How to Approach Reputation

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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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