Corporate Reputation as a Strategic Asset

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Abstract

Corporate reputation management is a hot topic both in academic and business world. However, despite universal acknowledgment of the importance of corporate reputation as a strategic asset and its great potential to impact corporate strategy success, corporate reputation as a research object still lacks deeper conceptualizing. This paper presents discussion and critical review of the interpretations of the concept of corporate reputation as a strategic asset. The paper concludes that corporate reputation may not be identified as an asset on the balance sheet but it affects investors' confidence, staff recruitment, supplier attitudes and a myriad of other stakeholders in its capacity as relationship capital. It therefore, represents a principal risk to any business and as such falls within the strategic issue that companies must give top priority, particularly as marketing oriented organizations.

Keywords: corporate reputation, strategic asset, corporate identity, intangible assets, business risk, stakeholders,

1. Introduction

Corporate reputation is not a newborn issue neither in academic world nor practice. The term has evolved with the passage of time to become a strategic and intangible corporate asset and it has been used in daily life, business, and politics, etc. for a very long time. Reputation matters and it explain why customers choose company product or service in preference to competitors offering. It makes the difference between success and failure. Nevertheless, the events of the past decade – reputational crisis of well-known organizations (for instance, the fall of Arthur Andersen in 2002), the demise of huge corporations, such as Enron, due to fraudulent practices, rising sophistication of stakeholders, globalization and information flows, changing business and competitive environment, growing demand for corporate transparency and social responsibility, etc. – encouraged renaissance of caring and striving for good reputation.

The first fundamental academic book on corporate reputation was published by Fombrum, in 1996 and can be considered to be a starting point in the development of reputation management as a separate academic discipline and research field (Fombrum, 1996). Corporate reputation is a concept with exceptional multidisciplinary richness, which brought about increase in the number of scholars researching corporate reputation as well as growing sophistication in definition of corporate reputation. Corporate reputation essentially relate to – competition or comparing a company (its past actions, performance results, etc.) with its rivals. In order word, corporate reputation represents a company‘s status among employees and external stakeholders compared to its rivals (Fombrum, 1996, 2001).

Corporate reputation directly affect the strategic behavior patterns of a firm and the observable characteristics of the manner in which an organization performs decision-making and planning function with regard to issues that are of strategic importance to its survival, growth and profitability (Oghojafor, 2007). Corporate reputation is directly related to the corporate identity of company and it is interpreted as an organization's ethos, goals and values that create a sense of belonging among company's stakeholders (George et al., 2012).

Reputation is a word much used today as a perception of past actions and future behavior of an individual or organization viewed not in isolation but in the context of what others are doing in the marketplace. This relativity is important and a good one is earned through hard work yet can be quickly lost through misfortune or incompetence. Apart from the dynamics of reputation, the quality depends on the relative values of the sector or its stakeholders. A bank might be judged to have a good reputation on service quality, but deposit security is likewise a business-critical success factor.

Corporate reputation has long been recognized as a critical success factor in marketing a service (Eunsang, et al., 1993; Thomas, 1978). A good reputation is considered as an asset that can enhance the buyer's expectation regarding the company's offerings (Eunsang, et al., 1993; Schmalensee, 1978; Shapiro, 1983). The reputation of a marketer's enhances communication effectiveness; for example, pricing and advertising serve as a communicator of product quality (Shapior, 1973; McGinnies, 1973; Tellis and Fornell, 1988; Eunsang, et al., 1993). Within the past few years, the importance of intangible assets in general and the significance of corporate reputation in particular have grown rapidly. To create market entry barriers, to foster customer retention, and thus to strengthen competitive advantages, intangible assets are vitally important. Creating and exploiting them allows companies to drive markets, rather than to be market driven.

In the corporate world, reputation is seen as a major element of an organization's provenance alongside and included in financial performance and innovation. The academic-practitioner team of Paul Argenti and Bob Druckenmiller suggest that it is a "collective representation of multiple constituencies' images of a company built up over time" (Argenti and Druckenmiller, 2004, p. 369). It is also linked to the organization's identity, performance and the way others respond to its behavior. The Merriam –Webster dictionary define it, as the overall quality or character as seen or judged by people in general . . . a place in public esteem or regard: good name. Brown et al., (2006) defines corporate reputation as the set of corporate associations that individuals outside attribute to the organization.

The quest for being an exclusive, best, and responsive company indicates necessity for acknowledging corporate reputation to be an important source of competitive advantage. Good corporate reputations are critical not only because of their potential for value creation, but also because their intangible character makes replication by competing firms considerably more difficult. Thus, corporate reputation can be a key contributor to an organization's success and it can just as easily be a contributing factor to an organization's failure. Researches focusing on stakeholders illustrate that managing reputation is not such an easy thing to plan and do, because of two critical factors: lack of evidence on how a company's action influence stakeholders' perception (Mahon, 2002) and stakeholders' critical interpretation of a company's endeavors to manipulate its reputation (Ferris et al., 2003). Fombrun and van Riel (1997,2003) identified several distinct views of reputation elements to include: economic, strategic, marketing, organizational, sociological and accounting, each with its own tradition of defining the concept and conducting research.

Despite acknowledging importance of corporate reputation to a company's survival and success, corporate reputation as a research object still lacks conceptualization both in theoretical and empirical approaches. Researches on reputation as a theoretical construct was accelerated only in 2002 (Neville, et al., 2005); and still, the question what reputation is, and what is not, is not so clear and simple as it may seem (Mahon, 2002; Brown et al., 2006). Most often corporate reputation is treated as a universal topic and is being researched in many academic fields (Lin, et al., 2003); while researchers representing different academic disciplines do not have a common position (Mahon, 2002); there seem to be 'too many interests all trying to define a single set of concepts in their own preferred language' (Hatch and Schultz, 2001).

Also, while the tangible benefits of a strong corporate reputation have been well established, there is a gap in the academic literature regarding how an organization can enhance or manage its corporate reputation as a strategic asset. This paper addresses the topic of corporate reputation management, with a specific focus on how organizations can nurture and use it as a strategic asset.

2.0 Literature Review

2.1 Interpretation of Corporate Reputation in different discipline

There are lots of different definitions of what corporate reputation is, however, fact remain that corporate reputation has to be earned.

Obviously, every discussed discipline brings a meaningful input into seeking integrative approach to corporate reputation: from explaining its role and potential in the market, up to researching the processes of establishment and analyzing a company's abilities to shape its reputation.

Corporate reputation is a concept with exceptional multidisciplinary richness. Fragmentary research on corporate reputation can be found in psychology, sociology, economics, marketing and other disciplines. In sociology reputation (both individual and organizational) is treated as a social phenomenon and characteristic of modern society, as well as the mechanism of social control. Therefore, in sociological view corporate reputation indicates the extent of legitimacy: in order words, an aggregate assessments of firms' performance relative to expectations and norms in an institutional field. (Fombrum and van Riel, 1998).

In the discipline of psychology, reputation is most often analyzed at individual level. It is being treated as a mechanism for evaluating risk of interaction (Dalton and Croft, 2003). According to the authors, such risk evaluation is important for any social exchange. Obviously, this issue might be transferred into organizational level easily; and corporate reputation can be treated as a mechanism for stakeholders to evaluate risk of interaction with the company.

In economics corporate reputation is researched by game and signaling theorists. The game theorists treat corporate reputation as a company's traits that signify one's possible behavior and actions towards stakeholders. Thus, economists consider corporate reputation as a signal about a company's presumable actions in the market (Davies et al., 2003) and its possible strategic behavior in the marketplace (Fombrum and van Riel, 1998).

Corporate reputation research in marketing disciplines; – marketing strategy, relationship marketing, etc. – can be characterized by pronounced focus on one group of stakeholders, the consumers. Corporate reputation is often treated as a force that has potential to attract customers and encourages their loyalty, as well as a factor that may influence buying/selling processes and success (Lin et al., 2003).

In the discipline of impression management, corporate reputation is mostly researched at the individual level. Yet, it is obvious that some definitions used in this discipline and results of the researches in this field might be easily transferred into researching reputation at the organizational level and abilities to manage it. Some of these transfer issues are explained by the terms 'negative bias' used by Yaniv and Kleingerger (2000), describing how negative information may influence impression, or the term 'trust asymmetry' used by Slovic (1993), defining how negative events create more negative influence on trust than positive ones to increase trust (Lin et al., 2003).

In the discipline of business strategy the construct of corporate reputation is interpreted more comprehensively. To strategists, corporate reputation is an intangible asset and mobility barriers in the market (Fombrum and van Riel, 1998).

In the field of public relations, corporate reputation management is often treated as a practice and object of public relations. This approach is highly popular both in academic field and especially business world (Doorley and Garcia, 2007; Haywood, 2005). Yet, it should be admitted that such an approach narrows up the definition of corporate reputation and concept of reputation management.

In the field of human resource management there are also some insights which relate to corporate reputation. Employees are considered to be the ambassadors of corporate reputation (Gotsi and Wilson, 2001). However, too little attention is paid to employees' role and potential: most organizations are focusing on external stakeholders; mostly on customers' perception about an organization (Gotsi and Wilson, 2001; Genasi, 2002; Alsop, 2004) ignoring employees to be one of the biggest and important stakeholder groups.

2.2 Corporate Reputation as an Asset

Is reputation an asset? Well it is certainly not a fixed asset or depreciable and a figure cannot be put on it. It can be claimed to be an intangible asset whilst valuing it is complex and controversial. Putting a value on a brand was once thought impossible so valuing a reputation should not be discounted for the future. Reputation may not be identified as an asset on the balance sheet but it affects investor confidence, staff recruitment, supplier attitudes and a myriad of other stakeholders in its capacity as relationship capital. Reputation represents a principal risk to any business and as such falls within the strategic issue that companies must give top priority.

A comprehensive desk research shows that existing reputation measurement tools are based on the following elements: quality of management, financial performance, quality of products and services ,market leadership, customer orientation, attractiveness, ethical behavior, reliability, fair attitude towards competitors, transparency and openness, and credibility. The aim of management should be to enhance a good reputation and build it into the marketing strategy of the organization. This requires an understanding of the factors which contribute to a good reputation in the eyes of stakeholders. Where reputation is regarded as a liability then the objective should be to contain or reduce the threat of damage. This leads to a protection policy and ultimately a turnaround of fortune.

Reputation has a value even if it cannot be expressed financially. The possibility of this value being reduced represents a business risk. Most organizations do not know enough about the drivers of corporate reputation and how to identify or protect same against devaluation risk. Any incident that reduces trust among any single stakeholder group has the possibility to create reputation damage. The severity of this damage and the cost will depend on the influence of the stakeholder group and its impact on the organization.

A risk to reputation occurs where the organization fails to meet the expectations of a specific stakeholder group. The key to effective reputation risk management is therefore the management of expectations. It has been said that reputation risk lies in the gap between expected and actual behavior. There is an assumption that all organizations have reputation, be it good, neutral or bad. But, how well can this be managed, controlled or directed? Hutton et al., (2001, p. 249) describe the dilemma succinctly: that concepts such as 'reputation' and 'image' are not generally something that can be managed directly, but are omnipresent and the global result of a firm's or individual's behavior. Attempting to manage one's reputation might be likened to trying to manage one's own popularity (an attempt which is rather difficult, superficial and potentially self-defeating task).

Fombrun (1996) argues in a different way that reputation is built in a planned manner by organizations taking necessary notice of the environment in which they operate. Better regarded companies build their reputations by developing practices which integrate social and economic considerations into their competitive strategies. This paradigm of reputation management is that the organization's reputation is dependent on its behavior as a corporate citizen, part of the societies in which it operates and not above or separated from these. Therefore, reputation strategy should be consider as an inevitable part of the corporate strategy (Yang, and Li , 2007), and should target transforming corporate reputation into reputational capital.

3.0 Methodology and methods

3.1 Descriptive/Explanatory research method

This study being descriptive and explanatory relied on the secondary sources of information. According to Lancaster (2005) secondary information are "second hand" information previously collected and used by other researchers. The study will describe the study variables which lend themselves to description and at the same time provide explanation of how corporate reputation represents a principal risk to any business and as such falls within the strategic issue that companies must give top priority.

4. Conclusion and Recommendations

The veracity of today's reputational challenge is a consequence not just of the speed, severity, and unexpectedness of recent economic events but also of underlying shifts in the reputation environment that have been under way for some time. Those changes include the growing importance of Web-based participatory media, the increasing significance of non-governmental organizations (NGOs) and other third parties, and declining trust in advertising. Together, these forces are promoting wider, faster scrutiny of companies and rendering traditional public-relations tools less effective in addressing reputational challenges.

In a society where markets are saturated with competing products, and where consumers continue to grow in influence, corporate reputation is becoming a crucial consideration for many firms. Thus, formal rules and laws are no longer enough for assuring efficient exchange of goods and services; here reputation and its outcome – trust play critical role (Greenspan, 1999). Today reputation plays as substitute for deficient information about a company, its product and practice; and 'provides a touchstone in a world full of unknowns' (Genasi, 2002). Although a company's reputation may be harmed by adversity, it may emerge from the episode with its reputation enhanced – simply due to the way it handled the situation.

On the other hand, an organization can squander golden opportunities for building bad reputation through inept management. Added to such challenges is the fact that there are no hiding places any more. The internet, blogs and mobile technology have made it possible for anyone to broadcast information to large audiences in a very short space of time.

There is no doubt that reputation will play an increasingly important role in all decisions concerning in whom to place trust. Managing company reputation has always been a key business objective and successful brand management is about developing and maintaining corporate reputation, conveying the right image, and creating a clear and recognizable identity. Doing the right thing and being seen doing the right thing, has become a central aspect of corporate affairs. Companies are evaluated by investors, Government, the media, business partners and industry contacts by how they manage issues relating to ethical investment, staff investment and training, charity work, and how social, economic and sustainability issues are handled.

Solutions to reputational challenges start with a new management mindset. Companies must therefore engage the world that surrounds them rather than try to manipulate it through contrived communications. They must do this in a carefully structured, intentional way. When a company becomes part of the dialogue, rather than its external manipulator, it creates for itself an opportunity to influence the terms and vocabulary the world uses to discuss its affairs. This convergence usually creates cooperative relationships with those external groups (investors, special interest activists, the press, and the community) in whose minds the reputation of the company forms, and who therefore exert a profound influence on its long-term sustainability.

Organizations need to enhance their listening skills so that they are sufficiently aware of emerging issues; to reinvigorate their understanding of, and relationships with, critical stakeholders; and to go beyond traditional public relation (PR) by activating a network of supporters who can influence key constituencies. Doing so effectively means stepping up both the sophistication and the internal coordination of reputation efforts. A company's ability to maintain a sense of acceptable conduct in the heat of the competitive market place is attainable only through true engagement with its constituencies. Constant feedback from outside is the best protection against management's own excesses. And the first step in creating such engagement is active institutional listening. While companies often cite their own specific efforts to implement ''best practices,'' it is not clear what they are doing to develop a culture that supports a desired reputation. Industry fora where companies with similar challenges share perspectives have proven a highly useful source of ideas. In addition, some companies have turned to what may seem an unusual, but ultimately logical, place in their search for concrete principles.

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