Reputation, Goodwill, and Loss: Entering the Employee Training Audit Equation

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Organizations, like individuals, have reputations that create consequences. Six features of organizational reputations are reviewed. A model for how organizational reputation is created is presented, with special attention to the role of employee training in reputation formation. The effects of organizational reputation on a firm's financial performance are reviewed, particularly in terms of goodwill valuation. Employee training practices are identified as one way by which the risks of damage to organizational reputation can be reduced—or enhanced. Specific illustrations of how training enhanced reputation (Navy Seals, FBI, airport screeners) are noted, followed by examples of six different forms of employee training failures that can create negative reputational effects. Based on this analysis, a dozen assessment questions are listed that should be used in auditing the risks to organizational reputation from employee training.

Keywords: *organizational reputation; goodwill; training audit; training failures*

Microsoft. Enron. Southwest Airlines. The Department of Motor Vehicles. For many people, each of these names triggers images, attitudes, and characterizations—some good, some bad. Organizations, just like individuals, can have reputations (Dowling, 2001), as these characterizations suggest. Regardless of whether an organization's reputation is accurate, the nature of the reputation will influence how people, like consumers, competitors, and even employees, interact with the organization. This article begins by examining the meaning and functions of organizational reputation, and presents a model for describing how organizational reputation emerges and the effects it creates. The second part is based on the postulate that organizational reputations have financial consequences, and the accounting consequences of reputation—particularly in the form of "goodwill"—are explored in order to examine how reputation creates its financial effects. The third section

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looks at how human resources training and development practices can affect an organization's reputation, for good or bad. A key theme of this article is that employee training is one factor that can impact an organization's reputation and that impact will have financial implications. Finally, in the fourth section, the implications of training on organizational reputation for auditing purposes are reviewed.

The Reputation of an Organization

Organizations, like individuals, can have reputations. "Southwest Airlines is a fun place to work," "The Department of Motor Vehicles (DMV) is hopelessly bureaucratic," and "Microsoft is a predatory competitor" are all examples of organizational reputations. Yet, even though reputations can have important effects on organizational performance, the literature on organizational or corporate reputation can be characterized as having a heavy normative or prescriptive orientation (see Hannington, 2004, for a recent example), and/or researching fairly specific theoretical issues. For example, as covered more fully below, empirical studies have tended to concentrate on the effects of organizational reputation on strategic behavior, organizational finances, and recruiting conditions; more conceptual studies consider the relationship between organizational reputation and identity. Perhaps the most systematic academic treatment of organizational reputation is the work by Fombrun (1996). Even so, no grand theory about the formation, dynamics, and operation of organizational reputation exists.

The literature on organizational reputation is also relatively disparate, spread across several disciplines, with each perspective having its own points of emphasis; as a result, the construct of organizational reputation has some conceptual and theoretical confusion (Fombrun & Van Riel, 1998). One discipline long known for its interest in organizational reputation is public relations and corporate communications, where the focus has been on how to craft and disseminate a desired corporate image and/or manage reputational effects among consumers and other stakeholder groups (Gray & Balmer, 1998). Marketing and strategic-planning researchers are concerned about "brands" as a specific type of reputation (Olins, 2000), how to measure an organization's reputation (Bromley, 2002), and the value of reputation for competitive purposes (Olins, 2000). In the human resources field, researchers primarily have studied the effects of organizational reputation on recruiting and selection outcomes (Belt & Paolillo, 1982; McMillan & Deeds, 1998; Turban & Cable, 2003; Turban, Forret, & Hendrickson, 1998). A search of various databases yielded no studies on the relationship between organizational reputation and employee training, however.[1]

In general, an organizational reputation is "a perceptual representation that accompanies past actions and future prospects that describes the firm's overall appeal" to various stakeholder and constituency groups (Fombrun, 1996, p. 72). That is, a reputation is a representation or image of an organization held by people either external to and/or members of the organization. From the existing literature, six properties can be identified to define further the meaning and functions of organizational reputation.

First, a reputation is a blanket characterization of what an organization is like; indeed, it is functions like a stereotype, reducing some complex phenomenon to a simplified essence. That Southwest Airlines has a reputation as a fun place to work (Freiberg & Freiberg, 1996) does not mean that every employee's work experience there will be fun all the time, nor that every employee will have fun while working there. As a stereotype, a reputation highlights some characteristics or attributes of an organization while neglecting other characteristics, implying a uniformity that undoubtedly does not exist in practice.

Second, reputations also provide predictions about how an organization's members will act in certain circumstances. When dealing with DMV employees, for example, one expects to be processed slowly and by the rules. Weigelt and Camerer (1988) note the role reputation plays in strategic planning: potential entrants into a market may be dissuaded from doing so if they believe an entrenched firm will react aggressively. That is, a firm's competitive reputation becomes a basis for predicting how the firm will react, shaping and influencing the strategic actions of others. In general, then, a reputation involves a set of expectations or beliefs about the future behavior an organization and its members. Third, relatedly, those beliefs about an organization will likely also involve evaluative judgments. Some may think that being an aggressive competitor is a good thing, whereas others might dislike predatory practices. In short, a reputation is a simplified characterization embodied by beliefs and attitudes attributed to an organization.

Fourth, different groupings of people come into contact with an organization for various reasons and in various ways. These stakeholders groups "routinely rely on the reputations of firms in making investment decisions, career decisions, and product choices" (Fombrun & Shanley, 1990, p. 233). Dowling (2001) identifies four main types of stakeholder groups: *normative* groups concerned about organizational performance (directors, regulators, trade associations, or investors); *functional* groups involved in day-to-day operations (managers, employees, suppliers, distributors); *diffuse* groups with special interests in the organization (advocacy groups, journalists); and *customers*. All have some interest, current or potential, in any given organization (Fombrun, 1996). Moreover, different stakeholder groups will likely use distinctive criteria (like profitability or environmental responsibility) in forming judgments about the organization. An organization, thus, may actually have several reputations, with each group of stakeholders having its own prototype (Deutsch, 1979).

Fifth, a reputation is not fixed but can change. Denny's was able to remake its reputation as a racist organization to one that is now honored as a best employer by various racial and ethnic business associations (Adamson, McNatt, & McNatt, 2000). Even so, changing a reputation may be difficult to do. The experience of Procter and Gamble (P&G) is instructive in this regard. P&G's century-old corporate logo was a picture of a man in the moon surrounded by 13 stars. In spite of its seeming quaintness, this logo has been dogged for years with the nagging reputation that the logo is in fact a homage to Satan worship, including allegations that the 13 stars really represented the Satanist's symbol of 666; rumors include claims that company executives have appeared on TV talk shows promising company profits to the Church of Satan. (In fact, the 13 stars represent the 13 colonies and the man-in-the-moon image, popular in the 1880s, evolved from P&G's initial symbols of a plain moon and stars used to identify their earliest candle products for illiterate consumers.) Because rumors like these can be destructive to its reputation, Proctor and Gamble aggressively responds to them, using ex-FBI agents to track down the people who start such rumors and initiating legal action against them (Swasy, 1993). A recent example involved Amway distributors James and Linda Newton of Topeka, Kansas, who distributed flyers claiming that Proctor and Gamble supported the Church of Satan, urged a boycott of their products, and instructed readers to purchase alternative products; the flyer included the phone number of the Newton's distributorship. In March 1991, they were found guilty of spreading false statements and were ordered to pay $75,000 to P&G ("P&G rumors cost," 1991). Over the prior 10-year period, P&G claims to have responded to more than 150,000 calls and letters on this topic, and his been successful in a dozen lawsuits. In spite of P&G's efforts, a reputation and the rumors that fuel it are difficult to stamp out. The turnaround Denny's required was a substantial investment of executive attention, resources, and transitions, spread over a period of 5 to 10 years.

Sixth, a brand is a special type of organizational reputation, attached to a firm's products (as in Coke) or services (e.g., Southwest Airlines). On the surface, a brand "is a distinguishing name and/or symbol intended to identify the goods or services" of a business (Aaker, 1991, p. 7). At a deeper level, though, a brand is a set of beliefs about and assessments of an organization and its products and services, representing a signal about product or service quality (Weigelt & Camerer, 1988). Consumer buying behavior can be influenced by brand names: What consumers are really buying are the assurances and value that the brand name represents. A brand is, thus, a kind of reputation with very definite economic implications for consumers.

Organizational Reputation: Formation, Antecedents and Effects

The dynamic process of organizational reputation is shown in Figure 1. In general, this model identifies three main aspects of organizational reputation (discussed more fully in the following sections). First, the formation of an organization's reputation is portrayed as a function of stakeholder experiences with the organization. Those experiences may be reported to stakeholders by others, or stakeholders may have direct experience with the organization. Direct experience will typically involve the performance of organizational members, be it through the quality of the goods they produce or the quality of the service they deliver. Regardless of the source of the experience, an organizational reputation forms. Second, given the potential importance of organizational member performance of reputation formation, the model suggests various antecedent factors that can influence performance. Of particular interest to this article is the role of employee training on member performance. Third, an organization's reputation will have various effects. It will affect how consumers, employees, investors, and other stakeholders deal with the organization. Those behaviors carry various financial consequences. Finally, a given reputation and its resulting effects will either confirm or disconfirm the organizational identity of its members to some degree, which, in turn, can lead to enhancements or modifications of member performance and/or organizational communications.

An organization's reputation is a function of the experiences that stakeholders have with it. Experiences may either be based on a person's *direct* personal transactions with the organization and/or *mediated* by the reported experiences of others (like friends, customers, associates, journalists, etc.). That is, as indicated by the crossed box, any stakeholder's experience with an organization may involve some combination of mediated and/or direct experience. My image of Enron may be based totally on how it has been reported by others, whereas my image of the local car repair shop may be based exclusively on my experiences with it while having my car repaired. My image of Southwest Airlines may be based on both what I have read about it as well as my own experiences flying. Direct experience can occur in several ways, such as using the organization's product(s) or being served by organization members, creating some degree of quality satisfaction. It is through the experiences that people have with it that an organization *earns* a reputation through the performances of its members.

In addition, through various types of corporate communications, an organization may try to cultivate, manage, and *construct* a reputation that both spreads its praises and/or deflects criticism (Marconi, 2002). In the first instance, an organization may actively try to promote a certain reputation (Fombrun & Rindova, 2000). Certainly, an organization may try to influence its reputation by reporting on its business financial performance or by advertising practices

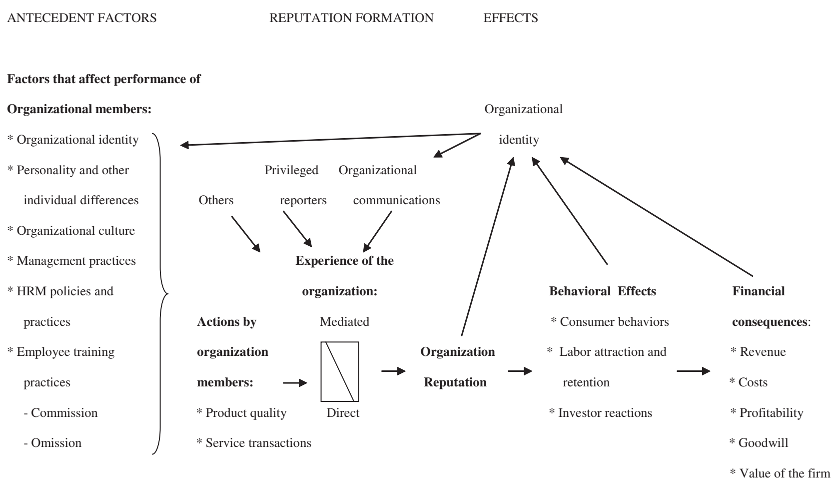

FIGURE 1: Organizational Reputation: Antecedents and Effects, with a Special Role for Employee Training

(Fombrun & Shanley, 1990). Gatewood, Gowan, and Lautenschlager (1993) found that, among graduating college students, even though organizational reputation was not related to business performance or financial information, the firm's reputation among the students was very sensitive to image promotional materials. Enron was highly skillful in constructing an image and reputation, enlisting endorsements from investment analysts, academics and consultants (in part, through lucrative contracts and gifts); these authorities in turn delighted in picturing Enron as a benchmark example of the New Economy (Nanda, 2003). These various "authorities" promoted and maintained this reputation for some time, even as Enron duplicitously engaged in a prolonged process of fraudulent and misleading representations (Partnoy, 2003). Second, beyond trying to manipulate its reputation, an organization may need to undertake damage control to correct or salvage its reputation. Marconi (2002) puts it this way:

> Having a bad reputation does not necessarily mean that the company is guilty of any wrong doing; it means a widespread perception exists that the company is guilty. Sometimes the company in question is doing everything right but it's being victimized and discredited by competitors, special-interest groups, or disgruntled current or former employees. (p. 114)

A key driver behind all these types of experiences are the actions and behaviors of organizational members, particularly its employees.[2] Those actions often define the nature of the direct service experience, as well as impact product quality and the experiences of others. In turn, employee performance is a function of a number of factors.[3] Some factors are based on individual differences, including personality traits (such as conscientiousness; see Landy & Conte, 2004, for a summary), psychological needs (for achievement or power, for example), or other biographical factors (like age or intelligence). Other factors are based on organizational conditions and practices, including the culture of the organization leadership and management style[4]; and human resource management (HRM) recruiting and selection, compensation, and performance-management practices.[5] One additional organizational and HRM practice that can affect employee performance is training. Training may be provided to front-line employees as well as managers, suppliers, customers, and others, and should affect their performance in terms of what they do (or do not do) and/or how well they do it. Employee performance, therefore, is one foundation upon which an organization's reputation is built.

Once established, an organization's reputation will have positive and/or negative effects on various stakeholder groups, as the reputation evokes attitudinal and behavioral reactions to the organization. As possible, consumers, employees, investors, and others will respond to a reputation by demonstrating more support, confrontation, or avoidance behaviors in their dealings with the organization. (The actual behaviors demonstrated will obviously depend on more than reputation: An umbrella monopoly may have a very bad reputation among consumers but still post record sales during monsoon season.) Consumer researchers have found how poor service translates into a bad reputation: "The average customer who has had a problem with an organization tells nine other people about it" (Band, 1991, p. 13). On the other hand, a good reputation among consumers is like free word-of-mouth advertising. Or consider a company's reputation in labor markets. Assuming that a firm's reputation operates like a signal for recruitment purposes, Cable and Turban (2000) looked at the relationships between corporate reputations and various recruitment outcomes. In an experiment with 368 students in a management course, they manipulated the quality of reputation (good or bad), advertising, and salary level. They found that their applicant-participants had stronger intentions to pursue jobs at firms with better reputation firms and were willing to accept lower entry salaries with those firms. In general, then, stakeholder reactions translate into financial effects of various kinds (discussed more fully in the next section).

Organizational identity is related to, but different from organizational reputation (Dutton, Dukerich, & Harquail, 1994). An organizational identity answers the following questions: "Who are we as a business?" and "What business are we in?" (Albert & Whetten, 1985). Often, top management of the organization will try to define and promote a specific identity through corporate communications and socialization practices (like orientation training). In this context, organizational identity is the idealized image that executive leadership desires for its organization. This idealized identity is a claim for reputation offered by the senior agents. Similar to

Argyris and Schon's (1978) distinction between espoused theories and theories-in-use, though, the desired organizational identity promoted through communications and socialization does not have to equal an organization's actual reputation, either among external stakeholders or by employees (Hatch & Schultz, 1997).

Organizational members may accept, adopt, and try to embody this identity to varying degrees, for example. To the extent that employees define themselves with the same attributes used to characterize an organization, a social (organizational) identity exists (Ashforth & Mael, 1989). A strong organizational identity means that an important portion of a person's self-concept is defined in organizational terms. A person with a strong organizational identity will try to act as a role model of organizational attributes (Dutton & Dukerich, 1991; Margolis & Hansen, 2002). Thus, organizational identity can shape organizational reputation in two ways: by corporate communications trying to define and inculcate an idealized image and (to the extent that employees identify with that ideal) by guiding employee performance. In addition, the actual reputation of an organization will likely impact organizational identity in return. An organization may try to position its identity as a top customer-service provider; if its reputation among consumers is just the opposite, organizational members are likely to react in one of three ways: ignoring or denying its reputation, changing internal conditions to achieve the ideal, or adopting an identity more in line with its actual reputation.[6] Finally, the actions of different stakeholder groups and the resulting financial effects created will also either reinforce the desired identity or create pressures to change it.

The Financial Effects of Organizational Reputation

An organization's reputation helps mediate the relationship between the organization and any or all of its stakeholder groups. As a result, a reputation has financial implications. A good reputation among customers means they are more likely to buy its products and services, repeatedly; workers are more likely to want to work there, and to stay there if hired; and investors are more likely to contribute their funds to the enterprise, and keep them there. In short, "corporate reputation is important to management because it can be instrumental in the generation of higher returns, favorable market reaction, and public acceptance" (Riahi-Belkaoui & Pavlik, 1992, p. i). These are net monetary effects, beyond the average levels of customer, employee, or investor involvement that might normally be expected, and the "normal" level of profits that result (Hirshleifer, 1980). Therefore, the net effects of an organization's reputation have both current and future financial value.

Fombrun (1996) specifies the various ways by which a reputation can impact an organization's revenue, cost, and profitability. Firms with a good reputation can charge a premium for their products and services, extracting more per-unit revenue in the process. Customer demand should be relatively more stable for their particular products, even under conditions of market uncertainty, making revenues more stable. All else being equal, total costs of recruiting and retaining employees should be lower as employees—particularly highly talented and motivated ones—want to join and remain with the organization. Suppliers, recognizing the processing and payment efficiencies and potential advantages of working with a top caliber firm, may be more inclined to work out price breaks for purchased materials, establish special procurement arrangements, and provide the best in specialized services and attention. Stronger loyalty from customers and employees means that when problems arise, they will be less likely to jump ship; that is, the firm may operate with more of a cushion for riding out periodic problems. These conditions should attract the notice of investors who will be drawn to the stronger earning power and greater profitability of the organization and will, in the process, elevate the value of the firm. In general, then, reputation can become a source of competitive advantage. Although not precise, the marginal value of a reputation, good or bad, can in theory be calculated.

Goodwill

An organization's reputation has marginal financial value that can be seen in its income statements on the top, revenue line, and in expense categories. The value of reputation registers on the balance sheet as part of a company's "goodwill" (Fombrun, 1996). In general, goodwill is the difference between an organization's current valuation (for publicly traded corporations, a convenient index of value would be the company's sales price as reflected in most recent market-share price times the number of shares outstanding) and its net worth (or the value of its assets minus liabilities). There should be a direct, positive correlation between reputation and goodwill. A firm with a good reputation would presumably command a higher market or sales price than a firm with a poor reputation. Fombrun (1996) calls this "reputational capital." Building and maintaining a good reputation as a business is thus tantamount to maintaining or increasing the value of the business in terms of its goodwill. Actions that diminish a firm's reputation would lower the value of goodwill.

The accounting profession has rules for how to calculate and report goodwill in financial statements. In July 2001, as part of its revision for how to handle intangible assets, new rules were adopted. Under the old rules, goodwill was a residual, catch-all category, serving as a "plug" number to balance and equate the total value of assets with the total value of liabilities and equity at the time of the sale of a business. Now, under FASB 142, specific intangible assets are to be identified as separate entries in the goodwill category. The value of these assets is to be matched to the expected useful life of the asset and not the blanket 40-year amortization period required under the prior procedure. Specific intangible assets might include items related to marketing (like trademarks or non-competition agreements), customers (lists or production backlogs), artistic creations, contracts (in licensing, franchise arrangements, or employment), or technology (including patents, databases, or trade secrets). Any other residual values would be lumped under the goodwill category, too (FASB Statements no. 141 and no. 142, 2001).

Reputation and Declining Organizational Value

If the financial reasons for enhancing reputation are obvious, the importance of avoiding reputational decline should be equally so. The marginal financial losses from a poor reputation are reverse effects of the gains from a good one. As suggested earlier, reputation losses can be triggered by events ranging from poor product or service quality to full-blown disasters. It is likely that the greatest losses to an organization's reputation and value will occur under certain conditions. Consider environmental or ecological catastrophes, like oil spills or accidents that release toxic gases. In the public discourse about such events, people will make attributions on what happened and why. In particular, one key issue is the organization's culpability for an event. Attributions about culpability can lessen or increase the public's reaction to the event and thereby moderate the effect on reputation and goodwill. One specific issue in this context will be the extent to which the organization's management and/or employees either did or did not do something that was the reason for the serious, harmful effects. That is, the actions of employees, whether planned or unintentional, may be identified as the cause of the bad experience or precipitating event. When an organization and its members are seen as responsible for causing an accident and the organization is reputed to have acted with disregard in the events leading up to, during, and after the event, the firm's public reputation may be seriously and adversely impacted. Loss of reputation should lead to a loss in goodwill and organizational value.

The case of the Ford Pinto illustrates this process (Brinkley, 2003). In the late 1960s, although still under development, Ford engineers noted that the placement of the gas tank created dangerous conditions in the event of a rear-end collision. Aware of the problem but not wanting to spend the money to correct it or delay revenue from its sale, Ford proceeded with production. Eventually, by 1976, 1.5 million Pintos were on American roads. In September 1977, the first major article revealing the Pinto design flaw surfaced, followed by a number of other reports, including a *60 Minutes* segment depicting Ford with an apathetic and mercenary attitude. Then, in 1978, two Indiana girls were burned to death in what should have been a relatively minor collision. Incensed, the local prosecutor charged the Ford Motors Corporation with murder, the first time a corporation had been accused of homicide. "With that, the Pinto became a national scandal" (Brinkley, 2003, p. 673). Although Ford was found innocent in the Indiana case, it was not so lucky in a separate suit in California. There, after losing a product liability suit to the tune of $128 million, the judgment was appealed. On review, the appeal court found that "Ford's conduct constituted 'conscious disregard' of the probability of injury to members of the consuming public. . . . Pinto sales plummeted" (Brinkley, 2003, p. 674).

Risk, Loss, and Reputation

As the Pinto example illustrates, declines in reputation can result in financial loss. One cause of reputational decline can be employee training and development practices. Because any organization can face a reputational and attendant financial loss, organizations should examine how well they are managing the employee training function in order to protect their reputation from loss due to poor or faulty training. As discussed in the last section of this article, auditing is the process of examining loss-management practices (Clardy, 2004). For now, the relationship between reputation, loss, and training can be explained by an insurance paradigm (Heimer, 1985). In general, insurance is offered as a way to compensate persons or organizations for losses, say, from fire or theft. The opportunities for loss to occur are called *perils*. In theory, the likelihood of a specific peril can be calculated; that likelihood is the amount of *risk* involved. The likelihood (risk) of a cargo-carrying ship sinking due to a storm (peril) can be calculated based on known probabilities of an event (a storm) occurring in a certain location at a certain time. Risks can either be fixed or reactive. A risk like storms at sea is *fixed* because its potential for occurring is independent of how the insured behaves. Other kinds of risks, relating to perils such as theft or injury, can be *reactive*, because the likelihood of the peril can be *increased* by the insured's actions. That is, the insured may *react* to the condition of being insured by acting less carefully and cautiously, knowing that because an inventory is insured, little time, effort, or cost need be expended to reduce the chances of theft. Thus, reactive risks are conditions that can actually increase the risk from perils.

The enabling conditions that increase the risk of perils are *hazards*, of which there are two main kinds: physical and moral. Having an open flame near a chemical transfer point would be a *physical* hazard. *Moral* hazards are the actions or inactions of people that can increase risk. Two theories have been offered to explain moral hazards. One is the bad character of the insured. The other is economic rationality: The insured is not operating under conditions or incentives to control his actions. In short, insurers recognize that the (in)actions of organizational members can lead to loss. To control this possibility, insurers take several actions: stronger underwriting to ferret out potential bad actors, and interventions (like high deductibles, experience ratings, or price incentives keyed to loss-prevention practices) to alter the moral behaviors of the insured. One class of interventions that can reduce the risk of moral hazards are human resources practices, including training.

How Employee Training and Development Practices Affect Organizational Reputation

As noted in Figure 1, an organization's reputation is sensitive to the performance of its employees, and employee performance is partially a function of how well the employee is trained. Furthermore, employee training practices can be singled out as a major factor contributing to either building a reputation that is esteemed and respected, or one that is vilified. For the employee training practitioner, it is important to understand the potential role of employee training for reputational goodwill or ill will in organizational fortunes and take appropriate steps to maximize the former and avoid the latter. Examples of the relationship between training and reputation will be described next.

Building a Good Reputation: The Role of Employee Training

Employee training practices can help build a favorable organizational reputation. Consider the SEALs, the special operations force of the U.S. Navy. Periodically, the Discovery television channel presents a semidocumentary series showing the extremely rigorous and demanding training program through which SEAL candidates must go in order to be admitted into the force (Navy SEALs Training, n.d.). As portrayed and explained in the program, training performs several functions. First, it is a selection device: a candidate cannot be "hired" as a SEAL without passing the training, and the program notes how many candidates drop out or are removed from the program. Second, the training inculcates the standards that define the ethos of the SEALs, such as the credo that fallen comrades are never left behind or the use of savage, terrorizing intensity as a combat tactic. Third, the training is carried out in the desperate conditions under which SEALS can operate, maximizing preparation, training transfer, and future success. The combined effect of this presentation on SEAL training is to construct a reputation of SEALs as totally dedicated, ruthless, and lethally skilled operators who would be a totally invincible foe. SEAL training is held as an absolutely essential element in the development and presentation of its reputation; without the training, the carefully portrayed image and reputation of SEALs is inconceivable. As can easily be the case in regards to organizational reputation, though, image can be manipulated to create reputation. Clearly, for this documentary, the producers had to have the cooperation of SEAL (and presumably Navy and Department of Defense) officials in order to videotape what would supposedly be a secret practice. The video producers reported on what they were allowed to see. Clearly, the video about training does more than simply reflect conditions; it also is used as a way to construct a highly desired reputation.

The Federal Bureau of Investigation (FBI) is another organization where the reputation of its agents rests on a vigorous set of human-resource management and employee-training practices, beginning with extensive applicant screening and selection. The mythos of the agency not only permeated popular images of the FBI but also became part of the ideology used by Bureau officials in making decisions. One tenet of this worldview was that "the FBI . . . picked the cream of the crop, and its superb training guarantees that its agents will be the best people in law enforcement" (Ungar, 1976, p. 172). For example, even though not completely accurate, the FBI was pleased to have a public reputation that its agents, either lawyers or accountants, were the highest qualified personnel in law enforcement. Likewise, the training that the agents received was supposed to be the best provided, making the FBI an indomitable foe of wrongdoers.[7]

Training was also a crucial ingredient for accounting giant Arthur Andersen (Toffler & Reingold, 2003). Virtually from its start almost a century ago, founder Arthur Andersen believed that training throughout one's career with the firm was critical to building a company that would provide high quality, consistent service anywhere on the planet. Indeed, by the 1930s, Andersen articulated and stressed a "one firm" concept whereby all customers would receive the same kind of treatment from any Andersen employee anywhere. To bring this seed to fruition, applicants were carefully screened, and once hired, put through an intensive orientation and training process that all new college hires attended. Eventually, Andersen spent about 6% of its total annual fee revenue on training. The result was the reputation that Andersen was the Marine Corps of accounting firms. Interestingly, though, Andersen's success because of its training may have contributed to its demise by creating a strong culture with an insular mentality that could not adjust to atypical or deviant views (Toffler & Reingold, 2003). A comparable example of how training was used to generate gains in organizational reputation is Motorola (Wiggenhorn, 1990). In this case, the CEO's commitment to quality led to an eightfold increase in the annual training budget and the formation of a corporate university. Here, training was held as the indispensable, driving force in advancing Motorola's ability to produce quality products—and its attendant reputation for same.

Another example is seen in the responses to the terrorist attacks of September 11. Until then, airport security screening in the United States was under the control of private businesses. One such business was the European-owned Argenbright company, which was responsible for security at 17 of the nation's 20 largest airports. In 2000, the company pled guilty to charges of fraud and conspiracy regarding, in part, inadequate employee training (Singer, 2001). Indeed, in the post-9/11 climate, the vulnerabilities of this private system for providing airport and traveling security became front-page news. Seeking to maximize profits in a lax regulatory environment, the security firms were incented to cut costs wherever possible, particularly in wages, hiring, and training. Turnover in these low-paying, dead-end jobs was high and quick, with many leaving with less than 6 months experience (Hosler, 2001; Singer, 2001). After the events of 9/11, Congress eventually passed legislation making airport screeners federal employees, driven by the rationale that the general public's confidence in air travel required greater confidence in the skills and talents of airport security personnel to prevent future skyjackings. Under federal supervision, such personnel would be better hired and trained. By extending the mantle of better training onto people in these critical gateway positions, the reputation of airport security personnel would be enhanced, leading to increased peace of mind among travelers and a return of passengers to air travel.

Finally, the importance of brand and organizational reputations is assuming even more importance in an era when products can be copied and/or produced quickly and more cheaply; Knox, Maklan, and Thompson (2000) refer to this as an economic environment of "product commoditization, increased service levels, faster innovation, and diminishing brand loyalty" (p. 138). That is, as products can become increasingly undifferentiated, competitive advantage attaches less to the *product* brand and more to the *corporate* brand (Olins, 2000), and a corporate brand is based in large part on effective human resources management, including employee training.

In all these examples, organizational reputation is built, in a significant way, on the heightened levels of employee training provided to the members of the respective organizations. Training is an organizational practice that is strongly associated with—indeed, is attributed as a primary cause of—the superior capacity and performance of the organization and its employees. As these examples attest, training becomes an important factor in creating a favorable organizational reputation.

Causing A Poor Reputation: The Role of Employee Training

If the presence of training can help create a favorable organizational reputation, under what conditions can an organization's reputation be adversely affected because of employee training practices? Four conditions are hypothesized as necessary in order for training to be held as a causative factor in organizational failures or disasters that lead to reputation loss. First, the work involved—a task or a job—must require some minimum level of skill in order to performed properly. Training failures would not likely become an issue when the work involved is relatively low skilled and where formal training in job tasks is not expected, as in the case of the proverbial ditch digger. Second, the skills should be reproducible, that is, the skills should codified or formalized to some extent so that most any minimally qualified individual can learn the skills. Thus, some types of skilled performances—such as artistic or crafts productions—that seem to be the product of unique, idiosyncratic individual talents would not likely be candidates for attributing training failures. Third, there is a performance failure or disaster that created harm, and the failure was *not* due (at least primarily) to engineering or technical design flaws. Fourth, there must appear to be a connection between the training process and the performance failure. That connection can take two different forms. In one, the employee did not use the appropriate skill, and this failure was due to more than simple error or mistake. Rather, the attribution is that the failure to use the accepted skill was due to the fact that the employee was not trained at all or was trained badly. The other option is that the employee was adequately trained but was trained to do the wrong thing.[8]

Specific Forms of Training Failure Leading to Reputational Damage

At least six different types of failures in employee training can be identified as a contributing, if not proximate cause responsible for the organizational performance problems, failures, and crises that in turn lead to losses in reputation.

1. *Appropriate training required for skilled system positions is not provided*.

Inadequate training can cause organizational failures; this condition has been studied extensively in relation to mechanical systems failures and environmental disasters. In this context, inadequate training may be seen as responsible for employee *mistakes* (using the wrong skills), *errors* (selecting the correct skills but using the skills incorrectly), and/or *violations* (deciding not to follow instructions or procedures) (Kletz, 1998; Wickens & Holland, 2000). Training is one means of defense against performance mistakes, errors, or violations (Reason, 1990). This means that training should be provided for important skilled positions involved in system operations and maintenance. Furthermore, not only should training be provided to teach the proper operation of equipment, but it can help prevent accidents by teaching personnel about system operations and the scientific knowledge behind those operations, to recognize hazards and how to respond to them, and about the kinds of safety behaviors expected of employees (Chiles, 2001; Kletz, 1998).

The Ocean Ranger was a floating drilling rig, the biggest of its day when built in the early 1980s. Even though it was designed to survive terrible, hurricane-force seas, it capsized in the North Sea in 1982 during such a storm, killing all on board. One critical job for the successful functioning of the Ocean Ranger was ballast operations; the proper performance of this skilled job allowed the rig to remain balanced and stable in choppy seas. In spite of its critical nature, the investigation following the tragedy found that "the training program did not provide an understanding of the electrical and mechanical operations of the ballast control system nor the effects of ballast gravitation. A thorough knowledge and understanding of what might go wrong and how to detect and remedy the situation were also lacking" (Chiles, 2001, p. 28). The lack of adequately trained personnel to handle this critical function was a major factor in the loss of this $100 million rig and its crew of 84.

As suggested by the Ocean Ranger incident, the issue is not simply whether appropriate training was provided but what the training covered. For example, runaway reactions in chemical processing plants can be traced to lack of operator knowledge of basic science and chemistry (Kletz, 1998). So, in various situations, training should be provided to not only teach the specific mechanical or procedural skills for doing a task but should also include education about the physical, chemical, biological, informational, and so on dynamics upon which the production system is based. That is, operators in chemical production systems should have an understanding of chemical processes; employees in financial production systems, of finance and information management (Adler, 1986); and so on. Such a deep knowledge of underlying system dynamics should allow operators to better spot and diagnose potential problems. Furthermore, elements of such training should be provided not only to personnel in skilled operator positions but also to technical repair and/or maintenance employees (Chiles, 2001). About the same time as Ocean Ranger, another oil-rig went down because a painter did not recognize the significance of a long crack in the superstructure as he painted over it; the superstructure later broke apart in a storm (Chiles, 2001).

Another aspect of providing appropriate training concerns not skills but motivation. Even the best engineered defenses against accidents may be overcome by employees who ignore warnings, disregard rules, or shut off safety systems, as did operators at the Chernobyl nuclear power plant when performing a test. Had the safety system been on, the disaster could have been avoided (Wagenaar, Hudson, & Reason, 1990). Thus, regular safety-awareness training should be provided that allows employees to experience failures and their consequences as a way to maintain and strengthen motivation to follow safety rules and practices (Wagenaar et al., 1990).

As these cases attest, the kind of training required for successful performance was not provided. The absence of this training was found to be a proximate cause of the disaster that in turn led to the performance failure and subsequent negative impact on organizational reputation.

2. *Training is provided but teaches skills that are illegal and/or unethical.*

Employees may be trained to use skills that are illegal or unethical. Consider the instructions given to managers for the Denny's restaurant chain in the early 1990s. Denny's gained dubious national attention when one of its restaurants refused service to a group of African American Secret Service agents. Court proceedings triggered by this and other events discovered the following about the curriculum of its manager training programs:

> Ex-employees described management training sessions in California where rising Denny's employees were given strategies to avoid what they called "blackouts." Blacks, especially large groups, were to be kept waiting while Whites were served, or told there were no seats. Some were falsely told the restaurants were closing. . . . Other ex-employees said they were told to seat Blacks where they would not easily be seen by other customers and away from the exits because, the manager said, Blacks had a tendency to walk out without paying . . . [There were reports of] a policy requiring certain customers to pay cover charges and pay for meals before being served. (Labaton, 1994, p. 4E)

As a result of the bad publicity and court cases in 1993, there was a 4.1% decline in store traffic, a charge of $8.3 million to settle discrimination claims, and a consent decree with the Department of Justice; parent corporation Flagstar's share price dropped about 25% (Flagstar 1993 Annual Report, 1994). Here, the training worked too well: Denny's managers did as they were trained, but they were trained to do things that were illegal and that produced results held in contempt by society.

Problematic training content that can lead to reputational loss can occur in other ways. In the late 1980s, Allstate Insurance wanted to reorganize its operations into a more entrepreneurial structure among its insurance agents and began using a training consultant who taught management principles and practices based directly on the Church of Scientology. Within a few years, Allstate was using the consultant to provide training nationally to its agents. Correspondingly, a growing number of participants began complaining about the nature of the program, what it taught, and how the training conflicted with their own religious beliefs and values; at least one agent, a devout Roman Catholic, was apparently reprimanded for his refusal to participate in aspects of the training. After a number of legal suits were filed and the situation made the national news, Allstate began disavowing the training by the mid-1990s (Sharpe, 1995). Here, mandatory training based on "religious" teachings would not only create legal problems with religious discrimination, but could also be considered unethical attempts to proselytize and convert people in workplace settings. Adverse employee reactions could lead to eventual unfavorable public scrutiny.

A second example illustrates another potential type of ethical problem, in this case, teaching a set of skills without credible or established foundation. In the early 1990s, the Federal Aviation Administration used a "Systems Energetics" consultant as part of a team-building program to renew employee energy in crafting a new vision for its Office of Human Resources (*Hearings before a Subcommittee*, 1996; *Report of Investigation, Vol. 2*, n.d.). The training model supposedly united Chinese medical, biological theory with Western organizational theory, culminating in a five-phase system lifecycle. Each phase had its own distinctive "elemental" quality (water, wood, fire, metal, and earth) that could be diagnosed by trained observers using various sensory channels (sight, sound, smell). In one session, participants were trained in this theory by, in part, smelling the unwashed clothing or unwashed bodies of fellow employees. The resulting assessment might indicate, for example, that a person would have a water imbalance with the symptoms of lumbago, ambition problems, and nymphomania. Organization development specialists who received the training were supposed to use this approach as the basis for their interventions. These training practices were laid before the U.S. Congress, resulting in punitive and corrective actions against the agency.

In all these examples, training content eventually became the focal point for adverse public reaction against the organization and debilitating the organization's reputation. The training content was based on illegal, unethical, and/or outright silly principles and practices, and produced understandable stakeholder reactions.

3. *Training may use questionable, if not harmful principles and practices*.

Employees may be required to participate in training programs that use extremely invasive procedures that carry heightened risk of psychological damage and/or physical injury. Such tactics would be inappropriate and too far out of proportion to the nature of the training needs that exist. Invariably, these techniques employ some kind of confrontational approach, be it in the form of a clinical therapeutic procedures (especially if practiced by a nonlicensed trainer) or as an inappropriately harsh and punitive physical regimen. Either way, the risk of harm to participants is excessive. Particularly in such circumstances, the potential for public exposure and subsequent reputational loss is great.

About the same time as the Systems Energetics programs, the FAA conducted a series of management-training programs as part of a larger cultural change initiative. The core of the typical training program was structured around personal confrontations between the consultant-trainer and each of the participants (*Report Vol. 2*, n.d.). Once singled out in the "Hot Seat" at the front of the class, participants were barraged with profanity-laced degradations and peppered with questions, often about issues involving early psychological trauma of a sexual nature. Other training tactics included a mirror exercise (used in a "Women's Course") where women stood in front of mirrors in their bathing suits while the trainer asked about what they liked or did not like about their bodies and themselves. In a parallel Men's Course, participants disrobed to their underwear and sat in front of the class while asked very personal questions by the rest of the group. In another program, participants were directed to stand up and sit down for approximately 1 ½ hours without stopping. As fatigue set in, mistakes increased and those miscreants were singled out and berated.

Perhaps the most egregious example of physical abuse was documented by Church and Carnes (1972). In the early 1970s, employees of Holiday Magic (a pyramid marketing organization in California) were required to attend a 4-day development workshop. Over the 4 days, the participants were systematically abused, humiliated, assaulted, and beaten. In fact, the result included lawsuits and the book (which was made into the 1983 movie *Brainwash*).

As these examples illustrate, apart from *what* is covered in a training program, another source of training failure can be *how* the training is conducted. Programs that rely on extreme confrontational or demanding psychological or physical practices are particularly hazardous training methods.

4. *The proper training is provided but the training is done poorly.*

The disaster at the nuclear power plant at Three Mile Island has been thoroughly studied (Perrow, 1984). In addition to the overly complicated and confusing design of the control panels, poor training was also identified as a specific cause of the failure there. The simulation training that was used to prepare reactor operators only lobbed softballs to their reactor operator trainees, meaning they presented them with only textbook problems, which were so simple that automated controls could handle them without human intervention. These were single-cause problems, signaled clearly by the instruments (Chiles, 2001, p. 119).

In training astronauts, on the other hand, NASA relies heavily on the use of Space Shuttle simulators (Cooper, 1987). For months preceding a Shuttle launch, the crew trains regularly in simulations of the planned mission flight. The trainers that run these simulations introduce "malfs" (malfunctions) into the simulations. In particular, improbable and unpredictable malfunctions are a part of the routine training process. After-simulation debriefings are used to dissect what went wrong and how it could have been handled. Future simulation runs may return to these malfs for further practice. In short, in situations where there are complex technological systems with the potential for disaster and loss of life, training must be rigorous and focus on complex and unpredictable problems. In their review of practices best associated with effective transfer of training, Druckman and Bjork (1994) recommend that training programs should use assessment, practice, and testing conditions that are more varied than the typical performance situations operators are likely to face. In addition, the training should be structured to make it clear to trainees when they do *not* understand something or that they did not perform tasks acceptably well as a way to increase trainee self-monitoring and recognition of the need for more learning and improvement.

5. *Loss of skill is not compensated for by retraining.*

Initial trained skills may deteriorate or be forgotten over time. This is especially true if the skills are seldom used, as might be the case for emergency skills that are rarely if ever used on the job. Alternatively, employees initially trained in a system may leave and be replaced by untrained personnel (Kletz, 1993). Either way, the initial condition of successfully trained operators may change due to either deterioration in memory or to personnel attrition. Failure to compensate for these losses may mean that there are inadequate skills present to handle problems that, uncorrected, lead to failures and disasters.

6. *Inadequate training for responding to organizational failures or crises.*

Former AMC head G. C. Meyers (Meyers & Holusha, 1986) identified nine likely failures and crises that can impact contemporary organizations, including human resource–related failures in top management succession or industrial relations. For example, in the 1970s, Harry Gray, head of United Technologies, perpetuated a crisis of confidence in the firm by opposing any sort of orderly succession plan for his CEO position. After 5 years of losses of heir apparents for reasons Gray engineered, bad press mounted, and the Board finally forced him to relinquish the role, which he did begrudgingly.

Often, the life cycle of an organizational disaster includes a stage of public inquiry and assessment regarding what happened (Turner & Pidgeon, 1997). While in the midst of a crisis and/or in the follow-up investigations, a common response can be "organizational defensive routines" (Wooten & James, 2004) in which the organization denies a problem exists, abdicates responsibility for it occurring, and/or tries to justify its action as ways to excuse the behavior of the firm. In 1984, Union Carbide reacted to the loss of almost 4,000 lives after a malfunction at its chemical plant in Bhopal, India, plant by claiming sabotage, when the more likely explanation was poor safety practices (Chiles, 2001). Regardless of the cause, crisis events can befall any organization. Often, organizational failure or crisis events are reported in the news media, making manager and employee actions even more transparent and scrutinized than normal, and a tarnished organizational reputation due to the crisis may be made even worse if managers or employees react incompetently, indifferently, or defensively. Clumsy or aggressive reactions by managers or employees may only enflame smoldering hostilities and perceptions (Sandman, 1987; personal communication, 2003). Thus, the nature of an organization's response to a crisis can also affect the firm's reputation; like other types of employee performances, responses to crises events can be affected by training. For these reasons, employee training should be provided in two ways. First, depending on the type of work performed and characteristics of the worksite, training in potential crises situations should be provided on an ongoing basis. Second, appropriate agents and officials of the organization should be trained and educated in crisis-management practices, including media contact, employee communications, and so on.

Auditing the Risks, Perils, and Hazards to Organizational Reputation from Employee-Training Practices

Poor performance by organizational members is a peril to an organization's reputation that can become more hazardous without effective training. Furthermore, the potential for loss to reputation from poor training carries real financial effects. Thus, it is appropriate to audit an organization's employee training practices (both what is done or what is not done) in order to assess how much risk employee-training practices create for an organization's reputation (Clardy, 2004). Based on the practices identified in this analysis, the following questions would form the basis for a reputation risk audit of the employee training function:

1. Is formal training provided for important skilled operator and maintenance positions in basic job skills and procedures?
2. As appropriate, does the training cover sufficient theoretical and background material to provide a "deep knowledge" of system operations and dynamics?
3. Is training provided in safety awareness on an ongoing basis in order to maintain employee motivation to follow safety practices?
4. Does the training teach practices that are illegal? Does the training teach values or beliefs that could be offensive or threatening to the religious beliefs of reasonable people?
5. Is the training based on a credible and tested base of knowledge and practice?
6. Does the trainer(s) have sufficient qualifications to conduct the training?
7. Does the training use techniques that are unnecessarily confrontational or psychologically invasive? Is there any form of physical confrontation involved?

8. Is the training sufficiently rigorous, varied, and even unpredictable to prepare employees to handle tough and unlikely circumstances?
9. Does the training provide clear and objective feedback to trainees about their success or failure so that they can accurately measure their levels of knowledge and/or skills? That is, does the training provide strong diagnostic information about the trainee's strengths and weaknesses to the trainee?
10. For important skilled positions, is training provided on an ongoing basis so that skill levels can be maintained as new employees replace those who are leaving?
11. For important but little-used skills (like emergency reactions), is regular retraining provided? Is training in crisis and/or emergency procedures provided on an ongoing basis?
12. Are appropriate organizational agents and officials trained in crisis-management skills and procedures?

These issues are particularly critical when training attendance and participation is mandatory or required. Such issues are also critical for organizations that rely on complex technological systems or with systems that the potential for widespread physical damage or harm to the public's material, health, or psychological well-being. Of course, the overall quality and effectiveness of any training program involve much more than the issues reflected here. However, using these questions as the basis for auditing the employee training function should help identify any potential areas that might be identified as causes of organizational failures that can lead in turn to reputational losses and attendant financial problems. By the same token, by adequately addressing these issues in advance, the risks to reputational loss from these training hazards can be minimized.

Summary and Conclusions

Organizations acquire reputations. Those reputations may be generated from the experiences of people who come into contact with organizational members, or may be the product of the reported experiences or projected images of others. Reputations may, thus, be accurate to varying degrees. Regardless, an organization's reputation has clear financial effects. It can help increase revenues and control expenses in varying ways, and can also lead to higher company valuation in the form of goodwill. On the other hand, actions that harm reputation can lead to poor performance and declining value.

The employee training and development function can be identified, singly or with other factors, as playing a determinative role in either building or diminishing an organization's reputation and value. There are at least six ways by which employee training may be seen as causing harmful organizational outcomes: Required training is not provided; the training covers illegal or unethical actions; the training uses extreme and questionable tactics; the training is done badly; the loss of trained skills are not corrected; and/or there is inadequate preparation for dealing with failure and crisis conditions. These are possible training hazards to an organization's reputation.

The risks of these hazards can be assessed and reduced by an audit of the organization's training function.

Notes

1. The search was carried out in September 2004 of the PsycInfo, ABI, Social Science Abstract, and Academic Search databases using the keywords "organizational reputation" and "human resource development." Use of keywords *training* and *organizational reputation* produced no relevant sources.

2. "Members" can include more than employees, as in the case of organizations like hospitals or nonprofit organizations that use volunteers. Throughout the remainder of the article, I will refer to *employees*, although the basis principles apply to any member of the organization.

3. It is not the purpose of this article to advance a comprehensive explanation of the job performance; this list of factors is meant to be *suggestive* not definitive.

4. The relationship between organizational culture, reputation, and training is revealing. For example, John DeLorean's (DeLorean & Wright, 1979) account of the pervasive effect of General Motors' culture on the performance of its executives and managers is particularly informative (De Lorean & Wright, 1979). One means by which culture is articulated into practice is through its human resources training and development practices. Indeed, in some cases, training programs are conducted for the expressed purpose of imprinting the culture of the organization onto new recruits (Kunda, 1992), contributing to a strong culture so that members in diverse locations and situations respond in a consistent manner.

5. See Fombrun's (1996) discussion of the role of human resource management practices on the performance of investment banks in the 1980s. "In premier banks, there's no doubt that recruiting and example setting [the role models of executives] played a key role in managing reputation. Training, however, talks more" (p. 333).

6. Dutton, Dukerich, and Harquail (1994) introduce the term *construed external image* (CEI) to refer to the construct held by employees of how outsiders evaluate them because they are members of some organization. They limit "reputation" to what outsiders think of the organization, and reserve CEI for employee beliefs. However, this conceptualization does not incorporate employee beliefs about their organization. Employees can have images of their employer—we're a predatory competitor or a fun place to work—just like outsiders. The reputational beliefs held by employees about their employing organization may or may not match the identity desired by the organization's top management.

7. The FBI was also able to capitalize on TV to advance its reputation. For 9 years during the 1960s and '70s, ABC ran a series about the FBI starring Efrem Zimbalist, Jr. The stories were hand-picked and the scripts were approved by the FBI. "Bureau officials . . . insisted that the series, for all its lack of realism, helped the FBI in both recruiting people to join the agency and in persuading members of the public that they should cooperate with agents whenever approached by them" (Ungar, 1976, p. 369).

8. Training failures as a cause of reputational loss do not have to meet the higher legal standards of negligence. Negligence in employee training can occur in two ways. First, training may be conducted in such a manner as to create either physical or psychological harm and injury to employees who are participating in the training. For example, as part of a diversity training program held by the Federal Aviation Administration, one man was forced to walk down a gauntlet of jeering women; humiliated, he sued and won (Marbella, 1994). Second, training negligence can also affect nonemployees, such as customers, suppliers, or others. Claims of negligent training against an employer are possible if an employee acting in the capacity of an agent of the employer did not demonstrate a reasonable level of due care in meeting a duty to others (Black, Nolan, & Nolan-Haley, 1990). See Clardy (2003a, 2003b) for a more detailed review.

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