

No company is untouchable anymore

By  Aki Kalliatakis

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Old Greek Proverb: "It is better to lose an eye than to lose your reputation."



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I really thought that the recent banking crisis which has caused misery for billions of people around the world was the pinnacle of corporate stupidity. So I am now astounded that the scandal of the recent violation of trust by motor manufacturer VW can still occur. Of course, to be fair, VW is not alone. In South Africa, just in the last few years there have been allegations that Hitachi, Tiger Brands, South African Airways, the SABC, the police, Eskom, and the SA Football Association have also lied, cheated and/or paid bribes.

Worldwide, there are hundreds of examples of scandalous behaviour.

But companies are no longer untouchable - the social media, (and to a far lesser degree the traditional media) have lambasted organisations and governments because of the whistleblowing efforts of brave young people like Edward Snowden and Julian Assange.

{{Image}}

It is impossible to keep a lid on lies and cheating. You can post your version of events on your website. You can release a press statement. It doesn't matter. By the time you react, considerable reputational damage will have been done. The public will remember - you can't eradicate the damage with a corporate statement. Trust has broken down, and as citizens and customers we have come to the point where we don't even trust the news anymore.

VW currently faces a fine of up to \$18bn, sadly the promise of "clean diesel" has now been discredited.

The cost of such scandals, however, is much more than a slight inconvenience for wealthy shareholders. (Billions have been wiped off the value of the leading company in Germany, and nobody can predict how much will be lost in class-action lawsuits, customer compensation, and the possible recall of 11 million vehicles.) But with their reputation in tatters, customers will look to alternative rivals for greater certainty and security for a very long time. After all, they assume, if the company lied about a relatively small thing, why wouldn't they lie about other important stuff? No amount of PR spin, charm and even heartfelt apologies will delete the memories of such disasters.

I feel much more sympathy for great majority of good employees and suppliers of these companies, who will have to suffer public disdain, and who, unlike customers, don't have an easy choice to just go elsewhere: we know that morale will drop to new depths, and I fear that massive job losses loom. Even "Brand Germany," with its reputation for the best possible quality, has been tainted. And all because an immoral handful of senior people thought that they could get away with dishonesty and cheating.

How does this happen? How can executives in such organisations even think that they can get away with it? At the core of such behaviour is the *hubris* of executives in charge. (*Hubris* is defined as excessive pride or self-confidence, lack of humility, arrogance, conceit, vanity, superciliousness, and a feeling of superiority.

The message for business is simple. You work in a goldfish bowl and the whole world is watching.

Today it is customers who hold the power, and they too will cruelly punish companies if they think they have been betrayed by chicanery. Can companies and organisations come back from such crises? Can they rely on the previous loyalty of customers who loved the brand? Does scandal supersede brand advocacy?

Perhaps an organisation can recover, but it will require vast amounts of meaningful communication and the company will need to take extreme measures to regain the breakdown from the betrayed trust. Of course, the fact that there was a full and immediate confession, (rather than denial and delaying tactics, or even a war against "misguided media perceptions,") may help to start the recovery, as has the immediate resignation of CEO Winterkorn, but these rituals will not be enough to deal with the crisis.

There's not going to be a happy ending for companies and other organisations that face cataclysmic damage to their reputation. If these scandals mean that fearful executives extensively debate how their companies operate, and that leads to a more ethical approach and more integrity, that is positive. If they get to fix chronic and systematic problems that may be ready to explode, that will also be great.

If they realise that they must stop lying to their customers, and avoid creating a "Yes, sir. I was just following orders" culture through the use of fear and intimidation that will be wonderful. But I'm not too optimistic that this will happen, because there will always be "the last guy," who will be blamed.

Certainly there will be a new level of business scrutiny by governments and other watchdogs. And if it hastens the demise of petrol and diesel powered cars for research and development into alternative sources of energy, that can only be an excellent thing.

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