Management for Professionals

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Editors

Reputation Management

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Reputation Management

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Corporate Reputation: An Introduction to a Complex Construct

Sabrina Helm

Introduction

Reputation is the most relevant corporate asset. It needs to be painstakingly acquired, yet it can easily be lost if not properly managed. It is a challenge to grasp its core contents or to explain what specific value is associated with achieving a good reputation. After all, evidence on the value of reputation or its catalyst power to attain corporate goals is diffuse at best. As it is such an elusive construct and, hence, difficult to manage, do we really need to focus on reputation? Is it worth the trouble? The answer is "no" if reputation just stands for another management fad and comes down the catwalk as PR or image management in disguise. The answer is "yes" if there is explicit value (for the firm and/or stakeholders and/or society in general) in focusing and managing reputation. Demonstrating and providing evidence for the financial and nonfinancial value of reputation are the major objectives of this book.

Some authors regard reputation as indispensable in any exchange process on markets because stakeholders "usually enter into a contract with a firm based on its reputation" (Carmeli and Freund 2002); reputation then is to be regarded as "a precondition for people's willingness to do business with a company" (Ettenson and Knowles 2008). From stakeholders' perspectives, corporate reputation indicates the firm's contribution to stakeholders' welfare and social welfare in general. Corporate reputation is crucial for the stakeholders to determine their own support for the firm: "(i)f stakeholders are to feel and act positively towards a company, it will be in reciprocation for that company making a contribution to their lives" (Lewis 2001, p 35).

From a *utilitarian standpoint*, linking reputation to corporate profit may serve as proof of relevance of reputation for the firm. For example, Marconi (2002) claimed that "(r)eputations can affect the bottom line" (p XIII) and Herbig and Milewicz (1995a) cautioned that "(a)s reputation goes, profits follow" (p 10). Yet, neither the concrete value of corporate reputation nor its impact on corporate financial success could be satisfactorily substantiated empirically. Statistical techniques usually

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applied in empirical studies do not serve to untangle causal ordering: both, reputation and performance are produced by the same underlying corporate initiatives. So it is still true that "despite its obvious worth, the dollar value of a company's reputation proves difficult to quantify" (Fombrun 1996, p 85). The quest for reputation metrics is under way as evidenced by numerous chapters in this book but will not necessarily aid in stapling a price tag on reputation. But this by no means should imply that reputation cannot be measured. Measuring and monetizing are two very different animals.

Reputations may also be based on perceptions of the moral principles that appear to guide firm conduct, leading to a *deontological perspective* of reputation (which basically means that the moral content of an action is not wholly dependent on its consequences). In other words, reputation is a social construction that can be based on observations of the consequences of actions as well as on observations of the guides used to generate the actions. Good reputations can flow when observers see good effects flow from actions, and when observers see the focal actor adhering to sound principles. It may be assumed that deontological reputations are more highly valued than utilitarian reputations. That is, society rewards reputations that are based on moral grounds more than it values reputations that are based in receiving or distributing benefits (Mitnick and Mahon 2007).

Reputation aligns corporate behavior and determines the role firms (can) play in an ever-increasing diverse, demanding, and disillusioned society. What we aim for in reputation management is, according to Mitnick and Mahon (2007), a state of reputational optimality, or "reputational bliss," signifying a condition that ensues when all those who construct reputations of the firm hold positive affect toward it, and the firm itself uses a moral directive to guide its decision-making.

Then, again, what is reputation? There are manifold facets to this question, and there is a managerial and an academic approach answering it. For managers, corporate reputation is an asset, a competitive advantage, a resource, a value – in short: a driver of economic performance that, at best, should be measurable. Moreover, the reputation of their employer affects managers' work; their chances at securing high-potential job applicants in the "war for talent"; their own standing; their "resale" value in labor markets. Finally, reputation and its enhancement are also an ethical component for managers' daily work. They are confronted with the task of making ethically acceptable decisions while ensuring efficiency for their firms and shareholders which in return shape reputation. Hence, managers are targeting the utilitarian and the deontological aspect of reputation.

For academics, corporate reputation is first of all a phenomenon, a construct to be analyzed which needs to be defined, separated, taken apart, and reassembled. The aim is to achieve an understanding which will create a solid basis for managing the construct in a second step. Hence, the structure of our book: I first provide a foundation to understand what is and what creates a corporate reputation (*understanding*) and my co-editors will then present state-of-the-art approaches of managing corporate reputation (*acting*) in the next chapter. I will follow the footpath of academic researchers in order to find an answer to the question what constitutes corporate reputation. While there are numerous review articles on reputation (e.g., Barnett et al. 2006; Gotsi and Wilson 2001; Wartick 2002) that attempt to seize the construct, as yet no coherent theory on reputation has emerged and no consensus as to its definition could be achieved (Helm 2005, 2007; Highhouse et al. 2009; Mahon 2002). The profusion of research serves to bring to our attention the manifold facets reputation can have and highlights the complexity of the construct which addresses all stakeholders of the company, making it challenging to find a common core of reputation and to capture and steer it within a typical divisional organization.

"Defining reputation: what it really is" is devoted to provide an overview of current understandings of reputation. I will then proceed to separate reputation from other corporate associations, namely corporate image and corporate brand. In an attempt to properly dissect reputation, I will discuss its main components, determinants, and outcomes to explain how reputation evolves. A conclusion summarizes the main findings of the paper.

Defining Reputation: What It Really Is

Examining the morphology of the word "reputation" aids in understanding why it is an ambiguous term or complex construct to deal with. Originally, the term referred to an individual's character. The Compact Oxford English Dictionary (2008) defined it as (1) "the beliefs or opinions that are generally held about someone or something" and as (2) "a widespread belief that someone or something has a particular characteristic." Summarizing, reputation denotes "the estimation in which one is generally held" (Webster's Collegiate Thesaurus 1976, p 671). The debate in the literature as to how to define corporate reputation has led to conceptual confusion because different disciplines take an interest in reputation but not necessarily agree on terms and axioms of their analyses. So there is no common language. As Shenkar and Yuchtman-Yaar (1997) enumerated, "(i)n sociology, prestige is the preferred term, in economics, it is reputation, in marketing, image, and in accountancy and law, goodwill" (p 1361). Basically, a multi-disciplinary approach offers deep and novel insights and, therefore, valuable input for theory building (Shenkar and Yuchtman-Yaar 1997; Hatch and Schultz 2000; Mahon 2002) and a holistic understanding of reputation.

In the following, a number of definitions of reputation are cited in Table 1, sorted alphabetically by authors to illustrate the stage of the descriptive discussion on the construct. Moreover, the modules most often included in definitions will be extracted.

Condensing the elements of the definitions leads to the extraction of:

- Reputation being a *perception* (e.g., Fombrun et al. 2000a; Wartick 1992)
- A reference to a *time perspective* of the construct (e.g., Gotsi and Wilson 2001; Highhouse et al. 2009; Wilson 1985; Yoon et al. 1993) closely related to

Table 1 Selected definitions of corporate reputation

Author(s)	Definition of corporate reputation
Balmer and Greyser (2003, p 177)	Reputation is "formed over time; based on what the organization has done and how it has behaved"
Bromley (2002, p 36)	"Corporate reputation thus reflects a firm's relative standing, internally with employees and externally with other stakeholders, in its competitive and institutional environment"
Fombrun (1996, p 37),	"We define a corporate reputation as the overall estimation in which a company is held by its constituents"
Fombrun (1996, p 72)	"A corporate reputation is a perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all of its key constituents when compared with other leading rivals"
Fombrun et al. (2000b, p 242)	"A corporate reputation is a collective construct that describes the aggregate perceptions of multiple stakeholders about a company's performance"
Gotsi and Wilson (2001, p 29)	"A corporate reputation is a stakeholder's overall evaluation of a company over time"
Herbig and Milewicz (1995a, p 5)	"Reputation is the estimation of the consistency over time of an attribute of an entity"
Highhouse et al. (2009, p 783)	"Corporate reputation is a global, temporally stable, evaluative judgment about a firm that is shared by multiple constituencies"
Post and Griffin (1997, p 165)	"Corporate reputation is a synthesis of the opinions, perceptions, and attitudes of an organization's stakeholders"
Wartick (1992, p 34)	Corporate reputation is "the aggregation of a single stakeholder's perceptions of how well organizational responses are meeting the demands and expectations of many organizational stakeholders"
Wilson (1985, p 27)	"In common usage, reputation is a characteristic or attribute ascribed to one person (firm, industry, etc.) by another [. . .] Operationally this is usually represented as a prediction about likely future behaviour"
Yoon et al. (1993, p 215)	"A company's reputation reflects the history of its past actions [. . .] and affects the buyer's expectations with respect to the quality of its offerings"

- A reference to forecasted *future behavior* of the firm (e.g., Balmer and Greyser 2003; Herbig et al. 1994)
- An *evaluation* of a firm's characteristics (e.g., Gotsi and Wilson 2001; Herbig et al. 1994; Highhouse et al. 2009; Wilson 1985)
- A *stakeholder-dependency* of the construct (e.g., Post and Griffin 1997; Wartick 1992)
- An element of *reciprocity* (e.g., Wartick 1992)
- A reference to *corporate performance* (e.g., Bromley 2002; Fombrun 1996)
- And a reference to a firm's overall appeal or *benefit for the stakeholder* (e.g., Fombrun 1996)
- In its *competitive setting* (e.g., Fombrun 1996)

Approaches to classify definitions of reputation are scarce. Barnett et al. (2006) identify three distinctive clusters which they term "Awareness," "Assessment," and "Asset." One precondition for corporate reputation is that stakeholders – or, in more general terms, individuals – know that the firm exists ("Awareness"). Hence, many definitions interpret reputation as a perceptual construct. Wartick (2002) for instance clarified that "reputation, be it corporate or otherwise, cannot be anything but purely perceptual" (p 374). Therefore, reputation is subjective – but it should be clarified that in such a case, the construct in question is *perceived reputation*. Other authors conceive reputation as the aggregation of subjective cognitions of individual stakeholders (Fombrun et al. 2000a). Consequently, reputation is a collective or social phenomenon, or – putting it in psychological terms – a form of meta-cognitive knowledge that refers to what individuals believe to know about what others think.

A second focus on established definitions refers to the presumption that reputation relies on the attractiveness of the firm regarding diverse attributes ("Assessment"; Barnett et al. 2006). Mainly, this refers to the degree of fulfilling stakeholder expectations and needs within the different performance domains of a firm (inventing and developing; purchasing and using; producing and polluting; marketing and serving; financing and investing; contracting and collaborating; etc.) and the consistency of such fulfillment of expectations. The qualitative shape reputation takes (in the sense of "How is the reputation? What does it stand for?") results from stakeholders' perception concerning the firm's *ability and willingness* to perform according to stakeholder needs (Helm 2007).

From the perspective of the firm, the result of consistent fulfillment of expectations is the establishment of an intangible, economic asset ("Asset"; Barnett et al. 2006). Value generation through reputation management is boiled down to a financial performance indicator (Caruana 1997), although – as has been pointed out – the causal relationship between reputation and monetary success has remained ambiguous even after numerous attempts of empirical study. Empirical data show a correlation of the variables but do not prove the directionality of their relationship (e.g., Hammond and Slocum 1996; Sabate and Puente 2003; Sobol and Farelly 1988). It is clear that the value of reputation goes far beyond the financial numbers attributable to it.

Condensing the findings on the construct interpretations leads to describing corporate reputation as a stakeholder's overall evaluation of a firm (=*perceptual element*) in respect to its past, present, and future (=*time perspective*) handling of stakeholder relationships (=*stakeholder affiliation*) that reflects a firm's ability and willingness to meet stakeholders' expectations (=*reciprocity element*) continuously (=*corporate performance*) and describes the firm's overall appeal (=*benefit,* "*customer*" *value element*) to all of its constituents when compared with other firms (=*competitive advantage, asset*). Reputation is a perceptual collective construct (Fombrun et al. 2000b; Wartick 2002) – or a socially shared impression – that relies on an individual's perception of a public consensus about how the firm will behave in any given situation (Bromley 2002; Sandberg 2002).

Is there a plural for corporate reputation? The answer to this question is by no means just relevant in etymologic terms. Rather, it entails conceptual and managerial implications. Corporate reputation is a stakeholder-related concept, it is rooted in the aggregated perceptions of the firm's stakeholders (e.g., Bromley 2002;

Fombrun et al. 2000a). Whether all types of stakeholders base their perceptions of reputation on the same fundamental set of dimensions is a matter of substantial debate. Bromley (2000) argued that "(c)ommercial and industrial companies [. . .] have as many reputations as there are distinct social groups (collectives) that take an interest in them" (p 36), Riordan et al. (1997) claimed that "each of the various stakeholder groups relates differently to the organization and, thus, has a different perception" (p 401), Dowling (1994) advised that "(i)t is therefore good to use the plural – reputations – to remind yourself that different people hold different reputations of your organization" (p 7), Nguyen and Leblanc (2001) pointed out that "(t)he firm can have multiple reputations defined according to each combination of attribute and stakeholder" (p 228). Yet, there might be an underlying consensus, a general understanding as to what is the core of a reputation which is shared by all stakeholders of a specific firm (Helm 2007). As the study by Highhouse et al. (2009) implies, small numbers of experts can deliver generalizable judgments about a firm's reputation and the average importance assigned to different performance domains of a firm does not significantly vary between different groups of experts. However, it remains unclear whether the generalizability of reputation judgments also holds across different stakeholder groups who are not very familiar with specific companies, such as consumers (Highhouse et al. 2009).

Separating Corporate Reputation: What It Is Not

As related in the elephant-analogy,[1] individuals (according to their senses and motivations) will have different expectations as to a firm's activities in diverse performance domains and, hence, have different standpoints regarding a firm's reputation. The same can be said for researchers who not necessarily are concerned with a specific firm's reputation, but with the concept itself. They have different views as to where it begins and where it ends, according to the standpoint they take when initially touching the elephant.

Organizational behaviorists perceive strong links or overlaps between the three constructs: identity, image, and reputation; economists and accountants would see a resemblance between goodwill and reputation; marketing researchers consider constructs such as image, corporate brand and reputation to be closely related, if not synonymous. Researchers from other fields might investigate other similarities. While unable to cover them all, I – being a marketing researcher with a strong

[1]The analogy is this: there are four blind men who discover an elephant. Since the men have never encountered an elephant, they grope about, seeking to understand and describe this new phenomenon. One grasps the trunk and concludes it is a snake. Another explores one of the elephant's legs and describes it as a tree. A third finds the elephant's tail and announces that it is a rope. And the fourth blind man, after discovering the elephant's side, concludes that it is, after all, a wall. Each in his blindness is describing the same thing: an elephant. Yet each describes the same thing in a radically different way.

interest in organizational behavior – will attempt to clarify the relationships between corporate image, corporate brand and corporate reputation. For further reference on classifying and separating different related constructs see Barnett et al. (2006), Melewar and Jenkins (2002), Wartick (2002), and Westcott (2001).

In discerning reputation from *image*, I follow Balmer and Gray (1999), who suggested that image is an immediate mental picture that individuals conceive of an organization. In contrast, reputation is "formed over time; based on what the organization has done and how it has behaved" (Balmer and Greyser 2003, p 177). This means that reputation evolves as a result of consistent behavior that eventually creates trust. Middleton and Hanson (2002) also provided a cogent summarization of the image construct and define it to consist of "attitudes and beliefs about the company [. . .] held by the company's stakeholders [. . .] shaped by the organization's own communication processes" (p 4). Marwick and Fill (1997), as well as Nguyen and Leblanc (2001), explained that corporate image represents a dynamic portrait of a firm (and its products/brands) in the mind of a stakeholder that is mostly influenced by the firm's promotion efforts and, hence, may be altered relatively quickly. Image is a "firm-directed communicative act that conveys what an organization wants others to know about it" whereas reputation is "a consumer-controlled perception about an organization" (Stern 2007, p 220; see also Brown et al. 2006). Consequently, one possible criterion to separate image and reputation is *stability in behavior* which means that reputation requires consistent behavior over time (leading to a path-dependency) while images can be created and changed within a briefer period of time. The constructs also diverge in their *origin*: Image can be created by relying on corporate communication efforts so that image and reality may diverge (which is expected or tolerated by the stakeholders. Think of the Marlboro image, for instance). On the contrary, reputation is expected to reflect corporate reality and would be unveiled as sham or hypocrisy if it were otherwise. Reputation is built on the unsolicited communication between stakeholders, corporate efforts to "shape" reputation are dangerous regarding corporate credibility and authenticity. Hence, a very careful approach to reputation management is mandatory. A further distinction I see in the *carrier* of image/reputation: Whereas we ascribe an image to objects (e.g., brand image, product image), the term reputation should be reserved to describe a uniquely human phenomenon. This restriction is motivated by the assumption that – if reputation really relies on consistent behavior – such behavior logically cannot be exhibited by "things" or objects which cannot act. Who or what is unable to act autonomously and voluntarily and, hence, is unable to validate or disappoint expectations, cannot have a reputation and/or cannot be held responsible for not living up to it. This view is by no means shared by all researchers. Bromley (1993) for instance ascribed reputations to any kind of object: "Reputations (public images) are formed not only about people but also about other things – including organizations (corporate images), and commercial products and services (brand images)" (p 2). Yet, brands, products etc. are no actors as also seconded by Fournier (1998): "(a) brand may enjoy selected animistic properties, but it is not a vital entity [. . .] The brand cannot act or feel – except through the activities of the manager that administers it" (p 345). Hence, in my view, reputations are characteristics of humans, or groups of humans such as organizations and firms.

With reference to the *corporate brand*, similar distinctions are necessary. If a corporate brand is understood to denote a mental representation, an idea, or a stakeholder's perception of psychological meanings (Stern 2007, p 219) or "a collection of perceptions held in the mind of the consumer" (Fournier 1998, p 345) and corporate reputation is likewise understood as "perception about an organization" (p 220), the differences between the two constructs are subtle and hardly suited for discrete monitoring and steering by managers.

Ettenson and Knowles (2008) emphasized that "brand" and "reputation" are closely aligned but not the same. The main differences reside in the foci of the concepts: Brands are inherently "customer-centric"; they attempt to convey relevancy and differentiation of firms' offerings to customers. Reputation is "company-centric" and conveys legitimacy of corporate activities in respect to a wider range of stakeholder groups. Hence, a strong brand does not necessarily equate with a strong or good reputation (Ettenson and Knowles 2008). This means that reputation is a term that stands for what unites "good firms," whereas brand as a term stands for what differentiates firms in competitive settings. Ultimately, "business organizations must be both similar to and different from related businesses. By being different, they face less competition, and by being similar, they are considered legitimate" (Whetten and Mackey 2002). Reputation's role is that of "a precondition for people's willingness to do business with a company" (Ettenson and Knowles 2008, p 20). This argument misses an important point in that corporate brands also target a variety of stakeholders, not just customers, and stand for the entirety of corporate performances, not just the products and services offered. What differentiates the two concepts is the driving force behind them: Brands are inherently firm-driven and owned by the firm. With their corporate brand, the firm attempts to convey relevancy and differentiation of its offerings to customers and other stakeholders. Reputation is stakeholder-driven and conveys legitimacy of corporate activities and corporate conduct in respect to a wide range of stakeholder groups. Although oftentimes called a corporate asset, reputation is not completely owned by the firm but by stakeholders who formulate expectations toward a firm's conduct.

Dissecting and Reassembling Reputation: Where It Comes from and What It Is Made of

Where does (perceived) corporate reputation derive from? Basically, four *sources of reputational perceptions* can be extracted from the literature: the firm itself, the media, the individual's experiences, and others' communicated experiences. The first two sources will be dealt with extensively in later chapters of the book, so I would like to focus on the issue whether reputation is derived from a stakeholder's own and/or others' experiences. Shamma and Hassan (2008) found in their empirical analysis that knowledge from experience had the strongest influence on perceptions about corporate reputation, followed by knowledge from the media. MacMillan (2002) assumed that own experiences in interacting with the firm have the strongest influence on reputation. Still, he added that "(i)n many cases it has to be a combination of experience and publicity that must lead to the formation of reputational judgments" (p 383). Mahon (2002) also accepted both possibilities and claimed that "for some stakeholders the reputation is a clear result of direct experiences [. . .]. However, many stakeholders will not have direct experience with the firm or industry, so that when an issue arises, they will rely on others to supply information about the reputation of the firm and the industry" (p 431). Caruana (1997) added that "(r)eputations can be formed even when the experience by a public is not direct as long as this is passed on either directly through word-of-mouth, or indirectly via the media or other publics" (p 110). While own experiences might be essential in developing trust, experiences communicated by others might be essential to perceive reputation. According to Emler (1990), reputation is rooted in the individual's capacity to learn from others' experiences, in "the capacity for individuals to become informed about their societies without relying on their direct personal experience alone" (p 177). This debate on the origins of reputation has implications for conceptualizing and managing corporate reputation: current approaches to measure and monitor reputation often rely on surveys of stakeholders who might report on their own experiences or on those that they believe others to have (meta-cognitive interpretation of reputation). Furthermore, in order to understand how fragile a firm's reputation is, one needs to find out whether stakeholders rely on their own experiences (which are built one-on-one in direct contact with the firm) or others' experiences (which are shared online, via the media, etc.).

Besides the origin of perceived corporate reputation, the *components of the construct* can be dissected which might be stakeholders' perceptions of the firm's credibility/authenticity, reliability/sustainability, responsibility/accountability, trustworthiness, and competence. Most of these factors are already mentioned by Fombrun (1996) in what he termed a "reinforcing network of factors" determining reputation (p 71). Davies et al. (2003, p 60) added that these components are of differing relevance to stakeholders: trustworthiness is most important for employees, credibility for investors, reliability for customers, and responsibility for the general public. One might also add that all of these components are notoriously hard to manage.

Herbig and Milewicz (1995b) differentiated reputation and credibility as follows: "credibility is the believability of the current intention; reputation is a historical notion based on the sum of the past behaviors of the entity" (p 26). Not necessarily do both concepts exist in parallel: "A firm can have a horrible reputation but be totally credible (as long as it is consistently bad!)" (p 27). Hence, reputation can be good or bad as it "is essentially an ethical evaluation, and must therefore permit the attribution of negative (undesirable) characteristics" (Bromley 2002, p 38). Other authors (e.g., Herbig et al. 1994) reduced the set of building blocks of reputation to two *dimensions*: competence and trustworthiness. Competence can be defined as *ability*, and more specifically, the sustained coordinated deployment of assets and capabilities in ways that help a firm achieve set goals (Sanchez et al. 1996). In this respect, Brown and Dacin (1997) used the term "corporate ability" which relies on corporate know-how and skills. Contrarily, trustworthiness relies on a firm's *willingness* to honor trust bestowed upon it and to adhere to explicit as well as implicit agreements. Both components have been integrated in the definition of reputation I provided above – reputation is understood to reflect a firm's ability and willingness to meet stakeholders' expectations. Both dimensions are complementary. When not aligned, reputation becomes indeterminate – then, reputation is (temporarily) built on incompetence or fraud (opportunistic behavior). As Darby and Karni (1973) pointed out, efforts to reduce incompetence or occurrence of fraud in order to improve or re-establish reputation lead to unequal social (and private) cost. The first mentioned approach, reducing incompetence, requires investment in, e.g., education, instructing, training of personnel, whereas reduction of fraud does not require investment of resources, but simply a decision to not act fraudulently or to end deception. Hence, honest behavior always results in social profit, whereas improving competence is profitable only if increased benefits exceed the cost incurred. From a micro- and a macro-economic perspective, as well as the utilitarian and deontological views, constitution of reputation by enhancing trustworthiness then is more desirable than improvement of competences.

Most literature dealing with the construct reputation does not fail to outline the positive *consequences of achieving a high reputational status* (Caruana 1997). Such favorable outcomes include ease of acquiring new and retaining current customers, capitalizing on customers' augmented willingness-to-pay, ability to attract and keep the best workforce, gain access to capital markets, all of which result in improved financial performance and corporate success (Caruana 1997; Caruana et al. 2006; Fombrun and Shanley 1990; Helm 2007; Thevissen 2002). Fombrun and Wiedmann (2001a, p 5) likened reputation to a magnet that draws representatives of the different stakeholder groups to the firm. While intuitively plausible, these presumed correlations rarely are subject to empirical verification (Chun 2005) or analyzed as to their causal coherence. Research is still mostly engaged in conceptualizing the core construct of reputation, to a lesser extent in embedding it in a nomological network including drivers, consequences, and moderators of reputation and its relationship to determinants and outcomes (Money and Hillenbrand 2006).

For good measure, I would like to highlight one often-claimed outcome of a good reputation as it is also closely related to the proverbial challenge to attain or retain a good reputation and the fragility of the painstakingly nurtured and protected reputation. Henry Ford is credited with the declaration that a good name, like goodwill, is achieved by many actions but lost by just one, and reputation literature also likes to mention Warren Buffet's appeal to his employees that "It takes 20 years to build a reputation and 5 min to ruin it. If you think about that, you'll do things differently." Academics sing from the same hymn sheet and claim reputation to be a most fragile resource as "it can be damaged easily" (Hall 1993, p 616). Davies et al. (2003, p 99) warned that "(c)orporate reputations are constantly in danger of being eroded, damaged, dented or even destroyed." From an academic standpoint, a lack of empirical evidence concerning this readily agreed upon fragility of reputation has to be diagnosed. Practice shows that a good reputation leads to better chances in overcoming crises as reputation serves as a sort of "buffer" or "safety net" (Fombrun et al. 2000a, p 89). Hence, stability of the firm depends on the stability of its corporate reputation. Opposing the "one blow destroys it all" view of reputation erosion, Thevissen (2002) likened reputation to a sand dune: firms with a good reputation have accumulated it during many years just like a sand dune steadily grows by many tiny grains of sand blown in by the wind. A big sand dune cannot be ablated by the wind as quickly as a small one. Now, a crisis such as bad media coverage or a product recall resembles a strong wind that takes away the uppermost layer of sand first, leaving untouched the lower layers and the core of the dune (the historical values of the firm). Likewise, reputation can be interpreted as a reservoir which in times of crises can serve to extinguish a raging fire (Fombrun and Wiedmann 2001a, b). Possibly, reputation is more resilient than implied by most of the literature. It is one task of reputation management to build and safeguard corporate reputation in order to be able to profit from it in times of crises.

Conclusion

Interest in corporate reputation has surged during the last decade, mostly due to declining trust of stakeholders in corporate aims and actions. Many consider reputation as one of the most important gauges to steer a company's future. Hence, taking a stakeholder-value perspective and a utilitarian view, reputation is important because of the profit potentials it offers. But reputation also is a reflection of the moral principles our economies and corporations adhere to and therefore also relevant from a deontological perspective.

As I pointed out, there is as yet no converging theme or consensus on definitions concerning this construct. A holistic understanding of *perceived corporate reputation* was suggested by defining it as a stakeholder's overall evaluation of a firm in respect to its past, present, and future handling of stakeholder relationships that reflects a firm's ability and willingness to meet stakeholders' expectations continuously.

Corporate reputation needs to be evaluated from stakeholders' point of view and rely on the media, corporate communications, stakeholders' own and their shared experiences which are communicated in the diverse marketplaces the firm acts on. Reputation can be differentiated from corporate image and the corporate brand. Reputation consists of a number of components, or dimensions, of which I discussed competence and trustworthiness in more detail. From a firm's viewpoint, a good reputation leads to numerous favorable outcomes although empirical evidence on the relationship between (perceived) reputation and the outcome variables, such as customer acquisition, capital gain, profit, safeguarding from crises, etc., is sparse. Hence, more research is needed to understand the functioning of reputation in marketplaces in order to provide a more solid foundation for managerial action in the domain of reputation management.

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Reputation Management

Kerstin Liehr-Gobbers and Christopher Storck

Six basic ideas about managing corporate reputation:

- It is reputation that drives corporate value in the first place
- Corporate value depends on the behavior of various stakeholder groups
- Reputation management aims at creating shared interests with stakeholders
- Stakeholder perception is generated by every member of an organization
- Building and protecting the right reputation is a fundamental part of leadership
- Reputational goals need to be linked to corporate strategy

In July 2010, the results of the European Communication Monitor illustrated that corporate communication was facing a game change. The 1,863 communication professionals from 34 European countries who took part in the survey saw a priority shift. They expected enabling managers to engage employees in corporate strategy and drive organizational change to become their key assignment. Apart from that, CSR and sustainability were seen as the most important disciplines within corporate communications by 2012.

This new paradigm in professional communications could be anticipated at the turn of the century. The Internet became a mass medium. Economization was on the way to penetrate every aspect of life – even in developing countries. So did globalization: what Western elites had started was going to bounce back to their societies. NGOs and activist groups were on the move from do-gooders to powerful influencers in business and politics around the world. Foreseeing the consequences of these developments resulted in professional services firms combining management and communication consultancy. They were set up to enable corporations to meet the challenges of a dramatically changing business environment.

As of 2006, these changes were fueled by another trend. A generation entered the stage whose members learned to use a computer before they could read or write. They found a new way to use the Internet: as a platform for social interaction. The result is highly volatile groups of people driven by shared interests. Groups of people that can act locally as well as globally. And what is even more disturbing: the inhabitants of the blogosphere create news as much as they consume them.

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In such an environment, corporate communications need to do more than just relying on messages picked up by traditional media. The various groups that can influence the success of an organization ask for dialog and personal engagement. Stakeholders deploy the new interactive tools on the Internet to increase speed, reach and impact of their activities. Platforms such as Facebook or Twitter not only support existing social networks, but they also help to develop and grow new communities that not necessarily remain virtual. All of them communicate all the time, either with an organization they take interest in or about it. It is like joining the local pub group or staying at home.

Since 2008, the economic crises brought about additional challenges corporate communicators need to deal with: the failure of unregulated capitalism prepared the way for a return of the state. The lay-off of hundred thousands of employees by top executives, whom the public regards as absurdly overpaid, transformed corporate responsibility into a prerequisite of financial success. Companies who want their stakeholders to prolong the social license to operate have to fulfill growing demands for sustainability and ethical business behavior.

Accordingly, corporations are facing new challenges. They need to find ways to interact more effectively with more stakeholder groups. Reputation has become a prerequisite for an organizational success. It is reputation that makes a product or services portfolio valuable. What determines the price at which a company can sell a good? Production costs, material value or product quality in itself? Most price premiums can only be explained by how customers perceive the value the product will bring to them, and this is driven by reputational aspects. Quality may be one of them; business ethics and social responsibility are others.

If reputation is the key driver of corporate value, managing it cannot be restricted to the communications department. It is a matter of leadership. Holding leaders across an organization accountable for it, however, asks for new approaches to plan, steer and evaluate communications.

The process of finding such new approaches starts with a simple question: what is the purpose of corporate communications? Building “a good media image” or “a strong corporate brand” is definitively not the right answer. Nobody will deny that both are desirable. But is this what a company or institution wants to achieve through organizational communications? And even the fashionable answer “We want to build and protect a strong reputation” is not really clarifying but provokes a new question: what does reputation stand for? The following answer has the advantage of being practical:

Reputation is the collective perception of a company or institution through its stakeholders. It is the result of an exchange of personal and conveyed experiences between the organization, its stakeholders and third parties over time. In this, stakeholders are all groups that can influence the success of an organization through their behavior – immediately or on the long run, directly or indirectly.

On the basis of this, defining the purpose of organizational communications is easy. It aims at influencing stakeholder perceptions and expectations in such a way that these groups recognize shared interests with the organization and act accordingly. It is about making sure that stakeholder behavior is as much as possible in tune with the goals of the organization. In other words: developing and protecting reputation aims at securing the willingness of internal and external stakeholder groups to cooperate. This is how communication creates value for a company or institution: through impacts on stakeholders' minds leading to maximum cooperation leading to the achievement of strategic goals.

But who are these stakeholders? Which groups need to be taken into account? What does the organization want them to do? Or not to do? And what will be the benefit of this behavior? Some obvious examples:

- *Consumers* shall buy more of our products, make increased use of our services, pay a higher price.
- *Retail partners* shall list more of our products, give us more shelf space, sell more of our goods by preferably recommending them to customers.
- *Suppliers* shall provide better services at lower costs.
- *Capital market players* shall invest more in our organization, pay a higher price for our shares and bonds, provide credits at lower costs.
- *Employees* shall be more productive, show more initiative, take more responsibility and stay longer in our organization.
- *Future talents* shall apply for jobs on their own initiative and are motivated by reasons other than payment and social benefits.
- *Local communities* and *NGOs* (including labor, social, environmental or animal rights activists) shall be willing to enter and maintain dialog with us – in order to increase cooperation and at least listen to us in situations prone to conflict.
- *Policy makers* and *regulators* shall consider the needs of our organization to a higher degree in legislative or regulatory processes.
- Professional mediators such as *journalists* and *financial analysts* shall increase the picking up of our key messages while limiting criticism to fact-based coverage.

Who can make all of these happen? On its own, the corporate communications department can deal with the media – online and offline. But in how far does this help us to manage stakeholder expectations and strengthen the reputation of our organization?

A master thesis at the University of Düsseldorf in 2008 has examined which correlation between the development of a reputation and media coverage can be proven statistically in the case of a pharmaceutical company in the US and four European countries. The development of the reputation was measured through a survey among 2,000 stakeholders of nine different groups that was repeated 1 year later. The media analysis was based on more than 4,500 articles on the industry that appeared in the 12 months between both survey waves.

The study revealed that an influence between media coverage and corporate reputation was only clearly detectable with three stakeholder groups: with nongovernmental organizations, university graduates and pharmacists. The perception and behavioral intentions of six other groups were seemingly not affected by what was written in top-tier and business media.

The interesting thing is that these groups – business partners, competitors, healthcare policy makers, investors and financial advisors, medical doctors and patient associations – have one thing in common: they have a privileged, direct access to pharmaceutical companies. In contrast to those NGOs, graduates and retail pharmacists are very similar to the general public in the way how they inform themselves about the industry. The study arrived at the conclusion that the more other touch points with a company a stakeholder group has, the less influence does media coverage exert on the development of corporate reputation.

In other words: Experience and dialog have a higher influence on stakeholders' perceptions of a company than communication via media channels. It is therefore essential to complement media relations through platforms for direct contact with stakeholder groups.

This does not mean that corporate communications cannot create value for businesses and institutions. But it clarifies that the reputation of an organization cannot be managed by the communication department alone. It is a task every member of the organization is responsible for. So who is ultimately accountable for it? The leadership.

This is why accepting the challenges of the age of the stakeholder brings with it a great opportunity for corporate communications to expand its range of activities through higher business integration. The key to this is cooperation with other communication disciplines and corporate functions. Some of them have already been initiated. For example:

- With the HR department for employer branding
- With the legal- and M&A office for mergers and acquisitions
- With investor relations for IPOs, bond issues and other ECM activities
- With the CSR department for sustainable communications
- With public affairs for agenda setting regarding politics and regulatory bodies
- With the top management for internal communications

Corporate communications can effectively support initiatives of this kind, as long as it is integrated in the strategic process of an organization. This is the key to determining the value creation of reputation management.

Everything starts with translating corporate strategy into projects the corporate communications department can drive or support (see "How to manage reputation", Part IV). Tracking the progress of such projects and evaluating their impact asks for more and better measurement (see "How to measure reputation", Part III).

Part II
Approaching Corporate Reputation

Overview

Sabrina Helm, Kerstin Liehr-Gobbers, and Christopher Storck

The articles in this part of the book lay the foundation for understanding, analyzing, and managing corporate reputation.

Liehr-Gobbers and *Storck* introduce this chapter by focusing on the concept of corporate reputation. They describe the shift from shareholder to stakeholder value as well as the added value of reputation resilience using the Vioxx case of Merck & Co. as an example and refer to the importance of taking the different reputation aspects into account before stakeholder perceptions can be managed.

In his article "*Reputation – A Sociological View*" author *Stephan Voswinkel* explains how human beings have a need for recognition – those individuals who are recognized by many others simply stand out. Recognition, however, loses its taken-for-granted status in modern societies. Everyone can claim legal recognition. But not esteem, esteem must be earned because it is assigned to somebody depending on accomplishments. As Voswinkel clarifies, reputation is one kind of esteem that is acquired and conferred for a limited time, for a specific quality or achievement, and has public validity. That is why reputation functions as capital and, as such, must be cultivated to yield additional revenues. This also explains why building and cultivating reputation are the focus of strategic management action. However, individuals as well as organizations can influence their reputation only in very limited ways as the formation of reputation involves a range of actors some of whom strive to damage the reputations of others. Because reputations are acquired and shaped they are open to mistrust as everyone is aware that the image one projects of oneself is not merely the result of what one "authentically" is but also of how one stage-manages oneself. Voswinkel transfers these general considerations to organizational reputation management. Profit-seeking organizations cannot function in a purely market-driven way but must take moral relations into consideration if they want to safeguard their legitimacy. As Voswinkel reminds managers, organizations are assigned higher levels of responsibility than individuals and reputation is always open to mistrust, meaning that management activities must be continually subjected to reputation tests. The media vie for attention and provoke scandals by exposing compromising material. Companies that want to be recognized for moral excellence and to build a corporate identity with a pronounced

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moral profile are exposed to especially high levels of risk because they easily inspire mistrust. With this observation, Voswinkel challenges reputation managers: Someone who wants to stand out in a positive way runs the risk of being more thoroughly scrutinized and examined whereas someone who does not stand out has a good chance of remaining unnoticed and shielding himself against harm to his reputation.

Corporate reputation is increasingly viewed as a behavioral process, which must be built from within and integrated across the organization, as *Nuno Zarco da Camara* expounds in his article "*Identity, Image and Reputation*." The rise of corporate brand management in highly competitive markets emphasizes this observation. In his article, da Camara explains the subtle differences between important constructs, i.e., identity, image and reputation and examines their operation and co-existence. The author defines corporate identity as the internal culture, values and behavior of an organization, as well as its visual appearance. In contrast, image is what a firm is perceived to be and represents the sum of an individual's beliefs, ideas, feelings and impressions about an organization and results in the set of meanings through which people know, describe, remember and relate to an organization. Reputation reflects an organization's internal and external behavior and its relationships with all stakeholder groups over time. Da Camara points out that any attempt to understand the interrelation between identity, image and reputation must focus ultimately on the relationship between internal and external stakeholders in organizations as the internal–external stakeholder interaction is at the heart of reputation building. The author points out that reputation building is most successful when it starts from within and repeatedly fulfills the expectations of (external) stakeholders and is most visibly influenced by the interaction between employees and customers. This mandates that organizations need to understand and manage the impact of internal behavior on the perceptions held by external stakeholders and to align corporate identity with image and reputation as much as possible. He warns managers that reputation should not be managed by public relations or corporate communications functions, but to embed reputational concerns in core business functions and integrate data from all stakeholder groups in a holistic reputation management strategy.

The dynamics and internal roots of reputation are also emphasized by *Claudia Fisher-Buttinger* and *Christine Vallaster* in their article "*Corporate Branding and Corporate Reputation – divided by a shared purpose*?" Increasingly, corporate reputation as well as corporate branding address the entire universe of internal and external stakeholders what raises the question whether a separation of corporate brand and reputation is possible and relevant. Analyzing both concepts in their development, the authors explain how corporate reputation management has long enjoyed an open ear with top management while, by contrast, branding was historically the domain of marketing managers. However, as the authors illustrate, more recent and ongoing social, political, and economic dynamics led the once clear boundaries to erode; reputation and corporate branding started to invade each other's territory. The authors suggest to not define or create artificial and impractical boundaries between the two disciplines and territories, but to instead focus on how reputation management and brand management can work together in order to make an organization successful. Offering many insightful examples from different industries, Fisher-Buttinger and Vallaster discuss the broadening of the strategic purpose and goals of both concepts in building meaningful relationships with key stakeholders with the ultimate goal to drive competitive advantage.

With their article on "*Reputation in Relationships*," authors *Kevin Money*, *Carola Hillenbrand* and *Steve Downing* respond to concerns with regard to existing measurement tools for corporate reputation, many of which lack through theoretical conceptualization and clear reports on statistical properties, the research methodology utilized, the process of scale construction, and the modeling applied. As topical issues concern stakeholder groups differently, and are likely to have varying levels of importance for different stakeholders, such insight gets lost in traditional rankings of reputation. The model introduced by Money, Hillenbrand and Downing deals with these concerns and focuses on reputation in a particular stakeholder relationship. The application of structural equation modeling allows for prioritizing which aspects of reputation are likely to make the most impact on stakeholder behavior. The model integrates (a) customer perceptions and experiences of business behavior, (b) customer feelings of trust and commitment, and (c) customer-intended behavior towards a business. With this approach, it is emphasized that reputation is not an end in itself. Rather, it aims at fostering favorable stakeholder behavior which can directly influence the financial performance of firms in terms of shareholder value. Therefore, the authors' approach has the potential to be used as a tool by management to improve the performance of the firm.

How to Approach Reputation

Kerstin Liehr-Gobbers and Christopher Storck

In late 2003, a survey among 1,500 members of the World Economic Forum showed that business leaders worldwide regard reputation as a more important criterion for the success of a company than its share price development, profitability, and return on investment. Only the quality of products and services was assigned a higher value (Australian Institute of Company Directors 2004).

The recent financial market crisis clearly shows how close the link between the value and reputation of a corporation really is. If investors are lacking confidence in corporate management, even good fundamental data are not enough to stabilize a company's share price. If risks are not transparent, strategic investors drop those companies that are missing a trust-building reputation – with the result of speculators taking over.

The case of Merck & Co. (outside North America known as Merck, Sharp & Dohme, MSD) shows that this mechanism also works vice-versa. When the company was forced to take its painkiller Vioxx off the market in October 2004, the then second-largest pharmaceutical corporation worldwide seemed to be doomed: It was accused of having intentionally ignored dangerous side effects of its popular "Super Aspirin." Claims for damages worth 30 billion USD were filed. Merck & Co. was not able to keep out of negative headlines for a year. Its share price dropped drastically; the CEO resigned; thousands of employees were laid off; Merck & Co. was regarded as a take-over candidate. An international survey showed that Merck clearly fell behind its main competitors in the perception of 1,540 key stakeholders of the pharmaceutical industry.

Yet, the results of surveys among ten stakeholder groups in 2005/2006 (in four countries), 2006/2007 (in seven countries), 2007/2008 and 2008/2009 (in thirteen countries), commissioned by another pharmaceutical company, unveiled: The poor perception of Merck & Co. did not apply for all reputation dimensions. Answers to open-ended questions showed that some stakeholder groups, such as medical doctors and NGO representatives as well as financial analysts and fund managers, still valued Merck & Co. by putting things into perspective: "It really is a good and responsible company," "The quality and safety of products has always been

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high-level," "The management has reacted quickly and has well-managed the company through the crisis."

Such views were marginalized by the massive media coverage for years. Yet, the asset of potential supportive behavior developed through the company's history could not be annihilated. At the end of 2007, the reputation strength of Merck & Co. was back above industry average in the 13 most important pharmaceutical markets – being also reflected by the company's recovery in the equity market. In 2008, Merck & Co. became one of the active members in the industry's consolidation. This development contradicts Warren Buffet's oft-quoted statement that "it takes 20 years to build a reputation and 5 min to ruin it." The reputation of Merck & Co. proved to be more sustainable than the negative media image which threatened the company for a year.

By now, even former icons of the shareholder value concept, such as Jack Welch, condemn the one-sided focus of corporate policy on the interests of investors with an increasingly short-term investment horizon (Welch 2009). The renaissance of the stakeholder value model as part of a social market economy is obvious.

According to this, the value creation of a company results from the largest possible correspondence of the interest of all stakeholder groups that do or can impact corporate success. Balancing their often diverse demands is the aim of economically focused reputation management. What does this mean?

Although definitions still vary widely, academics and practitioners agree that reputation is a perceptual phenomenon – emerging from stakeholders collective perceptions of an object over time. It can be formed by exchange of personal and conveyed experiences between the reputation object, its stakeholders, and third parties (Liehr-Gobbers et al. 2009a).

Reputation can be assigned to companies or institutions, groups or individuals based on their words and actions. Here, we want to approach the concept of corporate reputation.

The more products and services resemble each other in the course of globalization, the more important corporate reputation gets as a differentiating means. Via reputation, companies develop the potential support with stakeholders they need to achieve business success and maintain their social license to operate with. This is the case, for example, if customers are willing to pay a higher product price or if a company enjoys such high social acceptance that closing an uncompetitive production site does not lead to a boycott campaign (Zerfaß 2007).

In order to explain the role of managing corporate reputation, one should take a short look at the concept of the corporate brand:

- A corporate brand determines what an organization wants to be and how it would like to be perceived by its stakeholder groups (inside-out).
- The intention is to strengthen the motivation of all stakeholder groups to behave in a way that is beneficial to achieving corporate goals.
- It describes a condition the company wants to attain. Its task therefore is to promote the necessary organizational change.

In essence, corporate brand is company-made and reflects how an organization wants to be perceived by its stakeholders whereas image and reputation are built by stakeholders' perceptions about an organization (outside-in).

However, while the corporate image represents a snapshot of an individual stakeholder only, corporate reputation is the collective and relatively stable perception of stakeholder groups over time.

Brand	Reputation	Image
self image	public image	=
controllable	influenceable	=
=	stable	volatile
=	long-term	short-term
=	collective	individual

The interplay between brand, image, and reputation

Usually, reputation aspects are not limited to a company's brand aspirations. Stakeholder perceptions go beyond company-specific brand dimensions. Research has shown that corporate reputation exists along a multiple set of dimensions such as Quality of Products & Services, Innovativeness, Corporate Responsibility, Ethical Behavior, Employer Attractiveness.

The relative importance of each of the dimensions for a company's overall reputation depends greatly on the organization, its business, operations or sector (industry reputation).

Interests of stakeholders differ from group to group which is the reason why they focus on different priorities in assessing a company. Financial analysts, for example, may focus more on financial performance, and NGOs on corporate responsibility. However, survey results showed that both reputation dimensions affect each stakeholder group's behavior toward an organization, which results in either improvement or impairment of investment intention and the social license to operate. Accordingly, the reputation of a company can vary from stakeholder group to stakeholder group. Furthermore, international studies have shown that corporate reputation does not only vary from stakeholder group to stakeholder group but also from country to country.

Perceptions are realities to stakeholders who engage with a company. Therefore, perceptions on these different levels must be recognized and understood before they can be managed and leveraged.

The following questions need to be answered:

(a) Which stakeholders can influence the successful implementation of a corporate strategy?
(b) Which behavior of these groups is essential for reaching business goals?
(c) What kind of perception of the company promotes such ideal behavior?

(d) How do stakeholders currently perceive the company?
(e) Which messages does the company need to convey in order to close gaps between the actual and desired reputation?
(f) Via which channels/platforms and through which means can these messages be conveyed? Liehr-Gobbers et al. (2009b).

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Reputation: A Sociological View

Stephan Voswinkel

Introduction

Imagine that you had overslept and did not have enough time for breakfast. For you must hurry if you want to be sure to make a particular flight in order to arrive on time for a meeting. However, your meeting will not be a success on an empty stomach. So on the way you make a quick stop at a snack bar to get something for the trip. The owner has some stale sandwiches behind the counter and takes advantage of an inattentive customer who is obviously in a hurry by slipping one of them into your bag. In so doing, he is undoubtedly acting rationally.

There is a well-known statement by Adam Smith: “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.” (Smith 1963b: 21f.)

Here in his first major work, the *Wealth of Nations*, Smith emphasizes the advantage of the free market, namely, that both the common good and the individual good of customers are satisfied insofar as all participants in the market pursue their own interests. It is the “invisible hand” of the market that takes the place of morality – and is more effective than the latter. But in our example it is *you* who end up with the stale sandwich because the owner has pursued his own interest.

However, in his second major work, *The Theory of Moral Sentiments*, Adam Smith defended a further thesis. According to this, human beings also aspire to being viewed with respect and goodwill in the eyes of others, and in particular in those of an impartial spectator. This places restrictions on their pursuit of their self-interest and forces them to accept rules of fair play.

“In the race for wealth, and honors, and preferment, he may run as hard as he can, and strain every nerve and every muscle, in order to outstrip all his competitors. But if he should jostle, or throw down any of them, the indulgence of the spectators is entirely at an end. It is a violation of fair play, which they cannot admit of.” (Smith 1963a: 141)

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In order to understand Adam Smith's position correctly we must combine both theses: the market ensures that a large proportion of human needs are satisfied out of self-interest without any need for morality; and the need for recognition sets limits to the pursuit of self-interest. One gains recognition when one observes the values and norms on the basis of which recognition is granted in a society, a community, or a group. Thus, if our snack bar owner fears that his conduct could jeopardize his reputation because it violates the norm that one should not exploit the inattentiveness of a customer who is under time pressure, then as a customer in a hurry you can be confident that you will not receive a stale sandwich, or at least not at the normal price.

Smith's view supplemented the idea of "*doux commerce*" that was widely accepted at the time. It held that, by orienting their actions to the pursuit of their own interests, people would contribute to pacifying society by civilizing the passions, foremost among them the thirst for glory (Hirschman 1977). And Smith can be understood as asserting that the "passion" of self-interest is reined in by the striving for recognition.

In what follows, I will first show that the striving for recognition contributes to embedding the economy in the normative structures of society and that it connects the development of human beings' identities with the criteria of recognition operative within society. The criteria governing the acquisition of reputation in modern society are less precise in comparison to "honor" as a mode of recognition; moreover, reputation functions as capital in which investments must be made. However, it is subject to mistrust, something which must be counteracted through institutionalization. Intermediaries such as the mass media play a key role in the development of reputation. The acquisition of reputation is especially important for companies; they are assigned responsibility but in comparison to individuals they also have greater leeway in cultivating their reputation. In this regard they are confronted with a range of environments in relation to which they must manage their reputation, an activity beset with risks.

The Normative Embedding of the Economy

Adam Smith can be understood not only as the classical thinker of economic liberalism but must also be seen as a theorist of the normative embedding of the economy. According to this theory, the rational, economic pursuit of self-interest must be embedded in a social and economic normative order, for only in this context human beings can satisfy their need for recognition. Such a conception presupposes, however, that recognition is not conferred by economic success alone. For then wealth and recognition would coincide and no other reference point for recognition would exist that could set limits on the pursuit of wealth.

We can distinguish between two kinds of "embeddedness." In the premodern form of embeddedness, the economy is not separate from morality and an economy that develops in accordance with its own logic, as well as action governed exclusively by economic rationality, is viewed as morally reprehensible (Polanyi 2001). With the rise of modern society, the economy becomes differentiated as an autonomous system and economic action is no longer subject to political, religious, or other moral principles. The theory of embeddedness stresses that even now the economy is not fully autonomous. Rather, a form of exchange takes place between the economy and other systems or value spheres that is called "interpenetration" in the theoretical tradition that goes back to Talcott Parsons (Münch 1994).[1] Richard Münch uses the example of "professional labor" to clarify what this means. It is true – and this is what is meant by the functional differentiation of economics and morality – that "someone who does good. . .does not automatically become wealthy as a result, and someone who does bad does not necessarily become poor" (Münch 1994, 390). Nevertheless economics and morality influence each other, in that economic success is not admired without further moral qualification and, on the other hand, honesty is not praised unless professional conduct also takes economic considerations into account. Someone who acquires greater moral respect can extend the scope of his economic activity and someone who is more solvent can buy more respect (Münch 1994, 406).

Recognition cultures differ in how this relation between economics and other value spheres is configured – between different countries, different historical eras, and different professions and industries. The current discussion in Germany concerning the appropriateness of managers' salaries provides an illustration of the embeddedness of an economic phenomenon in a particular order of legitimation. For if the social recognition of managers were measured by economic criteria alone, their salary levels would not be shrouded in secrecy and certain political actors could not be confident of inducing greater restraint by disclosing the salaries earned by managers. In that case wealth alone would ensure honor and it would translate directly into social recognition.

Recognition and Identity

Adam Smith already formulated an understanding of the development of identity that later became influential in sociology. In *The Theory of Moral Sentiments*, he writes: "We endeavor to examine our own conduct as we imagine any other fair and impartial spectator would examine it" (Smith 1963a: 189). Each individual sees himself in the mirror held up by others. This mirror "is placed in the countenance and behavior of those he lives with, which always mark when they enter into, and when they disapprove of his sentiments; and it is here that he first views the propriety and impropriety of his own passions, the beauty and deformity of his

[1]That is by no means obvious. For authors such as Mark Granovetter (1985), who in essence founded the new sociology of the economy by drawing on the conception of embeddedness, at first expressly rejected Talcott Parsons' theory. Here, I would refer to the argument of Jens Beckert (2002a).

own mind" (Smith 1963a, 190). We encounter this "impartial spectator" again in George Herbert Mead (1934) as the "generalized other." A human being judges himself by viewing himself as others would view him. He learns how others respond to his behavior and they show him how they regard him and how they judge his behavior. At the same time, he develops his relation to himself in confrontation with these others. He has the experience that different people in his environment expect different things of him and judge his behavior differently. The further he ventures beyond the narrow family circle and the more diverse the social circles in which he moves become, the more he is required to develop his identity by coming to terms with the recognition and the disrespect of others. He has to determine for himself the basis on which he wants to be recognized and whose recognition he rejects. In the process he increasingly takes his orientation from values and norms that are independent of the evaluations of other individuals. At the same time, the others also base their evaluations on general evaluative and normative standards of which he becomes aware as supra-individual generalized criteria of recognition ("generalized other"). The individual now develops in addition personal traits and modes of conduct that he regards as distinctive of his identity and for which he demands recognition from his environment. This, at any rate, is how we imagine the successful development of an identity, namely, as a balance between fulfilling the criteria of recognition of others and of society in general and the development of a distinctive individual identity (Krappmann 1982). In this way, the recognition criteria prescribed by society and by the various social environments are integrated into the identities of subjects in ways tailored to their specific situation.

Relations of authority also develop in the course of this process of identity-formation based on human beings' need for recognition (Popitz 1992). For if the recognition of one human being is especially important for another, then the latter will endeavor to acquire that individual's recognition in particular. Since recognition is not merely a dual relationship between two subjects but circulates within a constellation of actors, those individuals who are recognized by many others stand out. Their recognition becomes especially important for many others. This is how authorities are formed and reproduced and how actors acquire influence as potential sources of recognition.

Reputation as a Form of Recognition in Modern Society

Recognition loses its taken-for-granted aspect in modern, functionally differentiated, and individualized societies. Honor as a form of recognition laid down precise criteria for conduct worthy of recognition, self-esteem was directly linked to the esteem of others and the satisfaction of precise criteria of recognition, individual peculiarities could not expect to meet with recognition, and no distinction was made between recognition for fulfilling role requirements and esteem for the person. What this involves can be made clear by a reading of Theodor Fontane's

1895 novel *Effi Briest*. Effi's husband, the officer Instetten, feels betrayed by his wife. He feels compelled to challenge his rival to a duel, even though he already knows that he could forgive the rival and his wife. Yet he cannot reconcile any other conduct with his own sense of honor and with the expectations of society. He believes that he must act according to a precise script. Therefore, the formative influence of this mode of recognition, which we are again encountering in the discussion of "honor killings" within premodern Turkish family structures, does not lie too far in the past of German society either.

In contrast to honor, recognition assumes a variety of different forms in modern societies (Honneth 1996; Voswinkel 2001). Everyone can claim *legal recognition* independent of status and merit; it is a universal human right and, as a universalizing guiding orientation, it continually legitimizes new claims to recognition. *Love* and *affection* play a role in interpersonal relations, the family and intimate relations being the domain in which they function as normative expectations. *Esteem* must be distinguished from legal recognition and love as a form of recognition that is assigned somebody in different degrees depending on individuals' accomplishments. *Reputation* is one aspect of esteem. It designates a positive image[2] that is acquired and conferred for a limited time and for a specific quality or achievement; it gives rise to influence and is capable of inspiring confidence. We speak of reputation when recognition reaches beyond personal contacts, and hence has public validity and does not rest on direct personal acquaintance.

The criteria in accordance with which one acquires reputation are no longer so clear as in the case of honor. A variety of very different individuals and reference groups can serve as donors and addressees of reputation. And individuals can exercise greater influence over what they want to be recognized for and what not.

We must distinguish between a reputation based on fulfilling the requirements of relevant roles, on moral quality, and on individual identity. These three forms of reputation are informed by different standards and, consequently, cannot be merged into one. An individual acquires *functional* reputation who effectively performs the role that he has to play in a certain functional system. *Moral* reputation is ascribed to an individual who acts in accordance with the norms and values of society. *Identity-related* reputation is acquired by those who are unique in some way and exercise an attraction on others. Since these different points of reference of reputation pose partially conflicting requirements, a certain amount of reputation management is always necessary.[3]

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[2]In this article I use the term "image" to designate the picture that other persons form of a certain actor and the term "reputation" as an evaluated image.

[3]In an earlier text (Voswinkel 2001), I made a distinction between the reputation for power, for morality, and for identity. Eisenegger and Imhof (2001) differentiate between functional, social, and expressive reputation. These different threefold schema are not congruent, though they exhibit marked resemblances. It would be worthwhile to explore the similarities and differences in greater detail, but that is not possible in the present context.

Reputation functions as capital. It must be cultivated; one can invest in one's reputation and it may yield additional revenues as a result. For someone who is respected can find supporters more easily, can exercise influence, and has more opportunities to realize his goals. Hence, building and cultivating reputation are the focus of strategic action. One observes how one is perceived, where and how one must work on one's image, and how others assess one's strengths and weaknesses.

That is just one side of the coin, however – namely, the mutability of reputation. The other side is that individual actors can influence their reputation in very limited ways. For it is the result of a process of communication involving a range of actors who are not only interested in building their own reputations but also in damaging the reputations of others. Moreover, an individual's reputation is part of a constellation of actors with their respective reputations in which the individual actor plays a specific role. In such a constellation of actors, the individual members are assigned special personas that are intelligible only in relation to one another. Where an initiator already exists, another actor is compelled to play the role of the skeptic or naysayer. Someone who takes the initiative not only calls forth a waverer but at the same time challenges someone else to adopt the persona of the moderator. And when he knows that such a moderator exists, he can operate all the more freely as initiator. Things become difficult when two actors want to play the role of moderator. Thus, the individual has only very limited control over which figure he represents, and which reputation he has within a particular constellation.

One actor's reputation can be transferred to other actors – or it can damage others. For example, Tom is held in high regard by Paul, and George by Christine, though Christine has a low opinion of Paul. As a result, she will also be skeptical of Tom. The fact that George praises Tom then leads her to have doubts concerning George's judgment after all. Authorities lend this constellation a definite structure. If George is held in high regard not only by Christine, but also by Kevin, Ronny and Suzanne, then it is probable that Christine will change her mind about Tom if George, whom she respects, praises the despised Tom. And George's recognition becomes more important for Christine herself than that of Roderigo who is generally held in low regard. Relations of authority are created and reproduced in this way.

That reputations are acquired and shaped means at the same time that they are open to mistrust. For everyone is aware that the image one projects of oneself is not merely the result of what one "authentically" is but also of how one stages oneself, how one presents oneself in a dramatic sense, and how one is positioned dramatically within an ensemble (Goffman 1971). Accordingly, doubt lingers over whether reputation is justified. Reputation can be described as a kind of credit that one receives from one's environment. That the reputation is justified is accepted on faith – in the absence of proof of the contrary. And those who extend credit seek proofs that the reputation is justified and those who receive credit must provide them from time to time.

I call such proofs *reputation tests* (Voswinkel 2001: 127ff). An actor's reputation is tested to determine how far it coincides with his "true self." The point is to establish whether the credit is "secured." Such a test can be initiated not only by others but also by the actor himself who is not clear about his own abilities and needs and who seeks confirmation, perhaps also in order to construct a different reputation. Reputation tests can take ad hoc forms, for example, that of a provocation that forces the individual tested to reveal her "true self" without much reflection or opportunity for stage-managing, under time pressure and mental stress, by "tearing the mask from her face." A whole range of reputation tests are also socially institutionalized; however, they are important aspects of the development of identity and the assignment of opportunities and status. Examples are trials – ranging from ritualized tests of manhood to high-school graduation and university examinations – and tests of various kinds, ranging from tests of consumer goods to personality and intelligence tests. Job application procedures are also examples of such reputation tests. They are all designed to reveal whether someone fulfills his promise and at the same time they are supposed to address the latent mistrust concerning self-presentation by opening up a new "reputation cycle" by granting a new reputation credit.

Reputation becomes institutionalized in modern society as a means of compensating for its fragility. Aside from the reputation tests mentioned, examples of relevant institutions are certificates such as diplomas for completing courses of training, seals of approval, and ISO certifications of various kinds. Reputations give rise to circular processes: someone who has a reputation can transfer recognition to others through corresponding contacts, and they become in turn bearers of reputation. Consequently, actors and musicians, for example, try to acquire reputation by mentioning the well-known actors and musicians with whom they have collaborated or the famous venues at which they have already performed. Researchers never fail to note residencies at famous teaching and research institutions in a respected country such as the United States. The Citation Index is an example of reputation circles pushed to the point of absurdity. It saves the bother of reading and critically evaluating the contents of texts and replaces them with the appeals to the evaluations of others and the author's network capital. Similarly, one can observe the circulation of reputations on the Internet when reader reviews are conveniently translated into a certain number of stars on Amazon or when judgments of the quality of yogurt or mobile phones are recorded on "ciao." The "Stiftung Warentest" in Germany and the "Consumers Union" in the United States are similarly producers of reputation to which the manufacturers duly appeal in their advertisements, just as the ratings of companies influence investment decisions, for example, or the judgments of literary critics the sales of books (Strasser and Voswinkel 1997; Beckert 2002b).

Intermediaries of Reputation and the Mass Media

The foregoing suggests that reputation is the result of complex communication processes that can be steered only to a limited degree. In a communication society (Münch 1991), communicative mediators in general and the mass media in particular play key roles.

Intermediaries play a key role in facilitating the communication that circulates within social relationship networks. Thus, they make an essential contribution to defining how reality is viewed – both in positive and negative ways, as trustworthy intermediaries or as destroyers of reputation.

Here we can distinguish between:

1. Mediators of interaction in the micro-domain: these are the people who know a lot about others and do not keep this knowledge to themselves. One can describe them in a positive sense as advocates, or more pejoratively as "gossipmongers."
2. There is a gradual transition to a mid-level domain in which we can identify more firmly established roles and positions that function as intermediaries. Examples of such intermediaries among local communities are clergyman, hairdressers, and the one-time mom-and-pop stores – in other words, individuals and institutions that function as shared points of contact for local communicators and create opportunities for semi-public communication. In organizations, too, certain positions, such as secretaries, messengers, and employee representatives, are well suited to clustering information and communication.
3. Finally, the mass media are especially prominent at the macro-level (Eisenegger 2005). They make an essential contribution to the self-concept of society by communicating interpretations of matters of which people are not immediately aware and which they are not in a position to confirm directly. What takes place at a sufficient spatial and social remove acquires reality for people only if it unfolds in the media. However, one should not overstate the importance of the mass media. For the public also assimilate the reality of the mass media critically by measuring media representations against their own experience and by situating them in the context of their social life world ("Lebenswelt").

All of these kinds of intermediaries and the mass media are very important for the development of reputation. The interrelations between the actors and the media that influence reputation are extremely complex and are increasingly difficult for individual actors to control. Moreover, if one considers that an individual actor's reputation is defined only in relation to a constellation of actors, then we arrive at a paradoxical conclusion: working on one's reputation is becoming more important for actors because they are increasingly involved with other actors with whom they are not personally acquainted; at the same time it is becoming increasingly difficult to exercise strategic control over one's reputation. Reputation is a controversial good, a highly fragile product of complex processes of communication.

The Reputation of Companies

In what follows, I would now like to apply these general considerations to the reputation of companies. The primary goal of companies is to make a profit. Thus, reputation becomes a desirable good for a private-sector enterprise when it enhances economic performance. Accordingly, it has an instrumental value.

However, one can also regard companies and the individuals associated with them as actors for whom the reputation of the company represents an independent value for their identity and self-concept. For who wants to work for or to lead a company with a bad reputation?[4]

As neo-institutionalism in sociology emphasizes, organizations need social legitimacy (Hiss 2006; Meyer and Rowan 1977). They can acquire legitimacy, on the one hand, not only by fulfilling the social expectation of economic efficiency, but also by satisfying other normative expectations. This is essentially a function of the degree to which the environment applies moral values to companies or assesses them solely in terms of economic criteria of efficiency. But, generally speaking, it is highly unlikely that companies will be the focus of *no* social–moral expectations *whatsoever*, especially in light of the fact that, as we shall see, they must contend with different environments. Accordingly, as a general rule companies cannot function in a purely market-driven way but must take moral relations into consideration if they want to safeguard their legitimacy and reputation.

Peculiarities of Companies as Actors

Companies as actors exhibit certain peculiarities in comparison to individuals. For in their case it is not self-evident who the subject actually is. Admittedly, individuals can also be described as ensembles of practical impulses, of interactions between unconscious and conscious inclinations, who often rationalize their actions after the fact even though their intentions were unclear to themselves at the time. Individuals can also adduce reasons for excusing misconduct – they can distance themselves from themselves, as it were – so that it becomes unclear who actually performed the action. However, these problems arise for organizations in additional ways.

For organizations must first determine who is authorized to speak for the organization under certain conditions. Organizations express themselves and act through representatives. They must lend some of their actions legally binding character toward the outside. This is achieved by assigning responsibilities. They also must secure their actions toward the inside by means of mechanisms that ensure the willingness of the workforce to comply. This circumstance is central for the development of the company's reputation since without clear assignment of responsibility toward the outside, without the ability to secure commitment toward the inside, and without a coherent identity, an organization cannot be regarded as one consistent actor to whom reputation can be assigned.

Organizations are even assigned higher levels of responsibility than individuals. For "they lack the opportunity to claim extenuating circumstances by appealing to poor socialization, tiredness, sickness, 'youthful immaturity,' psychopathological behavioral disorders or 'justifiable anger,' or to claim 'lapses of memory' in order

[4]Here I leave open whether this concern with reputation also makes sense for anonymous shareholders.

to exempt themselves from past commitments" (Geser 2002, translation amended). They are expected to be in a position to act responsibly and in a binding fashion as a result of internal processes and of the recruitment of appropriate personnel. However, organizations also have greater leeway in varying their actions according to the context in which they are operating (March and Olsen 1976). For, in contrast to individual actors, their "polycentric practical capacity" (Wiesenthal 1990) enables them to perform different actions and to adapt themselves to different environments *simultaneously* (Geser 2002). For example, companies can give priority to moral values in their product policy, ignore them on the capital markets, and accord exclusive priority to economic efficiency vis-à-vis the workforce in the internal environment. They can emphasize different aspects of their image in different external and internal settings. The actors need not be aware of the contradictions in the organization's behavior, for they act "in good faith" in their sphere of action depending on the aspect of the identity that dominates there.

Companies can uncouple their "official" public representation toward the outside and their "official" self-concept from their everyday practice (Brunsson 1989; Meyer and Rowan 1977). One can speak here of a "divided reality of organizations" (Weltz 1988) and of a "loose coupling" (Weick 1979) between the divisions. It is not simply a matter of façades and deception; rather, the "official" reality describes a language game and a mode of interpretation in which the actors may sincerely believe and nevertheless proceed to act in ways that deviate from that interpretation. Thus, decisions are worked out and justified communicatively so that they are viewed as rational and relevant, even though each of the participants also had quite different motives and impulses. However, the latter cannot be openly discussed or recorded and as a result are forgotten.

This also applies to the practice of certification (Walgenbach 1998), which is essentially concerned with reputation. The requisite confidence in the independence of the evaluation calls for an external evaluating authority; but because its insight into the company will tend to be selective, it can form a serious judgment only of the "official" reality. The hope is then that the "unofficial" reality can be influenced through the internal organizational constraints exercised by the formal structure. However, this strategy also makes it possible to maintain the divided reality of the company.

Different Environments

Even more than individuals, companies have to deal with different environments simultaneously. These include at least:

- Market environments
- Internal environments
- Public environments

Among the *market* environments is, in the first place, the market for products. Here, the customers are the primary addressees of the company's reputation management. Most important is the functional reputation, i.e., the quality and value of the goods and services offered by the company. However, the moral reputation and the identity value of the products and of the enterprise can also play a role in the product market. At present, ecological considerations provide the main criteria for the moral assessment of products. But the working conditions under which they are produced can also influence moral reputation. Questions are raised concerning child labor, for instance, and especially exploitative forms of labor in the value-added chain. The identity-related reputation of goods and companies is developed by endowing the products with expressive value, by cultivating brand identities (Hellmann 2007), and by promoting customer identification with companies and products.

More recently, it is argued that moral reputation is gaining greater importance alongside economic performance (functional reputation) even on the capital markets. Investors may assume that it influences how companies perform on the product and retail markets. But a certain (still small) number of investors want to invest in ecological or ethical values in particular and for these investors the moral reputation of companies and their products is directly relevant to their decisions.

The threefold reference of reputation also plays a major role in the labor market – in so-called *personnel marketing* (Lieber 1995; Rastetter 1996: 104ff.). Functional reputation is an indication of the economic prosperity of the company for jobseekers who associate it with favorable career prospects. Moral reputation comes into play especially with respect to working and social conditions, hence to the reputation of the company as a good employer. And identity-related reputation can be transferred to the jobseekers if they expect to acquire high prestige from belonging to this company.

The *internal* environments of the company must be differentiated from the market environments. Most important here are the company's employees. In contrast to the jobseekers on the external labor market, they experience the organization on an everyday basis, albeit select portions of it, namely, their immediate working environment. The company is often personified in the supervisor and the working climate is important. Thus, the reputation of the company is intensely affected by the recognition culture within the enterprise – i.e., how the employees are treated – and by the social relations of reciprocity – i.e., how commitment and loyalty to the firm are rewarded (Voswinkel 2005). But the reputation of the company on the product market, within the employees' profession, and among the public also plays a major role for the standing of the company among its own workforce (Kotthoff 1997). Therefore, the moral and the identity-related reputation in the market and public environments can exert influence here as well.

Among the *public* environments are, first, the political system and its actors, both at the national and the communal level. Companies also promote their reputation through sponsorship and other activities that enable them to demonstrate that they take social responsibility seriously. This is often a matter of a taken-for-granted ethical duty, but it is one that is directly related to the goal of improving their reputation in the local public and of increasing the general visibility of the company (Bluhm and Geicke 2007). Thus, here it is a matter of cultivating the moral reputation of the company in particular.

Second, a company's reputation policy often takes its orientation from the normative organizations that pursue primarily moral–political goals, such as nongovernmental organizations (NGOs). The most famous example is undoubtedly Greenpeace. Labor unions can also be regarded as normative organizations insofar as they publicize the working conditions and employment policies of companies. In their reputation policy, companies do not merely respond to the activities of normative organizations, but in recent times have started to become active in constructing a form of social–moral reputation management that is discussed under the heading of "Corporate Social Responsibility" (Hiss 2006; Habisch et al. 2005).

This is also aimed at the media public, of course, as the third public environment that strongly influences reputation (Eisenegger 2005). The mass media engage in communication among strangers of the broadest possible scope. They act in accordance with their own laws and practical logics (Saxer 1998; Luhmann 2000). The goal is to generate public attention, which is especially sensitive to scandals and provocations. Therefore, companies have only very limited control and influence over reputation management via the media. The media not only operate as intermediaries between actors and the public but also play an active role in directing the performance. This aggravates a problem that is of fundamental importance in dealing with reputation, namely, mistrust.

The Risk of Reputation Management

Because reputation refers to the image that an actor consciously or unconsciously projects of himself and is assigned to him by others, it is always open to mistrust. It is treated like a working hypothesis that makes action easier, but which must be continually subjected to reputation tests. The media vie for attention; and this can be achieved particularly effectively by provoking scandals. Thus, media professionals always operate with an eye to the possibility of challenging a stated reputation by exposing compromising material (Eisenegger 2005: 68ff.).

Hence companies that want to be recognized for moral excellence and to build a corporate identity with a pronounced moral profile are exposed to especially high levels of risk. For they easily inspire mistrust and assume voluntary obligations that may go beyond the normal (Eisenegger 2005: 101ff.). The distinction between *active* and *passive* reputation is important here (Voswinkel and Bode 1993: 300). Passive reputation exists when a company does *not* stand out in a *negative* way. One can speak of active reputation, by contrast, when the company creates the impression of distinctiveness in order to stand out in a *positive* way. Someone who wants to stand out in a positive way runs the risk of being more thoroughly scrutinized and examined. Someone who stands out neither positively nor negatively, by contrast, does so without an attention resource and hence stands a good chance of shielding himself against harm to his reputation.

Summary

The significance of the striving for recognition can be seen, following Adam Smith, as residing in the fact that it embeds the pursuit of self-interest in the normative order of society. Just as acting on one's interests tames the passions, so too the striving for recognition places restrictions on the pure pursuit of interests. Because human beings shape their identities on the basis of and by coming to terms with the recognition of their environment, the need for recognition connects identity with the normative structure of society.

By contrast with societies in which honor was the dominant form of recognition, modern society uncouples the (equal) legal recognition of individuals from their different levels of esteem, which are essentially determined by their achievements. The criteria for esteem are less determinate. When we speak of reputation we mean a form of recognition that goes beyond personal acquaintance and circulates publicly. Three forms of reputation can be distinguished: functional, moral, and identity-related reputation. Even though they observe different logics, they influence one another.

Reputation becomes a form of capital in which one must invest. It creates possibilities for exercising influence, and it can also be translated into economic opportunities. Managing reputation becomes increasingly important in a complex society. At the same time, however, it can be influenced only to a limited extent, particularly since reputation exists within a constellation of actors in which those involved are assigned different images. Intermediaries, in particular the mass media, assume central importance in this context.

This holds especially for companies whose reputation has a very broad scope and is based only to a slight extent on personal experiences. Reputation is of major importance for companies because they depend on legitimacy, both as regards their functional and their moral reputation. Companies are faced with a variety of environments in this regard: market, internal, and public environments, each involving different criteria of assessment. Companies are assigned higher levels of responsibility in comparison to individuals. That sets high demands on the reputation management of companies. In comparison to individual actors, however, they also have more practical leeway, for example, to develop different reputations simultaneously or to uncouple "talk" in varying degrees from "action" (Brunsson 1989). Finally, reputation management is subject to latent mistrust and hence strategies geared toward excellence entail risks.

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Identity, Image and Reputation

Nuno Zarco da Camara

Introduction

Corporate reputation is a relatively young field of study which draws from disciplines as varied as strategy, marketing, organizational culture and behavior, accounting, economics and psychology (Fombrun 1996). Within the field, the definitions of basic terms such as the identity and image of organizations and how these relate to reputation are still contested between academics with different backgrounds and, indeed, overlap with similar debates in related disciplines.

Although the concepts of identity and image have been researched widely in the fields of organizational culture and behavior and marketing, it is only relatively recently that the discipline of corporate reputation has emerged and looked at the relationship between identity and image within an overall context of reputation building among stakeholders. The focus within marketing and organizational behavior research has only recently shifted toward the exploration of how identity influences image and reputation. As Hatch and Schultz (1997) note, there is limited understanding from within marketing of how internal organizational factors impact on external image, with the emphasis instead on external images constructed by customers, suppliers and other publics. Conversely, organizational studies literature concentrates almost solely on internal factors that contribute toward the formation of a corporate identity. Recent studies in corporate reputation have attempted to integrate these approaches into a more holistic understanding that straddles internal and external organizational boundaries and accounts for a wider range of stakeholders.

This chapter reviews the conceptual definitions of identity, image and reputation as stand-alone concepts drawing from corporate reputation, marketing and organizational behavior research. The chapter then goes on to examine the operation and co-existence of identity, image and reputation in an overall organizational framework, as understood in two major recent works by marketing and corporate reputation scholars. Finally, the chapter concludes on the tactical and strategic importance of understanding these frameworks for organizational performance

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and highlights the current business context of corporate branding and alignment strategies.

Before examining the relationship between corporate identity, image and reputation as understood by theorists in marketing and corporate reputation, we must first review the definitions of these key concepts in the academic literature.

Corporate Identity

The classic organizational definition of identity provided by Albert and Whetten (1985) is that which is "central, distinctive and enduring" about an organization. This approach presents corporate identity at the level of both appearance and behavior, therefore combining both visual representations and symbols of the organization with the behavior and actions of its members (Alessandri 2001). Similarly, Melewar (2003) defines corporate identity holistically as the sum total of structure, strategy, behavior, culture, design and corporate communication, which are all founded in corporate personality and values. It is viewed as the underlying "core" or basic character of the firm (Melewar and Jenkins 2002) and not simply the intended corporate identity fashioned by managers in marketing and communication efforts. Identity has also been defined as an organization's "innate character," and "a description of 'what the organization is' that affects everything the organization says, does and produces" (Balmer 1995). Thus, identity has as much to do with behavior as appearance and can be interpreted as "the ways in which an organization reveals its philosophy and strategy through communication, behavior and symbolism" (Leuthesser and Kohli 1997). That said, there has been hardly any empirical testing in the domain of the corporate identity construct and, in practice, managers tend to focus on highly tangible aspects of corporate identity such as corporate communication and corporate design.

Corporate identity can therefore be interpreted on two distinct levels: the tactical implementation of a visual identity in organizational symbols (logos, trademarks, advertising, marketing materials, website etc.), and the strategic view of organizational behavior and culture which is central to organizational performance. Discussion is likely to continue in the academic literature but most definitions seem to agree that corporate identity represents the internal culture, values and behavior of an organization, as well as its visual appearance (Melewar and Jenkins 2002; Melewar 2003).

Corporate Image

Most definitions of image focus on "the feelings and beliefs about the company that exist in the minds of its audiences" (Bernstein 1992). However, other researchers from the field of organizational behavior have defined it as the internal stakeholders' beliefs about external perceptions (Dutton and Dukerich 1991). Another way of interpreting image is "what comes to mind when one hears the name or sees the logo" (Gray and Balmer 1998). As Blaich (1996, cited in Markkannen 1998) states, "literally the term should be 'corporate images' for there are as many as there are individuals having relationships with or knowledge, of the company."

If corporate image is the "mental interpretation" of an organization then it will be affected by external factors in people's perceptions (e.g., media, competitor strategies, individual preferences) but this does not stop it being shaped and deliberately managed by the organization through its marketing and communications (Bennett and Gabriel 2003). The marketing literature defines image as "the summary of images held by external constituencies" (Hatch and Schultz 1997). Image therefore represents a complex sense-making picture in the mind of external stakeholders and is based on a set of visual cues deliberately managed by the organization and projected to outsiders. In contrast, traditional organizational behavior approaches have focused on internal members' views of what outsiders think of the organization rather than what external parties actually think (Dutton and Dukerich 1991; Hatch and Schultz 1997). The marketing and organizational approaches to understanding image can be combined, as described by Alvesson (1990) in his conclusion that: "organizational image is a holistic and vivid impression held by an individual or a particular group towards an organization and is a result of sense-making by the group and communication by the organization of a fabricated and projected picture of itself."

From these definitions, we can surmise generally that corporate image resides in the heads of the stakeholders, whereas corporate identity resides in the organization (Dowling 1986). Indeed, a common distinction now being made is that corporate identity is what a firm is and image is what a firm is perceived to be (Abratt 1989; Alessandri 2001).

Although further research is necessary to understand all facets of the image construct, there is general agreement that it represents the sum of a "person's beliefs, ideas, feelings and impressions" about an organization and results in "the set of meanings" through which people know, describe, remember and relate to an organization (Dowling 1986).

Corporate Reputation

Reputation is the overall measure of how customers, employees, suppliers and industry peer groups, as well as regulators and the communities in which an organization operates, perceive a business. Reputation influences how stakeholders behave toward an organization and impacts directly on the bottom line. Reputation is crucial to an organization's ability to attract employees and investors. It is also critical in reducing transactional costs and increasing leverage with suppliers and regulators, as well as affecting its strategic marketing options, such as premium pricing.

In the corporate reputation literature, reputation is presented as an evaluative concept based on past performance and is described as a "subjective, collective assessment of an organization's trustworthiness and reliability" among both internal and external stakeholders (Fombrun and van Riel 1997). Most recent definitions focus on reputation as an "assessment" of organizational behavior and practice, or to a lesser degree on reputation as a state of "awareness" in which stakeholders hold perceptions of an organization but do not make judgments about it (Barnett et al. 2006). Other resource-based interpretations of reputation focus on its strategic value as an intangible asset.

Fombrun (1996) describes corporate reputation as "a perceptual representation of a company's past actions and future prospects that describe the firm's appeal to all of its key constituents." In this approach reputation is presented as the totality of individual perceptions across all stakeholder groups. Reputation is therefore best understood as being founded in perceptions and experiences of an organization and denotes a judgment on the part of all stakeholders over time. It is a strategic and holistic concept by nature, and represents a clear break away from the tactical and operative focus of marketing-led research. Nevertheless, it can still be interpreted in a limited way as simply an accumulation of perceptions that lead to a greater awareness of an organization, or, as is more commonly agreed in the literature, a holistic concept that encapsulates people's judgment of an organization's actions and performance.

Reputation and image are often used interchangeably in the marketing literature, although they are actually distinct concepts (Chun 2005). Although images can be created relatively quickly though communication or change programs, reputation with stakeholders has to be developed over time through consistent images and experiences (Melewar 2003). Although image and reputation both refer to external perceptions and the views of stakeholders, there is a key distinction between the concepts. Thus, image relates to someone's current and latest beliefs about an organization rather than the longer-term perspective involved in reputation, which relates to the interpretation of organizational behavior over a period of time (Chun 2005; Fillis 2003). It is therefore possible to have an image of an organization without having any direct experience of it, whereas reputation implies a foundation in experience (Chun 2005). Consequently, reputation is also more durable than image and can act as a positive store of goodwill and support or a negative bank of distrust and avoidance (Melewar 2003). An organization can have a good reputation yet possess an old-fashioned or otherwise inappropriate image; or, conversely, an organization can have a strong image developed through its visual identity and marketing program, which is not matched by a cogent reputation (Bennett and Gabriel 2003). Image and reputation also serve different purposes. Thus, an image may be good for immediate and short-term decisions, such as whether to agree to a charity's request for a donation, while reputation is useful for long-term decisions such as choosing which university to study at or which employer to work for (Bennett and Gabriel 2003).

According to Dowling (2004) reputation can be defined as "a multi-dimensional structure comprised of corporate image and identity" within the context of "the perceived industry image and stakeholder values, driven mainly by the behavior (strategy, business process, culture, controls, employees and governance) of the organization, its value proposition to customers and its integrity." Reputation therefore reflects an organization's internal and external behavior and its relationships with all stakeholder groups over time.

The Relationship Between Identity, Image and Reputation

As we can see from the range of definitions described above, there are two main approaches to understanding the relationship between identity, image and reputation. The first is the operative and tactical approach grounded in the field of marketing and concerned mostly with consumers. The second approach is the strategic and holistic view underlying the most influential studies in the field of corporate reputation, which are concerned with all stakeholder groups and see reputation building as a cross functional organizational activity.

Despite the differences between these tactical and strategic approaches, it is clear that any attempt to understand the interrelation between identity, image and reputation must focus ultimately on the relationship between internal and external stakeholders in organizations.

In marketing and organizational behavior approaches, the specific link between internal identity and external image has attracted much attention, with most research focusing on the relationship between employees and customers (Hatch and Schultz 1997; Davies and Miles 1998). Particularly in service-led environments, customers are strongly influenced by employee behavior and their perceptions of the organization. Staff can act as brand builders who link internal culture with brand identity and organizations can manage their brand by narrowing the gap between brand identity and brand reputation (De Chernatony 1999). The assumptions, values, attitudes and beliefs of employees are thus seen to affect consumers in their purchase decisions and relationship with the organization. Many studies in the service marketing literature have even linked positive employee behavior with higher customer satisfaction levels and improved organizational performance.

This internal–external stakeholder interaction is at the heart of reputation building, and we can now examine how two recent and influential groups of theorists from the marketing and corporate reputation disciplines have attempted to define an overall framework for understanding identity, image and reputation.

A recent approach from the marketing field by Brown et al. (2006) suggests a new interdisciplinary framework to support much-needed consistency in future research. The framework suggested by Brown et al. (2006) proposes a new set of definitions based around four central viewpoints of the organization. *Identity* revolves around the question "who are we as an organization?" while *reputation* is concerned with what external stakeholders think of the organization. Image is

Discipline	Marketing Approach	Corporate Reputation Approach
Researcher	Brown et al. (2006)	Fombrun (1996); Fombrun a. van Riel (1997)
Identity	Who are we?	Internal stakeholder perception
Image	Construed image - What we believe others think Intended image - What we want others to believe about us	Perception of external observers
Reputation	What external stakeholders think	Aggregation of internal and external stakeholder perceptions / overall stakeholder evaluation

Fig. 1 Typical marketing-based and corporate reputation approaches to identity, image and reputation

then divided into what the organization wants others to believe about itself, the *intended image*, and what the organization believes others think of the organization which is the *construed image*. While the definitions of identity is similar to that stated in corporate reputation research, image is understood very differently as an internal and managerial concept comprised of two marketing-related functions: projecting a corporate image and understanding what the outside world thinks of the organization. Thus, the main focus of this marketing-based approach is on understanding how consumers make decisions about companies and their products and services. Image is not related to external perceptions but is understood as something which is managed by the organization and projected externally. Reputation is also viewed as relating only to perceptions among external stakeholders and does not account for the perceptions of internal stakeholders (i.e., employees and managers) which are included in the term corporate identity. See Fig. 1.

The field of corporate reputation draws on various disciplines including marketing, organizational behavior, strategy and psychology, and takes a much more holistic view of identity, image and reputation. The most influential proponents of this view are Fombrun and van Riel (1997) whose viewpoint subsumes image and identity *within* reputation. In this approach, identity is the internal perception of the organization, similarly to Brown et al.'s (2006) interpretation, but image is the perception held by external observers. In turn, reputation is made up of the overall amalgamation of corporate identity and image i.e., the sum total of internal and external perceptions. Fombrun's (1996) definition of corporate identity as "the set of values and principles employees and managers associate with the company" is very similar to Brown et al. (2006). In contrast to the marketing literature however, he does not emphasize the actions of managers and employees in projecting an identity and/or image to external constituents. The perceptions of internal stakeholders are included in identity and therefore contribute to overall reputation. Image is developed among external stakeholders and reputation is an aggregation of internal and external perceptions that results in an evaluative judgment by stakeholders. In this holistic approach, image represents the crucial link between corporate identity and reputation since it is how stakeholders process and combine perceptions of corporate behavior and identity into a picture of the organization, which feeds into a reputational judgment over time.

While the marketing-based approach is more tactical and focuses on actions toward consumers that are manageable and controlled by the organization, the corporate reputation approach adopts a more holistic view concerned with all stakeholders and concerned with how overall organizational behavior affects perceptions and evaluations over time. The latter view is concerned with the overall esteem in which an organization is held by both internal and external stakeholders, and therefore relates to various functions in organizations including marketing, public relations, public affairs, investor relations, strategy and human resources. In turn, as we might expect, the marketing based view is more concerned with the function of marketing as a strategic objective and is less concerned with the development of investor or supplier relations, for example.

Understanding Internal–External Dynamics in Reputation Building

Reputation building is most successful when it starts from within and repeatedly fulfills the expectations of (external) stakeholders (Aperia et al. 2004). Moreover, it is influenced by the interaction between different stakeholders, most visibly in the relationship between employees and customers (Hatch and Schultz 1997; van Riel and Balmer 1997). Consequently, many organizations are increasingly aware of the need to understand and manage the impact of internal behavior on the perceptions held by external stakeholders.

However, as we saw above, current definitions of identity, image and reputation vary as to the role of internal and external stakeholders in each concept. Image, in particular, has been defined as being solely internal and management-led or, alternatively, as residing exclusively in the minds of external stakeholders. On the other hand, identity is mostly attributed to internal stakeholders and reputation is often said to exist only among external stakeholders. A strategic and holistic focus on the management of reputation in the wider sense actually means that none of these definitions adequately encompasses the formation and development of identity, image and reputation in practice. Identity represents the behavior and culture of an organization among internal stakeholders, but it is influenced by the interaction with and feedback from external stakeholders. Naturally, reputation also results from the interaction between internal and external stakeholders, especially between front-line employees and customers in service industries, for example. As for image, whichever way it is defined, it is arguable that in reality there must be an act of image projection by internal stakeholders that is then received and interpreted by external stakeholders. In addition, it must be remembered that internal stakeholders such as employees and managers also develop perceptual images of the organization which they may or may not be involved in projecting, and which also result in reputation.

Overall, as the divisions between internal and external stakeholders begin to fade away in modern organizations, with employees doubling up as consumers and managers acting as investors, it is increasingly difficult to make adequate distinctions relating to identity, image and reputation. That said, since misunderstandings over definitions are unhelpful to both practitioners and academics, further research is bound to continue exploring this topic. Yet, definitional challenges aside, it is important to understand that in reality there is a complex and dynamic transfer of individual perceptions and beliefs from the inside of organizations to the outside and that reputation is ultimately an external reflection of internal organizational behavior.

Alignment Strategy

Modern organizations are keen to ensure that they live up to the values and identity that they communicate to the outside world, and that behavior is aligned and integrated with their overall strategy. Indeed, one might naturally expect some measure of alignment given that organizational identity affects and shapes the decisions and actions taken around image enhancement and reputation building campaigns (Ravasi and van Rekom 2003). Moreover, since organizational values, behavior and culture drive the relationship and communication with stakeholders, it is important for organizations to understand their identity in order to properly manage their image and reputation. For example, if an enterprising company wants to recruit like-minded people but its image is divorced from its operating culture and leads to the attraction of introverted personality types, then corporate strategy and long-term growth are compromised (Davies et al. 2004). In other words, organizations should avoid disparities between what is practiced and what is preached; otherwise, relationships with stakeholders will be damaged.

The idea of alignment is evident in the corporate identity literature too, most of which has a strong practitioner slant (Fillis 2003). Olins (1995) concludes that successful organizations align the different ways in which their corporate identity is presented to their audiences – namely their products and services, the environments in which they make or sell products, the ways they communicate and their internal and external behavior – in order to provide consistent corporate images. As reflected in the marketing and organizational literature, this process of alignment occurs especially in service industries where the junior staff have most contact with external stakeholders and there is a requirement for employees to “buy in” to the desired corporate identity (van Riel and Balmer 1997). Employees therefore have the important role of communicating the corporate identity through their behavior (Andriopoulos and Gotsi 2001).

It is therefore advisable for organizations to align corporate identity with image and reputation as much as possible. A misalignment between projected corporate identity and organizational behavior directly impacts on reputation among customer and employee groups. According to the Reputation Institute, a well-known consultancy in the field, there are many companies that have strong projected corporate identities (i.e., brands) and weak reputations. These organizations typically make promises in their marketing and communications programs which they cannot deliver on to customers. Successful companies therefore ensure that what they say about themselves matches the reality of their organizational identity and behavior, which is ultimately what will impact on reputation.

The importance of transmitting corporate identity to organizational stakeholders who can then formulate certain images that form the foundations of the company's reputation, is increasingly important for developing competitive advantage (Melewar 2003). For stakeholders, the relationship with an organization is vastly improved if there is no gap or misalignment between what is promised in advertisements and mission statements, for example, and the actual experience (Chun 2005). The literature goes further in suggesting that there should actually be no gaps between internal and external perceptions particularly in service industries where the customer is in direct contact with employees (Davies and Miles 1998). While this makes logical sense, it is important to understand that there is limited empirical evidence that gaps between identity (internal perceptions) and image (external perceptions) are damaging to reputation, although one might expect this to be the case (Chun 2005). The only known study completed to date examining the gaps between image and identity in UK department stores suggests that two concepts might co-evolve or be causally linked, such that image mirrors identity to some extent and the management of external image might be achieved by the management of internal identity (Davies and Chun 2002).

Corporate Branding

The logic of building reputation from within and aligning internal and external perceptions is even more urgent given the rapid rise of corporate branding strategies. The development of powerful corporate brands that represent and communicate a range of products under one vision, such as Richard Branson's Virgin Group in the UK which offers a range of transport, financial services and consumer products, has changed the way in which many consumers perceive and relate to organizations over the last 20 years. Although some well-known fast-moving consumer goods companies such as Procter and Gamble still operate a stable of individual product brands and do not project directly a corporate brand or identity to stakeholders, it is increasingly the case that organizations use their overall identity and corporate brand to differentiate themselves in highly competitive markets. With this approach, the images and impressions formed by product marketing do not generally transfer to the organization that owns the product (unless they have the same brand name), and the corporate brand is promoted on a selective basis to nonconsumer audiences such as potential employees, investors and the media.

While product brands may appeal to separate groups of stakeholders, any corporate brand needs to appeal at an emotional level to both internal and external stakeholders (Davies and Chun 2002). Recent work in the field of corporate communication suggests that internal and external perspectives on reputation are highly interdependent, and that gaps between the two are potential causes of crises (Schultz et al. 2000). In response, Hatch and Schultz (2001) argue for the alignment of three essential strategic elements for the corporate brand: vision, culture and image. They state that a management team's overall vision should be supported by the culture among employees, and be reflected in the external image of the organization.

Since a corporate brand creates expectations in the minds of consumers as to what the company will deliver, meeting those expectations cements overall reputation in the consumers' eyes (Forman and Argenti 2005). Furthermore, as Argenti and Druckenmiller (2004) argue, careful management of a corporate brand can also enhance reputation by guiding and stimulating a company's actions and keeping management focused on strategy implementation. For example, Accenture's re-branding program in 2001 kept the organization focused on its new identity as a consultancy which went beyond the original core consulting and outsourcing services offered by Andersen Consulting, and provided new services such as venture capitalism, joint ventures, equity investment in technology companies and alliance relationships (Argenti and Druckenmiller 2004).

Conclusion

Amid the complex and dynamic interplay occurring between internal and external stakeholders in the formation of organizational reputation, it is clear that the inside of an organization, namely its culture, values and strategy, has a significant impact on perceptions held outside. Reputation is therefore increasingly viewed as a behavioral process, which must be built from within and integrated across the organization, and the rise of corporate brand management amidst the pressures of differentiation in highly competitive markets have only made this phenomenon more apparent. Moreover, particularly in the service industry where customers interact directly with employees, organizations risk damaging their reputation if they cannot act in accordance with their rhetoric toward all stakeholder groups. Increasingly, organizations are called to account if they do not practice what they preach, not only by customers, but also by the media, the government and investors.

By highlighting the differences in recent marketing-based and reputation-led approaches in the research around terminological definitions, this article hopes to encourage managers to think about the real implications of taking tactical or strategic approaches to identity, image and reputation management. While many organizations still focus on public relations or corporate communications as the function that manages reputation, there is an increasing awareness of the need to embed reputational concerns in core business functions and integrate data from all stakeholder groups in a holistic reputation management strategy. Although the holistic approach to corporate reputation – exemplified by Fombrun and van Riel – has gained substantial ground over the past decade, it remains far from universal. Marketing-based approaches will continue to be tactically useful but recent research implies that a more strategic and holistic view is necessary to capture the complexities of modern reputation management and the dynamic nature of reputation building among internal and external stakeholders.

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Corporate Branding and Corporate Reputation: Divided by a Shared Purpose?

Claudia Fisher-Buttinger and Christine Vallaster

Introduction

Siemens, the Germany-based global electrical and electronics technology company, is well known and respected for their innovative, high-quality products and services. However, over the past couple of years the company has been engulfed by a major bribery scandal, resulting in investigations by the SEC and generating a never-ending wave of negative publicity. While it is relatively easy to evaluate the negative impact on the Siemens share price, it is much more difficult to assess the effect on their intangible assets: Is it the Siemens corporate brand that is suffering? Or is it the Siemens reputation? Or both?

This example demonstrates that corporate brand and reputation are heavily intertwined; the Siemens corporate brand is composed of all the associations generated by contact with the Siemens-labeled products and services, Siemens employees, the Siemens organization, Siemens advertising, etc. and also the media coverage. Since corporate activities are an integral part of what the Siemens corporate brand stands for, activities of Siemens employees on all levels, but in particular senior management, will impact heavily on the corporate brand. At the same time, all activities that are at odds with legal and/or ethical norms or outside the parameters of what would be considered accepted business practice, impact negatively on a company's reputation. This raises the question whether a separation of corporate brand and reputation is (a) possible and (b) still relevant.

Corporate reputation management has long enjoyed an open ear with top management. Historically tasked with building and managing relationships with key stakeholders such as media, investors and shareholders, governmental bodies and special interest groups, it very quickly became a corner stone of corporate communications (Fombrun and van Riel 1997).

By contrast, branding was historically the responsibility of marketing managers who often only had limited access to the board room. Classical brand management was primarily tasked with facilitating a connection between customers and the product, driving purchasing preference through differentiation, infusion of

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emotions and brand-related communications such as advertising and promotions (Kotler 1991).

Then, due to a number of social, political and economical factors, both corporate reputation management and brand management underwent significant changes. In reaction to these factors, reputation management broadened its initial mandate to also address other stakeholders, including employees and customers. By the same token, brand management discovered corporate branding and started to place more emphasis on employees, media, investors, special interest groups, etc. As a result, the once clear boundaries between reputation and brand management started to erode; reputation and corporate branding started to invade each other's territory, fuelling a discussion in research and practices on how to manage the situation (Bickerton 2000). However, instead of proposing a way to delineate the two disciplines and territories, this article focuses on how reputation management and brand management can work together in order to make an organization successful.

We first discuss the traditional approaches to corporate reputation and brand management which resulted in the emergence of two separate disciplines. Then we highlight the market factors that stimulated significant shifts within corporate reputation management and brand management, causing them to converge. Finally, we propose a model for collaboration as well as some future research avenues.

Corporate Reputation and Brand Management: Two Separate Disciplines

Historically, reputation management and brand management had very little overlap in terms of strategic purpose and mandate, audiences addressed, methods employed and ownership within the organization (see Fig. 1).

Corporate reputation was primarily directed at external stakeholders that impact the general ability of any corporation to conduct business, e.g., the financial community including analysts, investors and shareholders, the representatives of political and legal authorities such as governmental bodies, municipalities, lobbies, and special interest groups, partners and suppliers, as well as the media (as a controlling mechanism for information). It was common practice to communicate with each of these audiences in a segregated way, tailoring key messages to their respective information needs and pressure points (Fombrun and van Riel 1997). Proactive and tailored communication therefore is the key to successful corporate reputation. Strategic purpose was the building and nurturing of relationships with all key constituencies in order to ensure a stable, nondisruptive environment for business conduct. To this day, corporate reputation is typically a part of the corporate communications team, and can be labeled anything from PR to governmental affairs. Crisis management would typically fall into the realms of corporate reputation, which is at least one reason why it has traditionally enjoyed senior or top management attention (Hall 1992).

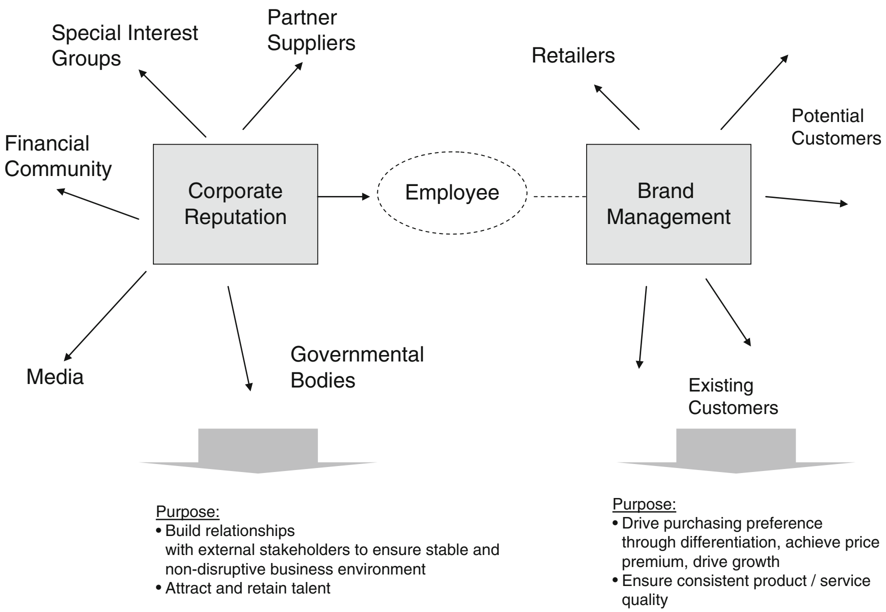

Fig. 1 Corporate reputation and brand management – two separate disciplines

Classical brand management was mainly directed at potential and existing customers, using advertising as a key means to attract attention and drive purchasing preference through differentiation (Kotler 1991). The concept of differentiation has long shaped brand thinking; as functional differentiation slowly eroded, communication became a key source of differentiation (e.g., creative ads, infusing a product with emotions). The strategic purpose of brand management was to drive organic growth by creating a loyal customer base as well as generating opportunities for product extensions on the back of popular brands (Keller 1998). To this day, brand management (on the product level) is typically part of the marketing team, often seen as a tactical task and hence located on the middle management level.

As can be seen in Fig. 1, there is very little overlap between corporate reputation and brand management. Each discipline is tasked with a set of very clear responsibilities, the only potential point of contact being the employee. In the case of reputation management, the impact of a good reputation on attracting and retaining employees was recognized very early on (Fombrun and van Riel 1997). By contrast, in the classical brand management paradigm the brand was primarily directed at the customer; it was delivered by the marketing team or brand manager, with very little emphasis placed on employees outside the marketing and communications department (other than, e.g., the keeping to expected quality standards).

Converging Disciplines with Blurring Boundaries

Today, the picture looks very different. Corporate branding is becoming increasingly prevalent as a branding paradigm and delineation between corporate reputation and corporate branding is difficult to achieve (Fig. 2). The resulting tension between researchers and practitioners in both fields is fueling a lively discussion around whether corporate reputation and corporate branding are and should be the same (Ettenson and Knowles 2008).

The following social, political and economical factors are driving the convergence between corporate branding and corporate reputation:

1. *Emergence of Corporate Branding*. Companies are increasingly trying to bring the organization into the brand as a newly found and sustainable source of differentiation, placing increased emphasis on employee behavior (Harris and de Chernatony 2001; Balmer and Gray 2003; Hatch and Schultz 2003). This shifts the focus away from product and communication and places particular emphasis on employees and their willingness and ability to enact the brand promise. It is important to note here that this shift may not be entirely voluntary. The convergence of stakeholders combined with the communication dynamics of the Internet make it less and less possible for companies to maintain separate brands and identities for their products. This was demonstrated quite impressively with the Dove and Axe "mash-up" case whereby Unilever as a corporate brand unintentionally became associated more closely with both the Dove and

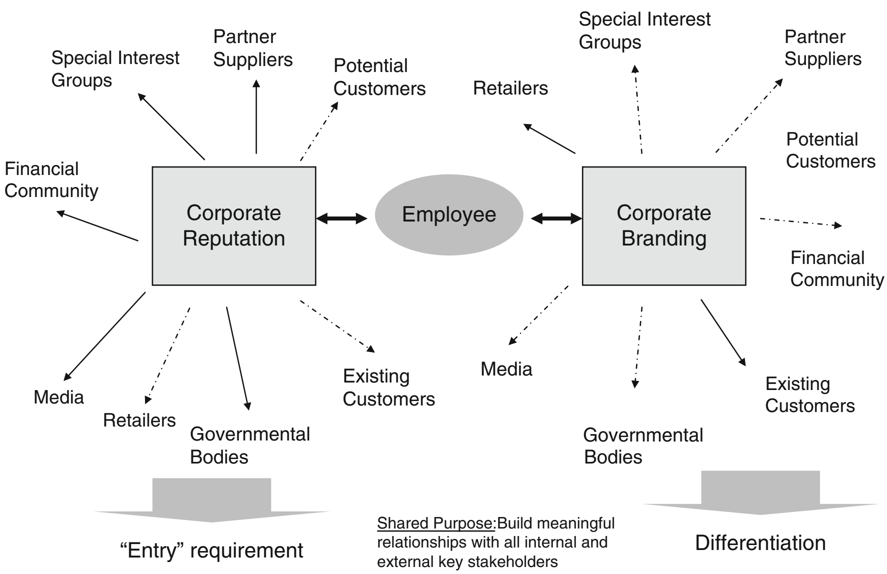

Fig. 2 Corporate reputation and corporate branding – two converging disciplines

Axe product brands which are positioned in conflicting ways (Fisher-Buttinger and Vallaster 2008).

2. *New communications paradigm facilitated by the Internet.* Traditional reputation and brand management worked within the paradigm of one-way information disseminated from the company to the key audience. In the case of reputation management, segregation of audiences was very common, allowing for tailored messages. In the case of brand management, advertising became quite manipulative and disruptive, often holding the audience captive. However, the arrival of social networking and web 2.0 technology has caused a power shift from the company towards the consumer. It has created an environment where uncensored information can spread around the world at light speed, making it impossible for corporations to control or hide information or contain a crisis. As audiences can choose which information to consume, when to consume it and how to consume, the need for relevance and transparency is heightened. The emergence of blogs, chat groups and other online forums allows people to bypass traditional media, thereby causing a convergence of traditional stakeholder groups. As a result, audience segregation is becoming increasingly impossible, making coherent messaging a key (Locke et al. 2000).
3. *A growing CSR imperative is bringing sustainability values into the brand.* Mounting expectations for corporations to take on the burgeoning social and environmental problems and to save our planet have resulted in an increasing CSR imperative (Bansal and Roth 2000). As companies in all industries rightly or wrongly discover CSR as a new means of differentiation, sustainability values enter the brand value system. While historically these values were part of the reputation domain, they now contribute further to the blurring boundaries between reputation and brand.
4. *Erosion of Trust.* Numerous corporate scandals, the credit crisis, the 9/11 terrorist attacks and the war in Iraq, all have contributed to a general erosion of trust and increased general scrutiny of corporate actions. Against this backdrop of distrust, sustainability values and ethical behavior enjoy newly won importance.
5. *Value chain risk.* Globalization and pressures to increasingly outsource parts of the value chain to locations with lower labor and manufacturing costs have resulted in complex structures that are difficult to control. The increased risk and high-profile scandals further fuel the environment of distrust and the need for both, close monitoring and more transparency.

We will now discuss the various dimensions of corporate reputation and corporate branding that are affected by these factors.

Impact on Audiences

Increasingly, corporate reputation and corporate branding address the entire universe of internal and external stakeholders. In a first step, both corporate reputation and corporate branding started to acknowledge the crucial role of employees in terms of delivering on a promise made (corporate branding, e.g., de Chernatony 2006; Tosti and Stotz 2001) or living up to a reputation held (corporate reputation, Cravensa and Oliver 2006). While in the case of corporate branding the relationship between brand promise and employees may be more formalized, simply because the brand is increasingly interpreted as a behavioral guideline for all employees, the relationship between corporate reputation and employees is no less important. Historically, corporate reputation played an important role in attracting and retaining top talent, and has since broadened into a code of ethical business conduct that obligates employees to comply. Due to the current environment of eroding trust, compliance with ethical standards has become a key topic in many organizations, reinterpreting corporate reputation as a petition to employees to behave in line with ethical and legal standards and to comply with the particular values the organization subscribes to.

By contrast, corporate branding asks employees to live the brand promise and hence deliver the very characteristics that make a company unique; the brand can therefore also help to determine which potential new recruits have the best fit with company culture and the prevailing value system.

In a next step, corporate reputation (Helm 2007b) and corporate branding (Hatch and Schultz 2008; Fisher-Buttinger and Vallaster 2008) expanded their audiences even further; today, both are concerned with stakeholders inside and outside the company, trying to positively influence employee behavior, customer purchasing decisions and associations held by retailers/distributors, investors, suppliers, partners, media, regulators, special interest groups, local communities, franchisees, activists, analysts, etc. Take, for example, Nokia. When Nokia announced that they are closing their production line in Bochum (Germany) in order to relocate the site to Romania, German employees went on strike. Hyped up by the media, this incident received German-wide press coverage. Boycott campaigns were launched on the Internet under "No! Nokia"; politicians publicly threw their Nokia mobile phones into the bin, and business people in cities such as Bonn gave their Nokia business phones back. Traditionally, this was a classical case for corporate reputation management. They would step in and appease the various stakeholders in order to salvage Nokia's reputation. However, all these actions also enter the associations around the Nokia corporate brand, calling the brand management into action. Depending on the content of the brand promise (in the case of Nokia – "Connecting people"), the need for both, reputation management and corporate branding to act are further amplified.

Fisher-Buttinger and Vallaster (2008) acknowledge that the stakeholders (including the company) "own" the brand to some extent; in extreme cases (e.g., unwanted users) stakeholders might add their own meaning to a brand, resulting in a parallel "brand world" (see, for example, Handelman 2006). Depending on the values that drive these parallel brand worlds, this can also impact on the reputation. For example, when a British youth subculture (the Chavs) adopted Burberry as their favorite clothing label, they infused the Burberry brand with associations around their loitering, chunky jewelry and vandalism, creating a parallel brand world and giving Burberry a bad reputation. Similarly, when UK tabloids reported about the

Burberry cap being associated with soccer hooligans, this may have damaged both, the Burberry reputation and brand (on both levels, product and corporation). As neither reputation management nor brand management was able to salvage the situation, Burberry ultimately discontinued production of their baseball cap.

Going forward, neither corporate reputation nor corporate branding can afford to ignore any of the key stakeholder groups. As each discipline may have limited experience with some audiences and a wealth of experience with others, they might be able to learn from each other.

Over time, it will become more evident which audiences are the most powerful in influencing the strength of both, reputation and brand.

Impact on Strategic Purpose and Role

The arrival of social networking and web 2.0 has caused a shift in communication paradigm away from the traditional one-way dissemination of information from the company to a particular audience towards an interactive relationship between company and stakeholders as well as between stakeholders (Locke et al. 2000).

This development is significant to both, corporate reputation and corporate branding since it necessitates a change in how they interact with their key audiences. In the case of corporate branding, this signifies a shift away from manipulative, disruptive advertising towards welcome and relevant interactions with key stakeholders. For reputation management this translates into greater emphasis of transparency, coherence of messages and feedback loops.

Therefore, corporate branding and reputation management need to embrace the interactive and relationship-based nature of communications. Furthermore, they need to understand that communications alone no longer delivers either reputation or corporate brand; communications have to be backed up by appropriate proof points (e.g., “living the brand” or “living up to the reputation”). As a result, both corporate brand and reputation are broadening their strategic purpose; both intend to build meaningful relationships with key stakeholders with the ultimate goal of driving competitive advantage. In the case of corporate branding, this competitive advantage is achieved through sustainable differentiation and building loyalty; a movement that is well on its way: companies have long started to put programs in place in order to anchor brand values, brand promise and other concepts throughout the organization (Ind 1997) to do just that. This is more difficult to do for reputation management since it is still largely seen as a communication-based discipline. While the necessity of building and sustaining a favorable corporate reputation in order to create corporate competitive advantage has been recognized since the 1980s (Fombrun 1996), it has not been explicitly formulated by which means.

With regard to their respective strategic standing, corporate branding is experiencing more of a shift than reputation. As mentioned earlier, reputation management has long enjoyed CEO or senior management attention, in part due to the fact that public perception of the CEO, his competence, trustworthiness and behaviors are key contributing factors to reputation (Schreiber 2001). On the other hand, brand management has been elevated from middle management to the board room partly in line with the shift from product branding to corporate branding (Hatch and Schultz 2003), thereby enjoying a lift in strategic standing.

For both, corporate reputation and corporate branding, relationships as a link between the company and its audiences have become a key focal point. Still, differences exist. Familiarity and anonymity are two concepts that can help crystallize where some of the differences between reputation and corporate brand still can be found. For example, the current credit crisis has negatively affected the entire banking and financial services industry and has damaged the blanket reputation of these companies. However, whether individual corporate brands will suffer is still primarily driven by their individual performance, response and behavior. For instance, the UBS corporate brand will suffer much more than Goldman Sachs. As this example illustrates, reputation is more likely affected in anonymous situations; the corporate brand enters the equation as familiarity increases.

Although reputation and corporate branding have developed their own language, the end goal is the same for both – namely to establish meaningful relationships built on trust, transparency and mutual benefits, ultimately resulting in loyalty. In the case of corporate branding, these relationships also become a key driver of differentiation; this is commonly achieved through brand engagement.

Impact on Key Determinants And the Role of Differentiation

Alsop (2004) writes that "reputation is made up by ethics and social responsibility, financial performance, workplace, quality of products and services, corporate leadership (CEO reputation) and vision and the elusive emotional bond between a company and its stakeholders that is central to the most enduring reputations" (p 22). All of these elements are also part of what constitutes a corporate brand. However, for the corporate brand they tend to be "table stakes" or "prerequisites" that define the basic "entry requirements" for being called a brand. As Ettenson and Knowles (2008) state, ". . .any and all serious competitors in an industry will exhibit all of the characteristics that shape a positive reputation. Thus, dimensions of a strong reputation are merely points of parity that generate legitimacy for an organization." (p 20) By contrast, a successful corporate brand will always incorporate and stand for unique characteristics in addition to these table stakes (be it in terms of unique product or service properties, a unique culture, a unique experience, etc.) resulting in a differentiating brand promise which is reflected in every point of interaction between stakeholder and corporation (Aaker and Joachimsthaler 2000).

This promise is explicitly stated and increasingly translated for each key stakeholder group. For example, LEGO Group translates their brand promise around "*Joy of Building. Pride of Creation*" into relevant statements for each of their stakeholder groups from retailers to suppliers, paying attention to their particular needs and pressure points. In particular, this promise becomes a behavioral guideline and directive for employees; compliance with the brand is increasingly included in incentive metrics.

Impact of the Growing CSR Imperative

The way CSR activities influence corporate reputation (Lewis 2003) or corporate branding (Fan 2005) still has to enter the research agenda. CSR initiatives historically were borne of crisis and conflict, and primarily resulted in defensive strategies designed to safeguard standards and reputations. It then evolved into a discipline of report writing which served the aim to mollify criticism. CSR in many ways has developed a bad reputation itself, and therefore, it is not surprising that companies still have difficulties embracing it as a strategic opportunity. Until very recently, CSR was very closely linked to reputation; companies that were found to be "culprits," in particular in so-called stigma industries such as oil, tobacco, chemicals, etc., were publicly attacked by NGOs and special interest groups, making it a prime task of the reputation team to interact with these key stakeholders.

However, things have changed. Today, CSR has been discovered as a means of driving competitive advantage and forward thinking companies have long understood that CSR has the strategic power to energize both the business and the brand; some people argue that CSR – despite the many "green washing" attempts – will eventually become simply a way of doing business. This is the reason why some corporate brands have started to incorporate CSR as a key part of their brand identity. The degree of interlinking between brand and CSR spans the entire spectrum, ranging from quietly embracing CSR processes to making it the sole reason for existence (see Fisher-Buttinger and Vallaster 2008).

However, as Fisher-Buttinger and Vallaster (2008) point out, adopting such a strategy for the corporate brand is not without perils (see also Palazzo and Kunal 2007). Take for example American Apparel. They offer garments such as underwear, stockings, sweat suits, etc. with a difference: understanding the risks large textile labels have to deal with when outsourcing production to Asia (see, for example, child labor issues in India), they allegedly produce all of their garments under one roof in their factory in Los Angeles. Their "Made in Downtown L.A." label stands for ethical and social responsibility, which is why they have become one of the fastest growing companies in the US. Their workers – many of them are immigrants from Latin America – get more than the 8 $/h minimum wage, they can attend English courses for free and can get a massage in between working shifts. So – on the surface, American Apparel is a "good" company. Social responsibility is used as a means of differentiation and trades heavily on the current CSR mindset. This means that social responsibility and ethical behavior have become the essence of the American Apparel brand, making it the measuring stick for all its corporate actions. However, a claim like this invites scrutiny, and sure enough, all is not well at American Apparel. First of all, part of their drapery is weaved somewhere else – based on corporate documents the company buys about 70% of the final drapery from third party suppliers; in addition, two-thirds of the products are colored by other companies. Where the supplies come from and where they are colored are still the secret of American Apparel (Gehrs 2008). Secondly, American Apparel has attracted quite a bit of criticism for its advertising methods. Founder Dov Charney was an amateur pornographer and apparently applies his skills in American Apparel ads – he primarily uses employees as models and encourages them to express themselves sexually (see ad example below).

Thirdly, Charney himself is no angel either. He allegedly masturbated while giving an interview about American Apparel to a reporter from Jane Magazine, and four former employees have filed sexual harassment lawsuits against him. He said the workers were fired for poor job performance, and denies the lawsuits' claims.[1]

Where does all this leave American Apparel's corporate brand and corporate reputation? Since the brand stands for "garments that are made in a socially responsible way in downtown L.A.," both, the outside weaving as well as the use of employees for advertisements, go against that grain. By the same token, the reputation is created by the behavior of all employees, but in particular those that

[1]See http://www.associatedcontent.com/article/223374/american_apparel_the_company_the_criticism.html.

have business and role model responsibilities such as a founder; therefore, Charney's unethical behavior is highly damaging to the corporate reputation of American Apparel. This example demonstrates how the inclusion of ethical and sustainability values further intertwine corporate reputation and corporate brand.

As CSR will become a way of doing business, the need to and value of communicating CSR values will disappear. Only time will tell what the effects on the corporate brand will be.

Impact Processes and Structures Within the Organization

In order to deliver on their (explicitly stated) brand promise, all brands have to align internal processes, structures and employee behavior in a way that ensures consistency of stakeholder experience in every point of interaction between stakeholder and corporation. For example, if Deutsche Bank allegedly serves their clients with a "Passion to perform," this needs to become evident for a customer entering a Deutsche Bank branch anywhere, a journalist calling up to get more information or a partner looking to resolve a conflict. This implies that the corporate brand enters and permeates the entire organization, making it necessary that the corporate brand has a strategic mandate right from the top. However, if the strategic mandate and power to act do not correspond, it will become very difficult for the corporate band to achieve this.

As corporate reputation is primarily aiming at compliance with ethical standards, the impact on business processes and structures is much more profound and at the same time more straight forward. Compliance with basic corporate values, legal and ethical standards might be promoted by the reputation team, but are generally not enforced by them. As pointed out earlier, their tasks are much more in the communicative corner.

Impact on Business Performance

While it is intuitively clear that a strong reputation and a strong corporate brand contribute to business performance and success, it is difficult to put this into numbers.

According to some, corporate reputation is increasingly recognized for its bottom-line impact (Helm 2006, 2007a; Deephouse and Carter 2005; Roberts and Dowling 2002); yet according to others, reputation has failed to demonstrate a clear relationship with the generation of shareholder value to date (Ettenson and Knowles 2008). This raises above all the question about how reputation is defined and measured; but it also demonstrates that some very basic issues about cause and effect still need to be clarified – in particular, it is still unclear whether reputation is a *result* of strong financial performance or the *cause* of it (Ettenson and Knowles 2008).

With corporate branding, things seem to be somewhat clear cut. A strong corporate brand will contribute to financial performance through a loyal customer base (e.g., it is more efficient to sell to existing customers than to acquire new ones), a price premium (over comparable products) and a growth platform (both in terms of customer advocates who might recommend a product or service to their network and in terms of introducing profitable product extensions on the back of the same brand platform). Research has shown that a strong corporate brand positively influences sales, stock market multiples (such as price/earnings ratio), stock price and shareholder value (e.g., Pahud de Mortanges and van Riel 2003).

Conclusion and Managerial Implications

As we have shown, corporate branding and corporate reputation increasingly have overlaps. However, while corporate reputation and corporate brand are in fact closely intertwined, influencing each other and even converging towards each other, they are not one and the same. Most important differences include:

- Reputation is primarily based on what constitutes table-stakes for the brand and is most likely exhibited by all serious competitors in a particular market; by contrast, the corporate brand seeks differentiation through unique characteristics.
- The brand is explicitly stated as a promise to its key stakeholders and translates into a binding behavioral guideline or directive for employees to deliver on this promise in every point of interaction; by contrast, the reputation is a much less formal guideline for behavior compliant with legal and ethical standards and with values the organization subscribes to.
- Corporate branding has greater power to act and permeates the entire organization, including processes, structures and even incentive metrics.
- Corporate branding has been more successful in illustrating and documenting contribution to business performance.

Going forward, corporate branding and corporate reputation require closer co-ordination. Despite the differences highlighted above, both are often undervalued strategic assets that could be leveraged more optimally. Therefore, it is of utmost interest to the practitioner not how the two concepts are different, but how to integrate the two concepts in order to best leverage their respective strengths and contributions for the benefit of the organization.

As Fisher-Buttinger and Vallaster (2008) propose, the branding team of the future is based on a model of networked collaboration. In this model the branding team integrates all functions and departments which interact with key stakeholders on a regular basis, including the reputation management team.

This model of networked collaboration (see Fig. 3 above) will allow systematic and strategic co-ordination between branding and corporate reputation. However, it

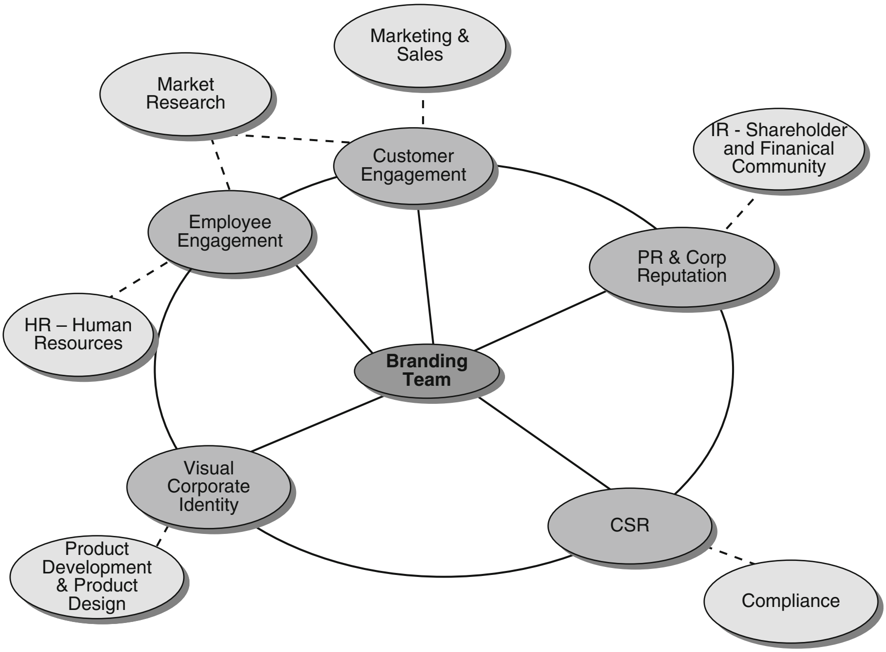

Fig. 3 Core and extended branding team

is not necessarily the branding team that needs to lead the way. Some companies are more focused on branding, while others place more emphasis on reputation management. We propose that the function that has been more prevalent in the company to date takes the lead and starts a constructive dialog that will ultimately result in networked collaboration.

For researchers, the following issues deserve further attention:

- *Interrelationship between reputation and corporate brand*. Researchers are particularly encouraged to empirically analyze the interplay between corporate reputation and corporate brand in terms of respective influence and dependence.
- *Impact of CSR on corporate brand and corporate reputation*. We suggest taking a closer look at what will happen when CSR becomes the way of doing business.
- *Contribution to business performance*. In particular, reputation management is in need of clarifying issues around cause and effect as well as demonstrating contribution to business performance.
- *Environment of eroding trust*. It would be very interesting to see whether distrust and increased scrutiny act as a mediator between corporate brand and corporate reputation.
- *Online development*. The Internet impacts on both corporate reputation and corporate brand. Too little is known to date on how the various key stakeholders use the Internet, how their actions influence reputation and brand and how the Internet can be used to build and manage reputation and brand.

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Reputation in Relationships

Kevin Money, Carola Hillenbrand, and Steve Downing

Introduction

Even though reputation is an old idea, it is only within the last decade that it has been constructed as a management discipline and that corporate reputation is recognized as a key intangible asset of organizations (Money and Hillenbrand 2006; Fombrun and van Riel 2004; Roberts and Dowling 2002). Both practitioners and academics often describe reputation as a concept that is held in the minds of stakeholders and experienced in relational elements (Fombrun and van Riel 2004; Waddock 2002). While this is useful, recent reviewers of corporate reputation as a field of academic study have called for more theoretical development (Barnett et al. 2006; Wartick 2002) and more valid and practicable methods of assessment, comparison, and prediction (Bromley 2002; Wartick 2002).

In response to the need for more theoretical development, this chapter offers a definition and conceptualization of reputation that is based in direct exchange relationships. This is in line with the notion that a positive reputation in direct exchange relationships is key to business success (Freeman 2004; Waddock 2002). This extends the work of other reputation theorists who seek to conceptualize reputation as the perceptions of stakeholders towards a focal business organization (Davies et al. 2003; Fombrun 1996). Defining reputation in stakeholder relationships allows for the examination of how perceptions are rooted in relationships. It also enables to extend the analysis in two directions: first to show the causes of reputation derived from the experiences of relationships, and second to show the consequences of reputation in the form of in the intended future behaviors of stakeholders.

In response to the need for more valid and practicable methods of assessment, comparison, and prediction (Bromley 2002; Wartick 2002), this chapter offers a thorough examination and description of statistical properties, the research

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methodology utilized, the process of scale construction, and the modeling applied. In addition, the contribution addresses two further concerns with regard to existing measurement tools articulated by Bromley (2002): The first is Bromley's skepticism of overall scores of reputation, such as the RQ and the Fortune measures, which are derived from applying exactly the same model of reputation across different stakeholder groups. Research has shown that stakeholder groups are likely to differ in their values and beliefs and are therefore likely to judge a company's reputation in terms of different issues that are important to them (Fiedler and Kirchgeorg 2007). Bromley's other criticism is of reputation scores or rankings that are derived from the sum or average of scores on a number of sub-scales. Different issues are said to have different levels of importance for different stakeholders, and it may be important for each issue to have passed a certain threshold for an organization to have a good reputation, regardless of how good other measures are.

The model in this contribution deals with both these concerns by focusing on reputation in a particular stakeholder relationship. It does not seek to aggregate the scores from one stakeholder relationship with that of other relationships. Nor does it sum or average a number of sub-scales in order to derive a reputation score for the relationships under investigation. The predictive power of the model derives from the overall pattern in a relationship and the application of structural equation modeling allows for prioritizing which aspects of reputation are likely to make the most impact on stakeholder behavior.

Theoretical Development

In a review of existing definitions, Barnett et al. (2006) find that definitions of corporate reputation fall into three classes: corporate reputation as an asset, as an assessment, and as awareness. Corporate reputation as an asset is often advocated by strategists seeking to explain firm performance (Money and Hillenbrand 2006). Corporate reputation as an assessment and awareness, on the other hand, places reputation in the perceptual context of organizational relationships (Money and Hillenbrand 2006). Most leading definitions of reputation to date have in fact regarded it as the total perceptions of all stakeholders towards a company. For example, Fombrün and Rindova (2000) describe corporate reputations as aggregate perceptions about the salient characteristic of firms. The authors continue by saying that this reflects a general esteem in which a firm is held by its multiple stakeholders. The over-riding objective in these studies appears to be to gain a total measure which can be related to the total intangible assets, brand equity or reputational capital of a business (Fombrun 1996).

However, capturing the perceptions of all stakeholders as a prerequisite to calculating a financial value for reputation is an enormous task. For a major company there will be millions of people who will have some sort of perception of it, gained in widely diverse ways. How can these millions of perceptions be captured and measured, let alone managed? Are all these perceptions equally important? And important to whom: managers, shareholders, government or regulators? These questions confront any researcher trying to make sense of the field of corporate reputation. In a recent review of the field, Lewellyn (2002) argued that future research needs to answer three very basic questions:

1. Reputation for what?
2. Reputation to whom?
3. Reputation for what purpose?

These are therefore useful initial questions for this paper, as a means to categorize some of the main approaches and models in use and identifying significant gaps yet to be filled. By addressing these three questions, reputation will be operationalized in stakeholder relationships with a business.

Reputation for What?

Companies can have reputations for different characteristics, behaviors or outcomes. For example, one may be seen as having a reputation for being financially successful, another for being innovative, another for having high-quality goods or service. The oft-cited rankings in *Fortune*, *Management Today*, and the *Financial Times* emphasize criteria such as being well-known, respected, and having high levels of financial performance and innovation. Academic authors, such as Davies et al. (2003) see reputation in personality-like attributes, such as whether businesses are sincere, exciting or competent. Fombrun and Gardberg (2000) highlight characteristics such as emotional appeal, leadership, and financial performance, as well as the ability to meet stakeholders' expectations. Gaines-Ross (1998) operationalizes reputation as exhibiting certain behaviors, such as being well-led or being effective communicators. Bromley (2002) argues that major companies "have as many reputations as there are distinct social groups (collectives) that take an interest in them" (p 36). These "collectives" are "relatively homogeneous groups of people with a degree of common interest in a reputational entity, such as a company" (p 36). In other words these "collectives" are essentially groups of stakeholders; so if reputations differ by stakeholder, this leads naturally to the next question – reputation as perceived by whom?

Reputation to Whom?

In principle, all people with perceptions of a business should be taken into account. But whose perceptions are the most critical? In practice authors focus most on one or two groups. Davies et al. (2003), for example, concentrates on the views of customers and employees; van Riel (1997) is primarily interested in employees, while Badenhausen (1998) focuses on the views of financial analysts but also adds senior executives from other companies. Analysts and senior executives are also most commonly used in the *Fortune* and *Financial Times* rankings. Implicit in these choices of stakeholder group must be assumptions of why their perspective is particularly important, and logically this must be related to the purpose of reputation. As Lewellyn (2002) says, "'for what' (and 'for what purpose') determines the reference group 'to whom'." (p 451).

Reputation for What Purpose?

In thinking through the purpose of reputation, one begins to identify whose views are most critical. Some writers assert that a good reputation (like a valued brand) commands premium pricing, or may involve lower marketing costs, attracts better employees, brings endorsements or acts as a buffer to criticism (Fombrun and Gardberg 2000; Fombrun et al. 2000). Davies et al. (2003) sees beneficial reputational outcomes in terms of customer loyalty and employee retention. Gaines-Ross (1998) affirms similar benefits. The underlying assumption is that these outcomes bring about better long-term financial performance and shareholder value, though the direct mechanism by which this is achieved may vary.

A closer analysis of the theories above suggests that the mechanism through which reputation impacts organizations is stakeholder relationships. Via, for example, the higher prices customers are prepared to pay for products with a good reputation or the increased productivity that may result from the higher level of commitments employees are suggested to demonstrate towards companies with a good reputation. Based on MacMillan et al. (2000), we argue that the stakeholders most able to influence these aspects of performance will be those that have direct monetary exchange relationships with the business, i.e., customers, employees, suppliers, investors, and government (representing the community). If the main benefits of a good reputation for a company are ultimately reflected in shareholder value, it is the exchange relationships that produce shareholder value that need to be studied. The argument can be illustrated by reference to the *Stakeholder map* in Fig. 1.

It is key premise of stakeholder theory that healthy stakeholder relationships underpin the long-term financial performance and social standing of a business (Freeman 2004; Sillanpää and Wheeler 1998). MacMillan and Downing (1999) highlight that the stakeholders in the shaded, inner box have cash exchanges with the business: money flows one way and something else such as goods, services, obligations or rights flow in the other direction. The groups in the outer box do not have direct significant cash exchanges with the business, but can influence the behavior of the direct exchange stakeholders towards the business. Furthermore, MacMillan and Downing (1999) argue that because shareholder value is based on future net cash flows, it follows that it is also largely based on the quality of

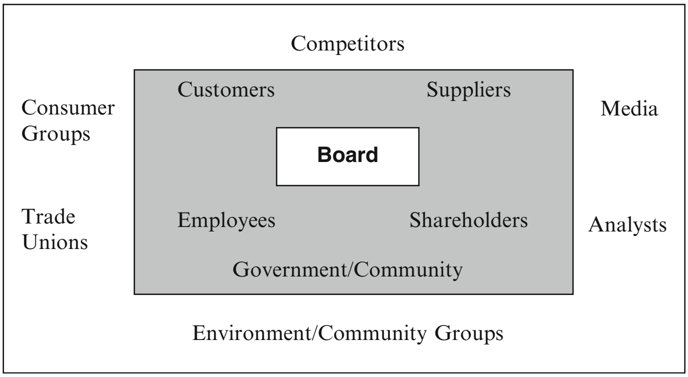

Fig. 1 Stakeholder map

direct exchange stakeholder relationships. Consequently it might be held that the everyday understanding of "goodwill" of stakeholders meaning a favorable disposition or feeling is closely linked to the accountants' definition of goodwill, namely the surplus capitalization of the business above the value of the net assets. In other words, there is a relational basis to cash flow and capitalization values. In this article we develop this insight by showing that a reputation reflected in the perceptions of stakeholders is rooted in relationships and linked to the emotions and behaviors that generate cash flow. So to answer the question reputation for what purpose, generating goodwill in both relational and financial terms is key.

Bringing Together Reputation for What? to Whom? and for What Purpose?

Lewellyn (2002) requires reputation researchers to provide an integrated set of answers to the questions of reputation for what? for whom? and for what purpose? before they can develop measures of reputation, advance theory or be of practical value. In the sections above we have argued that generating goodwill is the key aim in developing and maintaining a reputation. This is the answer to the reputation for "what purpose" question. We have argued that this goodwill will be achieved by having supportive relationships with direct exchange stakeholders. This is the answer on the reputation "with whom" question. The reputation "for what" question can only be answered by reviewing what is important to each stakeholder group. Reputation measures should, therefore, include measuring perceptions of these important relationship issues. MacMillan et al. (2000) identified seven critical relationship categories which we believe are highly generalizable and were therefore used in the current study.

Conceptual Development: Operationalization of Business Relationships

Based on the empirical work of Morgan and Hunt (1994), MacMillan et al. (2000) propose a theoretical model to understand the development of goodwill in business relationships. MacMillan et al. (2000) present three sets of variables in their model: (1) a number of drivers of a business relationship which are the perceived behaviors, products, services, and values of a business, (2) the nature of the relationship itself which is characterized by what the stakeholder feels about the business, and (3) a number of outcomes of the relationship which are operationalized by stakeholders' likely future behaviors towards the business. Stages (1) and (2) refer to stakeholder perceptions and represent the reputational component of the model. Stakeholder intentions represent the consequences of reputation. The operationalization in three stages allows the impact of reputation to be derived from the perceived behaviors of organizations on stakeholder behaviors to be measured. It also allows the consequences of reputation to be measured in terms of supportive and less-supportive stakeholder behaviors. The concepts in the MacMillan et al. (2000) model form the basis for the development of the survey instruments and are listed in Fig. 2.

Following MacMillan et al. (2000) this contribution defines and operationalizes reputation as "*stakeholders*, *experience-based perceptions and feelings towards a business*". The outcome of reputation is defined in terms of stakeholder behavioral intentions towards a business.

Research Design and Questionnaire Development

For reason of access, customers of an insurance company were chosen as participants in this study. Elements of the model and generic survey instruments for each of these (the origins of which are outlined in Fig. 1) were contextualized in focus groups with both management of the organization and the customers.

The focus groups and interviews with the management were used to establish which intended stakeholder behaviors were judged to be critical for the future performance of the business and whether there were any particular elements not included in the theoretical model. The objective of the customer focus groups was to adapt the language in the questionnaire and make it relevant to customers in this sectoral context. In addition to this, these focus groups were important to ascertain which perceptions and experiences of the business were considered important in this context and whether any important elements were absent from the theoretical formulation.

The draft questionnaire was then piloted with a sample of customers to ensure each question was relevant and clearly worded. The results from the pilot tests were used to further refine the questionnaires and to design the final version. Participants

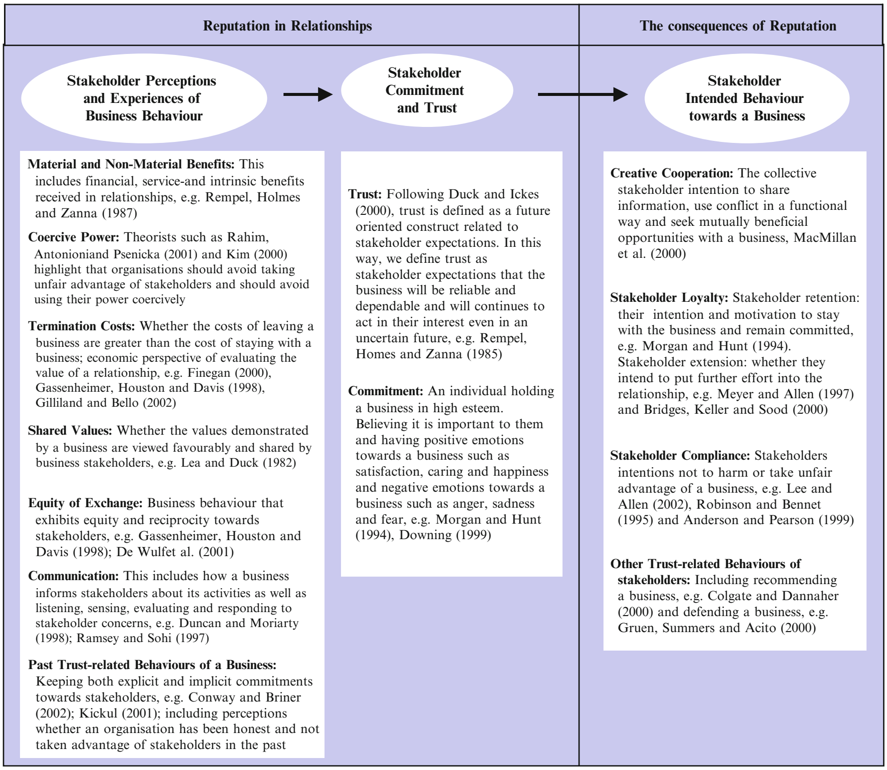

Fig. 2 Definitions of reputation in relationships and its consequences

were asked to indicate the extent to which they agreed or disagreed with the statements in the questionnaire with reference to a 7-point Likert-type scale. Point 1 on this scale indicated strong disagreement, Point 7 strong agreement, and Point 4 neither agreement nor disagreement.

Data Collection

The final customer questionnaire was distributed to 10,000 customers of an insurance company and administered by post. About 2,825 customers responded, representing a response rate of 28%, which is acceptable for this type of research according to Baruch (1999). Whilst the full sample was used for application of an exploratory factor analysis, for methodological reasons a random sample of 600 customers out of the 2,825 responses was selected for application of structural equation modeling. The number of distinct parameters to be estimated in the final customer model was 134. A sample of 600 is in line with literature recommendations of a minimum sample size of at least five respondents for each estimated parameter while balancing this with requests to minimize the use of large samples in SEM (e.g., Hair et al. 1998).

Data Analysis

Data was captured in SPSS version 12.0 for Windows and subjected to a number of standard procedures to check for missing values and multivariate normality. The data was then analyzed in four separate but sequentially related steps:

1. An exploratory factor analysis (Principal Component Analysis with Varimax Rotation) was conducted including all items of the questionnaire to explore the empirical data structure. The aim of the PCA was twofold: firstly to assess if the items group into a number of distinct and meaningful factors. Secondly to assess if the appropriate items loaded substantially on their hypothesized factors and no larger than 0.30 on any other factor. That was seen as necessary to differentiate the scales into aspects of *reputation in relationships* and *consequences of reputation*, analogous to the theoretical conceptualization.
2. As a next step, items that loaded substantially (greater than 0.5, see Nunally 1978 for a discussion) on a common factor were exposed to reliability tests (Cronbach alphas). Relevant items that displayed sufficient reliability scores (of or above 0.7, see Forman et al. 1998) were combined to aggregated scales using the summated mean method.
3. A correlation analysis was then conducted to understand the nature and direction of relationships between different scales, as well as the strength of association. Understanding the strength of these relationships was the basis for the application of structural equation modeling.
4. In a final step, the data was analyzed with a Structural Equation Modeling technique (utilizing AMOS software version 5.0) to test the specification of the proposed model from MacMillan et al. (2000).

The results of all four steps of analysis are now reported.

Results

Step 1: Exploratory Factor Analysis

The results of the Principal Component Analysis suggested a 12-factor solution. This implies that it is possible to measure at least 12 distinct aspects of a relationship. The majority of items grouped together as expected from theory. The only difference was found in one factor that combined six items belonging to the constructs *intrinsic benefit items* and *shared values*. These six items were subsequently combined to one scale, which could be justified not only due to their empirical, but also to their theoretical closeness.

Step 2: Reliability Analysis

The results of the Reliability Analysis (Cronbach Alpha) showed that all but one scale exhibit satisfactory reliability indexes between 0.77 and 0.92 (Nunally 1978), see Fig. 3. The scale Termination Cost with a reliability index of 0.57 fell lower than desired. Based on theoretical consideration, termination cost was kept in the model, but treated with caution in further analysis (as will become apparent later, termination cost did not exhibit a significant link to either trust or commitment).

Step 3: Correlation Analysis

Pearson's Correlation Coefficient was used as a measure for the linear associations between the constructs (Hair et al. 2003). The correlation coefficients range from 0.04 to 0.586. The results of the correlation analysis helped to reveal links that are likely to be strong in structural equation modeling and also help to identify if exogenous constructs are correlated, expressing a shared influence on endogenous variables (Hair et al. 1998).

		Mean	Standard Deviation	Cronbach´s Alpha
Customer Perceptions and Experiences of Business Behavior	Material Benefits	4.91	1.20	.83
	Non-Material Benefits/ Shared Values	4.33	0.95	.88
	Coercive Power	3.47 (inv.)	1.18	.81
	Termination Costs	3.84 (inv.)	1.34	.57
	Communication	4.20	0.81	.87
	Past Trust-related Behaviors	5.28	1.13	.91
Customer Feelings of Trust Commitment	Trust	4.49	0.99	.79
	Commitment	4.77	1.24	.91
Customer Intended Behavior towards a Business	Creative Collaboration	3.95	1.41	.92
	Loyality	3.70	1.26	.77
	Compliance	5.79	1.09	.86
	Future Trust-related Behaviors	4.48	0.89	.84

Fig. 3 Descriptive statistics of customer relationship scales

Step 4: Structural Equation Modeling

The final model with standardized beta-weights and *R*-squared values is presented in Fig. 4. The rationale behind the specification of arrows is the link from reputation in relationship to consequences of reputation outlined in MacMillan et al. (2000). More specifically, the arrows go from customer perceptions and experiences of business behavior (left side) to customer feelings of trust and commitment towards a business (middle) to customer-intended behavior towards a business (right side).

All variables shown in Fig. 4 are latent constructs, measured with a number of items (between 2 and 10 each, see Fig. 3 for scale composition). The model is recursive. The exogenous constructs were allowed to correlate.

The model was tested using AMOS, estimating the significance of the paths (links) between the concepts as well as the predictive ability of the model. The results indicate support for almost all of the specified links. The *Termination Costs – Commitment* link was not significant, nor was the *Past Trust-related Behaviors – Trust* link or the *Trust-Commitment link*. (All other links in the model were significant to the 0.001 level).

The data fits the model well. The parsimony ratio is 0.918, the Tucker-Lewis Coefficient of 0.915 indicates a good fit, as does the Comparative Fit Index of 0.922. These are in line with guidelines given by Chin and Newstead (1999). [Note: The Goodness of Fit Index was 0.851 and the Adjusted Goodness of Fit Index was 0.831. These are both close to their recommended level of 0.9 given by Hair et al. (1998).]

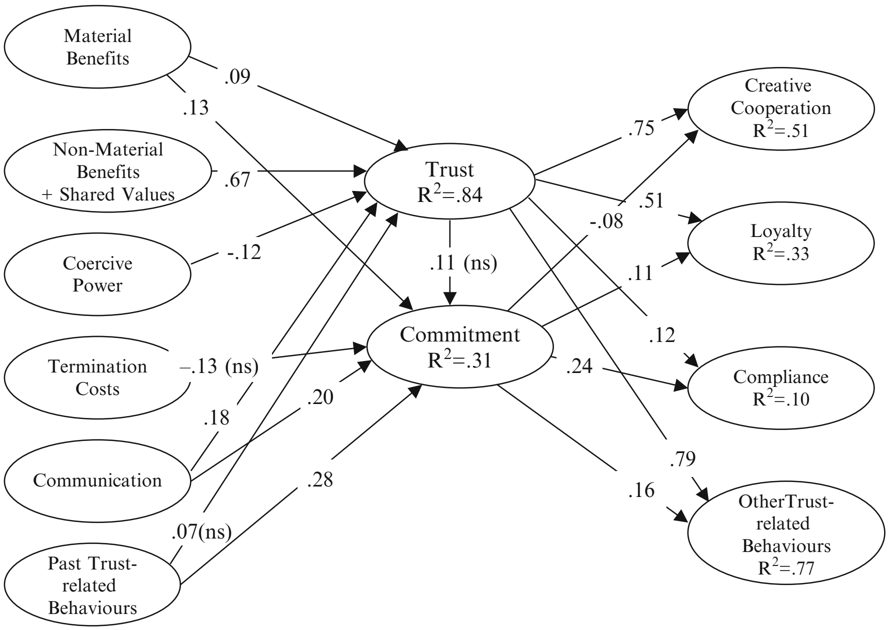

Fig. 4 The model for business relationships – customers

Discussion of Results

The model displays considerable predictive power. More than three quarters of the variance of Trust was explained (*R* of 0.84) through mainly Non-Material Benefits and Shared Values, but also through Material Benefits, Communication, and Coercive Power. Similarly, over half of the variance of customer Creative Collaboration (*R* of 0.51) was explained. Interestingly, that was mainly achieved through Trust, while Commitment impacted slightly negatively on customers' Creative Collaboration. The other endogenous variables also showed substantial *R* values (Loyalty = 0.33; Compliance = 0.10; Future Trust-related Behavior = 0.77).

The results of the Structural Equation Modeling is now interpreted in combination with the mean scores of each construct reported earlier in Fig. 4 to give a fuller picture of the results. Scores above 4 on the 7-point scale may be interpreted as positive, whereas scores below 4 as negative perceptions of a business. The model and mean scores reveal a generally favorable picture of customer perception and feelings towards the business. There is a slightly above-average level of Trust which brings about positive supportive behaviors (mean score for trust: 4.49). Similarly, there is a relatively high level of Commitment which brings about positive supportive behaviors (mean score for emotions: 4.77).

However, the mean scores also reveal low levels of Creative Collaboration and intended Loyalty of customers towards the business. In order to improve the feelings of Trust which antecede Creative Collaboration and Loyalty, the model suggests that they should concentrate on increasing Non-Material Benefits and Shared values as well as Communication (as they are the main drivers of Trust and currently have relatively low mean scores). Other factors such as Material Benefits and Past Trust-related Behaviors are also important, but they have higher mean scores, suggesting that the greatest impact can be made by concentrating on Non-material Benefits, Shared Values, and Communication. (In this insurance context, Non-material Benefits include business' behaviors such as contributions to the local community, ethical behavior, and observations about whether the firm treats its staff or other customers well. Communication involves informing customers as well as listening to their changing needs.) In order to improve Commitment which again antecedes Creative Collaboration and Loyalty, the model suggests that improving Communication and considering the impact of Termination Costs is key. Again, it is important to keep delivering relatively high levels of Material Benefits and Past Trust-related Behaviors and if possible even improving them.

Practical Implications

What practical utility does this approach have for management? The first benefit is that it gives organizations an indication of how they are perceived by their key stakeholders and how these stakeholders are likely to behave towards them in the future. It improves the self-awareness of the business and also indicates whether stakeholders view the business in a positive or negative light.

Managers can obtain information about mean scores for each construct, or they may use information about the frequency of stakeholder perceptions about each construct. To illustrate this point further, customers perceive material benefits provided by the organization as rather positive, with a mean score of 4.91. In frequency terms, the results show that over two-thirds of customers (69%) rate material benefits above average (scores between 5 and 7 on a 7-point scale), less than one-fifth of customers (17%) rate them as average (score of 4), and only 14% if customers rate them below average (scores between 1 and 3).

A further benefit for managers is that the model displays the pattern of perception across constructs by linking stakeholder perceptions and experiences to their future intended behaviors. Managers can identify via the model the perceptual or experiential antecedents of an intended behavior and then take appropriate actions to improve it. This provides much richer information to management than simply one overall score for reputation.

Implications for Reputation Measurement

The conceptualization of reputation offered in this paper is specific to particular stakeholder groups rather than constituting a single overall measure of reputation derived from all stakeholder groups or the general public. This is based on the assumption that people's perceptions about an organization will depend on which stakeholder group they belong to and what sort of relationship they have with an organization. It is also based on the belief that stakeholders gain their perceptions primarily through their direct experiences rather than what they learn in the media and from other people. The better these experiences, the more likely it is that the stakeholders will trust the organization and have positive emotions towards it. The stronger these feelings, the more likely it is that stakeholders will behave in supportive ways towards the organization in the future. In our formulation the experience and feelings towards a business constitutes its reputation, while the intended behaviors constitute the consequences of reputation.

The results make a number of contributions:

1. The theoretical distinction between experiences, emotions, and intentions claimed by MacMillan et al. (2000) is empirically justified. In addition to this, individual elements of experiences, emotions, and intentions in this model were found to be distinct. This is demonstrated by the factor analysis results.
2. These distinct elements can be measured reliably. This is demonstrated by the Cronbach Alpha reliability tests. On a practical level, businesses can thus understand if they have good or bad reputations for each of the distinct aspects in the model, by looking at the mean scores.

3. These elements can also be linked causally and this causal model provides a parsimonious solution for the data. This is shown by the SEM results. On a practical level this means that a business can identify which elements of stakeholder experience are most critical in predicting the future behavior of stakeholders towards the business (e.g., whether stakeholders will be supportive or unsupportive towards the business in the future).

Conclusions and Limitations

The study of corporate reputation is still at a formative stage. This paper has been a response to calls for more theoretical and methodological development that can be readily applied by management (e.g., Bromley 2002; Wartick 2002).

The proposed formulation of reputation and its consequences in stakeholder relationships complements other, overall measures of reputation that are used to provide relative rankings and league tables. Our approach, however, does not assume that reputation is an end in itself. Rather, it focuses on stakeholder-intended behaviors, which it has been argued, should directly influence the financial performance of firms in terms of shareholder value. The approach therefore, has the potential to be used as a tool by management to improve the performance of the firm. Whether this aspiration will ever be realized will depend on further critical review, extensions of the model and applications to other contexts, as the research reported in this contribution is based on data from one organization and one stakeholder group, customers, in a cross-sectional study design. While this does provide some evidence of the validity of the model, there is a clear need to apply this approach to a number of other organizational and stakeholder contexts and in a longitudinal way before firmer conclusions about generalizability can be made.

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Part III
Measures and Impacts

Overview

Sabrina Helm, Kerstin Liehr-Gobbers, and Christopher Storck

The management of reputation inevitably requires measurement. However, the object, methodology, underlying research interest and further use of measurement findings may vary. This part provides an insight into the various aspects of measurement and its relevance for reputation management. It closes with a meta-study examining the financial impacts of reputation as measured by several researchers.

Liehr-Gobbers and *Storck* open with an introduction on how reputation can be measured in general. The paper stresses out the range of methods existing for both media evaluation and stakeholder research. The authors systematically list which cognitions the various methods are able to provide. The closing presentation of the "*Barcelona Declaration of Measurement Principles*" introduces the reader to the state-of-the-art of PR measurement.

In the second chapter, *Helm* and *Klode* describe the "*Challenges in Measuring Corporate Reputation*" most communication professionals should be aware of when selecting a measurement tool. The authors expand on the pros and cons of single- versus multi-item measurement concepts, discuss formative versus reflective models and evaluate the benefits of low and higher order factors. In a second part, *Helm* and *Klode* introduce common measurement tools used both by practitioners and in academia and discuss the need for non-standardized tools.

"*Measuring Media Corporate Reputations*" is the primal yet most common measurement communication practitioners and researchers have focused on. *Dowling* and *Weeks* recapitulate the reasons for analyzing media coverage, give hands-on suggestions for an effective presentation of the media analysis and explain which action steps should be derived from its findings.

Another type of measurement is applied by *Fiedler* for his study on "*Reputation Management in Different Stakeholder Groups*." Fiedler uses an innovative approach to scrutinize the components of corporate reputation and its effects on stakeholder commitment and to analyze the differences that occur between various stakeholder groups: he combines stakeholder theory with social network theory and thus takes into account the power of word-of-mouth communication. Based on his findings, "*tailored reputation management strategies*" can be derived.

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Unlike Fiedler, *Walsh*, *Beatty* and *Holloway* focus on just one stakeholder group: customers. Regarded from a marketing point of view, the measurement of corporate reputation can be used as a new tool to segment various customer groups. Combined with traditional segmentation techniques, important insights for a differentiated marketing planning can be gained.

Apart from stakeholder research, examinations on the financial impact of corporate reputation are a major field of interest within the communication community. *De Quevedo Puente*, *Delgado García* and *de la Fuente Sabaté* close this chapter with a meta-analysis of studies on this issue. They systematically describe previous findings concerning the impact on corporate profitability, risk and market value. Additional explanations for inconsistent measurement results are provided, too.

How to Measure Reputation

Kerstin Liehr-Gobbers and Christopher Storck

The answer to the question how reputation should be measured depends on three factors: how reputation is defined, which role is ascribed to it in corporate value creation, and by which means it can be influenced by an organization.

In a second step, one needs to clarify, which parameters are to be measured by which method.

In order to capture causes and effects of stakeholder perceptions, communicative offers are one aspect that has to be taken into account. Therefore, media evaluation becomes one source of measuring reputation.

What Media Evaluation Can Measure

Based on the six basic ideas about managing corporate reputation that are further explored in the introduction to this book, it is obvious that reputation cannot be measured through the analysis of traditional media. Nobody would deny that media consumption can change a person's view of someone or something. Mass media coverage even tends to have a very strong influence on how the general public perceives an organization. But as long as this impression is not corroborated by other sources or repeated over a longer period of time, it will remain the short-lived phenomenon called "image."

Even more important is the fact that media coverage is only a communicative offer. Judging from media analysis alone, we will never know who actually read this article, how this reader understood and interpreted it or whether and how it changed his or her attitude towards the subject in question.

This assumption does not rule out/fully deny a relationship between the intensity and quality of a company's media presence on the one hand and the perception by the company's stakeholders on the other. However, without stakeholder feedback, a company can only speculate about the consequences media presence exerts on its reputation and consequently on its business. This is why the progress of reputation

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building activities need to be tracked on various levels (see Levels of Impact and Evaluation in "How to manage reputation").

Media evaluation reveals the volume and quality of mediated communicative offers to stakeholders. It can be carried out in different ways at different costs. The higher the information level, the higher the costs. Each method has its value, as long as users are aware of what they can learn from it and what remains in the dark:

- Collecting clippings only provides an impression of the volume of articles in which a company appears. To learn about the quality of the coverage, one would have to read the articles. Even then, the media image would remain unclear.
- Quantitative analysis of the company's appearances adds a number to the coverage volume.
- Analyzing both the quantity and the tonality of media coverage shows the general strength of a company's position in the media.
- If this is broken down by reputational aspects (e.g., business performance, corporate responsibility, employer attractiveness) the company is able to identify its media profile.
- An analysis on the level of the micro-topics that constitute each reputational aspect reveals reasons why, lost opportunities and risks.
- Competitive media intelligence provides benchmarks, identifies room for improvement, and illustrates the force-field in which future media relation activities will take place.

What Stakeholder Research Can Measure

Until social media analysis has left experimental stage, the outcome of media relations and other activities aimed at building or protecting corporate reputation can only be safely tracked through stakeholder research. Unfortunately, this instrument has two major disadvantages: the more precise and reliable the results are, the more time and budget are needed.

- Syndicated reputation indexes show relative reputation strength compared to other companies expressed in scores.
- Company-specific reputation surveys also reveal which messages and experiences stick in stakeholders' minds. This helps understand reasons for a change in the reputation score and provides a thematic profile featuring specific strengths and weaknesses. Open-ended questions allow to capture stakeholder demands.
- Multivariate structural equation models indicate which perception items will positively influence behavioral intentions. This allows companies to separate improvement drivers from mere hygiene factors.

The Barcelona Declaration of Measurement Principles

Although there is a variety of methods to evaluate media presence and stakeholder perceptions, professionals from around the globe are seeking for some basic standards. In June 2010, the measurement industry has agreed on a set of seven global principles of PR measurement. More than 150 delegates from 33 countries in Europe, the Americas and Asia passed the "Barcelona Declaration of Measurement Principles." The declaration aims at creating a global standard for the measurement of communications' programs.

The document was prepared and presented by The International Association of Media Evaluation Companies (AMEC), The Global Alliance, the International Communications Consultancy Organisation (ICCO), The Institute for Public Relations (IPR), and the Public Relations Society of America (PRSA). The seven principles are:

1. Importance of goal setting and measurement (97% approval)
2. Media measurement requires quantity and quality (97%)
3. AVEs (Advertizing Value Equivalent) are not the value of public relations (70%)
4. Social media can and should be measured (93%)
5. Measuring outcomes is preferred to measuring outputs (87%)
6. Business results can and should be measured where possible (86%)
7. Transparency and replicability are paramount to sound measurement (95%)

Whereas the seven principles in general were adopted by a large majority of the delegates, some of the points explaining them in detail were subject to controversial debates. The comments from the Barcelona delegates and further members of the five authoring organizations were taken into account and used to refine the declaration before its publication in July 2010.

Principle 1: Importance of Goal Setting and Measurement

- Goal setting and measurement are fundamental aspects of any public relations program.
- Goals should be as quantitative as possible and address who, what, when, and how much the PR program is intended to affect.
- Measurement should take a holistic approach, including representative traditional and social media; changes in awareness among key stakeholders, comprehension, attitude, and behavior as applicable; and business results.

Principle 2: Measuring the Effect on Outcomes Is Preferred to Measuring Outputs

- Outcomes include shifts in awareness, comprehension, attitude, and behavior related to purchase, donations, brand equity, corporate reputation, employee engagement, public policy, investment decisions, and other shifts in stakeholders regarding a company, NGO, government or entity, as well as the stakeholder's own beliefs and behaviors.
- Practices for measuring the effect on outcomes should be tailored to the business objectives of the PR activities. Quantitative measures such as benchmark and tracking surveys are often preferable. However, qualitative methods can be well suited or used to supplement quantitative measures.
- Standard best practices in survey research including sample design, question wording and order, and statistical analysis should be applied in total transparency.

Principle 3: The Effect on Business Results Can and Should be Measured Where Possible

To measure business results from consumer or brand marketing, models that determine the effects of the quantity and quality of PR outputs on sales or other business metrics, while accounting for other variables, are a preferred choice. Related points are:

- Clients are creating demand for market mix models to evaluate the effect on consumer marketing.
- The PR industry needs to understand the value and implications of market mix models for accurate evaluation of consumer marketing PR, in contrast to other measurement approaches.
- The PR industry needs to develop PR measures that can provide reliable input into market mix models.
- Survey research can also be used to isolate the change in purchasing, purchase preference or attitude shift resulting from exposure to PR initiatives.

Principle 4: Media Measurement Requires Quantity and Quality

Overall clip counts and general impressions are usually meaningless. Instead, media measurement, whether in traditional or online channels, should account for:

- Impressions among the stakeholder or audience
- Quality of the media coverage including:
  - Tone
  - Credibility and relevance of the medium to the stakeholder or audience
  - Message delivery
  - Inclusion of a third party or company spokesperson
  - Prominence as relevant to the medium
- Tonality can be negative, positive, or neutral

Principle 5: AVEs Are Not the Value of Public Relations

- Advertising Value Equivalents (AVEs) do not measure the value of public relations and do not inform future activity; they measure the cost of media space and are rejected as a concept to value public relations.
- Where a comparison has to be made between the cost of space from earned versus paid media, validated metrics (for example Weighted Media Cost (WMC), CPMs, etc.) should be used, stated for what they are, and reflect:
  - Negotiated advertising rates relevant to the client, as available.
  - Quality of the coverage (see Principle 4), including negative results.
  - Physical space of the coverage, and the portion of the coverage that is relevant.
- Multipliers intended to reflect a greater media cost for earned versus paid media should never be applied unless proven to exist in the specific case.

Principle 6: Social Media Can and Should be Measured

- Social media measurement is a discipline, not a tool; but there is no "single metric."
- Organizations need clearly defined goals and outcomes for social media.
- Media content analysis should be supplemented by web and search analytics, sales and CRM data, survey data and other methods.
- Evaluating quality and quantity is critical, just as it is with conventional media.
- Measurement must focus on "conversation" and "communities" not just "coverage."
- Understanding reach and influence is important, but existing sources are not accessible, transparent, or consistent enough to be reliable; experimentation and testing are key to success.

Principle 7: Transparency and Replicability Are Paramount to Sound Measurement

PR measurement should be done in a manner that is transparent and replicable for all steps in the process, including specifying:

- Media measurement:
  - Source of the content (print, broadcast, internet, consumer generated media) along with criteria used for collection.
  - Analysis methodology – for example, whether human or automated, tone scale, reach to target, content analysis parameters.
- Surveys:
  - Methodology – sampling frame and size, margin of error, probability or non-probability.
  - Questions – all should be released as asked (wording and order).
  - Statistical methodology – how specific metrics are calculated.

Some of the principles may seem obvious and important aspects related to corporate (as opposed to market) communication programs are missing. But the Barcelona Declaration provides a solid basis for the creation of global standards and common approaches to measuring and evaluating the impact of public relation activities.

Challenges in Measuring Corporate Reputation

Sabrina Helm and Christian Klode

Introduction

"One thing that we have learnt from the discipline of marketing is that the most dangerous place to look at stakeholders is from behind a desk. The simple truth of the matter is that the only way accurately to gauge what people think of an organization is to ask them. This is easy to say, but often difficult to do" (Dowling 2001).

Most researchers and practitioners in the field of reputation management will agree that "to be managed, corporate reputations must be measured" (Gardberg and Fombrun 2002), preferably by taking into account the target group of reputation management: the stakeholders of the firm. While awareness for the need of measurement prevails, there is by far no consensus on how to measure: "The biggest hurdle in making the case for building, maintaining and managing reputation is how to measure it effectively" (Larkin 2003).

Within the resource-based view of the firm, corporate reputation is interpreted as an intangible asset offering sustainable competitive advantage due to its valuable, rare, inimitable, and nonsubstitutable nature (Barney 1991). Reputation is an "umbrella" construct, capturing cumulative impressions of internal and external stakeholders beneath its "shield" (Chun 2005; Caruana and Chircop 2000). The ingredients of reputation are all salient characteristics of a firm while reputation itself – conceived as a hypothetical construct – is neither directly observable nor measurable (Caruana and Chircop 2000; Rossiter 2002). Individuals are the source of information about a firm's reputation. As Wartick (2002) clarifies: "reputation, be it corporate or otherwise, cannot be argued to be anything but purely perceptual." Hence, the objects of empirical research are perceptions of the reputation of an entity.

Perceived corporate reputation can be understood as an individual's impression of a firm, and this individual perception of reputation is based on a "collective assessment of the company's ability to provide valued outcomes to a representative group of stakeholders" (Fombrun et al. 2000) meaning that the individual takes into

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account what he thinks a collective (e.g., "the public"; "the stakeholders") think about the company. In the context of this chapter, the term "corporate reputation" is defined as the individual's estimation of an assumed aggregated perception of all stakeholders towards all salient characteristics of a firm (Barnett et al. 2006). Perceived reputation has to be distinguished from similar constructs such as identity and image: "identity captures who the organization is and what it does, image captures the message the organization sends outward about who it is and what it does, and reputation captures what others think about who the organization is and what it does" (Lewellyn 2002). Reputation as an indirectly perceived construct – individuals' perceptions refer to other stakeholders' perceptions of a firm – appears to be more complex than corporate identity or corporate image (van Riel et al. 1998). Measuring an individual's attitude like identity or image is not equivalent to measuring an individual's opinion of other people's impressions, perceptions, or attitudes (Dowling 2001). Consequently, the degrees of freedom of choosing a fitting measurement approach must be higher than those for relatively more concrete constructs such as corporate identity or corporate image (Barnett et al. 2006). In order to discuss challenges of reputation measurement, we focus on the following aspects which also determine the structure of the chapter.

We have clarified the objects of reputation measurement by our definition of reputation; we will further outline schools of thought in reputation measurement. In the section on building measurement models, we will discuss the pros and cons of single versus multi item measures of reputation and then turn to model configurations. Specifically, we will elaborate on the epistemic nature of measurement models (formative versus reflective), their anchorage in nomological networks, and the dimensionality of constructs (lower and higher order factors). In the fourth section, we will outline two standardized measures for reputation often referred to in the literature and, in a further section, turn to the issue of whether a standardization or adaptation of measures to specific stakeholder groups is mandatory. A short summary concludes the chapter.

Schools of Thought in Reputation Measurement

Apart from the challenges encountered when defining reputation, various approaches to its operationalization and conceptualization in a measurement context can be discerned. Berens and van Riel (2004) identify three main streams of measurement of corporate associations which relate to relationships between firms and their stakeholders (1) social expectations, (2) corporate personality, and (3) trust. In their meta-analysis of 75 studies conducted between 1958 and 2004, nearly 60% pertain to one of these three main streams of thought with the measurement of social expectations as their most common one. Social expectations are viewed from the stakeholder's perspective and concentrate on the manner in which reputation is formed (Fombrun and van Riel 1997).

Another meta-analysis of 22 key studies conducted by Chun (2005) detects three schools of thought, namely the evaluative, the impressional, and the relational schools which closely resemble Berens' and van Riel's (2004) classification. The evaluative school measure reputation by the assessment of the firm's achievements which can be viewed as confirmed social expectations (e.g., commitment to charitable and social issues, value for money of products, or financial performance; Helm 2005). The impressional school comprehends reputation as the overall impression of a corporation and tries to capture the organization's personality with different facets like, e.g., elegance, empathy, or dominance (Davies et al. 2001). The relational school wants to reveal differences between internal and external views in order to reduce gaps or deficits and incorporate measures related to trust as, for instance, honesty, expertise, or trustworthiness within different stakeholder groups (Newell and Goldsmith 2001; Helm 2007c).

Building Measurement Models for Corporate Reputation

Reputation is usually operationalized as a judgmental perception leading to either a positive or negative evaluation of the firm's reputation (Dollinger et al. 1997). As a consequence, an evaluation of corporate reputation has to result in certain values on a metric scale between the binary counterpoints "good reputation" or "bad reputation." An assessment of studies measuring corporate reputation revealed that the majority applied measurement scales where the evaluation of a reputational indicator is a specific value on a Likert scale (van Riel et al. 1998).

Measurements of reputation can be based on single- or multi-item approaches. Figure 1 depicts the two modes of capturing reputation and their effects on assumed economic consequences.

Bergkvist and Rossiter (2007) proved in a recent study that multi- and single-item measures do not lead to significant differences in predictive validity. A single-item

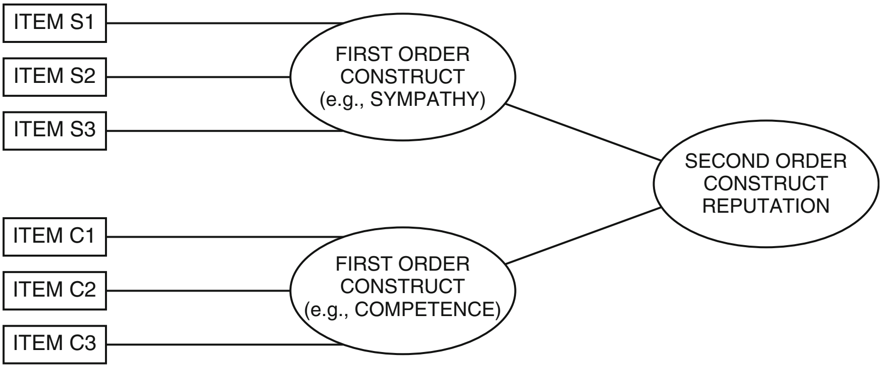

Fig. 1 Multi-item- and single-item measurement

measure can possess nearly perfect correlation with a multi-item measure (Bergkvist and Rossiter 2007). In addition, it meets practitioner needs to reduce data collection complexity (Fombrun 2007). Yet, Helm (2005) states that using a single-item measure "does not lead to practical insights for reputation management because the source of a good or bad reputation does not become evident." Single-item measures are considered unsuitable to seize the numerous salient characteristics of a firm (Caruana and Chircop 2000). From a methodological viewpoint, using both – a single-item measure and a multi-item measure within one model – allows adding a similar entity to the reputation construct[1] and furthermore the possibility to test nomological validity of the multi-item measure (Diamantopoulos and Winklhofer 2001).

An example for a single-item measure of reputation is the question "Please indicate, what kind of reputation does company x have in the public?" measured on a seven-point scale with 1 = "a very good reputation," 7 = "a very bad reputation"; a multi-item scale might be based on the question "Please indicate, what kind of reputation does company x have concerning the following attributes?" with a list of attributes/facets of reputation to be evaluated on a similar scale (Helm 2007a).

Besides the multi-item measurement approach, the application of multidimensionality gives the opportunity to split more complex constructs into subsequent concrete entities. Various studies dealt with a multidimensional view of reputation (Chun 2005; Money and Hillenbrand 2006; e.g., see Aaker 1997; Davies et al. 2003; Fombrun et al. 2000)[2] and collapsed the amount of manifest items into fewer dimensions or lower order factors. These lower order factors contribute to the higher order factor "reputation."[3] Figure 2 shows an example for such a measurement model which uses "sympathy" and "competence" as two distinctive components of reputation (Schwaiger 2004). It should be borne in mind that reputation is not measured directly which may reduce managerial insights into reputation.

Another approach to cope with the possibly multidimensional structure of reputation that provides clearer guidance for managerial purposes is to make use of formative measurement models. Indicators of the reputation construct are most often captured via the evaluation of social expectations (Berens and van Riel 2004). This implies that an evaluation of corporate reputation is based on salient characteristics of a firm (de Castro et al. 2006) that describe how it handles different stakeholder relationships. Such an approach is, for instance, applied by Helm

[1]Due to identification problems within the covariance-based structural equation modeling approach, an additional single-item measure of reputation can be used to achieve identification (Jarvis et al. 2005).

[2]Aaker (1997) identified Sincerity, Excitement, Competence, Sophistication, Ruggedness as first-order factors; Davies et al. (2003) identified Agreeableness, Competence, Enterprise, Chic, Ruthlessness, Machismo, Informality as second-order factors; Fombrun et al. (2000) identified Products & Services, Innovation, Workplace, Governance, Citizenship, Leadership, and Performance as first-order factors of reputation.

[3]A detailed description of all kinds of combinations is given by Jarvis et al. (2005).

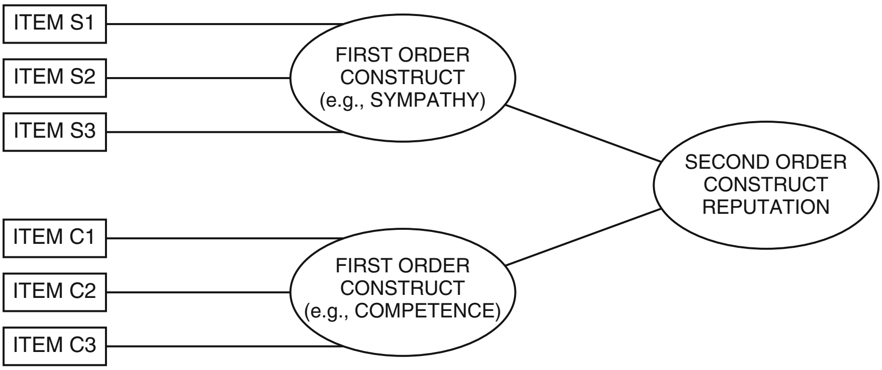

Fig. 2 Measurement model incorporating lower order factors

(2005) who uses ten indicators (called the "facets" of reputation) to measure corporate reputation: quality of products, commitment to protecting the environment, corporate success, treatment of employees, customer orientation, commitment to charitable and social issues, value for money of products, financial performance, qualification of management, and credibility of advertising claims. In such a case, reputation can be conceptualized as a formative construct meaning that the indicators lead to the construct as inputs. Reputation then is an aggregation of all its indicators such as product quality, treatment of employees, etc. Reputation is conceived as the result of entrepreneurial efforts and not vice versa. Therefore, the indicators cause reputation.[4] Such indicators do not have to be correlated or to represent the same underlying dimension (Helm 2005). On the other hand, corporate reputation can be understood as a reflective construct. This would mean that the indicators – such as product quality, management quality, etc. – are alternative outcomes of reputation. Reputation would lead to these effects meaning that reputation determines the quality of products, the quality of management, and so forth (Helm 2005).[5]

A common problem when measuring corporate reputation lies in the use of explorative factor analysis for testing unidimensional solutions or the application of reflective measurement models in confirmatory factor analysis. Here, every extracted factor has to be regarded as unidimensional, thus every item needs to highly correlate with every other item of the construct (Bagozzi 1994). In a psychological sense, every unidimensional construct is based on an evaluation of certain liked or disliked indicators, where the most liked or disliked indicator (or the one deemed most important) may have a spill-over effect onto the remaining indicators. This phenomenon is also known as "irradiation effect" (Riezebos et al.

[4]Technically spoken: reputation is – when measured via formative mode – a latent dependent metric index variable estimated by using multiple regression analysis.

[5]Within reflective measurement models all items have to be highly correlated. A conceptual problem can occur if an increase in e.g., product quality must not necessarily be accompanied by an increase of, e.g., wise use of financial assets.

2003). Moreover, unidimensional solutions are subject to a general impression halo effect where "a rater's overall evaluation or impression of a reputation object leads the rater to evaluate all aspects of performance in a manner consistent with the general evaluation or impression" (Caruana and Chircop 2000; Thorndike 1920). As outlined earlier, high correlations between a single-item measure and a multi item measure are often wished for (Bergkvist and Rossiter 2007; Nagy 2002). This also means that a single-item measure may serve as a "global" indicator stakeholders (or respondents) use to determine their evaluation of the indicators of a multi-item measure (the facets of reputation). Hence, the answer to the question asked by Caruana and Chircop: "Could the 'halo' be the 'reputation'?" (2000, p. 54) is "yes" in those cases where stakeholders/respondents use their global impression of reputation (as manifested in the single-item measure) to infer the "quality of products," "treatment of employees," etc. that form the multi-item measure of reputation. The latter construct then lacks in validity, a problem which becomes prominent if respondents are not really familiar with a firm and unable to judge its diverse entrepreneurial efforts captured by the facets of reputation in a multi-item measure. It needs to be recognized by the empirical researcher that not all stakeholders have a distinct knowledge of the multiple reputational facets of a specific firm and their parameter values (Helm 2007a). This problem is also implied by Schultz et al. (2001) who observe that respondents often use "intuition" when answering multifaceted scales of reputation and that they are unable to discriminate finely between the criteria they are asked to quantify. "Over time, [. . .] particular endeavours get lost in general impressions of how the company performs" (Schultz et al. 2001, p. 37).

An extension of two-dimensional models has been developed by Fiedler (2006) who measures corporate brand image. Although we pointed out that the meaning of this construct is not identical to corporate reputation, his conceptualization offers insights for a more elaborated measurement model for reputation. According to Fishbein and Ajzen (1975), attitudes can be divided into an affective, a cognitive, and an intentional component. Fiedler integrates the first two components and measures the affective part of corporate image using the reflective mode and the cognitive part via the formative mode; the indicators of the latter construct are adapted to the six stakeholder groups he integrated in his empirical study. In addition, a third formative construct was incorporated measuring potential differences between the stakeholder-specific cognitive image components (see Fig. 3).

Common Standardized Measures for Reputation

One of the most commonly used standardized quantitative approaches of measuring corporate reputation is the several ranking lists published by Fortune magazine as for instance Fortune's Most Admired Companies (FMAC). Top managers are asked to evaluate a set of eight criteria on an 11-point scale ranging from 0 = "poor" to

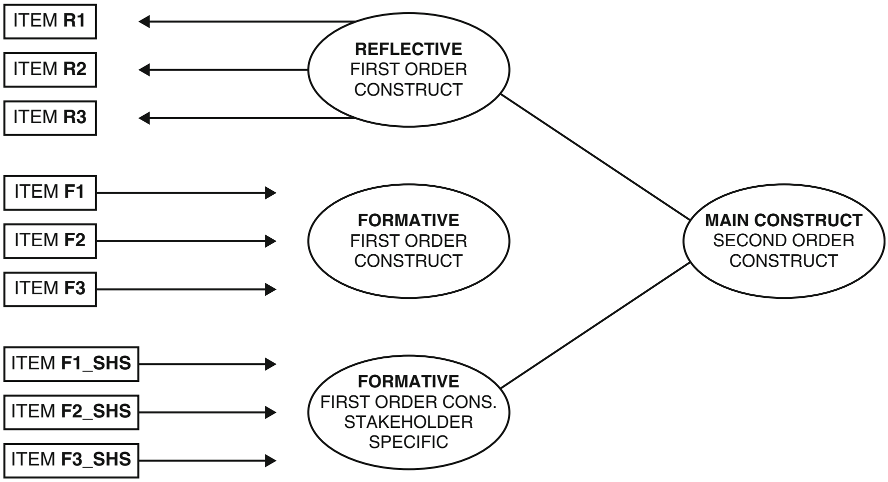

Fig. 3 Measurement model incorporating lower order factors

10 = "excellent" (Fombrun and Shanley 1990). The criteria (indicators) are Quality of Management; Financial Soundness; Quality of Products and Services; Ability to Attract, Develop, and Keep Talented People; Innovativeness; Responsibility for the Community and the Environment; Long-term Investment Value, Wise Use of Corporate Assets. Evaluations of reputational indicators are used to build a score which results in rankings of companies according to specific dimensions (represented by the indicators, such as innovativeness) and an overall (national or global; industry-specific or total) ranking of companies. In 2007, the most admired company was General Electric, followed by Toyota Motors and Procter & Gamble.[6] While it is not entirely clear how the FMAC was developed and if standard procedures for developing construct measures have been adhered to, the data of the ranking have been used for many scientific publications (Chun 2005; Bromley 2002).

Another prominent example for a standardized measurement approach used mostly for commercial purposes is the so-called RepTrak[7] which is based on the Reputation Quotient (RQ). Both measures were developed by the Reputation Institute (RI) (Fombrun et al. 2000). Again, it is not clear how the construct measure was developed and how the reputation rating scores are calculated. Within RepTrak, 23 reputation indicators are combined to form seven core dimensions (products and services, innovation, workplace, governance, citizenship, leadership, and performance) which represent the building blocks of the so-called RepTrak Reputation Score Card. For benchmarking purposes, the RI offers a so-called RepTrak Pulse Score. In the worldwide study of 2007, the highest score was

[6]http://www.money.cnn.com/magazines/fortune/mostadmired (download 2008-01-23).
[7]http://www.reputationinstitute.com/reptrakpulse (download 2008-01-23).

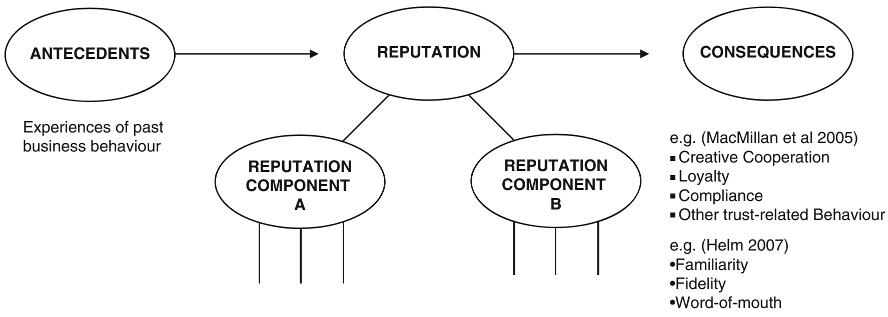

Fig. 4 Corporate reputation embedded as multidimensional construct in between antecedents and consequences

reached by LEGO from Denmark, followed by IKEA from Sweden, and Barilla from Italy.[8]

Besides these commercially used standardized measures, an abundance of different approaches has been developed and published in academic papers. Here, structural equation modeling (SEM) approaches are commonly used in order to measure latent constructs such as corporate reputation, its antecedents, and its consequences and to test assumed relationships between them (MacMillan et al. 2005; Money and Hillenbrand 2006). Figure 4 depicts a full SEM model.

Basically, management-oriented approaches rather focus on comparisons between companies for benchmarking purposes like FMAC or comparisons between reputational dimensions within a single company like the RepTrak Reputation Score Card, whereas academic studies rather deal with the generalization of research findings concerning relationships between various constructs. Quantitative approaches seem to be prevalent amongst reputation measures although qualitative methods like, e.g., focus groups or case studies are available as well (Walsh and Wiedmann 2004; Caruana and Chircop 2000). In order to assess and compare the results of corporate reputation measurement, outputs such as league tables, RQs (or scores), rankings, or benchmarks (Bromley 2002) are the most commonly used ones.

Stakeholder Adaptation of Reputation Measures

A central issue in reputation measurement is whether different stakeholder groups perceive reputation identically or whether different kinds of reputations exist. Some authors conducted multigroup comparisons of reputational perceptions between stakeholder groups without adapting the measurement models to the specific

[8] http://www.reputationinstitute.com/reptrakpulse (download of Global RepTrak Pulse 2007 report, 2008-01-23).

stakeholder context (Fombrun et al. 2000; Helm 2007a), others adapt (parts) of their measurement model to the stakeholder context (Fiedler and Kirchgeorg 2006). Whether all types of stakeholders base their perceptions of reputation on the same fundamental set of dimensions or indicators is seen controversially (Bromley 2002; Fombrun et al. 2000). Hence, Fombrun and Shanley (1990) ask "Do firms have one reputation or many?" Considering our definition of reputation, it may be suggested that (certain) reputational perceptions converge across stakeholder group boundaries (Fiedler 2006) forming a general reputation of a firm. In this case, corporate reputation is taken to signify a collective's view of a firm which tends to revolve around broad dimensions (Fombrun et al. 2000; Helm 2007a). Contrarily, Dowling (2004) cautions that investigations of reputation call for an adaptive approach meaning that a specific measurement model for reputation needs to be developed for each stakeholder group leading to as many reputations as there are stakeholder groups or individuals.[9] Neville et al. (2005, p. 189) claim that firms "may have different reputations with individual stakeholder group members as expectations vary from one member to the next." This reduces possibilities to compare results of reputation measurements which is problematic from a managerial perspective. Helm (2007a) finds empirical evidence to support that there is common ground amongst different stakeholder groups in interpreting the construct of reputation; but there is also evidence for a need to adapt measures to specific stakeholder groups. Only such an approach is likely to capture the heterogeneity of stakeholder groups with respect to their subjective views of a company's reputation (Dowling 2001).

If there is a content-driven need for a differentiation of reputation, an incorporation of additional stakeholder-specific components would be a possible compromise between these viewpoints (Fiedler and Kirchgeorg 2006). A cognitive stakeholder-specific component as used by Fiedler (2006) could capture the assumed relative importance of the manifest reputation items since performance domains of the company are said to differ in their importance for specific stakeholder groups such as customers, employees, or shareholders (Helm 2007b; MacMillan et al. 2005) For instance, "financial soundness" is a most relevant indicator of reputation if financial analysts are surveyed but can hardly be determined by consumers, "treatment of employees" is most relevant to employees, etc. "The strength and homogeneity of the individuals' impressions in a group comprise reputation; if the members all have weak or differing opinions, no clear reputation is formed" (Sjovall and Talk 2004, p. 270). Further research is necessary to come to a conclusion whether reputation measurement models should be standardized or adapted to stakeholder group-specific concerns. Figure 5 shows such an adapted multigroup reputation measure embedded in an SEM model. For managerial purposes, such models might be too complex, explaining the preference of practitioners for standardized, nonadapted rankings such as the FMAC or RepTrak.

[9]Helm (2007b, p. 239) describes three perspectives of the definition and measurement of stakeholder perceptions of corporate reputation, namely (1) the existence of an attitude in the mind of individuals; (2) perceptions that are matched within stakeholder groups; and (3) certain reputational perceptions forming a general reputation of the firm across (all) stakeholder groups.

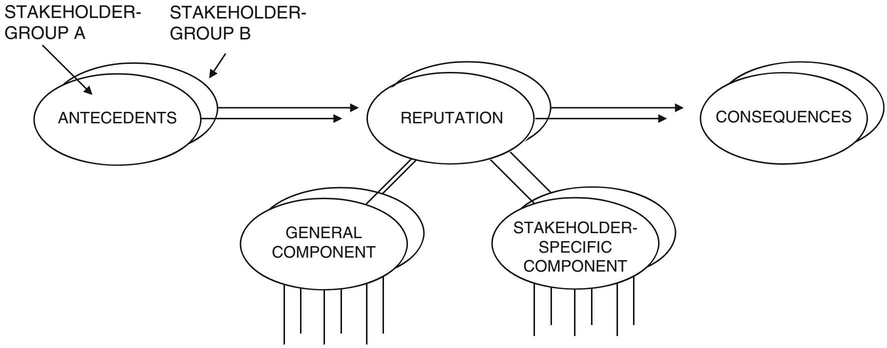

Fig. 5 SEM model and stakeholder group comparison

Summary and Directions for Further Research

Our analysis of current measurement practice regarding the construct of reputation has indicated a number of challenges that still need to be addressed in future studies of reputation. Specifically, the issue when single items are better suited than multi-item measures, whether reputation can be conceptualized as a unidimensional construct, or whether sub-constructs or dimensions should be integrated in measurement models need to be solved on a conceptual level. On a more practical level, it needs to be decided whether the researcher understands reputation as a formative or reflective construct and whether the respondents have sufficient knowledge to validly evaluate reputational items. The issue of how to find indicators to be included in a multidimensional measure was not covered in this chapter but has been dealt with extensively in the literature on conceptualizing measurement models (see, e.g., Churchill 1979; Diamantopoulos and Winklhofer 2001; Rossiter 2002; Helm 2005). On a goal-oriented level, the researcher needs to decide whether developing a stakeholder-adapted measurement tool is more effective than using the same general approach for all stakeholder groups included in the study.

Appropriate measurement of reputation is the foundation for managing this valuable asset of the firm. It enables the reputation manager to analyze past and current reputation by ANOVA or time-series models; to compare reputation of different organizational functions or subsidiaries (internal benchmarking) or of the firm and its competitors or other institutions (external benchmarking), within or across industries; and to steer and improve reputation in specific performance domains of the company on a regional, national, or global level.

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Measuring Media Corporate Reputations

Grahame Dowling and Warren Weeks

Introduction

Modern companies are measuring more and more things in an attempt to understand and manage their future. By developing improved measures of performance and tying these to the rewards of key managers, they seek to focus attention on the key factors that drive success. As this book outlines, one such factor is the reputation of the modern corporation. Our aim in this chapter is to illustrate current best practise media analysis with a specific focus on measures of a company's media reputation. To put this in context, consider how monitoring the media can speak about various aspects of performance. It can:

- Provide a measure of the effectiveness of a public relations or marketing initiative (such as the publicity surrounding the launch of a new product).
- Track the competitive landscape (how we stand relative to our competitors).
- Provide a barometer of sentiment (illustrate how journalists and bloggers regard the company).
- Provide an early warning signal of trouble (such as how commentators may focus on the company's corporate social responsibility).
- Provide insight into the mental models of media opinion leaders (by illustrating how a company is profiled in the media).
- Shed light on the influence factors that lie beyond the direct control of the company (such as competitors' actions and regulatory issues).
- Monitor the performance of communications during a crisis (such as what the media reflects relative to what the company is saying).
- Help the managers who are tasked with protecting and enhancing their company's desired reputation.

The title of this chapter highlights three issues, namely, the *measurement* of *reputation* in the *media*. Each is a BIG topic that has generated many books and

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papers. A quick glance at this vast literature reveals that the science of measurement is a complicated and demanding topic for the research community who develop measures of constructs such as corporate reputation, especially within the context of what has become known as the "old" and "new" media. This complexity also puts considerable burden on the managers who seek insight from these metrics.

To paint a landscape for the discussion of the media measures of reputation discussed here, we start by discussing why managers should take notice of what the media says about their company. Then we introduce the key components of corporate reputation because what is defined here is what will be measured. Also, how these measures are reported will influence if, and how managers will respond to them. Together, this information suggests that media reputation measurement is important to help both the proactive and reactive management of a company's desired reputation.

Why Focus on the Media?

How do people come to know about a company? Observation suggests that there are three main sources of information from which we gain our understanding and form our opinions:

- What we experience ourselves.
- What other people tell us directly based on their experience and knowledge.
- What we read, hear and see in the media.

While our experience is generally the most persuasive source of information about all the companies that touch our lives it is also the least extensive. Thus, much of what we come to believe about these companies is based on the filtered views of significant others, be these professionals such as journalists or trusted advisors such as friends and acquaintances. And if we receive consistent messages from multiple, credible sources we are more likely to firm up the beliefs and opinions that guide our decisions and behaviour.

In various places of this book, corporate reputations are described as an amalgam of the beliefs and evaluations that people hold about a company. And as noted earlier, one of the key factors that determine a company's various reputations is the coverage it receives in the media (Wartick 1992; Wry et al. 2006; Eccles et al. 2007). Much of the power of the "old" mass media (like television, print and radio) comes from its reach and prominence, its role in certifying some companies as legitimate and important players in the market and people's beliefs that it has superior access to information and expertise in evaluating companies. In contrast, much of the power of the "new" media (like message boards, wikis, blogs and social media sites) derives from its raw social significance. Like-minded people share their information, uncertainties, insights and opinions over the Internet – often about the products and services they consume and the companies they work for. Unhindered by the courtesies and filters of more traditional forms of communication, some people are willing to openly gossip about and criticise companies that have offended their sensibilities. In these ways, what is said in all the media has an impact on the business fortunes of companies.

The media landscape can be segmented into three overlapping domains, each having a potentially different impact on the desired reputation of a company:

– *Mass Media* – stories about a company. The credibility of the source (both the outlet and sometimes the reporter), the content and tone of the story and the reach of the media will all play a role in affecting the reputations people hold of a company.
– *Corporate Media* – websites and podcasts to put across a point of view; blogsites to publish moderated feedback on an issue and employee and customer feedback sites to capture specific concerns. The outbound media are designed to reinforce and shape the company's desired reputation while the inbound media are designed to provide a barometer of sentiment and an early warning signal of trouble.
– *Social Media* – sites for people (including employees) to make a claim, or state a point of view, and then garner support from likeminded others. In effect, the role of these sites is for people to "float" an issue about a company or one of its products to see if anybody else has a similar concern. What is revealing about these personal sites is that many journalists working for the old media read some of them for story inspiration.

Our private research also suggests that the social media can act as a lead indicator for reputation trouble. Issues often appear here prior to being logged in company inbound media and well ahead of the main media. However, it is the main media that gives the issue its credibility and reach to a larger audience.

The sheer volume of information circulating about so many companies has made it difficult for managers to summarise and profile their company and its competitors and peers. To help with this task, a corporate rating industry has emerged that produces public scorecards of business performance. Some of these scorecards are:

– Fastest growing companies
– Best employers
– Most valuable corporate brands
– Most innovative
– Leading knowledge companies
– Most prominent exporters
– Best franchises
– Most admired
– Most socially responsible/sustainable
– Best reputations

Because many people are interested in contests, the mass media are eager to publish and support lists of best and worst companies. In the corporate reputation space, the most well known of these is America's Most Admired Companies published annually by Fortune magazine. However, it is not uncommon for the managers of the companies rated to take only a passing interest in their overall "score" or their ranking. Some even characterise these lists as "beauty contests".[1] The reason for ignoring these ratings is that an aggregate score of performance provides little managerial insight about what to change and how to improve. Many of the rating firms understand this concern and provide companies with the opportunity to "deep dive" into the data used to create the single number score.[2]

The emerging realisation that the Internet is an important medium for damaging corporate reputations has led to online reputation management programs to monitor the conversations about companies that occur on message boards, social sites and personal blogs. The idea here is to scan the web to identify the main source(s) of opinion leadership about a company (such as a power blogger or an activist group) and to then monitor their issues. For example, the Body Shop has been criticised for many years by a power blogger (http://www.jonentine.com/body_shop.htm), and Wal-Mart and Coca Cola have been monitored by activist groups (http://www.walmartsux.com; http://www.cokewatch.org). As noted earlier, mass media journalists often monitor these sites and some include their views as part of their news bulletins (Burns 2005). In a media hungry world with short news cycles, respected opinion leaders are a convenient source of reactions and quotable quotes. Thus, any opinion about a company is spread and amplified through both mass media syndication and web-based social syndication.[3]

To help senior managers gain a clear picture of their company's media profile, we outline two related measurement techniques, namely how:

1. Profiling media communication about a company's actions and its products and services enables executives to gain a clear understanding of their organisation's media image (what is said) and reputation (whether this is good or bad).
2. The use of a more descriptive type of language in explaining the various facets of an organisation's media reputation profile can inform remedial action in a way that the opinion-poll style reputation ranking systems cannot.

The stylised examples used to illustrate these measurement techniques are derived from a range of commercial assignments conducted by the second author's company over the past decade. (See Appendix for details.)

What You Measure Matters

At the heart of any measure of performance are some subtle assumptions about exactly what is being measured. For example, what does it mean to be one of America's "most admired" companies? According to Fortune magazine who have

[1]However, as is noted in the chapter titled "Corporate Reputation Risk", these measures can provide useful insight if they are considered as the "wisdom of a crowd". Also, they are good for the cross-sectional analysis of companies by academics exploring broad issues of strategy and performance.

[2]For example, amrinteractive who do the fieldwork for the Reputation Institute measure of corporate reputation (called RepTrak – Pluse) offers such a service.

[3]The old acronym WOM (word of mouth) now has an expanded definition to include word-of-mouse and word-of-media.

produced such a measure since 1984 it means that the company has to score well on all of the eight attributes listed below.[4] These are the principal drivers of "admiration". A more critical assumption, however, is that admiration is a key factor that (a) financial analysts use to value a company, and (b) senior executives think about – because these are the two groups polled for their opinions.

To develop each of the more than 50 reputation scorecard measures that are used around the world required that someone develop a list of attributes to ask people to rate.[5] This list is usually based on a review of published research (in this case, theories about admiration, respect and reputation) and intuition (what else the researcher thinks is important) (Dowling 2004). There is also the "aggregation rule" – that is, how will the individual scores be combined. In the Fortune example, they are simply added up.[6]

There is, however, a very different way to measure admiration and corporate reputation, namely, ask people to talk about the company and listen to the words and phrases they use to describe and evaluate it. For example, US citizens described their strongest brands as follows: "taint-free reputation"; "instantly recognisable"; "cares about its reputation and customers"; "satisfactory experience reinforced by advertising" (Berg et al. 2007). Descriptions such as these are then content analysed to reveal the keyword associations, themes and contradictions in what people say. Also, the number of times a person (or a group) uses a keyword or attribute to describe the company will be a good guide to its relative importance. The attributes a person uses are the ones that have real meaning to them. Some of these will "fit" nicely with the current academic and managerial theories, but some will be new and therefore more insightful. For example, the last verbatim above says that the role of advertising for a strong brand is to reinforce the brand experience rather than try to create it.

How You Report What Is Measured Really Matters

After listening to people talk about a company the next task is to report their perceptions (beliefs) and evaluations in a way that is informative to line managers and those in the executive suite. The way this is done can make the topic of corporate reputation either:

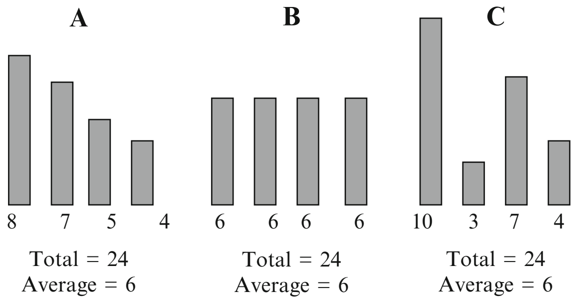
– *Nice to know* – "For group X (say customers) we were ranked as third best in our industry". Or

[4]This overall evaluation is based on scores about eight corporate attributes – asset use, community and environmental friendliness, ability to develop and keep key people, financial soundness, degree of innovativeness, investment value, management quality and product quality. The people who rate the companies are financial analysts, senior executives and outside directors of (other than their own) Fortune 1,000 companies.

[5]See the List of Lists compiled by the Reputation Institute at http://www.reputationinstitute.com.

[6]This assumes that each is equally important – which is a big assumption.

Fig. 1 Similar but different corporate reputations



– *Need to know* – "For six out of eight of the most important attributes for group X we were equal to or better than our major competitor(s), but on the others we need to substantially improve".

The first report is a somewhat mysterious summary of performance. The second report demands an explanation of which attributes were good and bad for a particular group of people. In this way it is much more discussable and accessible for scrutiny. To illustrate this point consider the patterns of scores in Fig. 1. It shows that while each company (A, B & C) gets the same total score and would be tied in a corporate reputation ranking, they have very different *profiles*. Because of this the management actions across the three companies would differ.

Profiling a company's reputation is like looking at its DNA sequence. And this is far more insightful for diagnosing reputation risks and highlighting potential opportunities to exploit a good reputation than any score or ranking. For example, Stewart Lewis, head of corporate communications research at the UK public opinion firm MORI, says that poor performance in one area can completely overshadow excellence in another area (Lewis 1999). For example, research in Australia has shown that if a company is thought to treat its employees or its customers poorly, then it is hard for the company to be taken seriously on other good things that they are doing (Porritt 2005).

How Do You Compare?

Now consider the stylised company profile in Figs. 2–4. This is derived from Cubit Media Research's analysis of what has been written about a range of Australasian companies. This media analysis reveals:

– Typically companies are profiled across the eight major message themes in Figs. 2 and 4.[7] Each *macro-message theme* is made up of many *micro-themes* (i.e. company attributes and actions that refer to the macro-theme). The macro-themes

[7]While these can vary depending on the particular circumstances facing the company, the typical ones are shown in Fig. 2.

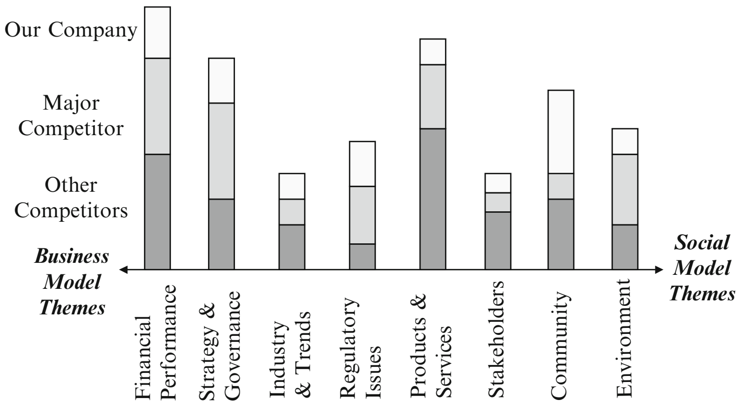


Fig. 2 Media salience

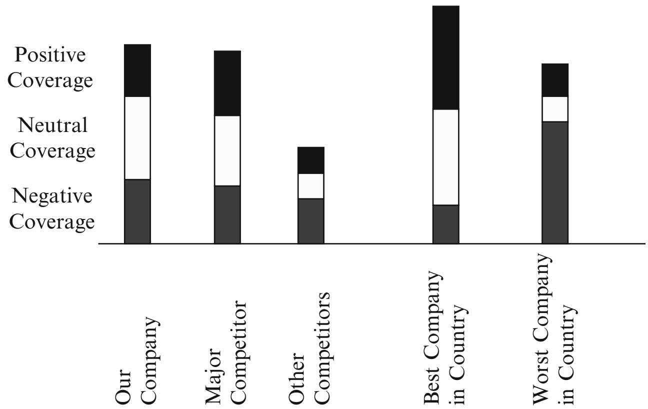


Fig. 3 Overall media tone

range from the company's Business Model that is often described in terms of "hard numbers" such as profit figures and market share through to its Social Model that is often written about in terms of corporate behaviours such as its social responsibility actions.

– Companies vary significantly in the amount of media coverage they receive. A profile like Fig. 2 shows if the company is "alive" in the media or "under the radar". Also, the prominence of various message themes reflects a multi-dimensional company or one defined by a relatively few themes.
– The overall tone of media coverage is best profiled by plotting the distributions (rather than a net score) of message themes across a peer set of companies as in Fig. 3 and message themes as in Fig. 4. Each message theme is measured by counting the number of favourable and unfavourable comments made about the company over a period of time – in specific media outlets and/or by particular journalists.

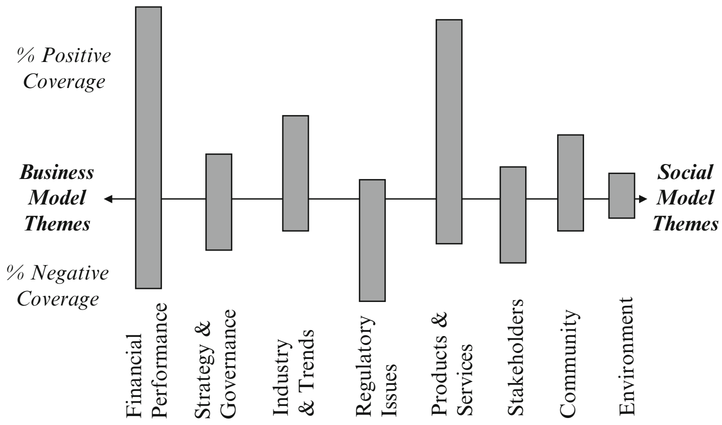


Fig. 4 Company profiling

Figures 2–4 show the DNA picture of a company's media image (Fig. 2) and reputation (Figs. 3 and 4).[8] The profile is like the actual image of the company reflected back to managers in a mirror. Because this media image is seldom identical to the ideal self-image of the company, it can inform a useful debate about what needs change. This debate can be informed by:

– Exploring "contradictions" between what the company is saying about itself in its external communications (the "we say" or "ad speak" of the company) versus what is being reported to various stakeholders (what the "media says" or "street speak" about the company).
– Comparing what is reported about a particular company and its peers or competitors. (The relative amount and tone of coverage in Figs. 2 and 3.)

To illustrate these insights consider a story about Apple published in *Business Week*. It was titled "A Bruise or Two on Apple's Reputation" (Lee and Burrows 2007).

– *Business Week Story Line* – "Is the company's stellar service keeping up with its hypergrowth? Some customers don't think so".
– *Journalists' Themes* – as Apple's new products (iPod, iPhone) become more successful, they are being purchased by customers who are less devoted to Apple and who are often less "tech-savvy". "The vitriol of complaints on some Apple-related blogs and Web sites is approaching that usually reserved for cable TV". Positive endorsement from a long-time customer Nigel Ashton. Negative endorsements from two new customers Catherine Temple and Michael Levin accompanied by their forlorn photos.

[8]Many commercial media analysis companies rely more on counts of media stories and whether the coverage was essentially positive or negative. A good example can be found in Eccles et al. (2007).

– *Apple's Position* – Timothy Cook, Apple's COO claims that an array of internal metrics shows service has never been better.
– *Contradictions* – Cook versus the two new customers and the blogs. Cook versus an academic expert who endorses the claim that as the customer base becomes more diverse it becomes harder to satisfy.
– *Comparisons* – "Even small cracks in a pristine reputation can be a sign of larger problems. Just ask Dell". Table of customer satisfaction scores from an independent research firm shows – Apple (79% down from 83%), HP (76% up from 75%), Gateway (75% up from 73%) and Dell (74% down from 78%).

The rich content of this three-page article is lost if it is classified as either a mostly positive or mostly negative piece. However, if it is examined through a multi-focal lens, then we see strategic issues (market expansion), industry issues (all competitors have 75%ish scores on preference) and product and service issues (new multi-function products make it harder for customers and company service people to get these products to work). We also see conflict – Apple's COO contradicting the journalists' evidence in the article.

When a journalist or a blogger is writing about a company what they are exposing is their mental model of what is important for success in an industry. For example, writing in the *Financial Times*, and asking readers to post comments about the article on his blog, John Gapper states that "when a company is doing noticeably better than competitors in its industry there are three possible explanations: skill, luck or edge" (Gapper 2007). This model of corporate performance is then used to frame his discussion about Goldman Sachs. When managers understand these models it helps to interpret how their company is performing relative to these industry-defining attributes and its peers. Also, because the media shape the environment in which a company's advertising is evaluated, communication themes that run counter to or are independent of those used by journalists can reduce the impact of this advertising (Ries and Ries 2002).

To more fully inform a management debate it is useful to calibrate the company against some relevant benchmarks. Two of these are industry patterns and risk profiles. In many industries, there are some accepted behaviours and standards of performance that define what is called the organisational field (Wedlin 2006). For example, in consumer electronics new products are a regular feature, and many business journalists focus their attention first on whether the company has a steady stream of these, and then when one is launched, its likely success and impact on financial performance. Within this discussion new product micro-themes such as new features, quality, relative advantage, target customers, competitors and price are discussed. In contrast, in the "weekend media" the discussions tend to focus more on the product and its lifestyle effects on people.

Sometimes media discussions will not reflect the desired position for the company and/or its new product. For example, for a technology company we studied the journalists focused on the styling of the product while the company was promoting its functionally oriented innovative features. Our research has found that in beverage industries, product quality, value and the social impact of products are prominent message themes. In telecommunications, the focus is often on the strategy of the company and the quality and value of the service offered.

Another relevant benchmark for many companies is the risk profile of the media coverage. A company that is receiving very negative or very mixed (positive and negative) coverage across a number of macro-message themes may be heading for trouble. In the field of word-of-mouth or viral marketing, it is thought that negative commentary is often more damaging than the boost provided by positive commentary – a point also made by the journalists who wrote the story on Apple noted earlier. Another signal of trouble is negative media commentary about key stakeholder groups. For example, stories about disgruntled customers or disaffected employees can infect other customers and employees by challenging some of their other beliefs about the company. And as noted earlier, when people think that a company treats these two groups poorly, they tend to discount its other good deeds.[9]

When journalists focus on strategy and governance, one micro-message theme that has proven troublesome for many companies is the profile of the CEO. In some counties, charismatic leadership is a positive theme while in others it is tainted with celebrity. In either case when high-profile leaders are called to account by journalists, it is easy for such a debate to damage the reputations held by key stakeholder groups – especially employees. To check these potential effects will require corroboration with other stakeholder-based measures such as trust and loyalty.

A Call to Action!

One of the strengths of a report like Figs. 2–4 for company management is that it visually shows salience, strengths and weaknesses, leverage effects and media confusion. For example:

– All major companies have a PR group tasked with creating a positive image for their company. However, becoming salient often comes at the cost of having the media set the tone and themes of the company’s profile.
– When a message theme is largely negative this can forewarn trouble. Negative messages can be direct (such as product quality is poor) or indirect (such as a competitor has a better product).
– When some themes are largely positive and others neutral it can suggest that leverage effects may not be operative. For example, in Fig. 4 the lack of discussion of the company’s environmental efforts (assuming that there are

[9]Another early-warning signal of reputation trouble is when employees don’t like the companies they work for. Employee “engagement” surveys are often used to calibrate these effects.

some) suggests that the efforts here are not supporting the company's products and services.[10]

– When a message theme has both positive and negative attributes it suggests either mixed messaging by the company or two schools of media thought about the issue.

An important strength of media profiling is that it immediately creates a discussion that informs action. It does this by unpacking each macro-message theme (e.g. financial performance) into the micro-themes that the journalist uses to discuss it (e.g. profits grew but were not as good as expected). Focusing on micro-themes quickly moves the discussion beyond simple statements like "we have a good (or bad) reputation" to more complex and meaningful statements such as "we are generally good (or bad) expect for . . ..". The reason this change of language is important is that people seldom unconditionally like or dislike a company (or a person).

A more expansive language about corporate reputation also makes it easier to embed the company's reputation profile into its broader "corporate story" (Dowling 2006). This can have two related positive effects. One is that a company story based on key reputation attributes helps to personalise and soften what can easily be a "hard" company. In this way it can help the company to trade on the fact that it has a reputation for being good at specific things. 3M has been doing this for decades. Its reputation for innovation is supported by the corporate brand slogan "innovation" and numerous stories within the company about its innovative endeavours (such as how Art Fry invented the Post It Note). In effect, corporate stories that explain reputation in terms of its various facets put the numbers in Fig. 4 in perspective, thus helping to better inform executive decision making. And, good corporate stories that circulate outside the company can help people to better understand its mission, value and character. This makes it easier for many people to relate to and trust the company.

The second positive outcome of a story-based explanation of reputation is that this is often more interesting to journalists and their audiences than any array of facts and figures. The power of story telling in a corporate setting has been well established (e.g. Denning 2005). Thus, there is a better chance of gaining the attention of the journalists and keeping them "on message". And because they and their editors have a powerful role in setting the agenda for many community, business, political and even employee discussions, they are worth listening to, and sometimes courting.

When companies in an industry are profiled together, it is easy to see "the agenda" journalists and bloggers are pursuing. It is reflected in the dominant message themes. It is also easy to see the salient companies who stand head and shoulders above their competitors. The old and the new media play a powerful role here. Who they select for attention and what they say about them puts these companies' reputations in play. For example, because of intense and sustained

[10]General Electric's "ecomagination" communication campaign is an example of a program designed to foster these effects.

media focus, many people around the world may instantly associate corporate misbehaviour with the Enron Corporation – which crashed so spectacularly some years ago. Yet Enron is certainly not the only corporate wrongdoer to have been prosecuted for its actions in the media. But it is one of the most famous because of its media coverage.

Acting on This Information

Given a reputation profile like Figs. 2–4, what should managers do? First, seek to protect and enhance the company's good message themes. Then, seek to build on these strengths by linking them to other important message themes. A good way to do this is to show how they complement each other within the context of the company's overall reputation story. For example, General Electric has long been known for its strong emphasis on profit but has not had such a strong reputation for its environmental awareness. Their current "ecomagination" story, described by them as "innovation for sustainability", is a useful vehicle for asking people to re-evaluate the reputation of the company with respect to its green footprint. By setting specific financial targets for the company's more environmentally friendly products, GE is linking its already strong "profit story" to its emerging "environment story". The idea here is that of leverage, that is, building on your strengths. It also addresses another important issue, namely, that of leaving a communication vacuum that invites journalists to criticise the company, or for people to believe that the company isn't doing anything.

For negative message themes, three courses of action can be considered. One is to fix the problem that is causing the negative press. What needs to be changed will most likely be revealed by one or more of its micro-themes. If the problem can't be fixed straight away, then plan what needs to be done and communicate this to the people who will be tasked with the job and to the media. If a negative message theme is the result of a misconception, then seek to correct this by providing new information to the media or briefing selected journalists. As a last resort, consider arguing against the negative message. Communications professionals recommend that it is something that should be conducted only when you are 100% sure you are right and that you are being unfairly treated (Rossiter and Bellman 2005).

For a mixed message theme (such as financial performance in Fig. 4), while the task is to promote your side of the story, it is first necessary to understand both sides of the story. These will be found in the two sets of micro-message themes. Scrutiny of these will reveal whether the issue is a contradiction of what the company is saying by the journalist or inconsistent messages running in parallel to each other.

For a missing message theme (such as environment in Fig. 4), a decision is necessary as to whether this is important to the company's stakeholders who really matter. For example, while corporate social responsibility is a current topic of interest to many in the media, it is often not of similar interest to many consumers unless they can see how it directly improves the company's products and services (Devinney et al. 2006).

Conclusions

In summary, our argument is that from an organisational perspective it is not possible to understand the commercial world and a company's part in it without knowing what the media is leading people to think about the company and its competitors. An important way to focus this enquiry is to profile the media reputations of the industry participants. All big companies conduct such an inquiry. For example, the number two telecommunications company in Australia tracks its media coverage using three metrics, namely, (1) the number of days the company is mentioned, (2) the percentage of stories that were initiated by the company and (3) the percentage of stories where the coverage is predominantly favourable, neutral or negative. A monthly report is circulated to senior management comparing these metrics with performance targets (Kee 2007). These are simple, and we would say simplistic metrics to help monitor the media's influence on the reputations held by various people.

In this chapter, we argue that to get the most value from the analysis of the media it is necessary to unpack the idea of a good or bad media reputation into a DNA profile of what is said about the company by the editorial opinion shapers. To do this we suggest applying thematic and message-centric analytics in addition to simple counts of inputs (such as media releases) and outputs (such as press coverage). We also suggest that any type of media analysis needs to be linked to various survey-based measures of stakeholder sentiment (such as admiration, trust, etc.) that will then drive employee engagement, customer loyalty and investor confidence. In this way the media profile of a company becomes embedded in a broader measurement system that can better inform management decisions. What our research has uncovered is that a company will often have a better reputation for some things than others, and more engagement with some groups than others. To gain this insight requires use of a more complex language about corporate reputation inside the company. This will then motivate a discussion that directly informs management action.

Appendix

Research Methodology

Over the last decade, Cubit Media Research has conducted many hundreds of print media profiling assignments for both Australian and global organisations operating in the Asia-Pacific region. These often entail comparisons with competitors. A typical assignment will involve recording various types of information such as media outlet, journalist, placement of the copy in the outlet and the tone of the message and its thematic content. Figures 2–4 are a stylised version of the major findings of the message themes from this commercial-in-confidence work. The message themes are chosen to capture both business and social aspects of a company's activities.

The method used to profile a company's media image and reputation is as follows:

– Each client nominates either a list of media outlets for scrutiny or a number of search terms and audiences on which the media search activity is to be conducted.
– Source material appearing in the media during the period of investigation is purchased from a commercial source such as Factiva or Lexis Nexis.
– A set of "target" message themes is identified in conjunction with the client.
– Each piece of copy is read by both advanced pattern matching software and professionally trained content analysts assigned to that company. Words and phrases are identified as belonging to sets of message themes and are meta-tagged accordingly. All of these data are then stored in a specially designed data file.
– Advanced software, overseen by skilled analysts, then carries out a message-matching activity to identify four types of message themes: "hit" – where the client desired message cuts through in the media; "positive miss" – another favourable message cuts through; "negative miss" – an unfavourable comment about the client appears and "contradiction" – a message that directly opposes the client's desired message.

The Cubit method claims an accuracy rating of better than 99.9%.

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Reputation Management in Different Stakeholder Groups

Lars Fiedler

Introduction

Corporate reputation management (Helm 2005; Dowling 2002), corporate branding (Harris and de Chernatony 2001) and the closely linked stakeholder management approach (Freeman 1984) are topics that have been attracting growing interest in recent years. "A corporate reputation is a collective construct that describes the aggregate perceptions of multiple stakeholders about a company's performance" (Fombrun et al. 2000, p. 242), it is "a synthesis of the opinions, perceptions, and attitudes of an organization's stakeholders" (Post and Griffin 1997, p. 165). In this context, a stakeholder can be defined as "any group or individual who can affect or is affected by the achievement of an organization's purpose" (Freeman 1984). This interpretation highlights the close link between reputation management and the stakeholder approach (Freeman 1984; Roper and Davies 2007). The stakeholder approach has emerged in response to criticism of a pure shareholder orientation. It advocates the consideration of more target groups – such as employees, business partners, and media representatives – in corporate strategy. By definition, each of these groups can (and many of them actually will) have some impact on the success of a corporation's operations (Freeman 1984). Consequently, the major objective in reputation management strategies should be to encourage stakeholders to behave and act in a way that positively influences (or at least has no harmful consequences on) corporate objectives. Another very closely linked research construct is the corporate brand which can be understood as the distinctive perception of a corporation tightly anchored in the psyche of the stakeholders that influences their behavior.

The increased significance of reputation management over the last few years can be explained in terms of a generally growing reputation orientation and changing environmental conditions. The central reasons for these mutating conditions include growing competition in the distribution and resource markets (Ambler and Barrow 1996), the increasing importance and cognizance of economic brand value (Kapferer 1997; Keller 1993), the increasing visibility of corporate reputations through globalization and the expanding potential and speed of

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information transfer. Therefore, the corporate reputation becomes increasingly prominent and requires significantly more attention of the senior management. In addition, increasingly more stakeholder groups are becoming aware of their fundamental significance for long-term business success and are consequently making their preferences more conspicuous and demanding that they be fulfilled (Swift 2001). All in all, therefore, the increasing relevance of stakeholder groups is quite evident, and this leads directly to an increasing stakeholder orientation. Against this background, an increasing need for information on the part of corporate stakeholders can be observed. Because of the doubts about formal sources of information, informal sources are being used increasingly by stakeholder groups. Instead of detailed information reputation is of use as a substitute that represents the generic, overall perception of a corporate brand.

Despite the growing prominence of reputation management, the majority of publications in this research area maintain a conceptual focus, due to the complexities that arise in empirical studies. However, so far, only few investigations (Helm 2008) have dealt with the complex interrelationships involved in the emergence and impact of corporate reputations in different stakeholder groups. The purpose of this paper is therefore to generate empirical support for a deeper understanding of how corporate reputation, stakeholder commitment and stakeholder behavior develop in addition to how to approach the different stakeholder groups. This research should particularly answer the following questions:

- What are the components of corporate reputation?
- What are the effects of corporate reputation?
- What factors or stakeholder groups impact on corporate reputation?
- What differences can be found between stakeholder groups?
- What are the implications for the management of corporate reputations?

The article commences with a discussion on the significance of the subject and a brief analysis of the relevant theory. Particular attention is paid to corporate reputation and its constituent parts, as well as to the effects and influencing factors, so as to develop an overall theoretical model. In the context of the empirical investigation, the database, measurement methods and major empirical results are considered. The contribution ends with some concluding comments on the implications for corporate reputation management.

Theoretical Framework and Relevant Constructs

Corporate Reputation and Its Components

Corporate reputation (a term we use as a synonym for reputation) reflects the "collective representation of multiple constituencies' images of a company, built up over time and based on a company's identity programs, its performance and how constituencies have perceived its behavior" (Argenti and Druckenmiller 2004).

Consequently, it is the overall image of a corporation that is perceived by its various publics. There is little doubt that the long-term success of a corporation depends substantially on the corporate reputation that is perceived by its customers and potential customers (Dowling 2006). Because of the positive effect of a favorable image on customer buying intentions and behavior (Kumar et al. 1995), employees and investors, too, will be attracted to the firm. The relevant publics include almost any imaginable stakeholders, such as suppliers, industry organizations, media, opinion leaders, politicians, the financial community and society in general (Dowling 1986). Positive relationships between positive images and customer loyalty (Tranberg and Hansen 1986), as well as between image and behavioral intentions (Kumar et al. 1995) are supported by several empirical studies. One key assumption of this contribution is that these findings can also be extended to all other stakeholder groups.

Reputation belongs to the widely used attitudinal constructs whose substantial significance in the market derives mainly from the assumed interrelationship between attitude and behavior (Bagozzi et al. 1989). By means of this hypothesis, important predictions relating to consumer or stakeholder behavior can be made. In addition, attitudes can be measured and influenced by reputation management activities. Therefore, they function as viable magnitudes for marketing and management. On observing the components of attitude, a differentiation is often made according to the so-called three-component theory into an affective, cognitive, and conative dimension (Aaker et al. 2004). In essence, it is assumed that, between the thoughts, feelings and behavior that are expressed in this manner there is a tendency towards consistency. However, many researchers do not treat the conative component which expresses behavioral tendencies as a part of the attitude, but model it as an independent construct (Dixon et al. 2003; Dhruv et al. 2007). Because of the particular behavioral significance of intentions the conative dimension, in this present investigation, will not be interpreted as an integrative component of the attitude, but as an independent impact of the perceived corporate reputation. Hereafter, it will accordingly be assumed that corporate reputation consists of an affective and a cognitive dimension. Corporate reputation research has adopted this approach in other studies before (Fombrun and Gardberg 2000).

The affective image component belongs in an emotional category over which cognitive faculties have little control and which scarcely differentiates in terms of content. Emotions can be defined or described as subjective experiences, associated with neuropsychological processes, such as reactions of the autonomous nervous system, which are reflected in the observable behavior of individuals. Expressed more simply, the following definition also applies: “The affective or liking component summarizes a person’s overall feelings toward an object, situation, or person” (Aaker et al. 2004, p. 283). The importance of emotions for behavioral responses derives from the concept of emotional brand utility, which expresses “how you feel when you buy, use, or simply own the product” (Haley 1985). Especially, in today’s environment of information overload and decreasing physical differences between products, economic agents often bypass objective decision criteria and revert to subjective emotions. Although some researchers have developed extensive indices for reflecting emotions and complex models that integrate emotional influences on behavior (Vakratsas and Ambler 1999), we use a simpler approach in order to avoid the potential errors associated with complexity. The indicators used in this research refer primarily to intuitive, logical aspects such as liking, attractiveness, positive thinking, and fit with self-perception.

The cognitive image component of corporate reputation represents an individual's or group's information about an object or a brand and is also referred to as the knowledge component. This includes awareness of the existence of the brand, beliefs about its features and attributes, and judgments about the relative importance of all of these attributes (Aaker et al. 2004). Such knowledge results from the active processing of external information – a rationally dominated procedure. In addition to information absorption, cognitive processes also include the following phases: perception, evaluation and thinking (of which learning is a subset). In the prevailing context, this means that all perceived information about a corporate brand is processed and saved in the cognitive knowledge. The final saved component of such filtered knowledge thus forms an integrated component of perceived reputation or of the attitude towards the corporation.

Particularly with respect to the multifaceted nature of the relevant aspects for the different stakeholder groups and the associated complexity of corporate reputation management, it is unlikely that all knowledge-based aspects of stakeholder attitudes can be integrated into one construct. These doubts are supported by recent results from reputation research (Helm 2008). In the context of positioning attributes, some authors broadly refer to relevant meta-associations and stakeholder-specific micro-associations which should be adapted so as to depict the attitudes of the stakeholder of an enterprise (Hermann 2005; Fiedler and Kirchgeorg 2007). Consequently, it seems appropriate to divide the cognitive image components into a generic element that is identical for all target groups of the corporate reputation, and into an individual stakeholder-specific element that reflects the individual requirements of each stakeholder group. Hermann refers to this generic cognitive and specific cognitive image component as meta-associations and micro-associations, respectively (Hermann 2005). In this context the generic cognitive image component can be interpreted as a representation of the reputation. Such a "standardized measurement approach is suitable for measuring overall reputation for all stakeholder groups" (Helm 2008, p. 18).

Obviously, the quality of products and similar aspects are extremely important to all stakeholder groups. If quality is inadequate, customers will not buy a company's products or services, shareholders will not benefit from corporate earnings and jobs will be endangered. In the interests of long-term survival and stable, high-quality production, a corporation also needs strong financial performance, a certain growth potential and a favorable market position. In order to achieve quality and financial objectives, other factors such as a skilled workforce, a good top management team and a capable CEO are essential. Additional sustainability aspects, such as environment-friendly behavior, social responsibility and reliability, are general requirements of modern societies that need to be met (Helm 2005, 2008).

In order to avoid an excessively lengthy account of the stakeholder-specific aspects, only a few of the relevant attributes for each stakeholder group are mentioned below. Customers, for example, are interested in good customer service, reasonable value for money, fast order handling and easy access to outlets, while employees are concerned with good salaries, attractive retirement plans, job safety and corporate culture. Shareholders, on the other hand, care more about share price development, dividends, open information policies and success in the capital markets. We gathered or derived all major requirements for individual stakeholder groups from the relevant literature and interviews with experts (for each group), before adding them to the stakeholder-specific cognitive image dimension.

The Effects of Corporate Reputation

The general effect of a good corporate reputation and, therefore, also the activities of corporate reputation management include internal processes and the observed reactions of corporate stakeholders, which are the target groups of the corporate brand. In this context, the close association with behavioral research and the stimulus–organism–response paradigm becomes obvious (Jacoby 2002). As a stimulus, the corporation and its communication accordingly lead through its unobservable processing in the organism of the individual, both to psychographic effects and to observable responses. Conversely, these effects have a direct impact on corporate success. In this respect, positive reputation effects are reflected in better results with regard to familiarity, corporate associations, perceived quality, satisfaction, profit margins and market shares for a company (Aaker 1991). Ultimately, however, the final target variable is the actual behavior of stakeholders. Accordingly, the customers of an enterprise are intended to buy its products, employees should be loyal and commit to the enterprise, investors should buy its stocks and representatives of the media should publish positive reports.

Because capturing actual stakeholder behavior through empirical investigations is usually rather difficult, psychographic constructs such as intentions are usually applied. Even though behavioral intentions have a long history as predictors for observable customer behavior (Fishbein and Ajzen 1975), they have continued to be used quite frequently as a construct in recent research studies. Behavioral intentions are usually interpreted as the desire to act in a certain way, for example to buy or not to buy a specific product as a result of a positive or negative assessment (Bagozzi et al. 1989). The role of attitudes and intentions in consumer behavior has been the subject of intensive discussion (Assael 1998). While some researchers postulate that attitudes influence behavior directly, the majority of publications support positive relationships between attitudes and intentions, and between intentions and observable behavior (Bagozzi et al. 1989). In summary, we find strong support for the use of behavioral intentions as a predictor of behavior. Frequent indicators of behavioral intentions are, for example, buying, recommendation, cross-selling and positive referral intentions, and preferences. Several of these indicators are also used as items in the loyalty construct, which can be defined as “favorable correspondence between relative attitude and repeat patronage” (Dick and Basu 1994, p. 99).

In addition to the widely used concepts of intentions or loyalty, the conceptually similar, but more comprehensive construct of commitment has emerged as a suitable indicator of shareholder response. Commitment can generally be defined as a “sense of closeness one party feels to the other” (Ross et al. 1997, p. 682) or more specifically as “an implicit or explicit pledge of relational continuity between exchange partners” (Dwyer et al. 1987, p. 19). Accordingly, commitment is an incremental basis for successful long-term relationships and simultaneously implies the willingness to make short-term concessions in order to achieve long-term benefits. Even if very differing formulations of the construct can be found in the literature, there seems to be a tendency towards a three-component theory (Allen and Meyer 1990). Firstly, the instrumental, input-related component assumes relationship-promoting behavior, often in the form of a relationship-specific investment which generates a vested interest in the relationship and means more than a mere promise. Secondly, the attitude-related component entails an ongoing willingness of both parties to develop and maintain a stable relationship (Anderson and Weitz 1992). Thirdly, the temporal component emphasizes that commitment can only be of significance over the long run, such that the inputs and attitudes towards the relationship must be constant over time (Becker 1960).

For an enterprise, the main advantages of a high level of commitment of stakeholders are thus their positive attitude towards the partner in the relationship and their intentions to conduct common transactions in the future. In most cases, this goes so far that stakeholders barely consider working with other transaction partners, despite comparable or even better expected results. A number of investigations reveal additional positive effects through high levels of motivation, involvement, loyalty and the maintenance of organizational rules with transaction partners which lead to the mutual improvement of corporate performance (Gundlach et al. 1995). The work on commitment, which originates from consumer research, generally assumes that the prevailing basic idea of commitment can be transferred to the decision-making behavior of all stakeholders. This can be justified on the basis that human decision processes tend to be similar to one another. All in all, stakeholder commitment emerges in the present paper as the most important construct in determining the effect of corporate reputation as the central indicator of actual stakeholder behavior.

Antecedents of Corporate Reputation

Although, in principle, there are a number of influencing factors, communication in particular has a major impact on the formation of corporate reputation (Argenti 2003). In this context, one aspect is the differentiation into informal communication between individuals and the actively controlled communication of the enterprise itself. The basic assumption, that informal communication or word of mouth substantially moulds people’s attitudes and behavior, is not controversial. The first studies on the importance of word of mouth go back to the 1950s (Whyte

1954). They deal primarily with the diffusion of product innovations and the basic tenet is that "word of mouth is probably the most powerful form of communication in the business world" (McKenna 1991, p. 89). This view prevails up to the present. Accordingly, in one of the earlier studies in the area, Katz and Lazarsfeld were able to prove that word-of-mouth communication constitutes the most significant influence on purchasing decisions with respect to household goods and food. His results showed that, in convincing consumers to switch brands, word of mouth is seven times more effective than newspapers or magazines, four times more effective than personal selling and twice as effective as radio advertising (Katz and Lazarsfeld 1955). Other studies have established that 60% of the consumers use word of mouth as the most influential source of information for deciding on certain services (Engel et al. 1969). Two-thirds of new members of a residential community rely on the recommendations of their fellow residents in choosing a doctor (Feldmann and Spencer 1965). Arndt was also able to prove that positive word-of-mouth communication leads to a high probability of purchasing (Arndt 1967).

According to Sheth, most research on word-of-mouth communication can be divided into three areas (Sheth 1971). Firstly, studies on decision processes reveal that the level of familiarity of an innovation or product, can indeed be achieved through mass communication, but the critical product evaluation and thus image formation are influenced most strongly by informal communication (Rogers 2003). The second area relates to the hypothesis that the impact of communication takes place in two phases. According to this approach mass communication initially influences opinion leaders (Richins and Root-Shaffer 1988), who, in turn, then influence the masses into actually purchasing products with which they are already familiar through the media (Katz 1957). The third and last research area is more general and deals with the subject more indirectly by investigating the impacts on reference groups on buyer behavior with respect to products or services. There is a particular focus on observing the diffusion processes of innovations (Brooks 1957).

Based on these fundamental research results, some important phenomena of communication research can certainly be explained, but a substantial lack of clarity still remains with respect to the exact processes of informal communication. Accordingly, neither at the macro nor micro level, are findings available on the exact nature of communication or influence processes between various groups or between parts of groups. Thus, up to the present it remains completely unclear what relationships or communication channels are more likely to apply to word-of-mouth communication, and which have the greatest impact. A failure to take into account the relational and socio-metric data can be regarded as the reason for this research gap. In order to eradicate these weaknesses in the analysis and depiction of information flows, various authors have applied the social network approach to informal communication and come up with "word-of-mouth networks" (Reingen 1987), which enable a considerably better socio-structural understanding of the phenomenon.

According to this logic, all individuals who develop corporate reputations can be combined into stakeholder groups, which influence each other mutually through informal communication. In practice, this means, for example, that in his free time, a customer of a particular company may mention personal experiences or opinions of this company to a friend, who just happens to be a shareholder of a company. Informal communication in this manner exerts a very substantial impact. This also raises the question, which stakeholder groups, for example, through a high level of credibility or recognized expert power, are of particular relevance (French and Raven 1959; Swasy 1979). There is a series of investigations on the significance of stakeholder groups which Hermann (2005) subjected to a meta-analysis. It became evident through most that the groups of customers and employees, which are frequently regarded in the literature as highly relevant, are indeed the most important stakeholder groups over all studies. Society as a whole and the media come before the financial community, which share the fifth rank with business and industry partners. The remaining ranks of six to nine are assumed in the following order by the state, universities, competitors and interest groups. All in all, a ranking of the significance of stakeholder groups was obtained from empirical investigations (Hermann 2005). However, in order to focus the present investigation on the widely recognized stakeholder groups and to reduce complexity, the considered stakeholder groups in the following empirical study have been reduced to customers, potential customers, employees, potential employees, shareholders (representing the financial community), potential shareholders and media representatives.

In addition to informal communication through other corporate stakeholders, a number of other influencing factors play a role in the formation of individual attitudes. Particularly in the case of large, well-known business-to-consumer enterprises, official corporate communication is regarded as especially significant for the attitude formation by consumers and other stakeholders (Argenti 2003). The results of the empirical investigation show that contact with advertising or communication alone, even without an evaluation of content, is extremely relevant for the impact of advertising and thus for image formation by stakeholders (Vakratsas and Ambler 1999). Accordingly, in addition to the subjective evaluation of corporate communication, which is generally accepted as important and unevaluated, pure contact to the communication is also integrated as a separate latent variable.

General Theoretical Model

To date, the literature offers no overall theoretical approach which is suitable for the research questions at hand, so that it is necessary to develop one from the previous analysis and discussion. As antecedents, there are two major influencing factors on the three reputation components included in this study. On one hand, we incorporate based on social network theory (Doreian 1989; Friedkin and Johnson 1990) the informal word-of-mouth communication among seven crucial potential stakeholder group customers, potential customers, employees, potential employees, shareholders, potential shareholders and media representatives. Our approach represents an innovative aspect of the research paper at hand because this link between stakeholder theory and social network theory has not been analyzed empirically before. The few researchers (e.g., Rowley 1997) that have bridged these two areas of research remained strictly conceptual. The impact of other stakeholder groups on a specific respondent is measured based on this person's perceived opinion of each influential stakeholder group, rather than the objective, individual attitudes. The rationale of this approach is based on the so-called network effect models (Doreian 1989; Friedkin and Johnson 1990). On the other hand, we integrate the formal communication of the analyzed corporation. This approach represents a traditional, widely accepted antecedent of reputation development. Due to its high importance, we split the effects of communication into two separate constructs. The contact with the corporate communication represents the pure perception of marketing activities and the evaluation of the corporate communication.

According to the assumptions, corporate reputation comprises affective, generic-cognitive, and stakeholder-specific cognitive components. For all three components of the attitude construct, a significant influence is assumed. Necessary adaptations due to stakeholder-specific peculiarities are made through the formulation of the empirical research design. Even if the ultimate result of decision processes desired by an enterprise is normally a positive behavioral reaction of the stakeholder group, for reasons of practicality, stakeholder commitment is used as the central substitute indicator of the effect of corporate reputation (Bagozzi et al. 1989). Result is the general path model for the empirical analysis depicted in Fig. 1. This basic theoretical model is analyzed analogously for all observed stakeholder groups in the empirical investigation.

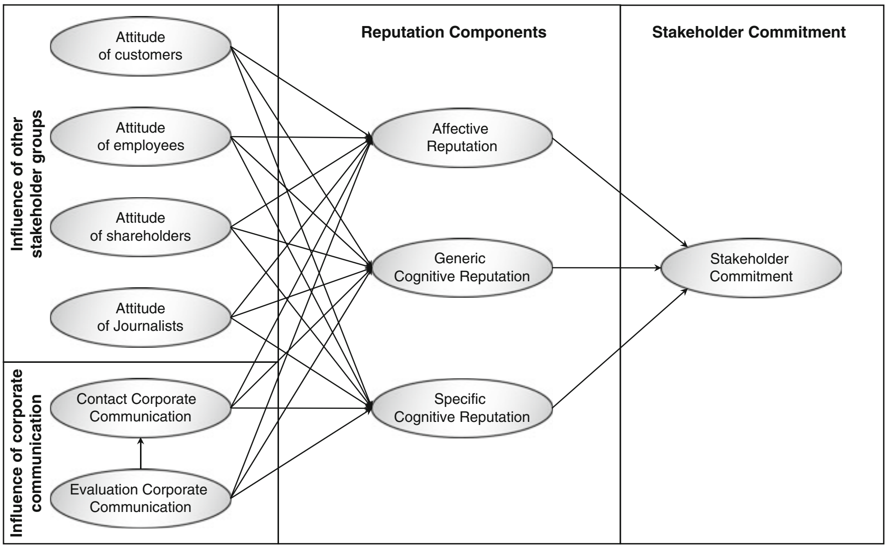

Fig. 1 General path model of the empirical model (potential stakeholders not displayed separately)

Empirical Analysis

Data Basis

The empirical data originate from a survey of a leading and well-known German service corporation listed in the DAX 30, the German share index. From a brand architecture perspective the company combines a "house of brands" and "branded house" strategy because several family brands benefit from the endorsement of a strong corporate brand (Laforet and Saunders 1999). Based on their importance according to prior research (Hermann 2005), seven major stakeholder groups including customers, potential customers, employees, potential employees, shareholders, potential shareholders and media representatives were chosen for this study.

For each of these stakeholder groups a questionnaire was developed on the basis of theoretical considerations, numerous expert interviews and focus group discussions with experts for the various stakeholder groups. Although they were similar in principle, these questionnaires were individually adapted for each group. With the help of two pretests with 30 and 37 participants, respectively, the purpose of which was to check the comprehensibility and fundamental suitability of the questionnaire, changes were made to the selection and formulation of the variables. A screener was then sent out by e-mail, which identified the recipients as members of one of the primary stakeholder groups of customers, employees or shareholders of the company concerned (Fiedler and Kirchgeorg 2007). From these subgroups, randomly selected individuals received a link to the online questionnaire. Due to restrictions on the number of responses for each target group 1,445 individuals (296 customers, 202 potential customers, 116 potential employees, 274 potential employees, 276 shareholders and 281 potential shareholders) completed the entire questionnaire. As no validated data exist on the fundamental characteristics of the various stakeholder groups and, consequently, it is not possible to compare the sample with the parent population, complete representativeness cannot be guaranteed here. However, there is also nothing to indicate a lack of representativeness.

In addition, the stakeholder group of media representatives, which is theoretically classed as influential, was also to be investigated. Due to the substantially smaller parent population and differing characteristics of this group, the telephone interview was selected as the mode of survey, as this would allow a significantly higher response rate achievement. The aim here was to ensure, as far as possible, a sufficient number of responses for a valid empirical analysis, something which may have resulted from the online questionnaire (Yu and Cooper 1983). The necessary contact data originated from a database of relevant media representatives from the German media landscape. This was made available by the market research institute collecting the data. From a total of 1,752 media representatives for whom data were available, 20- to 30-min telephone interviews were conducted with 101 media representatives: They were selected on the basis of their assumed significance.

With regard to the socio-demographic characteristics of the respondents, the overwhelming majority of respondents across all stakeholder groups were male (70.9%). Although on the surface this may appear to indicate a distortion of the sample, it should be borne in mind that a higher proportion of men, e.g., in the shareholders or employees stakeholder groups, can quite possibly be explained by gender-specific differences in risk inclination or the staff structure within the company. As far as the age distribution of the participants in the survey is concerned, there is a concentration in the 20–49 age group, with a figure of 85.9%. The under 20 age group is small, at 1.7%, whilst the over 50s account for a share of more than 12%. Monthly net household income is below 2,000 Euros for 30.2% of the respondents, between 2,000 and 3,250 Euros for 28.9% and above 3,250 Euros for 21%. With regard to education, the majority of the study participants (51.1%) have a university entrance level qualification, followed by 18.2% who have a school-leaving certificate from a "Realschule" (mid-ranked secondary school) and 12.6% who have an entrance level qualification for a "Fachhochschule" (university of applied sciences). Individuals with other levels of education are less than 10%. Overall, the analysis of the socio-demographic criteria does not indicate any distortion of the sample.

Measurement

Widely used structural equation modeling (SEM) techniques offer a convenient way to perform path-analytic research using latent variables. In contrast to the more widely known covariance-based approaches (Jöreskog and Sörbom 1982) used by the computer programs LISREL and AMOS, we adopted the variance-based partial least squares (PLS) approach. This less widespread but equally suitable technique for "second generation multivariate analysis methods" (Fornell 1982) is offered by the partial least squares path modeling developed by Wold (1966, 1982). However, this should not be seen as a method in competition with covariance-based structural equation models and is in fact to be regarded as complementary in terms of research goals, data characteristics and modeling options (Chin and Newsted 1999).

A host of reasons support the use of the PLS technique. This paper partly concerns an exploratory study without a fully established theoretical framework. The basic model to be investigated is also relatively complex and requires the development of new measurement models. Initial studies of the databases have also shown that the normal distribution assumption is clearly not complied with for the majority of the variables. In contrast to covariance-based techniques, compliance with particular distribution assumptions is not a precondition for the PLS approach. Furthermore, the sample sizes for the employees and media representatives are only 116 and 101, respectively, which means that the minimum number of 200 observations usually required for covariance structure analyses is not achieved. For the reasons stated, in this paper the empirical analysis is carried out using the computer programs Smart PLS 2.0 M2 and PLS Graph Version 3.0 1126. Missing values, which only apply in the case of a small number of variables, are replaced by the average values of the corresponding variables in the relevant stakeholder group. Additionally, we used AMOS 5 to compute global fit criteria for the reflective models.

A key characteristic of constructs such as image, reputation or commitment is that they are non-observable latent variables that require adequate scales for measurement. The operationalization under explicit consideration of the relevant theoretical underpinnings has been executed according to state-of-the-art procedures. The decision whether to use reflective or formative measurement models for each latent variable is important, because the specification and validation processes differ significantly due to divergent logic. Various authors have been able to demonstrate wrong specifications that have resulted from the largely dominant use to date of reflective measurement models (Bearden and Netemeyer 1999) in covariance-based techniques (Jarvis et al. 2003). In the analyses considered, it was often not borne in mind that the fundamental difference between formative and reflective measurement models lies in the direction of causality or in the correlation between the latent variables and the indicators. With formative measurement models the indicators cause the latent variable, whilst with reflective measurement models the causality runs from the latent variable to the indicators. Consequently, the high correlation required for reflective indicators is not needed in the case of formative indicators (Jarvis et al. 2003). When the constructs are analyzed within the theoretical framework of this paper, it becomes clear that there is a need to model both reflective and formative measurement models. This is a further aspect that supports the use of PLS.

The necessary indicators were derived from theoretical considerations, expert interviews and focus groups, following standard scale development procedures, which differ between reflective (DeVellis 2003) and formative models (Diamantopoulos and Winklhofer 2001). Starting with a higher number of potential items, the quantity was originally reduced by pretests before determining the final battery of indicators. The variables were collected principally by obtaining answers to closed questions. This primarily involved the use of five-level rating scales with verbal anchoring of all answer options.

In line with other publications, we used reflective indicators to model the affective image component and the stakeholder commitment. The four indicators for each latent variable are manifestations of this construct and largely interchangeable. Even though attitudes and images are often considered as reflective constructs (Diamantopoulos and Winklhofer 2001), we follow a less popular approach and model the generic and stakeholder-specific cognitive component in a formative way. Our reasoning is that the content and indicators of the construct are too divergent to be manifestations of the construct. The indicators are not necessarily linked, nor are they interchangeable, and they represent different characteristics of the construct. This leads to causality from the items to the construct. Consequently, the generic cognitive component is made up of nine formative indicators, while the specific cognitive component consists of ten formative indicators. A similar argumentation can be found in reputation research (Helm 2005). The perceived attitudes of the major stakeholder groups as antecedents of the corporate reputation are modeled reflectively with four indicators each because they represent manifestations of the ambiguous attitudinal constructs. The contact with and the evaluation of the corporate communication are both measured with five indicators which represent major communication channels. Due to the fact that they are not necessarily correlated and interchangeable, the operationalization is formative.

In the literature there are a range of evaluation criteria for assessing the quality of individual scales and complete structural equation models (Götz and Liehr-Gobbers 2004; Tenenhaus et al. 2005). Widely used criteria for evaluating formative measurement models are the indicators' weights (W), their significance (Sig), the correlation matrix (CM), the Variance Inflation Factor (VIF) and the Nomological Validity (NV). Figure 2 demonstrates that for each of these a large proportion (left figure) of the total numbers tested (right figure) comply with the stated quality criteria. A similarly positive picture results for the reflective measurement models, which are assessed on the basis of the factor loadings (FL), indicator reliabilities (IR), Cronbach's alphas (Cα), factor reliabilities (FR), the average variance explained (AVE) and the Fornell–Larcker criterion (FLC). For the overall structural equation model the path coefficient (Path), effect size (ES), the coefficient of determination (R^2) and the Stone–Geisser criterion (SGC) are frequently employed. The results proved that the developed scales are able to comply with the relevant evaluation criteria to a high degree. Consequently, we can conclude that our scales have a highly satisfactory quality. Furthermore, significant differences in the indicators' weights of the formative measurement models between the stakeholder groups indicate varying requirements in each group. This insight could be used in corporate reputation management to design stakeholder-specific strategies (Götz and Liehr-Gobbers 2004; Tenenhaus et al. 2005).

Empirical Results

Looking at the computed structural models for each of the seven stakeholder groups in Fig. 3, we can see that almost all paths have a significant positive effect on the commitment of the stakeholders. Only the generic cognitive component of shareholders and media representatives as well as the specific cognitive component of potential customers indicate non-significant paths. The effect sizes are positive for all paths. The R squares (ranging from 0.558 to 0.658) and the Q square results for the Stone–Geisser-test (ranging from 0.286 to 0.463) prove the high overall fit of the models.

The investigation of the effects of the corporate reputation components on stakeholder commitment shows that all three image components exert a significant influence. The affective reputation component has the strongest effect in all stakeholder groups studied. This results in high path coefficients with values between 0.598 and 0.342, which are generally significant at the 1% level and also largely

	Evaluation criteria for formative measurement models					Evaluation criteria for reflective measurement models							Evaluation criteria for structural models				
Criteria	W	Sig	CM	VIF	NV	FL	Sig	IR	Cα	FR	AVE	FLC	Path	Sig	ES	R^2	SGC
Require-ment	0.1	J	<0.9	<7	J	0.7	J	0.5	0.7	0.6	0.5	J	0.1	J	0	0.4	0
Customers	20/28	20/28	28/28	28/28	4/4	24/24	24/24	24/24	6/6	6/6	6/6	6/6	13/21	14/21	21/21	4/4	4/4
Potential Customers	15/28	15/28	28/28	28/28	4/4	24/24	24/24	24/24	6/6	6/6	6/6	6/6	13/21	13/21	21/21	4/4	4/4
Employees	12/28	12/28	28/28	28/28	4/4	24/24	24/24	24/24	6/6	6/6	6/6	6/6	15/21	12/21	21/21	4/4	4/4
Potential employees	16/28	16/28	28/28	28/28	4/4	24/24	24/24	24/24	6/6	6/6	6/6	6/6	17/21	13/21	21/21	4/4	4/4
Shareholders	18/28	18/28	28/28	28/28	4/4	24/24	24/24	24/24	6/6	6/6	6/6	6/6	14/21	14/21	21/21	4/4	4/4
Potential shareholders	18/28	18/28	28/28	28/28	4/4	23/24	24/24	23/24	6/6	6/6	6/6	6/6	12/21	12/21	21/21	4/4	4/4
Media representatives	14/28	10/28	28/28	28/28	4/4	23/24	24/24	24/24	6/6	6/6	6/6	6/6	14/21	12/21	21/21	4/4	4/4

Fig. 2 Quality criteria compliance frequency of measurement and structural models

exhibit at least moderate effect sizes. It is worth noting that, contrary to theoretical expectations, even for media representatives and shareholders (stakeholder groups normally classed as more rational), values of 0.590 and 0.432, respectively, imply that the affective dimension has a strong influence on stakeholder commitment, and thereby also on behavior. These two stakeholder groups therefore also seem to rely to a particularly great extent on their emotional “gut feeling” when forming attitudes and making decisions.

Also when we look at the generic cognitive dimension, it can be seen from Fig. 3 that the aspects shown have a fundamental relevance for all stakeholder groups, as all path coefficients are above 0.1 and are significant for five of the seven subgroups. However, a similarly high level as that for the affective image component is only achieved for customers, employees and potential shareholders, with significant path coefficients of 0.289, 0.315 and 0.329. Nevertheless, these three stakeholder groups in particular also appear to rely strongly on general image aspects similar to reputation. For the remaining groups, the generic cognitive reputation component still has a relevant, although subordinate, importance.

The specific cognitive reputation component has great relevance in particular for shareholders, with a highly significant path coefficient of 0.313. Stakeholder commitment in this stakeholder group is based strongly on knowledge-based facts about the company’s shares and their performance and is therefore in line with theoretical expectations. With path coefficients ranging from 0.117 to 0.179, the specific aspects are also at a significant level for all other stakeholder groups except potential customers. For these stakeholder groups the specific requirements therefore at least play a supplementary role in relation to stakeholder commitment.

In summary, we can draw the interim conclusion that all three reputation components are significant for the majority of stakeholder groups. However, due

	Affective reputation component			Generic reputation image component			Specific cognitive reputation component			Model	
	Path		Effect size	Path		Effect size	Path		Effect size	R^2	SGC
Customers	0.441	***	0.196	0.289	***	0.063	0.118	*	0.010	0.611	0.394
Potential customers	0.598	***	0.390	0.264	***	0.040	-0.008		0.000	0.658	0.463
Employees	0.364	***	0.150	0.315	**	0.079	0.179	*	0.021	0.614	0.390
Potential employees	0.544	***	0.310	0.168	***	0.036	0.117	**	0.009	0.574	0.299
Shareholders	0.432	***	0.022	0.139		0.015	0.313	***	0.081	0.622	0.370
Potential shareholders	0.342	***	0.141	0.329	***	0.085	0.169	***	0.025	0.558	0.286
Media representatives	0.590	***	0.451	0.118		0.015	0.176	*	0.033	0.635	0.385

*** Significant at 1%; ** Significant at 5%; * Significant at 10%

Fig. 3 Overview of the effects of corporate reputation components on commitment

to the substantially greater path coefficients and effect sizes, a much higher relevance generally results for the affective reputation dimension compared to the cognitive reputation components. On the basis of the various image dimensions' contributions to explanation, which are pronounced to varying degrees, it is possible to derive specific profiles for each stakeholder group which allow implications to be drawn for corporate reputation management, e.g., specific positioning approaches. Overall, the extremely satisfactory coefficients of determination indicate that the modeling carried out allows a high degree of explanation of the endogenous construct of stakeholder commitment to be achieved.

In Fig. 4 the influences resulting from informal communication between stakeholders and formal corporate communication on the three separated reputation components are presented comparatively across all stakeholder groups. The affective, generic cognitive and specific cognitive reputation dimensions are illustrated in three blocks from top to bottom. In each block, the rows contain the explanatory or influencing variables, i.e., the perceived attitude of customers, employees, shareholders and media representatives, as well as contact with corporate communication and the evaluation of this. The final sum for the rows serves as an indicator of the aggregated overall influence of the explanatory variables across all stakeholders. The columns present the various submodels, which reflect the influence exerted on the individual stakeholder groups. The first column sum shows the four stakeholder influences, whereas the second shows the overall sum of all six explanatory variables. Both serve as indicators of the extent to which the stakeholder group concerned is being influenced.

The analysis of the individual path coefficients in Fig. 4 shows that the results are largely consistent across the stakeholder groups. Of the influencing stakeholder groups, the perceived attitude of customers has the strongest effect overall for the

on... / Influence of...	Customers		Potential customers		Employees		Potential employees		Shareholders		Potential share-holders		Journalists		Sum
	Affective reputation component														
Customers	0.432	***	0.206	***	0.236		0.289	***	0.201	***	0.357	***	0.269	***	1.991
Employees	0.094	**	-0.027		0.352	***	0.122		0.098	*	0.055		-0.033		0.661
Shareholders	0.051	*	0.007		-0.071		0.113		0.073		0.073		0.008		0.251
Media reps	0.111	**	0.154		-0.140	**	0.083		0.125	**	0.068		0.227	***	0.628
Contact	0.062		0.282	***	0.272	***	0.073		0.106	*	0109		0.173	*	1.076
Evaluation	0.250	***	0.335	***	0.158		0.332		0.399	***	0.315	***	0.140		1.929
Sum Stakholders	0.688		0.340		0.377		0.607		0.496		0.552		0.471		=> 3.531
Overall sum	1.000		0.957		0.807		1.011		1.000		0.976		0.784		6.536
	Generic cognitive reputation component														
Customers	0.287	***	0.097		0.270	*	0.315	***	0.174	***	0.390	***	0.318	***	1.851
Employees	0.078	*	-0.005		0.324	***	0.039		0.124	***	0.048		-0.093		0.515
Shareholders	0.069	*	0.065		-0.007		0.001		0.084		0.023		0.053		0.287
Media reps	0.200	***	0.138		-0.100		0.157		0.187	***	0.119		0.211	***	0.912
Contact	0.117	*	0.355	***	0.214	**	0.150		0.056		0.032		0.390	***	1.314
Evaluation	0.250	***	0.317	***	0.202	**	0.276	***	0.424	***	0.342	***	0.344	***	2.155
Sum Stakholders	0.633		0.294		0.486		0.512		0.569		0.580		0.489		=> 3.564
Overall sum	1.000		0.967		0.902		0.939		1.049		0.953		1.223		7.033
	Specific cognitive reputation component														
Customers	0.397	***	0.148		0.010		0.166		0.015		0.162		0.142	*	1.039
Employees	0.077		-0.007		0.502	***	0.124		0.000		0.008		-0.178	**	0.526
Shareholders	0.040		0.023		0.011		0.131		0.178	***	0.060		-0.195	**	0.248
Media reps	0.051		0.150		–0.079		0.116		0.222	***	0.309	***	0.080		0.848
Contact	0.107		0.359	***	0.329	***	0.140		0.094		0.045		0.347	***	1.421
Evaluation	0.309	***	0.362	***	0.217	***	0.213	***	0.422	***	0.325	***	0.406	***	2.253
Sum Stakeholders	0.564		0.313		0.444		0.537		0.415		0.540		-0.152		=> 2.661
Overall sum	0.980		1.034		0.990		0.890		0.931		0.910		0.601		6.335

*** Significant at 1%; ** Significant at 5%; * Significant at 10%

Fig. 4 Influences of exogenous variables on the reputation components of stakeholders

sub-models examined. Ranked according to their significance, this is followed by the perceived attitudes of employees, media representatives and shareholders. This order is largely consistent with the expectations formed on the basis of existing literature. Apart from in the affective component, the evaluation of corporate communication has the greatest influence overall. In the case of the specific cognitive component, contact with corporate communication also has a stronger effect than all stakeholder influences, while this factor ranks third for the other two reputation dimensions, below the attitude of customers. Overall, the influences of the perceived attitudes of the stakeholder groups are weakest in the specific reputation component. Consequently, informal communication has a higher importance overall for the affective and generic cognitive reputation dimensions.

Observing the extent of the influence of the perceived attitude of other stakeholder groups reveals some considerable differences between the submodels examined. The customer group is subject to the greatest influence by other stakeholders. In contrast, employees only allow themselves to be influenced by network effects to a relatively small extent. Against a background of a wide variety of personal experiences and insider information this is understandable. A more differentiated influence profile can be identified for shareholders and media representatives. On one hand, the stakeholders of both groups tend to allow influence at an average level in the case of affective and generic cognitive aspects and, on the other hand, only very little with regard to the specific cognitive image. This finding is particularly striking for media representatives as, with −0.152, the sum of the influences takes on a negative value overall. Consequently, it may be concluded that the attitudes of other stakeholders are not accepted without given to them, but are reinterpreted and reevaluated. Potential employees and potential shareholders are rather susceptible on all dimensions possibly due to their lack of information.

The sum total of the effects of stakeholder networking and corporate communication reveal fewer clear differences between the stakeholder groups overall. A particularly interesting result for media representatives is that the influences on the affective and specific cognitive reputation components are the lowest in comparison to the other groups, while the highest value is revealed for the generic cognitive reputation component. Media representatives, therefore, appear to allow themselves to be influenced primarily in the general reputation component. On the other hand, in the other two dimensions, the reputations are consequently formed on the basis of other information. Besides media representatives, employees also allow themselves to be influenced to a lesser extent, particularly in relation to the affective and generic image. For both the stakeholder groups, the smaller sums are the result of the negative paths, which support an opposing interpretation of the influences received. Detailed information on how strongly the individual stakeholder groups are influenced by the different factors can be drawn from the individual cells. For the management of the reputation it can be deduced from these findings how the images held by individual stakeholder groups can be changed via informal word-of-mouth communication (Brooks 1957) and corporate communication.

The overall effects of the influences of stakeholder networking and corporate communication on stakeholder commitment that are illustrated in Fig. 5 substantiate the earlier findings, as this is ultimately a weighted aggregation of the results from Fig. 4. The ranking of importance – customers, media representatives, employees and shareholders – in relation to the perceived attitude of the respective

Influence of...	on...Customers		Potential customers	Employees		Potential employees	Shareholders		Potential shareholders	Journalists		Sum
Customers	0.320	***	0.148	0.173		0.230	0.116		0.278	0.221	**	1.485
Employees	0.073		-0.017	0.320	***	0.088	0.060		0.036	–0.062		0.496
Shareholders	0.047		0.021	–0.026		0.077	0.099		0.042	–0.024		0.236
Media representatives	0.113	*	0.127	–0.097		0.085	0.149	*	0.115	0.173	*	0.665
Contact	0.074		0.260	0.225	***	0.081	0.083		0.055	0.209	*	0.987
Evaluation	0.249	***	0.351	0.262	***	0.290	0.394	***	0.296	0.283	***	2.125
Sum Stakeholders	0.553		0.279	0.370		0.479	0.423		0.471	0.309		2.882
Overall sum	0.876		0.889	0.856		0.850	0.900		0.822	0.802		5.994

*** Significant at 1%; ** Significant at 5%; * Significant at 10%.

Fig. 5 Total effects of the exogenous variables on the commitment of stakeholders

stakeholder groups is also confirmed for the overall effects. If we take corporate communication into account, its evaluation has by far the strongest influence on stakeholder commitment of all the variables examined. Contact with corporate communication ranks third in terms of significance behind the influence of customers. In comparison to the other groups, customers allow themselves to be effected most strongly by stakeholder influences, while potential customers, employees and media representatives take on board the attitudes of other stakeholders to a lesser extent. This largely autonomous formation of opinions by media representatives is also reflected in the sum total of influences, including corporate communication, on the individual stakeholder groups.

The first four lines of the results table above (Fig. 5) illustrate the stakeholders' influences similar to a sociomatrix (Wasserman and Faust 1994), as the strength of the mutual influence of the stakeholder groups is discernible. Consequently, for each stakeholder group it is possible to analyze precisely what factors drive the behavioral target parameters of corporate reputation and stakeholder commitment and which starting points are available for targeted management of the corporate reputation. On this basis, strategic positioning and profiling strategies (Kotler and Keller 2005) can be developed, either tailored specifically to each stakeholder group or applying across all stakeholder groups. This makes it possible to develop and manage the corporate reputation systematically in accordance to a differentiated approach to reputation management.

Conclusion

The considerable research gaps that have existed to date on the subject of corporate reputation management and corporate branding have been partly addressed in this paper. The central attitudinal construct, corporate reputation, can be subdivided into an affective, generic cognitive and specific cognitive components for all relevant stakeholder groups. The effect of a strong image and especially reputation leads to a high level of stakeholder commitment, which, amongst other things, reflects the divergent behavioral intentions of the stakeholders. The corporate reputation is influenced primarily by communication, which may take place informally between the stakeholder groups or formally by means of corporate communication. The empirical structural equation models tested in parallel for customers, potential customers, employees, potential employees, shareholders, potential shareholders and media representatives demonstrate that this type of modeling is well suited to portraying the components, effects and influencing factors of corporate reputation and analyzing differences between the stakeholder groups.

For all the stakeholder groups examined, the comparison revealed a clear dominance of the affective reputation component. However, the contribution made by the two cognitive components in forming stakeholder commitment is also considerable. The generic cognitive component has a particularly strong effect on employees and customers, whilst the specific cognitive component, although it results in the lowest path coefficients overall, shows comparatively strong effects for shareholders. In general, it can, therefore, be said that all three reputation components exert significant influences on stakeholder commitment.

On the basis of these results, general or specifically tailored reputation management strategies can be developed for the stakeholder groups of a company which take the needs of the respective groups into consideration. For example, the dominance of the affective reputation component clearly indicates that, in all stakeholder groups, strategies with an emotional orientation promise greater success than knowledge or fact-based measures. This is a new and important finding for the shareholder and media representative target groups in particular, which until now have been regarded as being rationally/cognitively dominated.

Positive effects can also be expected through communication measures with a generic and factual orientation based on reputation as well as information which is of general interest. With the help of the affective and generic cognitive dimensions, a uniform identity can be created across all stakeholder groups, for example, which simultaneously implies a high brand value. In addition to the broad measures mentioned, with the help of the specific cognitive dimension, tailored positioning strategies can also be developed for each individual stakeholder group which allows a differentiated market approach without jeopardizing the overall identity. The indicators provide starting points for the detailed structure of the different strategies with regard to which aspects should be taken into account in each case.

The comparison of the influence factors on the corporate reputation has, in turn, shown that, across all groups, the evaluation of controlled corporate communication has the greatest effect on the stakeholders' reputation components. This result confirms the frequently postulated high importance of active communication measures taken by companies. In addition, however, significant effects are also produced through the informal communication in the stakeholder network of a company. On the basis of the overall effects on stakeholder commitment, the following ranking of significance results: customers, media representatives, employees and shareholders. Potential stakeholders are assumed not to have any specific influencing power due to their lacking expert power. In addition, a significant influence on stakeholder attitudes also results in relation to unevaluated contact with the company. Ultimately, these results also make it possible, via the targeted influencing of exogenous constructs, to control the image and the reputation strategically.

As an implication for business practice, on the basis of their differing influence, stakeholders should receive different priorities, both in terms of long-term strategy and in day-to-day business, in order to avoid conflicts of objectives between the groups or to be able to resolve them adequately. A corresponding distribution of the financial resources available for corporate reputation management and corporate branding would also be useful here. The results clearly show that it does not make sense to consider and deal with individual stakeholder groups in isolation, as interaction and transfer effects will result through informal communication. This supports the call for integrated communication vis-à-vis all the stakeholder groups of a company. The high path coefficients of the relevant explanatory constructs also provide the empirical evidence for the extremely high relevance of corporate communication for a positive corporate reputation and, at the same time, therefore, its importance for the success of an enterprise. The instrument presented for the integrated management of the corporate reputation offers the greatest benefit because it allows for the first time to take all the important stakeholder groups into consideration when developing the corporate reputation management strategy. Even though this is only an initial recommendation for a management instrument, every company with a strong corporate reputation should make a number-based aid to decision making available to the top management level that is similar in terms of the basic approach proposed in this article.

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Customer-Based Corporate Reputation: Introducing a New Segmentation Criterion

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Introduction

A growing body of evidence suggests that firms with a good reputation have a competitive advantage and are likely to attract more customers, while also retaining more existing customers (e.g., Gardberg and Fombrun 2002; Groenland 2002; Walsh et al. 2009). A good reputation is very difficult to replicate and thus serves as a barrier to entry (Rose and Thomsen 2004; Dierickx and Cool 1989), discouraging firms from entering a market due to the high costs of entry needed to establish their own reputations. The quality-enhancing effect of reputation is illustrated when customers penalize firms offering poor product quality by not repeat buying or by engaging in negative word of mouth (Walsh and Beatty 2007). Thus, corporate reputation, as experienced by various stakeholders, is critical because reputation functions as a key market-entry barrier, reduces transaction costs, and positively influences both commercial (e.g., sales, profits) and noncommercial (e.g., consumer loyalty, word of mouth) outcomes.

The opinions of various constituents in regards to the important components of a good reputation will allow for a better understanding of corporation reputation. Indeed, the topic of conceptualizing and measuring corporate reputation has attracted considerable attention in the marketing and management literatures (e.g., Davies et al. 2002; Fombrun et al. 2000; Ganesan 1994; Fryxell and Wang 1994). However, while in recent years, a plethora of different measurement instruments has emerged; little attention has been devoted to developing scales that measure consumer-based corporate reputation. An exception is the work by Walsh and Beatty (2007).

The customer-based corporate reputation (CBR) scale (Walsh and Beatty 2007) treats corporate reputation as a multidimensional attitude. Under the challenging economic conditions in which many firms operate, corporate reputation managers must allocate marketing resources efficiently across all stakeholder groups to develop a favorable and sustainable corporate reputation. To create a good corporate reputation the perceptions of customers are particularly important. Walsh and Beatty (2007) conceptualize corporate reputation as an attitude and argue that a

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firm's reputation management should be relevant to its customers to be successful. There are various advantages of grouping customers together according to their attitudes regarding a firm's reputation. Thus, in this study, the researchers use the CBR scale to identify attitudinal segments. The identification of attitudinal segments can help firms to better target their corporate reputation-related communications. To the authors' knowledge, this is the first study that attempts to identify meaningful stakeholder or customer segments based on their evaluations of a firm's corporate reputation.

In the next section, we outline the theoretical background of corporate reputation and discuss consumer-based corporate reputation segmentation. We then assess the reliability and validity of Walsh and Beatty's (2007) consumer-based corporate reputation scale on a sample of customers from three service contexts. Next, we present a cluster analysis aimed at identifying the existence of consumer-based corporate reputation segments. Finally, we identify managerial and research implications that stem from our findings.

Theoretical Background

The Concept of Corporate Reputation

In the strategy literature, corporate reputation is an intangible asset that can contribute to competitive advantage in the marketplace of goods and services (e.g., Dowling 2004, 1994). In this context, Fombrun (1996) refers to corporate reputation as "reputational capital." Reputation, therefore, is an important resource for the firm that has intrinsic value and firms strategically manage this important idea (e.g., van Riel 1997).

Corporate reputation has been a focus of research across a number of different disciplines, including psychology, sociology, economics, and marketing (Fombrun 1996). Researchers suggest that the relevance of corporate reputation arises primarily from its posited impact on stakeholders' behavior. With regard to consumers, previous studies suggest that corporate reputation is associated with satisfaction (e.g., Davies et al. 2002), trust (e.g., Groenland 2002; Fombrun and van Riel 1997; Doney and Cannon 1997), perceived risk (e.g., Lantos 1983), and loyalty (Roberts and Dowling 2002), all of which can positively or negatively affect firm profits. However, existing studies are so different in conceptualizations and methodologies that they are noncomparable. Some researchers treat corporate reputation as an outcome variable, whereas others treat reputation as the independent variable, and yet others acknowledge that corporate reputations can be both. For example, Walsh et al. (2009) model corporate reputation as both outcome and antecedent of customer-related variables. Moreover, most existing studies (e.g., Doney and Cannon 1997; Bhattacharya et al. 1995) fail to capture the potential multidimensionality of corporate reputation. Finally, no study has attempted to identify meaningful stakeholder or customer segments based on their evaluations of a firm's corporate reputation. We argue that a corporate reputation campaign, or indeed any marketing communication effort, is likely to fail if the firm mistakenly assumes a homogenous target population.

Corporate Reputation as an Attitude

Most previous studies view corporate reputation as either a cognitive or an affective phenomenon, with little indication that both cognitive and affective components may be present. Walsh and Beatty (2007) challenge the traditional view and argue that corporate reputation is a customer attitude because the reputation of a given firm causes the stakeholder to think or feel about the firm in a certain way. For example, Weiss et al. (1999) conceptualize corporate reputation as a global perception of the extent to which significant others hold an organization in high esteem or regard. However, conceptualizations of what corporate reputation is from a customer perspective are scarce. Furthermore, only a few studies have conceptualized corporate reputation as a phenomenon that is associated with a firm's actions, firm-related information available to customers, and their first-hand experiences with a given firm. Only Herbig and Milewicvz (1993), Wang et al. (2003), and Walsh and Beatty (2007) acknowledge that corporate reputation results from the previous actions of a firm, which a customer will have heard about or directly experienced himself or herself.

In summary, few studies view corporate reputation as composed of both cognitive and affective dimensions. We argue that consumer-based corporate reputation is associated with thoughts and feelings, which can lead to behaviors toward a firm and therefore, is a customer attitude. Attitudes are learned predispositions that cause individuals to behave in a consistently favorable or unfavorable way toward a given object. Sirgy (1985) argues that goods and services, similar to people, can be conceptualized as having personality images, such as "modern" or "friendly," suggesting that customers who associate positive attributes with a firm are likely to form a favorable attitude toward that firm.

Similar to the view that customer satisfaction is an attitude-like judgment after a purchase, corporate reputation is a customer's evaluation that results from either or both personal interaction or experience with a given firm and/or that results from reputation-relevant information received about the firm. Thus, customer-based reputation (CBR) is defined as *the customer's overall evaluation of a firm based on his or her reactions to the firm's goods, services, communication activities, interactions with the firm and/or its representatives (e.g., employees, management) and/or known corporate activities* (Walsh and Beatty 2007, p. 129). For customers this evaluation serves as a "quality promise" which perpetually encourages firms to focus on serving their customers with high quality products and services with integrity and honesty. The firm's reputation, if strong and positive, should reduce the customer's transaction costs and perceived risk and encourage greater customer loyalty, thus functioning as a formidable barrier to market entry.

This conceptualization differs from previous research in that consumers' personal experiences with firms are included as explicit determinants of corporate reputation. For example, practitioner corporate reputation ratings such as the US-based *Fortune America's Most Admired Companies* primarily rely on the perceptions of senior managers, directors, and financial analysts, who do not tend to be customers of the firms they are evaluating.

Corporate Reputation as a Tool for Market Segmentation

In effectively using a segmentation approach, managers must find the best ways to divide the market. Surprisingly little research, of either a conceptual or an empirical nature, has been conducted into the potential contribution of a segmentation approach using attitudes as a segmentation base. By combining both consumer reputation–perception segmentation as well as traditional segmentation approaches, we argue that our measurement of corporate reputation will be more reliable for formulating important marketing decisions. Assuming that consumers that score high on a construct must therefore be somewhat homogeneous in terms of demographics and psychographics seems short sighted. For example, Iyer and Pazgal (2003) measure customer loyalty toward retailing firms and found that three segments exist that differ in their loyalty. Not surprisingly then, Walsh and Beatty (2007, p. 140) argue: "an examination of market segments and how they perceive and/or care about the company's policies and practices would be a useful extension of this research." In a similar vein, Walsh et al. (2009) suggest that researchers may use perceptions of corporate reputation dimensions as a segmentation tool. In this study, we respond to their call.

Method

Sample

We tested the 28-item CBR measure by surveying actual customers about their current provider of one of the following services: banking services, retailing, or fast-food restaurant services. These contexts represent service industries with relatively low levels of customization. Thus, firms in these industries may be more likely to rely on corporate reputation to relay favorable impressions. The survey also addressed additional questions on four important correlates of reputation (customer satisfaction, loyalty, word of mouth, and trust) and relevant demographics.

Data collection occurred via a web-based survey using a convenience sample. The online questionnaire was accessible through a link e-mailed to marketing students attending two major universities in the United States. This initial sample comprised both students and nonstudents. Students majoring in marketing recruited five people (nonstudents) to complete the survey during a three-week period. In an effort to recruit as diverse a sample as possible, the students recruited respondents representing a wide range of ages, genders, and professions. Six hundred and ninety-eight people responded to the questionnaire. Sixteen surveys were eliminated due to incomplete, missing, or problematic data, producing a final sample size of 682.

Analysis

Researchers used confirmatory factor analysis to test the five-factor structure proposed by Walsh and Beatty (2007). The sample showed significant loadings for items on their respective factors. Model identification was achieved and the fit indices suggest that the model adequately represents the input data [GFI = 0.92, NNFI = 0.92, CFI = 0.97, RMR = 0.04, RMSEA = 0.08, and $\chi^2/df = 2.9$ ($p < 0.001$)]. Acceptable convergent validity was achieved with all five reputation dimensions producing average variances extracted (AVE) exceeding 0.50. All measures had good reliability, with composite reliabilities larger than 0.60 (Bagozzi and Yi 1988) and all indicators had coefficients of determination above 0.40. See Fig. 1.

To provide a richer picture in the cluster analysis, four correlates of customer-based corporate reputation were assessed. In agreement with the literature, we operationalized the four postulated correlates of corporate reputation with three-item scales for *customer satisfaction, loyalty, and word of mouth* and a six-item scale of *trust*, respectively (Fig. 2). The researchers assessed the reliability of these scales with Cronbach's alpha and confirmatory factor analysis, which clearly confirmed the appropriateness of each construct operationalization. See Fig. 2.

Identifying Corporate Reputation Segments

To identify corporate reputation segments of consumers, we conducted a hierarchical cluster analysis. The 28 items from our CBR scale served as cluster variables in step 1. We aggregated the items of each corporate reputation dimension and used the respective mean values as input variables for clustering. We calculated distances between the clusters with the Euclidean distance measure and aggregated clusters using Ward's procedure. We used the elbow criterion to decide on the number of clusters. Thresholds existed at three and four clusters, respectively, indicating that the "true" number of clusters is three or four. To be able to decide on the appropriateness of each of the two alternative solutions, we conducted a multiple discriminant analysis for each solution. The hit rate or proportion of customers correctly classified (see Churchill 1991) is highest for the three-cluster

	Coefficient of Determination (from CFA) / AVE / CR
Factor 1: Customer Orientation	AVE = .83 / CR = .91
Has employees who are concerned about customer needs	.73
Has employees who treat customers courteously	.74
Is concerned about its customers	.70
Treats its customers fairly	.68
Takes customer rights seriously	.67
Seems to care about all of its customers regardless of how much money they spend with them	.65
Factor 2: Good Employer	AVE = .81 / CR = .90
Looks like a good company to work for Seems to treat its people well	.71 .70
Seems to have excellent leadership	.67
Has management who seems to pay attention to the needs of its employees	.66
Seems to have good employees	.65
Seems to maintain high standards in the way that it treats people	.63
Seems to be well-managed	.59
Factor 3: Reliable and Financially Strong Company	AVE = .81 / CR = .89
Tends to outperform competitors	.78
Looks like it has strong prospects for future growth	.68
Looks like it would be a good investment Appears to make financially sound decisions	.59 .59
Is doing well financially	.63
Seems to have a clear vision of its future	.58
Factor 4: Product and Service Quality	AVE = .77 / CR = .88
Offers high quality products and services Is a strong, reliable company	.54 .77
Stands behind the services that it offers Develops innovative services	.48 .59
Factor 5: Social and Environmental Responsibility	AVE = .74 / CR = .76
Seems to make an effort to create new jobs Would reduce its profits to ensure a clean environment	.59 .56
Seems to be environmentally responsible Appears to support good causes	.55 .48
CFA = confirmatory factor analysis; AVE = average variance extracted; CR = composite reliability	

Fig. 1 Consumer-based corporate reputation factors

solution, while the hit rate is slightly lower for the four-cluster solution. Thus, the three-cluster solution appears to provide the most adequate representation of consumer corporate reputation segments based on corporate reputation attitudes.

	Coefficient of Determination (from CFA) / AVE / CR
Customer Satisfaction	AVE = .78 / CR = .88
I am satisfied with the services the company provides to me	.88
I am satisfied with my overall experience with this company	.95
As a whole, I am NOT satisfied with this company	.51
Loyalty	AVE = .65 / CR = .89
I am a loyal customer of this company I have developed a good relationship with this company	.80 .95
I am loyal to this company	.94
Trust	AVE = .77 / CR = .89
This company can generally be trusted I trust this company	.76 .79
I have great confidence in this company	.83
This company has high integrity	.76
I can depend on this company to do the right thing	.74
This company can be relied upon	.76
Word-of-Mouth	AVE = .87 / CR = .90
I'm likely to say good things about this company	.79
I would recommend this company to my friends and relatives	.94
If my friends were looking for a new company of this type, I would tell them to try this place	.87
CFA = confirmatory factor analysis; AVE = average variance extracted; CR = composite reliability	

Fig. 2 Correlates of corporate reputation

See Fig. 3. After conducting the cluster assessment, we describe the clusters by comparing the means of the four behavioral correlates and the demographics across the three segments.

Segment 1 is the largest of the three. Customers in this cluster score moderately on the five CBR dimensions. These customers rate all reputation factors higher when compared to the third cluster, but lower when compared to the second cluster. Similarly, this segment also scores moderately on the four correlates of corporate reputation, lower than the Reputation Admirers but higher than the third segment. Customers in cluster 1 are *Reputation Ambivalents.*

The second segment is the second largest of the three groups. This segment contains about the same percentage of males and females as the other two groups. We call this group *Reputation Admirers*, as this group rates all reputation factors significantly higher than the first and third clusters. The factors *Customer Orientation*, *Reliable and Financially Strong Firm,* and *Quality Orientation* receive a particularly high rating. Interestingly, but perhaps not surprising, this cluster also

	Cluster 1: (n = 349)	Cluster 2: (n = 256)	Cluster 3: (n = 77)
STEP 1: Cluster Identification			
Reputation Dimensions			
Customer Orientation	3.65	*4.40	2.62
Good Employer	3.19	3.83	2.25
Reliable and Financially Strong Firm	3.62	4.28	2.77
Social-and Ecological Orientation	3.30	3.96	2.81
Quality Orientation	3.66	4.28	2.81
Behavioral Outcomes			
Loyalty	3.56	4.22	2.59
Customer Satisfaction	3.91	4.42	2.83
Trust	3.58	4.30	2.72
Word-of-Mouth	3.80	4.49	2.71
STEP 2: Profiling of Clusters			
Demographic Variables			
Age			
18-29	115 (33%)	81 (31.6%)	31 (40.3%)
30-39	67 (19.2%)	49 (19.1%)	11 (14.3%)
40-49	74 (21.2%)	52 (20.3%)	19 (24.7%)
50-59	72 (20.6%)	53 (20.7%)	10 (13%)
60-69	16 (4.6%)	16 (6.3%)	6 (7.8%)
70+	3 (0.9%)	5 (2%)	0
Gender	159 males (45.5%) 188 females (54.5%)	114 males (44.5%) 142 females (55.5%)	35 males (45.5%) 42 females (54.5%)
Education			
Less than high school	4 (1.1%)	2 (0.8%)	0
High school graduate	31 (8.9%)	33 (12.9%)	13 (16.9%)
Some college	111 (31.8%)	68 (26.6%)	38 (49.5%)
Bachelor degree	123 (35.2%)	98 (38.3%)	18 (23.5%)
Graduate degree	78 (22.3%)	55 (21.5%)	7 (9.1%)
Note: All variables (except age, gender, and education) were rated on 5-point likert scales ranging from one (1 = strongly disagree) to five (5 = strongly agree). All mean differences across the three segments are significantly ($p < .05$) different from each other (according to Scheffe test).			

Fig. 3 Cluster centroids of cluster variables for and characterization of the three corporate reputation groups

scores significantly higher on all four factors measuring the correlates of corporate reputation.

Members of the third segment score lowest on the five CBR dimensions compared with the other two groups, indicating that they are the most critical customers in terms of corporate reputation and therefore may be the most troubling from a firm's perspective. In addition, this cluster also scores significantly lower on all four factors measuring the correlates of corporate reputation. In comparison with the other two clusters, members of this *Reputation Critical* group, who on average are somewhat younger and less educated, evaluate service firms the least favorably.

Implications and Future Research

Based on the outcomes of this study, as reported earlier, several conclusions may be drawn. The tested five-dimensional conceptualization and scale builds upon previous research to provide a more sophisticated understanding of the dimensions of corporate reputation. In addition, the three identified segments suggest several interesting implications for marketing practice and research.

The results of the cluster analysis reveal three distinct groups of consumers who have specific reputation-related attitudes toward firms. Management may use these attitudes to tailor segment-specific marketing mixes. Cluster 3 is the smallest, youngest, and potentially more mobile one in terms of switching to other service firms. In particular, members of this cluster rate the *Customer Orientation* and *Good Employer*, as well as the other three factors, of their current service firm lower than the other groups, suggesting that firms should emphasize their customer-related policies and benefits when communicating with this group. Given that this segment scored lowest on the CBR dimensions, as well as on correlates of corporate reputation, this group of consumers appears to be the most critical of corporate reputation. In addition, this group had the lowest ratings on the correlates typically associated with corporate reputation, suggesting its members are the most resistant to the firm's efforts. From a customer lifetime value perspective, this may be the group of least interest to companies and one where resources used would have lower paybacks.

Cluster 2 is the oldest cluster, with 29% aged 50 or older, suggesting that its members may be less inclined to switch to alternative service providers. However, this could be an especially valuable group of customers, given their high perceptions of their service firms, and the particularly high levels of trust, satisfaction, loyalty, and word of mouth associated with perceived corporate reputation.

Cluster 1 gave a significantly more favorable evaluation of the firm across all five reputation factors and correlates than Cluster 3. Moreover, Cluster 1 is the largest cluster ($n = 349$), highlighting its relative importance in the market. This group is not overwhelmingly positive (as cluster 2) nor negative (as cluster 3) with regard to the perceived reputation of the service firms the members use; similarly, this group scores moderately on the important correlates of corporate reputation. The ambivalence that exists with this group of consumers suggests the need for further communication to reinforce consumer confidence in the strength of the company, its employees, and the other dimensions comprising corporate reputation.

As with all empirical studies, the present study suffers limitations. First, at this point no published evidence for the cross-cultural validity of the new scale exists. Research to assess the stability of these dimensions across cultures and industries is needed. Further, the advantage of choosing the three service areas characterized by low to medium levels of interaction is the potential detection of context-specific reputation effects. However, while the three service contexts used were useful for the purposes of this study, they did not allow testing for cross-sectional impacts of corporate reputation. Further, future research should focus on exploration of the dimensions of customer-based corporate reputation and its impact, using other cross-sectional data (e.g., from personalized, high-contact services) within and across industries and cultures.

In conclusion, we propose that customers evaluate service firms differently than other stakeholders do and that their evaluations influence their behaviors toward firms. By testing a CBR scale with customers in three service industries, as well as relating CBR to relevant customer correlates, we contribute to both the theoretical and methodological discourse relevant to customer-based reputation management.

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Financial Impacts of Corporate Reputation

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Introduction

The last decades have witnessed a surge of interest among practitioners and scholars in corporate reputation. Managers have characterized corporate reputation as the most relevant asset of the firm (Hall 1992, 1993), and scholars have made a growing effort to find theoretical and empirical support for these managerial perceptions, by specifying what advantages well-reputed firms may enjoy. Reputation signals the underlying quality of products and thus affects the customer's choice among competing products (Akerlof 1970). This translates into increased sales, higher customer retention (Caminity 1992; Selnes 1994), and a premium price (Shapiro 1983; Klein and Lefler 1981; Milgrom and Roberts 1986; Obloj and Obloj 2006; Graham and Bansal 2007). And corporate reputation influences not only incomes but also operation and financial cost (Podony 1993). A good corporate reputation makes the firm an employer of choice (Fombun and van Riel 2004) that may choose employees with higher productivity (Stigler 1962; Williamson 1985), and also leads to lower contracting and monitoring costs because suppliers and partners are less concerned about contractual hazards (Milgrom and Roberts 1992).

All these advantages of corporate reputation in relations with diverse stakeholders should increase, via cost or revenue, the firm's cash flows. Furthermore, corporate reputation also supports new product introductions and recovery strategies in the event of crisis (Dowling 2001) and, therefore, reduces the firm's risk. The increased cash flows and the reduced risk should finally increase the firm's value.

This chapter reviews the empirical research on the financial impacts of corporate reputation in order to test managerial perceptions about the interest of corporate reputation. For this chapter, we focus our review on studies published in academic journals that analyze explicitly or implicitly the influence of a measure of corporate reputation on firm performance. Some papers (Dunbar and Schwalbach 2000; Rose and Thomsen 2004; Inglis et al. 2006) have researched the two-way interaction

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between corporate reputation and financial performance, but we have covered only their analysis of the corporate reputation effect. The relationship among firm profitability, risk, and market value has led us to organize the chapter as follows. In the next section, we review the papers that analyze the influence of corporate reputation on profitability. The third section summarizes the efforts to explore the impact of corporate reputation on risk. The fourth section surveys articles that have tried to validate the effect of corporate reputation on firm value. We conclude with a discussion of the evidence and possible causes of inconsistent findings, as well as directions for future research.

Impacts of Corporate Reputation on Profitability

It is true that the multiple benefits of corporate reputation should affect profitability first. The improvement of stakeholders' attitudes towards the firm derived from corporate reputation should translate into higher cash flow, via reduced cost or increased revenue, and should have its most immediate impact on accounting data.

McGuire et al. (1990) and Nanda et al. (1996) examine the formation of corporate reputation and its effects on financial performance in USA and UK, respectively. After controlling the effect of prior on subsequent financial performance,[1] both papers find little correlation between corporate reputation and financial performance for US and UK firms (Fig. 1).

However, Roberts and Dowling (1997) reach fairly contrary conclusions. Their results from a proportional hazard regression – where the dependent variable is the likelihood that, given a specific position of performance at time *t*, the firm enters (or leaves) a higher (or lower) financial performance position – verify that firms with better reputation not only have an easier time attaining superior performance (the lead indicator effect) but also can sustain superior performance outcomes for longer periods of time (the carry over effect). In later work, Roberts and Dowling (2002) enlarge their sample period and decompose overall reputation into financial and residual reputation to ensure that their findings are not manifestations of a financial halo.[2] Their autoregressive profit models and proportional hazard regression models consistently verify that well-reputed firms are better able to sustain superior profits over time. These results hold for both components of corporate reputation. A firm's residual and financial reputation has an impact on profit persistence.

[1]To solve the problems derived from the high correlation between prior and subsequent financial performance, they define their dependent variables as the residuals obtained in a regression in which they used prior or subsequent financial performance to explain corporate reputation.

[2]Fryxell and Wang (1994) challenged most of the corporate reputation measurements because they are based primarily or exclusively on the perceptions of executives and industry analysts, whose strong interest in firm performance leads them to issue evaluations of qualitative items greatly influenced by financial data. Thus, began the debate surrounding the so-called financial halo (Brown and Perry 1994; Logsdon and Wartick 1995; Szwajkowski and Figlewicz 1997; Capraro and Srivastava 1997), still argued even today.

Authors	Measure of Corporate Reputation	Measure of Performance	Methodology	Other Independent Variables	Sample	Industries	Lags	Results
McGuire, Schne-eweiss and Branch (1990)	Residuals of the regression of prior performance on average firm *Fortune* rating ---------- Residuals of the regression of subsequent performance on average firm *Fortune* rating	ROA Operation income growth Assets growth Sales growth	Correlation analysis Regression analysis	Beta Average assets Alpha Residuals Debt/ Assets	131 firms pre-survey (1977-1982) survey (1983) post–survey (1982-1984) USA	Multiple industries	Reputation measurement (1983) Subsequent performance (1982-1984) ---------- Prior performance (1977-1982) Reputation measurement (1983)	ns

ns=non significant

Authors	Measure of Corporate Reputation	Measure of Performance	Methodology	Other Independent Variables	Sample	Industries	Lags	Results
Nanda Schne-eweiss and Branch (1996)	Residuals of the regression of prior performance on average firm *The Economist* rating ---------- Residuals of the regression of subsequent performance on average firm *The Economist* rating	ROA Average of cash flow/average assets Growth in net income Growth in revenue Return on stock Three year growth rate of EPS	Correlation analysis Regression analysis	Beta Average assets Alpha Residuals Debt/ Assets	85 firms pre-survey (1985-1987) survey (1989) post-survey (1989-1991) UK	Multiple industries	Reputation measurement (1989) Subsequent performance (1989-1991) ---------- Prior performance (1985-1987) Reputation measurement (1989)	Growth in revenue (+) ---------- Three year growth rate of EPS (+)
Roberts and Dowling (1997)	*Fortune*	Probability of exiting a superior performance position at time *t* given that an exit has not ocurred prior to time *t* ---------- Probability of exiting a below-average performance position at time *t* given that an exit has not occurred prior to time *t*	Proportional hazard regression	Company size Market value vs. Book val ue Episode duration Calendar time	Events= 334 (1984-1995) USA ---------- Events= 338 (1984-1995) USA	Standardizes the depended variable to industry average	0 ---------- 0	- ---------- +

ns=non significant

Fig. 1 (continued)

Authors	Measure of Corporate Reputation	Measure of Performance	Methodology	Other Independent Variables	Sample	Industries	Lags	Results
Deep-house (1997)	Media reputation: *The Minneapolis Star Tribune* and *The Saints Paul Pioneer Press*	Relative ROA: return on assets relative to annual average for all industry	Correlation analysis. Regression analysis	Market share. Re-relative ROA_{t-1}	265 firms (1988-1992) Minneapolis-St. Paul (USA) metropolitan area	Commercial banking	0	+
	Financial reputation: Capital adequacy and assets quality. General evaluation of a company´s financial prospects made by financial rating industry. This financial rating industry consists of private, non-profit and government agencies							+
Dunbar and Schwalbach (2000)	*Manager Magazin*	Financial performance = mix (accounting measures + market performance measures)	Pooled regression analysis	Annual time dummies	N=105 (1992, 1994, 1996) Germany	Multiple industries	1	+
			Cross-sectional regression analysis	-	N=35 (1992) Germany			ns
				-	N=35 (1996) Germany			ns
				-	N=35 (1994) Germany			ns

ns=non significant

Fig. 1 (continued)

Authors	Measure of Corporate Reputation	Measure of Performance	Methodology	Other Independent Variables	Sample	Industries	Lags	Results
Roberts and Dowling (2002)	Reputation$_{t-1}$	Probability of exiting a superior performance position at time *t* given that an exit has not occurred prior to that time	Proportional hazard regression	Market to book$_{t-1}$ Sales$_{t-1}$ ROA$_{t-1}$	Superior profitability sample N=1630 Events=457 (1984–1998) USA	Variables normalized to industry average	1	-
	Financial reputation$_{t-1}$ Residual reputation$_{t-1}$	Probability of exiting a superior performance position at time *t* given that an exit has not occurred prior to that time	Proportional hazard regression	Market to book$_{t-1}$ Sales$_{t-1}$ ROA$_{t-1}$	Superior profitability sample N=941 Events=286 (1984-1998) USA	Variables normalized to industry average	1	-
	Reputation$_{t-1}$	Probability of exiting a below average performance position at time *t* given that an exit has not occurred prior to that time	Proportional hazard regression	Market to book$_{t-1}$ Sales$_{t-1}$ ROA$_{t-1}$	Below average profitability sample N=1528 Events=428 (1984-1998) USA	Variables normalized to industry average	1	+
	Financial reputation$_{t-1}$ Residual reputation$_{t-1}$	Probability of exiting a below average performance position at time *t* given that an exit has not occurred prior to that time	Proportional hazard regression	Market to book$_{t-1}$ Sales$_{t-1}$ ROA$_{t-1}$	Below average profitability sample N=908 Events=268 (1984-1998) USA	Variables normalized to industry average	1	+ +
	Reputation$_{t-1}$ Reputation$_{t-1}$ *roa$_{t-1}$	ROA$_{it}$: firms *i*´s normalized profit rate at the time *t* normalized being realized profitability less an indicator of normal profits	Autoregressive profit models	Market to book$_{t-1}$ ROA$_{t-1}$ Sales$_{t-1}$ Market to book$_{t-1}$ *ROA$_{t-1}$ ROA$_{t-1}$ *sales$_{t-1}$	N=3141 (1984-1998) USA	Variables normalized to industry average	1	+ +
	Financial reputation$_{t-1}$ Residual reputation$_{t-1}$ Financial reputation$_{t-1}$ *ROA$_{t-1}$ Residual reputation$_{t-1}$ *ROA$_{t-1}$	ROA$_{it}$: firms *i*´s normalized profit rate at the time *t* normalized being realized profitability less an indicator of normal profits	Autoregressive profit models	Market to book$_{t-1}$ ROA$_{t-1}$ Sales$_{t-1}$ Market to book$_{t-1}$ *ROA$_{t-1}$ ROA$_{t-1}$ *sales$_{t-1}$	N=1849 (1984-1998) USA	Variables normalized to industry average	1	+ + + +
	Financial reputation$_{t-1}$ Residual reputation$_{t-1}$ Financial reputation$_{t-1}$ *ROA$_{t-1}$ Residual reputation$_{t-1}$ *ROA$_{t-1}$	ROA$_{it}$: firms *i*´s normalized profit rate at the time *t* normalized being realized profitability less an indicator of normal profits	Autoregressive profit models	Market to book$_{t-1}$ ROA$_{t-1}$ Sales$_{t-1}$ Market to book$_{t-1}$ *ROA$_{t-1}$ ROA$_{t-1}$ *sales$_{t-1}$	Superior performance sample N=941 (1984-1998) USA	Variables normalized to industry average	1	ns - + +
	Financial reputation$_{t-1}$ Residual reputation$_{t-1}$ Financial	ROA$_{it}$: firms *i*´s normalized profit rate at the time *t* normalized being realized profitability less an indicator of normal profits	Autoregressive profit models	Market to book$_{t-1}$ ROA$_{t-1}$ Sales$_{t-1}$ Market to book$_{t-1}$ *ROA$_{t-1}$ ROA$_{t-1}$ *sales$_{t-1}$	Below-average performance sample N=908	Variables normalized to industry average	1	+ + ns ns

Fig. 1 (continued)

Authors	Measure of Corporate Reputation	Measure of Performance	Methodology	Other Independent Variables	Sample	Industries	Lags	Results
	reputation$_{t-1}$ *ROA$_{t-1}$ Residual reputation$_{t-1}$ *ROA$_{t-1}$				(1984-1998) USA			
Rose and Thomsen (2002)	Factorial analysis of the ratings from *Borens Nyhedsmagasin (now Berling ske Nyhedsmagasin)*	Market-to-book value (also checked with ROA)	Correlation analysis Regression analysis	Market-to-book$_{t-1}$	N=188 (1996-2001) Denmark	Multiple industries	0	ns
	Factorial analysis of the ratings from *Borens Nyhedsmagasin (now Berling ske Nyhedsmagasin)* one year lagged				N=165 (1996-2001) Denmark		1	ns
Inglis, Morley and Sammut (2006)	*RepuTex*	Market-to-book value	Correlation analysis Regression analysis	Market-to-book$_{t-1}$	N=63 (2004) Australia	Multiple industries	0	ns
		ROA		ROA$_{t-1}$	N=63 (2004) Australia		0	ns
		ROE		ROE$_{t-1}$	N=63 (2004) Australia		0	ns
		ROIC		ROIC$_{t-1}$	N=63 (2004) Australia		0	ns

ns=non significant

Fig. 1 (continued)

Authors	Measure of Corporate Reputation	Measure of Performance	Methodology	Other Independent Variables	Sample	Industries	Lags	Results
Eberl and Schwaiger (2005)	(Authors conducted survey) Financial affective component of reputation ("[company] is a company that I can better identify with than with other companies"; "[company] is a company I would more regret not having if it no longer existed than I would other companies"; and "I regard [company] as a likeable company") Financial cognitive component of reputation ("[company] is a top competitor in its market"; "As far as I know, [company] is recognized world-wide"; and "I believe that [company] performs at a premium level") Idiosyncratic cognitive component of reputation Idiosyncratic affective component of reputation	Net income	Regression analysis	Total sales$_{t-1}$ Market-to-book$_{t-1}$	N=20 (2002) Germany	Multiple industries	1	+ - + +
Fernández and Luna (2007)	MERCO (Spanish Monitor of Corporate Reputation)	ROA	Regression analysis	-	N=77 (2004) Spain	Multiple industries	0	+
		Gross operation margin			N=78 (2004) Spain			+
		Economic return differential			N=27 (2004) Spain			+
		Margin differential			N=46 (2004) Spain			+

ns=non significant

Fig. 1 Impacts of corporate reputation on profitability

Therefore, these findings suggest a self-reinforcing dynamic. Profitability improvement enhances reputation. This reputation, in turn, makes it easier for firms to sustain superior performance outcomes over time.

Dunbar and Schwalbach (2000), Rose and Thomsen (2004), and Inglis et al. (2006) have analyzed this self-reinforcing dynamic in different country contexts. For Germany, Dunbar and Schwalbach (2000) find support for the prior performance effect on future corporate reputation and for the prior reputation effect on future performance. However, for a Danish case, Rose and Thomsen (2004) show that performance affects reputation but reject the hypothesis that reputation improves performance. They explain these surprising results by arguing that the effects of corporate reputation would presumably show up only in the long run and are not fully captured in accounting profitability measures. Although Inglis et al. (2006) apply the same model used by Rose and Thomsen (2004) to Australian data, their results are inconsistent. This study fails to establish any relationship between corporate reputation and profitability.

Eberl and Schwaiger (2005) and Fernández and Luna (2007) focus on the influence of corporate reputation on firm performance. For the largest German firms, Eberl and Schwaiger (2005) disentangle four components of corporate reputation that may have different effects on future financial performance. Their results show that reputation's cognitive component has a positive impact on future financial performance, while they find strong evidence that its affective component has a negative impact. Fernández and Luna (2007) argue that the poor results obtained in previous studies could have been caused by a nonlinear relationship between corporate reputation and financial profitability that suggests the existence of a maximum beyond which improvements in corporate reputation fail to be accompanied by improvements in financial results. This paper finds support for a nonlinear relationship for the Spanish case.

Deephouse (1997) proposes media reputation as a useful measure of overall reputation because media provide a forum where reputations can be debated and affirmed. Media reputation avoids the possible financial bias of *Fortune* ratings and can be applied outside the large companies that are evaluated by reputation rankings. The results confirm that media reputation also influences performance, even when financial reputation is controlled.

Annualized profitability sums up only short-term effects, but corporate reputation has a long-term effect on the firm, so the use of accounting profitability could lead observers to underestimate the value of corporate reputation. Even though annual accounting data clearly do not fully capture the influence of corporate reputation on firm performance, these data should allow isolating its real effect on operative performance. However, all the papers reviewed here, using diverse data, samples, methodologies, and institutional contexts, still do not wholly converge in finding support for the impact of corporate reputation on profitability. These inconclusive findings call for explanation and for further efforts to find new evidence that will allow more reliable conclusions.

Impacts of Corporate Reputation on Risk

Theoretically, corporate reputation should not only enhance performance, but also increase the likelihood of maintaining superior performance over time (Roberts and Dowling 2002), and should induce a positive frame for interpreting events related to the firm (Dowling 2001). Therefore, it seems that corporate reputation should reduce the company's risk. Some initial research seems to confirm this assumption (Fig. 2).

In a descriptive paper, Gregory (1998) compares the evolution of stock prices of companies on the New York Stock Exchange following the market crash of 1997. He finds that companies with higher corporate reputation weathered the market drop better than those with weaker reputations.

Jones et al. (2000) reach similar conclusions analyzing the volatility of shares during the New York Stock Exchange crashes of 1987 and 1989. Results show no significant differences between companies with higher and lower reputations in 1987, when the market dropped over 20% in 1 day and investor panic precluded rational investment decision making. However, when the market took a less sudden, expected downturn in 1989, corporate reputation provided a reservoir of goodwill that buffered companies from market decline.

In accord with these results, Srivastava et al. (1997) find support for a positive relation between corporate reputation and Beta (a widely recognized variable that is used to measure the expected change in a particular company's stock price relative to changes in the market as a whole). That is, the higher the firm's reputation, the more willing investors will be to accept risk (measured as increasing Beta). This result confirms that corporate reputation reduces the risk perceived by current and potential shareholders.

In sum, these studies very consistently find that corporate reputation influences risk. But the scarcity of studies and the focus exclusively on market measures call for more research effort, not only using market measures but also other variables like variance of return, to try to get more robust conclusions about the risk reduction effect of corporate reputation.

Impacts of Corporate Reputation on Firm Market Value

The effect of corporate reputation on profitability and on risk should translate into firm value. From a financial point of view, investors discount the net cash flow of the firm at the rate of return appropriate to its riskiness. So the higher cash flows and lower risk of well-reputed companies should raise firm value. This relation has been analyzed with reference to either short-term stock return or long-term stock price (Fig. 3).

Among scholars who have analyzed the impact of reputation rankings on stock returns, Vergin and Qoronfleh (1998) compare average stock returns of the ten

Authors	Reputation Measure	Financial Performance Measure	Methodology	Other Independent Variables	Sample	Industries	Lags	Results
Srivastava, McInish, Wood and Capraro (1997)	*Fortune*	Beta: calculated taking as a basis the standard market model of daily data from 1988–1990 and the *S&P 500* index as a market proxy	Regression analysis	-	Ten portfolio s consisting of firms listed in the 1990 *Fortune* Magazine Most Admired Corporations Survey USA	Multiple industries	0	+
Gregory (1998)	Every year *Corporate Branding Partnership* conducts a mail survey that measures familiarity, overall reputation, perception of management and investment potential of 700 publicly trade companies	Average percentage change in share price	Descriptive analysis of the stock price reaction in a volatile three-days period of 24–28 October 1997	-	Four sample groups of 20 companies with different brand image performance USA	Multiple industries	-	+
Jones, Jones and Little (2000)	*Fortune*	One-day change in stock price following a crisis	Regression analysis	Beta Size Share price prior to market fall	N=400 (1987 and 1989) USA	Multiple industries	-	ns
				Beta Size Share price before to market fall Dummy variable year Dummy variable year* reputation	N=400 (1987 and 1989) USA			ns (1987) and - (1989)

ns=non significant

Fig. 2 Impacts of corporate reputation on risk

corporations at the top, the ten at the bottom of the *Fortune* list, and the S&P500 in the year following the publication of the ranking. Their results show that future stock performance is positively related to corporate reputation. However, Chung

Author	Reputation Measure	Financial Performance Measure	Methodology	Other Independent Variables	Sample	Industries	Lags	Results
Vergin and Qoronfleh (1998)	*Fortune*	Average return	Analysis of average return T-test	-	Top ten Bottom S&P 500 (1984-1996) USA	Multiple industries	1	+
Cordeiro and Sambharya (1997)	Reputation with shareholders: 3 *financial halo-adjusted* attribute from *Fortune*: long term investments value, financial soundness and widely used assets	Security analysts´ five-years earning growth forecasts	Regressions analysis	Company size Return on assets Market value vs. Book value Number of analysts	N=303 (1994 and 1995) USA	All variables except firm size are adjusted for industry effects by deducting the corresponding industry mean	0	+
	Reputation with stakeholders: the 5 remaining financial halo-adjusted attribute from *Fortune*				N=303 (1994 and 1995) USA			+
	Overall reputation: the 8 remaining financial halo-adjusted attribute from *Fortune*				N=303 (1994 and 1995) USA			+
Black, Carnes and Richardson (2000)	*Fortune*	Market value of common equity	Regression analysis.	Book value Net income Total asets *Anual year dummy*	N=2769 (1982-1996) USA	Multiple industries	1	+
	Financial component of corporate reputation							+
	Nonfinancial component of corporate reputation							+
	Financial component of corporate reputation Nonfinancial component of corporate reputation							+ +

ns=non significant

Fig. 3 (continued)

Author	Reputation Measure	Financial Performance Measure	Methodology	Other Independent Variables	Sample	Industries	Lags	Results
Chung, Schneeweis and Eneroh (1999)	*The Economist*	Average monthly equity returns	Analysis of portfolio return Correlation analysis	-	67 firms FTSE (1990-1999) UK	Multiple industries	1	+
				Size				ns
		Average monthly adjusted equity returns		Size	67 firms FTSE 100; 250 and small cap indices (1990-1999) UK		1	ns
	Fortune	Average monthly equity returns		-	Top ten and bottom ten in reputation ratings 100 firms S&P 5000 (1990-1999) USA		1	+
				Size	Top ten and bottom ten in reputation ratings 100 firms Frank Russell 100, 250, 2000 (1990-1999) USA		1	ns
		Average monthly adjusted equity return		Size			1	ns
Brammer, Brooks and Pavelin (2004)	*Management Today*	One year stock returns	Event window	-		Multiple industries	21 days	+ and -
			Analysis of portfolio return	Value Size Beta Momentum	1994–2003 451 firms push the All Share Index itself	Multiple industries	1	ns

ns=non significant

Fig. 3 Impacts of corporate reputation on firm value

et al. (2003) and Brammer et al. (2004) reach somewhat contrary conclusions. Chung et al. (2003) show that the outperformance, on a basis of total equity return, of "firms highly ranked in reputation" over "firms lowly ranked in reputation" after the publication date of reputation rankings may be due solely to firm size differentials. In fact, after adjustment for relative risk, the actual performance of high-ranked and low-ranked portfolios is not significantly different. These results suggest that *The Economist* (UK) and *Fortune* (US) do not offer additional investor information. Consistently, Brammer et al. (2004) find that around the time of the reputation ranking announcement stock prices rise even for firms whose reputation scores have slipped. Similarly, long-run returns on reputationally damaged stocks are on average slightly higher than those of the market index. However, when they allow for the financial characteristics of the firms (value, size, beta, and momentum), the returns of the companies all fall below expectation. So the authors conclude that, when an appropriate benchmark is used, there is no trading profitability in examining the results of the UK's most admired companies.

In contrast, the papers that have analyzed the influence of corporate reputation on market valuation have validated a positive impact (Cordeiro and Sambharya 1997; Black et al. 2000; Dunbar and Schwalbach 2000; Rose and Thomsen 2004; Fernández and Luna 2007) for different contexts. The exception is Inglis et al. (2006), who fail to support this relationship for the Australian case. Cordeiro and Sambharya (1997) and Black et al. (2000) obtain consistent results for the US case. Cordeiro and Sambharya (1997) demonstrate a positive relationship between corporate reputation and security analysts' earnings forecasts. Firms with higher reputations on items that reflect the interest of stockholders and other stakeholders leverage this reputation to generate higher performance expectations among well-informed analysts. Black et al. (2000) also show that corporate reputation contributes to firm value.

The results of Rose and Thomsen (2004) and of Inglis et al. (2006) analyzing the effect corporate reputation on market value are consistent with their respective results concerning the impact of reputation on profitability. However, the two groups of authors somewhat disagree with each other, although both papers apply the same model to different country data. While Rose and Thomsen (2004) find support for the positive effect of corporate reputation on financial performance for the Danish case, Inglis et al. (2006) reject this effect for the Australian data.

For the Spanish case, Fernández and Luna (2007) verify that the relationship between corporate reputation and financial performance is nonlinear, i.e., there is a maximum beyond which the increase in corporate reputation fails to be accompanied by an improvement in financial results. This fact would mean that there is a limit on the profitability of corporate reputation.

In sum, empirical research seems to validate the influence of corporate reputation on firm value, but not to find any impact on stock returns. This difference could result from the fact that corporate reputation has a high degree of persistence over time (Vergin and Qoronfleh 1998; Roberts and Dowling 2002; Schultz et al. 2000), in such a way that well-reputed firms are highly valued in markets but may not have a high stock return. The not wholly consistent results also highlight that there is still not enough empirical evidence to draw a reliable overall conclusion.

Conclusion

A global view of the empirical research on the financial impacts of corporate reputation seems to confirm, although not unanimously, that the benefits of corporate reputation in the relations of the firm with its different stakeholders translate into a higher profitability and a lower risk that are reflected on firm value.

The lack of consistency in findings may be caused by different measures of corporate reputation and samples. The researchers use concentric but different measures. Besides using diverse measures of corporate reputation, some of them (Cordeiro and Sambharya 1997; Black et al. 2000; Roberts and Dowling 2002; Eberl and Schwaiger 2005) have removed possible financial performance bias from their measurements to avoid suspicion over their results. Although the diversity of measures of corporate reputation could generate inconsistency, the possible financial halo does not do so, because all the researchers with halo-adjusted data do find support for the financial impact of corporate reputation. Another potential source of inconsistency could be sample differences, not only in size, but also in industry composition. The value of corporate reputation may vary from one industry to others. The level of market competition, the dependence on stakeholders, and the degree of uncertainty about the quality of the exchanges (i.e., product quality, employer characteristics, or future stock performance), among other factors, may influence the value of corporate reputation in a particular sector. Researchers have a hard task to uncover new evidence that allows more reliable conclusions and reveals the origin of the current incomplete consistency in results.

Previous literature has analyzed not only the financial impacts of corporate reputation, but also the inverse relationship, namely the influence of financial characteristics on corporate reputation. This points out a possible endogeneity that calls for further analyses with longitudinal methodologies, which may in addition enlarge the samples and thereby gain robustness in the analyses.

The financial impact of corporate reputation is a flourishing line of research. While conventional wisdom and managerial perceptions suggest that corporate reputation matters to performance, findings are not wholly consistent. This indicates that there are factors that have not yet been accounted for, and calls for new research.

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Part IV
Reputation Management in Practice

Overview

Sabrina Helm, Kerstin Liehr-Gobbers, and Christopher Storck

After having analyzed various measurement methods in the previous section, the following five chapters turn away from a theoretical scrutiny and focus on applied Reputation Management. Various case studies from blue-chip companies will provide the reader with hands-on examples of how to manage corporate reputation.

Liehr-Gobbers and *Storck* open this section with an illustration of the evolution of Reputation Management as a managing process. It explains how its status as being a regular management process inevitably asked for performance measurement. The authors describe how the need for evaluation methods has led to various cooperations between communicators and management accountants over the last years. The chapter traces this collaboration and highlights its major outcomes. *Liehr-Gobbers* and *Storck* close the chapter with a business case exemplifying these transdisciplinary standards.

Einwiller and *Kuhn* then describe how Daimler has developed "SCORA," its integrated system for corporate reputation analysis. To establish the system, Daimler first had to determine target variables, influencing factors, and relevant stakeholder groups. The authors explain how their company has identified relevant regions, benchmarks, and the appropriate methodology for its tool. "SCORA" combines media content analysis and stakeholder surveying to fully capture Daimler's reputation. It additionally reveals relations between stakeholders' perceptions and the depiction of the car manufacturer in the media. An example of such an analysis concludes this chapter.

In the third chapter, *Stopford* offers insight into the management framework the Coca-Cola Company has set up to monitor and steer its corporate reputation. In order to manage the stakeholder expectations around CSR systematically, Coca-Cola has introduced a five-step process including:

– Gathering and analyzing performance and perception data via reputation scorecards.
– Mapping the findings on a reputation map.
– Adding "relevance" as the third dimension to the map.

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– Setting up a business plan for corporate reputation management.
– Engaging and recalibrating indicators if needed.

The final chapter of this section deals with the question how to build and maintain a positive reputation among the financial community, the most powerful stakeholder group concerning the monetary consequences of reputation damages. *Gabbioneta, Ravasi,* and *Mazzola* therefore describe the drivers influencing reputation among analysts and investors and provide recommendations for the vital communication of long-term strategic plans, knowledgeable managers, and corporate governance structures.

How to Manage Reputation

Kerstin Liehr-Gobbers and Christopher Storck

Like other prestigious buzz-words (e.g., strategy/strategic), the term reputation management is used as a label for a wide range of activities: it has become a synonym for corporate communications, public relations, or media relations in general and some research firms even named their measurement products this way. However, managing the reputation of an organization requires more than measuring it and basing future activity planning on the findings.

Reputation management follows the traditional management cycle (plan – act – control) and therefore starts with the corporate strategy. Which stakeholder groups are crucial to realizing it? What does each of them need to do (or leave) to enable the organization to achieve its goals? How do they need to perceive the organization to act in accordance with corporate goals? What needs to be done to make this happen?

There are only very few exceptional situations in which a certain stakeholder behavior can be tracked back directly to a specific communication measure. In most cases, decisions and actions result from a number of different influencing factors. Therefore, determining the value contribution of communication programs requires an agreement on a plausible corridor of cause-and-effect relations. In other words, communication executives and top managers need to find an answer to the question how success shall be measured that is both reasonable and pragmatic.

However, linking all reputation relevant activities to the business strategy as described bears significant consequences on how the progress and the effects of communication projects can and need to be measured. Media analysis and employee surveys, still the only evaluation tools that are really established in corporate communications practice, will remain important instruments. Nevertheless, this is not sufficient for organizations who want to manage the performance of their communications strategically. They need to track the impact of what they do consistently – from the full costs of measures, personnel, and infrastructures deployed to the resulting business outflow.

This is why in March 2009, the professional associations of management accountants and communicators have created a common reference framework for tracking communication-driven impact. It was adopted in the same year by the

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German Association of Communication Professionals (Kommunikationsverband) representing the interests of advertisers, marketers, sponsoring and event managers, and by the Austrian Public Relations Association (PRVA). The “DPRG/ICV framework for communication controlling” developed by the German Public Relations Association (DPRG) and the International Controller Association (ICV) segments the process of value creation through communications. The results are six *impact levels* for managing communication activities. Each level is assigned to a measurement range, a set of exemplary indicators and at least one measured object.

- The *Input* level looks at the resources used for initiating and implementing communication processes, i.e., measure-specific allocation of personnel costs and financial expenditures for external services such as consulting, creation, production, etc. This is needed to evaluate whether budget items are related to sufficient results.
- The *Output* level focuses on the communicative offers an organization makes to its stakeholders. It is split into two segments.
  - The *Internal Output* measures the efficiency of the production of communicative offers and the quality of these. Common indicators are budget compliance, throughput times, and the number of shortcomings.
  - The *External Output* looks at the media coverage content produced for the target groups. Measured objects are media channels, such as print, radio, and Internet. Indicators on this level are clippings, visits on a web site, the share of voice of the company in media coverage, etc. This can be measured by media evaluation or web traffic analysis.
- The *Outcome* level tracks the effect of communicative offers on the target groups. This impact level is also split into two segments.
  - *Direct Outcome* identifies the influence on the stakeholders’ recognition. To which extent do they use the content of the communicative offer? How does this influence their perception of the organization and their knowledge of relevant context? Common indicators are supported and unsupported awareness, recall and recognition.
  - The *Indirect Outcome* detects behavior-relevant results of changes in awareness: cognitive and emotional attitudes, behavioral intentions, and actual behavior.

    Both outcome segments can be measured via opinion research (i.e., reputation strength, customer satisfaction, employee engagement) and the rating of activities (i.e., purchase intention, leads, and project participation). At this point in time, it looks as if social media analysis will become an important and very cost-efficient research instrument on this level.
- The *Outflow* level serves to detect the value creation achieved via communicative processes. This is demonstrated on two areas:
  - On one side, communication impacts the *achievement of strategic and financial targets*. External indicators for this can be sales, customer loyalty,

business leads, or recommendations; examples for internal impacts are employee productivity or recruiting costs.
– On the other hand, communication impacts the development of intangible assets. This contribution to value creation can be measured in equity of the corporate brand or the number of innovations.

The discussion about the monetary value of reputation has only started. As corporate reputation is also a reflection of the corporate brand, reputation and brand valuation face similar difficulties. Part of these arises from the lack of clarity and differentiation regarding both concepts. The core of the problem lies elsewhere: Professional and scientific discourse initially focused on the question whether and how it is possible to directly calculate the financial value of a corporate reputation (or brand).

Since 2007, the discussion has been taking a different direction – at least among professional management accountants and communicators organized within in the ICV. Members of the task force for communication performance management asked a heretical question: Are standardized valuation methods for reputation capital a reasonable approach to demonstrate the value creation through corporate communications?

If corporate reputation is the result of what all members of an organization do, the role of the communication department is to enable other functions to fulfill their task through planning, supporting, and orchestrating their activities. Communication needs to become an integral part of the strategic process. Once this is achieved, a plausible chain of cause-and-effect relations from input to business outflow will be sufficient proof for the value contribution of communication initiatives.

A basic model for how this can be done in practice was published by the ICV in 2010. The statement describes the process of management accounting for corporate communications in detail and serves as a guideline for the 6,000 members of the organization.

The Levels of Impact and Evaluation of Communication are a central part of this model. This framework reflects the progress corporate communications have made on their way from a nice-to-have discipline without a proven business case towards a strategic function. Professional target agreement, planning, and steering are all part of this process and require a differentiated evaluation of communications effects. Media analysis, social media monitoring, and stakeholder research provide the needed information, as long as they are connected to the strategy process of the organization.

This is prerequisite to any agreement between senior executives and communication managers about what the corporate communications function needs to contribute, if the organization is to achieve its strategic goals. Once this is done, the cycle of reputation-based communication management is closed through measuring the target impact on the outflow level. During a project, evaluating the impact on the output and outcome levels enables communication managers to monitor whether their programs are on track, to quantify progress, and to demonstrate milestone achievements.

The different levels provide transparency about what can be reached and measured at which stage in the value creation process of corporate communications:

- The quality and efficiency in producing communicative offers *(Internal Output)*.
- The availability of these offers for stakeholders through internal and external media coverage *(External Output)*.
- The actual perception of these offers by stakeholders *(Direct Outcome)*.
- The effects of a change in perception on stakeholders' behaviors or intentions *(Indirect Outcome)*.
- The essential contributions of communications to accomplishing organizational goals *(Outflow)*.

The ICV statement exemplifies the value creation process across all levels of impact based on a simplified business case. It runs through the full management cycle, starting with corporate strategy and its translation into required communicative achievements. This includes the definition of illustrative objectives, metrics, and performance targets. Deducting the communication objectives from corporate goals makes it possible to fully integrate the function in the planning and reporting system of the organization.

A working group was assigned to test the basic model on more complex practical examples featuring large corporations, small and medium enterprises, and the public sector. As a first step, the group explored the following scenario based on a real case:

A traditional German fast moving consumer goods company wants to increase the Return on Capital Employed from 7 of 15% within 5 years. This requires a concentration on as well as the expansion of the core business, a better integration of the remaining divisions and an increased internationalization. The company aims at winning market share from European and US competitors in their respective home markets and at gaining a strong position in the emerging growth markets of Asia and Eastern Europe.

Two key challenges have to be faced by corporate leadership:

- First, middle management and employees in Germany are very satisfied with themselves. They lack the winning culture it takes to fight for market share with much bigger global competitors.
- Second, the company is virtually unknown outside Germany. Its product lines are, but stakeholders don't associate them with the corporation.

The executive board and the head of corporate communications conclude that overcoming these barriers require fundamental change in terms of the structure, processes, and culture of the organization. They also agree that the company needs to become visible abroad in order to attract talents, convince local authorities to provide support, and to find the retail partners needed to expand their business in foreign markets. These requirements are translated into the following corporate communications objectives:

The function must:

- Globalize the pride of the long company tradition and the uniqueness of the product portfolio.
- Make the company behind the famous product brands visible and build a reputation in tune with corporate strategy.
- Let all internal and external stakeholders recognize the reasons for and the benefits of the upcoming changes.

Foster the readiness of high potentials, possible business partners, NGOs, and local authorities to cooperate with the organization in targeted growth markets. While communicating with these stakeholder groups, the following strategic goals have to be considered:

- Carefully motivate employees to develop a stronger performance orientation and to actively participate in the change process.
- Enable executives throughout the organization to drive organizational and cultural change with both determination and caution.
- Prepare international and local NGOs for the company's geographical expansion and build trust in its determination to meet the same high ethical, social, and environmental standards as applied in Germany.
- Contact local authorities in the new markets and demonstrate the willingness to take responsibility for sustainable business in their home country.

An assessment of the existing corporate communications resources reveals that the function needs to develop additional potentials before it can fulfill these assignments:

- Internal communications are not institutionalized outside Germany. Even there, the function lacks the human resources, structure, and tools to effectively support the required organizational change.
- External corporate communications are limited to the headquarter, too. The function lacks any international resources. A corporate brand does not exist.

Accordingly, corporate communications is to provide its contributions in two steps. The first step includes the creation of the required potentials to successfully approach the function's strategic goals:

- Develop a new set of values and a corporate brand as prerequisites for fostering a corporate identity and a performance culture in tune with the business strategy.
- Build a reputation that drives stakeholder readiness to cooperate.
- Cocreate an employer brand with personnel marketing to increase employer attractiveness in foreign markets.
- Restructure the internal communications function, gear it towards supporting change management, and build the necessary resources in all growth markets.
- Internationalize external corporate communications in terms of both resources and processes. Complement traditional media relations with stakeholder dialog via all available platforms (including face-to-face and social media).

These *strategic projects* only comprise the input and internal output levels. Once a required potential exists, the respective project ends.

Contrary to that, the second step, the deployment of existing potentials, includes all levels of impact. The *operational projects* describe for which activities the available resources will be used including how progress and target achievement are measured. In the given scenario, examples for such projects are corporate brand roll-out, cultural change, and employer branding.

However, corporate communications departments are not only involved in projects aimed at supporting the achievement of strategic goals. A significant part of activities are routine operations such as producing the regular employee magazine, updating the Internet, or answering information requests by journalists.

More often than not, this "bread-and-butter" business is binding more personal and financial resources than the project activities. A pragmatic way to make the quality and volume of the daily PR and internal communications business transparent and include it into management accounting is the use of service level agreements (SLA). They can be deployed on three different levels:

- A flat rate for the basic tasks of the corporate communications department (e.g., a certain number of press releases or press conferences per quarter).
- Optional modules consisting of standardized services at fixed costs which internal clients can order and must pay from their own budget through intercompany invoicing (e.g., CEO video message).
- Nonstandardized special services that need to be agreed in each case and are to be paid for by internal clients from their own budget through intercompany invoicing.

Closing the gap between corporate strategy and communications is the paramount task of reputation management. Either communicators take charge of this or other functions will. Management consultants already move into the area. In June 2009, the McKinsey Quarterly published an article on reputation management. One year later, the firm creates a joint venture with Nielsen to launch a social media intelligence tool. Who will learn faster: corporate strategists about communications or communicators about strategic management? Time will tell. Combining both competence areas, however, is a clear business need and a future value driver.

Integrated Reputation Analysis at Daimler

Sabine A. Einwiller and Michael M. Kuhn

The Initial Situation

It is the goal of Communications at Daimler AG to maintain and strengthen the corporate reputation among stakeholders and therefore contribute to the success of the company. Communication and reputation are seen as value drivers of corporate success. To ensure communication's effective and efficient contribution to corporate value, DaimlerChrysler[1] Communications initiated the project "value based management" (for details see Splittgerber 2004) as part of a company-wide initiative.

In the course of this value-based management project it was decided to create a comprehensive instrument to measure the target variables of communication. It was perceived essential to know where the company stands with respect to its target variables in order to effectively and efficiently create value through communication. The goal was to create an integrated measurement system that overcomes the shortcomings of the previously used stand-alone measures of communication effectiveness. As is the case in many large corporations, communication controlling suffered from fragmentation. Although various measures (media content analysis, image survey, etc.) existed they lacked integration.

Therefore, in March 2003 the SCORA project, which stands for "System for Corporate Reputation Analysis," was launched integrating stakeholder surveying and media content analysis. To capture corporate reputation, we developed an industry specific instrument to measure stakeholder evaluations of the company on different dimensions. Additionally, the company's values, defined in the corporate brand profile, were also integrated in SCORA as were the annually declared Daimler specific communication topics. Because of its close link to the company's success, measurement of stakeholders' behavioral intentions and past behavior was also included. Finally, media content analysis was synchronized with the stakeholder measurement instrument in order to gauge the influence of the media on

[1] In October of 2007, shareholders of DaimlerChrysler AG approved the renaming of the company to Daimler AG. The project described here was initiated under the legal entity of DaimlerChrysler.

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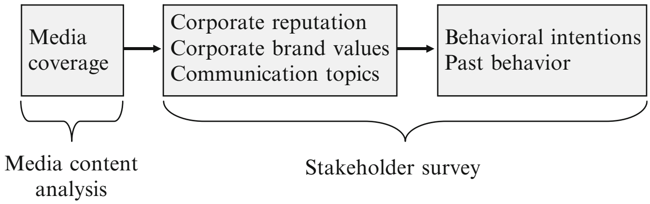

Fig. 1 Elements of the system for corporate reputation analysis SCORA

stakeholder perceptions and evaluations of the company. The elements of SCORA are depicted in Fig. 1.

In this chapter, we describe how SCORA was developed and how it has been implemented. We present selected findings from a pilot study and also use fictitious data to demonstrate the application of the instrument and the insights it can provide.

Developing an Integrated System for Corporate Reputation Analysis

In developing SCORA we followed six guiding questions, which will be discussed in detail in this section:

1. What is being measured? – Target variables
2. What influences those target variables? – Influencing factors
3. With whom? – Relevant stakeholder groups
4. Where will the factors be measured? – Regions, markets
5. Compared to whom/what? – Benchmarks
6. How will the data be gathered and analyzed? – Methodology

Determining the Target Variables

As stated in the introductory paragraph, enhancing the corporate reputation among its stakeholders is a main goal of the communication function. Therefore, *reputation* was the central target variable to be measured by SCORA. Reputation has been defined as "a collective representation of a firm's past actions and results that describes the firm's ability to deliver valued outcomes to multiple stakeholders" (Fombrun and Rindova 1996 cited in Fombrun and van Riel 1997). It is composed of the stakeholders' beliefs regarding a company with respect to various attributes. These attributes can be categorized into "reputation dimensions." Based on empirical analyses, Fombrun and colleagues (e.g., Fombrun and Gardberg 2000; Fombrun et al. 2000) conclude that people evaluate companies on five cognitive reputation dimensions (products and services, financial performance, management's vision and leadership, workplace environment, corporate social responsibility) and one emotional reputation dimension (emotional appeal). Other measures of corporate reputation also include dimensions such as innovativeness, ability to cope with a changing economic environment, and corporate strategy (for an overview see Carroll and McCombs 2003). Each dimension is qualified by means of various attributes or "indicators."

Although some dimensions are generally important for the reputation of all companies (e.g., products) others might be particularly important for certain industries (e.g., innovativeness for technology-oriented industries). To determine the relevant reputation dimensions for automobile companies, we lead discussions with international industry experts. This Delphi-type study resulted in consensus on the following dimensions of corporate reputation for automobile companies: products and services, financial performance, management and corporate strategy, social and environmental responsibility, innovativeness and emotional appeal. The first dimensions are cognitive in nature whereas the last one is emotional.

In order to measure each of the reputation dimensions, a set of indicators was developed. We followed a process suggested by Homburg and Giering (1996). Potential indicators for each dimension were generated through discussions with communication experts in industry and academia. All potential indicators were then compiled in a questionnaire. Independent judges (30 international industry executives and 10 academics) evaluated the indicators concerning their fit with the respective dimension as well as ease of responding to them. The final instrument contained between four and six indicators to measure each reputation dimension.

In addition to the general reputation of the company, it was considered essential to incorporate the central values of the *corporate brand* in the SCORA instrument. The corporate brand had been developed in a separate project through extensive internal and external research. It comprises the brand values and a core idea and represents the company's character, its identity. The identity of a company has been called the "backbone of reputation" because it determines how the company deals with all of its stakeholders (Fombrun 1996). Therefore, it was considered essential to capture stakeholders' evaluation of the company's brand values in order to reveal potential gaps between the company's perspective on its identity and stakeholders.

Each year Daimler Communications defines a set of strategic *communication topics* the company wants to put on the agenda of its stakeholders. While some topics remain on the list for a number of years, others are only short lived. For communication management, it is essential to get feedback whether the topics had been effectively communicated to the stakeholders or not. Therefore, stakeholders' knowledge and perception of those communication topics is measured as part of SCORA.

Finally, SCORA contains a measurement of the stakeholders' *behavior* and *behavioral intentions*. Behavior such as buying products or shares, cooperating, recommending or abstaining from boycotting can directly influence the company's bottom line. It is therefore an important target variable of communication management. Therefore, SCORA assesses stakeholders' behavioral intentions, which include the likelihood of buying products or shares, applying for a job, etc., in the near future, as well as stakeholders' past behavior. The behaviors and behavioral intentions which are assessed can vary between stakeholder groups.

Reputation dimensions, perception of brand values, and communication topics as well as behavioral intentions and past behavior are measured by means of a survey which is conducted via telephone among the focal stakeholders. Evaluations are captured on a scale from 1 "completely disagree" to 7 "completely agree." Additionally, stakeholders are asked to judge their perceived importance of each reputation dimension (1 "not important" to 7 "very important"). Past behavior is measured by means of a yes–no question, behavioral intentions by assessing the likelihood to conduct the respective behavior oneself and to recommend it to a close friend (1 "very unlikely" to 7 "very likely").

Media Coverage as a Crucial Influencing Factor

Among other sources of information such as advertising, personal experience, or interpersonal communication, the media are particularly important when it comes to forming the corporate reputation and corporate brand perceptions. Information from third parties, like the media, is usually perceived as more credible than information originating from the company itself (Sternthal et al. 1978). As hypothesized by several authors (Carroll and McCombs 2003; Fombrun and Shanley 1990; Wartick 1992), media reports with a positive tone should improve the collective representation of a company held by its stakeholders, its reputation, while unfavorable news is assumed to exert a negative influence.

At the time of the SCORA project, media coverage of those print and electronic media that are considered most important for the company and its stakeholders was already analyzed continuously by PRIME Research, an international communication research firm. To gain differentiated insights into the interrelationship between media coverage and corporate reputation, it was considered essential to measure the portrayal of the company and its benchmarks on the same dimensions as have been defined for corporate reputation. By synchronizing the measurement instruments we are able to directly compare the tone of coverage in the media on a certain reputation dimension with stakeholders' evaluation of the company on the same dimension.

Each article or report that contains a mention of Daimler (or its benchmarks) is analyzed to see whether it covers any of the cognitive reputation dimensions (products and services, financial performance, management and corporate strategy, social and environmental responsibility, and innovativeness) and coded, respectively. The emotional dimension (emotional appeal) is not analyzed via media content analysis. Also not analyzed via media content analysis are the firm's brand values.

To match the answer scale (1–7) used in the survey, the tone of the media coverage on each cognitive reputation dimension is coded on a scale from −3 (very negative) to +3 (very positive). If the content is ambivalent (both positive and negative) the midpoint 0 is given. A neutral tone receives the code 9. Coders are provided a potential content list for the different reputation dimension to help them assign the correct codes. This content list is synchronized with the indicators used to measure the respective dimension in the survey.

In addition to the tone, the amount of coverage the company receives on the different reputation dimensions and communication topics is assessed. Knowing how much and how positively or negatively the media cover the company on the different dimensions and topics is highly valuable for effectively managing communication, in particular media relations.

Determining Relevant Stakeholder Groups and Regions/Markets

Stakeholders of a company have been defined as individuals or groups who can affect or are affected by the achievement of the company's objectives (Freeman 1984). Companies in general, and large corporations like Daimler in particular, have many different stakeholders. However, to design an efficient instrument for reputation measurement, the most important stakeholder groups have to be selected. Currently, SCORA focuses on one of Daimler's most relevant stakeholder groups, opinion leaders. This group has a cross-sectional character because it includes people with opinion leading characteristics in a variety of segments including business, communities, nonprofit organizations, academia, etc. (see also Splittgerber 2004). Extending SCORA to other important stakeholder groups is an option for the future.

Reasons of efficiency also guide decision making concerning the regions and markets where the instrument is implemented. When the instrument was developed in 2003 the decision was made in favor of the home markets, Germany and USA. However, an instrument like SCORA has to adapt to business developments and changing necessities. In the meantime other markets, especially emerging ones, were added to SCORA.

Identifying Benchmarks

When assessing corporate reputation it is essential to compare the company's own data with those of other companies that are considered valuable benchmarks. Benchmarks are measurements to gauge the performance of a function, operation, or business relative to others (Bogan and English 1994). A decision has to be made as to whether only companies in the same industrial sector should be selected for benchmarking or also companies in different sectors. Since companies do not only compete in the market for products but also in other markets like that for talent or public support, it can also be viable to compare oneself with different industry companies that perform excellently in those other markets.

However, for reasons of efficiency it is generally not possible to include all companies that are of potential interest for benchmarking since including more benchmarks also means raising the number of survey participants and extending the analysis of media content. Because of the greater relevance for Daimler and also for efficiency reasons, we decided in favor of companies in the same industrial sector for benchmarking. In each market, the strongest five competitors were chosen for comparative analyses.

Apart from external benchmarking, measurement over time creates internal benchmarks. Previous measurements serve as reference figures; they also help to define specific targets concerning how the company strives to be evaluated by its stakeholders. Internal benchmarking requires continuous measurement with a (largely) unaltered instrument. While media content analysis is a continuous process, stakeholder measurement should ideally take place at least every other year using the same instrument

Methodology and Exemplary Results

After collecting the data via survey and media content analysis they undergo a variety of analyses. First of all, a plethora of descriptive analyses are conducted (means, frequencies, etc.) and results are compared with benchmark data from competitors and previous years. Since media data are collected all year round, analyses of points in time and of trends are conducted regularly throughout the year. Importantly, descriptive analyses are most important to evaluate whether the objectives defined in the communication strategy have been met.

Although these descriptive analyses are extremely insightful and valuable for communication management, we want to focus in the following on the analyses that provide insight into the relationships between the different variables measured by SCORA. First, we outline how the relationships between the variables measured in the survey are analyzed. Here, we focus on the reputation dimensions and behavioral intentions and omit results on brand values, communication topics, and past behavior. Then, insight is provided into measuring the relationship between media coverage and stakeholder perceptions on the reputation dimensions. We demonstrate the methodologies applied by means of a pilot study of the SCORA instrument which was conducted in November and December of 2003 among university students in Germany (see also Einwiller and Korn 2004). We furthermore use fictitious data to illustrate analyses of findings that cannot be revealed here.

Analyzing the Relationship Between Target Variables

Drawing on the "learning hierarchy" model (Ray 1973) and the theory of reasoned action (Ajzen and Fishbein 1977) we put the target variables of SCORA (reputation dimensions) in a causal order: The cognitive dimensions are to exert an influence on the affective dimension which in turn can have an influence on a person's intention to behave in a certain way with respect to the company.

This causal relationship is analyzed using structural equation modeling (SEM). SEM is applied widely in marketing and social research to analyze the interrelationships between latent variables (e.g., Bagozzi 1980). Latent variables are variables that cannot be directly observed but have to be measured with indicators. The reputation dimensions are typical exemplars of latent variables. Partial least squares (PLS) analysis, one type of variance-based SEM, is suitable to analyze the relationships between those kinds of variables. PLS has been considered advantageous over covariance-based SEM (usually analyzed using the software programs LISREL or AMOS) because it requires smaller sample sizes and it is rather robust to violations of normal distribution (Chin and Newsted 1999). In SCORA the latent variables are measured reflectively which means that the indicators are representations of the variable. Thus, each reputation dimension represents one unidimensional construct and the indicators that represent it are correlated.[2]

In a first step, the measurement models for the latent variables have to be evaluated concerning reliability and validity. For a detailed description of how to proceed in this first step we refer to the relevant literature (e.g., Huber et al. 2007). In a second step, the structural model is analyzed which means testing the relationships *between* the different variables. The analysis of the structural model allows identifying which cognitive dimensions influence stakeholders' emotions and, most importantly, their behavior (measured as behavioral intentions). It is important to note that those influences differ between stakeholder groups depending on their characteristics and interests.

In the pilot study among university students mentioned earlier we found that the dimensions "products and services" and "social and environmental responsibility" have the strongest impact on the emotional dimension which in turn strongly influences job application and purchase intention. The path coefficients measuring the strength of relations between the model variables are statistically significant ($p < 0.001$). "Management and corporate strategy" has only a marginally significant influence on students' emotions ($p < 0.10$) while "financial performance" seems to be irrelevant for this group. "Innovativeness," although it has no direct influence on emotional appeal was found to significantly influence the dimension "products and services." The structural model including path coefficients is depicted in Fig. 2.

A central criterion for evaluating the explanatory power of the structural model is the coefficient of determination R^2.[3] It is calculated for those variables that are influenced by other preceding variables and shows how much of their variance can be explained by the model. The results for R^2 indicate that 31% of the variance of

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[2]More recent approaches to reputation measurement argue in favor of measuring reputation formatively (Helm 2005), an approach that deserves recognition and consideration for further development of the SCORA instrument.

[3]R^2 is to exceed a threshold of 0.30 to determine explanatory power of the model (Huber et al. 2007).

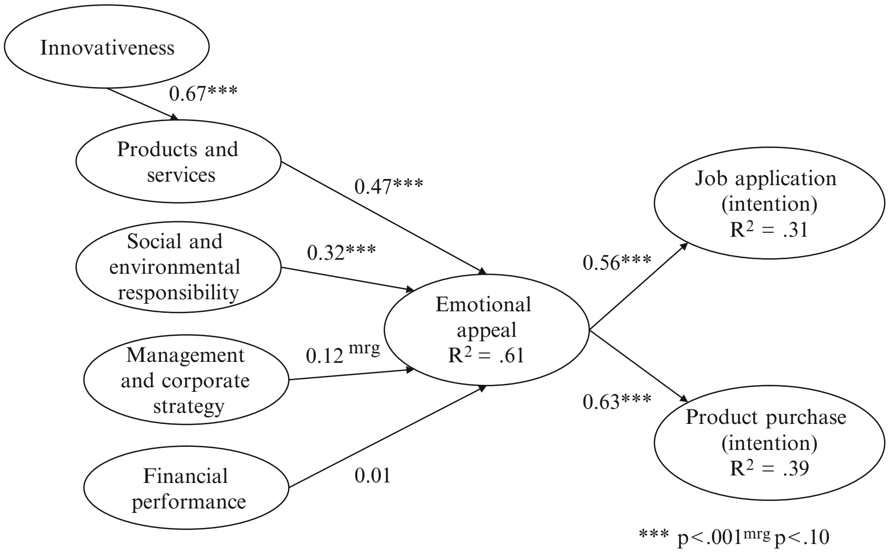

Fig. 2 Structural model of the relationships between reputation dimensions and behavioral intentions; pilot study among university students

"job application intention" and 39% of the variance of "purchase intention" is explained by the reputation dimensions. Furthermore, 61% of the variance of "emotional appeal" is explained by the cognitive reputation dimensions (see Fig. 2).

It is interesting to compare the results of the structural analyses with stakeholders' direct statements concerning which dimensions they consider important when forming an impression of a company. The pilot study revealed that, when asked directly, students mentioned "products and services," "innovativeness," "emotional appeal," and "social and environmental responsibility" to be most important when forming an impression of a company. Least important were the dimensions "management and corporate strategy" and "financial performance." This largely matches the findings from the structural analyses.

Based on those analyses important implications for communication management can be derived. A learning from the pilot study is, for example, that communication with the stakeholder group university students should focus on topics around the products and what the company does for the society and the environment. Positive perceptions on those two dimensions can have a positive impact on this group's emotions and behavior (and vice versa).

Analyzing the Relationship Between Media Coverage and Reputation

A core feature of SCORA is the integration of media coverage and stakeholder reputation to gauge potential influences of media coverage on stakeholder perceptions. An important question is the time span of media coverage used for the analyses. So far, there is no agreed upon number of days or months of media data to be selected. In academic research on agenda setting, scholars have found effects from a few days (Zucker 1978), over 5 months (Kiousis and McCombs 2004) up to 1 year of coverage prior to the survey (Meijer and Kleinnijenhuis 2006b). Since media analyses are conducted continuously at Daimler, we are able to analyze the effects of different time spans of media coverage. In SCORA, data are usually tallied for 6 months and 1 year prior to the survey.

In a first analytical step, the interrelationship between the amount and tone of media coverage and the evaluations of the stakeholders are put into relation descriptively. With integrated bar charts we can reveal parallels and discrepancies in the tone of media and evaluation of stakeholders on the different dimensions. Using fictitious data, Fig. 3 depicts an exemplary descriptive analysis.

Figure 3 integrates information on the amount of media coverage on each dimension (media presence), its tone, and stakeholder perceptions as well as perceived importance attached to the different reputation dimensions. The chart reveals, for example, a discrepancy on the dimension "financial performance" concerning tone of media and stakeholders' perception of the company with respect to its financial performance. This suggests that the media do not have a large impact on stakeholder evaluations concerning this dimension. However, stakeholder perceptions and media tone concerning "social and environmental responsibility" largely coincide suggesting that on this dimension media do have an influence on stakeholder perceptions.

Also depicted in the exemplary chart is stakeholders' perceived importance of the different dimensions of reputation. The fictitious results show that the media report

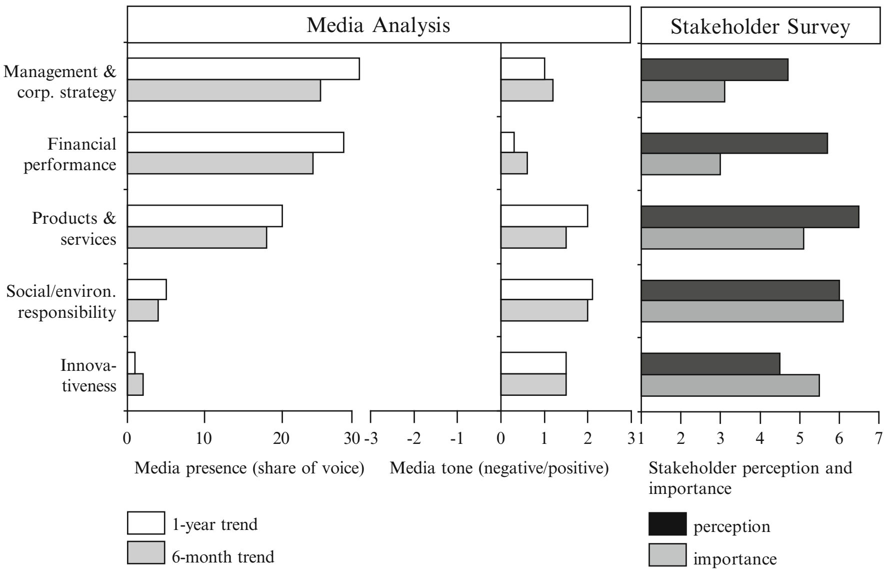

Fig. 3 Descriptive analysis of relationship between media coverage and stakeholder evaluation of reputation dimensions; fictitious data

most on those dimensions that are least important for stakeholders (“management and corporate strategy,” “financial performance”), and very little on two dimensions that are judged as highly important (“social and environmental responsibility,” “innovativeness”). For communications this means that enhanced efforts are needed to place stories on the company’s responsibility and innovativeness in the media.

In a next step, a series of correlation and regression analyses provide in depth and statistically founded insight into the relationship between media coverage and stakeholder reputation. To run those analyses, the datasets have to be integrated. To be able to do this, stakeholders are asked in the survey to indicate which media they use most frequently to gather information on companies and economic topics. In this open-ended question, respondents name the titles of newspapers, magazines, TV programs, and online sites they use most frequently. Based on this information, we are able to assign the news data to the respondents according to their individual media usage (see also Meijer and Kleinnijenhuis 2006a). Such an integrated dataset allows us to run correlation and regression analyses that indicate whether there is a statistically significant relationship between tone of media coverage and stakeholder evaluations.

Drawing again on the pilot study among university students we shall illustrate this step: media data were tallied for a period of 11 months (January to November of 2003) preceding the survey. We matched the codings of that medium used most frequently by a respective respondent (first mention) with the person’s responses from the survey. Correlation analyses between media tone on the reputation dimensions and stakeholder evaluations of the matching dimensions reveal interesting results. Most interestingly, there was a significant correlation between media coverage on the company’s “social and environmental responsibility” and how student stakeholders perceived the company on this dimension (Spearman’s Rho 0.20, $p < 0.01$). The correlations between media coverage on the other reputation dimensions and students’ evaluations on those dimensions were nonsignificant.

These findings imply, again, that media relations should try to place more responsibility-related content in those media that are frequently used by this stakeholder group. Exploring new channels to communicate with this group to convey such content should furthermore be pursued. This is in sync with the conclusion drawn from the structural analyses described earlier which revealed that students’ emotions and behavior is influenced by their evaluation of the company in terms of its social and environmental responsibility.

Concluding Remarks

Today, SCORA is a well-established instrument at Daimler AG. It provides a basis for developing the communication strategy and for aligning communication planning with stakeholder expectations. The periodic analysis delivers internal benchmarks that help set precise and stakeholder-specific objectives which are then assessed using the instrument. Importantly, SCORA helps to identify the impact of reputation dimensions and communication topics on stakeholder behavior. Furthermore, it provides information on the role of communication channels, particularly the media, for stakeholder perceptions. This information is crucial in improving communications and defining a communication strategy that effectively and efficiently strengthens the company's reputation.

Because of its integrated structure SCORA can reveal relations between stakeholders' perceptions and the depiction of the company in the media. Assessing the relationship between media coverage and stakeholder perceptions is not only interesting from a corporate but also from an academic point of view. "There is a plethora of marketing, public relations, and corporate branding research examining the various attributes of companies in the public mind, but little attention has been given to how the news media have influenced these public perceptions" (Carroll and McCombs 2003, p. 39). Hence, an integrated measurement instrument like SCORA that is designed to measure perceptions and media coverage on the same dimensions can also help to advance academic knowledge.

In the long run, SCORA shall furthermore be used to derive precise information for "zero-based budgeting" at Daimler. By identifying needs and demands of the company's stakeholders, and by providing knowledge on the effectiveness of different communication measures over time, it will be possible to make use of SCORA for allocating resources and defining budgets within communications.

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Reputation Management at Coca-Cola and Beyond

Michael Stopford

Introduction

In 2004, the top 150 leaders of The Coca-Cola Company gathered from around the world with a singular mission in mind: create a strategic roadmap for transforming the company. The culmination of their efforts – the Manifesto for Growth – lays out a vision for the company's sustainable growth for the next 10 years and beyond.

Like other strategic blueprints, the Manifesto outlines goals, metrics, growth paths, and work streams. Look beyond the traditional numbers, charts, and diagrams, however, and you'll discover that a company built on the concept of refreshment has done something quite refreshing: Coca-Cola has infused corporate social-responsibility (CSR) principles deep into the framework of its corporate strategy.

These principles are represented by what Coca-Cola calls the "Five P's" of sustainable growth: portfolio, partners, planet, people, and profit. Portfolio refers to the company's 400-plus beverages designed to refresh, hydrate, nourish, relax, and energize. Partners represent constructive engagement with stakeholders. Planet recognizes that the health of the business is directly related to the health of our environment. People commits to standards for fair and dignified treatment of all the people who work for Coca-Cola. Profit seeks to maximize shareholder value while also generating environmental and societal value.

Five P's lead to one conclusion: CSR cannot be separated from the success of Coca-Cola. The Manifesto for Growth is a strategic roadmap to be sure, but it is also a declaration that corporate citizenship – and corporate reputation – matter.

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The Great Debate

The Manifesto for Growth probably would have shocked American railroad tycoon William Vanderbilt. In 1882, Vanderbilt – who was president of New York Central Railroad – had just canceled an experimental fast train between New York and Chicago because it wasn't making money.

A Chicago reporter asked Vanderbilt, "Are you working for the public or for your stockholders?" Vanderbilt famously replied: "The public be damned. I run my railroad for my stockholders."

In the decades since the age of industrialization, there's been an ongoing debate about the role of the corporation in society. The traditional notion is that companies are accountable primarily to their shareholders – or that "the social responsibility of business is to increase its profits," as Milton Friedman put it in a seminal *New York Times Magazine* article in September 1970.

The increasingly prevalent view today is that companies are accountable not just to their shareholders but also to stakeholders such as employees, customers, business partners, the people who live in the communities in which companies operate – and indeed, to varying degrees, to society as a whole. Even the venerable, pro-free market *Economist* magazine has taken only 3 years to soften its past Friedmanesque approach. In January 2005, Deputy Editor Clive Crook authored a much-debated section accusing CSR advocates of "muddled" thinking and of a potentially dangerous misuse of resources. In January 2008, the magazine acknowledged that CSR "is now seen as mainstream" and as "enlightened self-interest."

Today, CSR issues are at or near the top of the agendas of corporate CEOs. About two-thirds of the 250 largest global companies, including Coca-Cola, regularly publish CSR reports. Many large companies also have corporate officers responsible for managing sustainability or corporate citizenship.

Phrases such as sustainability, corporate citizenship, and the triple bottom line have become part of the corporate vernacular. Granted, there are subtle differences in emphasis: sustainability tends to focus largely on efforts by companies to reduce their environmental footprint, and CSR has a broader sweep, encompassing the accountability of companies on a wider range of societal issues such as economic prosperity, human rights, health, and stewardship of natural resources. Whatever they call it, all kinds of companies are starting to recognize their accountability to a broader range of stakeholders.

Examples abound. Software pioneer Microsoft was once excoriated in some quarters as an icon of monopoly in a capitalist system too concerned with profits. Today, Microsoft founder Bill Gates, together with his wife Melinda, operates one of the world's largest and most influential philanthropic foundations. In a recent speech to the World Economic Forum in Davos, Gates called for "creative capitalism" that uses market forces to ease the world's inequities.

A number of forces are converging to make CSR a boardroom issue for companies around the world. Macro-issues such as globalization and climate change have raised the stakes. Some say that globalization is creating a bigger prosperity divide between the countries engaged in the global economy and those largely closed off to it – putting pressure on companies with operations in both camps. Governments, in some cases, have failed to create conditions for prosperity, leading communities to look more to businesses to help address some basic needs. Fears of climate change, meanwhile, have led to calls for companies to minimize their impact on the environment.

Because ready access to global media like the Internet has democratized the distribution of information, corporations today are under greater scrutiny than ever before. There's nowhere to hide from the spotlight of NGOs and other watchdog groups – or from "empowered" consumers worldwide.

Then there are pragmatic business considerations that indeed make embracing CSR a strategy of enlightened self-interest. More and more consumers are tying their purchase decisions to a company's CSR activities and reputation. A growing number of investors, too, are beginning to direct funds to socially responsible companies. Recruiters are finding a stronger echo with graduates and potential employees if the company enjoys a good reputation. And companies that aren't fully engaged with local communities and local governments can have trouble getting licenses to operate in these communities.

Corporate Citizenship at Coca-Cola

Coca-Cola has devoted considerable time and resources to CSR programs that are aligned with the Five P's of its Manifesto for Growth. The company's annual Corporate Responsibility Review outlines the hundreds of CSR programs at Coca-Cola and reports on progress toward measurable objectives.

Just a few of the recent highlights contained in the latest report:

– *People*: Coca-Cola is a 2006 signatory to the United National Global Compact, an agreement designed to enact a core set of values in the areas of workplace rights, human rights, the environment, and anticorruption. In 2007, Coca-Cola launched its global Workplace Rights Policy and Human Rights Statement and endorsed the Employment Nondiscrimination Act.
– *Planet*: The company focuses its efforts on three core environmental initiatives: water, packaging, and energy. Within a few years, Coca-Cola has pledged to become "water-neutral" in its operations. Already, Coca-Cola has reduced total water consumption by more than 19% since 2002. Coca-Cola is involved with more than 70 community water partnership projects in 40 countries and recently joined in a comprehensive, global water-conservation partnership with the Word Wildlife Federation. The company is also redesigning its packaging to user fewer raw materials and deploying environment-friendly refrigerants in its coolers and vending machines, among many other environmental initiatives.
– *Partners*: Coca-Cola is working with supply-chain partners with the aim of implementing sustainable agriculture best practices. The company is also

helping support micro-entrepreneurs by providing pushcarts, kiosks, and mini-tables to street-corner vendors in places such as Vietnam and Egypt. It is also training small, family-owned grocers around the world on retailing techniques to improve their businesses.

– *Portfolio*: The company is researching and developing nutritional-supplement drinks for potential use in areas of the world facing nutrient, mineral, and vitamin deficiencies, especially amongst children. We're adding detailed nutrition information to beverage labels in places like Europe. And the company is closely monitoring product and package quality attributes to ensure that our products meet consumer expectations.
– *Profit*: In 2006, Coca-Cola paid out $3.4 billion in global salaries and benefits, $2.9 billion in shareholder dividends, and $1.4 billion in local capital expenditures.

These and many other CSR initiatives are designed to ensure Coca-Cola's continuing success on the path to sustainable growth.

Lessons Learned

In the years before and since the creation of the Manifesto for Growth, Coca-Cola has had its share of struggles and missteps as it has striven to become a highly responsible corporate citizen. Along the way, the company has learned a lot about what works and what doesn't.

Coca-Cola has drawn five key lessons from its experiences thus far – lessons that might be valuable to other companies learning to become better corporate citizens:

Lesson 1: Link CSR Initiatives to Your Core Business

Coca-Cola – as is the case for many leading multinationals – agrees with Harvard Business School Professor Michael Porter when he says that a company's sustainability efforts are most successful when they are a natural extension of a company's core business. In an HBR article, Porter wrote: "No business can solve all of society's problems or bear the cost of doing so. Instead each company must select issues that intersect with its particular business."

When companies leverage their existing core competencies to serve society, they will naturally execute these programs more effectively and efficiently.

At Coca-Cola, after years of well-meaning – but unfocused – CSR efforts, the company had to step back and decide where it wanted to target its corporate giving and working partnerships. This analysis led the company to concentrate in areas such as packaging, nutrition and wellness, sustainable agriculture, and water conservation.

Water management is something the company has long practiced in its internal operations. About 40% of the water Coca-Cola uses in its global operations goes into its beverages. Another 60% is used in the manufacturing process for rinsing, cleaning, and cooling.

Water is a precious commodity around the world. More than 1.1 billion people lack access to safe drinking water, and droughts and poor conservation practices continue to threaten personal health and agriculture. Poor access to fresh water also poses challenges for Coca-Cola's manufacturing operations. Why not, then, leverage what the company already knows about water management and partner with NGOs and institutions like the United Nations to ensure access to fresh water for local communities around the world?

The most ambitious water partnership brings together the World Wildlife Fund (WWF) and Coca-Cola. In addition to the company's pledge to reduce water consumption in its own plants and recycle water safely back into the environment, the partnership has much bigger goals. Coca-Cola contributed $20 million and the expertise of its hydrologists to work with the WWF to conserve seven of the world's most critical freshwater basins. These river basins span more than 20 countries in North America, Europe, Africa, and Asia. The 5-year joint project will address water challenges that vary from dams that have outgrown their usefulness to agricultural run-off issues to loss of habitats due to development and land reclamation.

CSR initiatives like the WWF partnership that are linked to the core business have the greatest chance of success.

Lesson 2: Engage with Stakeholders. And Stay Engaged

Coca-Cola's traditional approach was to think that, as long as it was doing the right things, it didn't need to explain itself to critics. But the company's experiences in the state of Kerala in southern India, for example, showed the danger of not staying engaged with community stakeholders.

In 2004, that area of India was suffering a terrible drought. Wells were drying up. Local critics accused Coca-Cola's plant in Kerala of depleting ground water so it could make its beverages. Although the company was not close to being the largest user of water in Kerala – and an independent government commission later found Coca-Cola to be innocent of depleting groundwater – the damage was done. Its license to operate was suspended by local authorities.

The company was not sufficiently engaged with local-community stakeholders, listening to their concerns and explaining Coca-Cola's side. But it learned from this experience, both locally and globally – subsequently establishing a stakeholder-relations function and developing the relevant processes and systems.

Hence, the answer has to be: Listen. Engage. Communicate. Talk with allies, but also with critics. Work with local stakeholders – state and local governments, citizen leaders, union leaders, and other companies – to address their concerns. It's not always about being right. It's about engaging and communicating.

Lesson 3: Don't Spin. Perform

A leading business magazine recently made the following observation: "Companies that talk the most about sustainability aren't always the best at executing."

In the age of the information democracy and Internet transparency, observers are keeping score, and critics are watching. While communicating with stakeholders about your CSR goals is important, cynical PR spin will be discovered in the end, when there is no action to follow all the talk. Performance is a fundamental component of reputation.

Lesson 4: Take a Long-Term View

As a public company that reports financial results quarterly, it's not always easy to take a longer term view. But CSR has a much more expansive time horizon than corporate financial reporting. Corporate reputation is an asset that takes time to nurture and build.

A long-term outlook can mean long-term benefits. Expenditures made today – for instance, to recycle water at company plants – could hurt short-term results. But it could be money well spent in the long term, when a growing global population puts increasing strain on our water resources.

The best thing companies can do for their shareholders and stakeholders alike is to focus on long-term, sustainable growth that preserves resources for future generations of customers and employees.

Lesson 5: Reputation Management Needs to Be Embedded in the Business

Coca-Cola recognized the need for cross-functional organizational support within the company and its system of franchise bottlers. To that end, the company established – as one of the four cross-functional Councils driving the entire corporate agenda – a Public Policy and Corporate Reputation Council charged with stewarding the company's progress toward its corporate reputation goals.

The Council is made up of senior executives from groups across the company, including the operating business, the independent bottlers, technical and environmental stewardship, human resources, public affairs, supply-chain management, customer management, legal, tax, planning, corporate governance, and others. The members of the Council provide strategic guidance, make policy decisions and recommendations, and sponsor critical initiatives embedding corporate reputation priorities across functions and divisions.

Corporate Reputation as an Asset

Given the above lessons, how do companies like Coca-Cola manage the complex and ever-growing stakeholder expectations around CSR and sustainability? Surprisingly, smart companies don't manage CSR. Instead, they manage reputation.

After all, in a business setting, you can't manage something if you can't define it, measure it, invest in it, track it, and reward it. Concepts such as CSR and sustainability are handy labels for understanding the issues involved, but they're not definable as business assets.

Corporate reputation, on the other hand, can be defined, measured, supported, and tracked – with the right understanding and the right tools and processes in place. That's why companies that are serious about being good corporate citizens gauge their progress by tracking their corporate reputation.

Stefan Stern, in a *Financial Times* article, said this about reputation: "Of all the intangible assets that a business might want to quantify and enter onto its balance sheet, reputation is at once the most valuable, most delicate and hardest to pin down." But it can be pinned down with the right systems. And it's certainly worth the investment and the effort: I would add that reputation is a key asset that takes a long while to build up but can be squandered and devalued quickly.

Reputation, like any other critical asset, can contribute measurably and predictably to the bottom line if well managed. That's certainly true at Coca-Cola. In countries where Coca-Cola's reputation is strongest, studies show that consumer favorability, beverage consumption, and pricing power are also highest.

Looking Ahead: A Framework for Reputation-Management Best Practices

So what would a process-driven, best-practices framework for reputation management look like for Coca-Cola or any other large, complex company seeking to formalize reputation management?

We need to define the components of reputation. And we need the processes to manage them.

The keys to defining reputation are to acknowledge that it is more than image, that it cannot be managed by public relations alone, and that it is rooted in performance. Like a philosophical puzzle, the truth of reputation is an amalgam of perception and performance. Corporate reputation, in fact, is a combination of three factors:

$$\text{Reputation} = \text{Performance} + \text{Perception} + \text{Relevance}.$$

Implicit in this formula is the conviction that performance – or how well a company manages all of its assets in the commercial, social, and environmental spheres – is the foundation of reputation. Metrics can be established and tracked to gauge performance. Energy or water consumption per unit sold, HSE statistics, or dollar investments in community initiatives are examples of measurable, trackable performance measures.

Performance alone, however, doesn't determine reputation. There is also a significant perception component. How stakeholders such as customers, consumers, shareholders, governments, employees, host communities, and social and environmental activists perceive the company's performance (for Coca-Cola, across the Five P's, and for all companies across commercial, social, and environmental sectors) can greatly influence a company's reputation. Comprehensive, regular polling of stakeholders can help assess whether perception is keeping up with actual performance.

The third component of reputation – relevance, or how stakeholders rank the importance of commercial, social, and environmental issues – can also influence a company's reputation. If a company is performing particularly well in an area like health education, and stakeholders don't consider health education a priority issue, the company's reputation won't necessarily benefit. Conversely, if health education is highly relevant to stakeholders, the company's reputation will improve. The issues that are relevant to stakeholders, it must be noted, can change over time. In recent years, corporate performance on carbon emissions has moved dramatically up the relevance chain as more scientists have issued climate-change warnings and society has responded with concern and attention throughout the world.

If we can agree on the definition, the next step is to institute the necessary processes and systems to manage reputation. My own experience at companies such as ExxonMobil and Syngenta – as well as my earlier years on staff at the United Nations and the World Bank – taught me the importance of well-managed processes. Process-driven change is particularly important in the area of reputation management. It's all too easy for hundreds of CSR programs to lose their focus and alignment with corporate objectives when there aren't processes and systems in place to manage them.

An effective reputation-management framework would thus include clear steps for measuring and mapping performance and perception, as well as for using these findings to set strategy and invest in programs across CSR, sustainability, and broad business objectives.

Consider including the following steps in your reputation-management process (Fig. 1):

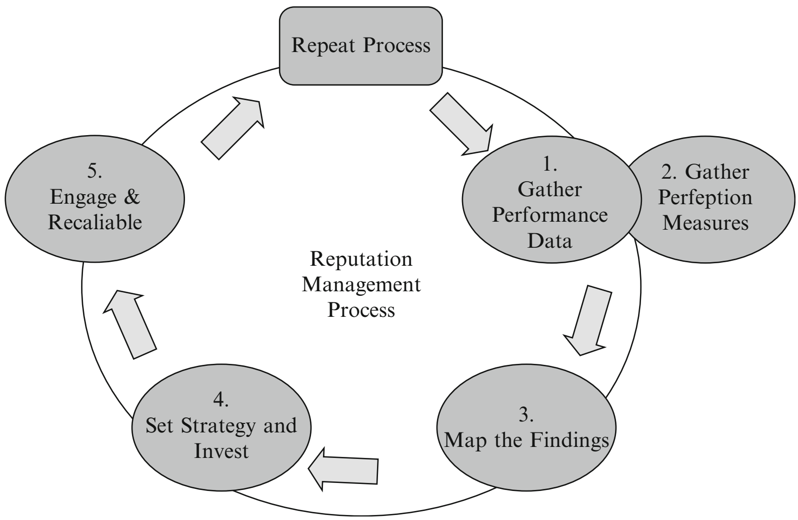

Fig. 1 Reputation management process

Step 1: Gather Performance Data

Each company would create its own set of performance metrics that are relevant to its shareholders, employees, customers, governmental organizations, and other stakeholders. For instance, Coca-Cola might establish key performance indicators in areas such as employee engagement and accountability, workplace rights, water conservation, climate, packaging, economic multiplier, sustainable agriculture, portfolio and affordable nutrition, community engagement, and financial performance.

Then, on a regular basis, your company would gather data that shows how it has performed on these metrics. In most cases, this is data that is already collected and available elsewhere. You are simply bringing it together in one place and, possibly, assigning a uniform scale for measurement.

Step 2: Gather Perception Measures

Your company would create mechanisms to gather regularly perception data from employees, consumers, investors, the business community at large, authorities, opinion leaders, and other stakeholders. This information could come from scientific surveys; public opinion or consumer polling; investor rankings; and engagements with stakeholders including government regulators, NGOs, and the media.

PERFORMANCE Data By Year						PERCEPTION Data By Year				
#	2007	2008	2008 Score vs. Target	Category	Metric	2007	2008	Competitor Analysis	Global Relevance (Low, Medium, High)	Local Relevance (Low, Medium, High)
1				Employee Engagement and Accountability	Employee engagement					
2					Ethics & compliance metric					
3				Workplace Rights Human Rights	Facilities compliance metric					
4					Diversity metric					
5 6					Workplace fatality/ injury rate					
7 8				Water	Water use ratio Wastewater treatment rate					
9				Climate	Energy use ratio, carbon emissions					
10				Packaging	Recycle/ reuse rate					
11				Community engagement	Contribution as a percentage of profits					
12					Percentage aligned with priorities					
13					Economic opportunity/ impact metric					
14										
15				Supply Chain	Sustainable agriculture metric					
16				Customer Satisfaction	Customer satisfaction metric					
17				Innovation	Innovation indicator					
18				Economic Performance	Revenue growth, share price etc.					
19					Market share, productivity etc.					
21				Quality	Product quality metric					

Fig. 2 Reputation scorecard

The results of both the performance and perception surveys could be summarized on a Reputation Scorecard for easier analysis. Here's an example of what a Reputation Scorecard might look like (Fig. 2).

Step 3(a): Map the Findings

To visually represent the differences between performance and perception, the next step is to map the findings on a Reputation Map. Perception is on the *X*-axis and

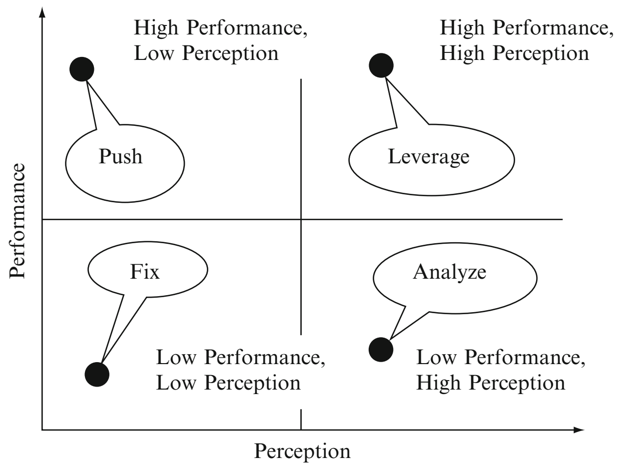

Fig. 3 Reputation map: use scores from scorecard to map each finding

performance on the *Y*-axis. On this map, you would plot the performance and reputation score for each area assessed (Fig. 3).

Within the Reputation Map, there are four quadrants that can help you assess your company's strengths and weaknesses in performance and perception:

– *High Performance, High Perception (Leverage)*. You're meeting your goals and your stakeholders recognize that. Identify best practices and replicate them throughout the organization.
– *High Performance, Low Perception (Push)*. You're meeting your goals, but your stakeholders don't recognize it. Create and implement strategies for improving communications and external engagement to drive perception scores.
– *Low Performance, Low Perception (Fix)*. You aren't meeting your goals, and your stakeholders know it. First, improve execution and invest in the relevant programs. Then, work to enhance communications.
– *Low Performance, High Perception (Analyze)*. Your communications about your efforts are better than your actual performance. This is not a tenable position, as your credibility will inevitably suffer. Address performance shortfalls.

Step 3(b): Add Relevancy Criteria

The two-dimensional reputation map compares performance against perception, but a third dimension – relevancy – should be added to fully map reputation. The relevance of a particular activity/area can be represented visually by the size of the plotted point relative to other plotted points on the map, i.e., as larger or smaller "bubbles." For example, if the finding on health-care education indicates low

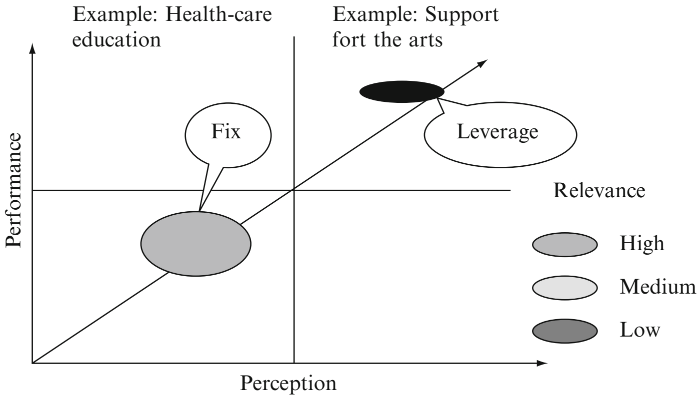

Fig. 4 Issue relevance

performance by the company and relatively low perception, yet health education is considered important by stakeholders, then the health-education plotted point would be large. On the other hand, if a company performs well and is perceived well on "support for the arts," yet stakeholders rank that activity as not very important, then the plotted point would be small. This way, reputation managers can assess which activities warrant priority attention (Fig. 4).

Step 4: Set Strategy and Invest

With the findings mapped, you can next inform your business plan, deciding where to prioritize and provide resources and incentives for relevant activities. Reputation management will come into consideration at various points during the business planning process, including assessment of strategic opportunity and risk analysis, current situation assessment, and marketing drivers and opportunities.

Once business plans are approved, it's time to invest and act. Where needed to improve performance and/or perceptions, you should:

- Engage with relevant stakeholders to improve perception and thus improve corporate reputation. These are communications functions typically handled by public affairs, regulatory affairs, investor relations, and marketing.
- Make operational investments to improve performance of social, environmental – and broadly based business/commercial – programs and initiatives. These are activities that more directly concern the operational parts of the business.

Step 5: Engage and Recalibrate

On an ongoing basis, you would engage internally and externally to validate and, as needed, recalibrate the performance metrics and corresponding perception measures you capture and track. Should some existing measurement indicators and categories be replaced with new categories that have become more relevant to stakeholders? Are the metrics themselves adequately capturing performance and perception?

This process does not pretend to be comprehensive. It needs, for example, to be complemented by a strong issue-management system and by consistent stakeholder engagement. But repeat the process on a regular basis over time, and you'll be able to track and better manage one of your company's most valuable assets: its corporate reputation.

Conclusions

The formulas, processes, and organizational structures that I've described are an attempt to provide a sound, scientific, and systematic basis for reputation management. They function within the broad parameters of business activities and stakeholder expectations.

Stakeholder expectations, however, are constantly changing, as is the overall scope and range of corporate activity within society. There is no consensus on the role of business in society. Indeed, the relative roles of governments, individuals, businesses, and interest groups are a subject of political debate and contention throughout most societies. The entire public policy and regulatory framework is often a function of political perspective: more or less government, more emphasis on the free market or on the protection of the individual.

Furthermore, we have still not determined to which kind of stakeholders are companies primarily accountable. Where do the responsibilities of governments and NGOs stop and the duties of companies begin? Meanwhile, innovation and technology take business activity into new spheres and raise new challenges. There can be no easy answer for CSR or corporate citizenship strategy when the more fundamental questions remain unresolved.

Just as criteria for good corporate behavior are not fixed externally, nor are the rewards and imperatives fixed internally. We need more research into the real business value of good corporate citizenship. We have indications and tendencies: Coca-Cola, for example, has higher beverage consumption in countries where consumers trust our company. But there are few conclusive studies that demonstrate in precise monetary terms the business value of CSR activities – or even of a strong reputation. Numbers like these are important because they are the kind of evidence that really captures the attention of boardroom executives.

Although we don't have all the answers yet, it seems clear that the calls for a higher level of corporate citizenship from our customers, investors, and other stakeholders will only grow louder. There are too many societal needs waiting to be addressed, and business often seems to possess the skills needed to contribute – especially considering that governments are frequently overwhelmed by the scale and complexity of the need.

Ultimately, companies can aspire to become genuine corporate agents of societal transformation in the mold of Internet pioneer Google and Microsoft's Bill Gates. The truth is that most will fall short. Still, it is surely in the enlightened self-interest of all companies to take the long-term view, which is what sustainability is all about. And it is certainly in their interest to embrace reputation management as an idea and a discipline that melds the positive and the profitable.

Corporate Reputation and Stock Market Behavior

Claudia Gabbioneta, Pietro Mazzola, and Davide Ravasi

Introduction

Why is it important to build a good reputation among analysts and investors? How do financial audiences assess firms? And, what can firms do in order to increase their reputation on the stock market? This chapter tries to answer these questions by discussing the benefits highly reputed firms enjoy on the stock market, the drivers of reputation within the financial community, and the managerial implications of reputation building among analysts and investors.

The Benefits of a Good Reputation on the Stock Market

Analysts' and investors' perceptions of a firm's past actions and future prospects – that is to say, the reputation it enjoys among its financial audiences (Fombrun 1996) – affect its ability to collect financial resources and, ultimately, its survival (see Fig. 1).

The concept of reputation is central to the functioning of financial markets. The performance of a stock reflects widespread assumptions among analysts and investors about the credibility of a firm's financial forecasts and its capacity to deliver returns in the future. The diffusion of rumors challenging the soundness of a firm's plans or the quality of its offerings may negatively affect the stock value even before their veracity is ascertained. Relatively shared perceptions of the uncertainty surrounding a firm's plans and accounts – reinforced by the judgment of analysts and certifiers, as well as by the subtle influence of the media – will ultimately affect the return expected by creditors, bondholders, and shareholders, hence the cost of raising capital.

A good reputation among financial audiences may help a firm become an "investment of choice" (Fombrun 2002), enhancing its ability to attract capital and to do it at a lower cost than rivals. On the one hand, market perceptions of a firm's future prospects tend to influence the level of demand for its shares, hence its

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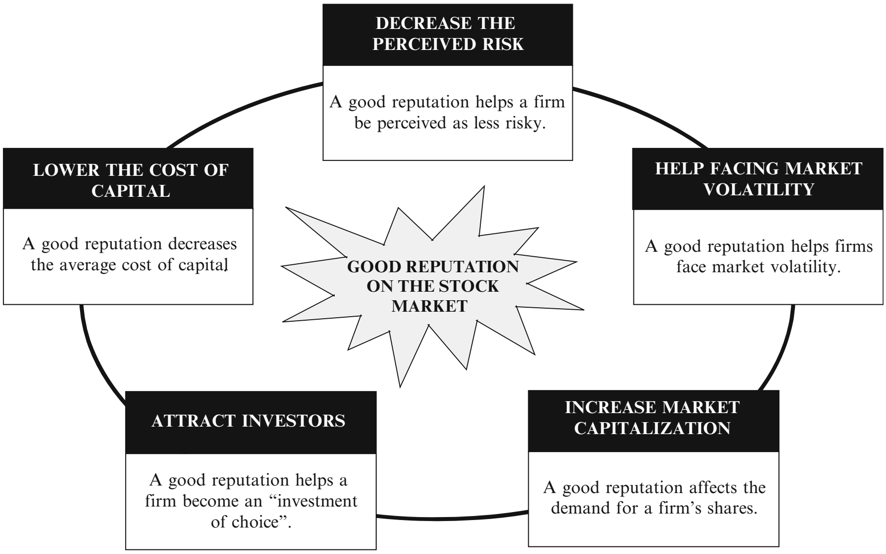

Fig. 1 The benefits of a good reputation on the stock market

market capitalization (Fombrun and van Riel 2004). On the other hand, analysts and investors are inclined to consider well-regarded firms as comparatively less risky than poorly reputed ones. In these cases, they are willing to accept higher financial risk for the same level of returns or lower returns for the same level of risk. Therefore, improvements in a firm's reputation tend to decrease the average cost of capital (Srivastava et al. 1997).

Furthermore, firms with stronger reputations seem to face market volatility better than those with weaker reputations. During market crises, corporate reputation may act as a reservoir of goodwill, helping firms recover from drops of share prices faster than poorly regarded firms (Gregory 1998). Similarly, shares of firms that enjoy a good reputation suffer less and recover faster from stock market crashes due to corporate crises – product recalls, financial scandals, etc. – than shares of poorly regarded firms (Knight and Pretty 1999).

In addition, highly reputed firms may benefit in different ways from their interaction with sell-side and buy-side analysts. Sell-side analysts – also known as stock analysts, equity analysts, or equity researchers – typically work for large investment or brokerage firms, which provide underwriting as well as brokerage services. Although certain sell-side analysts follow general trends in financial market and the economy, most of them track the performance of specific sets of firms. Based on their analyses, they produce equity reports containing periodic forecasts of these firms' future earnings and they advise clients – mainly, institutional investors – to buy, sell, or hold their shares in the stocks of these firms. After the publication, their reports are circulated within and outside the financial community and become one of the most important sources of information about the firm available to the general public. Therefore, in communicating their assessments, sell-side analysts influence other observers' judgments of a firm's future prospects and results.

Like sell-side analysts, buy-side analysts forecast firms' performance, but their role is more of an advisory capacity. They typically work for banks, pension funds, mutual funds, or insurance firms, which rely on the information that analysts provide in internally distributed equity reports to take their investment decisions. The benefits of enjoying a good reputation among analysts become therefore clear: They play a gate-keeping role in connecting firms with resource providers. Their opinions and judgments are likely to directly affect investment decisions, and through these, firms' ability to raise capital.

The Drivers of Reputation Among Analysts and Investors

The essence of analysts' job is to carefully examine the financial figures of a firm and its managers' forecasts for the future, in order to estimate the future flow of its earnings. In order to do that, they are expected to apply rational tools and procedures that guide the elaboration of corporate data and their comparison with appropriate benchmarks. In addition, they may rely on a broad set of cues that help them assess the relative credibility of corporate figures and forecasts (Kuperman 2003) and apply a prudential discount rate to corporate claims. Research on the formation of reputation among financial analysts (Hill and Knowlton 2006; Gabbioneta et al. 2007) indicates how these cues encompass a broad range of features, including the financial performance of a firm, the quality of its leadership, the accountability of its governance structure, and the openness of its investor relations practices; these features, in turn significantly, influence the extent to which analysts and investors like, respect and admire a firm (see Fig. 2).

Financial Performance

First of all, the judgment and the disposition of analysts and investors are affected by a firm's past performance (Hill and Knowlton 2006; Gabbioneta et al. 2007). Compared to other categories of stakeholders, analysts and investors are better skilled to appreciate the financial side of a firm's operations: they have privileged access to investor relation officers and firm management, and their job requires them to develop a good understanding of the financial implications of a firm's choices and assets.

Well-performing firms, however, bring also tangible and intangible benefits to the analysts themselves. As analysts and/or their employers receive fees on traded stocks, they appreciate firms with good performance and high trading volumes (Hayes 1998). Furthermore, research has documented the reluctance of sell-side

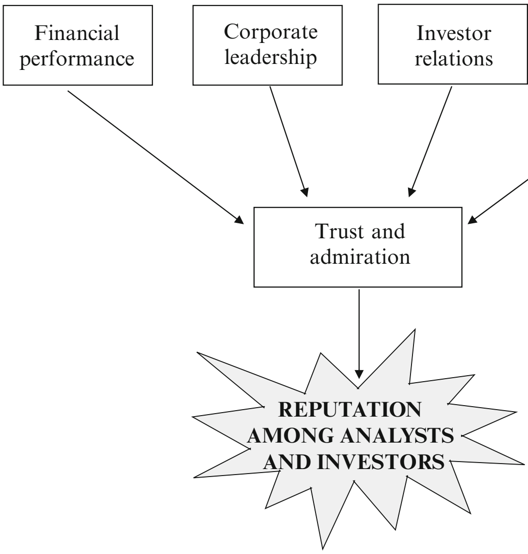

Fig. 2 The drivers of reputation among analysts and investors. Source: adapted from Gabbioneta et al. (2007)

analysts to issue negative recommendations about a firm (Francis and Philbrick 1993; Barber et al. 2001). In this respect, well-performing firms do not place sell-side analysts in the uncomfortable position of trading off professional integrity and reputation with the preservation of short-term trade-commissions and good relationships with the firms they follow (Jackson 2005).

Corporate Leadership

Analysts' and investors' opinions are affected also by the degree to which they perceive the firm as having excellent leadership and a clear vision for the future, and being able to recognize and take advantage of market opportunities. Several studies document how the prestige of chief executive officers, board members as well as members of the top management team, positively influences the behavior of financial markets in extraordinary occasions such as bankruptcies (D'Aveni 1990; Hambrick and D'Aveni 1992) and takeovers (D'Aveni and Kesner 1993). Other studies trace several links between the reputation of organizational leaders and the success of initial public offerings (Finkle 1998; Certo et al. 2001; Higgins and Gulati 2003). Furthermore, the reputation of chief executive officers has been shown to influence the perceived credibility of corporate communication (Mercer 2004) and to help firms acquire much needed internal and external consensus to implement their strategies (Hayward et al. 2004).

Firms with a clear vision for the future, with a good market positioning and ambitious strategic plans are more likely to attract positive judgments than static or reactive firms. While a clear vision and challenging long-term plans seem to earn firms a positive reputation, however, the credibility of those plans seems to be inextricably tied to the perceived quality of the top management team. Analysts and investors tend to trust people more than past performance, as they associate future prospects with the quality of a firm's management (Hill and Knowlton 2006).

Corporate Governance

While past performance and long-term strategies may be interpreted as signals, respectively, of the underlying quality of a firm's past strategy and of its future growth, effective governance structures and mechanisms may reassure analysts and investors about the firm's trustworthiness and accountability. Hence, financial audiences tend to pay great attention to governance issues in evaluating firms (Hill and Knowlton 2006). In particular, their judgments are influenced by the effectiveness of a firm's governance structures, the presence of independent and vigilant board members, and the safeguarding of minority shareholders' interests (Gabbioneta et al. 2007).

The three elements seem actually to interact and reinforce one another. A board composed predominantly of outside directors may signal that effective control systems are in place. Well-functioning control systems, in turn, may prevent board members from acting opportunistically at the expenses of the firm's shareholders. The protection of shareholders' interests – especially those of minority shareholders – requires the firm to build tailored governance structures and mechanisms. Eventually, the existence of governance structures and mechanisms provides analysts and investors with greater confidence in the firm's potential.

Investor Relations

The quality of firm's investor relations and the degree of disclosure of financial and corporate information play a critical role in the formation and diffusion of judgments among analysts and investors (Hill and Knowlton 2006; Gabbioneta et al. 2007). Analysts' evaluations are positively affected by frequent, prompt, complete, and detailed disclosure and by consistency between intents, actions, and results over time. Analysts and investors appreciate not only what is communicated, but also how it is communicated. High quality disclosure may help firms develop long-term, stable relationships with the financial community and be perceived as trustworthy and accountable. In turn, a reputation for accountability may help firms aggregate the consensus of analysts and investors around corporate strategies and gather the financial resources needed to carry them out (Mazzola et al. 2006).

Trust and Admiration

A strong track record, excellent managers, effective governance structures and mechanisms, and high-quality investor relations seem to induce analysts and investors to instinctively like, trust, and admire firms. Contrary to the widespread assumption that analysts and investors act as cold decision makers, objectively and rationally elaborating available information about prospective risk and return, research shows that their evaluations are influenced also by emotional factors (Gabbioneta et al. 2007). Recent corporate scandals, such as the cases of Enron, Parmalat, and others – darlings of the markets, before revelation of accounting frauds and other misdemeanors raised serious concerns also about their corporate strategies – raise the suspicion that analysts and investors may be temporarily dazzled by the aura of these "corporate superstars," and that the development of an elaborate corporate mythology celebrating alleged corporate achievements may induce less sharp and less scrupulous analysts and investors to complacently trust celebrated firms. In this respect, high emotional appeal and feelings of trust and respect may induce analysts and investors to spontaneously award a high credibility to corporate claims, at the risk of forgoing careful scrutiny of their statements and claims.

Reputation Building on the Stock Market

In the long run, a good reputation on the stock market rests first and foremost on a firm's actions. As many actions cannot be observed directly from the outside, analysts and investors may assess the effectiveness of a firm's operations, the bundle of resources and competences it has acquired over time, its ability to satisfy consumers and to collect the resources needed to carry out its plans, by looking at the economic consequences of these actions. Research on the diffusion of judgments and opinions among analysts and investors has indeed found these audiences to be very attentive to firms' performance (Fama 1970). A *strong record of profitability* seems necessary in order to reassure analysts and investors about the firm's ability to deliver positive results in the future. Common wisdom, as well as academic research, suggests that what stock markets look for is growth. Expected growth rates sound more credible, and are actually easier to meet, if firms have already obtained good results in the past, and can reinvest their profits to foster future growth.

Research on the formation of reputation on financial markets indicates, however, that securing and strengthening the consensus of financial audiences rest on *four*

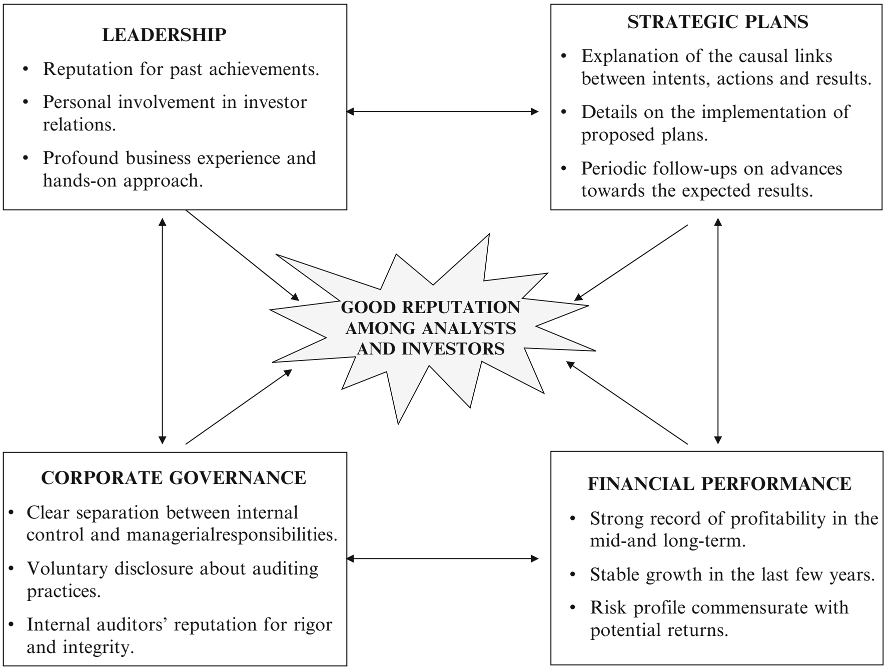

Fig. 3 Building reputation among analysts and investors. Source: adapted from Mazzola et al. (2006)

cornerstones: the achievement of high economic and competitive results, the definition of the firm's long-term strategies, the appointment of highly reputed managers with a profound knowledge of the business, and the creation of effective governance structures and mechanisms (Mazzola et al. 2006). These actions need to be effectively and timely communicated to analysts and investors to affect their perceptions of the firm's past results and future prospects – that is to say, its reputation (see Fig. 3).

The Presentation of the Firm's Long-Term Strategic Plans

While obtaining strong performance is an excellent starting point to build a good reputation on the stock market, it is equally important to formulate clear plans for the future and to share them with the financial community. Past research has indeed observed how strategic plans may act as consensus catalysts inside and outside the firm (Langley 1988; Mintzberg 1994). In particular, within the financial community, periodic presentations of strategic plans to financial analysts and investors are among the most important devices to disclose information about a firm's strategic intentions, action plans, and expected results (Higgins and Diffenbach 1985).

While the content and structure of strategic plan presentations may differ significantly across firms, extant research points at three factors that seem to affect the perceptions and evaluations of analysts and investors (Mazzola et al. 2006).

First, good presentations of strategic plans do not merely indicate goals and expected results, but provide a clear and consistent explanation of the *causal relationships linking environmental trends, strategic intentions, action plan, and end results*. Strategic plans are often surrounded by uncertainties regarding environmental changes, competitors' moves, and market reactions. Helping analysts and investors make sense of emerging competitive contexts and innovative strategies and business models may result in a positive reputation. Conversely, presentations of strategic plans that contain ambiguous, incomplete information may aggravate analysts' and investors' attempts to make sense of a firm's strategies and environmental context. Firms, whose future plans are surrounded by uncertainty, in turn, may be punished by financial markets, as the case of Telecom Italia clearly shows. Telecom Italia had been a state-owned company for a long time and the only provider of telecommunication services in Italy. In late 1990s, deregulation and privatization occurred: a new management was appointed at the head of Telecom and new competitors entered the telecommunication industry. Explaining financial analysts and investors how the new managers intended to steer the company through this fluid and highly uncertain competitive context was critical. In late September 1998, a press release issued by Telecom Italia summarized the key figures of the 1999–2001 strategic plan approved by the board of directors under the leadership of the recently hired CEO Gian Mario Rossignolo, a well-respected senior officer with a long experience in managing large companies. The plan was expected to contain detailed information about the new goals and strategies of the company. A few days later, however, Bloomberg diffused different figures, implying a declining income, based on an internal company document distributed to labor unions. These data were soon indicated as "incomplete" and "misleading" by the chief financial officer, but the rising ambiguity surrounding the corporate plans negatively affected the confidence of investors in the assumptions underlying the plan. In the following days, despite the efforts of the top managers to regain trust in their forecasts, the stock price fell about 25%. Far from improving analysts and investors' understanding of how managers at Telecom Italia planned to address the rising environmental challenges, the new plans and how they were communicated actually increased the uncertainty and ambiguity surrounding the firm's strategies and its capacity to carry them out. Serious concerns about the company and its management arose in the financial community. On October 26, the chief executive officer resigned.

While clearly and unambiguously relating corporate strategy with environmental trends is important, effective presentations of strategic plans tend to provide also *comprehensive and detailed information about the implementation of the proposed plans*. Unicredit Group – one of the largest banking and financial groups in Europe with a network of 9,000 branches and strong local roots in 23 countries – provides a good illustrative case. Since its foundation, the company has been able to aggregate the consensus of the financial community around an ambitious growth strategy aimed at becoming the leading group on the Italian market and one of the major players in the European arena. The company's presentations of its strategic plans have been highly appreciated by the financial community. What analysts and investors seem to like the most in the presentations is the fundamental balance between their various parts. Managers at Unicredit Group do not only describe in detail the company's targets, but they also provide a detailed explanation of how they are planning to reach them, which makes their targets look more convincing. For instance, the presentation to analysts and investors of the 2005–2007 plan was structured around a detailed articulation of the ambitious restructuring plan into divisional sub-plans, personally illustrated by divisional managers, who explained how plans would be implemented in their divisions and indicated who would be responsible for them. Reactions of financial analysts consistently emphasized the "credibility" and "feasibility" of the cost-cutting plan proposed by the corporate managers, insofar as, as one analyst observed, it "provided answers to most of the 'hot' issues" (Merrill Lynch 2004).

In addition to information about the execution of the firm's strategy, *periodical follow-ups on the advances towards the results contained in previous presentations* tend to reassure analysts and investors about the firm's commitment to the implementation of its plans. e.Biscom, now Fastweb, is an exemplary case of how engaging in constant conversation with the financial community through systematic follow-ups on presentations of strategic plans may help build and maintain the support of analysts and investors even in the face of persistent – albeit expected – lack of profitability. As the Internet bubble exploded, senior managers at e.Biscom had to strive hard to preserve the confidence of analysts and investors in the feasibility of their plans, while many promising start-ups around them failed. Communication was frequent and comprehensive. In October 2004, the newly crafted presentation of the strategic plan went to the length of illustrating in detail how managers' forecasts and corporate results had evolved throughout all the plans presented in previous years. The meticulous comparison was meant to reaffirm the original strategic vision – i.e., pursuing organic growth in the core business of broadband telecommunication services in Italy – and to provide compelling evidence that the company had systematically respected the targets stated since the year 2000, reassuring the financial community that break-even would be reached in 2005.

The Appointment of Highly Reputed, Knowledgeable Managers

While strategic plan presentations provide information about the firm's future strategy, its actual implementation essentially depends on the quality and commitment of its managers. As a consequence, it is important to hire highly reputed managers with a solid business background and to organize meetings in which they can encounter the financial community.

First of all, as analysts and investors find themselves facing plans and environments fraught with uncertainties, the *personal reputation of a firm's CEO* and a strong record of past achievements are likely to reassure the financial community about his/her capacity to deliver the promised results in the future. Take for instance the case of Capitalia, a large banking group born in July 2002 from the integration of Bancaroma Group and Bipop. At that time, both groups did not enjoy a good reputation on financial markets: Bancaroma was perceived as an old, conservative, and poorly performing institution, strongly affected by political interests; Bipop had been under investigation by the Bank of Italy. The alleged implication of Capitalia in large financial scandals, Parmalat and Cirio among them, contributed to reinforce the mistrust of the financial community. This embarrassing situation urged Cesare Geronzi, Chairman of Capitalia, to take measures to regain the trust of the financial community. In July 2003, Matteo Arpe was appointed CEO of the bank at the age of 39. Before arriving at Capitalia, Mr. Arpe had worked as central director in Mediobanca, the largest and most prestigious merchant bank in Italy, which he had eventually left in 1999 to become vice-president of the Italian branch of Lehman Brothers and responsible for M&A Europe. In both assignments, his excellent performance had earned him a solid reputation for competence and transparency. On the day after he was appointed, the financial markets saluted his arrival with a substantial raise in the stock price of the company, and in 2 months, Capitalia's shares went up by 40%.

The effect of a top manager's prestige and personal reputation seems to be amplified by his/her *personal involvement in investor relations and financial communication*. Research indicates that, on average, analysts and investors tend to interact mostly with the CFO and the investor relations officers, seldom with the chairman or the CEO (Eccles and Mavrinac 1995). However, when asked about with whom they would like to have more contact both groups overwhelmingly indicated the CEO. Investor relations officers are often perceived as gatekeepers rather than providers of information. Conversely, investors and analysts like to discuss their concerns and impressions with managers, since through direct interaction they believe to develop a better understanding of a firm's performance and future prospects. Consider, for example, the case of Jack Welch, CEO of General Electric for more than 20 years. When Mr. Welch was appointed CEO in 1981, General Electric was perceived as a huge, unwieldy conglomerate that made everything from aircraft engines to electronic and medical devices. Since analysts and investors considered the company's businesses to be unrelated, they applied a conglomerate discount to its shares. At the end of 1988, in the letter to shareholders, Jack Welch acknowledged that General Electric's stock was not keeping the pace of increasing revenues and earnings. While earnings per share had increased by 17% on a year-to-year base and revenues amounted to more than $50 billion, the average stock price had decreased by 18%. This situation urged Jack Welch to personally engage in activities meant to increase the confidence of analysts and investors in the company's ability to create value. He held several meetings with the financial community, in which he clearly explained the corporate strategy and how the different business units could work together. In addition, he heavily relied on the mass media to influence public opinion, as well as analysts and investors. Eventually, his charisma and commitment towards investors helped General Electric earn a “conglomerate premium”: during his tenure, the company increased its market capitalization by over $400 billion.

While personal prestige and commitment have a positive influence on the audience, a *profound knowledge of the business, of its key value drivers and economics* is fundamental in reaching the consensus of the financial community. Analysts and investors tend to appreciate solid knowledge of the business and its practical aspects, because it reassures them about managers’ capacity to carry out the proposed plans, regardless of occasional unforeseen events that may require rapid changes in the strategic course of the firm. Steve Jobs, co-founder, Chairman and CEO of Apple, is a good example of how much a profound comprehension of the business is appreciated by financial markets. Steve Jobs is not only credited for the spectacular turnaround of Apple – to the point of making it *Fortune*’s most Admired Company in 2008 – but he is also attributed a rare understanding of how to combine design and technology to address latent consumers’ needs and wants. The fundamental importance of Steve Jobs in securing Apple the consensus of the financial community became apparent in 2006, when federal prosecutors and the Securities and Exchange Commission investigated past options grants given to Apple’s executives between 1997 and 2001. The inquiry of the SEC raised two main concerns within the financial community: first, if the commission confirmed the existence of irregularities in Apple’s stock-option plan, that would require the company to restate its financial results; second, the irregularities might be directly related to Jobs who was known to have been awarded one set of stock options that had been canceled before he could exercise them. If this were the case, Jobs might have been forced to leave the company. Financial analysts and institutional investors seemed more concerned about the second rather than the first possibility. As an analyst put it at the time, “the big question on everybody’s mind, and it should be, is whether or not this options thing results in Steve Jobs losing his job. It is the single biggest fear factor or risk on investors’ minds right now. That is, what would happen to the company if Jobs were implicated in this and had to step down?” (Investor’s Business Daily 2006). Some analysts have estimated that should Jobs be forced out of the company, the stock price would fall 20% overnight. As an external observer remarked: “Steve Jobs running the company from jail would be better for the stock price that Steve Jobs not being CEO” (Elkind 2008, p. 58).

The Creation of Effective Governance Structures and Mechanisms

The need for fast responses to environmental changes may induce managers to bypass control systems. In this respect, analysts and investors seem to agree on the importance of internal control systems for both corporate accountability and the future success of the business (Mazzola et al. 2006). Compliance to national regulations and code of conduct is obviously a minimum requirement. What seems to make the difference between highly and poorly regarded firms, however, is not so much the establishment of sophisticated internal control systems per se, but reassuring external audiences about their effective functioning. In this respect, three features seem to positively affect the evaluation of analysts and investors.

First, highly reputed companies tend to *voluntarily disclose detailed and reliable information about their auditing practices beyond the legal requirements*, providing evidence of the real functioning of the internal control systems. Recent research shows that voluntary reporting on internal control systems provides additional and valuable information for financial analysts and investors; it improves accountability and provides a better indicator of a company's long-term viability. In fact, financial audiences find it difficult to distinguish between effective internal control systems and mere formal compliance to regulations. Société Générale – the second largest bank in France and the ninth largest in Europe – is a good example of how formal compliance may substitute for effective controls. At the beginning of 2008, the bank had lost €4.9 billion from a mixture of unauthorized trades carried out by employee Jérôme Karviel and from the actions it took to unwind them. Karviel was reported to have built up trading positions on the derivatives futures markets worth €50 billion, more than the bank's entire market value. Many commentators argued that the bank had damaged its reputation so badly, it would find it hard to restore its credibility. Several questioned Société Générale's official version of the events, wondering why the bank did not know its internal controls had been circumvented. The bank replied that all of the right moves had been made, but the risks that Karviel had taken were not hedged. Despite complying with national regulations, the bank's internal controls and risk management proved to be inadequate to prevent the unauthorized trades from happening. In February 2008, the French finance minister concluded a report requested by the prime minister stating that "very clearly, certain mechanisms of internal controls of Société Générale did not function, and those that functioned were not always followed by appropriate modifications."

Second, as far as the composition of the auditing structures and their location in the managerial hierarchies is concerned, financial audiences seem to appreciate a *clear distinction between control duties and managerial responsibilities*. Ideally, an internal auditor should not belong to or come from the managerial ranks, lest his real independence from top managers and impartiality may be questioned. This is exactly what happened in the case of Bipop, formerly one of the major regional banks in Italy, later acquired by a large competitor. Between 1993 and 2000, Bipop developed a bold and innovative strategy, based on aggressive expansion through acquisitions, which earned the company excellent operating results and a leading position in the Italian banking industry. The company's unconventional strategy aimed at increasing earnings through revenue growth driven mainly by noninterest income, and through cost reduction thanks to innovative distribution. Such strategy was indeed more risky than competitors' because of the higher correlation with market performance. Nevertheless financial audiences were enthusiastic. In February 1999, a primary international brokerage house argued that Bipop was "possibly the most advanced and dynamic of the regional banks, [...] with particular strengths in leasing and asset management within the Italian banking industry" (Goldman Sachs 1999). The report concluded inserting Bipop "among the highest quality, and most innovative of the Italian banks." In mid-2001, even in the face of a declining share price, Bipop was still considered among the best performers in the industry. In the following months, however, Bipop entered a profound crisis, which eventually led to the replacement of the whole top management team and to the acquisition by a larger but far less dynamic competitor. The crisis precipitated when an investigation of the Bank of Italy found internal control systems to be insufficient to cope with the high risk profile associated with the company's aggressive strategy. In particular, investigators pointed out that internal auditors reported directly to the CEO, thus reducing the effectiveness of internal controls. Accountability and control had been sacrificed in order to remove any hindrance to the discretion of senior officers. When, soon after, some board members and some managers were accused of accounting frauds, the reputation of the bank was shattered, its risk profile became unacceptable for most shareholders, and despite the potential profitability of its strategies, its share price crashed.

Third, the appointment of *internal auditors characterized by a personal reputation for integrity and rigor* may help firms reinforce the credibility of their internal control systems within the financial community. The appointment of Sir Ian Prosser as audit committee chairman at BP – one of the world's largest energy companies, providing customers with fuel for transportation, energy for heat and light, retail services, and petrochemical products – is a good example in this respect. Sir Prosser has made his presence felt in the boardrooms of UK's biggest businesses for almost 25 years. Before joining BP in 1997, he was on the boards of the Boots Company and Lloyds TSB and chairman of InterContinental Hotels Group. Nowadays, besides that at BP, he holds positions at GlaxoSmithKline and Sara Lee Corporation. Over years, his commitment and competence have earned him an excellent reputation among analysts and investors. As a fund manager once observed, "internal audit now requires a much wider range of skills, along with commercial intelligence and knowledge of the business. But some skills remain as important as ever, particularly the ability to manage people. Some heads of internal audit are running pretty big departments, so they have got to have people skills, as well as leadership. But the most important characteristic internal auditors have to possess is integrity. I strongly believe Sir Prosser has all these characteristics" (Internal Auditing Magazine 2007).

While excellent results, a clear vision for the future, a strong and committed managerial team, and effective governance structures and mechanisms may help firms build a good reputation among analysts and investors, the timely and complete disclosure of corporate and financial information is fundamental to reach the consensus of the financial community concerning the firm and its strategy. On the one hand, firms may help analysts and investors understand their long-term strategies, the actions that will be taken to implement them, and how they will affect their future results. On the other hand, they may increase the market's confidence in their claims and forecasts by providing evidence of the consistency between communication, actions, and results over time.

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Part V
Future Trends of Reputation Management

Overview

Sabrina Helm, Kerstin Liehr-Gobbers, and Christopher Storck

Reputation management is a crucial task for organizations. The previous chapters do not only demonstrate that the vital need for reputation management is generally recognized, but that measurement tools are constantly being improved and reputation management is an integral part of today's corporate communications.

However, the full scope of managing corporate reputation is yet to be exploited. The following articles provide new approaches to how reputation can be managed beyond the current ways and thus present trends which might become standard in the future.

Liehr-Gobbers and *Storck* reveal a connection between corporate risk management, the need for management accounting, the challenges caused by social media and the trend towards non-financial reporting. As reputational risks mostly derive from perception gaps, a consistent tracking of media and stakeholder analysis is crucial. The authors thus illustrate a new plea for implementing controlling processes. With the success of social media, communicators are facing another risk: they have to adapt to new rules of reputation building and to deal with stakeholder expectations. *Liehr-Gobbers* and *Storck* describe the transparent reporting of non-financial data (as described by *Frank* and *Horst* in chapter three) as one possible answer to these new developments.

Bronn and *Dowling* focus on the actual management of reputational risks. They demonstrate how the general awareness of reputation threats should be transferred into a formalized Corporate Reputation Risk Audit allowing a sound identification, prioritization and management of reputational dangers. The authors provide reasons why reputation should be integrated into a company's risk assessment and present an example of an audit process.

To gain and maintain reputation, corporate responsibility not only has to be managed, but also be reported adequately. Based on this conviction, *Frank* and *Horst* illustrate *"the new ESG-reporting imperative"* in the third chapter. The authors describe how several developments – besides the increased need to verify corporate responsibility towards stakeholders in general – have fostered a professionalization of ESG (ecological, social, governance) reporting over the last years. It's been legal provisions, self-imposed guidelines of a global stakeholder initiative

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and investment professionals which have set up new reporting standards that gradually bring ESG reporting in line with the reporting of financial data. *Frank* and *Horst* describe which quality requirements current ESG data have to meet and which further (structural) measures should be taken to ensure a state-of-the-art ESG reporting.

The last article by *Brettschneider* and *Vollbracht* is devoted to *"personalization of corporate coverage"* and the opportunities and risks omnipresent board members bear for corporate reputation management. The authors consider a CEO an intangible asset with the capability to increase or decrease a company's value. *Brettschneider* and *Vollbracht* present a study which has examined the rise of personalized coverage between 2002 and 2007. Based on their findings, they scrutinize the interaction between the company's reputation and the reputation of its CEO and designate chances and threats. To illustrate how CEO behaviour affects corporate reputation, the development of various DAX 30 companies is analysed.

Future Trends of Corporate Reputation Management

Kerstin Liehr-Gobbers and Christopher Storck

One of the key issues that have not been sufficiently addressed so far is the management of reputation risks. Pillar 2 of Basel II and the tighter rules imposed by banking supervisory authorities in the wake of the financial crisis are at least forcing banks to include this kind of risk in their risk management systems. As a result, the ability of communications to interact with the management systems deployed throughout an organization is perceived as mission critical. Their realization calls for increased professionalism with regard to processes.

In the past, reputation risks were not on the agenda of corporate risk management committees. Many companies still treat them as problems that could be dealt with by the communications department alone. Mostly, these issues only appear on the board's radar screen when it becomes obvious that one of them has the potential to develop into a major crisis. But gaps between the reputation needed by a company to achieve its business goals and how stakeholders actually perceive the organization are not necessarily caused by misperception only. They can also be fact based. And if this is the case, executive decisions regarding organizational or strategic changes are needed.

This requires a new analytical approach. Traditional reputation management focuses on improving perception where it lags behind corporate character and practice. Reputation risk management also needs to consider and deal with the opposite case: stakeholder demands exceeding what a company is ready or able to live up to. As a good reputation usually goes along with a high awareness of the corporate brand, inflated expectations tend to carry higher risks than a track record of being undervalued.

This is what happened to the pharmaceutical industry in the current millennium. Apart from the efficacy and safety of its products, the perception of this sector is increasingly influenced by questions related to moral issues: How ethical and transparent is a company in doing its business? Does it take adequate responsibility for the societies contributing to its huge profits? Does it provide access to vital treatment to those who cannot afford it? Does it listen to concerns raised externally?

Consequently, factors like marketing and sales effectiveness not only are of declining importance for how a drug manufacturer is perceived externally.

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Being regarded as particularly strong in commercial operations of this kind even has a negative impact on the perception of most key stakeholder groups. Accordingly, when research indicated that US stakeholders regard a leading European player as being less aggressive in its marketing and sales activities than Big Pharma, this was not seen as a problem that needed fixing. Stakeholder perception matched reality, and at least this part of the reputation was fully in line with the company's branding goals.

Another gap detected 1 year earlier in the same market had to be taken seriously: a low rating in employer attractiveness. It turned out that this was not mainly caused by misperception, but real issues in parts of the US organization. In other words, closing this gap required management decisions, before the change process could be supported by means of internal communications. Making the progress visible for relevant external stakeholder groups was only the third step. Changing this order would have meant to inflate reputation risk through creating an image the company was not yet ready to live up to.

But also an extremely strong and positive presence in the minds of key stakeholders might be dangerous. Compared to global and local competitors, one pharmaceutical company had by far the best reputation among a certain stakeholder group in one of its key markets. NGO representatives in that country knew it better and rated it more highly than any other player in the market. A competitive position like this is exactly where a head of corporate communications normally wants to see his company on quadrant charts displayed at board level: in the upper right corner. Having the highest unaided awareness and being perceived as best-in-class in terms of corporate responsibility and ethical business practices, however, also bears a tremendous risk: If a company in a position like this disappoints such a very sensitive community, negative reactions will spread like bushfire, with NGO activism, professional journalism, and the blogosphere fuelling each other.

Gaps between internal reality and external perception are often detected too late. More often than not, senior management is not fully aware of critical issues related to the culture and business conduct of their company. Only very few multinationals have started to realize the opportunity to involve their workforce in foreseeing risks related to intangibles. Associates have an experience-based understanding in how far their employer complies with the values featured in the Code of Conduct, the corporate brand, or the mission statement.

So far, companies are not using this knowledge systematically as a means of risk management. Most employee polls are not designed to deliver useful answers beyond the interests of human relations and internal communications. To provide actionable results for reputation (risk) management, staff surveys have to be methodologically aligned with the research among external stakeholders. This allows comparing both perspectives.

One example: Stakeholder research shows that supplier preference in a competitive B2B market is driven by the perception that companies treat their business partners fairly. On the long run, this is more important than better financial conditions. If associates in the same country rate their own employer as not being best-in-class with regard to this aspect, there is a gap the reasons of which need to be explored. Otherwise, vendors and suppliers are likely to turn to competitors, once they have learned their lessons.

Correlation of stakeholder research with sufficiently granular media analysis also allows anticipating risks: For 3 years, a global company only had good news. Whatever senior management did, it turned out to be successful. This was reflected by outstanding media coverage in all decisive opinion markets. Compared to key competitors and peers from other industries, the corporation and its executives enjoyed not only the highest share of voice, but also predominantly positive news stories and comments. Stakeholder research reveals, however, that top-tier journalists in one country have a negative attitude towards the CEO. In their experience, he talks to them whenever he wants to pitch a success story, but never provides answers to critical questions or even proactively shares information of this kind. Those editors are professionals. As long as the company is doing well, they write accordingly. But as soon as something negative comes up, the probability is high that they will jump at it and make it a major news story. If this is not addressed by a change in how the CEO deals with the media, a communication crisis is only a matter of time.

Following an integrated approach, reputation risks can be monitored and managed to the same extent as financial or operational risks. Whatever a company does needs to be aligned and conducted regularly: internal and external stakeholder research, media intelligence, and the evaluation of additional information sources such as business rankings or customer satisfaction surveys. This allows a consistent monitoring of reputation risks. Such a system not only enables a company to anticipate potential risks. If the stakeholder research model delivers statistically derived improvement drivers, it can also effectively manage them.

Managing reputational risks, however, calls for an interaction between corporate communications (that is in charge of reputation measurement) and corporate leadership that needs to make executive decisions. What is to be done, for example, if the stakeholders oppose an organization for the very reason that its business practices actually contradict their expectations? If this occurs, it will be up to the management of the company to decide how it plans to deal with such a conflict of interests. If it takes the risk of confrontation, then communication will become the decisive means of resolving the conflict and limiting reputational damage. If the reputation risk is to be reduced, then measures need to be defined, the implementation of which will have a positive impact on the attitude and behavior of stakeholders.

In the field of classical issues management, the research work conducted by the communications department is restricted to media observation. Their reporting is recorded and analyzed in qualitative terms – ideally, in all key opinion markets and categories (print, audiovisual, Internet). Critical topics are identified, evaluated, and implemented in PR strategies and measures. In escalation cases, they are reported to decision-makers at a higher level. Alongside, other channels are also deployed to record developments that are potentially harmful to reputation: complaints management, customer services, market research, expert surveys, internal controlling. As a rule, information on possible reputation risks only converges at management board level. At that level, the implications of these risks tend to be underestimated, if the expert knowledge of communicators is not involved. In many cases, informal stakeholder feedback never leaves the departmental silo.

Integrating the communication perspective into corporate risk management, however, requires steering tools which PR departments have traditionally lacked. By introducing professional management processes, more and more companies are creating the necessary preconditions. While the objectives are performance enhancement and the integration of corporate communications into group controlling, the instruments required to achieve this end can also be used to establish an organizational interface for management of reputation risks – namely the Reputation Risk Committee to support the function of the Chief Risk Officer.

Anticipating reputation risks and managing them is also part of the second challenge corporations need to meet, if they want to maintain and grow their influence on how stakeholders perceive them: social media. It looks as if this phenomenon is going to stay. This means, corporations need to find ways to deal with it professionally. It is unlikely that social media will replace traditional media, but they already serve as a complementary platform for communication between organizations and their stakeholders. Companies and institutions have only started to make use of social media. Most of them are still in the process of learning the rules of this communicative environment. Only a few have already adapted to it. And those who did, so far mainly address consumers or – to a growing extent – future talents.

One barrier seems to be that successful social media activity requires a different approach to corporate communications. In this environment, organizations no longer reach out to target audiences but enter or start conversations with stakeholders. They need to listen as much as to talk. They have to be much more responsive and transparent than in media relations. Who engages in social media, loses control: What was written or said cannot be drawn back. And corporate representatives must often react immediately. If they waited for approval of what they think they need to say, a conversation might take an unwanted direction. Social media officers must have freedom of action, must be allowed to take risks and make mistakes.

A second but temporary barrier can be seen in the fact social media measurement has not yet left experimental stage. Apart from product-related activities, evaluators have not been able to provide findings that are meaningful and useful for communicators. So far, using social media as a source for pulse analysis of what stakeholders think and do remains a promise that still needs to be fulfilled.

Hedging risks is also one of the motivations that substantiate the trend towards nonfinancial reporting as a means of building trust and corporate reputation. Whereas "greenwashing" may have played a role in the beginning, transparency regarding the triple bottom line has become a growing demand – not only from societal stakeholder groups and socially responsible investors but also from mainstream capital market players who increasingly see a link between corporate citizenship, ethical business conduct, and the safety of their investments.

Corporate Reputation Risk: Creating an Audit Trail

Carl Brønn and Grahame Dowling

Introduction

Prompted by a parade of corporate scandals over the last decade, the opinions of journalists, regulators, shareholders, customers, and other people about companies have declined. Even the reputations of good companies are often tainted by the deeds of their notorious brethren. The poor corporate reputations of these high-profile companies have led many people to mistrust the intensions and actions of a broad array of companies and the competency of the institutions tasked with monitoring their actions. This situation has prompted some governments to mandate more stringent and transparent operating and reporting procedures such as the US Sarbanes-Oxley legislation.

Covey and Merrill (2006) argues that trust is the fundamental mechanism that facilitates commerce. It provides the basic level of confidence for parties to engage in commercial transactions. Inside a company trust enhances leadership and working relationships. Outside the company trust enhances customer loyalty and better supply-chain relationships. It also underpins a company's social license to operate. And when trust in the institutional entities that govern the economy disappears, economic systems start to unravel.

What drives the trust that a person has who works for, or with, or who relies on a company? The one-word answer is reputation. In effect, it is trust that converts a good or a bad corporate reputation into profit or loss. It does this by reducing the transaction costs with people and organizations with whom the company contracts. It can also reduce some of the risks associated with doing business, such as the opportunistic behavior of the people on which the company relies. Thus, for those companies seeking to enhance the levels of trust among key stakeholder groups, having a clear view of both their corporate reputations and the associated levels of trust is essential.

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To address declining levels of trust some big companies are beginning to build two areas of reputation competence across their organizations.[1] One is the ability to manage down reputation risk by identifying, prioritizing, and mitigating emerging threats. The other is to align organizational behavior to support those elements of reputation most important to business strategy. While much of this effort is currently the responsibility of the corporate affairs department, there is a growing recognition that more responsibility needs to be shifted to line management.

This chapter focuses on risk management. It outlines how to assess the risk profile of a company's reputations, and thus what puts stakeholder trust at risk. The framework to gain this insight is a Corporate Reputation Risk Audit. The audit trail we present is grounded in two theories – one being risk assessment and management, the other being how reputations are formed. To build the foundations of our audit framework we start with a brief outline of how corporate reputations are formed. Then we review some of the core components of risk assessment and enterprise risk management (ERM). Following this we provide the audit framework.

The audit framework is designed to accommodate the simple premise that people in different parts of a company often have a limited awareness of the overall risk profile of their company. The reason for this is that the sources of reputation risk are spread throughout the organization. Some are strategic, some are cultural in nature, and others reside in the day-to-day operations of a company. Typically, executive managers have a better understanding of the risks created by strategic decisions while line managers and employees who deal directly with suppliers and customers know most about how their company's policies and actions expose it to other sources of risk. When people have knowledge about different sources of reputation risk, an audit framework that can combine these types of risk into a meaningful assessment provides managers with new insight about their overall level of exposure. To achieve this aim we draw from the field of environmental toxicology where biological, chemical, and social data must be combined in order to provide an integrated risk assessment (Weed 2005).

How Corporate Reputations Are Formed

Over the last 20 years, much has been written about how corporate reputations are formed (e.g., Fombrun 1996; Dowling 2001; Fombrun and van Riel 2004; Alsop 2004). From this body of knowledge four clear findings emerge:

1. Corporate reputations reside in the heads of three groups of people – those who have made a specific investment in the company and thus have this at risk, those who are affected by the operations of the company, and those who observe and

[1]The Corporate Executive Board has worked with many companies in these areas – see http://www.cec.executiveboard.com.

sometimes agitate about the company. The first two groups are often called stakeholders (Freeman 1984; Blair 1995). Typically, the most important groups of stakeholders are employees, customers, members of the supply chain, and shareholders. The media, NGOs, and bloggers are the most prominent groups of observers and agitators. Thus, a company does not have *a* corporate reputation, it has many of them. This occurs because each person will have a different set of needs they hope the company will help them satisfy, a different set of expectations about how it will do this, and different relationships with the company.

2. For everybody in a company's community of interest, their reputations are formed more by the actions of the company than by its communications. Notwithstanding this, what the media and other people are saying about it, especially employees, can have a significant effect.
3. Good corporate reputations are grounded inside a company – in its strategy, business model, values and culture, and products and services. That is, in the way that it creates value for its stakeholders.
4. CEOs matter – because they set strategy and the moral tone of their companies.

From these four findings we can determine where the risks to a company's various reputations reside. They will be embedded in the strategic choices the CEO makes and the Board of Directors endorse. They will be embedded in the company's business model and operations. They will also be guided by the moral compass of the company. And they will be reinforced by the company's working protocols and its management control systems. We now elaborate the nature of these sources of risk.

Risk

Although interest in risk and uncertainty has been around for centuries, it is only in the last few decades that the formal analysis of risk has become a central issue. For developed societies, formal risk analysis marks a transition from an era when the future was thought to be at the behest of the Gods, to one where decisions are based on choices rather than fate. This new view relies on a more rational thinking approach (the mind) over an intuitive and emotional one (the heart and gut feel). Rational thinking is aided by a variety of quantitative techniques that inform many of the risk management practices that are prevalent today, things such as game theory, decision trees, simulation models, probabilistic reasoning, insurance tables, and asset diversification. In his historical review of risk, Bernstein (1996) notes that there is a continuing tension between those who assert that the best decisions are based on quantification and numbers, and those who base their decisions more on subjective degrees of belief about the uncertain future.

Following Sitkin and Pablo (1992) we define decision risk as “the extent to which there is uncertainty about whether potentially significant and/or disappointing outcomes of decisions will be realized” (page 10). There are three components of this risk – the chance of loss, the magnitude of the loss, and the exposure to the loss. Risk can be reduced by gaining information or taking actions to reduce any of these components. However, what makes risk such an intriguing concept is that each component of risk is assessed through a person’s perceptions. The idea here is that a person’s perceptions are his or her reality. Thus, “perceived risk” is the individual’s assessment of how risky a situation is for him or herself, significant others, and their organization. The information sources on which such risk assessment is based may be factually based or not. In both cases, the information can be emotionally biased. What motivates people to action is when perceived risk exceeds the person’s or organization’s tolerance to accept risk (sometimes known as a risk threshold). This risk tolerance is a function of the innate tolerance for risk and the capacity to absorb a loss.

In the world of business, risk is a natural phenomenon. Every business choice involves risk. It has both an upside and a downside. The downside is the potential loss from a decision. The upside is the potential gain from the risky decision. Companies need to take risks in order to exploit opportunities. For example, in the domain of innovation and new product development, risk is a “given.” Within this context, however, some managers are more willing to take the risks necessary to achieve the company’s targets. And it is the dispersion of this risk tolerance throughout the management cadre that goes a long way to determining the risk profile of a company (MacCrimmon and Wehrung 1986).

The company risks that managers deal with are of two broad types, namely, knowable and unknowable (Laseter and Hild 2004). Knowable risks involve predictable probabilities, such that a company can price the risk. In contrast, unknowable risks cannot be precisely defined, and because they can contribute to the feeling of “dread” this may consequently influence the irrational responses of stakeholder groups. Most business decisions involve a mix of both types of risk. Because unknowable risks are the most emotionally troubling for many people a common response is to focus more attention on these risks than is (rationally) warranted. Sandman (1987) identifies two similar types of the risk he calls “outrage” and “hazard.” Risk professionals focus their attentions on the quantifiable elements of a situation, frequently reporting their results in statistical terms such as “expected annual mortality.” Sandman calls these objectified risks “hazards.” Outrage is the reaction that results from stakeholders’ perceptions of not being in control of situations that they find themselves in. Further, elements of fairness and voluntarism contribute to the level of outrage that a firm’s actions can create.

However, here lies a paradox. If more and more information is gathered about things that are essentially unknowable, then time is being spent analyzing noise (as opposed to signal) and less time is available to spend on the things that can be calibrated. Sellers (2007) suggests that one of the reasons for the stock-picking success of Warren Buffett and Charlie Munger is that they spend less time than others pondering unanswerable questions. They focus on the few things that they understand that matter to commercial success.[2] However, for a risk manager to ignore the outrage aspect is to invite increased public concern and scrutiny by the "agitators." It is well documented (for example, see Slovic et al. 2004) that irrational reactions represent a very real component of the overall risk profile.

Another way to classify the risky decisions that managers make is by the size of the potential loss. Infrequently senior managers make "bet the company" decisions, sometimes with disastrous consequences as was seen in the "dot.come – dot.go" era. More frequently, line managers make a myriad of day-to-day decisions that may interact or accumulate to put the company at risk.

Classifying risks as large or small and as knowable and unknowable helps to sensitize managers to both the potential of the risk to cause reputation damage, and to how risk might be managed. For example, many big companies use a risk management strategy similar to that of a venture capitalist when pursuing innovation. A number of new product development teams work on a range of different new products (incremental, step-change, radical) with the expectation that the profits and reputation benefits of the winners will offset those of the losers. The risk threshold of the company guides the mix of low-risk incremental, medium-risk step-change, and high-risk radical new products that are developed. The visibility of success and failure guides the management of corporate reputation. For example, risky new products may be launched under different brand names (e.g., when Disney decided to branch out into "adult" movies, these were released under the name Touchstone Pictures).

Enterprise Risk Management

It is convenient to look at five different domains of risk management, namely, there are operational risks, capital risks, financial risks, social risks, and intangible risks. Many of these risks are exacerbated by the imperative to grow. Also, many of these risks incubate when a company is doing well (Simons 1999). This is the time when managers' key performance indicators (KPIs) are most likely to match their company's performance targets, thus insuring corporate contentment. In such an environment, it is easy for risk management to take a back seat to reward management.

As the name implies, operational risks are tied to how the company makes and sells its products and services. Over time many of these risks become knowable. The company learns about them and can profile the risks with quantitative data (such as product defects and customer dissatisfaction). Often these operational risks are the source of a corporate crisis that damages the company's reputations (such as a faulty product). Also, many crises are caused by a number of low-probability events that become linked and amplified in ways that are unpredictable (e.g., Weick

[2]Their risk threshold (whatever it is) is causing them to choose knowable over unknowable risks (Laseter and Hild 2004).

1990). Formal committees, working protocols, and internal controls are used to manage these risks. Boards should be regularly informed about such risks – although as the testimony of many executives who faced trial around the world for various corporate disasters suggests that many are not.

Capital risks are often precipitated by strategic investment decisions such as entering a new market, building more capacity, investing in a new technology, or taking over another company. Many of these risks are essentially unknowable, even though quantitative valuation techniques may be used to estimate them. Boards see any such risks that could significantly impact the financial prospects of their companies. However, they and the senior management team need a good mix of strategic thinking and investment appraisal skills to assess these risks. And as any 500-page book on strategy or investment appraisal will signify, these are not easy sets of skills to acquire (e.g., Copeland et al. 2000).

Financial risks are linked to accounting and taxation regimes, compliance reporting, and pressure from financial markets. Reputation damage has arisen through (a) new complex financial instruments, (b) use of "financial engineering" to re-state accounting earnings numbers, (c) influence of small groups of powerful analysts and institutional investors, (d) shifting of corporate ownership to more "favorable" jurisdictions, (e) strategies to minimize corporate tax payments, and (f) structural ties between executive pay and share value. All this has identified the office of the CFO as a significant source of reputation risk for many companies.

Social risks involve products and services that may "hurt" people. There are some obvious examples such as tobacco products and firearms. However, every management team should search for the social risks that may be construed (by journalists and social critics) to flow from their company's products, services, and activities. For example:

- Food products – obesity
- Financial services – poor advice
- Gambling – social and family problems
- Pharmaceuticals – unsafe drugs
- Construction – work safety
- Alcohol – binge drinking
- Heavy industry – pollution
- Fossil fuels – greenhouse gas and global warming
- Companies – the work-life balance of employees

As this list indicates, it takes only a little imagination for a social risk to be linked to the activities of a company. And "bolt-on" corporate programs designed to mitigate these risks, such as a tobacco company offering advice about quitting smoking, expose the internal dilemmas of these companies. These are analogous to an "end of the pipe" approach to managing corporate environmental risks.

Intangible risks tend to be associated with employees (human capital); databases, trademarks, core capabilities, and intellectual property (organizational capital); and markets, customers, and brands (customer capital). Some of these "capital" stocks and risks are quantifiable such as market share and the level of employee engagement, but many are "softer" risks and much harder to measure (such as innovation capability and brand equity). The resource-based theory of the firm suggests that the risks associated with these "capital" stocks and flows should be identified and managed (Barney 1991).

All of the above sources of risk can damage a company's reputations among the members of its community of interest. And in the process be magnified by appearing in the media. In the next section we add to this list by focusing on four other important sources of risk that derive from the literature on corporate reputations. These are stakeholder and observer (agitator) expectations, employee engagement, a crisis, and ethical drift. All can be considered as lead indicators of corporate reputation risk.

Lead Indicators of Reputation Risks

Consider the quote below:

> Australia's retail shareholders have jump-started a new wave of investor activism, sparked into action by months of reading about sky-high remuneration, poor corporate governance, and executive excess.
>
> Katrina Nicholas (2003) Boards Beware of Stroppy Shareholders. Australian Financial Review (1 December): 13

This quote suggests that the root cause of this disquiet is poor governance and executive excess. These, however, are just surface indicators or symptoms of deeper concerns. Judy Larkin (2003) suggests that what is really driving the sentiment expressed in this and similar quotes is a changing society as reflected in:

- The rising expectations of stakeholders about the social responsibility of business
- A decline in trust of companies and their leaders
- A more simplifying and sensational media
- The emergence of a victim culture
- The rise in antibusiness and antitechnology activism

In short, the community's beliefs and expectations about business are changing and boards, CEOs, and senior managers are struggling to understand how these changes will impact on the perceptions of their company's behavior.

The misunderstanding of social expectations is one of the key lead indicators of corporate reputation risk. When a company is out of step with its community of interest, it is easy for it to embark on programs that undermine community trust and erode the company's various reputations. For example, the widespread concern about genetically modified (GM) foods helped to damage the reputations of GM's two main supporters, namely, Monsanto and its CEO Robert Shapiro. Misreading community expectations also sends an open invitation to the media and activists to become more vocal. And it encourages politicians and lawmakers to intervene – as they have done with the Sarbanes-Oxley Act in the USA. Much of the agenda and timetable for debate and change is now being set outside the corporate boardroom. Many social commentators welcome this move. Many economists and business executives oppose it.

Another lead indicator of reputation risk is employee engagement. What really makes good companies great is their ability to attract, retain, and engage employees who are excited about what they are doing and the corporate environment in which they work (Erickson and Gratton 2007). Employees are some of the most important "eyes," "ears," and "mouthpieces" of the company. The engagement of this group of stakeholders is often measured by (a) their desire to be a member of their organization, (b) their extra effort to contribute to the organization, and (c) how they speak about their organization. Strong, positive measures of these factors indicate that employees are behaving in a way that helps to create a good corporate reputation. Poor results can signal deep-seated problems in the company.

Consider the case of BP-America. In 2006 they had to appoint a retired US federal judge as an internal ombudsman because employees no longer trusted their senior managers to handle complaints about safety issues and work practices (McNulty 2006b). This was triggered by an explosion that killed 15 people and injured 170 others at the company's Texas City refinery and was followed by a damning report about the safety of all BP's US refineries. Not long after this, the company's high-profile CEO Lord Browne announced his early resignation from the company, taking some of the "moral responsibility" for his part in fostering a cost-cutting culture at BP that encouraged senior managers and line operatives to be lax with safety (Hoyos 2006; Crooks and McNulty 2007).[3]

Corporate incidents come in many shapes and sizes. Most never become public. But those that do are fuelled by the media and if poorly managed, become a crisis. Thus, an incident becomes a crisis when the media frames it in a way that creates perceived risk, anxiety, fear, and sometimes outrage. As any book on crisis management will testify, many companies struggle to work with the media to prevent incidents becoming reputation-damaging crises. And in this new digital age, the Internet has created a type of public superconsciousness that acts as a court of public opinion. Verdicts from this courtroom often rely more on emotion than facts.

An early warning signal that BP and Lord Browne were in trouble came in the form of a survey of the opinions of elected officials and opinion formers in the USA – called Elites by the company. BP's unfavorable ratings were at an all-time high and coincided with a fall of 10.6% in the company's share price (McNulty 2006a). Also, an advertising executive who worked on the company's "Beyond Petroleum" campaign suggested in the *New York Times* that it was "mere marketing" rather than a genuine attempt to "change the paradigm" (Hoyos 2006). When elite opinion, insider commentary and a falling share price combine in this way, this is often a strong signal of impending reputation trouble – for both the company and the CEO.

[3]Browne was later found to have lied to a UK high court judge about a business relationship with his lover. He then immediately resigned.

In a broader context, the reputations of large companies are periodically rated by the general public. While these studies are often criticized by managers as "beauty contests" that lack enough specificity to inform action, they can be seen as the "wisdom of a crowd" (Surowiecki 2004). When properly aggregated, the opinions of many disparate people can reveal interesting insights about the company. For example, among the general public, the trust levels of Australia's Big 4 commercial banks are consistently lower than the customer satisfaction ratings conducted by these institutions.[4] Interestingly, they are at a similar (low) level to the banks' employee engagement ratings. When trust is low, media scrutiny is likely to be more acute.

The final lead indicator of reputation risk is ethical drift – both inside the company and with the CEO. While many companies have values and ethics statements, many of these they are largely ignored – not because they are "wrong," but simply because it is hard to see how they directly affect day-to-day decision making. And in some cases they are undermined. For example, Citigroup, one of the world's largest financial institutions has been plagued by a number of high-profile ethical lapses that have been dealt with in ways that employees and commentators thought undermined the company's internal code of conduct (Plender and Persuad 2006). Also, the largely state-owned Norwegian oil company StatoilHydro has created significant negative publicity from its engagement in countries with questionable human rights records. The firm's international expansion is driven by declining North Sea oil production and the official justification is to be able to continue operations. However, these strategic decisions and aspects of their implementation have run afoul of both the law and ethical concerns of the main owner.

There are three primary sources of ethical drift. One is when a company is held hostage to fortune by the short-term incentive schemes that reward its managers. In essence, the individual's specific KPIs clash with the corporate values chronicled in the code of conduct. And when large amounts of money and career goals clash with somewhat vague statements of intent, it is to be expected that money will dominate ethics for some people (Partnoy 2004). Another source of ethical drift occurs when dealing with poor quality clients. For example, Citigroup dealt with clients who themselves had questionable ethical standards – Adelphia, Enron, Parmalat, and WorldCom.

The final type of ethical risk resides with the CEO. There is a mantra in business that the private life of the CEO should be considered "private." And in most cases it is. However, when it crosses over into the company and involves favoritism of an employee or the use of company resources for personal gain, then it can quickly enter the public domain. Such circumstance hastened the resignation of Lord Browne. It also resulted in the resignation of Larry Stonecipher, the CEO of Boeing, who had recently introduced a code of conduct for his company. Paul Wolfowitz,

[4]These trust levels are collected as part of the annual RepTrak studies conducted annually on behalf of the Reputation Institute.

the head of the World Bank was another such casualty. He too had been vocal about appropriate ethical conduct.

Corporate affairs professionals are increasingly being seen as the "minders" of their company's, and their CEO's reputations (Walters 2006). Much of the information in this section that relates to reputation risk crosses their desks. However, their training as communications professionals often blinds them from seeing the full range of reputation risks. In the next section, we outline an audit framework to help alleviate this problem.

In summary, the last two sections have highlighted an extensive list of risks, all of which can affect the reputations of a company among its community of interest. Rather than create a catalog of these reputation risks (often known as a laundry list), we choose to organize them into two groups that guide the audit process. Our audit trail starts with the company's strategy and business model. It then moves to its operations. The two-part approach to reputation risk auditing outlined below is a skeleton that must be modified to suit the specific circumstances of the particular company.

The Audit Framework

Given many different types and sources of reputation risk what is needed is a framework to collect and organize these potential risks. However, when dealing with diverse and multidisciplinary information it is important to avoid the extremes of the quantitative–qualitative risk analysis spectrum (Brønn 2007). One is the "hard data drives out the soft" phenomenon where all considerations are either reduced to an inappropriate numerical form or if not, ignored. The opposite error is to reduce everything to "plain language" and "gut feeling," which rejects or trivializes legitimate technical and quantitative data. The two approaches to risk assessment share little, if any, methodological consistency as the risks associated with each are seen as incommensurate.

In our framework, the first focal unit chosen is a strategic business unit (SBU) because these implement strategy and control operations. SBUs are the source of most of the risks monitored by a company's ERM system. The audit framework outlined in Fig. 1 and described below is designed around the business model and operations of an SBU. This directs attention to how the SBU creates products and services for customers. How SBUs operate is unpacked using a combination of two well-developed frameworks – the corporate value chain and the Ishikawa fishbone diagram (the spines and ribs emanating from the value chain in Fig. 1).

The second focal unit chosen is the stakeholders who really matter to the company. These stakeholders will be prioritized by the CEO and the board of directors based on the mission and moral compass of the business. The Ishikawa fishbone diagram is used to profile reputation risks for these groups – Fig. 2. Each framework needs a brief description before they are used.

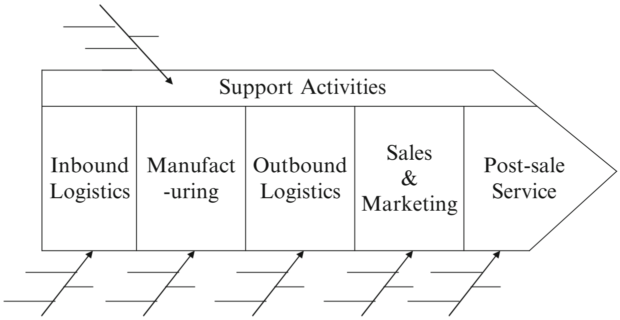

Fig. 1 Reputation risk across an SBU value chain

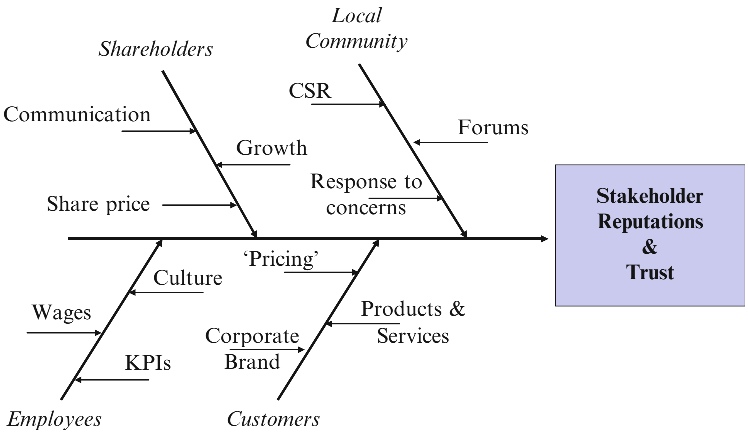

Fig. 2 Stakeholder reputation risk

The Business Model of a Business Unit

In simple terms, a business model is a description of the production and selling activities of a business (Magretta 2002). A good way to structure this description is to answer the following questions:

- *Who* are the SBU's target customers?
- *What* products and services are offered?
- *How* are these products produced?

Because the essence of strategy is about making choices (e.g., Hambrick and Fredrickson 2005), the business model is also concerned with – "*who not* to target, *what not* to offer, and *how not* to do things?" Answers to these questions help to identify some of the stakeholders who really matter to the company, namely, target customers and those employees who are crucial to designing and delivering the customer experience. Here we focus on the primary questions as these alert managers to the reputation risks that are associated with prioritizing stakeholders, understanding their expectations, and creating value for them. Imbedded in the value creation process are many "soft" issues that relate to employee engagement, organizational culture, and ethics. Guiding the integration of all aspects of the business model are the CEO and senior managers.

Sources of Business Unit Reputation Risk

Michael Porter's elaboration of the chain of activities that control a company's operations is perhaps the most well-known framework for describing business unit operations (Porter 1985). He describes a set of primary and support activities. The primary activities are those associated with making and selling something. The support activities are things like human resources, information technology, management control systems, etc. Because his version of the value chain is deliberately generic, each company needs to model its own set of activities and the sequence in which they are performed. A generic version of the value chain is shown in Fig. 1. Some more sophisticated examples can be found in Davis and Devinney (1997). The strategy maps of Kaplan and Norton (2004) are some of the most detailed "pictures" of a company's business model.

During the quality control movement of the 1960s in Japan, managers faced the tasks of both structuring and visualizing how a set of factors contributed to a complex problem. One tool to do this was the Ishikawa "fishbone" diagram (Ishikawa 1986). A typical fishbone diagram is constructed where the "head" of the fish is placed at the right side of a figure and represents the issue under consideration. A horizontal line extending to the left from the head is the spine, to which various main causes of the issue are attached, like rib bones connected to a spinal column. Attached to each of the ribs are elements of these causes.

Depending on the application, the ribs represent different categories that are relevant to the firm or industry. For example, in the manufacturing part of the SBU value chain in Fig. 1 the main categories can be Equipment, Processes, People, Materials, Environment, and Management. In the area of sales and marketing, typical categories include Price, Promotion, People, Process, Plant, Place, Policies, Procedures, and Product (the "8P's"). A well-developed fishbone diagram will have three to six main categories (the ribs) that encompass the main causes of the issue. A useful level of detail for each rib is four to five specific elements. In Fig. 1, the various fish bones are organized vertically (rather than horizontally) with the head residing in one of the primary or support activities of the value chain.

The fishbone diagram is particularly well suited for the identification phase of a risk analysis project because it allows a group of analysts to explore the many potential causal factors that contribute to the issue at the head of the diagram. In this case it will be the reputation risk associated with a particular operational activity. The ribs extending from the central spine of each such activity will be the most important sources of this risk. When completed, a diagram such as Fig. 1 will provide a snapshot picture of the sources of reputation risk across all the major parts of the company. The next stage is to determine the amount of reputation risk for each "fishbone." Before discussing a number of candidate approaches available for this task we present a stakeholder-based fishbone diagram that can be used to highlight additional sources of reputation risk.

Sources of Stakeholder Reputation Risk

Figure 2 shows a fishbone diagram for the stakeholders who might matter to a company. Here it is the reputation of and trust for the company that is the important focal point for identifying sources of reputation risk. For example, while only wages, organizational culture, and KPIs have been identified as risk factors for employees, many others could be candidates for inclusion, such as – the CEO, employee engagement, the expectations of employees, administrative policies, promotion policies, decision making rights, and responsibilities, etc. The identification of the specific set of risk factors should be guided by research (which says that employee engagement is always important) and supplemented by other issues identified by senior operational managers.

Calibrating Reputation Risk

For many companies the concept of reputation management, particularly reputation risk assessment is quite new and underdeveloped. In such a situation the information used to calibrate the amount of potential risk will be incomplete, of variable quality, sometimes contradictory, and often not directly comparable. This poses a considerable challenge to the managers and analysts who are charged with auditing their company's reputation risk. To help understand how the information provided by applying the fishbone diagram might be combined to form an overall assessment of reputation risk, we look to a situation that has similar properties, namely, the legal system.

The methods used by juries to combine and evaluate evidence provided by experts and lawyers have been a topic of considerable research (see, for example, Devine et al. 2001). The term "weight of evidence" (WoE) is often used to describe the general approach used here (Krimski 2005). The approach is also found in science (for example, in environmental toxicology, epidemiology, and various health areas) and policy making settings (Weed 2005). In these contexts, the evidence combination and processing techniques are often associated with risk assessment.

Despite variations in its application, the WoE approach is centered on relating various measures to an associated endpoint. The measures are the lines of evidence. The endpoint is an explicit statement of the value or the resource that is to be protected. And the weights reflect the quality of the data or the methods used in linking the measures to the endpoint. In Fig. 2, the endpoints would be an explicit statement of the value of the company's reputations and trust that are to be protected. Because different stakeholder groups will be of more or less importance to the company, these statements will vary according to the nature of the group. The various measures will be the sources of reputation risk. The weights will reflect the quality of the evidence used to profile the reputation loss due to a specific action by the operating unit of the company.

For companies where reputation management is active, the information used is likely to be of better quality, or at least its inadequacies better understood. In these companies, a number of other risk assessment and visualization techniques are also being trialed. They range from a simple list of reputation risks that might be subjectively ranked, through a traditional risk prioritization framework such as a "likelihood – impact" matrix, to a stakeholder-focused approach that assesses the degree of stakeholder concern about a particular issue and the degree to which the SBU is engaged in activities that contribute to this issue. Notwithstanding which techniques are used, reputation risk "scorecards" and "footprints" are reported up the organizational hierarchy. Hopefully, resources and senior management attention then flow down.

At this stage of development the calibration of reputation risk is more art than science. However, any calibration and visualization technique will serve to highlight the variety of reputation risks that reside in a SBU, and make the reasoning and decision making about risk mitigation more transparent and, consequently, easier to communicate.

Conducting the Reputation Risk Audit

Figures 1 and 2 show stylized reputation risk audit trails. Figure 3 provides an equivalent description of the audit process. Again we emphasize that each company will need to modify their process to suit particular circumstances. Notwithstanding this, most stages in this process are essential to the integrity of the reputation risk audit, namely:

- Without CEO leadership and commitment from the board of directors the findings of the reputation risk audit will struggle to get traction within the company.
- A reputation risk audit needs to fit with the company's other ERM initiatives. This should not be of concern as a survey by the Economist Intelligence Unit (Ross 2005) found that reputation risk was the most significant threat to business. Also, having a formal methodology for working with reputation risk should facilitate its integration with the more traditional risk management activities that are employed by the firm.

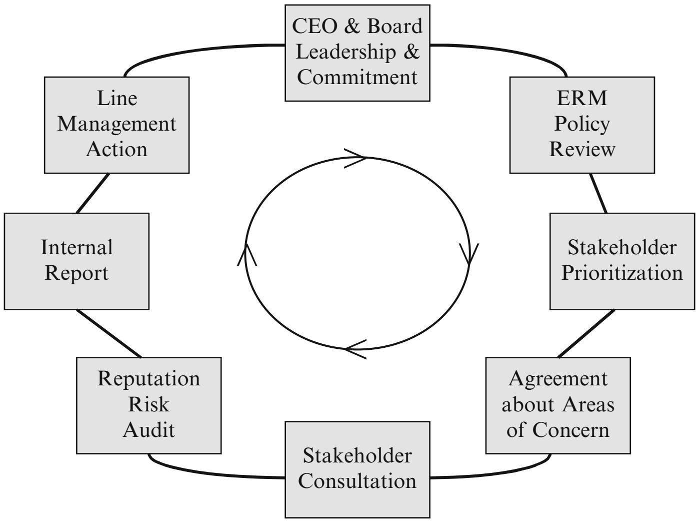

Fig. 3 Corporate reputation risk audit cycle

- Prioritizing stakeholders is crucial because this helps to determine the most likely areas of concern for the company. Also, at this stage seeking input from line managers will help to ensure their support for managing reputation (enhancement and) risks.
- Stakeholder consultation is important in order to understand the different sets of beliefs, expectations, reputations, and levels of trust across the groups.
- An important role of the formal audit process is to signal the importance of corporate reputation throughout the organization. This will be reinforced by the formal audit report to the board of directors.
- Asking line managers to take responsibility for implementing the findings of the audit will ensure that reputation management is embedded inside the organization – the place from which great reputations emerge. The transparency of the risk fishbone framework and audit process should help to justify this added responsibility.

Conclusions

Risk management has generally been the concern of large companies. GE Capital is often cited as the first company to employ an executive with the title of Chief Risk Officer (CRO). Today any big company that operates a risky business (such as finance, insurance, minerals exploration and processing, high technology, pharmaceuticals, etc.) has a CRO and a risk committee. While reputation risk is increasingly appearing on the radar of the CRO, CEO, and sometimes the board of directors, there are only a handful of companies that have a formalized reputation risk audit process. This is unfortunate because most of the risks that CROs focus on will impact on the reputations of their companies. Thus, it seems logical to extend the ambit of risk management into the domain of corporate reputations.

To illustrate the paradox of how reputation risk can be important yet not an integral part of the company's risk assessment consider the case of the Australian insurance company IAG. This company has a very senior manager with the title of "Group Executive – Culture & Reputation" and a formal, high-level risk assessment committee. The risk committee monitors the following sources of operational risk for the company – corporate and strategic, underwriting, distribution, claims, reserving, liquidity, capital, investments and derivatives, credit, reinsurance, and operational. Noticeable by its absence is "reputation risk"! For an insurance company corporate reputation is one of the core factors that people use to choose a company to insure with, and one of the key factors they update after every service encounter. Yet corporate reputation is not seen as a key risk for IAG. This is a classic example of what seems to be a "bolt-on" corporate reputation program. The company knows its reputation is important, but it is yet to consider it as "operationally important."

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Corporate Responsibility Reporting Reloaded: The New ESG-Reporting Imperative

Ralf Frank and Dieter W. Horst

Reputation and Corporate Responsibility: Two Sides, One Coin?

Successful reputation management is closely related to responsible and systematic treatment of the ecological, social and governance (ESG) demands on the company. Companies can only build and maintain a reputation if they realize their societal obligations, credibly do their part for sustainable development and effectively report on their activities in this area. "Corporate Responsibility" (CR) is the management and reporting concept that allows companies to do all this. It focuses primarily on the following:

- Early identification of new requirements on the part of company stakeholders, and statement of a transparent position on each of these.
- Continual monitoring of which ESG developments may further or jeopardize implementation of the business strategy.
- Realization of legal and quasi-legal ESG obligations and industry standards, or voluntary commitments made by the company.
- Regular, open, accurate and honest reporting on the ESG activities of the company – both achievements and failures.

The CR concept can also be seen as management of the company in the interest of the stakeholders. This does not mean a wholesale gearing of the company strategy and operations directly to stakeholder demands. Rather, the goal is facilitating structured dialogues to allow an exchange of opinions and identification of trends, which lay the groundwork for business decisions. Stakeholders in this context refer to interest groups that are of use to the company or could be, or which are directly impacted by the activities of the company, e.g., communities surrounding the company locations. Thus, the stakeholder dialogue makes an immediate contribution to reputation management by lending credibility and acceptance to the company, both internally and externally. Some of the results of well-designed stakeholder management should be:

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- Staff loyalty
- Long-term, stable client relationships
- Stable supplier relationships
- Investor confidence
- Trust/acceptance within the surrounding community
- Open dialogue with NGOs

One key for the successful realization of the above CR management and reporting concept objectives, as well as for implementation of professional stakeholder management, is: internal reporting for the purposes of monitoring and managing ESG activities within the company and external reporting as an instrument of financial and nonfinancial communication.

Statutory ESG Reporting Obligations in Germany

Within Europe, especially in Germany, developments have occurred over the past 10 years, which indicate a growing trend towards equality between ESG data and financial data. With the Accounting Law Reform Act (*Bilanzrechtsreformgesetz* – BilReG) in 2004, for instance, the existing reporting obligation received an update that more closely specifies ESG requirements: since then, section 289 (1) HGB has required the management report of large corporations to depict the business developments, operating results and financial situation of the company in such a way "that present a true and fair view of the actual situation. [. . .] Furthermore, the management report must assess and describe the key opportunities and risks of the company's foreseeable development; the assumptions on which such assessment and description are based must be stated." Section 289 (3) HGB further specifies that non-ESG key performance indicators (KPIs), such as "information on environmental and employee issues," are to be reported if they are vital to understanding the business developments or financial situation. Consequently, there is an obligation in Germany to report on ESG aspects, provided these are relevant for the evaluation of the company situation. The assessment as to whether reporting satisfies these requirements is the prerogative of the auditor in the context of the regular audit of the management report. This evaluation is based on a number of considerations, including:

- Is a process in place for generation of ESG data, as well as a system of evaluation to assess the importance of ESG factors?
- Are the process and evaluation system fundamentally suitable as a basis for proper reporting on ESG activities, as well as the opportunities and risks relating to ESG, in the management report?
- Were the defined process and the evaluation system applied in the period under review?

Criteria for CR Reports

If a company wishes to publish ESG data outside of the management report as well, this can be accomplished with a periodical CR report. Ideally, such a report should be oriented on the framework of the Global Reporting Initiative (GRI), which is the most advanced set of guidelines available. The GRI is a multi-stakeholder initiative of the United Nations, which has created a framework for CR reporting that includes a catalog of CR indicators with individual sector supplements. In 2006, the third generation of the GRI guidelines (G3) was published along with the introduction of so-called application levels, which separate CR reports into three categories (A, B, C). This serves to facilitate the initial approach of many companies to CR reporting. Category C, for instance, is for reports containing less than 20 CR indicators. Voluntary external auditing of the CR report is positively highlighted in reports following a defined GRI system with a plus sign in the notes section. In addition to the catalog of CR indicators, however, the G3 guidelines provide principles for high-quality reporting, such as four criteria for the content of the CR report. These are: materiality, stakeholder inclusiveness, sustainability context, and completeness. Six further criteria are also given as benchmarks for assessing the quality of CR reporting: balance, comparability, accuracy, timeliness, reliability and clarity.

ESG Data and Quality: Work in Progress

At the same time, auditors are finding in their examinations of ESG data, in the management reports as well as specially published CR reports, that the quality of the ESG data aggregation process is being treated with greater importance by companies in the process of reporting. Initial indications are that a shift is currently underway from pure collection of data, which is subsequently consolidated and published, to a systematic data gathering approach. Increasingly, this is giving rise to questions aimed at achieving a leap forward in terms of CR reporting quality, to bring it in line with the quality of financial reporting. In this context, the issue of proper CR reporting is of vital importance along the entire “supply chain” of ESG information – from separate collection of data on individual ESG factors to sector-wide, segment-wide or interim reporting, and ultimately culminating in a summary and central consolidation of ESG data by the CR manager. The CR manager also initiates internal and external communication of the aggregated ESG data. Increasing systematization of the ESG data supply chain generally leads to improvement in the quality of the data. In order to ensure high data quality, particular attention must be paid to the following questions in relation to certain points and processes within the supply chain:

- Do the planned measures facilitate adequate data tracking – from the CR report back through data collection at operating level?

- Are the planned measures adequate for the prevention of errors or, at least, limitation of error risk?

The factors that must be considered and reviewed for suitability include:

- The chronological structure of data collection – ongoing, ad hoc, periodic
- The reporting format – homogenous forms, excel sheets, CR application systems, use of data pools from enterprise resource planning systems like SAP
- The format of the individual data types – measurement units, decimal places
- Grouping – chronological, subject-related and geographical attribution of data
- Form of data dissemination – online, file distribution, print documents, announcements via telephone

Compliance with the measures arising from these structural considerations must then be monitored by the company as part of regular data management. This can be achieved, e.g., by way of manual checks in the context of sign-off systems or automated controls as part of a CR application system that only accepts certain predefined units of measurement.

Ideally, the rules and control measures in the data supply chain should be documented in a CR Accounting Handbook, which can also contain instructions for the operative units with respect to how suitably accurate information is to be made available. In the event that adequate information is unavailable, it is necessary to document the relevant limitations and communicate them to the next level of aggregation.

Limitations to be documented and communicated to the next level include completeness, inaccuracies and estimates. In each case, the limitation should be documented in writing, with particular emphasis on describing the scope of the limitations, to ensure a high-quality data collection process. Furthermore, such documentation should include the reasons that the limitation could not be rectified and the measures implemented to prevent such limitations in the future.

Only when a well-planned reporting process is combined with a suitable internal control system can a stable data collection process and, thus, valid internal and external communication be expected.

Investment Professionals and ESG Data

In the past, investment professionals with a traditional orientation have made only rare use of CR reports and other sources of ESG data for their analyses. This was often due to a lack of data quantification and inadequate comparability with peer group data or reporting from other periods. Such lacks can be traced partly to the absence of standardized definitions, but the problem in most cases was more likely insufficient correlation to company performance. In this context, the question arises as to the implications for the company of individual ESG factors from the perspective of risk and profitability.

Consequently, in the spring of 2008, the Society of Investment Professionals in Germany (*Deutsche Vereinigung für Finanzanalyse und Asset Management* – DVFA) published a set of standards containing core indicators for ESG as a further tool for valuation of companies taking into account CR aspects. This guide serves as both a handbook for companies with respect to reporting ESG performance and a benchmark for investment professionals aimed at integration of ESG information into financial analyses. In addition to conventional financial figures, therefore, analysts are increasingly turning their attention to the way companies deal with topics like climate change, supply chain, demographic change or workplace health and safety. In the future, investment professionals will make broader use of ESG information to expand the scope of risk/reward analysis. Those companies that recognize this early on will be able to set themselves apart from the competition through good ESG reporting.

In May 2008 the work of DVFA gained an unqualified endorsement from EFFAS (European Federation of Financial Analysts Societies), the European umbrella organization representing more than 14,000 individual investment professionals from 25 different European capital markets. Throughout 2008 the DVFA/EFFAS approach has received much attention throughout Europe. The CSR Lab on Valuation, an initiative of CSR Europe and the EU has made the approach an integral part of their initiative to define capital markets' needs vis-à-vis CSR reporting. In January 2009, DVFA/EFFAS published Version 1.2 of the paper which was fine-tuned to include even more precise indications on requirements of investment professionals and also contains the first series of sector supplements. The document can be downloaded from http://www.dvfa.de/kpis.

The DVFA indicators were developed in a working group of experts from the business world, the financial markets, academia and NGOs. In a selection process involving 220 international financial institutions, the group pared down a list of roughly 250 indicators to arrive at 29 KPIs to be used by companies in financial and performance reporting. In addition to institutions like Goldman Sachs, Morgan Stanley or Merrill Lynch, the participants in the development process for the DVFA guide included representatives of ten DAX companies. There are nine general KPIs that are applicable to all sectors and industries. The remaining 20 are sector-specific, and this list will be expanded in the future (Table 1). At European level as well, the European Federation of Financial Analysts Societies (EFFAS) is set to officially announce Europe-wide applicability of the DVFA standards and DVFA KPIs in May 2008.

Investment Professionals Want More than Just ESG Data

In addition to reporting of ESG indicators, DVFA standard also defines minimum requirements for company CR management and the quality of CR reporting. This is important given that high-quality CR management and a first-class reporting process are vital to ensuring that the data and information can be used as a basis of analysis by investment professionals. For instance, the DVFA standard requires

Table 1 The DVFA core indicators (2009)

	Environmental (E)	Social (S)	Governance (G)	Long-term viability (V)
General: ESGs which apply to all industry-groups	ESG 1 Energy Efficiency ESG 2 GHG Emissions	ESG 3 Staff turnover ESG 4 Training & qualification ESG 5 Maturity & Workface ESG 6 Absenteeism rate	ESG 7 Litigation risk ESG 8 Corruption	ESG 9 Revenues from new products
Sector-specific: ESG which apply to specific sectors	ESG 10 Development of renewable energy ESG 11 NO, SO emissions ESG 13 Waste ESG 14 End-of-lifecycle impact	ESG 15 Diversity ESG 16% of Credit loans, undergone ESG screening ESG 17% of funds managed in accordance to ESG criteria ESG 18 Financial Instruments held in accordance to ESG criteria ESG 19 Investments in accordance with ESG ESG 20 Supplier agreements in accordance with ESG ESG 21 Health & safety of products ESG 22 Restructuring-related relocation of jobs	ESG 23 Dimension of pending legal proceedings ESG 24 Contributions to political parties	ESG 25 R&D expenses ESG 26 Patents ESG 27 Investments in research on new risk ESG 28 Customer retention ESG 29 Customer satisfaction

the reporting company to describe the importance of ESG aspects for the company strategy and how they are incorporated in the implementation of the strategy. Moreover, the company should communicate its basic understanding of ESG topics, e.g., by developing and publishing an ESG strategy. For investment professionals, it is helpful when the company has established a process for assessing the importance of ESG aspects, and systematically evaluates and communicates the current and future relevance of these topics for its business. Analysis based on significant factors requires increased focus in the representation of company ESG performance, in terms of both the selection of relevant indicators as well as the scope of reporting in a print publication or the Internet.

The organization of internal responsibilities for the management of ESG aspects is another important factor that should be communicated according to DVFA.

Leading companies already have a central CR management committee, in which representatives of central company functions relating to ESG regularly coordinate with the CR representatives of the operative units and support the management board with respect to ESG issues.

Ideally, the relevant CR managers report directly to the CEO or the management board spokesman.

The description of the CR organization should include the most important elements and processes as well as any organizational charts. For successful implementation of the ESG strategy, a CR program with concrete objectives and required measures is vitally important. The DVFA standard calls the program and regular monitoring for achievement of the objectives “indispensable” for comprehensive reporting.

As a final recommendation, the DVFA standard sets forth an independent review of the ESG data by a neutral and competent third party, such as an audit firm. An externally communicated audit also serves to increase the credibility of company reporting, but more importantly, the audit assures the management and stakeholders that the data are accurate, complete and suitable. Furthermore, an external audit motivates the operative units, which collect the data, to make high-quality, complete information available in a timely manner. For the central CR reporting team, the auditor is generally a help – via the outsourcing of review procedures and decision-making support for inadequately defined situations. In connection with the audit, which should ideally run parallel to preparation of the report so that the requirements of the auditor can be integrated and satisfied, the experience and best practice examples provided by the auditor also facilitate ongoing improvement of the data collection process. Ultimately, externally audited CR reports receive bonus points from juries for reporting awards.

Expanded Reporting Demands: The Stakeholder Dialogue

In addition to the informational interests of the shareholders and the financial markets with respect to ESG, other interest groups naturally have their own information demands, and it is important for a company to enter into a dialogue.

Currently, companies are increasingly seeking the assistance of PR/communication agencies to organize workshops with decision-makers, in order to establish a uniform image of the company's ethical standards and a stakeholder communication strategy. The companies are thus trained in professional handling of crises and management of relationships with special interest groups. This follows the trend away from pure shareholder-orientation towards a stakeholder approach. Consequently, targeted dialogue with interest groups is not used to add gloss to the company image, but rather to provide a benefit to the company. Stakeholder dialogue as a CR instrument serves to prevent damage to the company reputation, because only companies that are adequately "positioned" with respect to CR can maintain "their good reputation" long term.

"Adequately positioned" in this context means establishing stakeholder dialogue that identifies areas in need of attention early on and preventatively supports the image of the company through a constructive exchange with the interest groups, acknowledging the demands of the relevant stakeholder groups and identifying the best possible measures by the company as part of stakeholder management. Stakeholder interests can only be sufficiently integrated after they have been identified. This can be achieved, for instance, using the analysis methods of Jean-Paul Thommen: these serve to ascertain which interest groups are affected in which way by the actions of the company, and identify the fundamental values of these groups. Moreover, they scrutinize the acceptance of the company among the stakeholder groups as well as the influence of the stakeholders over the company. After completion of the analysis, the identified stakeholders are classified, i.e., a differentiation is made in the weighting of individual stakeholder groups based on special criteria. For instance, in the classification model created by Grant T. Savage, the stakeholders are evaluated based on a four-part matrix. The model also takes into account the criteria potential for threat and potential for cooperation. On the basis of this analysis, measures are developed for the organization of cooperation with stakeholder groups. Similar to risk management, there must be a sequential control system underlying stakeholder management, i.e., stakeholder management must be monitored to ensure that the identification, analysis and weighting of stakeholders are in line with the current situation. This is important because, if the reputation of a company suffers damage, it is usually too late for effective stakeholder management or stakeholder dialogue.

In order to give proper due to the current importance of stakeholder dialogue and to contribute its improvement, so-called hygiene factors have been proposed, e.g., by Heike Leitschuh. According to her factors, companies should relate to stakeholders in an open and honest manner. Additionally, a company should respect different points-of-view and opinions on individual topics. The stakeholder dialogue should not be viewed as a "one off event," but rather as a continual process as part of the CR program.

Outlook

Reporting on ESG (in a special CR report, as information in the management report, in financial communication or in the stakeholder dialogue) requires data quality in line with that of financial reporting. In Germany, this trend is being fuelled by statutory requirements, and increasingly by the capital markets themselves. Consequently, the investment in resources that companies are having to spend on organization to develop high-quality ESG reporting is not justified – it can be seen as a long-term investment in the reputation of the company. Currently, at the level of the EU there is a large host of organizations from private and the public sector discussing the standardization of CSR/ESG-reporting.

The public will permanently reject companies that fail to adequately address their responsibilities with respect to environmentally and socially credible conduct in these areas. It is probable that the number and scope of statutory provisions on ESG reporting – e.g., the specification in Germany of the requirement for ESG information in the management report – will increase. Voluntary compliance with the kind of ESG reporting called for by important stakeholder groups like the investment professionals of DVFA may only be an interim step towards expanded, possibly codified and mandatory, demands on company reporting. And the growing importance of dialogue as a way to match the company strategy with the relevant stakeholder demands is also doing its part to define high-quality ESG reporting and adequate CR management as a precondition for company success over the medium term.

Compared with financial communication and accounting, CR reporting is still in its infancy. But, it should make use of their decades of experience with respect to processes and systems for high-quality and efficient data generation. After all, in addition to providing the required information on ESG, CR reporting also has a benchmarking function: creating comparability between internal organization and that of other companies over a given period, and facilitating an assessment of ESG activities with respect to laws, standards, codes of conduct, performance standards and voluntary initiatives – in other words, compliance. This allows companies to manage their position in relation to the competition from the inside out, and communicate this position to the public – the best point of departure towards increasing efficiency and positive differentiation from the competition.

Personalization of Corporate Coverage

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This chapter has four objectives: First, it illustrates how personalization in corporate coverage can be measured. Second, for the time period between 2002 and 2007, it looks at whether or not coverage on companies in the leading German mass media and selected international business press titles was increasingly personalized. Third, it discusses the risks and opportunities of personalization in corporate coverage, and fourth draws a lesson for objectives-oriented Communication Performance Management from the results.

Personalization: A Mega-Trend in Corporate Communication?

Contrary to politics, the world of business was long reputed to be free from the tendency towards personalization in public awareness. Occasionally, some entrepreneurs did play a prominent role, yet mostly the focus of public attention was the economic performance of companies. This seems to be changing. The discussion of personalization in corporate communication can be divided into three fields (Chart 1).

Personalization of Corporate PR

What role did CEOs and other board members play in the companies' self-portrayal, and how did their significance in Public Relations develop over the years? According to a study conducted by the German Manager Magazin and Lothar Rolke, corporate communications offices of 137 companies questioned in Germany attribute 20% of their entire time to the CEO's image (Kaufmann 2007). "Every company has got a face. Often this is not the best-selling or most innovative product. The face of a company is identical with that of its top manager. The CEO is not only CEO, but a kind of second logo" (Kaufmann 2007). According to

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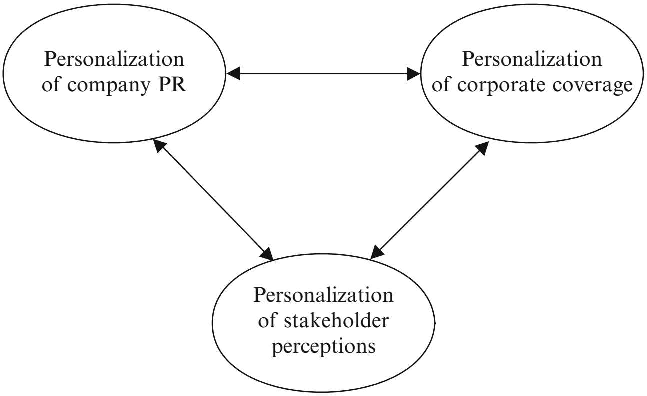

Chart 1 Personalization of corporate communication

Piwinger (2000) the level of personalization is particularly high in the case of Investor Relations. Here, aside from the CEO, the CFO is another sought-after interview partner. With this in mind, the boom of more or less successful how-to literature on the topic of CEO PR does not come as a surprise (Nessmann 2005). Most corporate communications officers largely agree on the importance of personalization. However, they seem to disagree on how to do it: The spectrum of opinions ranges from not attributing any particular role to the top management, to distributing representative functions onto as many shoulders as possible (aside from the CEO, the CFO as well as the heads of HR and R&D are actively placed in the media), up to focusing corporate communications entirely on the CEO – including personal stories in the popular press. Still: "In spite of all the personalization of the PR machinery: German top managers appear to be comparatively reserved, at least in public. While top politicians give eight interviews per month on average, CEOs only give two" (Kaufmann 2007).

Personalization of Stakeholder Perceptions

The personalization of company PR is usually not an end in and of itself. It is rather based on the assumption that the CEO's image and reputation significantly affect the perception and evaluation of the company within the different stakeholder groups, including its own employees or suppliers, customers, investors, associations and politicians, journalists, and the public at large. The few studies on this topic are almost exclusively based on surveys – generally within top managers, politicians, and/or the mass media.

They examine the influences of personalization on (a) the perception, (b) the assessment, and (c) the behavior of stakeholders. According to one study, "six out of ten individuals would follow a company more attentively in the media, if they were familiar with its CEO and had a high opinion of him" (Hochegger 2006). Rolke assumes that up to 70% of the company's image is influenced by the CEO's reputation (Kaufmann 2007). According to the "CEO Reputation Studie 2006" by Burson-Marsteller (2001, 2006), the CEO's standing influences 60% of the company's reputation in Germany, and this number has been consistently high since 2000.

According to the study "Corporate Reputation Watch" by Hill and Knowlton (2004), 30% of the executives interviewed consider the CEO to be the most important reputation driver (Becker and Müller 2004). In the subsequent study "Return on Reputation," the authors write that 53% of the analysts questioned "identified the quality of management, aside from financial performance, as the most important factor in driving corporate reputation in a way that would influence them. But the management teams are not all equal; 87% regard the reputation of the CEO as either extremely or very important compared to 75% for the CFO, 40% for the company Chairman and 23% for other nonexecutive directors" (Hill and Knowlton 2006).

However, the question to what extent the CEO reputation is reflected in the company value remains contested. It does not seem to be crucial for the customers' decision to buy a product, who are more interested in product and service quality. When it comes to recruitment, the issue of career opportunities seems more important. Yet private and institutional investors appear to focus strongly on the CEO's reputation – at least in the eyes of the executives questioned by Hill & Knowlton (Becker and Müller 2004). Burson-Marsteller reckons that a company's reputation could constitute up to 50% of its market capitalization: Since the top managers influenced two-thirds of the company's reputation through their behavior and reputation, the CEO share of the total market capitalization was equivalent to more than a quarter (Heinisch 2006). The Boston Consulting Group estimates this number to be a little lower, between 15 and 20% (Casanova 2002). According to Stöhlker (2001), too, the image of the CEO only makes up 20% of the share price, and Brandstätter (2006) points to the example of DaimlerChrysler: Jürgen Schrempp's resignation on July 28, 2005, resulted in a share price explosion. The share price increased by 10% over night, raising DaimlerChrysler's market capitalization from 36 to 40 billion Euro. If the CEO's successor is comparatively unknown, however, the share price does not jump immediately. The question of whether or not it goes up at all depends largely on media coverage subsequent to the change of the top management. The nomination of Peter Löscher as Klaus Kleinfeld's successor at Siemens in May 2007 illustrates this: The stock market only reacted 2 weeks afterwards.

Stakeholders do not focus on issues of personal character, but rather on characteristics that are related to the CEO's specific job within the company. Most of all he is expected to provide information on his corporate strategy, followed by acquisition policy and business development, and this information will in turn be relevant for his assessment. Moreover, stakeholders look at abilities at change management, including the capacity to lead and motivate employees (Trummer 2006; Hill and Knowlton 2006).

Personalization of Corporate Coverage

In politics, the media format of television, in particular (but not only), forces political protagonists to underline visual and personalized aspects of their communication with the public (Swanson and Mancini 1996; Wattenberg 1996; Brettschneider 2002). Is this also true for economics? Does the same media logic, which, in politics, has led to a personalization of the parties' self-portrayal, also encourage companies to focus more heavily on their top management? So far this has not been analyzed empirically, because for a long time it was assumed that business desks follow a different logic than politics desks. Still, more and more media observers have been noticing that the logics of selection, interpretation, and staging have, to a large extent, become similar between financial and political coverage (Imhof 2009). Does this assumption apply, and if yes, how strongly do the media personalize their coverage on companies? Those wider questions are the focus of the analysis at hand. It examines the following questions in detail:

1. How can we define personalization of corporate coverage, and how can we measure it?
2. How has the personalization of corporate coverage developed over the years, and what factors does it depend on?
3. What are examples of personalized corporate coverage, and what are potential consequences?
4. Finally, what are the conclusions that can be applied towards objective-oriented corporate communication?

Measuring the Personalization of Corporate Coverage

In general, systematic content analysis offers four ways to answer the question whether or not the reporting on companies is becoming increasingly personalized:

1. The first is to analyze the size of the CEO share in the total company coverage and its changes over time. This approach makes sense in view of the great importance that is attributed to the CEOs both in corporate PR and in the stakeholders' perception. Personalization exists, when the share of the CEO in the company coverage has been increasing over the years.
2. The second is to analyze what aspects the CEO coverage focuses on: the CEO's standing within the company, his know-how, his pay package, or aspects that are unrelated to the job (i.e., his private life). Personalization exists, when the latter become increasingly important.
3. The third is to analyze the share of the entire management board in corporate coverage. This makes sense, because the company is given a face and a voice not only by its CEO, but also the CFO as well as the heads of HR and R&D.

Personalization exists, when the share of the entire management board in the media coverage has been increasing over the years.

4. The fourth, finally, is to analyze not protagonists but the kind of topics covered: What is the importance of, for example, the issue of "management," compared to "research and development," "ratings," "share price," "business development," "customer relations," "internationalization/globalization," etc.? Personalization exists, when the topic of "management" becomes increasingly important compared to the other ones.

The following analysis pursues all four methods. For the time period between January 1, 2002 and May 15, 2007, the entire coverage on the DAX-30 companies by the opinion leading media was content analyzed. Day by day and passage by passage, the Media Tenor Institute systematically coded the corporate coverage in the following media outlets: Welt, Frankfurter Allgemeine, Süddeutsche Zeitung, Frankfurter Rundschau, taz, Bild-Zeitung, Neue Züricher Zeitung, ARD Tagesschau, ARD Tagesthemen, ZDF heute, ZDF heute journal, RTL Aktuell, SAT.1 18:30, Pro 7 Nachrichten, Focus, Spiegel, Woche, Stern, Wirtschaftswoche, Financial Times, Wall Street Journal (Europe). A total of 286,180 passages on companies were coded. Aside from the frequency of coverage on CEOs, their assessment was also determined.

The Importance of the Management and the CEO in Corporate Coverage

There are many reasons to believe that media coverage on companies is personalized, as well. Most observers place the change in business journalism into the middle of the 1990s. "Nothing is more exciting than business!" – claimed the German financial magazine Wirtschaftswoche. Excitement is an entertainment category, known from sports reporting and – under the catchword "horse race journalism" – also from political coverage. When the promise is excitement, the "heroes" and "failures" are not far, because excitement is not generated from matter-of-fact business reports alone. Excitement needs "faces," in order to ignite. Excitement also lives off struggle and change. "Business, that was [at the end of the 1990s, Ed.] adventure… and the protagonists had to be glamorous and radiant" (Brandstätter 2006). Thus, the personalization of coverage, as well as the trend towards making it more entertaining, as we know it from politics, can also be expected in business.

There are a number of reasons for this development: At the end of the 1990s, mega events such as the privatization of Deutsche Telekom and Deutsche Bahn promoted personalization, as did the famous "peanuts" statement by then CEO of Deutsche Bank, Hilmar Kopper, on the subject of the Schneider bankruptcy case (a builder, who erected real estate worth billions on bad loans), or the power struggle between Jürgen Schrempp and Helmut Werner at Daimler-Benz. Moreover, globalization with its stronger focus on the stock market led to a push in personalization.

Personalization is thus considered to be a mega trend in journalism. It helps reduce complexity. “More and more business desks specifically bet on personalization in their coverage, in order to show the decision-makers with their responsibilities. Personalization facilitates telling stories and making complicated matters more interesting” (Becker and Müller 2004; Mast 2006). Personalization also helps to emotionalize, which is important for raising the attention of the popular media’s recipients. “The personalization of reporting ... is an important measure for creating consternation. Abstract numbers, news briefs and statistics only get ‘under one’s skin’, when real people discuss their consequences” (Mast 2006: 287). This applies, in particular, in times of crisis or when a company is restructured. When a CEO that was hyped as “master of the universe” cannot deliver the promised business results, when he shows bad style (such as the current CEO of Deutsche Bank, Josef Ackermann, with his self-satisfied victory sign at the start of the Mannesmann trial), or when there is a power struggle within the management board, then the news factor of “celebrity” is complemented by the news factor of “conflict/damage.” Those news factors have long been regarded as a guarantee for the publication of an event (Galtung and Ruge 1965).

How strong is the personalization of coverage on DAX-30 companies in Germany, and how has it evolved in the past 5 years? The share of management topics in the total company coverage has risen significantly from 15% in 2002 to nearly 22% in 2007 (Chart 2).

A clear increase in personalization can also be observed from a different perspective. Looking not at the topics of coverage, but at the protagonists portrayed, the share of the management has been clearly on the rise: In 2002, 18.3% of the total corporate coverage was on members of the management board; by 2007, that figure had almost doubled to 32.7% (Chart 3). While from 2002 to 2004, the share of the

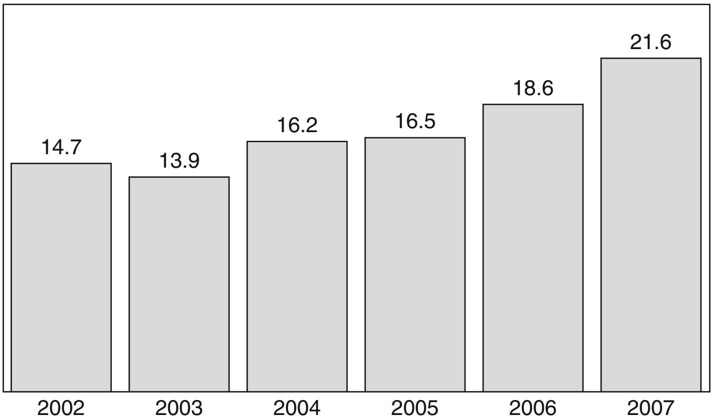

Chart 2 Personalization of coverage on DAX-30 companies, 2002–2007 (share of management topics in %)

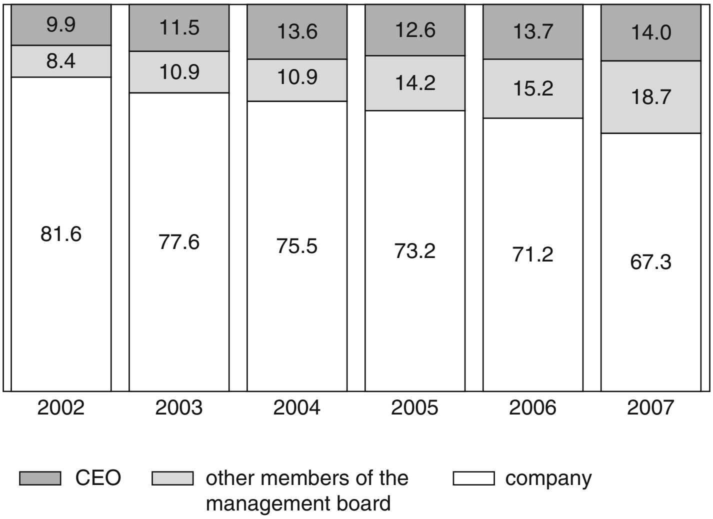

Chart 3 Personalization of the coverage on DAX-30 companies, 2002–2007 (share of protagonists in %)

CEO still outweighed those of the other board members combined, this relation turned around between 2005 and 2007. In the 5-year period, the share of coverage on the CEO went up from 9.9 to 14%, whereas that on the other board members went up from 8.4 to 18.7%. As a result, the share of reporting on the company as an impersonal protagonist went down from almost 82 to roughly 67%. Imhof (2009) points out the consequences of this development: “In the context of the pronounced personalization of financial reporting, the impersonal kind of company portrayals and the ‘us-communication’ of their self-portrayals was followed by a highly personalized communication, which narrows the companies’ reputation down to the evaluation of their leading figures. Thus the historically grown organizational reputation of companies was supplanted by the reputation of their respective management personnel – with important implications.”

However, in the past few years CEOs have not only been covered more frequently but also more negatively than in 2002. The total evaluation of the CEOs, that is the balance of positive portrayals minus the negative ones, has reached almost 10% points (Chart 4). CEOs generally reap praise only when they have newly taken office or just resigned. In addition, they are more critically appraised than the companies they represent (Kolmer 2006). In the end, the CEO is made responsible for problematic developments in sales, turnover, profits, and market value. Corporate successes, however, are often attributed to – aside from the CEO – the products or a good corporate strategy. This rule applies despite some exceptions from it, such as Daimler’s CEO Dieter Zetsche, who will be discussed separately further down. The media are populated by the proverbial “Nieten in Nadelstreifen” (duffers in pinstripe) and contested top managers such as Deutsche Bank Chief

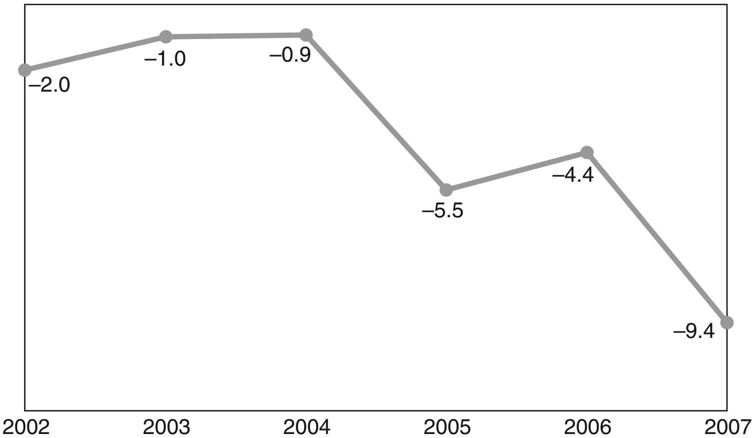

Chart 4 The assessment of the CEO in the coverage on DAX-30 companies, 2002–2007 (share of positive minus share of negative assessments in percentage points)

Josef Ackermann. Due to the news factor negativism, they are more frequently reported on than successful entrepreneurs and model managers (Kolmer 2006).

What exactly is the CEOs' image in the media based on? Which dimensions of the image dominate, and how are top managers evaluated on the decisive dimensions? Factual issues are the determining factors for assessing politicians; they also make up the lion share of coverage on CEOs (Chart 5): Corporate strategy, company takeovers and mergers top the list of most frequently covered topics. Yet the importance of factual issues has been going down for years now, with the focus shifting to the CEOs' standing within their companies. Journalists increasingly underline the CEO's position within the management board, his authority – and also his replacement by a successor.

Only one other image dimension manages to breach the awareness threshold: the pay packages of the top managers. In 2002, in particular, their salaries were under severe criticism, so that CEOs were assessed very negatively on the issue that year. The dimension of management skills, while making up less than 1% of the total CEO coverage, clearly deteriorated over the years, as did assessments of personality: Most top managers are increasingly portrayed as lacking trustworthiness and credibility, which is also reflected by the declining confidence the public has in them (Albrecht 2006). Still, reporting on personal issues only makes up 1% of the total CEO coverage. The same is true for the dimension of professional expertise. In contrast to his personality and management skills, however, a CEO's expertise is not in doubt: Positive assessments even predominate by 20–30% points over the negative ones (Chart 5).

So far, we have only looked at the average figures on personalization within the DAX-30 companies. The next step is therefore to analyze which companies attract a more pronounced personalized media coverage than others, and whether the focus is on the CEO or the entire management board. As to the CEO share in the total

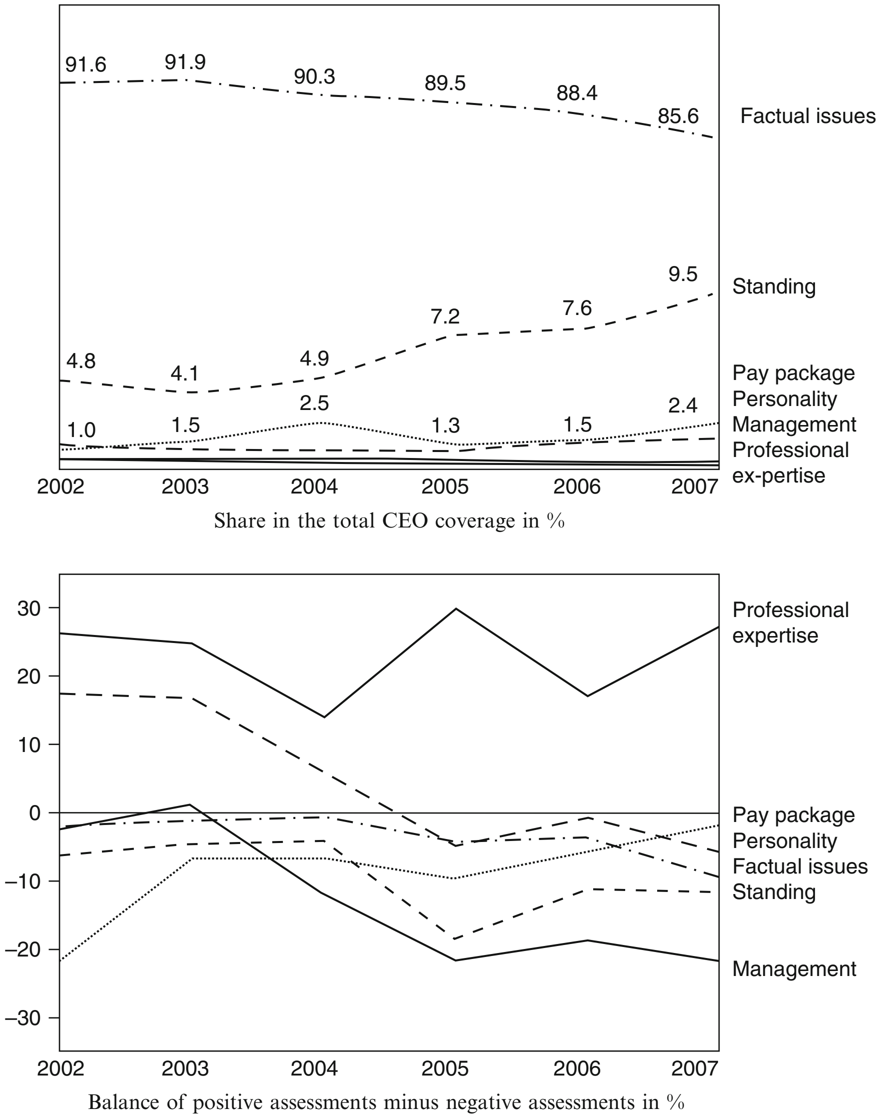

Chart 5 Portrayal and assessment dimensions for CEOs, 2002–2007

coverage on a corporation, the following rule tends to apply: The smaller the DAX-30 company, the stronger is the focus on the chief. Smaller companies have a harder time to place management board members other than the CEO in the media, because journalists screen according to celebrity value. On top of the list are – with more than 18% CEO share in the total coverage – Linde, MAN, Adidas, Altana, and Continental. At the bottom of the list are – with less than 10% CEO share – RWE, Deutsche Lufthansa, BMW, Allianz, and Postbank (Table 1). In the

Table 1 Level of personalization of the portrayal 2005/2006 as it relates to the CEO (shares of CEO, other management board members and company in the total coverage on the corporation in %)

	Company	CEO	Other board members
Linde	73.0	21.1	5.9
MAN	72.6	19.6	7.8
Adidas	72.5	19.4	8.1
Altana	74.6	18.5	6.9
Continental	70.6	18.4	11.0
Hypo Real Estate	75.8	17.4	6.8
Deutsche Bank	71.0	15.8	13.2
Deutsche Börse	60.1	15.7	24.2
TUI	74.8	15.5	9.7
Deutsche Post	75.8	14.9	9.3
Siemens	67.7	14.8	17.4
Fresenius Med. Care	81.1	14.6	4.3
SAP	68.9	14.5	16.7
Henkel	75.1	14.3	10.6
Bayer	79.4	13.9	6.7
DaimlerChrysler	72.8	13.6	13.6
Infineon	61.9	13.5	24.6
Deutsche Telekom	72.8	13.2	14.0
Schering	78.0	13.1	8.9
Average	72.3	13.1	14.6
Commerzbank	77.6	12.9	9.5
BASF	79.9	12.9	7.2
VW	60.1	11.6	28.3
Münchener Rück	77.0	11.6	11.4
E.ON	83.6	11.1	5.3
Metro	82.1	11.1	6.8
ThyssenKrupp	76.1	11.1	12.8
RWE	83.2	9.8	7.0
Deutsche Lufthansa	81.1	9.5	9.5
BMW	77.6	9.4	12.9
Allianz Group	79.0	9.2	11.8
Postbank	86.5	5.8	7.7

latter cases the companies have an easier time to place, say, the CFO next to the CEO in the media.

Yet a lower CEO share does not necessarily mean that a company is not covered in a personalized way. This is particularly obvious with the examples of Infineon and VW: Here the CEO share remains significantly below the share of other board members. It may be part of a communication strategy, intending to distribute the "burden" of public portrayal onto several shoulders, in order to reduce reputation risks. It may also be the result of journalistic attention to the actions and acts of misconduct of the chief HR or financial officers. Interestingly, journalists focus their attention on the entire management of the VW Corporation. Other corporate issues – such as products or employees – make up much less than two thirds of the coverage.

Independent from the size of the company, personalization increases when top managers resign or are forced out. The next chapter looks at some of these company-related personalization dynamics in more detail, including the question of the relationship between CEO reputation and corporate reputation.

Corporate and CEO Reputation

In order to determine the relationship between the reputation of a company and that of its CEO, Media Tenor analyzed, between 2000 and 2004 and in collaboration with the investment company of the Allianz DIT (today Allianz Global Investors), to what extent the coverage on the DAX-30 companies included buying and selling signals for investors interested in the respective stocks. It turned out that effective product communication generated clear buying signals even for a period of up to 90 days, while news on the top management only created one-time effects. Although it is far more difficult to evaluate the long-term benefit (or damage) of the CEO's image, it seems clear that it is of particular importance in critical phases of the development. A positive reputation has the potential to bridge the loss of trust in the company, at least temporarily. Such phases are characterized by the CEO's image being more positive than that of the company for a period of several months. This is quite common in practice: A negative corporate image can be caused by the reorganization of a company, along with job cuts, the sale of traditional business segments or even strong investments in research and development, which reduce the dividends to shareholders. In case the CEO is known as a restructurer, a successful reorganizer or gifted spotter of new products, then his positive image may serve as a kind of dividend of hope. It allows the company to invest the required time and resources into the realignment, without constantly being under the crossfire of public opinion and the financial markets. Such crossfire often results in sapping the confidence of consumers and shareholders in the company. A positioning of that kind is accompanied by strong factual messages, for example, by communicating the measures taken or the strategy adopted, while referring strongly to the manager's experience (career) to date, and in view of the problem that needs to be solved. An example for this is the image formation of Daimler CEO Dieter Zetsche, a topic we will come back to again later.

Naturally, such a communication strategy only works as long as there is a realistic chance to solve the problem within the announced time frame. In case the CEO has built up his image as a restructurer, yet the restructuring is a long time coming or the media do not acknowledge it accordingly, the result is often a massive reputation loss for him and sinking public trust in him. Thomas Middelhoff is a good example for this: In the most recent opinion survey by the German Manager Magazin, the CEO of Arcandor (formerly KarstadtQuelle) came last in the list of German top managers (Hetzer 2007).

Inversely, it is quite possible that a company is portrayed as exceedingly successful, while its CEO hardly appears in the media and never develops a strong image profile. As long as a company is doing fine and the internal communication is working, this has been a decent option in the past. However, there are only few media outlets left in the Western world, who would not portray the events within the company as the works of the CEO, seeking the corresponding quotes from him to "tell the story." It has been told that, upon taking office, the chief editor of a German weekly asked his colleagues to possibly include a CEO peg into every singly story on a company. This means that companies, whose CEOs do not provide sufficient sound bites, generally risk attracting less media coverage than those with more communicative top managers. Moreover, the CEO is generally sought out to express his opinion on just about any issue, also and particularly in a crisis situation. Only when that sound bite is unavailable, do analysts, industry observers, rating agencies, or competitors appropriate the area.

Personalization offers great opportunities for corporate reputation. Still, public companies with hired professionals at the top tend to have a high turnover. Too strong a focus on the CEO may result in a great deal of uncertainty both internally and externally, as soon as there is a change in the top management. Corporate communication chiefs, who direct too much of the limelight onto the CEO compared to the company, neither do him nor themselves a very good service. More often than not, they have to leave along with their boss when there is a change at the top.

E.ON

In the past years, the level of CEO personalization was 11.1 and 5.3% in the case of other board members. The energy corporation thereby followed more of a one-voice strategy, rather than maintaining a helpful communication culture. The energy sector went through great upheaval during that time: On the one hand, the antitrust authorities in Brussels and Germany put pressure on the industry to allow for more competition. On the other hand, the corporate agenda was shaped by questions around the long-term securing of energy supplies, dealing with nuclear energy as well as a sensible and value-adding investment of the high profits from the domestic gas and energy business. Between January 2002 and June 2005, both the image of the company and that of the CEO Wulf Bernotat were predominantly positive. Bernotat was presented as a successful strategist and leader, especially in a direct comparison with the CEO at the competitor, RWE. Chart 6 illustrates that until mid-2005, the good assessments brought a positive image dividend to the whole company.

In the fourth quarter 2005, however, the situation turned around – both regarding the corporate image and that of the CEO. There are a number of reasons for this: Since the third quarter 2005, critical reporting on pricing policy and customer relations started to shape the corporate image. Yet the criticism was rarely

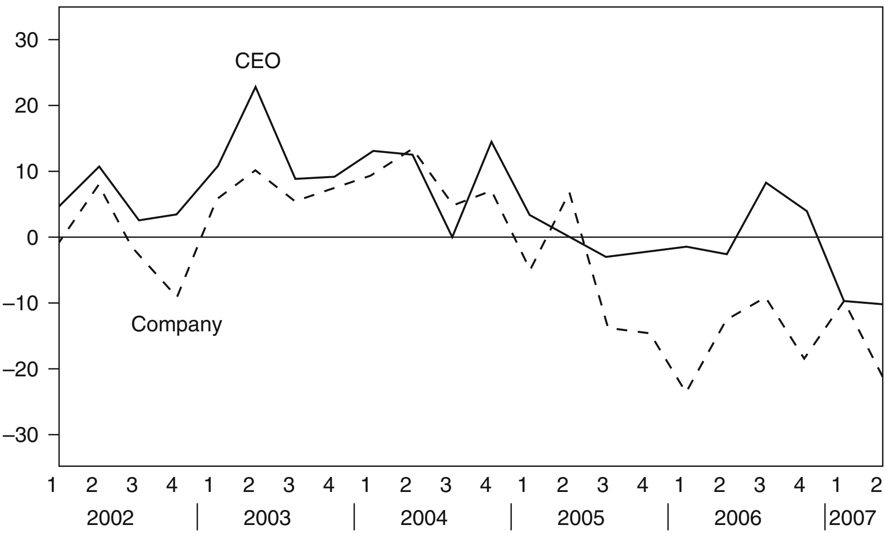

Chart 6 E.ON – corporate and CEO image (balance of positive assessments minus negative assessments in % points)

addressed in the CEO communication. In view of the "Thrifty is Nifty" wave of coverage in the German media at that time, the issue was of key importance. Instead, E.ON's acquisition plans in Spain played an ever-increasing role in news coverage. The CEO coverage, too, focused on this strategic aspect, reducing the perception of Wulf Bernotat's success or failure to this particular topic. The problems with doing business in Spain are certainly due to politics as well. As strategy played such a prominent role in the corporate image, however, Bernotat's image – along with that of the corporation – sank with the prospect of a successful completion of the takeover plan. The paradoxical result is an extremely successful and record profit-making company, whose image is still deteriorating and whose CEO looks pale. While at the beginning of 2005, strategy issues still made up 39% of Wulf Bernotat's media image, the number jumped to almost 64% in the first quarter of 2007. In this context, and with this emphasis, personalization is more of an image handicap than an image gain. This even applies when the CEO's media image is more positive than the corporate image.

DaimlerChrysler

The focus on the DaimlerChrysler leadership was above average in 2005/2006, with a personalization level of 27.2% (13.6% each for the CEO and the group or other board members). This can be explained by the increasing speculations, in spring 2006, on Jürgen Schrempp's standing in the company. However, the company had strongly bet on personalization ever since he took office. In the 1990s, it was about showing Jürgen Schrempp as successful restructurer and problem solver (A-class, focus on Daimler-Benz as an automobile maker, spin-off and sale of nonautomobile business segments) and subsequently as great strategist in the context of the Chrysler takeover.

At the time of the Chrysler deal, the corporation did not limit itself to media communication, but had the business journalist David Waller write a book: "Wheels on Fire" (2000). In the second half of the 1990s, consultant agencies published studies that predicted a number of mergers within a couple of years, leaving only a handful of globally dominating automobile makers. The others would be condemned to the role of niche providers or simply be swallowed by the big ones. With the Chrysler takeover and a strategic investment in the Japanese car and utility vehicle manufacturer Mitsubishi, DaimlerChrysler intended to position itself as the key strategist of the industry. Accordingly, corporate communication presented Jürgen Schrempp as the mastermind and mover for the entire industry.

Shortly after the takeover of Chrysler, however, it turned out that the US automaker had been acquired at the peak of its sales cycle and that a swift and massive profit collapse would make a comprehensive restructuring course necessary. In order to reach that goal, DaimlerChrysler sent the board member Dieter Zetsche to the USA, who was supposed to direct and lead the operation on behalf of Schrempp. The Chrysler reorganization soon bore fruit, and Dieter Zetsche could therefore be presented as a successful restructurer, who does not shy away from painful cuts, while maintaining an open dialog with employees and managers at the same time. This was the basis for his personalization as a successor of Jürgen Schrempp. Still, his success could not sustain itself. The discount war ate away the previous restructuring profits relatively quickly. Moreover, the Mitsubishi investment went sour and, because of quality defects at its core brand Mercedes, the corporation ended up under pressure in Germany.

The assessment of the company between January 2002 and the beginning of 2006 shows that the perception of the CEO strongly correlates with the overall perception of the company (Chart 7). Between 2003 and mid-2005, however, the CEO was almost continuously assessed more critically than the company. The reason for this is that, at the end of the 1990s, he had been presented in the media as a forward-looking strategist, but not as a CEO with a particular product or customer expertise. Until 2005, the media thus referred to the starting point of the strategic deliberations ("Welt AG i.e., World Inc.") and the actual gap to what had been accomplished.

Aside from the unsatisfying performance of the corporation as a whole, for instance compared to its competitor BMW, the ongoing public criticism of Jürgen Schrempp was one important reason for his premature replacement. Another was his perceived lack of expertise on many issues, including personnel: The announcement, in July 2004, that 6,000 jobs in Germany would be cut if certain cost reduction goals were not met, generated about 300 news stories in 1 month – more than a third of them with a critical bias. When, in September 2005, Schrempp's successor announced that 8,500 jobs would be cut, only about 100 stories appeared in the leading media. The lack of scandal had to do with the fact

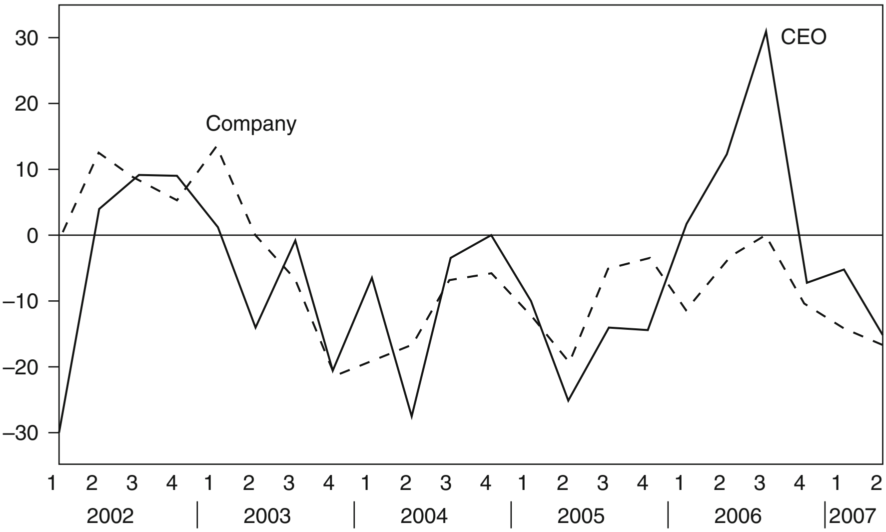

Chart 7 DaimlerChrysler – corporate and CEO image (balance of positive assessments minus negative assessments in % points)

that Schrempp's successor had an image as a successful and credible restructurer, while Schrempp himself was increasingly attacked for the size of his pay package, given the bad performance of the corporation.

When the change from Jürgen Schrempp to Dieter Zetsche was made public in July 2005, the share price jumped up. Zetsche, who officially took office in January 2006, was a positive dividend to the CEO communication for the first time in years. In the summer of 2006, DaimlerChrysler entered uncharted territory by integrating a comic figure representing the CEO as well as Zetsche himself into the product advertising campaign. The overhang of positive to negative assessment shot up, reaching a plus of 30% points. Yet again it failed to last very long, because the campaign continued to focus on making Chrysler an integral part and value driver of the DaimlerChrysler Corporation. When it became obvious that Chrysler was once again in trouble in 2006, some media outlets questioned the restructuring qualities of the new CEO, who, after all, had been responsible for the US affiliate since the beginning of the new millennium. The result was a substantial image deterioration of the CEO and the corporation as a whole. At the beginning of 2007, Zetsche then started to talk about a potential sale of the Chrysler division, and the short-term support of the financial markets and the media was not a long time waiting. As such, Zetsche's image remained more positive than that of his employer in the spring of 2007, although both of them were evaluated rather critically in the end.

Another difference between the personalization of Dieter Zetsche and Jürgen Schrempp is that Zetsche was positioned as the "Car Guy" again, and less as a strategic visionary. Since the German media had discerned a strong need for action to improve the quality of the Mercedes brand, the positioning of this topic was of major importance at the beginning of 2006.

What lesson can be drawn from the personalization of communication at DaimlerChrysler in the past years? (1) Strategy may and should play an important role in the image of the CEO, however, there has to be enough room to maneuver the image in the real world. Certain slogans such as “World Inc.” are catchy, but the boomerang potential is high, when that strategy is not or at least not immediately successful. (2) In order to achieve a balanced image for the top management, their connection to employees and the company’s products plays a significant role. This is particularly true for consumer products. (3) A new CEO can transfer previously proven expertise to his new position, thereby improving the company’s image – as it happened with Dieter Zetsche’s nomination as new CEO. Yet there is a danger of going too far with it. The positive image of the past only works for a limited amount of time, in case the newly set objectives aren’t met or people become impatient, because they had expected things to change much more swiftly. (4) In the case of listed companies, it makes little sense to communicate corporate strategy as the brainchild of just one person (the management board generally works collectively), since it does not corresponds to reality and leaves no room for mistakes.

Siemens

In the case of Siemens, too, the CEO changed between January 2002 and the middle of May 2007 – strictly speaking even twice (Vollbracht 2006). The nomination of Peter Löscher as a successor of Klaus Kleinfeld in May 2007, however, is not yet reflected in the data. The personalization in the years 2005/2006 was far above average, with a personalization of 32.3%, divided into 14.8% relating to the CEO and 17.4% to other top executives and the supervisory board. Yet these figures, as in the case of DaimlerChrysler, are not only an expression of active personalized communication on the part of the company, but also that of a generally increasing media attention at the occasion of a CEO change at one of the biggest German companies.

Throughout the era of von Pierer (until January 2005), the CEO and corporate image are largely parallel. At the end of his time in office, in particular, there is once again a clear CEO bonus. The personalization at the time of von Pierer was clearly put into the company’s service. In 2002, the share price and shareholder value played an important role in the coverage on him. This was the reaction to the disappointing performance of selected business segments, which ultimately led to job cuts. It is true that von Pierer also had to live with criticism of Siemens’ strategy and the staff cutbacks. But in the course of several trips abroad, also accompanying the Federal Chancellor, he was shown as the top representative and salesperson of the company, who brought home billions worth of orders and shaped the reputation of the German economy abroad. At the same time the media portrayed him as an expert on China and East Asia. The image factor of globalization thus played an important role in the communication around von Pierer.

He was criticized on restructuring measures and job cuts in Germany, but he was able to counter some aspects of this criticism through active communication in interviews and guest articles. Moreover, Siemens' communication was relatively spot on with popular opinion. One example is the negotiation about cost reductions through unpaid extra work in the uneconomical plants in Kamp-Linfort and Bochholt. Starting in 2003, the intensive discussion about the dire economic situation, high unemployment, and necessary reform measures prepared employees to accept so-called internal alliances for jobs, that is unpaid extra work in order to save their employment. In the spring of 2004, Siemens took advantage of this situation through intensive public communication by von Pierer and was largely endorsed by the media. The Süddeutsche Zeitung (26th June 2004) even ascribed model character to the deal at Siemens. The bottom line is that personalization at the time of von Pierer partly served his own image, but mainly the overall corporate goals. Communication was used to help solve the company's problems, while responding to society's concerns at the same time. In that way, it can serve as a model in some areas.

Under Klaus Kleinfeld, the tone and content of the CEO communication changed significantly. Much more so than under von Pierer, the media reported on his leadership style and remuneration. The image factors remuneration, expertise, and personality only exceeded the 10% mark in six of the twelve quarters, while in the case of Kleinfeld, they were always above 10%, mostly even above 15% during his ten quarters in office. This culminated in story by the German tabloid Bild-Zeitung on the planned 30% pay increase for board members: "The most insolent raise of the year." The subsequent delay of the measure, obviously a reaction to public criticism, did not relieve the pressure on his image.

Globalization, investments, and other focus points in the image of his predecessor played a clearly less prominent role in the coverage on Klaus Kleinfeld. Coverage on products and innovation, an indispensable image component for the CEO of a technology corporation, was also, compared to his predecessor, quite rare in Kleinfeld's media image. Personalization thus did not result in an image dividend for his employer. One could even say that, in view of the evaluations, he gambled away image capital. The more positive assessment since the beginning of the corruption crisis could not change this, because the image of the CEO was only marginally more upbeat than that of the company, and both were clearly in the minus (Chart 8).

The lessons that can be drawn from personalization in the communication by Siemens are: (1) A CEO can be placed as "chief salesman" and as diplomat for the company as well as for macroeconomics, which has the potential of compensating for image deficits caused by temporarily ailing business segments. (2) When it comes to hard cuts within the company, the CEO communication should be adapted to the prevailing climate of opinion. This does not mean that, only because of potential criticism, tough but necessary measures should be diluted. But it means that tough measures, at times when society is ready to make sacrifices, can even meet public approval. The responsibility for the restructuring process must be with the top management. But when the overall economic situation or that of the

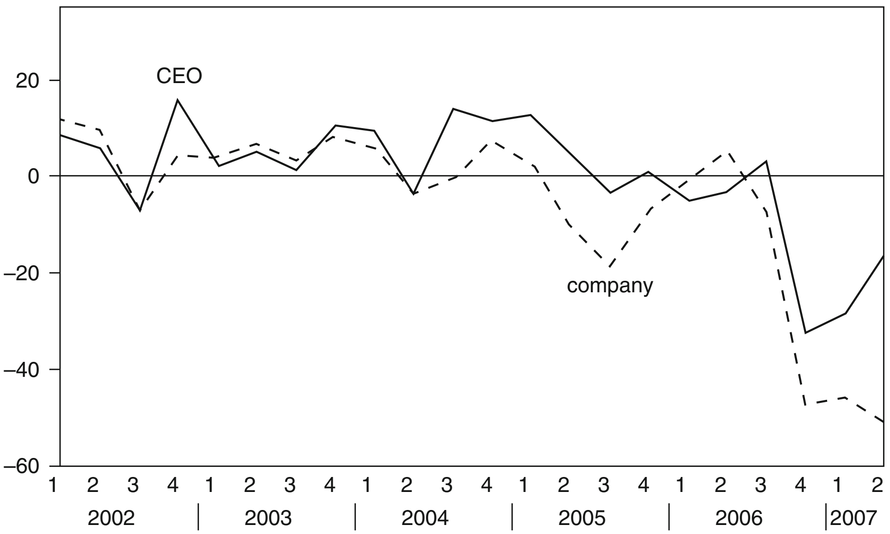

Chart 8 Siemens – corporate and CEO image (balance of positive assessments minus negative assessments in % points)

company is considered to be less critical, restructuring measures must be communicated in a particularly sensitive manner. In the case of Kleinfeld, his compensation turned into a stumbling block. At that point the media immediately pick up the image of "preaching water and drinking wine" – thus sapping the stakeholders' confidence.

Deutsche Telekom

Ron Sommer, Helmut Sihler, Kai-Uwe Ricke, Rene Obermann – the list of CEOs of Deutsche Telekom in the period between 2002 and 2007 reflects the battle of the former monopolist against merciless competition with regard to the right strategy and communication vis-à-vis their stakeholders. The personalization quota of 27.2% – of which 13.2% related to the CEO, 14% to other top executives and the supervisory board – was above average in 2005/2006, but not quite as pronounced as with Siemens or DaimlerChrysler.

In the second half of the 1990s, the Telekom privatization and the subsequent IPO brought a great popularity push to the former state-owned company and its charismatic CEO Ron Sommer – at least until the point, when the share price went into a free fall and the last buyers felt that they had been swindled out of the profit they had taken for granted. Since then Ron Sommer led an almost hopeless campaign, since his name was practically synonymous with the issue of shareholder value. In the first two quarters of 2002, the share of the image factor shareholder value/share price in the CEO's media image was 11.6 and 15.4%, respectively. Moreover, his standing within the company was increasingly questioned: The share of statements on the factor of "management" made up 23.3% in the first and 36.4% in the second quarter. Products and customer relations, the key to sustainable shareholder value, were hardly talked about in the context of personalization. The image of CEO Ron Sommer thus did not fit the perception of the Telekom Corporation. The supervisory board, lead-managed by the federal government, pulled the plug and nominated Helmut Sihler as a transition candidate. The German FAZ (11th July 2002) titled at the time: "From stock market star to bogeyman."

Helmut Sihler, former CEO of Henkel and reactivated retiree, was meant to be a temporary solution from the start, in order to prepare an orderly succession and "calm the waters" (FAZ 18th July 2002). During his short time in office, there was no personalization to speak of. If at all, it dealt his experience as a crisis manager, while the overall business situation came to the fore and the general business structure was at least temporarily confirmed. The CEO Sihler therefore appeared more like a "chief executive speaker" than a strategic operator.

Only when Kai-Uwe Ricke took office in November 2002 (until November 2006), did the image of the leading manager regain that of a chief executive operator. At the beginning of his term, he had the dubious pleasure of communicating a record deficit of 25 billion Euro (most of it from asset write-downs). But the new CEO started with a "leap of faith" (FAZ 21st May 2003), which transformed into a positive image dividend for the corporation over the period of almost 1 year (Chart 9). The CEO communication during that phase was shaped by a stronger focus on the topics of strategy, products, market position, and business outlook. For

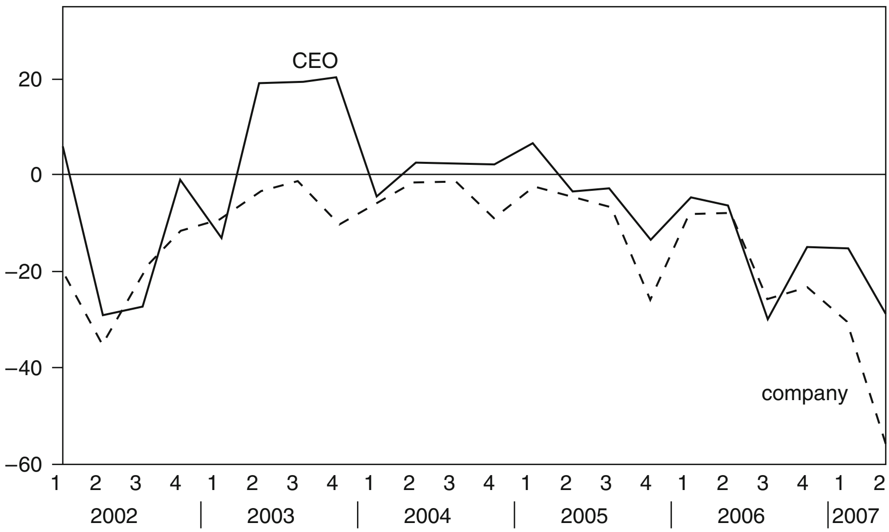

Chart 9 Telekom – corporate and CEO image (balance of positive assessments minus negative assessments in % points)

the first time ever, the issue of customer orientation showed up as a prime aspect in the CEO communication. From the point of view of communication, Helmut Ricke's personalization was conceived as both broad and focused at the same time. However, his strategy did not bring about the expected economic success. This is the reason for the creeping image loss for both the CEO and the company since the second quarter 2005. In CEO communication, too, the rule is that image follows facts (as long as they are communicated well). No perfectly crafted communication replaces the actual corporate success in the long run. It was therefore to be expected that the speculations about Ricke's successor would start up again. In September 2006, the CEO got some last-minute momentum, because the supervisory board authorized his reorganization plans. But in November his time had run out: After 4 years at the top, Ricke was replaced by Rene Obermann, chief of the mobile phone affiliate T-Mobile. Obermann, contrary to his predecessor, did not get such a pronounced beginner's bonus. Instead, he started with the reputation as a radical restructurer and cost saver, having managed the profitable T-Mobile affiliate. The most striking aspect of the era Obermann has been that the CEO communication centers on customer-related issues (to be precise on keeping and regaining customers). This is Obermann's main goal, and in contrast to his predecessors, he has achieved a corresponding positioning in the media.

Conclusion from the personalization at Deutsche Telekom: (1) An one-sided focus of the CEO, for instance on "shareholder value," may backfire – as the example of Ron Sommer has shown. To address mainly one stakeholder leaves much room for mistakes. (2) Personalization must tackle the company's perceived problems. It took years until CEO Rene Obermann came around to the corporate communication strategy to address problems of customer relations and customer retention.

Conclusion

Personalization, which has long established itself in political coverage, has also found its way into corporate coverage. This personalization manifests itself in the immensely increased significance of management topics in the reporting on the one hand, and in a rising share of the CEO and other top executives in corporate coverage on the other. The news factors of celebrity and negativism favor this kind of coverage, just as the business models in private and commercial media systems do. The numerous new formats that evolved since the beginning of the 1990s need "food," whether business channels, popular financial magazines, or expanded business coverage in the traditional media outlets. The logic of television, but not only that of television, demands more and more visualizations and "talking heads." CEOs are those talking heads. They are "ambassadors" of their company and as such they are under special public scrutiny.

Yet personalization manifests itself not only in a rising share of CEO coverage. It also means that issue reporting (such as on his strategy or product policy) is becoming less prominent year after year. Instead, aspects relating to his standing within the company are gaining in importance. Still, issues continue to be present in CEO coverage, and they are the resource that corporate communicators can use for managing their CEO communication. Karl-Heinz Heuse, CEO of Burson-Marsteller Germany, comments appropriately: “Both the CEO and the other members of the management board should assume a more active role in the internal and external communication – tailor-made and issue-related” (Burson-Marsteller 2006). Or to put it differently: The CEO’s reputation depends on his behavior in times of crises on the one hand, and on communicating a diverse and time-sensitive mix of topics on the other.

The CEO reputation is closely linked to that of the company, and corporate reputation, as an intangible asset, makes an important contribution to its market value. A systematic issue management for controlling the CEO reputation is necessary. It should be planned, executed, and evaluated with just as much care as a marketing campaign. With “CEO Capital,” Leslie Gaines-Ross, senior research fellow at Burson-Marsteller, wrote a practical guideline on how to manage the CEO communication efforts. And “Communication Performance Management” offers suggestions for controlling immaterial values, in this case communication (Brettschneider and Ostermann 2006). One element of the Communication Performance Management is an integrated issue management, which aligns corporate communication activities, including those of the CEO, with the corporate goals. This can be done by identifying issues that are important to the company’s stakeholders (among others with the help of issue scanning and issue monitoring). Corporate communicators must then prioritize them, support their communication (among others through a line of the day) and finally evaluate their efforts (among others with the help of media resonance analyses, web tracking, and market research data).

“Modern business scholars today . . . do recognize intangibles such as intellectual property, innovation, relationships, and talent as the bedrock of the world’s knowledge-enhanced economies. Now that the value of intangibles is recognized, the importance of the CEO as a significant intangible asset in its own right has also become more acceptable” (Gaines-Ross 2003). Once this is recognized, corporate communicators are more likely to be listened to. Those who are aware of the media logic and practice a professional issue management will be able to communicate with the production and sales executives at eye’s height within the management board. And the company benefits from it. A study on the 500 biggest companies showed that the market value of those companies, who have a communication expert within the board of directors, yearly increased by 6.6% above the stock market average (Heinisch 2006). A systematic monitoring of the CEO coverage and control of the CEO communication therefore do pay off – even more so, the stronger corporate coverage is personalized.

Monitoring and controlling the personalization systematically helps to make CEO communication more than a flash in the pan (which may help the CEO, but not the company). It promotes a sustainable development, which helps increase the value of the whole company. Helmut Maucher (2007), former CEO and Honorary

President of the Nestlé supervisory board, points out the necessity of such a sustainable development: "The top management must be interested in PR and external information, and it has to be available for it... There is a danger that the CEO actually distinguishes himself more than the company. This cannot be entirely avoided, but the CEO (who will change at some point) must do everything to concentrate the profile and image building onto the company."

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