

## “Brand CEOs”: The Case of Martha Stewart

“I am an individual, but I’m a business; Martha Stewart the individual has become Martha Stewart the brand.”<sup>1</sup>

– Martha Stewart

“Her tabloid celebrity, her status as a walking talking brand name, and her role as CEO of a publicly held corporation turned what would otherwise have been a simple case into a treacherous web of legal and corporate issues.”<sup>2</sup>

### Introduction

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Martha Stewart, acclaimed as “Ms Perfectionist”, “Domestic doyenne” and a role model for any businesswoman, is the ‘second’ most written about woman<sup>3</sup> in the world. This well-known entrepreneur of the United States, who turned the art of home-making and keeping into a billion dollar business – Martha Stewart Living Omnimedia Inc (MSO), encountered hard times when she was convicted in a scandal. She was convicted for her actions, which are considered to be less harmful in a corporate world that witnessed more serious scandals. Her case called for a rethinking of certain basic notions in free-market economies – ethics in business, the role of government regulation, and more importantly the perils and promises of personal branding.

### The Making of MSO

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Coming from humble moorings, Martha Stewart owed her culinary and gardening skills to her parentage in a working-class family in New Jersey in the 1940s and 1950s. She was one of the first few women who entered the Wall Street in 1968 as a stockbroker with the New York Stock Exchange. She took to catering business in the 1970s, and honed her skills in keeping kitchen, arranging parties, designing interiors – the ‘Martha Stewart way’. She made her way into publishing with her first book, *Entertaining* in 1982, and produced a variety of books, videotapes, CDs, and television specials. Martha launched her renowned magazine, *Martha Stewart Living* in collaboration with Time Warner, in 1990, and a television series by the same name, in 1993. Her regular appearance on television made her a household name in the US. The MSO expanded when it went public on the New York Stock Exchange in 1999. The enormous edifice of the company stood on four business segments – Publishing, Television, Merchandising, and Internet/Direct Commerce, with eight core content areas – Home, Cooking and Entertaining, Gardening, Crafts, Holiday, Weddings, Pet Keeping, and Baby and Kids. At 62, Martha states, “I am an individual, but I’m a business; Martha

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<sup>1</sup> “Why Do People Hate Martha”, www.cbsnews.com, March 5<sup>th</sup> 2004

<sup>2</sup> Daniel Kadlec, “Not a Good Thing for Martha”, www.time.com/time/magazine, March 15<sup>th</sup> 2004

<sup>3</sup> David Walsh, “On the rise and fall of Martha Stewart”, www.wsj.com/articles/2004, March 12<sup>th</sup> 2004

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This case study was written by Kausiki Darbha, under the direction of Sumit Kumar Chaudhuri, IBSCDC. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources.

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Stewart the individual has become Martha Stewart the brand."<sup>4</sup> But, it appeared as though all her perfection was not infallible when, perhaps in her bid to 'just have more'<sup>5</sup>, Martha went 'penny wise'.

### The ImClone Scandal: Martha, Penny Wise...?

Martha Stewart, who made history for the "good things" she showed the world, was in the news in June 2003 perhaps the first time for the wrong reason. She quit as chairman and CEO of the company she founded, when she was indicted on the charges of securities fraud, obstructing justice, conspiracy, and lying. She was accused of insider trading<sup>6</sup> for selling her shares of ImClone – a biotech company, after being allegedly tipped of a stock sale by her friend Samuel Waksal, the chief executive and chairman of ImClone. On December 27<sup>th</sup> 2001, Martha sold 3,928 shares for \$225,000, thereby avoiding a loss of around \$51,000 when the stock tumbled the next trading day following FDA's disapproval of ImClone's cancer drug, Erbitux. The Securities and Exchange Commission (SEC), the Federal Bureau of Investigation (FBI) and the US Attorney's office investigated into the timing of the sale of ImClone stock by Waksal's family and Martha. The investigations centered on whether the trades were made in violation of securities laws and regulations that prohibit trading on the basis of material non-public information. On the charges of insider trading and breach of fiduciary responsibility involved therein, Waksal was sentenced to more than seven years imprisonment and was ordered to pay a fine of \$4.3 million. When investigators asked about the tipping and the reasons for the timing of the sale, Martha said that her stock sale was based on a previous agreement with her broker at Merrill Lynch<sup>7</sup>, Peter Bacanovic, to sell the shares if the stock fell to \$60 a share. Though there was some discrepancy in what Martha and Bacanovic said regarding the date of their agreement, a business manager of Martha testified that Bacanovic mentioned, in November 2001, about selling Martha's ImClone shares at \$60 or \$61.<sup>8</sup>

The case came to a climax when the government's star witness, Douglas Faneuil, Bacanovic's assistant at Merrill Lynch testified on February 3<sup>rd</sup> 2004, that Bacanovic ordered him to inform Martha that Waksals were selling ImClone stock. He said that he was not aware of any prior agreement. On February 10<sup>th</sup> 2004, Martha's assistant, Ann Armstrong confirmed that her boss altered a phone message left by Bacanovic indicating Waksal's stock sale, on December 27<sup>th</sup> 2001, and asked her to change it back. Bacanovic's passing of information about one client Waksal, to another, Martha, was in breach of the duties of trust and

<sup>4</sup> "Why Do People Hate Martha?", op.cit.

<sup>5</sup> MSO's slogan.

<sup>6</sup> Illegal insider trading refers generally to buying or selling a security, in breach of a fiduciary duty or other relationship of trust and confidence, while in possession of material, confidential information about the security. Insider trading violations include "tipping" such information, securities trading by the person "tipped" and securities trading by those who misuse such information.

<sup>7</sup> A leading global financial management and advisory company in the United States.

<sup>8</sup> "Timeline: Martha Stewart", <http://money.cnn.com>

confidence owed to Merrill Lynch and its clients. Moreover, Bacanovic and Martha were said to have made false statements regarding the phone message left by the former to Martha on the day of the sale and the standing agreement between them, trying to cover up and conceal the reason for the sale. Though the charges of securities fraud or insider trading were dismissed for lack of evidence, they were convicted on the following counts – of lying, of obstruction of justice and of conspiracy. They were convicted under ‘1001’ that prohibited lying to any federal agent, even by a person not under oath and accused of any other crime.<sup>9</sup> Ironically, ImClone’s cancer drug, which was at the center of the story, got approval from FDA, in February 2004, when she was on the verge of being convicted. This came as a “gift of the magi”<sup>10</sup> to Martha who was found guilty not for the action but for lying about it.

The whole drama episode had its impact on the CEO’s image and hence on the brand image. There was an obvious slide in MSO’s revenues<sup>11</sup>. Publishing, MSO’s largest business segment, which accounted for \$182.6 million, or 62% of total revenues in 2002, fell by 25.6% to \$135.9 million, in 2003. Merchandising represented 17%, or \$48.9 million in 2002. But in 2003, it increased by 9.2% to \$53.4 million. Internet /Direct Commerce business segment of Martha Stewart: *The Catalog For Living*, *marthastewart.com*, and *marthaflowers.com* contributed 12%, or \$36.9 million, of total revenues, in 2002, which dropped by 26.4% to \$30.8 million in 2003. The television segment recorded its highest ever in 2002, contributing 9% or \$26.7 million to the company’s total revenues. But then, in 2003, it recorded \$25.7 million, a decline by 3.7%. The television show, *Martha Stewart Living* was dropped from Viacom’s CBS and UPN stations after Martha’s indictment in 2003. While the scandal had already started affecting the company’s sales, analysts wondered if the company would survive in the wake of Martha’s conviction and imprisonment. They suggested that MSO should distance itself from its founder, as it was believed, “Once you do anything that creates doubt, you undermine your ability as a leader.”<sup>12</sup> Soon after, she was declared guilty on March 15<sup>th</sup> 2004, Martha resigned from her positions as the director and chief creative officer of the company, but continued to discharge her duties as founding editorial director. The sentencing was set for June 17<sup>th</sup> 2004.

Martha’s conviction in a relatively trivial case in the series of scandals the United States witnessed in the recent times, triggered many reactions. Alex Prud’homme, author of a book on the ImClone scandal, complained that they were charging Martha with the cover-up of the crime because they could not charge her with the obvious crime, and so they were

<sup>9</sup> “On the rise and fall of Martha Stewart”, op.cit.

<sup>10</sup> A short story by O Henry, which is famous for its abrupt and satirical ending, where Jim and Della, the newly weds end up selling their most valuable possessions in order to buy Christmas gifts for each other. Della sells her long hair to buy a platinum chain for Jim’s watch, and Jim sells his watch to buy combs for Della. These gifts were, however, of no use to them.

<sup>11</sup> [www.marthastewart.com](http://www.marthastewart.com)

<sup>12</sup> Seidle Russell, “Is ethical conduct possible in the wake of such disasters as Enron, ImClone?”, <http://www.mcgilltribune.com/media/storage/paper234/news/2002/10/16/FeaturesThePrice.Of.Corporate.Ethics.In.The.Free.Market-297740-page1.shtml?norewrite200607050602&sourcedomain=www.mcgilltribune.com>, October 16<sup>th</sup> 2002

being very careful in explaining her actions.<sup>13</sup> Moreover, it was commented, "It is politics, not the pursuit of justice, which is driving this case."<sup>14</sup> Martha Stewart's political connections with the Democrats, and the fact that her friend Samuel Waksal himself was a Democrat, fuelled the suspected political tinge in the plot. The Democrats viewed corporate accountability as a winning issue in their campaign for the upcoming elections, as against a 'permissive environment' – for the growth of scandals – created by the deregulatory measures of the Republican government. But then, the Bush administration called for the creation of a 'Corporate Fraud Task Force' and tougher criminal penalties for dishonest executives. Also, the SEC considered the detection and prosecution of insider trading violations as one of the enforcement priorities, because insider trading impairs investor confidence. "It is going to take some people to jail to do hard time for hard crime," the SEC chairman Harvey Pitt said. He saw the need for "real CEOs and real CFOs actually going to jail for perpetuating fraud."<sup>15</sup>

Observers felt that, "her tabloid celebrity, her status as a walking talking brand name, and her role as CEO of a publicly held corporation turned what would otherwise have been a simple case into a treacherous web of legal and corporate issues."<sup>16</sup> Had she admitted to knowing about Waksal's sale and pleaded guilty, she would have got off the case with a small fine. The sentence now, analysts indicate, could be anything from two to twenty years of imprisonment.

### CEO as a Brand

Martha Stewart's case called for a reappraisal of the notion of personal branding – where the company's founder or CEO is in effect its brand. Peter Montoya, the author of the book *The Personal Branding Phenomenon* enlisted 'eight laws' on which a personal brand is based. They are specialization, personality, leadership, distinctiveness, visibility, persistence, unity, and goodwill. A company with CEO as its brand, it was considered, may have to face greater challenges along with greater benefits. As David J. Reibstein, a professor of marketing at Wharton, opined, the celebrity status of a businessperson who is a brand could add a great value to a company. But then, due to their high visibility, what 'brand CEOs' might do personally would have an impact on the company. Although there are many successful companies that used their leader/CEO for their brand name, for instance Gucci, Calvin Klein, Ford, Dell, etc, and have survived with or without the individuals, Reibstein considers, "the degree to which the product is tied to the person can make or break a company."<sup>17</sup> And this bond between the person and the company and in turn to its consumers, is determined

<sup>13</sup> "Martha Trial's Key Ingredient", [www.cbsnews.com](http://www.cbsnews.com), February 3<sup>rd</sup> 2004

<sup>14</sup> Anderson William L., "Martha Stewart: Political Prisoner", [www.mises.org](http://www.mises.org), March 19<sup>th</sup> 2004

<sup>15</sup> Wes Vernon, NewsMax.com, [www.newsmax.com](http://www.newsmax.com), July 20<sup>th</sup> 2002

<sup>16</sup> "Not a Good Thing For Martha", *op.cit.*

<sup>17</sup> Vernon Wes, "SEC's Pitt Says CEOs Will Go to Jail; Watch Out, Terry McAuliffe and Jon Corzine", <http://www.newsmax.com/archives/articles/2002/7/19/181027.shtml>, July 20<sup>th</sup> 2002

by the nature of the business. While in certain businesses, consumer's decision is influenced by factors – such as quality – beyond the personality of its founder/CEO, be it Ford's vehicles or Donald Trump's real estate, some businesses have a unique symbiosis between the company's products and services and the personality of its leader, be it Oprah Winfrey, Mary Kay Ash, Larry King, or Martha Stewart. Martha is seen as the human face of MSO, and indistinguishable from its goods and services. As Reibstein noted, "Customers were buying her tastes, not a standalone asset or service."<sup>18</sup> A study conducted under "CEO Reputation Survey 2001"<sup>19</sup> revealed that the image of CEO played a decisive role in the success of a company, and that the reputation of a CEO was based on personal credibility, high ethical standards and a clear vision. The survey also stated that 95% of people polled, based their decision of buying a company's stock on the reputation of its CEO. MSO faced a similar situation. As soon as the ImClone scandal became public, and she was in the news, the company's share price fell (Annexure I).<sup>20</sup>

Analysts observed MSO distancing itself from its founder Martha Stewart, and its rebranding initiatives, when it launched a new magazine, *Everyday Food*, in January 2003, downplaying her role. The magazine had her name in small print, with no photograph of her's on the cover. A TV show *Pet Keeping* was also started without Martha's image. Also, it was reported that MSO was trying to change the name of its flagship magazine *Martha Stewart Living* to *Everyday Living*. Another publication called *Organizing Good Things*, without Martha branding, is being tested. Nevertheless, it was felt that an attempt to distance MSO from Martha should be executed with greater care and balance. She being a strong personal brand, too much distancing would be as dangerous as a lack of it, during such a crisis.

However, there are some experts who are optimistic about MSO's future. Commenting on how customers would react to a split between the 'real' Martha and Martha Stewart's brand image, Christopher Byron, the author of an unauthorized biography of Martha Stewart, noted that it was Martha Stewart's message that appealed to people, who "were not likely to be dissuaded from it when they find that it bears no relationship to the real Martha Stewart."<sup>21</sup> Nonetheless, Martha being a strong personal brand, that got through the three 'C' test<sup>22</sup> – clarity, consistency, and constancy – should thrive during economic downturns, and "remain a standard bearer of style whether or not she goes to prison."<sup>23</sup>

Experts noted that a company that gained an institutional identity is less vulnerable to a crisis when its CEO has a personal problem, than a company that depends on the CEO's charismatic persona. "Leaders who are charismatic can destabilize a corporation in dangerous

<sup>18</sup> "When the CEO is the Brand, But Falls from Grace, What Next?", op.cit.

<sup>19</sup> "CEO as brand", [http://www.b-m.ch/images/pdf/p\\_ceo01\\_e.pdf](http://www.b-m.ch/images/pdf/p_ceo01_e.pdf), December 3<sup>rd</sup> 2001

<sup>20</sup> "Cooking Martha's goose", [www.economist.com](http://www.economist.com), September 12<sup>th</sup> 2002

<sup>21</sup> Christopher Byron, "The bull in Martha Stewart's China shop", [www.salon.com](http://www.salon.com), April 19<sup>th</sup> 2002

<sup>22</sup> Arruda William, "The Three C's of Personal Branding", [www.brandchannel.com](http://www.brandchannel.com)

<sup>23</sup> "Martha's conviction could hurt Kmart", [www.suntimes.com](http://www.suntimes.com), March 10<sup>th</sup> 2004

ways."<sup>24</sup> Jim Collins, a management expert and a best-selling author pointed out the danger of 'celebrity CEOs', and indicated the need for 'Level 5' leaders who are humble and modest. However, Martha Stewart states, "I am a hard working CEO of a very successful company. Celebrity comes from something else."<sup>25</sup>

In the wake of increasing corporate scandals in the early 21<sup>st</sup> century, the Martha Stewart episode raised once again the question of corporate ethics and government regulation in an increasingly capitalistic, rather liberalizing economy. While some prescribed more government intervention and stringent punishment for dishonest executives, others believed that government intervention alone would not substitute for what Adam Smith called "temperance, decency, modesty and moderation" in the behaviour of corporate executives. Andrew S. Grove, Chairman, Intel Corp., urged for addressing the real problems in corporations "without demonizing and demoralizing the managers whose entrepreneurial energy is needed"<sup>26</sup> to drive the economy. "I hope that the market comes up with a solution," said Wharton Professor David Larcker, "so that one doesn't have to be legislated."<sup>27</sup> However, in order to lead the markets in the future, companies find it imperative to think and work hard on ethics and corporate social responsibility, and to have measures to prevent scandals instead of reacting to them after they came out into the open.

With Martha Stewart's case, the corporate world was alerted once again, when the age-old precept echoed from the oblivion...

Thou shalt not lie. Amen.

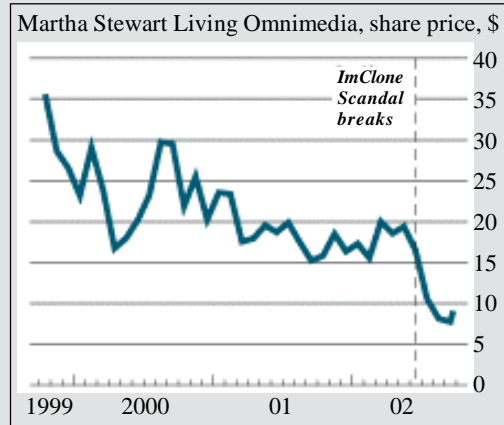
<sup>24</sup> Khurana Rakesh, "The Curse of the Superstar CEO", *Harvard Business Review*, September 2002

<sup>25</sup> [www.ceogo.com/CHARISMA/index.html](http://www.ceogo.com/CHARISMA/index.html)

<sup>26</sup> Grove Andrew S., "CEOs are the scapegoats of the corporate scandal", [www.siliconvalley.com](http://www.siliconvalley.com), July 18<sup>th</sup> 2002

<sup>27</sup> Maughan Greg, "Prof discusses history of scandals in business", [www.dailypennsylvanian.com](http://www.dailypennsylvanian.com), April 10<sup>th</sup> 2003

### Annexure I Unleavened



Source: "Cooking Martha's Goose", [www.economist.com/displaystory.cfm?story\\_id=1325295](http://www.economist.com/displaystory.cfm?story_id=1325295), September 12<sup>th</sup> 2002

Inspected