Nice is Not a Vice: How a CEO's Reputation Affects the Bottom Line

By Ann T. Gallagher

If you read most any business publication, you'll see that the "imperial CEO" model of corporate leadership has met its demise. A commandeering presence is so 2004; now the trend is toward persuasive collaboration focused on ground-level operations.

Is nice truly becoming the "new black" for the C-suite set? It may be. But there's nothing new about CEOs being good leaders. The overwhelming majority of them are humane and open-minded; most have actually achieved a better balance between work and personal life than the lower-level executives around them.

But in the last seven years—with so many high-profile CEOs becoming entwined in scandals—business leaders are under more scrutiny than ever. And, unfortunately, the public perception is that CEOs almost have to be arrogant and power-hungry to get to the top.

At the same time, the reputation of a company's CEO influences the reputation and financial well-being of the company itself. According to a 2005 study by international advertising and research firm Burson-Marsteller, 50 percent of a business's corporate reputation is linked to the CEO. And Ernst & Young's 1997 "Measures that Matter" study found that 40 percent of the average company's market value is based on nonfinancial assets, including reputation.

Even though "CEO reputation" may not appear on the balance sheet, its influence on investment, share price, company performance and talent retention is greater than ever.

Just follow the national news to see how an unsavory reputation can have a negative effect on a company's bottom line. At Tyco, for instance, in the five years since CEO Dennis Kozlowski was first indicted on 23 criminal charges including grand larceny, the stock price has dropped 55 percent and the company has laid off 11,000 employees.

Similarly, Adelphia Communications' CEO John Rigas and his son, CFO Timothy Rigas, were arrested on (and later convicted of) federal fraud charges in 2002. After news of their arrest broke, Adelphia's shares, which had hit an all-time high of $66 in 1999, were trading around 15 cents.

Playing Nice

On the other hand, a CEO's reputation also can improve a company's financial outlook. According to a study by David Larcker, a former accounting professor at the Wharton School of the University of Pennsylvania, each 10 percent positive change in a CEO's reputation results in a 24 percent increase in the company's market capitalization.

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When a CEO's reputation is exemplary, says a Burson-Marsteller report titled "CEO Capital," a whopping 94 percent of the public would believe in a company that is under pressure from the media, 93 percent would recommend the company as a good alliance or merger partner, and 92 percent would maintain confidence in the company if the share price lags.

Clearly, for CEOs, being nice is not a vice. This maxim applies as much to owners of smaller, privately held businesses as to well-known heads of publicly traded multinational companies, because so many decisions at every level hinge upon the perception of a CEO's personality.

For instance, according to "CEO Capital," 95 percent of investors make decisions based on the reputation of the CEO, and it's just as important a criterion for financial institutions, lenders or venture capital "angels." Unless the financials are absolutely irresistible, if funders perceive that the CEO is overbearing and obnoxious, they'll pass and the company won't get the cash it needs.

The Trickle-Down

A CEO's reputation doesn't just affect external relationships; it affects employees, too. Burson-Marsteller reports that 88 percent of employees will recommend their company as a good place to work if the CEO's reputation is good.

Companies that attract top talent through word-of-mouth are naturally positioned to outperform competitors with lesser talent pools, and lower turnover means lower recruiting and training costs, better morale and higher performance levels. As a result, maintaining an excellent reputation should be a CEO's responsibility to everyone with a stake in the company.

Being self-aware doesn't mean being an egotist, though. Some CEOs worry that such intense self-focus is a sign of conceit. But with so much riding on the CEO's reputation, to not cultivate it would be conceit.

To build and protect their reputations, CEOs need to develop a positioning strategy with directives for clear, frequent and sincere communication, both internally and externally, and a strong, meaningful corporate citizenship program that puts them in the public eye.

Remember, the more approachable and human CEOs are—and appear—the better their reputation will be. Thus, even introverts must learn to go the extra mile, being careful to stay true to themselves as well.

A CEO's reputation should fit as well and as comfortably as a custom-tailored garment. Nice may be the "new black," but it will never go out of style. ◊

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