Building and Maintaining a Strong Corporate Reputation:

A Broad Look at a Core Issue

By Michael L. Barnett & Timothy G. Pollock

What exactly is a corporate reputation? What role does reputation play in creating or destroying corporate value? Where do reputations come from? How do we measure them? How do we build and manage them?

Fortune recently named Apple the "Most Admired Company" for the second straight year. During the same period Silicon Valley neighbor Hewlett-Packard, a one-time *Fortune* number one Most Admired Company, fell even further away from the Top 50. Apple has the largest or near-largest market capitalization in the world, depending on the day. Yet it recently suffered the loss of its iconic founder and CEO Steve Jobs, and it has been the subject of high-profile criticism for labor abuses at its Chinese supplier, Foxconn. HP lost its CEO Mark Hurd to scandal recently, but he was quickly replaced by eBay's former celebrity CEO Meg Whitman. HP also endured the embarrassment of a failed new product last year with the introduction and rapid cancellation of its tablet computer. Both companies have faced their ups and downs. But Apple's reputation continues to soar, while HP's continues to sink.

These contrasting examples beg a number of important questions: What exactly is a corporate reputation? What role does reputation play in creating or destroying corporate value, or helping or hindering the pursuit of strategic opportunities? Where do reputations come from? How do we measure them? How do we build and manage them?

We gathered scholars from myriad disciplines – including management, sociology, economics, finance, history, marketing and psychology – and asked them to provide their perspectives on these pressing questions. The result: *The Oxford Handbook of Corporate Reputation*. Over the course of twenty-three chapters the *Handbook* chronicles where we have been and offers guidance about where we need to go as we strive to understand and shape corporate reputations. The eminent scholars who contributed to this *Handbook* define corporate reputation; distinguish it from other intangible assets; explain how to measure it; account for factors that influence it such as the stage of the firm's life, the firm's nation of origin, and the behavior of rival firms; outline its function and dysfunction as a regulatory mechanism; and explain how to establish, grow, and repair corporate reputations.

The *Handbook* is structured around four fundamental questions: 1) What is corporate reputation? 2) What *isn't* corporate reputation? 3) Why is corporate reputation important? and 4) How can corporate reputation be managed? Each chapter addresses one of these questions, contains a table of core contributions from the most influential studies in the relevant literature, outlines unresolved issues, and suggests means of addressing them. Below, we address each of these questions in more detail, and briefly describe how the associated chapters in the *Handbook* help to answer them.

What is corporate reputation?

To advance knowledge of a particular concept, it is first and foremost essential to define the concept you are attempting to advance. Academic studies and business press accounts have tended to run fast and loose with the concept of corporate reputation, implicitly and explicitly defining it in many ways. In the *Handbook*, though contributors were allowed to define reputation as they saw fit, they were required to provide a clear sense of how they invoked the concept. As one may quickly surmise from reading the chapters, there remains considerable variation in perspectives. But one scholar offers a new definition that captures all the essential elements of a reputation. He defines corporate reputation as "a collective assessment of a company's attractiveness to a specific group of stakeholders relative to a reference group of companies with which the company competes for resources." This definition captures how reputation creates value and provides criteria by which it may be measured.

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The value created by reputation is often spoken of as an important intangible asset, but as with the definition of reputation itself, it is often unclear what exactly this means. The *Handbook* explains how reputation can be assessed in terms of its: 1) *asset specificity* based on the signaling value of a firm's reputation with regard to its strategic character; 2) *asset accumulation* based on the firm's level of visibility or prominence; 3) *breadth of appeal* reflected in how favorably it is assessed by a broad set of stakeholders; and 4) *asset codification* based on the relative position assigned to the firm in various reputational rankings. Reputation is not "owned" by the firm in the same way a firm might own intangible assets such as intellectual property. Rather, reputation is part of an asset class called "social approval" assets and must be managed accordingly. Understanding the role of each of the listed dimensions and how they combine is essential to capturing value from a firm's reputation.

So how then does one measure this intangible asset, corporate reputation? Trying to perfectly measure reputation is a Sisyphean task, but it is important that we come as close as possible, because what gets measured gets done. Poor measures of reputation can lead managers to do the wrong things as they try to build and protect this valuable intangible asset. The *Handbook* takes a close look at extant measures of corporate reputation, provides assessments of these measures based on specific criteria, and offers recommendations for those who seek to create new measures. It also provides an exhaustive appendix of reputation measures from around the world.

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What *isn't* corporate reputation?

Other intangible assets are frequently confused with reputation, further adding to the difficulty in understanding what it is and how to manage and measure it. For example, status is often muddled with reputation. The confusion arises because both status and reputation deal with how observers assess a firm's characteristics and form expectations of its likely future behaviors, and they are both associated with similar outcomes. However, they differ in how these assessments and expectations are formed. Reputation arises from observation of a firm's behaviors (i.e., what you do), while status arises from a firm's affiliations and its relative standing in a social hierarchy (i.e., who you know). While status can yield a number of benefits to those who possess it, it can be untethered from behavior and thus serve as a less reliable indicator of actual performance. It's the difference between the "gentleman's C" student at Harvard and the valedictorian at a state university.

Corporate reputation is perhaps most often muddled with brand. Brands reflect the images consumers have of companies' particular products and services. For example, Proctor & Gamble has myriad brands under its umbrella, each perceived of in certain ways by current and potential consumers. In contrast, reputation reflects a variety of stakeholders' judgments of a firm; that is, reputation goes beyond how consumers view a particular product line. Thus, brand can be an important antecedent to reputation, and it's part of a firm's reputation management strategy, but it is narrower than reputation and does not capture reputation's breadth or value.

Firms, of course, can have bad reputations, but they can also be stigmatized, and these concepts need also be distinguished. Bad reputations generally arise from poor performance and may be specific to only certain activities or stakeholder groups. For example, Apple's reputation for design is unaffected by the recent labor problems at its manufacturer Foxconn. Stigma, on the other hand, arises from violating societal expectations and permeates the entire organization, rendering it "tainted" in its totality, as was the case for Arthur Anderson following its role in the Enron fiasco. This difference has implications for the reversibility of negative events and how they should be managed.

Why is corporate reputation important?

Reputation is important to firms because it can provide a variety of benefits, including reduced financing, advertising and supplier costs; increased access to new strategic opportunities and partnerships; greater ease in recruiting talented employees;

and greater good will with stakeholders when something goes wrong. Reputation is important to the economy and society because it facilitates economic transactions where markets might otherwise fail, by providing incentives for firms to behave in certain, predictable ways. As such, it functions as a form of non-governmental regulation. Firms regulate their behaviors because they recognize that there are financial, social, and even psychological penalties that accrue to the executives, firm and/or industry that exceed any potential economic benefit from behaving in unconstrained ways. But how and how well does this self-regulatory mechanism really work?

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The degree to which reputation is believed to serve as an effective substitute for formal regulatory oversight has varied over time. Skepticism of corporations and their trustworthiness has run high at various points in history, often on the heels of scandals. The utility and importance of reputation, and beliefs in its efficacy as a regulatory mechanism, have followed corresponding peaks and valleys. To observe the latest incarnation of this pattern, one need look no further than the claims of zealous free marketeers in the late nineties who proclaimed that banks did not need to be regulated because banks rationally wouldn't take actions to damage their reputations, and the subsequent calls for more stringent financial market regulations a decade later following the global meltdown of the financial system. When faith in the regulatory power of reputation is low, firms generally have welcomed formal regulation to maintain public trust in the enterprise.

However, the relationship between reputation and regulation is more complicated than mere substitution. Reputation is interdependent with regulation because regulatory institutions shape what stakeholders expect of firms. These regulatory institutions vary across countries, with some countries having very involved and established regulatory regimes and others suffering institutional voids. As well, regulators have reputations that they may struggle to manage. Regulators must manage how they are perceived if they are to effectively fulfill their duties and survive. To avoid blame for ineffective regulation, regulators may seek to forge a narrow domain of responsibility, thereby limiting their exposure and responsibility for areas outside their direct expertise. This provides an interesting counter-weight to the well-established idea of mission creep in bureaucratic government agencies; cognizance of the dangers of being exposed to blame may serve as a brake on tendencies toward empire building.

So, does corporate reputation ever actually work to discipline firm misconduct? Sometimes. Whether it does or does not depends on who is harmed. Penalties are only imposed if the misconduct affects those with which the offending firm has a business relationship. For example, instances of financial misconduct tend to incur significant reputational penalties, whereas, on average, the reputational loss from harming the environment is negligible.

Though ethically unappealing, these findings nonetheless provide a functional and realistic answer that brings into sharp focus the differing tasks performed by formal regulation and informal regulation through reputation. Reputation works as a regulatory mechanism in settings where the party harmed has a direct business relationship with the offending firm and can in turn do direct harm to the firm. However, reputation does not effectively regulate behavior that causes harm to those who cannot return the favor. Firms that harm non-transacting parties may still suffer significant *regulatory* penalties though, even if they do not suffer reputational penalties. Thus, thoughtful, targeted government regulation is still required, particularly in areas not protected by the counter-weight of an ongoing business relationship.

How can corporate reputation be managed?

Managing reputations is challenging because firms do not directly own or control their reputations – their stakeholders do. As such, managing corporate reputation is a continuous process that begins at firm founding, and is a function of reputational resources of the founders, the strategic actions firms take and performance history they build, and the ways they go about building and managing their networks. Regardless of the mechanisms used, the process typically unfolds in three stages: 1) attention generation, in which the new firm develops a public profile; 2) uncertainty reduction, in which it explains its function – and if necessary, that of its industry – to stakeholders via its strategic communications; and 3) evaluation, in which it demonstrates the competence with which it fulfills its function. The mechanisms employed by new firms can also be used – although perhaps to a lesser extent – by established firms, but the process through which a new firm's reputation is created varies in both focus and kind from that of established companies.

While the actions firms take and the information they provide to stakeholders have an important influence on their reputations, just as important to managing reputation is *how* this information is communicated. When stakeholders evaluate a firm, new or old, they evaluate not just the way the firm has acted, but also the way it communicates these actions. That is, the process by which information about a firm is disclosed affects how that information is perceived, and thus the influence it has on

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the firm's reputation. Some firms and their managers are able to build trust and understanding with stakeholders as a result of their manner of speaking, dress, body language, and other symbolic actions, while others breed distrust and misunderstanding. The smoothness with which Apple transitioned leadership of the company from Steve Jobs to Tim Cook, compared with the messiness and disarray surrounding HP's transition from Mark Hurd to Meg Whitman, provide stark contrasts in how (not) to behave and communicate in ways that build and reinforce a strong reputation. Yet these non-verbal aspects of communication and reputation management are often ignored. Firms should attend as carefully to the stagecraft and dramaturgy of corporate communications as they do to the content of what they say.

Perhaps the most awkward phases of reputation management are managing unexpected negative events and repairing damaged reputations. Chapters in the *Handbook* address both of these concerns. The chapter on managing expected and unexpected events highlights the importance of the *temporality* of reputation management; that is, looking beyond responding to the reputational challenges brought about by a single event and considering the processes necessary to effectively manage events that are anticipated and unanticipated, as well as positive and negative. These involve setting expectations and focusing attention before positive events and qualifying positive news after these events in order to manage future expectations. When negative events can be anticipated, they need to be framed as anomalous and not indicative of whom the company is. When they cannot be anticipated, they must be dealt with rationally and not defensively, with consideration for stakeholders' views. The firm should try to dissociate the negative event from the organization itself while acting swiftly to resolve the problem.

If a firm's reputation is damaged, understanding the specific characteristics of the problem, the organization, and its stakeholders shape the kinds of repairs that need to be implemented. The type of reputation-damaging event, whether the event can be strongly or weakly attributed to the firm, and the rarity of the event are all critical contingencies. So are the structure, culture, demography, history and market position of the company, and the characteristics of the stakeholders targeted. Failure to account for all of these factors can lead to identifying and implementing superficial repair strategies that often make the problem worse.

Using these criteria, it is easy to see why Apple's labor problems at Foxconn require different repair strategies than HP's bungled tablet introduction. The Foxconn event is not episodic, is weakly attributed to Apple, and labor abuses in China are far from rare events (their ubiquity, in this case, making them somewhat less problematic for Apple). The tablet introduction and failure was more episodic and rarer (although not as rare as HP would like), and was strongly attributed to HP. Apple's focus on design, the cachet it has with its customers and stockholders (the most relevant stakeholders), its market leading position, and its efforts to be transparent about the labor problems (which contrasts with its obsessive secretiveness about new product development) all allow Apple to take actions that show it is attempting to address the problem without having to make drastic changes. HP's history of top management strife and lack of innovative new products, on the other hand, made the tablet's flop more problematic to deal with, and required a more significant response than HP provided.

The amount of information available about firms and the speed with which it traverses the globe make understanding what corporate reputation is, how it creates value, its limits, and how to manage it effectively more critical than ever before. *The Oxford Handbook of Corporate Reputation* provides insights that are both theoretically enriching and practically useful in helping future research and practice successfully meet these challenges.

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