebrity spokesperson in its advertising. Similarly, Pepsi had used the implied endorsement of pop superstar Michael Jackson in its advertising for ten years. But in August of 1993, it quickly severed the relationship to protect the company's reputation after learning of allegations that Jackson had sexually molested a child (Fombrun 36).

Martha Stewart Living Omnimedia has found, however, that swiftly severing ties in the manner of Pepsi is not always possible or necessarily

desirable. As of this writing, the firm faces an interesting conundrum—is there a Martha Stewart Living Omnimedia without Martha Stewart? The firm licenses the use of the brand name *Martha Stewart* from its chairman and chief executive officer, Martha Stewart. Stewart, as noted previously, was implicated in an insider trading scandal with ImClone Systems in 2002. Her alleged involvement severely damaged the reputational capital of her publicly traded firm. The share price of Martha Stewart Living Omnimedia stock had closed at $19.01 on June 6, 2002. The first news wire stories regarding Stewart's sale of ImClone Systems stock were distributed the evening of June 6 after the market had closed. By June 24, the company's share price had dropped to $12.45 (Isidore). The stock would reach a low of $5.26 per share on October 9, 2002 ("Martha Stewart Probe") and the company would announce its first loss in March of 2003, partially attributing it to costs incurred because of its reputation crisis ("Martha Stewart Living").

In the 1990s, footwear and apparel marketer Nike suffered from labor groups' criticism of its alliances with contract manufacturers located in some of the world's poorer countries. Charges against Nike included "inadequate pay, in some cases below the legal minimum; unsafe working conditions; abusive treatment by bosses, including physical abuse and sexual harassment; and hiring underage workers" (Paine 121). At first Nike viewed its accountability from its perceived role as "an amoral instrument of commerce" and essentially stated that it was not responsible for its suppliers' actions. After suffering a loss of market share and 20% of its market value, the company would later change its philosophy in 1998 and improve its corporate reputation by implementing a six-point

program designed to improve working conditions for its suppliers' employees and boost support of its existing loan program for Asian small enterprises (122).

Event sponsorships have been recognized for offering unique ways of building brands (Aaker 187; Aaker and Joachimsthaler 203-211; D'Alessandro 71-72; Schmitt and Simonson 36) and creating goodwill (Davis 167). But obviously not every sponsorship property is a good match for a corporation's shared values and the reputation principles that are important to its constituents. Even the world's most prestigious sports marketing event, the Olympic Games, has come under scrutiny because of unscrupulous behavior by Olympic officials connected to the Salt Lake City and Sydney Games. The chief executive officer of John Hancock Financial Services, David D'Alessandro described his first hand experience with this troubling issue in his book, Brand Warfare:

> There are dangers, as John Hancock has learned, in marrying your brand to even the purest of events. After five years of reaping the benefits from our status as one of less than a dozen worldwide Olympic sponsors, we woke up one morning in late 1998 to discover we were now linked with a situation that represented the opposite of integrity. Stories coming out of Salt Lake City, the host city of the 2002 Winter Olympic Games, revealed that there were some people at the International Olympic Committee (IOC) who apparently traveled the globe extorting cash, jewelry, tuition fees, you name it, from cities hoping to host the Games. To say we were unhappy about this development is to understate the case, and we believe that if the scandal had gone on too long without a resolution, it might very well have hurt our brand. (72-73)

Some corporate brands have supported their values and their constituents' reputation principles by carving out an anti-sponsorship identity. For example, the corporate charter of cosmetic marketer The Body Shop states that "goals and

values are as important as our products and profits…The Body Shop has soul—don't lose it" (qtd. in Argenti and Forman 72). Using this charter to market dramatically differently from its competitors, the company's 1996 annual report featured a headline that read: "Business as Unusual: The Body Shop—definitely not an Olympic Games sponsor" (72-73).

Measuring, Monitoring, and Auditing Reputation

In order to manage an organization's reputation, the chief reputation officer would be responsible for conducting regular audits of the organization's reputational profile as suggested by Fombrun (206-209). The initial diagnostic stage would include an identity analysis involving a review of all of the ways the company communicates with its stakeholders and employee interviews to determine how they perceive the company. The purpose of this analysis is to determine whether there is a gap between how the company presents itself and its self-concept. The next step is to review the company's image by evaluating how the company presents itself and how external stakeholders view the company's reputation. This would be done through in-depth interviews with individual stakeholders or focus group interviews with stakeholder groups (Dowling 217). Once completed, the chief reputation officer would analyze the research data to determine coherence between the various images held by stakeholders and how well those images match the company's self-image.

The second stage of a reputational audit would consist of designing the company's "desired future state" or where management "would like their

company to be positioned given its strategic direction and resource constraints" (Fombrun 208-209). The chief reputation officer would lead the senior management team in developing a consensus after reviewing competitive analysis, trend analysis, and the reputational standings of competitors compared with their self-presentations. During this stage, the chief reputation officer and senior management team would consider and evaluate the benefits and significance of outside measurements, rankings, and awards that reflect reputational standing:

- Fortune magazine's annual survey ratings of America's Most Admired Companies
- Annual data from Financial World magazine concerning royalty rates for brands—Fombrun suggested that "the more a licensee is prepared to pay to rent a name, the greater must be the drawing power of the brand" (90)
- Product awards such as the Motor Trend Car of the Year, the Popular Mechanics Design and Engineering Award, and the BusinessWeek Industrial Design Excellence Awards
- Process awards such as the Malcolm Baldrige Award and Workforce magazine's Optimas Awards
- Social performance awards such as the Council of Economic Priorities Corporate Conscience Award
- Environmental awards such as the Gold Medal for International Corporate Achievement and the Global 500 Roll of Honor for Environmental Achievement
- Leadership awards such as induction into the National Business Hall of Fame
- Books such as The 100 Best Companies to Work for in America
- Young & Rubicam's Brand Asset Valuator that measures brand differentiation versus competitors, whether a brand has personal relevance for a respondent, whether a brand is held in high regard, understanding of what a brand stands for, brand strength, and brand stature
- EquiTrend market research from Harris Interactive that measures respondents' opinions about a brand, the brand's perceived quality, user satisfaction, and an overall EquiTrend brand equity score based on the previous three measures

- Interbrand's Top Brands measurement that evaluates leadership, stability, market conditions for profitability, international standing, long-term trends indicating future prospects, corporate support such as investment, and protection of the brand's trademarks
- Harris Interactive's Reputation Quotient, a research methodology co-developed with Charles Fombrun, that measures perceptions of a company's emotional appeal, products and services, workplace environment, financial performance, vision and leadership, and social responsibility actions
- External audit firms such as PricewaterhouseCoopers to determine how reputational principles are being applied at the company versus other companies

Stage three would involve managing the transition from the company's current reputation to its desired future state. Depending on factors contributing to the gap between the two states, the chief reputation officer would involve various departments and employees to develop ideas and programs that would help close the gap and achieve the desired corporate reputation.

Crisis Management

Numerous case histories such as the Andersen/Enron scandal, the Exxon *Valdez* accident, Ford's and Firestone's tire separation problem, and the Johnson & Johnson Tylenol product-tampering crisis highlight the need for crisis management planning and execution. The chief reputation officer will lead the organization's crisis management processes that will include crisis management planning, crisis management implementation, and crisis recovery planning. Campbell segmented crisis management into three phases of crisis planning—*before, during*, and *after* (16-17). In the *before* phase, he noted that identification

and discovery of potential threats is a critical aspect of crisis preparedness (21-29). Once a prioritized list of threats are identified, the chief reputation officer will develop a crisis management plan that will include gaining senior management support for the plan, identifying crisis management team members, assigning responsibility to team members, and developing training and testing for the team (45).

Argenti and Forman argued, "getting senior managers to pay attention—and to always expect the unexpected—may be the most important part of crisis communication *before* rather than *after* a crisis develops" (266). As an expert in reputation management, the chief reputation officer can help motivate his or her colleagues by sharing "anecdotal information about what has happened to unprepared organizations in earlier crises" (Argenti and Forman 257).

During a crisis, the chief reputation officer would lead the team by confirming the problem, briefing the crisis team and senior management, bringing in outside crisis management experts, and updating the team on new information as the crisis unfolds (Campbell 45). The chief reputation officer would be the media's single point of contact to control consistency of internal and external crisis communications unless the company's strategy is to have the chief executive officer fulfill this critical role. Other responsibilities during the crisis would include overseeing the development of stakeholder communication materials such as employee briefings, press releases, and backgrounders; monitoring media coverage; analyzing stakeholder polls; and gaining the cooperation of third party influencers as spokespeople (Fombrun 205).

A part of the *during* phase of crisis planning, Campbell suggested that planning for recovery is a critical component of a crisis plan. Recovery efforts run parallel to crisis management and deal with ensuring that the business keeps going despite the crisis and returns to normal as soon as possible (131-147).

Campbell's *after* phase consisted of an ongoing learning process. He suggested that this involved "understanding the crisis management plan [. . .] and continually reviewing the threats to the organization and the crisis response" (18). Campbell also argued that a "post-crisis evaluation" was a critical aspect of learning (166). The objective of this process would be to evaluate the crisis management team's performance during the crisis and plan for future events. In order to gain an objective assessment, the chief reputation officer would call on outside auditors or consultants to develop the evaluation (167).

Conclusion

This chapter has offered a comprehensive list of the many benefits of a good corporate reputation such as the potential to charge premium prices for products or services, lower marketing costs, improve employee morale, lower costs for capital, attract the best job applicants, and gain greater latitude in making decisions. A good reputation can also help minimize the impact of crises due to fraud, sabotage, accidents, and boycotts. And one Harvard professor suggested that good reputations tend to feed on themselves allowing well-respected companies even more positive associations and resulting opportunities.

On the other hand, a weak corporate reputation can result in aggressive competitive activity, greater price sensitivity by customers and consumers, undervalued share prices, greater scrutiny by the news media, less freedom in decision-making, and lost business opportunities. And like its opposite, a weak corporate reputation can also feed on itself. This phenomenon will be explored in the following chapter using further analysis of the demise of the once venerable Arthur Andersen.

Fortunately, there is growing recognition that reputation is a significant intangible asset that can help to ensure the long-term success of an organization through improved competitiveness and an established reservoir of goodwill during crises such as accidents and scandals. However, despite the apparent high regard for a good corporate reputation, most companies "still demonstrate inconsistent attention to the practices necessary to sustain corporate reputations" (Fombrun 6). This inconsistent attention is due to the lack of a focused, strategic approach to reputation management and a high-ranking authority solely responsible for the function. However, the adoption of the chief reputation officer position offers a company the opportunity to rectify this organizational weakness and maximize the value of its corporate reputation.

The breadth and depth of the proposed responsibilities for the chief reputation officer detailed above help to dispel the arguments that reputation management should be the responsibility of the chief executive officer or that the position amounts to nothing more than executive title inflation. Each of the numerous responsibilities detailed above represents meaningful strategic actions

that are critical to a holistic approach to reputation management. While these responsibilities are certainly meaningful enough to warrant the attention of the chief executive officer, organizations must realize that these responsibilities are far too significant and complex to be addressed by the chief executive officer on a part time basis. It is time for senior executives and boards of directors to recognize that they need a full time, professional business strategist and communicator to manage what is arguably their number one intangible asset. It is time to welcome the chief reputation officer to the executive ranks.

Chapter V

DISCUSSION

"We got bludgeoned to death in the press. People did not even want to see us at their doorsteps. It was brutal, but we deserved it. We had gotten into this mentality in the firm of making business judgment calls.

– Lynn Turner, Director of the Center for Quality Financial Reporting at Colorado State University[19]

The Wrong Time to Start Practicing Reputation Management

The previous chapter offered a comprehensive list of reputation management responsibilities to be handled by the chief reputation officer. This list has illustrated the complexity of reputation management and the need for holistic management rather than simply a corporate communications or public relations approach. One of the critical responsibilities detailed was the need for the chief reputation officer to handle crisis management. But unless a company practices focused reputation management everyday prior to the development of a crisis, its ability to survive the crisis will be greatly diminished.

Crisis communication experts have published step-by-step checklists on how to manage a crisis situation complete with case histories of companies that have successfully withstood crisis challenges. While companies can try to use these same crisis management strategies that have been effective for other organizations, the case history of Andersen indicates that the best strategy by far

19 Turner commenting on the similarities between Andersen's crisis and what happened at Coopers and Lybrand when he was a partner there during a series of "highly publicized blown audits" (Norris, "From Sunbeam").

is to have a legitimate, strong reputation before a crisis unfolds. Andersen's management tried to rely on a false perception of its corporate reputation and a number of *proven* crisis management strategies that ultimately failed to save the accounting firm from extinction. Because the firm did not control key internal factors that affect reputation such as corporate values and principles, culture, mission and vision, compensation plans, rogue behavior, alliances, and strategic consistency of communications, it was highly vulnerable in its last of several reputation crises.

Sadly for 85,000 employees, research for the case history has revealed that Andersen's management knew well before the Enron story broke that the firm had numerous high-risk clients that threatened Andersen's reputation and financial well being. Management had already experienced regulatory sanctions, stakeholder settlements, and bad press resulting from crises related to the firm's work with Sunbeam, Delorean, and Waste Management. As noted in chapter one, Chief Executive Officer Berardino wrote Andersen's partners in September 2001 to warn them that the firm's reputation was being frequently and seriously damaged. Cautioning that the firm's reputation and balance sheet would not continue to tolerate failed audits, he attempted to offer leadership to the partners to correct the situation: "The good news is we do not face challenges beyond our control, we have the power, tools and ability to successfully address and mitigate threats to our firm. We know all we need to know to get this right, it's a matter of focus, discipline and will" (Brown).

In retrospect, Berardino was right, up to a point. Throughout most of its history, Andersen did have the means to control its reputation. It theoretically had the power, tools, and ability to address and mitigate these threats to the firm. The firm seemingly recognized the severity of its reputational risks and therefore probably knew all it needed to know to get it right. However, it lacked the focus, discipline and will—as well as leadership—to correct its dire situation.

In the end, Andersen never made any changes to the way it conducted itself. And even though Enron was considered a huge risk characterized by one partner as "intelligent gambling" earlier in 2001 (Spiegel), the firm apparently did not even have a crisis management or recovery plan in place to address the likelihood of an Enron-related reputation crisis. With no fundamental changes to the organization and no crisis management plan, Andersen's management and partners completely abdicated their responsibility to control the firm's fate. Through its inactions, the firm's management essentially turned complete control of its reputation over to its stakeholders.

News stories indicated that Andersen's management was arrogant enough to believe it could control the crisis after Enron's collapse. If this was true, this means that Andersen's senior managers were ignorant of the communication dynamics involved in a reputation crisis. Rather than *control* stakeholder attitudes, beliefs, and behaviors, the best a company can hope to achieve is to positively *influence* the attitudes, beliefs, and behaviors of stakeholders.

In fact, a reputation crisis is particularly challenging because every external factor, as well as many internal factors, is not under the control of the

affected company's management. Management cannot control the timing of national or global events either directly or indirectly related to the crisis, the state of the economy, the business and political climates, or the actions of competitors, customers, and regulators. Perhaps most significant of all, management cannot control unplanned brand messages to and from a wide variety of stakeholders. As defined in chapter four, unplanned messages include employee gossip; news media stories and commentary; actions of special interest groups; comments by politicians, customers, and competitors; word of mouth; and findings and rulings by regulatory bodies or government agencies. Duncan and Moriarty noted that unplanned messages can be either positive or negative and that the sources for these messages can be seen as "experts on the company (such as employees) or objective protectors of the public interest (special interest groups, media, government agencies)" (87). Unfortunately for Andersen, it faced what may have been an unprecedented barrage of negative unplanned messages in the aftermath of Enron's collapse. By examining the unplanned messages involved during Andersen's final months, support for the theory that weak reputations feed on themselves becomes evident.

Unplanned Messages in the Andersen Crisis

The many definitions of corporate reputation noted in chapter two failed to incorporate what Duncan and Moriarty called a "value field of stakeholder interactions" (12-13). They claimed this value field of interactions influences a brand's relationship with a stakeholder, with some interactions directly with the

company and others with third parties such as the media, government regulators, suppliers, other customers, Wall Street analysts, and the brand's distribution channel partners such as wholesalers, retailers, resellers, distributors, brokers, and agents. The authors argued that since the customer is receiving these sporadic and spontaneous inputs about the brand from other sources that can influence customer attitudes and behavior, it is necessary for organizations to manage relationships with all of the stakeholders in the value field.

To illustrate Duncan and Moriarty's theory, figure 4 depicts a simplified map of the value field that was likely present during Andersen's reputation crisis. While stakeholders were getting planned brand messages from Andersen's press releases, management statements, corporate advertising, and other crisis communications, stakeholders were receiving a disproportionately higher number of unplanned messages through numerous interactions with the media, other Andersen clients, government and industry self-regulatory bodies (SEC, Financial Accounting Standards Board, state and federal lawmakers, state accounting boards), investors, other accounting firms, analysts, and even Andersen's partners and employees. Many of these unplanned messages communicated a wide variety of negative brand associations that undoubtedly influenced stakeholder perceptions regarding the credibility and trustworthiness of the firm, Andersen client defections, and reportedly contributed to the zeal of the prosecutors from the U.S. Justice Department.

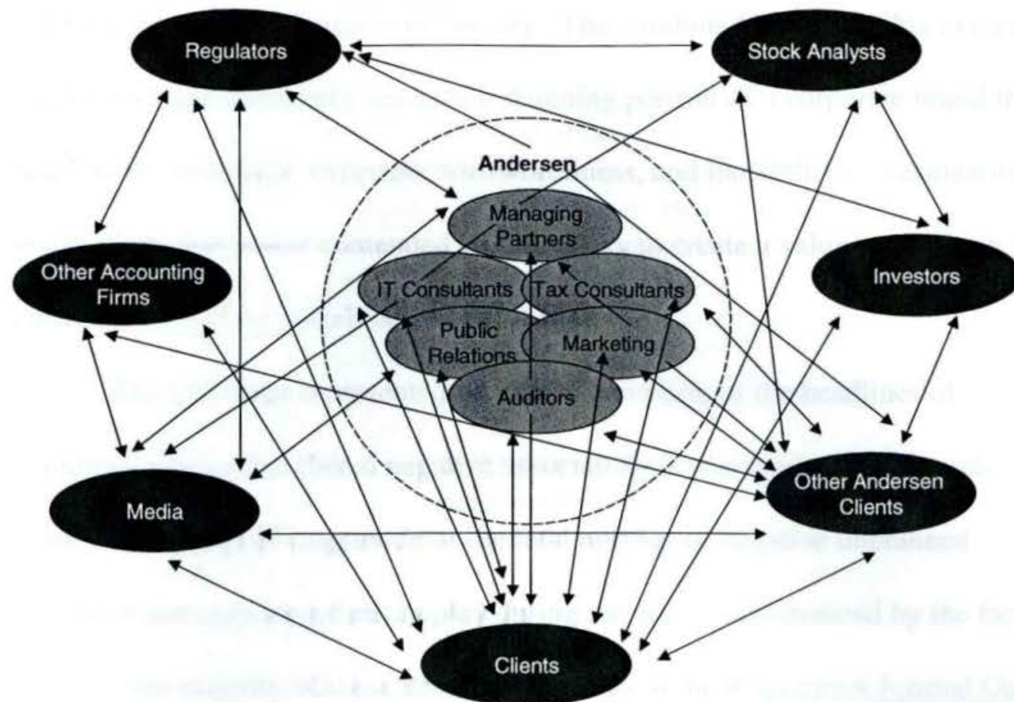

Figure 4. Andersen's value field of stakeholder interactions. SOURCE: Adapted from Duncan and Moriarty (13).

Duncan and Moriarty argued that the most critical unplanned messages for most companies came from the news media (87). This was apparent in Andersen's situation because the news media took the crisis well beyond ordinary coverage of Andersen's role in Enron's collapse. From November 2001 through Andersen's surrender of its accounting licenses in August 2002, highly influential media outlets such as the Wall Street Journal, Washington Post, New York Times, Chicago Tribune, Financial Times, and BusinessWeek continued to delve into every aspect of Andersen's past actions and corporate culture as well as other issues related to the accounting industry's reputation commons problem. So rather than merely defending charges related to its relationship with Enron, Andersen found itself defending every questionable event in the firm's and

industry's recent and longer term history. The combined impact of this extensive media coverage ultimately rendered a damning portrait of a corporate brand that had lost its credibility, expertise, trustworthiness, and likeability—organizational associations that Aaker contended are necessary to create a value proposition for customers and other stakeholders (131-134).

The following represents just a small sampling of the headlines of countless articles that linked negative associations to the Andersen corporate brand. The potential magnitude of the total number of negative unplanned messages that may have been in play during the crisis is dramatized by the fact that the vast majority of these headlines came from the Wall Street Journal Online alone.

- "From Sunbeam to Enron, Andersen's Reputation Suffers"
- "SEC Starts Probe of Enron Audits Conducted by Arthur Andersen"
- "Arthur Andersen's 'Double Duty' Work Raises Questions About Its Independence"
- "Andersen Hit with Share Float Probe"
- "Were Enron, Andersen Too Close to Allow Auditor to Do Its Job?"
- "Arthur Andersen CEO May Have Given Inaccurate Information During Testimony"
- "Big Five Quake as Andersen Faces Doomsday Scenario"
- "Andersen Attempts to Save its Name"
- "Andersen's Clients Fall Silent"
- "October E-Mail Shows Andersen Knew of 'Fraud' Risk Before Enron's Collapse"
- "Andersen 'Warned' of Enron Crisis"
- "Can Andersen Survive? Good PR Will Help Some"
- "Inside Andersen Web"
- "AICPA, Four of Big Five Boot Andersen from Lobbying Group"
- "Andersen Reportedly Missed $644 Million Error in NASA Audit"

- "Andersen Losing Customers – Will Delta Fly the Coop as Well?"
- "Delta Considers Replacing Arthur Andersen as Auditor"
- "Georgia Firms Reconsider Relationship with Arthur Andersen"
- "Andersen's Reputation in Shreds"
- "Enron's Books Aren't the Only Place Andersen Has Made Mistakes"
- "Andersen's Woes"
- "Say Goodbye, Mr. Berardino"
- "Arthur Andersen's Radioactivity Problem"
- "Accounting Students Are Skittish About Joining Arthur Andersen"
- "The Enron Hearings: Andersen's P.R. Nightmare"
- "SunTrust Hires Pricewaterhouse, Ends 60-Year Link With Andersen"
- "Freddie Mac Is Latest Firm to Dismiss Arthur Andersen"
- "Delta Air Lines Drops Andersen in Favor of Deloitte & Touche"
- "FedEx to Drop Arthur Andersen as Auditor; Chooses Ernst & Young"
- "Volcker Announces List of Reforms For Overhauling Arthur Andersen"
- "Boston Chicken's Andersen Suit Has Similarities to Enron Case"
- "Andersen Indictment in Shredding Case Puts Its Future in Doubt as Clients Bolt"
- "Wyeth Becomes Latest Firm to Drop Andersen as Auditor"
- "Andersen's Pity Play"
- "Andersen Partners Are in Peril as Enron Debacle Roils the Firm"
- "SEC Examines Andersen Role in Audits for 3 Telecom Firms"
- "Calpine is Latest Energy Concern to Sever Audit Ties to Andersen"
- "Andersen's CEO Berardino Resigns Amid Partners' Mounting Pressure"
- "Berardino's Hopes of Saving Andersen Were Dashed Following Indictment"
- "Andersen's Top Executive's Scramble to Unite Fractious Group of Partners"
- "Andersen Uses PR Blitz to Fight Back"
- "Andersen Insurer is Made Insolvent After Firm Misses Premium Payment"
- "Auditor Who Questioned Accounting For Enron Talks to U.S. Investigators"
- "Andersen Is Subject Of Probe by British Accountancy Body"

- "Arthur Andersen is Risky Business For Some Companies Planning IPOs"
- "International Paper Drops Andersen; Halliburton to Consider Alternatives"
- Andersen Ex-Party Pleads Guilty, In a Significant Blow to the Firm"
- "Qwest Dismisses Arthur Andersen From Services Other Than Audits"
- "In Memo Last September, Andersen Urged Firm to Be Especially Careful"
- "People at Andersen, Enron Crowed on Camera about Their Close Ties"
- "The Andersen File: What Role Can Reputation Possibly Play Now?"
- "Halliburton Ditches Arthur Andersen; Marriott Is Likely the Next to Depart"
- "How Andersen Blew It"
- "Andersen's Employees Begin to Bail Despite Firm's Insistence on Viability"
- "Too Bad for Andersen, But Good for Accounting"
- "Andersen Was Lax in Auditing Of Baptist Group, Witness Says"
- "Charity-Fund Victims Sue Andersen"
- "Andersen is Withdrawing Offers It Made to Recruits Last Autumn"
- "U.S. to Say Andersen Officials Knew of Efforts to Cover Up Enron Mess"
- "Andersen Runs Into Major Setback One Day Into Its Obstruction Trial"
- "Andersen Now Claims Shredding of Documents Wasn't Improper"
- "Partner Warned Andersen Over Problems with Audits"
- "Arthur Andersen – Three Strikes and You're Out"
- "Duncan Testifies that He Knew Enron Papers Would Be Lost"
- "Miscues, Missteps and the Fall of Andersen"
- "How Andersen Went Wrong"

A review of this press coverage reveals the numerous negative brand associations that undoubtedly resulted from negative connotations of the words and phrases used by journalists in their writing:

- fraud
- scandal
- indictment
- pity play
- black sheep of accounting
- reputation in shreds
- accounting concerns raise their ugly head
- Big Five have image problems
- accounting irregularities
- debacle
- SEC investigations
- White-collar swindles
- audit failures
- conflicts of interest
- integrity may be losing out to illusion
- felony
- watchdog behaved more like lapdog
- cooked the books
- lawsuits
- target of flurry of class action suits
- hefty settlements
- censure
- multi-million dollar fines
- will never be able to recapture its reputation
- obstruction of justice
- criminal investigations
- violations
- tarnished image
- reputation in tatters almost over-night
- can Andersen survive?
- clients and auditors have become too cozy
- once-venerable
- improper professional conduct
- Andersen losing clients
- clients dump Andersen
- clients sack Andersen
- clients drop Andersen
- clients bolt
- embattled
- beleaguered
- besieged

While Andersen's role in the collapse of Enron was the catalyst for a reputation commons problem for the accounting industry, the firm was also the recipient of even more negative unplanned messages due to spill over from the reputation commons. Figure 5 illustrates that during Andersen's reputation crisis, members and key stakeholders of the accounting industry were directly or indirectly senders and receivers of unplanned messages that communicated negative brand associations to the accounting industry's various stakeholders.

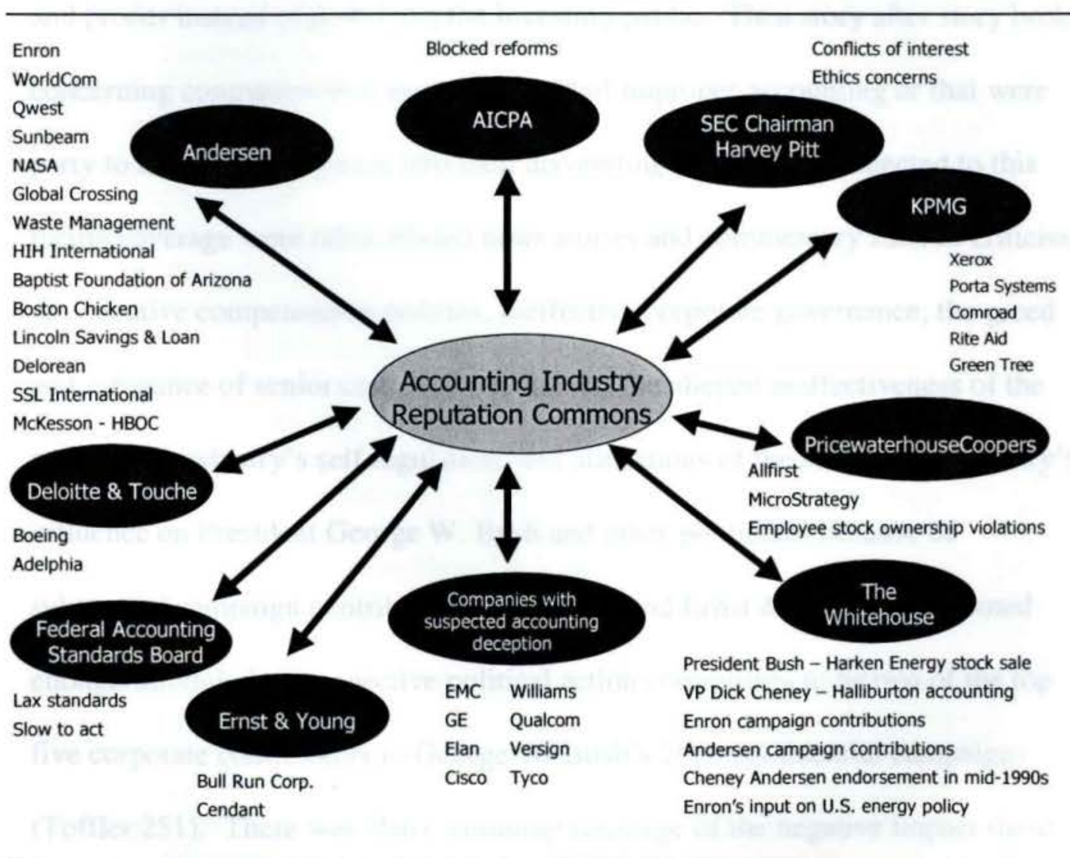

Fig. 5. Select sources of Andersen's negative brand associations.
SOURCE: Author.

Although Andersen's management believed they could manage a crisis caused by a high-risk client such as Enron, it is doubtful that they considered the significant impact of external challenges that would be beyond their control. First, Andersen's reputation crisis touched off widespread criticism of the accounting industry including substantiated or alleged failed audits by each of the Big Five, successful lobbying efforts by the Big Five and AICPA that blocked prior attempts at industry reforms, alleged conflicts of interest due to providing both auditing and consulting services to clients, and an alleged priority on billings and profits instead of protecting the investing public. Then story after story broke concerning companies that were suspected of improper accounting or that were party to a SEC investigation into their accounting practices. Connected to this media coverage were other related news stories and commentary such as criticism of executive compensation policies, ineffective corporate governance, the greed and arrogance of senior corporate executives, the alleged ineffectiveness of the accounting industry's self regulation, and allegations of the accounting industry's influence on President George W. Bush and other politicians because of substantial campaign contributions (Andersen and Ernst & Young contributed enough through their respective political action committees to be two of the top five corporate contributors to George W. Bush's 2000 presidential campaign) (Toffler 251). There was also continuing coverage of the negative impact these revelations were having on the already weakened U.S. stock market.

Listed below is just a minute fraction of the headlines of news stories that created additional negative brand associations for Andersen. Each stemmed from the reputation commons problem that Andersen helped to create.

- "Auditors Face Scant Discipline"
- "Accountants Urged to Do a Better Job"
- "After Enron, New Doubts About Auditors"
- "Former SEC Chairman Says Enron Case Shows Need for Tighter Accounting Curbs"
- "Many Accounting Practices Are Difficult to Penetrate"
- "Not-So-Fine Moments In Accounting History"
- "Depreciated: Did You Hear the One About the Accountant? It's Not Very Funny—How Decades of Greed Undid the Proud Respectability of a Very Old Profession—Prospects for Andersen Dim"
- "Investors' New Worry: "Auditor Risk"
- "Consulting by Auditors Raises Red Flag"
- "In Recent Years, Congress Fought Changes to Accounting Standards"
- "How to Predict the Next Fiasco In Accounting and Bail Early"
- "Shareholders Urge Limit to Role of Accountants"
- "Bush's Plan to Name Accounting Veterans to SEC Raises Some Eyebrows in Congress"
- "Bull Run Corporation Files Suit Against Ernst & Young LLP"
- "In Recent Years, Congress Fought Changes to Accounting Standards"
- "SEC warns of concern over accounting tool used by energy traders like Enron"
- "Accounting Woes Help Push Blue Chips to 3-Month Lows"
- "After Enron, Congress Backs Off Deregulation, Calls for Controls"
- "Markets Across the Americas Drop, Accounting Practices Spawn Worries"
- "Texas Legislators Urge State Accounting Board to Get Tough for Public's Sake"
- "Flaws of Accountant's Peer Reviews Are Detailed in Aborted SEC Report"
- "Accounting woes infect markets; Investors scurry at hints of trouble on balance sheets"
- "Williams stock loses 22% of value; Accounting dilemma prompts fears of Enronlike troubles"
- "Oh, Those Wild and Wacky Accountants!"
- "Searching for the Next Enron"

- "Tyco Options Soar Amid Concern Over Unfolding Accounting Scandals"
- "Independent Accountants Say Andersen's Actions in the Enron Scandal Have Damaged the Reputation of All Accountants"
- "Enron's 'Blowback' Can't Be Spun Away"
- "SEC Investigates Allegations of Accounting Fraud at Elan"
- "Canadian Shares Edge Higher But Accounting Worries Remain"
- "PNC Restates Earnings Amid Inquiries By Fed, SEC Into Accounting Methods"
- "Accounting Debacles Spark Calls For Change: Here's the Rundown"
- "Generally Accepted' Accounting Has Varied Meanings These Days"
- "Accounting Concerns Continue To Drag Down Prices of Stocks"
- "Global Crossing says SEC is Investigating its Accounting"
- "Burst Bubbles Expose Cooked Books, Bring SEC Probes and Bankruptcies"
- "Enron Scandal Leads to Scrutiny of Tech Sector's Accounting"
- "SEC Screens 100 Largest Firms, Questions on Enron Dog Agency."
- "Big Five Accounting Firms Earn Little Respect From Small Firms."
- "Regulator Orders Pricewaterhouse To Suspend One of its Partners"
- "An Accounting Shift Shines Light On Vivendi's Financial Liabilities"
- "Panel Plans to Introduce Legislation Creating Accounting-Oversight Body"
- "SEC Plans to Offer New Rules To Improve Financial Reporting"
- "Bill Would Tighten Curbs on Auditors"
- "FASB Seeks to Toughen Approach To Off-Book Debt Reporting Rules"
- "SEC's Accounting Cop Warns Firms: Playing by Rules May Not Be Enough"
- "Senior Financial Executives Say Enron Damaged Credibility of Accounting Firms"
- "Regulators Examine Allegations EMC Improperly Booked Sales"
- "Qwest Used Four Deals with KMC to Enhance its Revenue Picture"
- "Accounting Industry Puts Profits Above Integrity, Critics Say"

- "White Collar Criminals. Enough is Enough. They Lie They Cheat They Steal and They've Been Getting Away with it for Too Long"
- "A New Credit Crunch: Fears about shaky accounting have all sources of credit pulling back"
- "Accounting Woes Could Tilt Dollar Despite Its Status as a Safe Haven"
- "In the Post-Enron Financial World, Clean, Clear and Concise Matter"
- "SEC Broadens Accounting Inquiries, Opening a Record Number of Cases
- "Computer Associates Accounting Methods Are Subject of Preliminary Investigation"
- "Congress Seeks Harsher Penalties for Violations of Accounting Laws"
- "Accounting Grads See Demand Wane Amid Andersen Competition"
- "KMPG's German Woes Deepen Amid New Accounting Scandals"
- "SEC's Pitt Met With Head of KPMG, Raising Questions About Ethics"
- "SEC Chair's Meeting with KPMG CEO Sets Off Resignation Calls from Critics"
- "Accounting Grads Left in the Lurch"
- "SEC Broadens Its Investigation Into Revenue-Boosting Tricks"
- "Federal Prosecutors Probe Adelphia on Its Accounting"

During this same time, Andersen even lost control of the value of its corporate stories that had been unique assets in building and sustaining the former stellar reputation that the firm had once enjoyed. One such story told of the company's founder, Arthur Andersen, refusing the request of a railroad company president to approve a transaction that would lower the railroad's costs and boost profits. The story claimed that although Andersen was struggling to make payroll, he told the railroad president that there was "not enough money in the city of Chicago" to make him approve it. The client fired Andersen but filed for bankruptcy several months later (Brown and Dugan).

Another Andersen corporate story proudly noted that Leonard Spacek, who led the firm from 1947 to 1963, had campaigned vigilantly to clean up the accounting industry. Reportedly Spacek "accused Bethlehem Steel of overstating its profits in 1964 by more than 60%" and "bashed the Securities and Exchange Commission for failing to crack down on companies that cooked their books" (Brown and Dugan).

In reflecting on the fall of Arthur Andersen, writer Flynn McRoberts of the Chicago Tribune recounted a story that served as a classic example of a proud firm "that once stood for trust and accountability":

> Trading his customary dark suit for a pair of jeans, Mike Gagel trudged over pallet after pallet of multicolored bricks in the central Ohio storage yard. The summer heat was stifling as he counted once, then twice. Something was wrong.
>
> Arthur Andersen, the prestigious Chicago accounting firm, had sent the eager young auditor for a routine task: to certify the inventory of a million bricks baking in the sun near Marion. But each time Gagel counted the pallets, he came up 100,000 bricks short.
>
> At first, the factory owner reacted angrily when Gagel confronted him with his findings. He grabbed the phone and asked Gagel's boss why he had sent such a rookie.
>
> The boss told Gagel to count the bricks again. On his third pass, Gagel once again counted 900,000 bricks; only this time, the owner checked into the discrepancy. He discovered that the plant manager had been ripping him off, secretly selling truckloads of bricks out of the back gate at night.

If Andersen had properly managed the positive reputation that had been partially created by meaningful stories such as these, these stories could have served as a powerful source of strength during the reputation crisis. Instead, the

news media were able to turn these positive images into negative brand messages. A number of writers used the stories as dramatic irony to indicate to readers just how far the once highly respected firm had fallen. The striking contrast between these stories and stories of Andersen's many failed audits created an image of a company that had abandoned its core values and moral compass.

As the Andersen value field of stakeholder interactions indicated in figure 5, the news media were not the only sources of damaging brand associations. Shareholders and other stakeholders were calling and e-mailing companies to protest Andersen's continuing status as external auditor. Many of Andersen's partners and employees contacted competitors to hopefully line up partnerships and other positions with other accounting and consulting firms. CEOs and CFOs were undoubtedly contacting former colleagues, mentors, and protégés to commiserate about the image and financial problems their auditing firm had created for them. Members of Congress who had fought against accounting reforms just a few short years before Enron's collapse were calling for sweeping changes to accounting standards and heightened corporate accountability.

In a short period of time, Andersen's corporate nightmare entered popular culture. From editorial cartoonists to late night talk show hosts Jay Leno and David Letterman, from mainstream comic strips to greeting cards, Andersen's reputation was lampooned mercilessly. Despite the fact that Andersen had been a major campaign contributor, even President George W. Bush got in on the act. He reportedly told the following joke at a Republican fundraiser in Washington in

January 2002: "Saddam Hussein has now agreed to weapons inspections. The bad news is he wants Arthur Andersen to do it" (Leeds and Frammolino).

Investors were also responsible for creating unplanned messages that had significant impact on one of Andersen's priority stakeholder groups—its clients. For example, Andersen's poor reputation was in turn damaging its clients' reputational capital. One study by researchers at Vanderbilt University called "Shredded Reputation: The Cost of Audit Failure," found that the market value of Andersen's clients "dropped 2 percent, or $37.1 million" in the three days after the announcement that the firm had shredded documents (Loftis). While this aspect of the study focused on "all 284 of the S&P 1500 public companies audited by Arthur Andersen," another indicated that companies served by Andersen's Houston office, the location of the Enron audit team, suffered a 4 percent loss. Paul Chaney, associate professor of accounting at Vanderbilt, commented on the study's findings: "On the dates that shredding was found and the Powers Report was made public, Andersen's other clients experienced an immediate negative market reaction. Investor's downgraded the quality of the audits, indicating a failure of trust (Loftis).

A second study by Clifford F. Thies, a professor of economics and finance at Shenandoah University in Virginia, indicated an even more dramatic problem for companies using Andersen as their auditor. Thies' study showed that Andersen's audit clients lost 6 percent of their market capitalization following the news of the coming U.S. Justice Department indictment. Clearly, investors were

a major stakeholder group making their feelings known about the credibility of Andersen's reputation as an auditor.

Conclusion

It was against this dynamic torrent of negative unplanned messages that Andersen attempted to use what it and many public relations firms probably viewed as *proven* crisis communication strategies that were woefully ineffective in saving the firm from self-destruction. Andersen's tragic experience illustrates that the wrong time to begin practicing reputation management is during a reputation crisis. Rather than implementing a checklist of crisis communication tips when pushed into a reputational corner, proactive reputation management requires what Fombrun referred to as *mundane management*:

> Our best-regarded companies achieve their reputations by systematically practicing mundane management. They adhere rigorously to practices that consistently and reliably produce decisions that the rest of us approve of and respect. Faced with crises or accidents, their actions are governed by values, systems, and processes that sanction justifiable responses. By increasing our faith and confidence in the company's actions, credibility and reliability create economic value. (29)

Andersen failed its 85,000 employees, clients, industry, and other stakeholders by failing to have the values, systems, and processes necessary to create stakeholder faith and confidence. It arrogantly relied on an outdated, false sense of its reputation that had likely started to diminish almost twenty years before the collapse of Enron. When it came to managing its reputation, there was definitely no one minding the store. Could Andersen have benefited from having

a chief reputation manager? Only if the firm had embraced the values, systems, and processes necessary to create credibility, expertise, trustworthiness, and likeability in the minds of its stakeholders.

By using the case history of Andersen's demise and the reputation challenges of other major companies, this paper has sought to provide a logical justification for the role of a chief reputation officer in major corporations. It has examined the latest thinking on reputation management and discovered possible explanations for the lack of adoption of this critical management function. Most importantly, this paper has provided a comprehensive summary of the benefits of a good corporate reputation and the breadth and depth of responsibilities to be assumed by the chief reputation officer. Project research has shown that the management of corporate reputation involves complex internal and external factors well beyond the purview of the public relations and corporate communications functions. Finally, research also indicated that corporate reputation management is affected by multi-dimensional relationships between corporate brands and their stakeholders that can best be managed by a full-time senior executive who is singularly focused on building, sustaining, and defending what is arguably the corporate brand's most important intangible asset—its reputation.

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