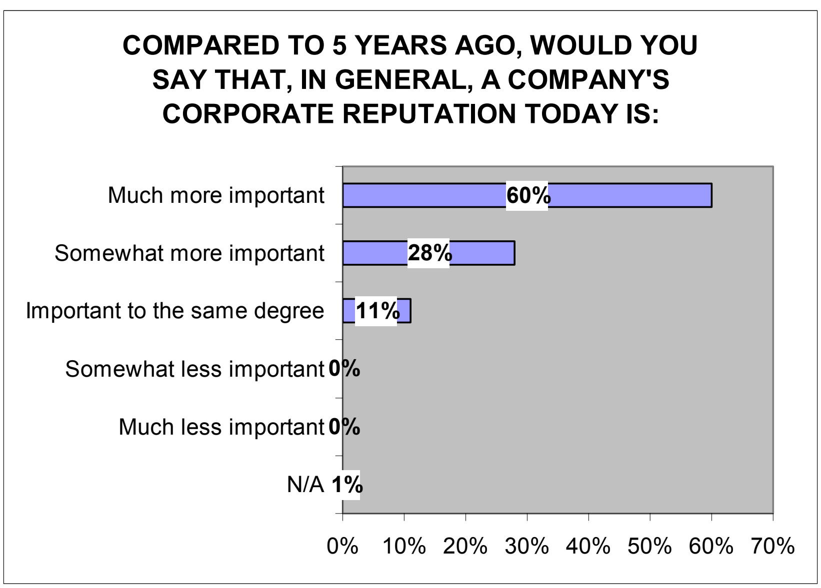
MANAGING CORPORATE REPUTATION
- ENSURING CORPORATE SUSTAINABILITY AND BOTTOM-LINE PERFORMANCE THROUGH REPUTATION MANAGEMENT -

"It takes a lifetime to build a reputation,
and only a short time to lose it all."

Joseph Neubauer, CEO, Aramark Worldwide
Business Week, 09/23/02

Corporate reputation impacts business results and as such should be treated with as much vigour as other business risk. However, findings of the 2003 Hill & Knowlton and Korn/Ferry International Corporate Reputation Watch (CRW) and other research suggest inconsistency between CEOs' stated importance of corporate reputation and how organisations act to create the information base necessary to effectively manage their reputation. A multi-stakeholder measurement approach is necessary for CEOs to understand their company's reputational strength among employees, customers, the media, and the financial community. These stakeholders are intersecting forces in the formation of a corporation's reputation.

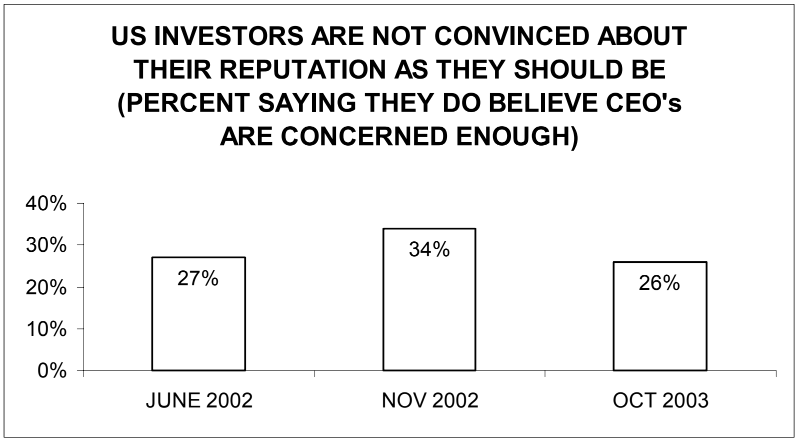
The Increasing Importance of Corporate Reputation
One of the clearest findings to come out of CRW is that most CEOs in top corporations believe that a company's corporate reputation is considerably more important to the company today than it was five years ago. It has become increasingly clear that reputation can no longer be taken for granted. In the last few years corporate heads have witnessed unprecedented turmoil over bad business practices, with the reputation and success of many major companies going from great to abysmal seemingly overnight.



Source: 2003, Corporate Reputation Watch

These findings are supported elsewhere by a study by the Institute of Chartered Accountants of England and Wales and the Risk Advisory Group, which indicated that reputation risk is seen as one of the most important business risks among financial directors and other senior managers at FTSE 500 companies. Yet despite this recognition—at least in the US— only slightly more than one in four individual investors say CEOs are as concerned as they should be about the reputation of their company.

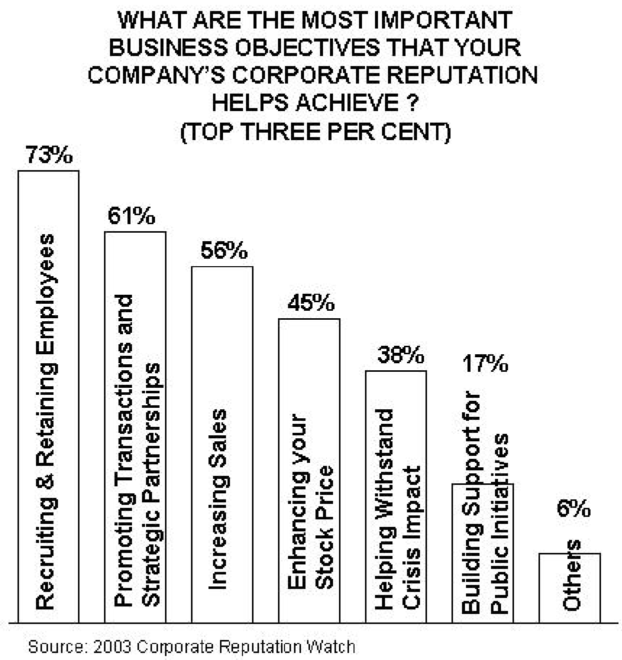
What is at Risk When Reputation Fails?



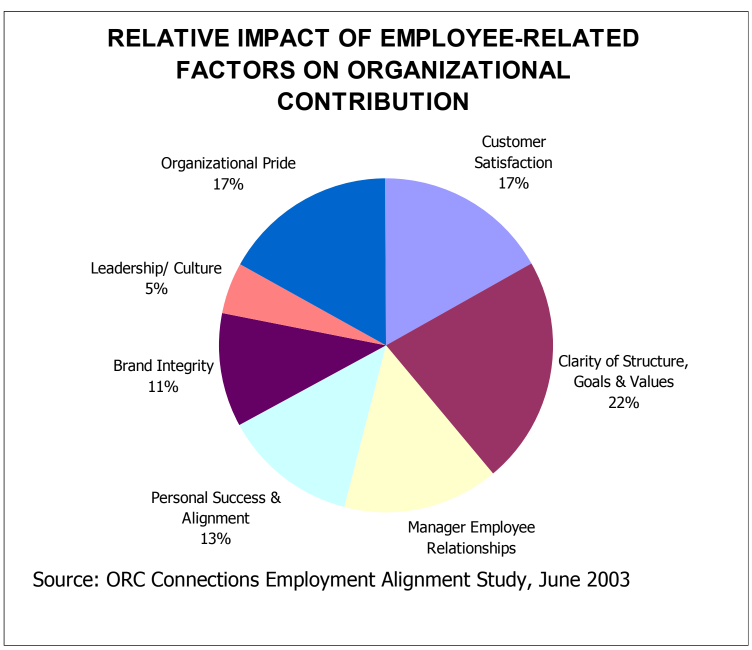
Source:June 2002, Nov 2002: Rating Research LLC,
Oct 2003: Opinion Research Corporation

The CRW results also show that, from the perspective of CEOs, the two most often mentioned key objectives that corporate reputation can help achieve (and therefore, what they would consider to be most at risk when reputation declines) are recruiting and retaining the best employees, and promoting transactions and strategic partnerships. The traditional business results of increasing sales, enhancing stock price, building "insulation" against a crisis, and others were cited less frequently as outcomes accruing from a good corporate reputation.

Inarguably, however, it is precisely the quality of employees, strategic partnerships, and other often less tangible short-tem impacts that lay the foundation for achieving coveted business outcomes such as increased sales, enhanced stock price, goodwill among stakeholders, and so on. A company's reputation is the external manifestation of its people, internal practices, culture, management talent, and overall competitiveness. These are the critical factors that determine the leaders and laggards in the world of business. The mechanisms through which quality employees yield good customers, increased sales, etc. are well known—more effective employees can mean better products and services, more efficient operations, more positive "moments of truth" in customer interactions, and so on. Further, it is not just a person-to-person, employee-to-customer event that induces positive business results—for example, positive media coverage can intermediate as well by spreading the word about high-quality employees—or management—and their actions.



The "internal" aspect of reputation management is often either overlooked or approached with inadequate rigour. The chart below illustrates the relative impact of various employee-related factors within a company on business outcomes. This analysis was conducted by Opinion Research Corporation (ORC) as part of an employee research programme performed for a major corporation. It shows that numerous factors impact organisational contribution, and suggests in particular that individual pride in the organisation and personal success/alignment interact closely with other aspects that depend more on what management and the organisation do—such as clarity of structure, goals, and values and brand integrity.

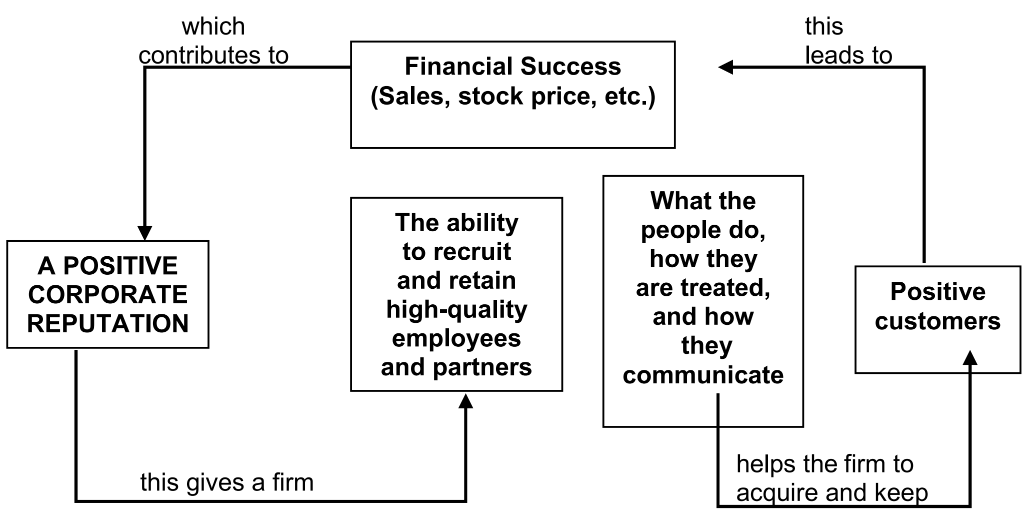


What Influences Corporate Reputation?
Among CEOs, communication and relationship issues are thought to be the top internal influencers of corporate reputation (other than financial performance, which is a given). These issues include the ability to communicate, transparency, human values, and treatment of employees. This strongly reinforces the view that, overall, it is the operation of the organisation—how employees act and how the organisation provides the right environment for them to act—that has a significant influence on reputation. In this light people are key—not only is their character influenced by corporate reputation, but they are also key to driving reputation.

According to the CRW respondents, firms depend on customers more than any other external factor to achieve a positive reputation—customers are by far the most-mentioned external influencers of reputation. And certainly these internal and external forces interact. Presumably, customers will be a more positive influence on reputation if those internal issues of communication, transparency, values, and employee treatment are also in alignment.

This point strengthens our view that the complete assessment of corporate reputation must include focus on multiple stakeholders.

The model given below illustrates the linkages among employees, organisational practices, customers, reputation and business success. This model provides at least a partial picture of what is believed by business leaders to produce corporate reputation and what they believe it can then accomplish.



Research has provided evidence supporting the importance of employees in this regard and has demonstrated that the strength of the link to corporate reputation can vary, depending, for example, on the industry. For instance, a retail firm, with a relatively large number of interpersonal customer transactions and other "moments of truth," would be expected to show a stronger link than would, for example, a manufacturing firm.

This model, describing the role that employees can play in reputation, amplifies the importance of internal reputation assessment as a critical input into senior executive decison-making relating to building effective reputation management programmes.

There is further evidence that highlights the need for reputation measurement to focus on some combination of other audiences as well.

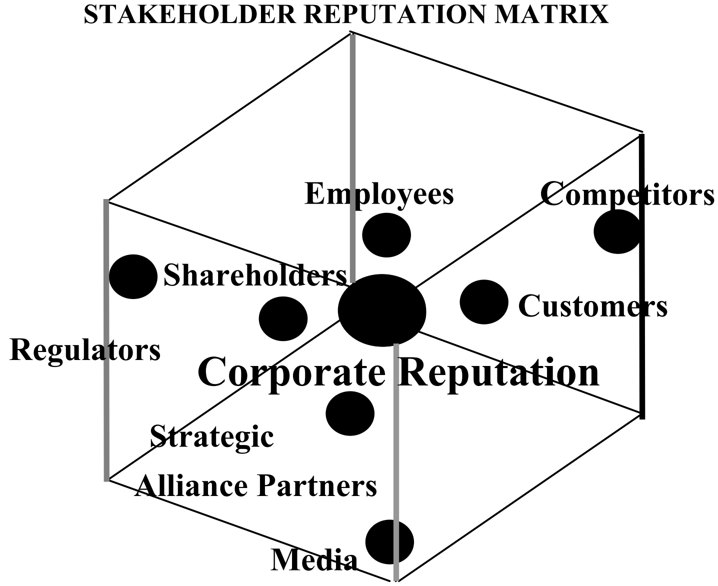
How Is and How Should Corporate Reputation Be Measured?

The CRW results reveal that a variety of measures are in place to assess corporate reputation. Most-mentioned are monitoring of media coverage and financial performance, as well as financial analysts and general word of mouth. Actual research on customers, employees, and other stakeholders is also being done, but this is not the most often-mentioned measurement type. In fact, approximately half of the CEOs surveyed indicated that they do conduct stakeholder research or have created the measurement systems required to make decisions concerning the management of their company's reputation.

This seems contradictory to the stated importance CEOs ascribe to reputation, and given the high place that employees and customers hold in the chain linking employees, customers, and reputation. Taking together the evidence that has been seen—the perceived key place of customers and the "human side" of companies in determining corporate reputation, and the impact of reputation on employee retention and the ability to promote transactions and strategic partnerships—it appears natural that any assessments of corporate reputation should include measurement of at least these audiences.

Any company has multiple stakeholder audiences that indeed are central to its reputation. Among them, besides customers and employees, are strategic alliance partners, shareholders, regulators, competitors, media, and others that may be specific to a company or its industry. The relative centrality of each of these to the reputation of a given firm in a given industry will vary, and should be understood early in any assessment of corporate reputation. Regulators, for example, are usually assumed to be much more relevant to telecommunications, pharmaceutical, and utility companies than they are to retail companies.

STAKEHOLDER REPUTATION MATRIX



Conclusion

During the past few years, a number of events that have tarnished the reputation of—and in fact led to the demise of—many high-profile companies, have strongly reinforced the importance of corporate reputation. However, it also is clear that while CEOs today are more cognizant of the need to manage their company's reputation, many have not yet approached this issue with the vigour and completeness with which they protect their firms against other forms of business risk. Make no mistake about it—one of the hallmarks of the great CEOs of the next decade will not only be the effectiveness with which they manage the infrastructure of their businesses, but also the degree to which they build and use their corporate reputation as a competitive weapon. As professor Stephen Greyser, world-renowned marketing expert at Harvard Business School has said, "Where reputation is concerned, the CEO is the ultimate custodian."

IMAGE AND REPUTATION

Image and reputation are closely related. In fact, like many sets of siblings, some people have trouble telling which is which. And like many siblings, they don't always get along well together, because they both crave attention.

There's a tendency for image to get a lot more attention than reputation. And in the 'high flying 90's', the allure of 'image' with little or no attention on reputation, proved the undoing of some.

Senior management, and especially those in marketing, often do not fully appreciate the differences between image and reputation. PR professionals need to help them understand the differences, so that brand marketing and corporate communication efforts work more harmoniously and build to a common goal.

A few aspects that help explain the differences:

Image	Reputation
Is built You have to create and promote an image. It is very much something you build to show others.	***Is earned*** A reputation is something you gain over time through your actions. It is very much what people see in you.
Is a cost You pay to create it and you pay to project it. And the more image-conscious your market, the more it may cost.	***Is an asset*** Because it has to be earned, reputation is an asset. Build a strong reputation and it will help see you through tough times.
Is fast Because image is a relatively independent sibling, you are able to change to satisfy market trends with great speed.	***Is careful*** Reputation has a more complex structure, being a combination of people, actions and who it builds relationships with.
Is opportunistic Image will change, often quite quickly, to take advantage of market trends. Image is competitive by nature.	***Is industrious*** Reputation appears more self-assured. Reputation devotes its efforts to bringing stability to the parent company.

As one can see, a key factor with image is recognising that a brand or corporate image is a tactical tool. Reputation on the other hand is strategic - you decide what you want to be known for and constantly work towards building that reputation.

The significant aspect of reputation is that they develop from the actions of the company, how it relates to business and geographic communities, how it attains its successes, who it chooses to employ at the very top and who it chooses to form alliances with.

Young companies often have difficulties with coming to terms with reputation - and this is understandable. Their need is for instant awareness and sales, so they are very image focused, and therein lies the danger.

Obviously the tools employed to promote an image and build a reputation are quite different - but they are complementary and one goes with the other. Here are a few examples of the types of activities that are employed by both:

Typical Image Tools	Typical Reputation Tools
▪ Advertising ▪ Promotions ▪ Direct mail ▪ Competitions ▪ Media outreach	▪ CSR programmes ▪ Strategic sponsorships ▪ Media outreach ▪ Internal corporate counsel

So what can one do to make the most of the relationship between one's image and reputation? Here's a short list of questions that should get one started:

Image

- Can one define the image we are projecting?
- Who are we aiming it at?
- Is the image still relevant or should it be skewed to reflect current trends and values?
- Who is the custodian of the image… is it marketing, product managers or the advertising department?
- Is this the most appropriate custodian?
- What is the image currently costing to project?

Reputation

- What is the current reputation?
- Does it change with stakeholder audience?
- Did one plan for this reputation or did it develop along with the business?
- Do we wish to alter our reputation and, if so, to what?
- How long will that take and what tools do we have to make it happen?
- What will be the cost and the expected return of doing this?
- Have we seen the reputation linked to any individual's profile such as the CEO or a high-profile board member?

Both

- Is the CEO aware of the relationship between image and reputation?
- Are the image and reputation compatible?

- Which one is stronger… and should it be?
- Do the different image and reputation custodians work closely together or do they see themselves as competitors for the CEO's ear?

In the corporate family, image and reputation are two very different siblings. And in today's more aware and questioning society, it's important that companies achieve not just a balance between the two, but are also more careful in how they manage the relationship between them.

There is no doubt that PR, with its ability to think and plan strategically, must take a more active role in promoting the importance of reputation. But to do this, both those advising on PR and the corporate and marketing executives within companies need to be fully aware of how the two siblings - image and reputation - are linked and why they need to be managed in tandem.

Managing your reputation seems to be the equivalent of treading a fine balance – managing an asset without seeming to manage it – and at the same time, looking for ways and means to enhance the value of that asset. The underlying link in all of this is integrity – which simply means doing what you say you will. Treat your word as your bond, give it as much respect as you would any written contract. Even if it's as simple as owning up when you return a call later than you said you would – to owning responsibility for mistakes – the ability to say – I am sorry – and I made a mistake – have huge potential to manage reputation risk.

Take the example of a Cadbury's who immediately withdraw an entire production batch of their flagship brand 'DairyMilk', when one batch was found to be contaminated. On the other hand, you have a Reliance Energy who have consistently hit the headlines in the last one year for not being able to deliver to customer expectations – first in Mumbai during the floods and now in Delhi. It remains to be seen whether the current negative perceptions about Reliance Energy can change and if so – what the company is able to do to get there.

COMPANIES LEARNING THAT REGAINING TRUST IS A SLOW BUILD

For anyone who thinks that the public has a short memory and an even shorter attention span, a survey of corporate reputation by The Reputation Institute (RI) puts those quaint notions to rest.

The RI survey is particularly interesting, because its emphasis on the consumer public provides a counterpoint to Fortune magazine's legendary "most admired companies" list, which is based on the opinions of "insiders" such as financial analysts, directors and senior management.

The Reputation Institute purports to measure the strength of a company's reputation based on a list of 20 attributes in six categories, including products and services, workplace environment, financial performance, social responsibility, vision and leadership and emotional appeal. And whether you ask people in general about the state of Corporate America, or ask them about specific companies, their response this year is that they are decidedly under-whelmed.

The only constant seems to be Johnson and Johnson (J&J), which maintained the number one spot in the survey for the fifth consecutive year, although the company's score—what RI calls its "reputation quotient"—actually dropped a bit, to below the 80.0 mark, making this the first year in which no company has tipped the reputation scales above that mark. J&J is one of those companies that people believe backs its products with its good intentions, and this belief is reflected in its perennial number-one rating.

J&J's relative decline was no exception to the norm. Of the 50 companies that were measured in both 2002 and 2003, 21 companies saw a significant movement in their RQ score, with only six of them going up.

Even more problematic, when asked to characterise the reputation of corporations in general, 74 percent of those surveyed answered "not good" or "terrible." This is a clear sign that people are still licking their wounds from the corporate scandals of the past several years, and are slow to forgive. Plus, a large number of reputable companies have been tarred with the same brush as those touched by scandal, as the public jumps to the conclusion that corporate malfeasance can't just be the province of a few rogue CEOs and boards.

Dr. Charles Fombrun, executive director of The Reputation Institute, goes so far as to say that this crisis of trust is highest since the stock market crash of 1929. Whether or not that's the case, it is true that corporations have a long way to go to rebuild public goodwill.

What can we take away from the RI findings? Well, a number of things, in no particular order:

1. ***Start with making high-quality products and services, and then back them up with superior customer service.*** Most of the companies atop the RI list are consumer-oriented companies that people know primarily by their products and services, particularly those that are "master brand" companies. And, while those of us in the reputation management business like to rattle on about positioning, transparency, etc., etc., etc., the fact is that a relationship with a company begins with a commercial aspect, and if you don't cut it there, you can forget about developing a strong corporate reputation. It's that simple.

2. ***Don't assume that governance changes mean that reputation issues vanish in the mist.*** Some of the most perceptually damaged companies in the US now have superior governance practices, if just judged by those narrow criteria. Trust means going beyond process-oriented change to changing the way a company communicates, what it communicates, and most importantly, how it behaves.

3. ***Keep working at it.*** One of the companies that was among the top 10 last year was Maytag, and this year, it's not even on the list. Evidently, the famous "lonely Maytag repairman" must have gotten lonelier this year. Hard to fathom how this happens, but maintaining visibility and working at reputation management does make a difference.

4. ***It's the industry, not the company.*** Which industry you're in has a bearing on how far you can move the reputation needle. If you are in the tobacco industry, you could give away every dollar of profit you make, and you still won't have as strong a reputation as a company that's trying to find the cure for cancer. It just won't happen. So, you need to set realistic expectations, and help manage those expectations in the C-Suite so that

you're not judged on the basis of whether you actually make the Fortune top ten "most admired."

GOOD CORPORATE REPUTATION MANAGEMENT CRITICAL IN A TIGHTENING LABOUR MARKET

Managing corporate reputation - as distinct from building brand equity - is a complex, long-term process. Initiatives designed to generate public goodwill can take half a decade or more to reach fruition, and deliver ongoing benefits rather than spectacular one-off results.

Once a well-rounded corporate reputation is established, it has surprising utility as a recruitment and retention tool, and never more so than during a tightening skills market such as that facing most business.

The drumbeat from human capital consultants and HR directors is growing louder: corporations face increasingly tough competition for a limited pool of talented and skilled professionals. While the skills shortfall appears confined to certain sectors – legal, finance, accounting and engineering, for example - there are signs it is broadening. Continued economic growth, sustained corporate profitability, new regulatory and compliance requirements and the growing number of trained professionals trying their luck abroad means new positions are being created faster than there are talented candidates to fill them.

The net result is pressure on recruitment and retention strategies, with corporate reputation becoming an ever more important component of the recruitment mix.

For evidence, look no further than the 2005 Hamilton James & Bruce Workplace Reality Survey, released early this year, which revealed more than two thirds of CEOs believed reputation and culture to be the main reason managers chose to stay with their company.

Clearly, business leaders now need to ask themselves: What do we offer our staff beyond competitive salary packages? Are we attractive to potential recruits? Do they value our name and reputation?

Corporate reputation management is about ensuring a company is seen as a positive contributor to, and valued by, the communities in which it operates. It is underpinned by communication that looks beyond core stakeholder groups – shareholders and customers – to embrace employees, suppliers, local communities and others.

While the strategy behind developing and managing a corporate reputation will vary from company to company, it will typically incorporate the following:

- **Employer-of-choice positioning:** The ability of an enterprise to position itself as an attractive place to work is never more important than in a tight labour market. Indeed, expectations today are such that companies are conspicuous if they do not offer forward-thinking work policies. Family-friendly polices spanning paid maternity and/or paternity leave, part-time work and job-sharing are increasingly the norm. Contemporary workspaces reflecting a collegial work culture are valued by prospective recruits, as is a commitment to providing training and development to staff. Enterprises with a positive work culture should not be shy about communicating it.

- **Corporate Social Responsibility:** Corporate Social Responsibility (CSR) programmes are those in which a company makes available its skills and intellectual capital to needy organisations or causes whose goals it shares. For long part of the fabric of corporate life, it has become a more tightly scrutinised part of the corporate landscape, with local companies increasingly being held accountable for their commitment to CSR. Rather than seeing this as an unwelcome trend, companies should embrace CSR as a core strategy in their reputation management. A carefully selected CSR programme can bring substantial returns in terms of public goodwill, brand recognition and desirability as an employer. A national programme for an Australian organization, involved eye-testing mainly aboriginal children in remote centres, and distributing free spectacles. The initiative achieved such widespread media exposure that when the company surveyed optometry graduates afterward, many cited it as directly contributing to their favourable perceptions of the company as a potential employer.

- **Issues and crisis management:** Poor handling of a sudden external shock can, in a matter of days, undo many years' investment in a company's reputation or brand. Companies should undertake crisis contingency planning regularly to ensure protocols and materials are in place to ensure a nimble response if and when a crisis hits, and the media spotlight is at its most relentless.

- **Presenting a human face:** While they front shareholders and investors regularly, many CEOs deliberately avoid wider media exposure. There are often good reasons for doing so. Media overexposure can generate unrealistic expectations, while some industrial companies deal with relatively few customers, which mitigates the need for a public profile. Still, there is frequently value in presenting the organisation's human face, through carefully selected media placements that reveal a personal side of the CEO and the enterprise.

To be sure, a corporate reputation has myriad elements and cannot be reduced to a simple formula. And much of what makes for a corporate reputation is rooted in the organisation's DNA, and therefore not easily replicated without addressing the culture of an organisation.

But experience shows that close attention to the simple principles of corporate reputation management pays off in a competitive market for talent.

(Excerpted from the workbook of PR Pundit's workshop, held in Bangalore on July 20, 2006)