Chapter 6: Corporate reputation

6.1 Introduction

This chapter will focus on the main organisational elements in terms of general business management, financial management, corporate marketing and corporate communication that have an impact on an organisation's corporate reputation. The relationship between these organisational elements has been illustrated in Figure 9.

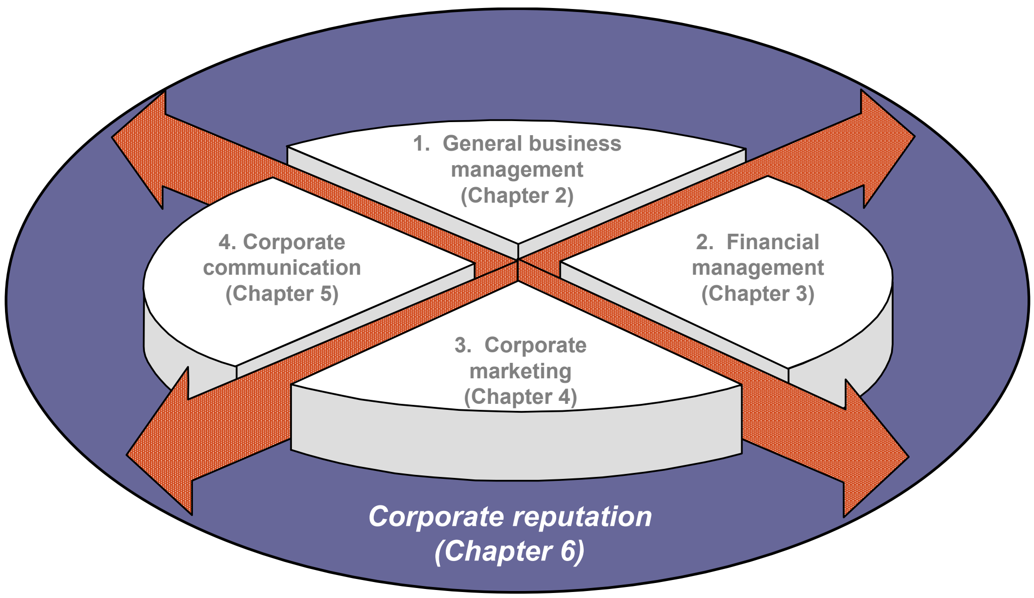

Figure 9 Corporate reputation in relation to other organisational processes

As stated by Haapaniemi (2000:153) and Schwartz (2000:4), it takes a long time to build a reputation, but it can be destroyed overnight in a single event. Devine (2001:42) adds that reputation acts as a gauge, defining and giving an organisation its sense of identity. Hanson and Stuart (2001:129) and Barney in Kowalczyk and Pawlish (2002:163) concur that corporate reputations, once created, are relatively steadfast. Of all bases of differentiation, none is more difficult to duplicate than an organisation's reputation.

Four business parameters that influence corporate reputation were identified, namely general business management (Chapter 2), financial management (Chapter 3) corporate marketing (Chapter 4) and corporate communication (Chapter 5). These parameters were collated and the main elements that have most influence on corporate reputation are discussed in this chapter. These elements include leadership and management qualities, organisational ethics, shareholder value, organisational sustainability, corporate branding, the marketing mix, public relations and relationships with stakeholders. This is in line with Schreiber (2002:211) who comments that these variables are similar to those used in the yearly Fortune magazine rankings of "America's most admired corporations".

6.2 Defining corporate reputation

As defined in Chapter 1, corporate reputation is created by a combination of elements within the organisation such as general business management, financial management, corporate marketing and corporate communication, as defined by Ettorre (1996:36) and Dollinger in Goldberg *et al.* (2003:268).

These elements will be analysed in the next section in terms of those that have the greatest impact on corporate reputation.

6.3 General business elements influencing corporate reputation

There are two main general business elements that have a major impact on corporate reputation, namely leadership and management quality as well as organisational ethics. It is, however, critical to understand that these elements can only be successful in building corporate reputation if they are supported and related to the other general business management issues mentioned in Chapter 2; they do not function in isolation.

6.3.1 Leadership and management qualities influencing corporate reputation

Klein (1999:32) and Grupp and Gaines-Ross (2002:20) note that the reputation of an organisation's leader is integral to the organisation's reputation and overall success. Research has shown that the leader's reputation is estimated by people influential in business to account for 48% of an organisation's reputation. Just like any other wealth-creating asset, the leader's reputation needs to be invested in, managed and leveraged over the long-term to reap enduring benefits, which include attracting more investors, partners, clients, work applicants and trust in corporate decisions. Key elements of the leader's reputation are credibility, integrity and high-quality communications to internal stakeholders about the direction of the organisation.

Klein (1999:32) reports that financial executives believe that a CEO's reputation would influence them to buy shares in the organisation, believe the organisation if it should be under pressure in the media and recommend the organisation as a good business partner. Nakra (2000:39) maintains that successful global leaders earn a reputation for credibility among investors by showing profitability to individual and institutional shareholders, maintaining a stable return on investment and nurturing financial growth prospects.

Ettorre (1996:36) suggests that intelligent organisations make perception management part of their senior executive training regime, enabling a greater understanding of corporate branding and resultant corporate reputation, however, Schreiber (2002:210) debates that executives often misunderstand how reputations are achieved and maintained. As a result, they rely too heavily on corporate advertising, while at the same time not doing enough about reputation-building activities with stakeholders.

6.3.2 Organisation ethics influencing corporate reputation

Donlon (1998:50) asserts that to gain a good corporate reputation, one must not only have integrity at the top, but also be ruthlessly intolerant of those who undermine the integrity and values of the organisation. In a cynical age CEOs should do more than merely “walk-the-talk” and insist on ethical behaviour. Communicating the organisation’s message to the public and most importantly, repeating the message to employees, is seen as critical. As participants are painfully aware, the price of a good corporate reputation is eternal vigilance. Pinkham in Nakra (2000:39) adds that commitment to ethical practices will help corporations attract and retain star employees, reduce hostility toward the organisation and help employees make critical business decisions.

According to Schwartz (2000:4) a good organisation has integrity. Anon. (2002a:8) agrees that codes of ethics do not merely help employees to do what is right; research has shown that organisations with an ethical decision-maker are more effective and more productive.

Richardson and Bolesh (2002:54) state that reputable organisations protect their corporate images by maintaining high standards of practice no matter what the circumstances. The most admired organisations use a combination of transparency, strong ethics and commitment to quality products and services to build and maintain their reputations.

Schreiber (2002:209) explains that corporate reputations are built, maintained and enhanced by several elements, such as being part of the corporate strategy, not merely a public relations or advertising slogan. Secondly they are built from differentiating, sustaining activities of the organisation. Organisations often fail to achieve their desired reputations because of two primary factors, firstly the failure to identify a clear core competency, relying instead on claims of superiority that have little value to the intended audience and secondly continuing to do the same things that made the organisation successful, despite the fact that these things are no longer relevant to the current situation.

Hall (2002:9) states that if any one of the parties has a distorted view of the value of the organisation, it will cause behaviour that is damaging to all and will be difficult to alter. However tempting it is in the short run to conceal unpleasant truths, falsehoods lead to distrust in the relationship.

O'Connor (2001:53) and Wilson (2003:17) concur that a key reason to set metrics for reputation management is to meet today's demand for transparency and governance structures. In this context, reputation, of which the public relations practitioner is custodian, is now an organisation's most valuable and fragile asset.

6.4 Financial management elements influencing corporate reputation

Klein (1999:32) asserts that the motivation to rush to reputation management and measurement is evidence that a good reputation can dramatically affect an organisation's results. Psychologically, an organisation with a solid reputation earns the benefit of the doubt in times of crisis. Good public relations professionals know that a lot is at stake in their work of protecting and enhancing corporate reputation, especially in terms of building and maintaining relationships with stakeholders.

Financial management elements are acknowledged to form a major portion of the aspects that influence investment decisions and corporate reputation. However, it is important to understand that these factors should not be regarded in isolation when a perception of an organisation is formed. Investor decisions are also driven strongly by corporate marketing and corporate communication.

Gary and Smeltzer (1985:75) and McNaughton (2003:13) agree that a favourable reputation is regarded as a prerequisite to success in the global financial marketplace. Shareholders can ultimately give or withhold their approval of management through their votes based on their perception of an organisation's corporate reputation.

The two elements that have the greatest influence on corporate reputation are shareholder value and organisational sustainability.

6.4.1 Shareholder value as influence on corporate reputation

Sobol, Farrelly and Taper (1992:3) postulate that corporate reputation is a very important asset for an organisation. According to Paster in Donlon (1998:50), people sometimes confuse financial performance and reputation. Financial performance is very important, but so are values and the manner in which stakeholders are dealt with and communicated to. Corporate image is particularly valuable in terms of an organisation's ability to raise debt and equity capital. Cooper in Bennett and Kottasz (2000:224) suggests that between 8% and 15% of an organisation's share price may be ascribed to corporate reputation.

Antunovich *et al.* (2000:4) concur that the relationship between corporate reputation and share returns suggests that reputation plays an important long-term role in shaping investment results.

6.4.2 Organisational sustainability influencing corporate reputation

To be competitive and to survive and grow in the market, according to Van der Walt *et al.* (1996:544), the organisation must have competitive advantages over competitors.

In today's interlinked world as described by Mastal (2001:57), corporate reputation, which is the cumulative perceptions of an organisation by its key stakeholders, is increasingly recognised for its bottom-line impact. In fact, a large body of research shows that organisations with good reputations achieve higher-than-average profitability compared with their peer groups.

Grupp and Gaines-Ross (2002:18) explain that calculating a return on investment puts a financial value on achieving the organisational objective, which is usually revenue.

Corporate reputation becomes increasingly dependent on an organisation's ability to execute an organisational model. Execution results in a good reputation and correlates highly with strong financial performance and overall success. Therefore a favourable organisation reputation delivers financial payoffs.

Kowalczyk and Pawlish (2002:163) mention that ultimately, reputations have economic value to organisations because they are difficult to imitate. Rivals simply cannot replicate the unique features and intricate processes that produced those reputations. Reputations are therefore a source of competitive advantage. Sustaining that relative advantage requires commitment to the ongoing management of an organisation's reputation.

Davies *et al.* (2001:113) note that many existing approaches to the measurement of corporate reputation have been criticised as being overly focused on the financial performance of organisations and on the views of external stakeholders. Therefore when corporate reputation is measured, the organisation's financial management must not be viewed in isolation. Other business processes also need to be taken into consideration in terms of corporate marketing and corporate communication.

6.5 Marketing elements influencing corporate reputation

There are various elements that influence corporate reputation through corporate marketing, as discussed in Chapter 4, but only the elements that have the greatest impact on corporate reputation will be documented in this section.

6.5.1 Corporate branding influencing corporate reputation

Bennett and Gabriel (2001:437) and De Chernatony (2002:117) note that reputation is an overall cognitive impression of an organisation based on its corporate branding and various marketing communication tools. A favourable reputation creates expectations of the organisation in terms of promises that are made to stakeholders and confers a competitive advantage in that it can help the organisation to survive occasional adverse publicity.

Mitchell and Urde in Bickerton (2000:42) concur that the corporate brand must be viewed as both an organising proposition that helps to shape an organisation's values and culture and as a strategic tool of management which can guide the organisational processes that generate and support value creation. This contributes to corporate reputation. Harris and De Chernatony (2001:441) suggest that corporate branding requires a holistic approach to brand management, in which all members of an organisation behave in accordance with the desired brand image.

6.5.2 The marketing mix influences corporate reputation

Only three, namely product, price and promotion, of the four "P's" of the marketing mix have been included for the purposes of this study.

- **Product and services**

  Richardson and Bolesh (2002:54) state that reputable organisations protect their corporate images by maintaining high standards of practice no matter what the circumstances. The most admired organisations use commitment to quality products and services to build and maintain their reputations.

- **Price in terms of value of offerings**

  As stated by Van der Walt *et al.* (1996:306), price is the only element which produces income. It has the most immediate and direct impact on an organisation's profitability, which has an influence on corporate reputation.

Alsop in Nakra (2000:36) summates that product quality, innovation and good value are all crucial to a reputation within an industry.

- **Promotion of an organisation**

Van der Walt *et al.* (1996:305) and Dowling in Christensen and Askegaard (2001:306) explain marketing communications as being interpreted as an attempt by the organisation to project its 'ideal self-image' to both internal and external stakeholders, which will have an impact on corporate reputation.

Nakra (2000:39) notes that corporate reputation emanates from all the business activities and communications it undertakes intentionally and unintentionally in the marketplace, such as advertising, promotion, direct marketing, personal selling, trade relations, public relations and community relations. Different stakeholders view a corporation differently because they focus on and look at different parts of the organisation. Saxton in Nakra (2000:39) comments that all stakeholders, however, are affected by the brand image and ultimately the corporate reputation created through advertising and other marketing communications activities. Miller in Donlon (1998:50) suggests that one way to help reputation is to deal effectively with the media. The organisation needs to respond while the news is breaking and not after there has been time to decide what is to be said. Mastal (2001:58) notes that an organisation's message strategy should reflect its corporate position as well as the position it is taking on the issues. Organisations that have strong reputations generally have three or four key messages they recite over and over in all media and to all key stakeholders.

6.6 Corporate communication elements influencing corporate reputations

There are various corporate communication elements that influence corporate reputation, as discussed in Chapter 5, but only the elements that have the greatest impact on corporate reputation will be documented in this section.

6.6.1 Impact of public relations on corporate reputation

Grupp and Gaines-Ross (2002:19) affirm that those who are responsible for corporate communications within an organisation are challenged with communicating the value of their organisation's intangible assets that contribute to enhancing reputation and driving market value. Top-ranked, highly regarded organisations spend significantly more on communications than those organisations that are less highly regarded. It is necessary for organisations to measure how communication of corporate and product messages are linked to a change in perceptions and behaviour among their key stakeholders, as well as to financial and shareholder returns. By identifying public relations objectives at the outset, qualitative and quantitative research can be applied to measure changing stakeholder attitudes and behaviour over time.

6.6.2 Relationships with stakeholders contribute to corporate reputation

Zyglidopoulos and Phillips in Goldberg, Cohen and Fiegenbaum (2003:172) comment that an organisation must be aware of the different concerns of various stakeholders when choosing a reputation-building strategy.

Klein (1999:32), Harris and De Chernatony (2001:442) and Einwiller and Will (2002:102) all agree that a good gauge of an organisation's reputation considers the views of all its different stakeholders. A good measurement of corporate reputation includes more than investors' views. De Seguna in Hanson and Stuart (2001:130) as well as Einwiller and Will (2002:100) state that in order to implement a system of reputation management it is necessary to ensure that all stakeholders have a realistic image of what they can and cannot expect from an organisation. Creating a coherent perception of an organisation in the minds of its various stakeholders is a major challenge faced by many organisations. Incoherence in messages and difficulties in co-ordination are often fostered by communication representatives' narrow focus on their particular stakeholder groups. It is necessary to ensure that the organisation delivers what it promises and only promises to deliver what it can realistically undertake.

There are many stakeholders that play a role and have an impact on corporate reputation. However, for the purposes of this study the main stakeholders to be focused on in this chapter with whom relationships need to be built and strengthened in terms of corporate reputation are an organisation's employees and clients.

- **Employee relationships influencing corporate reputation**

  Gotsi and Wilson (2001:99) declare that employees and their behaviour represent the reality of the organisation to the clients and therefore, if their behaviour does not live up to the expectations created through the organisation's external communication campaigns, the organisation's overall reputation will be damaged.

  Mastal (2001:58) notes that successful organisations with strong reputations use employees as a means of "humanising" the organisation and fostering public trust. Klein (1999:32) comments that it is especially important that employees' beliefs and attitudes are quantified. An organisation's reputation starts within the organisation. Ettorre (1996:36) notes that even at the most basic level, employee involvement influences an organisation's reputation, for good or bad. Every employee in the entire organisation is a reputation manager, from the top down. A corporate reputation is not purely something for shareholders at the annual meeting. It is rooted in trust and is ethically shaped over time. The character of an organisation is continually fostered by its employees in every external and internal action. It is a reflection of the healthy attitude those employees have towards the organisation.

Sobol *et al.* (1992:59), Balmer and Gray (1999:173), Devine (2001:42) and Einwiller and Will (2002:103) agree that an organisation's reputation plays a crucial role when it comes to winning talent. What work aspirants are looking for most is a "great organisation" that has at its core an appealing culture and inspiring values. Corporate reputation assists in attracting good people and good partners; attracting skilled and motivated employees will enable an organisation to remain competitive, whereas a poor reputation can undermine motivation within the organisation. Sullivan in Donlon (1998:50) adds that an organisation's reputation is its trust, and this is not only from the client, but the employees as well.

Nakra (2000:39) maintains that global strategic leaders must achieve a reputation for trustworthiness among employees through exemplary management practices - empowering and retaining employees, and instilling shared pride. Pruzan (2001:53) comments that there is increasing evidence that good employees demand more from their place of employment than a competitive wage, professional development and a career path. Bright, dynamic, independent, and creative employees want to feel that the corporate values are in reasonable harmony with their personal values, that the organisation provides them with an arena for meaningful work and personal development and that they can be proud of their place of work. These aspirations, directly or indirectly, are related to the corporate reputation.

- **Client relationships influencing corporate reputation**

Johnson says in Donlon (1998:50) that what an organisation wants is to have a good reputation with its clients. That, in effect, is the key to driving any successful business. Richardson and Bolesh (2002:55) comment that clients respect organisations they trust, and two-way communication builds client confidence. Active listening to clients enhances an organisation's reputation for accessibility and accountability. Employees at all levels are attuned to feedback and use the information to address problems and secure happy clients. Active listening does not stop with acknowledgement of clients' comments. Reputable organisations use incoming data to shape strategy and identify improvement opportunities. Comments and criticism from real clients drive decisions on strategy, processes and product design. The level of motivation of any organisation can only rise as high as the level of trust. It is therefore necessary to start out by building trust with employees, through policies and procedures. When there is a great reputation with clients, the by-product of that is a reputation in the financial community.

6.7 Conclusion

This chapter focused purely on the elements that have the greatest impact on corporate reputation with respect to all the business processes within an organisation, namely general business management, financial management, corporate marketing and corporate communication.

As noted by Miller in Donlon (1998:50) and Richardson and Bolesh (2002:54), there is no magic formula for reputation, just a combination of strategic and operational initiatives that maintain and reinforce an organisation's standing. To build and sustain a good reputation, organisations must adhere to four principles, namely:

i) To make a corporate reputation strategy part of the overall business plan, so that everyone within the organisation can understand what elements of the general business process have an impact on corporate reputation. This will have a positive impact on the organisation's reputation.

ii) To identify the financial management issues that contribute to an organisation's corporate reputation, and where possible to manage elements that undermine corporate reputation actively.

iii) To understand what the corporate marketing elements are that influence corporate reputation, in terms of the image that needs to be portrayed to the various stakeholders of the organisation and the most effective incorporation and use of the marketing mix in terms of building the corporate reputation.

iv) To have a clear understanding of the corporate communication elements that influence the corporate reputation. To build a corporate culture that attracts top talent. Organisations with positive reputations are able to attract employees of high calibre, who in turn have a positive impact on the organisation's reputation. It is necessary to make environmental and social responsibility initiatives part of the strategic planning process. In terms of understanding corporate reputation, it is necessary to have an understanding of corporate social responsibility; to devise a crisis management strategy to defend corporate reputation. This will enable the organisation to be proactive in protecting its reputation in crisis times as well as to disseminate the organisational 'story' to internal and external stakeholders. This will enable stakeholders to have a clear understanding of what exactly the organisation is and what they can expect from it.

These activities foster the delicate alignment of strategy, communication and leadership that drives positive reputation in both good and bad times. Communication that makes an organisation transparent enables shareholders to appreciate the organisation's operations better and so facilitate ascribing it a better reputation.

Sobol *et al.* (1992:51) and Winkleman in Nakra (2000:35) conclude that an organisation's reputation affects its ability to sell products and services, to attract investors, to hire talented employees, increase goodwill and to exert influence in government circles. The most significant consequence of a negative corporate reputation is the adverse effect on share price and market capitalisation. Reputation management is a slow-burn campaign that needs to be tended to regularly. In today's interlinked world as described by Mastal (2001:57) corporate reputation, which is the cumulative perceptions of an organisation by its key audiences, is increasingly recognised for its bottom-line impact. In fact, a large body of research shows that organisations with good reputations achieve higher-than-average profitability compared with their peer groups and that their reputation ultimately has an influence on their sustainability.