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In recent years, the spotlight has been put on Corporate America in a way that has not been seen since the Great Depression. The reasons for this are: the collapse of major companies such as Enron and WorldCom; the practices of some of the big accounting and audit firms, most notably Arthur Andersen; the performance, or lack thereof, by the corporate regulators; the questionable recommendations of analysts in some major investment banking firms; and the perceived greed and complicity of some notable CEOs. Newspaper polls suggest that many investors and members of the general public no longer trust Wall Street and corporate boards.[1] In order to try to restore the reputation of Corporate America, politicians and law makers are suggesting more stringent reporting and controls.

The rise and fall of Enron is one of the more prominent examples of the creation, use of, and then destruction of a corporate reputation. While Enron was riding high, the company helped to shape the energy trading markets in which it competed. What it did was noticed and commented on favorably by investment analysts, management consultants, the business press, business schools, and many managers. In 2001, it was ranked as America's 25th Most Admired Company in the annual *Fortune* poll. Only after it filed for bankruptcy on December 2, 2001 did it fall from favor and was savaged in the press.

Enron is the poster child for what some prominent commentators have called *Cowboy Business*.[2] In contrast, many consider Johnson & Johnson (J&J) to be the poster child for what has been called *Values-Based Business*.[3] Thus, in different ways, both these companies illustrate the power of their corporate reputations.

Does it makes sense for a company to try to form its reputation in such a way that it helps to gain a competitive advantage relative to its industry rivals?

This was exactly what Enron did and what J&J does. By presenting the company to the business and investment communities as being very innovative, Enron set out to develop a reputation for being bold and daring in the energy trading market. However, with Enron's bankruptcy and subsequent investigation, it was revealed that this reputation was built on shaky foundations. Some of Enron's practices were unethical (despite its having an extensive Ethics Code) and some risk management practices were not adequate. In contrast, J&J has developed a reputation for very socially responsible behavior by navigating with a code of ethics called "Credo" responsibilities. These stress the company's commitment to its employees and the broad health community. During the company's close scrutiny during the Tylenol crises in the 1980s, it strengthened this reputation.

In their own ways, both Enron and J&J followed the advice of Richard Branson, the founder of the Virgin group of companies in the UK. He has advised senior managers to build their corporate brand not around products and services, but around their company's reputation. In order to consider whether this advice to compete on one's corporate reputation is a sensible strategy, managers need answers to the following questions:

- What are corporate reputations and can they be crafted to provide an advantage over those of other industry rivals?
- How are corporate reputations validated?
- What type of reputation should be fostered?

Implicit in Branson's strategy is the development of an organization's desired reputation and the communication of this to key stakeholder groups. This strategy contrasts with the more evolutionary approach to corporate reputation management adopted by many organizations. Here, corporate reputation is an artifact of past behavior and an afterthought of senior management.

What Are Corporate Reputations and How Are They Formed?

To provide a common language for the following discussion it is necessary to define the term "corporate reputation" and to describe how a good reputation is formed. Figure 1 shows such a model and suggests how corporate reputations may be used.

A dictionary defines a reputation as the estimation in which a person or thing is held by other people. A corporate reputation is an overall evaluation that reflects the extent to which people see the firm as substantially "good" or "bad."[4] Good reputations foster trust and confidence, bad ones do not. From this perspective, a corporate reputation may produce a halo effect whereby a person may judge newly revealed characteristics of the company as better or worse than they really are.[5]

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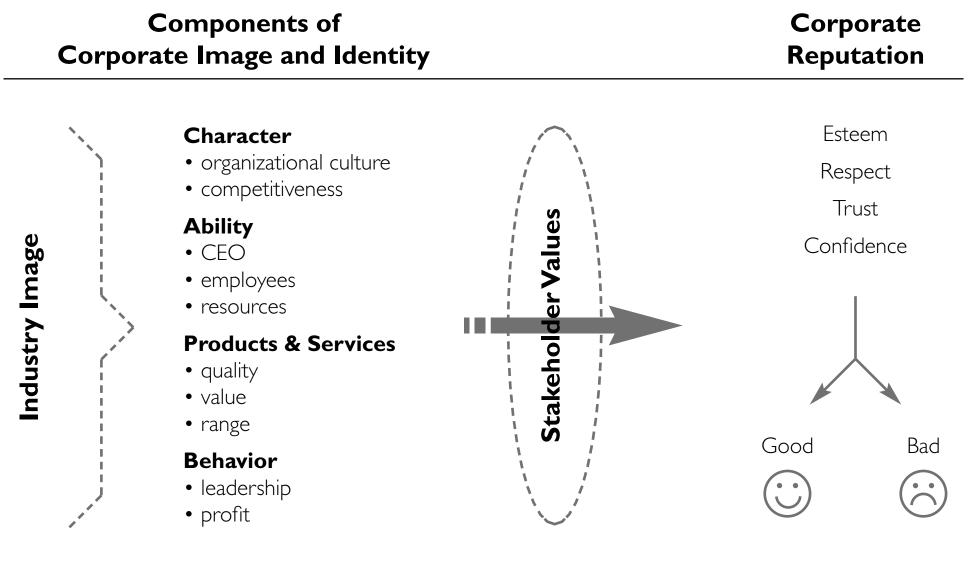
A complementary way to conceptualize corporate reputation is as a multidimensional construct. From this perspective, the reputation a person holds of

FIGURE 1. The Formation of Corporate Reputations



an organization is composed of a set of beliefs about it and the industry in which it operates. This representation of corporate reputation has been variously called "corporate image"[6] and "corporate identity."[7] Corporate image is a person's beliefs about an organization, and corporate identity is the attributes used to describe an organization.

Thus, corporate image means that we are talking about people's perceptions of the organization and answers the question "What do people think about you?" Corporate identity refers to the way that the organization presents itself to its stakeholders and answers the question "Who are you?" An organization develops and highlights the parts of its identity that it hopes will foster a better image than its rivals in the minds of key stakeholders. If this occurs, the organization is said to have a good reputation.

The disciplines of accounting, advertising, corporate communications, graphic design, economics, marketing, psychology, organizational theory, sociology, and strategy have all had an interest in corporate reputations.[8] A review of this vast literature suggests that corporate reputations are formed through the process outlined in Figure 1.

Research suggests that people form their beliefs about an organization based on their relationship with it and their knowledge of its character, ability, products and services, and behavior. This knowledge may be based on the individual's relationship with the organization, its past behavior, and what other people have said about it. Each of the beliefs in Figure 1 are composed of a number of supporting beliefs, examples of which are shown in the left of the diagram. Typically, the list of beliefs selected to describe an organization is done to reflect the concerns of a particular stakeholder group. For example, when

Fortune magazine polls industry analysts and managers in its annual surveys of America's Most Admired Companies, it measures the beliefs about each company with regard to: financial soundness, degree of innovativeness, product quality, ability to develop and keep key people, management quality, asset use, community and environmental friendliness, and investment value.

Various scholars have proposed that an individual's reactions to an organization are contingent on the amount of congruence they perceive between the organization's character and their prescriptive beliefs (or values) about appropriate corporate behavior.[9] Thus, beliefs about the organization are mediated by the individual's values to form their reputation of the organization. The process by which this happens can be thought of as one of "identification," which occurs when the individual thinks that there is a good fit between their values and their beliefs about the organization. In classical attitude theory, these values are sources of evaluative or importance weights for the corporate image beliefs—e.g., the importance of the organization being the market leader or not having a detrimental impact on the environment.

The arrow in Figure 1 links the perceptual construct of corporate image to the emotional construct of corporate reputation. It also captures the relational aspect of reputations.[10] That is, an organization with a good reputation is one with an image that fits the values of the individual, and which, when it is relevant, fosters a good relationship with the person. Over time, what is learned more permanently about the organization and is accepted (or rejected) is the "super-belief" of the overall goodness or badness of the entity.

The right-hand side of Figure 1 shows that good reputations are valuable because they enhance trust and confidence in the organization such that the individual feels that "it is safe to do something with the organization"—such as purchasing its stock, applying for a job, buying its products and services, not boycotting during a crisis, and so forth. These outcomes can benefit the organization in its various markets, namely, for employees, customers, and public opinion. Various research has also shown that companies with a good reputation (relative to others in their industry) are better able to attain and sustain superior profit outcomes over time.[11] Thus, good corporate reputations have a number of positive payoffs.

However, for an organization to use its corporate reputation as a competitive weapon it must instigate a set of programs to shape its identity, namely, its character, ability, products and services, and its behavior so that these will be evaluated favorably by its key stakeholders—relative to that of its industry rivals. For example, J&J's Credo helps to shape its internal culture and its behavior towards its employees, the medical community, and customers. Southwest Airlines' employee selection practice provides the ability to deliver a more enjoyable flying experience than its competitors. These types of programs are designed to create a desirable image and set of relationships with key stakeholders. They do not always work out as planned because stakeholder values can be misunderstood, programs can be poorly executed, or communications poorly designed.

How Are Corporate Reputations Validated?

For a corporate reputation to be useful as a competitive weapon, the organization's identity and behavior will need to be periodically validated. For J&J, a broad range of customers use their products on a regular basis. For investors, analysts, and the business press, it is relatively easy to understand what the company does (its business model) and thus collect pertinent information to validate its desired character (as outlined in its Credo), ability (such as management quality), products (their range, price, and quality), and performance (such as its triple bottom line measures of economic returns, social responsibility, and environmental stewardship). When dealing with the press, J&J is open, transparent, and easy to work with. In sum, J&J is a very good all-round company. In 2001, they were rated by analysts and managers as America's 9th Most Admired Company in the *Fortune* poll—better than Enron, but not by much.

Enron operated in a different and mysterious world. They traded other company's products, and understanding how they turned a profit was difficult—even, it seems, for many of its employees. Thus, it was much more difficult to validate some of the key components of their corporate identity. However, they attracted the attention of the business press because of their spectacular financial performance. For investors and employees who valued such financial performance, they became a company that was held in high esteem. Enron's reputation for this group was enhanced by the favorable commentary it received in the press. To help solidify this reputation and broaden the company's appeal to other stakeholders, Enron also relied upon the reputations of others.

Enron used the reputations of a variety of people and organizations, most notably that of its Board of Directors and their audit firm, Arthur Andersen. Many people believed that if Arthur Andersen certified Enron's accounting practices and its profits, then the financial anchor-point of the company's identity could be trusted. They also used the reputations of the business press. If respected business magazines such as *Business Week*, *The Economist*, the *Financial Times*, *Forbes*, *Fortune*, and the *Wall Street Journa*l were all praising the company, then it must be good. Enron used the reputation of the world's best management consulting firm, McKinsey & Company. McKinsey conducted twenty separate projects for Enron and a McKinsey director regularly attended Enron board meetings.[12] Enron used the reputations of the top U.S. business schools. The company recruited hundreds of their top graduates and was the subject of various flattering case studies. Using (or borrowing) the reputations of others is the age-old strategy of gaining respect by association.

In the case of Enron (and Cendant, Global Crossing, Sunbeam, Tyco, Waste Management, WorldCom, et al.) another question is: "How could they fool so many people for so long?" One reason is related to the halo effect noted earlier. It is called confirmation bias. Another reason is that most people have a self-serving bias that influences the way that they interpret information. Psychologists have noted that individuals, even good auditors, tend to: seek confirming information for what they think should be true; neglect to search for disconfirming evidence; and dismiss evidence that does not support current beliefs.[13] Thus, there is a natural tendency for many people to confirm their own current beliefs.

In their book *How Companies Lie*, Larry Elliot and Richard Schroth outline how companies can also make it difficult for other people to validate their claims.[14] The tactics include management lying, accounting trickery, financial engineering, the fog of corporate complexity, and deceptive reporting. Thus, the modern corporation has many ways with which to fool people who would like to validate a company's identity.

What Type of Reputation to Foster?

Two basic options are either to foster a broad-based "good" reputation that will resonate with all stakeholders or one that is anchored to a specific identity attribute that is highly valued by one or more key stakeholder groups. Enron and J&J provide examples of each approach. Enron's identity was primarily anchored to its innovative deal making, and its financial performance was a badge of its success. This image was designed to appeal to (potential) employees and investors. As a maker of healthcare products J&J has a wider range of key stakeholders than Enron. Hence, its identity is anchored to its broad-based Credo Responsibilities, and its measures of success are the value it creates for all its stakeholder groups. Thus, the two companies set out to build different types of reputations—Enron more narrowly focused and J&J more broadly focused. The cosmetics company The Body Shop initially built an even more broad-based reputation than J&J. It rested on the three identity pillars of economic, social, and environmental performance and was designed to appeal to everybody. This diversity across companies is common practice. It is driven primarily by the range of stakeholder groups that senior management considers important for success. A good way to understand which stakeholders are most important is to examine the organization's internal statements of intent and measures of control.

Internal Statements of Intent

Many organizations have one or more internal statements that describe the desired image and stakeholder relationships that it is hoped will enhance their corporate reputation. For J&J, the most important of these is its Credo code of conduct. Other companies use the formal Strategic Plan, the Mission or Vision Statement, or a Code of Business Ethics. Some companies also have a statement of their Corporate Brand Value Proposition, that is, what the company brand name is to stand for inside and outside the organization.[15]

The governance principles of an organization will also provide insight into how reputations will be formed and protected. For example, Arthur Andersen had a Professional Standards Group to review and pass judgement on difficult accounting, auditing, and tax issues that faced its local offices. However, the local engagement partners had the authority to ignore this advice—which happened in the case of Enron.[16] In the various internal documents and committees of an organization reside its formal statements of company-wide ethics and behavior—and implicit in these is the prioritization of stakeholders.

Internal Measures of Control

The standard accounting and control systems are the most prominent internal mechanisms that many organizations have adopted to manage reputation risk.[17] Two other measures for reputation management are the Balanced Scorecard and Triple Bottom Line reporting. The Balanced Scorecard is a metaphor that has been applied to get managers to focus on four perspectives of their business, namely, financial, customer, internal business process, and learning and growth. The basic idea is to monitor short-term financial performance, the building of longer-term capabilities, and the extent to which the needs of customers, suppliers, and employees are met.[18] This measurement system is largely silent on the broader issues of corporate governance and the expectations of external stakeholder groups that are not directly linked to the organization's value-creating activities. Thus, while it supports building a broad-based corporate reputation, it is silent about an organization's social responsibilities.

Triple Bottom Line is another clever metaphor that has been widely, and loosely, used to get managers to focus on their organization's corporate social responsibility—in particular, the issues of economic, social, and environmental performance.[19] When used as a measurement system, its aim is to provoke greater corporate transparency and accountability. In this way, these measures can have a direct impact on building a broad-based corporate reputation.

While the Balanced Scorecard and Triple Bottom Line are both "big picture" measures of control, what is equally important is the more personal controls that are instigated through a business unit's or an individual's Key Performance Indicators (KPIs). Corporate reputation seldom appears in these KPIs, and thus it is easy for employees to think that "what is not measured, doesn't really matter."[20]

The Board and the CEO

Regardless of the internal statements of intent or the key performance measures adopted to control activities, it is the top management of the company that sets the tone of the organization. Boards and the CEO have the ultimate responsibility for setting the broad parameters of the corporate identity and reputation as well as for ensuring that these are maintained. With advice from their communications advisors (such as corporate affairs, public relations, and marketing), the executive management team should make a considered decision about whether or not to compete on the organization's reputation.

In 2002, a task force of the World Economic Forum signed a joint statement on Global Corporate Citizenship.[21] This initiative highlighted enhancing corporate reputation as a clear business driver of good corporate citizenship, which in turn will help to protect a company's license to operate. It also reported a growing trend for companies to produce a separate corporate social responsibility or sustainable development report. Thus, many world business leaders now have corporate reputation on their formal agenda.

Should an Organization Compete on Its Reputation?

Branson's competing on reputation strategy uses the corporate brand name to signify something important or distinctive about the organization or its promise to stakeholders. Marketers often refer to this as a "branded house" strategy.[22] The branded house approach reflects an organization-wide view of competitive advantage. Here, the corporate reputation is an intangible asset of the organization that is difficult to imitate and that may help to achieve sustained superior financial performance.[23] Using corporate reputation to gain a competitive advantage reflects a resource-based view of competitive strategy.

Not all organizations choose to follow Branson's advice and publicly trade on their corporate reputation. For these organizations, corporate reputation is *useful* rather than *strategic*. Being perceived as "good" not "bad" is advantageous, but it is not considered essential for marketplace success. For example, in the various consumer markets in which it competes, Procter & Gamble promotes its product brands rather than its corporate brand. This approach is known as a "house of brands" strategy.[24] There are a number of circumstances when an organization may try to compete on its reputation. There are other circumstances when it may be wise for the organization to keep a lower profile in the market.

Reputation Is a Credible Signal

The disciplines of economics and corporate strategy have a long history of studying how reputations facilitate competition. One finding is that a company's reputation with a specific group acts as a signal that summarizes its past behavior and which can be used to forecast future actions.[25] For example, prior to the first Tylenol crisis in 1982, J&J's reputation suggested to customers and regulators that it could be trusted to behave in a socially responsible manner. Its subsequent actions validated these expectations. In the world of head-to-head competition, Anheuser-Busch has developed a reputation in the beer market for being a very tough competitor. Over the years, the company claims that this has helped it deter new entrants into its target markets.[26]

Thus, reputations can signal broad-based "goodness" (J&J) or something more specific (Anheuser-Busch). In order to remain credible signals, they will need to be periodically demonstrated and thus verified—such as by J&J's behavior in the Tylenol crises and by Anheuser-Busch attacking a competitor. In each case, the reputations are of strategic importance because they are an efficient way to set the expectations of stakeholders and competitors. This in turn helps people to self-select the companies they want to associate with or to avoid.

Stakeholders Must Trust the Company

Economists have shown that when organizations are involved in repeated transactions with other firms or customers, reputations are important for establishing standards of behavior, ensuring contract compliance, and resolving disputes.[27] John Balmer has labeled this the DEAR process—Decisions are Evaluated Against Reputation.[28] These effects are important when customers and other important stakeholders have to trust the company in order to feel confident about buying its products and services or doing business with it. This will be particularly important when the organization sells credence goods (namely, products and services where the attributes and benefits are seldom directly experienced).[29] Also, in the airline industry, the government and passengers need to trust that the company has carried out its maintenance and safety procedures. In the pharmaceutical industry, we need to trust that the companies are marketing safe drugs. Likewise in banking, professional services, and education, trust and confidence in the organizations are important ingredients of doing business. In situations where trust and confidence in the company are necessary for stakeholders to support its basic operations, the company can establish a good reputation and then post this as a "performance bond" to back every sale it makes and every stakeholder relationship it builds.

Contrast the examples above with the television industry. While television networks spend lavishly to enhance their corporate image, most viewers cherry-pick programs to suit their current needs. The station is less important than the program.[30] Thus, competition for viewers among the stations happens primarily at the program level not the corporate level. However, a good corporate reputation may be useful with advertisers and media regulators.

Who We Are Is What We Sell

The Body Shop chose to use its corporate reputation as a strategic factor in the way that it competed in the cosmetics market. Anita Roddick personified the corporate brand and promoted the company's products under the general corporate philosophy of "profits with principles" or "doing well by doing good." Through its early years, this was a unique corporate positioning that appealed to the cost-conscious "green" consumers and to employees who supported these causes. In essence, it was an appeal to "buy the company's products because of the people we are."

The Body Shop is an example of a corporate reputation that plays a key strategic role for the company. It is the anchor-point of their differentiation in the cosmetics market. It has proven successful for the company because it fits the values of many different stakeholder groups. Just as important is the fact that there is a group of customers that the company can target that is big enough to support their business model.

In contrast to the Body Shop's "branded house" approach, many of the other cosmetics companies use a "house of brands" approach to appeal to different target segments of customers. If the name of the cosmetics house appears on its various brands (often in small print), it is not designed to signal any broad-based goodness of the company, but rather something that supports the aspirational image associated with the particular brand of cosmetics. The appeal here is to "buy this brand from this company" that has credibility for being able to create a feeling of such things as beauty, desire, reward, and indulgence.

We Sell a Commodity

When a company sells what is essentially a commodity, it is difficult to differentiate the offering from other competitors. In some of these industries such as electricity and telephone calls, there is also an explicit government-backed community service obligation—that the power will stay on and the phones will keep working. In these circumstances, relying on the broad-based good reputation of the company—as a point of distinction and as a signal to both government and the community that the company understands its social responsibility—is a viable strategy. Often, the reputations of individual "commodity companies" are supported by sponsorships and specific acts of involvement in the community.

The role of a good reputation here is to constantly signal the company's community service. In this way, it will act as an "insurance policy" in the event of minor service problems, that is, it gives the company a better chance to recover the situation and gain a more sympathetic hearing by the media. However, this type of reputation-based insurance policy has a limited scope of application. In the event of a major crisis that is attributed to the ineptitude of the company, public displeasure will be only partially defused by a good reputation. Also, the publicity that surrounds the crisis will inevitably undermine some key characteristics of the reputation (as outlined in Figure 1).

We Are the Major Game in Town

In some countries, one organization is a (quasi) monopoly in its industry. In some communities, an organization dominates its environs (e.g., Oxford University in Oxford, UK). In both these cases, competition is not so much for customers as it is for employees and the re-certification of the organization's license to operate. Government (public sector) organizations face similar circumstances.

When an organization is the major game in town, two things may happen. First, the organization's identity and reputation help to define the "town." In this way, a good reputation helps both the organization and its community compete for talent and resources. Second, big organizations often become very introspective and lose sight of the interdependence of commercial and social objectives.[31] There is a tendency for the organization to do what it believes is right and fail to appreciate that this may be contrary to the public's perception of the right thing to do. Such introspection can place a corporate reputation at risk and bring into question the organization's license to operate.

Target Customers Are Suffering from Information Overload

Information overload is now a common phenomenon. It often manifests itself as too many choices and too many advertisements hyping these choices.

John Rossiter and Larry Percy suggest that for non-expert buyers in high-involvement (or high-risk) purchase situations (especially those where the motivation for the purchase has a negative origin, such as problem removal or problem avoidance), deciding to buy from a respected and trusted company simplifies the buyer's decision-making task. Buying from a company with a good reputation can save the "information overloaded" buyer from having to process all the available information prior to making a choice.[32]

One of the most famous examples of a corporate reputation working in this way is captured in the old saying that "nobody ever got fired for buying IBM." When IBM was the clear market leader in the mainframe computer market, many companies bought its computers partly because most of the managers in the buying group who were making the decision were non-experts. Also, many of these managers regarded being involved in a big IT purchase as a potential career-threatening endeavor—as they still do today. IBM's market leadership provided credibility.

Hide the Company from Public View

There are some circumstances when a company should not try to compete on its reputation—either in the market for employees or customers or investors. For example, in demonized industries where the core business is seen as fundamentally objectionable by large sections of the community (such as big tobacco, pornography, the arms trade, and nuclear power), individual companies struggle to present themselves as good. Here, the reputation of the industry overwhelms most attempts by an individual company to say that it is inherently good—such that many people will not work for, buy the products of, or invest in such a company.

Altria, the parent company of the operating companies Philip Morris, General Foods, Kraft, Jacobs Suchard, and Nabisco, is an interesting example of the dilemma faced by these companies. The company says that its name change in 2003 was to reflect the diversified nature of the group. Its critics say that the name change is designed to try to distance Philip Morris from tobacco. A visit to the Altria web site outlines the company's social responsibility principles and highlights a paradox.

> Each operating company has been examining these [corporate responsibility] issues to its own businesses and geographies. . . .
>
> Our companies have not yet determined the degree to which it makes sense for them to formally incorporate these evolving concepts into their management systems.[33]

The Altria example illustrates that a demonized company can make statements about social responsibility but find them difficult to implement in a meaningful way. An alternative strategy here is to identify and deal with sympathetic employees, customers, and investors; and in the wider community, the company should make sure that any commercial success is not flaunted to the public.

In industries that many people describe as "bad but necessary" (such as big oil and forestry), some companies will try to foster a broad-based good reputation. This can be useful to keep some public pressure groups, journalists, and politicians at bay, but it is arguable whether this will be a source of strategic, competitive advantage—even for those companies with a visible retail presence. For example, many years ago the Chevron oil company conducted a study to discover which U.S. oil company was the most trusted to handle an environmentally sensitive project in a responsible manner. There was good news and bad news for the company. The good news was that Chevron was the most trusted oil company. The bad news was that it was "second to none." That is, no oil company was really trusted.[34] This industry effect means that a company's reputation is partly its own and partly its industry's.[35]

Over the years, Shell has been targeted by various Non-Government Organizations (NGOs) for its lack of environmental stewardship and social responsibility. Shell has responded to this criticism through corporate advertising and by publishing a report card to show its progress on becoming a better corporate citizen.[36] This corporate reputation-building activity is useful to some of their operations but may not be as strategic as many people believe. It is useful because it helps alleviate the concerns of some NGOs and governments in the countries in which it operates, because it presents a good identity to those retail customers who are actively concerned about corporate social responsibility, because it helps lift employee morale, and because it may focus the hostile attention of an NGO on one of the other companies in the industry.

While Shell has an active program of reputation risk management and enhancement, it should be noted that all the major oil companies have corporate social responsibility programs. Also, the main reason that a resource-based company such as Shell wins in its markets is that it has a set of privileged assets—oil reserves, refining capacity, and (retail) distribution coverage—relative to its competitors. These assets and their deployment are more important to the company's competitiveness than the goodness signaled by its brand name. For example, the relative price and the number of retail outlets are more important long-term drivers of retail sales and market share than the company's social responsibility program. Rather than exhibit loyalty to Shell or any other specific oil company, many customers buy the most convenient brand(s) for this type of low-involvement product.[37] Hence, consumer behavior and competitive parity in corporate social responsibility initiatives suggest that broad-based corporate reputations provide limited scope for differentiation in such "bad but necessary" industries.

Finally, there are industries that people will describe as "bad but fun"—such as alcohol, gambling, and fast food. Here we sometimes see the industry changing its identity to hide from the negative associations of its activities. For example, over the years the "gambling" industry has renamed itself the "gaming" industry. Sometimes a market leader will try to change the identity of the industry—as shown when McDonald's called its outlets "family restaurants." Here the idea is to change people's anchor point for the industry and in this way decrease its negative impact on the images and reputations of all participants. However, a better strategy for companies in these industries is, in consultation with key stakeholders, to develop a responsible Code of Conduct for the marketing and consumption of their products.[38] When this is established, the opportunity arises for individual companies to use their reputations as a strategic asset.

Summary

In some industries, it is important for competitors to have a broad-based good reputation. Trust and confidence in the organization is a strategic factor in its success. Those organizations that lead their rivals in this endeavor can gain a competitive advantage. In other industries, the establishment of a good corporate reputation is anchored to an attribute of the organization that is of particular importance to target customers and/or a key stakeholder group. In both cases, corporate reputation can be a strategic asset that provides a source of potential competitive advantage.

Promoting One's Corporate Reputation

An organization that seeks to compete on its corporate reputation does so by choosing to promote some of its identity attributes or to publicly trade on its good name. In both cases, the corporate brand name is used to direct attention to the organization as the source of some type of communication, such as advertising, press releases, sponsorships, community activities, and investor relations. Advertising theory provides insight into how three key attributes of the organization's identity affect the processing of its communication—that is, how an "organization-as-presenter" can assist persuasion.[39]

As noted earlier, corporate image is the descriptive beliefs about an organization. However, these beliefs need to be translated into a set of emotionally weighted beliefs before they become persuasive. Persuasion results from the stakeholder learning about the organization and accepting its claims. Learning is facilitated by the organization promoting its general good reputation or some particular identity attributes. Advertising and publicity that features the organization and its "star" products, services, and/or people is often used for this purpose. (The Philips electronics company has used this approach for many years.) Acceptance, or the stakeholder's personal agreement with the organization's claims, is a combination of both learning and emotion. In the discussion of Figure 1, emotion was conceptualized as the "fit" between the person's beliefs about the organization and their values and relationship with it.

For an organization to be a persuasive source of communication, it must be perceived as either:

- Credible, e.g., expert, objective,
- Attractive, e.g., likable, similar to the stakeholder, or
- Powerful, e.g., authoritative, influential.

That is, the organization's corporate identity must project one or more of these characteristics in order for its reputation to be persuasive. By "persuasion" it is meant that the stakeholder's recall of the organization's reputation will cause him or her to have more trust and confidence to do something with it.

The question then arises as to how can an organization present itself as credible and/or attractive and/or powerful? John Rossiter and Larry Percy suggest that because claims made by the organization will be carefully considered, they should be:

- emotionally authentic (and this needs to be checked as it will vary across stakeholder groups), and
- convincing, that is, pitched to build on, or gently refute, the target stakeholder's current beliefs.[40]

The Costs of Competing on Your Reputation

Studying the histories of companies with good and not so good reputations quickly suggests that it is hard to be good. There are many temptations for boards, managers, and employees to ignore the virtuous pronouncements contained in the formal statements of the organization. For example, Enron had a Code of Business Ethics. However, at a board meeting in Fall 2000, the board agreed to suspend a clause in the code of ethics to allow its chief financial officer to run some partnerships with which the company would do business. This directly violated the principle that the company would not do business with another entity that was controlled by a full-time officer or employee.[41]

The Triple Bottom Line and other broad-based perspectives on corporate reputation management derive their legitimacy from what is known as the social entity conception of the corporation.[42] That is, all companies are "tinged with a public purpose" beyond paying their fair share of taxes and obeying the laws of the land. Under this model of the corporation, social and environmental concerns are deemed to be just as important as economic returns to shareholders. However, broadening the responsibilities of a company like this and publicly promoting these values comes with some additional costs.

One obvious set of costs are those that relate to compliance. Maintaining a good reputation requires constant vigilance. The actions of a rogue employee can quickly damage such a reputation. Also, it is easy for a company to pronounce its good intentions but fail to put in place formal procedures to ensure and measure compliance. As the HR saying goes—"people will do what is inspected, in preference to what is expected." Thus, managers, especially those at the top of the organization, need to have key performance indicators that measure reputation performance.

A number of organizations now produce corporate reputation rating scorecards. One of the most notable is *Fortune* magazine's "America's Most Admired Companies." There are many others produced by newspapers (such as the *Financial Times* and the *Wall Street Journal*), research companies (e.g., MORI), and research institutes (e.g., <www.reputationquotient.com>). What all these have in common is that they generate debate about the validity of the measures and thus the ensuing rankings. Measurement issues aside, the key management issue here is "does a company gain by being rated in the public domain—especially when it has no control over being included in the ratings?" Being ranked at the top of the list is good for internal morale and external perceptions. However, there are only a few such positions available. Being rated at the bottom of the list can lead to a commitment to improve (a good outcome if the measures are meaningful) or the feeling of an unfair outcome.

One situation where the costs and benefits of playing in a public reputation rating game are well recognized is the business school rankings produced by publications such as *Business Week* and *The Financial Times*. Here the top (20) schools clearly benefit from the ranking—by attracting better business support, faculty, and students. They also actively manage to improve their ranking. However, for a school ranked say 53rd and clearly labeled as third tier, it is arguable that this rank plays a useful role in their marketing and fundraising.[43] What this example illustrates is the saying that "if you play by the ratings game you can die by the ratings game."

A third set of costs when publicly promoting a good corporate reputation involves the closer scrutiny of the organization, both its activities and its principal officers. In a world populated by inquisitive journalists, publicity hungry NGOs, and the Internet, any claim about a values-based reputation and any competitive advantage that is seen to be derived from this will invite close scrutiny. It is hard for big companies to have an exemplary record of behavior and a reputable group of executives. For example, an issue that bedevils many large public companies is how they reward their executive managers. Stock options and multi-million dollar bonuses are perceived by many individuals and public commentators as greedy. Thus, the question is often posed as: "Can a company really be good if its executives are perceived to be greedy?"

Conclusions

How desirable is it for an organization to publicly compete on its corporate reputation? To make a reasoned judgement, managers need to understand how good reputations are formed and maintained. This understanding suggests that the organization's behavior is the prime determinant of its reputation. This will be driven by its overall system—such things as its strategy, business process, culture, controls, employees, and governance. Another crucial reputation driver is the value proposition offered to customers Also, the integrity of the top team —the Board, CEO, and executive managers—plays a crucial role in personifying and creating trust and confidence in the company. Because different stakeholder groups often hold different reputations of an organization, managers need to address the problem of achieving a balance among the competing interests of their stakeholders. These issues, together with the additional costs associated with maintaining a good public reputation, make competing on the back of a good corporate reputation a complicated, though potentially valuable, source of competitive advantage.

The key to success is to make sure that the good corporate reputation actively supports the organization at the places in the market where it really competes. These crucial points of competition can be anywhere in the company's value chain, from resource procurement through to customer retention. Strategic planners will recognize these crucial activities for their organization and thus be able to answer the simple question: Is our corporate reputation simply useful or strategic at our primary points of competition? If it is useful, then the company should actively invest in the development and maintenance of a good reputation. However, if it is strategic, then it should also be communicated to all of the company's stakeholders.

In sum, a corporate reputation reflects the organization's strategy, culture, and values. A good corporate reputation signifies trust in the company; creates an emotional and intellectual bond with employees, target customers, and other important stakeholders; and acts as the source of authority and credibility for all the organization's dealings.

Notes

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7. For example, see J.T Balmer, ed., "Corporate Identity and Corporate Marketing," *European Journal of Marketing*, 35/3-4 (2001), special issue.
8. Often these literatures use the terms "corporate identity," "corporate image," and "corporate reputation" to refer essentially to the same construct. Examples are: D. Bernstein, *Company Image & Reality* (London: Cassell, 1984); W. Olins, *Corporate Identity* (Boston, MA: Harvard Business School Press, 1989); C. van Riel, *Principles of Corporate Communication* (London: Prentice Hall, 1995); C. Fombrun, *Reputation: Realizing Value from the Corporate Image* (Boston, MA: Harvard Business School Press, 1996); M. Schultz, M. Hatch, and M. Larsen, eds., *The Expressive Organization: Linking Identity, Image and the Corporate Brand* (Oxford: Oxford University Press, 2000); G.R. Dowling, *Creating Corporate Reputations* (Oxford: Oxford University Press, 2001); J. Larkin, *Strategic Reputation Risk Management* (London: Palgrave Macmillan, 2003).
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