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Reputational Damage

A Neglected Risk

In assessing the impact of potential hazards on an organization, it's not uncommon to focus on tangible impacts, such as potential damage, possible injury, or estimated downtime. However, many crises generate intangible impacts as well. The Northridge earthquake, for example, resulted in a demographic shift that changed both the composition of the labor pool and the types of businesses within the community.

The most neglected of these intangible impacts is the potential effect on the organization's reputation. This is surprising as we see daily examples of how events can have an immediate impact on reputation. What is also interesting to note is that in many cases the damage is caused not by the event itself but by the real or perceived mishandling of the crisis.

Economic Loss

A classic case in point is the mishandling of a crisis by Perrier in 1990 when reports began to surface of benzene in its bottled water in North America. Perrier reacted well by immediately recalling some 70 million bottles of water. It then announced that the problem was caused by improper cleaning of a

production line machine and was limited to North America.

Almost immediately reports of contamination began to emerge from Europe. Perrier began a global recall of some 160 million bottles. In announcing the recall, the president of Perrier's international division stated that benzene was a naturally occurring gas found in the water. There were also announcements that the benzene had entered the water as a result of dirty pipe filter.

The problem was quickly traced to defective filters at the spring that remove the naturally-occurring benzene but the changing stories and confusion, coupled with the revelation that Perrier added extra "fizz" to its water, shattered public confidence in Perrier. Perrier had been the most popular bottled water in the world, with 44.8% of the market in 1989. That share dropped to 5.1% by 1998. The recall cost Perrier \$263 million.

Political Fallout

Reputational damage is not solely a private sector issue and the effects are not limited to just economic loss. During the Mississippi floods in 1927, Herbert Hoover was assigned as the Presidents "disaster czar" to coordinate federal support to the relief operation.

Hoover had not been considered a potential candidate for President but his high visibility and the perception that he was doing a great job earned him the Republican Party's nomination.

However, Hoover had a problem. In response to complaints about the mistreatment of blacks in the relief camps, he had created a Colored Advisory Committee of prominent black leaders who were due to issue their report and recommendations for correcting the abuses they had found. Hoover brokered a deal with the Advisory Committee, asking for them to soften the report in exchange for concessions and political support after he was elected. The Committee agreed.

Hoover almost immediately reneged on his concessions. However, despite the best efforts of black leaders, Hoover garnered 85% of the black vote in the 1928 election. However, blacks had traditionally voted Republican and this represented a loss of 10% of the black vote. It was a sign of things to come. Disgusted with Hoover, black voters fled the Republican Party, with black membership sinking to 2%, costing Hoover his reelection bid.

Reputation Enhanced

While crisis can damage reputations, it can also enhance or rehabilitate them. Mayor Eugene Schmidt was facing indictment for graft and corruption on the day that the earthquake hit San Francisco in 1906 but was widely heralded for his leadership during the disaster (although his actual actions are greatly disputed by historians). Despite being convicted of extortion (a conviction later overturned on appeal) and tried and acquitted for bribery, he remained in politics and eventually served on the Board of Supervisors.

The 1989 Loma Prieta earthquake saw unpopular San Francisco Mayor Art Agnos similarly credited with strong leadership, particularly in the recovery phase where he pressed FEMA and the Red Cross on funding issues.

Protecting Reputations

If we look closely at these and other examples, the thing that jumps out is that reputation is determined by the public's perception of how you are dealing with the crisis. Avoiding reputational damage requires the creation of a strong narrative that resonates with the public.

In the case of Perrier, the actual incident was minor: only trace amounts of benzene were found in the product and the problem could have been quickly resolved. However, Perrier's lack of a crisis management strategy meant that unconfirmed information was released from multiple sources, generating considerable confusion. This created the perception that Perrier had no clue as to what was causing the problem, even though the company was in fact taking appropriate action by initiating an immediate recall of the product and investigating the cause of the contamination.

Hoover had, in fact, done a decent job of organizing the relief operation and coordinating federal support. But the perception he created in the black community was that he was a man who could not be trusted, a reputation that would cost him reelection in 1932 and permanently change the makeup of the Republican Party.

Protecting your organization's reputation relies heavily on prior crisis management planning. However, it also relies on leadership during the crisis, which is the product of training and preparation. 