

# Essential Knowledge

## Reputation

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## **Introduction**

Organizations of all types are under increasing pressure from a host of stakeholders to be more responsive to their needs and interests. At the same time, market forces and the objective of a publicly-traded corporation demand greater shareholder return-on-investment. These competing forces cause conflict within organizations about the value of reputation. On the one hand, most people would agree with the view that developing, building and maintaining a good reputation is important to virtually every organization in society, whether it be a for-profit or not-for-profit. At the same time, there are some people who still believe in the maxim of Milton Friedman (1970) that the only purpose of a corporation is to increase profits and to build wealth for investors, with reputation seen as something that is “nice to have”, but an expendable cost.

The purpose of this paper is to review the academic and trade literature on the concept of reputation, in particular as it relates to the effective practice of communications, and then to build from this literature a proposed approach that will have value to the communications practitioner. We will not attempt to cover the literature or comment extensively on trust, ethics and crisis management, even though these topics are interrelated with reputation. These topics have already been well covered in other Essential Knowledge sections.

While the communications profession touts the importance of reputation and wants to lead these efforts within organizations, there is little universal agreement within the profession on the definition of reputation, how one goes about building a reputation, and the role of communications with regard to reputation management. Communications professionals have, historically, focused on messages and programs with external stakeholders to build trust and reputation. We agree with *The Authentic Enterprise* (2008) publication of the Arthur W. Page Society that corporate communicators need to move from being reactive and responsive to becoming strategic and proactive. As this document notes, the current and future needs will be for corporate communicators who are able to work across the enterprise to influence values, not just articulate them, and to become full-fledged members of the senior management, strategy team. If communications professionals are to take the lead for their organizations on reputation, they will need to: 1) enhance their ability to work across disciplines, and 2) understand how reputation is seen from the perspectives of management strategy, financial management, marketing strategy, and other disciplines that are the educational backgrounds of most of the management team.

## **Defining Reputation**

Reputation is often difficult to define since the perception of what is and is not reputable is in “the eye of the beholder”. A variety of definitions of reputation have been offered from a number of different academic and professional backgrounds. According to the ‘American Heritage Dictionary’ (1970: 600) ‘reputation’ is ‘the general estimation in which one is held by the public’. However, if one looks at the various definitions of reputation, one may note that the intersection or integrated view of the various definitions suggests that:

- a) **Reputation is an intangible asset:** As an intangible, reputation represents a firm's past actions and describes a firm's ability to deliver value outcomes to multiple stakeholders (Mahon, 2002; Fombrun, 1996);
- b) **Reputation is a derivative of other actions and behaviors of the firm:** It is difficult to isolate one variable that influences perceptions to a greater degree than others across all stakeholders (Schultz, et. al, 2006). Reputation is the collective representations shared in the minds of multiple publics about an organization over time (Grunig and Hung, 2002 ; Yang and Grunig, 2005 ), and is developed through a complex interchange between an organization and its stakeholders (Rindova and Fombrun, 1999)
- c) **Reputation is judged within the context of competitive offerings** (Fombrun and Van Riel, 2003; Fombrun, et. al, 1990; Shapiro, 1983; Schultz, et. al, 2006). Reputation is not normative for all companies. This differentiation is not necessarily the same for all attributes of the firm and for all stakeholders. .
- d) **Reputation is the way in which stakeholders, who know little about an organization's true intent, determine whether an organization is worthy of their trust** (Stigler, 1962). Madhok (1995) noted that trust is essential in a world in which business operates through cooperation and relationships). Golin (2003) coined the term "trust bank" and notes that: 1) trust is the most basic element of social contact -- the great intangible at the heart of truly long-term success; and 2) trust is both a process and an outcome; it's at the heart of dealing with every relationship. Zaballa et.al of Deloitte Spain (2005), noted that "corporate reputation of an enterprise is the prestige maintained through time which, based on a set of shared values and strategies and through the eminence achieved with each stakeholder, assures the sustainability and differentiation of the company via the management of its intellectual capital (intangibles)" (p. 61).
- g) **Reputation is based on the organization's behaviors, communications and relationships.** . Doorley and Garcia (2008:4), provide a formula as a definition, which they state as "sum of images= (performance and behavior) + Communication = sum of relationships"

### **The Proposed Definition**

Bringing these various definitions together, we would suggest that business adapt the following definition of reputation:

***Reputation is a perception of value - vis-à-vis peers and competitors - that is held in the mind of stakeholders and prospective stakeholders.***

***Reputation Management, then, is a systematic approach to management where decision-making is informed by the perceptions of value vis-à-vis peers and competitors that are held by an organization's stakeholders.***

***The primary attributes upon which organizations are judged are: products & services, financial performance, quality of the workplace, leadership, innovation, citizenship and governance***

- ***Which attributes are judged most important depends on the needs and interests of the stakeholder***
- ***Organizations are judged within the context of their peer group***
- ***Reputation leads stakeholders to desirable, neutral or undesirable behaviors vis-à-vis the organization***

### **Why a Good Reputation is Important**

Reputation is a core (intangible) asset of the firm and creates barriers to competitive threats. Established reputations impede competitive mobility and produce returns to firms because they are difficult to imitate (Caves and Porter, 1977). A strong corporate reputation suggests that the products and services being offered by the firm are of higher quality (Carmeli and Tishler, 2005) and that the firm is responsible and will treat its customers well.

Moreover, intangible assets are very important for achieving a competitive advantage (Ambrosini and Bowman, 2001) because they are valuable, rare, difficult or costly to imitate, substitute and transfer (Barney, 1991; Dierickx and Cool, 1989; Peteraf, 1993; Roberts and Dowling, 2002). In general, it is possible to argue that the intangible nature of reputation, its rareness and social complexity, makes it difficult to trade and imitate, and as a result reputation can contribute significantly to performance differences among organizations (Barney, 1991, Peteraf, 1993).

Organizational market value has been moving from tangible to intangible assets. According to a study by Cap Gemini Ernst & Young (2003), between 80-85 percent of the market value of the S&P 500 was comprised of intangible assets versus only 15 percent from tangible assets. It is widely accepted in financial management that organizational reputation is an intangible asset (Barney, 1991; Ferguson et al., 2000; Fombrun et al., 1990; Fombrun, 1996; Aqueveque and Ravasi, 2006). Consistent with this perspective, reputation is a socially complex intangible resource that is valuable and non-transferable, and in which history plays a substantial role in its creation (Mahon, 2002). As such, it has proven to lead to persistent performance differences (Carmeli & Tishler, 2004; Roberts & Dowling, 2002). This view of organizational reputation suggests that reputation is a result of interactions and experiences of firm and organizational stakeholders over time.

Several authors have argued that good corporate reputations have strategic value for the firms that possess them (Dierickx and Cool, 1989; Rumelt, 1987; Weigelt and Camerer, 1988; Roberts and Dowling, 2002; Dowling, 2004; Aqueveque, 2005). Freeman (1984) suggests that

stakeholders collect information about how a company behaves and these “collections” help them determine what a company stands for. Wartick (1992) concludes from his empirical research that even when confronted with negative information, it is difficult to change the perceptions of stakeholders.

There is an interrelationship between reputation and legitimacy for industry groups (King and Whetten, 2008). The authors note that there is a set of norms or legitimacy for an industry group to which all companies aspire; reputation is the recognition that one or more companies are distinguished from their peers. The most reputable companies can then impact the expectations of stakeholders for what is considered legitimate and thereby raise the levels of expected performance of everyone in the industry group.

### **The Financial Value of Reputation**

It is important that the communications practitioner be able to show that reputation has a financial impact on the company since there is an every increasing demand for proof of the return-on-investment (ROI) of communications programs.

Historical data compiled by Fombrun and Van Riel (2004) found that companies with good reputation outperformed companies with poor reputations on every financial measure over a five-year period. Davies, et. al, (2004) suggests that reputation contributes between 3-7.5 percent of revenues yearly, and that reputation should be considered an investment toward increased revenues rather than a cost to the firm. Davis notes as support for this calculation that Exxon lost 5 percent of its revenues the year after the Exxon Valdez environmental disaster. Similar evidence of the relationship between reputation, financial performance and market value has been found by others (e.g. Roberts and Dowling, 1997, 2002; Carmeli and Tisher, 2005; Srivastava et al., 1997; Deephouse, 1997; Fombrun and Shanley, 1990).

Several other studies have confirmed the link between reputation and revenues. Graham and Bansal (2007) found in their research on the airline industry that for each one-point increase in airline reputation, consumers were willing to pay \$18 more for a plane ticket. Mark Maybank, Executive Vice President of Canaccord Capital Corporation in Canada (2003) noted that when his firm maintained a reputation above the “line of best fit” of the reputations of competitive investment banks, it gained market share (measured in assets under management). Bragdon and Marlin (1972) conducted a study of companies within the pulp and paper industry that used five different measures of financial performance. They concluded that the companies that had the best record on pollution control and the environment were also the most profitable. The results of several studies also support a positive relationship between corporate social responsibility and firm financial performance (e.g., McGuire et al., 1988; Solomon & Hansen, 1985)

Reputation has particular value in IPOs, mergers, acquisitions and partnerships (Gu and Lev, 2001; MacGregor, et. Al, 2000). The intangible asset of reputation is valued— often implicitly, sometimes explicitly – in financial markets by analysts, in stock prices, in ratings by credit agencies and for private lender programs. Mechanisms for raising capital based on intangibles already exist, including securitization, lending, licensing, and outright sale. Brown (1998) mentions that “poor reputation signals to investors that disaster lurks, and that when it strikes,

those companies will not have the necessary public support they need to weather the storm“ (p. 279). Accordingly, Fombrun (1996) is of the opinion that “companies with higher stocks of reputational capital tend to be assigned better ratings” (p. 119), making corporate reputation an important signal for institutional and individual investors alike. Srivastava et al. (1997) find evidence that current or potential shareholders perceive a company with a solid reputation to be less risky than companies with equivalent financial performance, but whose reputation is less well established.

Despite these findings of the link between reputation and financial performance, the case for the communications professional with senior management, particularly those from the financial and accounting fields remains difficult. Gu and Lev (2001) highlighted the difficulties in making the case for the value of intangible assets, noting that the financial and accounting management of such assets are illusive due to normal accounting rules which do not allow intangible assets, other than goodwill, to appear on the balance sheet.

### **The Value of Relationships**

Organizations can be seen as a nexus of relationships (Jones, 1995) and the ability to have good relationships with multiple stakeholders may be a core value of an organization (Phillips, 2006). The ability to manage multi-stakeholder relationships is critical to the communications function. Other than the CEO, the communications profession may be the only management function that takes a multi-stakeholder perspective, and this may be one of the distinguishing characteristics of the communications profession (Grunig, et. al, 1999).

A good summary of the role of public relations as the “voice of multiple stakeholders” was offered by the Bled Manifesto (Van Ruler and Verčič, 2002). It says: “What distinguishes the public relations manager when he sits down at the table with other managers is that he brings to the table a special concern for broader societal issues and approaches to any problem with a concern for the implications of organizational behavior towards and in the public sphere”. The public relations executive, then, responds to management as the facilitator of enhanced relationship value and “is pivotal in optimizing corporate value and ROI” (Phillips, 2006).

The ability to manage reputation, then, is critical to the communications professional since perceptions gained by stakeholders of an organization through a variety of relationships and exchanges (Mahon, 2002), or from emotions that stakeholders feel toward the firm (Hall, 1992), or from collective beliefs that exist in the organizational field about a firm’s ’ identity and prominence ( Rao, et. al, 1994 ; Rindova and Kotha, 2001; Bromley, 2001).

Margery Kraus, President and CEO of APCO Worldwide (2003), said: “While traditional measures of success—revenue growth, earnings per share, EBITDA (earnings before interest, taxes, depreciation, and amortization), return on invested capital, and dividends—remain important, non-financial factors such as management quality, governance, brand equity, ethical leadership, corporate citizenship, and responsible marketing have become increasingly vital. These non-financial factors, taken as a whole and blended with business performance, constitute ‘corporate reputation’.

N.V. Philips of the Netherlands is one company that has put into practice an integrated, enterprise-wide program with an objective to enhance corporate reputation. Philips has integrated its vision and strategy, brand and marketing, technology and innovations, values, and financial and performance goals toward common reputation objectives. The company has put in place a Corporate Communications Council with responsibility for global management of communications, and for addressing strategic issues from the business sectors. (Fombrun and Van Riel, 2004: 231-233).

### **The Relationship of Organizational Culture and Values to Reputation**

Good leadership can drive company success and inspire a work force to reach its goals (Gaines-Ross, 2004). A significant effort of the communications profession has been placed on enhancing the role of the CEO as both the leader of the firm and the major driver of reputation for the firm. A 2003 survey by Burson-Marsteller found that respondents believed that about 50 percent of a company’s reputation can be attributed to the CEO. In 1997, when the agency first did this study, respondents suggested that 40 percent of the company’s reputation could be attributed to the CEO.

Values shape an organization’s identity (Albert and Whetten, 1985) and its behaviors (Jonker and Schumaker, 2005). Sarup (1996) and Wenger (1998) contend that organizations function on the basis of two types of values: first and second-order values. First-order values are embedded in the organization culture and shape everything that the company does and will not do. Second-order values are those embodied in corporate social responsibility (CSR) programs—they are tactical communications of a company’s values, but may or may not be consistent with first-order values. When there is a link between first and second-order values, the organization lives by, behaves and communicates its values consistently.

For-profit organizations often have conflicts between their stated values and their business and market paradigm that are driven by increasingly demanding shareholders and investors. In many organizations values like human resource development or CSR are not believed to be useful in the marketplace. Jonker and Schumaker (2005), note that some organizations use programs like human resource development and CSR as ‘window dressing,’ ‘to show’ customers and employees that ‘they really care,’ while in fact these are not really first-order values. Enron had a set of values with the acronym RICE, which stood for “Respect, Integrity, Communications, and Excellence”. One can see in hindsight that these values were not first-order, or intrinsic to the organization. They were second-order values with no link to the business strategy and actions of the company. Ulrich and Smallwood (2007) suggest that

companies with good values not only define them, but also build them into their managerial training and hold managers accountable for adhering to the stated values.

Bill Nielsen, former chief communications officer at Johnson & Johnson, has spoken extensively about the importance of values to an organization and the vital role of the chief communications officer in holding the company accountable to behaving according to its stated values. The core values of the company, the type to which we believe Bill Nielsen refers are first order values—they are embedded in the J&J organization and help shape everything that it does. The Johnson & Johnson “Credo” is an excellent example of a first-order set of values. Roger Bolton, former chief communications officer at Aetna, was given responsibility by his CEO for developing the values that became known as the “Aetna Way”, and the leading the programs to instill these values into the company culture.

The Arthur W. Page Center for Integrity in Public Communications at Penn State University, is offering financial support for studies that show whether or not values statements influence the behaviors of companies. This appears to be a rich area for potential research and study for the field of communications.

### **Employee Involvement and Reputation**

As the *Authentic Enterprise* document notes, communications practitioners need to become more proactive in leading the definition of the organization’s values. Communications practitioners should devote more attention to determining whether or not they are dealing with first-order or second-order values. Far too often, the job of the communications professional has been to articulate values or to develop external programs designed to enhance the company’s perceived values. The alignment of behavior with the values of the organization is essential in building reputation Gioia , et. al (2000). Strategies for integrating internal (first-order) and external (second-order) values has become a subject of increasing interest in the academic literature and amongst many companies.

Codes of conduct, annual social reports, philanthropy, projects and (business) networks; they all underline this awareness (Harold Burson Blog, 2008; Jonker and Schumaker, 2005). Whether these are second-order attempts to influence stakeholder perceptions of the company, or first-order statements of existing and prevailing corporate values depends on the organization. Moreover, CSR becomes institutionalized with its own set of rules, norms and beliefs about how firms within a given industry or how firms in general should and should not act (Bertels and Pelozo, 2008).

Schultz and Hatch (2001) recommend a “corporate brand” which can be used for organizational alignment and integration with stakeholder needs. Similarly, Brexendorf and Kernstock (2007) believe that corporate brand can be used to build consistency between how the corporation wants to behave and how it actually does behave. Other authors have suggested that “employee branding” is the way to enhance consistently desired behavior (Punjaisri and Wilson, 2007).

Two good examples of how to instill values within the organization can be found at Nova Nordisk and Johnson & Johnson. Nova Nordisk, the Danish pharmaceutical company, has defined its brand proposition as “Defeating Diabetes”. To assure that employees understand the company’s core values about its role in eradicating diabetes, all employees are required to spend at least one-day with a diabetic. In addition, to assure that the values, which the company calls “The Novo Nordisk Way of Life” (NNWOL), the company has appointed groups of “values facilitators”, who are responsible for visiting sites globally to assure that everyone both understands the values and is able to “live the values” (Schultz, et. al, 2005: 117). Johnson & Johnson has a similar group who visit sites globally with “Credo challenge” cases. During these meetings, J&J managers and employees discuss a case study and challenge one another as to whether or not the situation is appropriate given the company’s Credo.

### **Who is/should be Responsible for Reputation?**

Reputation is a holistic responsibility within the firm and may be the most important asset entrusted to the CEO by the board and shareholders. However, the management of the day-to-day operations of reputation is often a matter of debate between public relations and marketing. There has been a constant battle in many organizations between communications and marketing over responsibility for reputation. Marketers believe that they are responsible for the “4Ps: Product, Price, Place and Promotion. As such, they feel that not managing reputation divorces them from fulfilling their responsibilities to the organization.

Marketers tend to focus on brand and brand image, or what Walter Lippmann (1922) called “pictures in the head”. A brand, according to marketers, is a product, but one that is imbued with attributes that differentiate it in the minds of target audiences from competitive offerings. Brand Equity is the differential effect that brand knowledge has on the consumer response to the marketing of the brand (Keller, 1993). As Keller notes, building brand equity requires having a brand with strong, favorable and unique associations.

Public relations professionals have typically eschewed the term brand, perceiving it as a term marketing uses for products. This reluctance to understand and adopt brand management thinking may be a limiting factor in allowing the communications practitioner to have a greater leadership role in the reputation process. In addition, the focus of public relations on tactical issues like CSR, philanthropy and crisis management rather than on reputation as a strategic process, severely limits the ability to compete head-on with marketing for a greater leadership role.

At the same time, marketing professionals have begun to recognize the importance of the corporate brand and to recognize its relationship to reputation, noting that the distinctive image that is part of the corporate brand helps to tightly anchor the firm in the “psyche” of the stakeholder and helps to influence behaviors (Meffert and Bierwirth, 2005: 144). Argenti and Forman (2002) provide a diagram that shows how brand is interpreted by various stakeholders, with reputation being the sum of their perceptions. Kevin Keller, one of the world’s most prominent brand strategists notes that consumer perceptions of a company’s role in society and how it treats its stakeholders is a contributing factor in corporate reputation (Keller (2000). Davies (2003) suggests that there is a “reputation value chain” and that customer

satisfaction is driven by performance and that it is in turn driven by reputation. The Reputation Institute notes that “a brand is owned by the company, while reputation is owned by stakeholders”. However, it appears that reputation cannot be divorced from good brand management. They are essential to one another (Porter, 200; Schultz, et. al, 2005; Keller, 2003; and Schreiber, 2008).

One way companies have found to both make reputation a holistic process within the company and also to avoid organizational conflicts has been to establish a “Reputation Council”. AstraZeneca is one such company, which has a Council at its headquarters in London and in several of the regions globally. The Council brings together all of those in the company who have “stakeholder responsibilities”, including sales, marketing, government relations, human resources, finance, medical affairs, communications, and others. The Council has established a common set of objectives, determines what research is needed, works together on gap analysis and recommendations. The Council reports directly to the CEO and reports to the executive committee of the company on a regular basis (Quinn-Mullins, 2007). N.V. Philips of the Netherlands has also integrated its vision, business strategy and communications activities in a Communications Council so that its internal and external activities are aligned (Fombrun, 2004).

### **The Role of Corporate Social Responsibility in Reputation**

All organizations have two basic responsibilities:

- Economic Responsibility—this is the basic need of all organizations. For profit companies must make a profit and not-for-profit organizations must secure adequate financial support
- Legal Responsibility—all organizations are expected to operate within the applicable country, state and local laws

Companies seeking to establish better reputations typically see two other responsibilities:

- Ethical Responsibility—to do the right thing and avoid harm, if possible
- Social Responsibility—to be a positive contributor to society and the community

There is evidence to suggest that, all other things being relatively equal, a company's level of social responsibility can actually attract customers. In a national survey, Smith and Alcorn (1991) found that 45.6 percent of the respondents indicated that they were likely to switch brands to support a manufacturer who donates to charitable causes. For example, when a marketing campaign linked American Express credit card usage to the centennial restoration of the Statue of Liberty, card usage increased 25 percent over a three-month period. As stated by one marketing and design consultant (Neuborne, 1991). The Edelman Trust Barometer has found similar results. The age of the manager and the industry segment may affect the view of the importance of social responsibility. Younger managers tended to rate the market share effects as stronger than did older managers, as did managers in the service industry when compared to managers in the manufacturing/construction group (Owen and Sherer, 1993).

In an increasingly competitive and changing marketplace CSR can become a competitive advantage (Karna, Hansen and Juslin, 2003). Specifically, consumers’ perceptions of a firm’s

corporate social responsibility have been shown to influence their attitudes toward a company (Brown and Dacin, 1997; Madrigal, 2000), particularly when committing to a purchase (Barone, Miyazaki and Taylor, 2000; Bennett and Gabriel, 2000; Sen and Bhattacharya, 2001).

The best corporate reputations are built by helping stakeholders find ways to use the corporate brand in their own lives. This suggests that the best corporate social responsibility programs are those that integrate the company's business and reputation objectives with its social responsibility programs (Hatch and Schultz, 2008). An excellent example of such a program is "Johnson & Johnson's Campaign for Nursing's Future", a multi-year, \$50-million national campaign designed to enhance the image of the nursing profession, recruit new nurses and nurse faculty, and help retain nurses currently in the profession (J&J, 2007). Nurses are, of course, a key stakeholder for J&J and the company's stated responsibility to nurses is contained in the first paragraph of the company's famous Credo.

Globalization of markets is pressuring companies to develop codes as public statements of core principles that are universally applicable. (Carasco and Singh, 2003). de Quevedo-Puente, et. al (2007) suggest that we move toward a concept of Corporate Social Performance (CSP), which merges the firm's responsibility for financial performance with its social responsibility to dialog with and meet the needs of multiple stakeholders. By using CSP, the authors suggest that stakeholders move from looking only at the firm's philanthropic activities to analyzing the firm's behavior in relationship with clients, suppliers, shareholders, employees, managers, the community, and the environment (de Quevedo-Puente, et. al, 2007; Wood and Jones, 1995; Clarkson, 1995). This definition of CSP moves the responsibility of the firm from being what Friedman (1962, 1970) referred to as a "mere agent of shareholders" to being a guarantor of stakeholder satisfaction (Wood and Jones, 1995). Corporate performance, then, is related to reputation and includes the distribution of value to all stakeholders (Clarkson, 1995; Waddock and Graves, 1997).

### **Measuring Reputation**

How stakeholders perceive an organization's culture has been found to influence reputation (Kowalczyk and Pawlish (2002). Reputation must be taken within the context of the industry or competitive group of the organization. In this regard, rankings have been found to have influence on stakeholder perceptions of a company's relative value and reputation (Fombrun & van Riel, 2004; Schultz, et.al, 2006). Many organizations properly seek high rankings in rankings in respected publications.

The most famous measure of reputation is the *Fortune* magazine "Most Admired American Companies" survey conducted yearly. The survey is conducted on the ten companies with the largest revenues within each industry group (SIC code). Questionnaires are sent to executives, directors and financial analysts within the industry segment so that there is a level of familiarity with the companies in question. Eight attributes are analyzed: financial soundness, wise use of corporate assets, value as a long term investment, social and environmental responsibility, people management, quality of management, product and service quality, and innovation. These attributes are scored by respondents on a 1-10 scale with 10 being the highest.

However, doubts about the validity of the Fortune rankings in particular have been raised (Fryxell and Wang, 1994; Sabate and Puente, 2003), for several reasons. First, since the early development of the *Fortune* study, the index was not intended for scientific research (Deephouse, 2000). Second, the survey is limited to certain constituencies without taking into consideration other stakeholders' opinions (Fombrun, 1996; Fryxell and Wang, 1994, Wood, 1995). Finally, evidence of financial bias of the valuations published in *Fortune* (Fryxell and Wang, 1994; Brown and Perry, 1994) has shed shadows over the results of previous studies, suggesting the possibility of artificial relationships between corporate reputation or corporate social responsibility measures and financial performance

Davies, et.al. have developed the Corporate Personality Scale which companies can use to determine how their organization is perceived on certain personality traits such as "warmth", "emotion", and others. This scale is used to determine how the organization is perceived by stakeholders and then to help it make changes to better match stakeholder needs.

The Reputation Institute uses a measure called RepTrak, which has been developed through factor analysis with respondents among the general public in about 25 countries. The instrument has found seven drivers of reputation (products and services, innovation, workplace, citizenship, governance, leadership, and financial performance). There also are 23 attributes of reputation within these drivers. In addition to the overall RepTrak, the Reputation Institute uses a more frequent "Pulse" that examines emotion, feelings and trust toward companies. The Reputation Institute survey is published yearly in *Forbes.com*. Doubts about the RepTrak survey have focused on the fact that it was developed with a focus on the general public. There are two problems with this development: 1) the public may not have familiarity with an organization but still may rate the organization; and 2) for many industrial companies, there are many other stakeholders far more important than the general public.

Harris Interactive uses a 'Reputation Quotient' (RQ), "an assessment tool that captures perceptions of corporate reputations across industries, among multiple audiences, and is adaptable to countries outside the United States", which uses six similar dimensions of reputation: products and services, financial performance, workplace environment, social responsibility, vision and leadership, and emotional appeal (Harris Interactive, 2006, ¶.6). The Reputation Institute uses the "RepTrak" model that suggests that there are seven dimensions or drivers of reputation: products and services, innovation, leadership, workplace environment, citizenship, governance, and financial performance. The Harris Interactive survey is published yearly in the *Wall Street Journal*. Questions about the validity of the RQ survey are similar to those for RepTrak, since both were developed similarly and have common origins with Professor Charles Fombrun.

Schreiber has developed a Reputation "Pillars" approach to both managing and measuring reputation. This approach looks at the various pillars of reputation, in a similar manner to the Ogilvy Mather approach to brand management. Among the "pillars" are "differentiation, relevance, esteem, expectations, knowledge and experience". Companies would then measure how they are perceived by stakeholders on each of these pillars and then assess and close the gaps between current and desired perceptions. Similarly, Schultz, et. al (2004) suggest that companies conduct a gap analysis between their values, perceptions and culture. The values-

perception gap would show whether there are differences between the desired attributes and perceived attributes of the company; the gap between culture and perception would show whether the organization acted similar to the way it communicates; and the gap between culture and values would illustrate whether employees believed that the company “walked the talk”.

### **“New Media” and Reputation**

The rise of Web 2.0 also makes it critical that communicators work closely with their marketing colleagues. Marketing, like communications, is experimenting and learning from the new media. The lines between marketing, advertising and public relations are becoming blurred. As marketing looks for new ways to reach customers, they may well inadvertently do damage to the corporate reputation. For example, on-line ads are found to not only be ineffective, but also annoying. In addition, many marketers who are interested in using cell phone advertising to reach target audiences. With the capabilities offered by GPS systems, marketers can know exactly where a customer is at a given point in time and advertise to them. How this fits with the reputation management approach of the company will need to be considered.

It is important that communicators know what is being said about their company on the Internet and that they participate in communicating their positions on key issues in forums, blogs, podcasts and other ways that reach their intended stakeholders. Employee blogs and e-mail are increasingly a means of enhancing corporate reputation or they can be a problem for the company.

From a reputation perspective, there are few studies that look at the differences, if any, between on-line and traditional communications in building, maintaining or retaining reputation. However, Alwi and Da Silva (2007), found some interesting differences between the way corporate brands were perceived on-line versus off-line. Their research confirmed the view of Clauser (2001) that the Internet may be more informal and may be different from traditional reputation management approaches. Alwi and DaSilva used the Corporate Personality Scale developed by Davies, et. al (2003) and found that different attributes were judged more important to stakeholders on-line versus off-line. For example, in traditional reputation models, perceptions of the company’s salespeople is often reflected in how well the company is perceived on service quality. However, on-line, where there is no salesman, this service attribute is replaced by such factors as “ease of use”.

There has been much discussion about how to deal with crises arising over issues on the Internet. However, there also are new challenges arising for corporations as they deal with even their most loyal customers. As an example, Hasbro, the maker of Scrabble was faced with what to do about an on-line version of its game called “Scrabbulous” that was developed by a group who “loved the game” and wanted to share it with others. Hasbro sued the on-line developers for trademark infringements, setting off a controversy that has escalated over the Internet. Similarly, Ford created a website for those who wanted to customize their cars and then prevented a group called the “Black Mustang Club” from photographing themselves with their cars and posting them on line. The result was an angry backlash against Ford by some 9,000 people on-line (Matson, 2008). Clearly, companies are just beginning to learn how to deal with the new technology, and the learning curve is as steep or steeper for our legal colleagues than it is for communicators. It

is clear that anyone with a computer linked to the Internet can influence public opinion about a company or product. The profession is beginning to understand how to determine if these on-line critics have any credibility or influence with stakeholders. In terms of proactive reputation management, much of the focus has been on Search Engine Optimization, since data have suggested that those showing up on the first page of a search engine are perceived to be the most important (reputable). These assumptions have not been confirmed empirically.

### **Implications for the Practitioner**

By focusing on reputation management, practitioners can build real value for their organizations through relationships, trust and positive business results, as well as enhancing their own capabilities vis-à-vis their organizations.

From this perspective, a few recommendations ensue

1. The public relations profession should turn its attention to reputation management as a strategic process, with measurable business outcomes that differentiate the organization against competitors. The traditional focus on public relations on crisis communications, and corporate social responsibility (CSR), should be seen as tactics within the overall reputation program, but it should be recognized that these are tactics not a reputation program.
2. Use reputation management to create a framework of expectations for stakeholders in terms of what they can expect from the company's actions and communications. Communications professionals should then work to assure that their organizations conduct all business within that framework.
3. While esteem is an important variable of reputation, the primary objective of reputation is not to be liked, but rather to become differentiated and disproportionately valued from competitors. The most reputable companies are also usually those that are most liked, but professionals should strive for business differentiation and financial results.
4. It is no longer sufficient to merely develop and articulate reputational messages that are designed to make the organization appear more reputable. Communications

professionals must lead the effort to assure that the organization is and acts reputably. While a company may attempt to build a communications platform making itself appear to have better values than it actually has, the true values of the company will come through in its behavior with employees and external stakeholders. Reputation management should advance the core values of the organization, and make certain that these values are reflected in the behavior of the organization both to its employees and its external stakeholders.

5. Communications practitioners should begin to embrace and to understand the power that branding offers in their quest toward enhancing the reputation of their organizations. It is especially important that communications professionals understand corporate branding. A good corporate brand, as this paper has hopefully shown, helps to identify the core competencies, assets, values and key attributes of the organization. Having a good brand is not only a prerequisite to good reputation, but it also is an essential component of reputation management.
6. Employees are the most important stakeholder of any organization. Communications professionals need to integrate its brand and reputation efforts aimed at employees and external publics. As Harold Burson (2008) noted, employees are the primary source of reputation for most people outside the company. Public relations firms, in particular, should begin to integrate their organizational change activities with their reputation building activities.
7. New media skills are inherent in building and maintaining a reputation in the current market environment. An organization must not only be aware of what is being said and be able to effectively respond, but it also must be willing and able to assume a new sense of partnership, cooperation and dialog with stakeholders that are both necessitated by and facilitated by new media.
8. Reputation is the precedent of trust. When reputation management is done well, trust is built. It is important that the communications practitioner understand this and focus both on trust and the antecedent behaviors of trust. While corporate social responsibility and crisis communications are part of the reputation management process, they are not the process itself. They help build or rebuild trust, both CSR and crisis management should be seen by communications professionals as tactics that are within reputation management rather than continuing to focus on these as the means toward better reputation.
9. Reputation research should focus on perceptions of each stakeholder group vis' a-vis competitors. By measuring preference versus competitors, research can determine stakeholder inclinations to support, buy, invest, etc. The company in each competitive

set with the best rankings in terms of preference could be then considered to have the highest level of trust and the best change of being considered trustworthy.

## **Summary**

This paper reviewed reputation from a variety of perspectives, looking at how it should be defined, the connection between brand and reputation, the importance of stakeholder relations, and the power of employee commitment.

Reputation may be the most important asset entrusted by shareholders and boards to the CEO and management team. As an intangible asset, reputation can help frame and manage expectations, needs and interests of stakeholders, and can be used to create barriers to competition. Squandered, it is an asset that is difficult to rebuild since it is based primarily on perceptions and realized or unrealized expectations.

The objective of reputation is not to be liked, but rather to build value for the organization through business outcomes. As such, social responsibility or philanthropy programs must be judged as tactics in support of an overall reputation program and not as the reputation program.

We have noted in this paper that values are the foundation of reputation, since they lead the organization to make decisions on what businesses to enter or not to enter, how it treats its employees, whether it fully respects its critics and how it works with its various stakeholders. Communicators should take an active role in not only defining the values of the organization, but also in assuring that the values defined are really “first-order” values intrinsic to the organization, and should avoid simply using values as a way to persuade stakeholders to see the organization more positively.

While communications is an important part of reputation management, the most important way an organization builds reputation is through its actions. In this regard, everyone in the organization must understand the reputation objectives and have the willingness and the ability to act in support of these objectives.

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## Annotated Bibliography

Aaker, D. A. (2004) 'Leveraging the corporate brand', *California Management Review*, 46, 6 – 18. An excellent article by one of the top experts on brand. Aaker notes that companies must not only invest in their brands, but also have a system in place to manage them within the context of the corporate strategy.

Aaker, D. A. (1991) *Managing Brand Equity*, The Free Press, New York. This is one of Aaker's definitive books on brand. He gives countless examples of companies that have managed their brands to maximize their value and provides frameworks for creating brand strategy within companies.

Aaker, D. A. (1997) 'Dimensions of brand personality', *Journal of Marketing Research*, 24, 347 – 356. Aaker has typically focused on brand strategy. In this article, he focuses more on the emotional side of brand and examines the personality of brands and how to develop brands that have more resonance with customers.

Alsop, R. (2004), *The 18 immutable laws of corporate reputation*, Free Press: New York. Alsop is a Wall Street Journal writer who writes about what companies should do, from his perspective as a reporter, to build their reputation.

Alwi, SFS, and Da Silva, RV (2005), 'Online and offline corporate brand images: Do they differ?', Paper submitted to the 9<sup>th</sup> Annual Conference on Corporate Reputation, Madrid. This paper provides a good discussion of how brand images must adjust to the Internet.

Ambrosini, V. and Bowman, C. (2002), 'Tacit knowledge: some suggestions for operationalization', *Journal of Management Studies*, 38 (6): 811-829. This article reviews the resource-based view of the firm and of the concept of core competencies, intangible resources, and tacit knowledge in particular have been argued to occupy a central place in the development of sustainable competitive advantage.. This paper sets out to define the term tacit knowledge and proposes to redefine it, within the context of the resource-based view of the firm, as tacit skills. A methodology (based on causal mapping, self-Q and storytelling) for empirically researching the subject is outlined.

Aqueveque, C. (2005), Signaling corporate values: consumers' suspicious minds, *Corporate Governance: The International Journal of Business in Society*, 5: 70-81. This article posits that consumers determine the values of a company through its actions, including transparency and social responsibility.

Aqueveque, C. and Ravasi, D. (2006), 'Corporate reputation, affect, and trustworthiness: an explanation for the reputation-performance relationship', Paper presented at the 10<sup>th</sup> Annual Corporate Reputation Institute Conference, New York, NY. This paper examines how reputation builds trust and how trust translates into corporate value in terms of enhanced relationships and greater financial value.

Argenti, P.A. and Druckenmiller, B. (2004) 'In practice: Reputation and the corporate brand', *Corporate Reputation Review*, 6(4), 368–374. In this article, the authors look at a variety of examples of how organizations have built their reputations through well designed corporate brand initiatives.

Argenti, P.A. and Forman, J. (2002) *The Power of Corporate Communication*, McGraw-Hill, New York, NY. This book is a primer on corporate communications and the power of managing and implementing the function well within organizations.

Balmer, J.M.T. and Gray, E.R. (1999) 'Corporate identity and corporate communications: Creating a competitive advantage', *Corporate Communications: An International Journal*, 4(4), 171–176. In this article, the authors demonstrate that having a good corporate identity program that is well managed and maintained can create advantages for the company.

Barney, J. and Hansen, M. (1994), Trustworthiness as a Source of Competitive Advantage, *Strategic Management Journal*, Vol. 15, pp. 175-190. In this article, the authors suggest that trust is an intangible asset that not only enhances a company's competitiveness, but which also can provide barriers to entrance from competition because it is so difficult to duplicate and copy.

Barone, M.J., Miyazaki A.D. and Taylor, K.A., 2000. The Influence of Cause-Related Marketing on Consumer Choice: Does One Good Turn Deserve Another?, *Journal of the Academy of Marketing Science*. 28 (2), 248-62. In this article, the authors make the case that cause-related marketing can build relationships and can be a source of competitive advantage.

Bertels, S. and Peloza, J. (2008) "Running just to stand still? Managing CSR reputation in an era of ratcheting expectations", *Corporate Reputation Review*, Vol. 11, No. 1, pp. 56–72. In this article, the authors suggest that it is becoming increasingly difficult for companies to differentiate and build value through CSR programs because stakeholders have such high and often impossible expectations.

Brammer, S. and Millington, A. (2005) 'Corporate reputation and philanthropy: An empirical analysis', *Journal of Business Ethics*, 61 (1), 29 – 44. This article discusses the importance of philanthropy in the enhancement of a firm's reputation.

Bromley, D.B. (1993) *Reputation, image and impression management*, Wiley and Sons, New York, NY.

Bromley, D.B., 2001. Relationships between personal and corporate reputation, *European Journal of Marketing*. 35 (3/4), 316-34.

Carmeli, A. and Tishler, A. (2005) 'Perceived organizational reputation and organizational performance: An empirical investigation of industrial enterprises' *Corporate Reputation Review*, 8: 13-30. This article discusses research that demonstrates that reputation is associated with the firm's growth and accumulation of customers' orders, but is not directly associated with market share, profitability and financial strength.

Deephouse, D. L. (1999) 'To be different, or to be the same? It's a question (and theory) of strategic balance', *Strategic Management Journal*, 20 (2), 147 – 166. In this article, Deephouse confirms the position of Michael Porter that it is insufficient to be as good as others; strategy requires that one establish differentiation.

Dowling, G., (2004), 'Reputation Risk: It's the Board's Ultimate Responsibility' Paper submitted to the 9<sup>th</sup> Annual Corporate Reputation Conference, Madrid. In this paper, Dowling argues that the board, not just the CEO and management team, should be responsible for reputation risk since it puts the assets of the organization in jeopardy.

Fombrun, C. (1996) *Reputation: Realizing Value from the Corporate Image*, Harvard Business School, Boston, MA. This is one of Charles Fombrun's first publications on the importance of reputation, noting that corporate "image" has both strategic and financial value to the corporation.

Fombrun, C. and Van Riel, C. (2004), *Fame and Fortune: How Successful Companies Build Winning Reputations*, Prentice Hall, Upper Saddle River, NJ. This is one of the more important books in the field of reputation management, which pulls together the primary literature and perspective of how leading companies build financial value through reputation.

Fombrun, C. and Van Riel, C. (2002), 'The reputational landscape', *Corporate Reputation Review*, 1 (1) 5-13. This article in the first issue of the publication is a review of the literature on reputation from a variety of disciplines, including economic, strategic, management and game theory.

Friedman, M. (1970), "The Social Responsibility of Business is to Increase Profits", *The New York Times Magazine*, September 13. This is the preeminent article by the father of capitalism, which established a perspective on the corporation for an entire generation of leaders. Regrettably, this was the thinking that helped lead to the "greed is good" thinking of many executives.

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notable academics in the accounting profession. They note that intangible assets, although not on the balance sheet, are useful measures of a company's true value.

Hatch, M. J. and Schultz, M. (2001) 'Are the strategic stars aligned for your corporate brand?', *Harvard Business Review*, 79 (2), 128 – 134. This article provides a perspective by two of the leading "corporate brand" experts on what it takes to develop a leading brand and the importance of linking the brand to corporate strategy.

Herbig, P. and Milewicz, H. (1995) 'The relationship of reputation and credibility to brand success', *Journal of Consumer Marketing*, 12 (4) 5-10. This article suggests that reputation builds credibility for the organization, but that a firm can have a multitude of reputations, i.e., one for customer service, one for workplace, etc. Companies cannot hope to have a good reputation in every area and need to make certain that they are building their reputations in areas that are meaningful to the customers and other stakeholders.

Keller, K.L. (2003), *Strategic Brand Management: Building, Measuring and Managing Brand Equity*, Prentice Hall, Upper Saddle River, N.J. This is one of the most important books by one of the leading thinkers on product and corporate brand. Keller investigates all aspects of developing, building and managing brands.

King, B. G. and Whetten, D.A., "Rethinking the relationship between reputation and legitimacy: A social actor conceptualization", *Corporate Reputation Review*, 11 (3) 192-207. This is a new view of the difference between legitimacy and reputation and the interaction between the two. King and Whetten posit that legitimacy is the standards or norms for an industry group and reputation is an organization's ability to be distinguished from its peers in that group. As competition continues, the company with the highest reputation can "raise the bar" of expectations and, as a result, change the legitimacy for the entire group.

Lewis, S. (2003), 'Reputation and corporate responsibility', *Journal of Management*, (4) 356-366. In this article, Lewis suggests that reputation is built through a variety of means and that what is called "corporate social responsibility" is one of the tactics by which organizations communicate to key stakeholders and build trust and reputation.

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Rindova, V., Fombrun, C. (1999), Constructing competitive advantage: the role of firm-constituent interaction, *Strategic Management Journal*, 20 (8) 91-710. This article suggests that firms do not develop their reputation on their own, but rather do so in concert with their stakeholders. The interactions and relationships that develop and how competitors react determine the outcome of reputation efforts.

Schreiber, E. (2002), 'Brand strategy frameworks for diversified companies and partnerships', *Journal of Brand Management*, 10 (2) 122-138. In this article, the author focuses on brand strategies for non-consumer products companies, providing a way for companies to decide on the best brand strategy based upon a matrix with two variables: the degree of fear, uncertainty and doubt by the customer in making the buying decision, and the complexity of the buying decision.

Schultz, M., Moritsen, J. and Gabrielsen, G (2006), 'Sticky reputation: Analyzing a ranking system', *Corporate Reputation Review*, 4 (1) 24-41. In this article, the authors suggest that rankings are important sources of reputation, especially because they provide context. In addition, they note that reputations come from variety of actions and sources and it is difficult to identify the single source of a firm's reputation.

Yang, S. U. and Grunig, J. E. (2005) 'The effects of organization-public relationships outcomes on cognitive representations of organizations and overall evaluations of organizational performance', *Journal of Communication Management*, 9 (4), 305 – 326. This paper makes the case that the greatest impact of corporate public relations is not its reliance on messages, but rather is its ability to build relationships. These relationships, according to the authors, are what shape the way stakeholders perceive an organization.