



Wednesday, September 29, 2010

How I See It

Damage to company image impacts intangible capital

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It's almost always when something goes wrong that reputation enters the conversation. BP's dramatic oil leak. Toyota's acceleration problems. These crises are not isolated cases. They happen all the time.

In the middle of the crisis, much of the conversation is about the message. With good reason. BP's CEO should never have said "I want my life back." Toyota management should not have insisted that "nothing is wrong." A good communications strategy is critical in a crisis. It's important to be transparent and proactive at moments like this.

But it's wrong to think that better communication is enough. The real lesson for all of us in reputational crises is the hard work that goes into preventing and mitigating them. And, the task is made all the more difficult because of the nature of the knowledge economy. Organizations and the work they do are much more complex today than ever before. In fact, the knowledge component of corporate value keeps rising. Today, 80 percent of the value of the average company is off balance sheet. This value is derived from knowledge — people, knowledge and networks — that is neither visible or, in most cases, recorded on an inventory of key productive assets. These knowledge assets, also called intangible capital, are to the knowledge era what the

production line was to the industrial era. They are at the core of value creation and operations.

Since these knowledge assets are invisible, your business can seem like a black box to your stakeholders. They will assume it is working well until something changes.

When something goes wrong, however, and word gets out, they assume there probably is more bad news on the way. Your stock price will go down. Your partners will worry. Job candidates will think twice about joining you. Existing employees doubt the wisdom of sticking around. Even an isolated problem can quickly damage your overall reputation.

How can you open up the black box? Paint a picture for your stakeholders. Intangible capital drives your business. So if you want to think about building and preserving a good reputation, focus on people, knowledge and networks. Start with revenue sources and the processes that support them (most companies only have a handful of core value creation processes). What is the knowledge infrastructure for these processes? How do you control quality? This is the foundation of a good reputation: doing things right. Then think about your external stakeholders. How can you be proactive and transparent so they understand what you do and how well you do it on an on-going basis?

Look at Google's search business. Their revenue comes from ads. The ads are supported by algorithms that match searchers to advertisers. But this process would be meaningless without the search process itself. The knowledge in these processes is inextricably linked to the competencies of the people working on them and the partners (searchers and advertisers) in the company's network. Google's first job is to ensure continuous quality in these core activities and keep communication flowing. Let the quality of service speak for itself, but also respond to concerns that arise, such as their tensions with the Chinese government.

Your own business can be best understood as a knowledge system, a series of processes. This is the "knowledge factory" upon which your success is built. Create long-time supporters for your company by managing this "factory." Your stakeholders don't expect you to be perfect and if they have a long positive experience with you, they are much more likely to cut you some slack when the crisis hits. Everyone makes mistakes. It's how you

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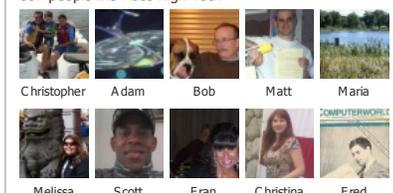
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behave not only during the crisis but also in the months and years before the mistake that will determine the extent of the damage to your reputation.

Mary Adams is the co-author of *Intangible Capital: Putting Knowledge to Work in the 21st Century Organization*.

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