

The Reputation Challenge

Building corporate reputation to drive business performance

The way to gain a good reputation is to endeavor to be what you desire to appear.
— Socrates (469 BC–399 BC)

Does reputation matter? One way to answer this question is to understand “What advantage do companies with strong reputations have over others?” Harris Interactive¹ aimed to answer this in its recent survey of over 20,000 people in the United States. The findings speak for themselves with over 60% of respondents saying they would “definitely purchase a product or service” from companies that were ranked as having strong reputations (see Exhibit 1). Contrast that with those at the bottom of the ranking lists where only 5% are likely to purchase and/or recommend a product or service to others—and you can begin to see why reputation matters.

What about employees—the core asset of any successful business? Does reputation matter to them? Another study conducted by Hill and Knowlton² found that reputation is

indeed critical for attracting talented employees. When asked, 83% of MBA students said that a company’s reputation is extremely or very important to them when choosing an employer.

Intuitively, this all makes sense—of course one would prefer to buy products from, recommend products to others, and work for a company that has a good reputation.

But how does this translate to a company’s financial performance? Do companies with strong reputations perform better than their peers? The answer is a resounding “Yes” (see Exhibit 2). Consider the following: Twenty-two corporations appearing on at least two of the three most credible reputation rankings (*Fortune’s* Most Admired; *Forbes’* World’s Most Reputable Companies; *Barron’s* Most Highly Respected) scored annualized shareholder returns that were almost 13 percent higher than competitors and over 11 percent ahead of the Standard & Poors 500.

Moreover, *CRO Magazine’s* five-year tracking study of *Fortune’s* 10 Most Admired Companies and its 10 Least Reputable Companies showed the Most Admired with an 8 percent edge in annualized shareholder returns over the S&P 500. Conversely, the Least Reputable Companies ranked 31 percent below the S&P 500 in annualized returns.

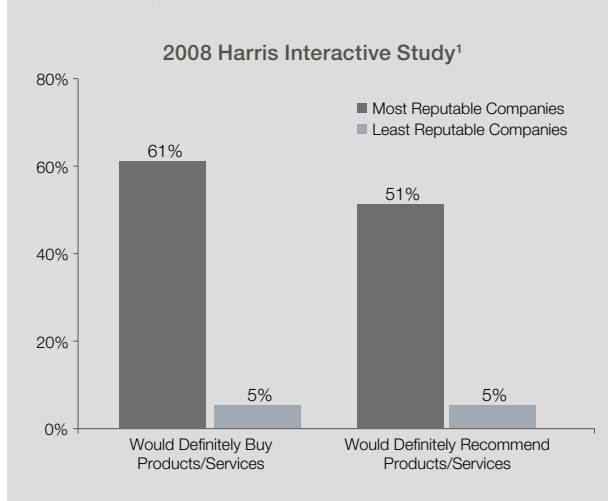
The potential to do well by “doing good” is a powerful motivator, and is increasingly not just expected by the public, but demanded by customers, employees, shareholders, and beyond.

The demonstrated link between reputation and business performance is leading CEOs, CMOs, and other executives to ask some critical questions: What trends are driving the heightened focus on reputation? What is the relationship between brand and reputation? And, how can one systematically build a strong reputation?

Trends Behind Reputation’s Rising Importance

Today’s movement toward more strategic and comprehensive corporate reputation management reflects four key trends.

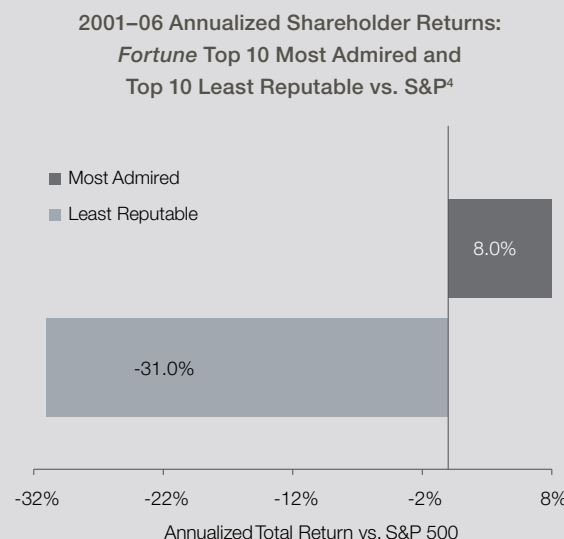
Exhibit 1: Reputation and Purchase Intent



1 “The 9th Annual Reputation Quotient: Reputations of the 60 Most Visible Companies” by Harris Interactive; survey conducted March 2008.

2 “Reputation & The War for Talent” by Hill and Knowlton; survey conducted November, 2007; report published in 2008.

Exhibit 2: Reputation and Financial Performance



³ Google Finance, returns from 1/13/2006–1/4/2008; Prophet analysis.

⁴ CRO Magazine, 6/29/2006.

Increasing Globalization: Social, political, and technological factors have been “shrinking” the world, but only in recent years has the private sector taken on a truly global presence along the entire value chain. The consequences and merits of the globalization movement are hotly debated, but it is clear that the reach of business has never before been as extensive as it is today.

The Golden Arches are as recognizable in Beijing as they are in Johannesburg and Paris. Wal-Mart’s reach goes beyond its fast-growing retail operations to arenas like financial services (its first Wal-mex bank opened in 2007 in Mexico) and supply chain management operations (Bharti Wal-Mart Private Limited in India). And the acronym IBM has gone far beyond “international business machines” to stand for worldwide, world-class thinking and solutions on fronts ranging from the environment to the digital revolution.

As these and other global companies touch more of our lives, their actions on the world stage fall under greater scrutiny. The importance of ethical actions, whether involving workforce treatment or carbon footprints, has only increased.

Private Sector Prominence: A second trend is the growing involvement of the private sector in areas once typically under the purview of the public sector.

Disaster response is one of those areas. Hurricane Katrina is an example of a crisis where businesses of all sizes stepped in with product donations, cash gifts, and manpower when government efforts fell short. Verizon Wireless established two emergency communication centers, giving people free calls, phone recharging centers, tech support, and also handing out 10,000 Verizon calling cards. Home Depot gave \$1.5 million to relief efforts, and transported and housed thousands of employees to the Gulf Coast area so they could rebuild homes and communities. Through its foundation, it donated hundreds of thousands of dollars of tarps, flashlights, and bottled water to emergency management organizations to distribute.

Business is also playing a more prominent role in addressing other social issues. Unilever’s Dove, for example, is fighting to counter self-esteem issues among

young women with its Campaign for Real Beauty. And these days, it's hard to find a business that isn't seeking ways to reduce its carbon footprint and enhance sustainability. Well aware that electricity generation emits extreme levels of greenhouse gas into the atmosphere, Florida Power and Light has seized a leadership role in devising offsetting solutions. Today, it is the nation's leader in renewable energy, with 56 wind facilities that comprise 35% of the U.S. wind energy market and the world's largest solar fields in California's Mojave Desert.

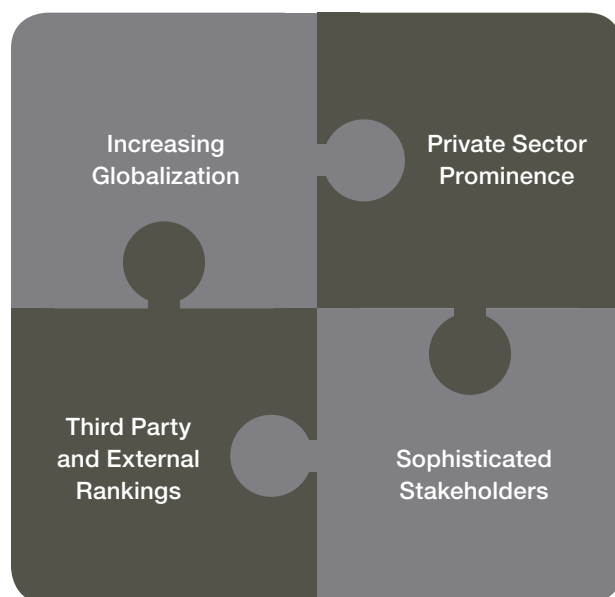
Sophisticated Stakeholders: A third trend is pressure on companies to take alternative actions by a more diverse group of stakeholders. Globalization and the speed and ease with which information is shared have expanded the pool of potentially relevant, interested, or invested stakeholders. The general public and special interest groups are aggressively advancing causes centered on humanitarian concerns and the environment. Increasingly, consumers are using company deeds on these fronts as a filter for their purchase decisions.

The "We Can Solve the Climate Crisis" campaign, a project of Al Gore's Alliance for Climate Protection, is a prime example of grassroots consumer activism that is emerging to create a tipping point for change among policymakers and businesses. Such movements are putting pressure on businesses to show their leadership while demonstrating the competitive advantages of doing so—and the risks of doing nothing.

Third Party and External Rankings: A final driver is the abundance of reputation-related indices and other measures against which companies are publicly evaluated and compared. Fortune magazine's rankings of Most Admired Companies or Best Companies to Work For, Business Week's Most Valuable Brands, and Forbes' Best Big and Small Companies are just the tip of the iceberg of lists that create energy around managing a corporate reputation.

Corporate reputation matters, now more than ever. The challenge is to understand what a corporate reputation is, construct a framework for managing its various facets, and measure and gather deserved recognition for ongoing efforts and results.

Four Trends Behind Reputation's Rising Importance



What is Corporate Reputation?

Corporate reputation generally refers to how stakeholders—customers, employees, vendors, shareholders, local communities, etc.—perceive the company. It might look different to an employee than to a customer or a shareholder, given each stakeholder's particular perspective and relative degree of knowledge of the company. Yet reputation depends on a general consensus on a variety of attributes, including an ability to create outstanding products and services, a commitment to treat employees fairly, a consideration of environmental impact, and more.

Reputation is shaped by all of a company's actions and inactions. Johnson & Johnson, for example, still reaps the reputation benefits of its adept handling of the Tylenol product tamperings nearly 40 years ago. Its swift and sweeping product recall combined with moves to tamper-proof its packaging solidified its position as an industry leader while gaining consumer goodwill. Contrast that with Mattel's missteps and lack of transparency in its 2007 recall of select toys manufactured in China, and it's easy to see how creating and defending a good reputation can take a good deal of time and effort, while mere hours or days are enough to tear it down.

Corporate Reputation vs. Corporate Brand

Smart businesses actively manage their corporate brand as a means of helping to define, maintain, and improve a reputation. While corporate brand and reputation are not exactly the same, the two are inextricably linked. Think about “reputation” as the current perceptions or beliefs a broad set of stakeholders have of the company today. The “corporate brand,” on the other hand, represents a set of promises the company is making with key stakeholders now and in the future. The corporate brand serves as the “face” of the company, and can be used as the primary vehicle for supporting and driving reputation-building efforts moving forward.

This leaves plenty of room for interplay between reputation and both corporate and product brands, and, in fact, businesses that may be lacking strong brands may use a reputation strategy to lead the brand strategy. By assessing the current state of their corporate brand’s equities with key stakeholder groups, businesses may find that their sum total can make a good proxy for the current state of their reputation assets and liabilities.

Why Reputation Matters

A good reputation allows a business not only to outperform its peers in terms of shareholder measures, but also to own a distinct advantage on a number of other operational fronts. It tends to have a positive impact on corporate profitability, market-to-book value, and total sales. Reputation, along with image, drives about 35% of investment decisions. And, not surprisingly, studies of the mergers and acquisition market show that companies with strong reputations command a price premium.

Reputation makes that kind of difference in performance because it matters to those who ultimately power the business: customers and employees.

There is an increasing sense of ownership by customers of “their” brands and the businesses behind them. To that end, one of their most important loyalty litmus tests is not merely what companies stand for, but what they are doing to benefit communities and society as a whole. This does not imply simply setting up a charitable foundation to benefit certain societal segments with tax-free donations. Rather, it calls for a cohesive business strategy that

speaks to the needs of stakeholders beyond paying customers, which is the idea behind Marks & Spencer’s “Plan A” (see Exhibit 3).

The ability to build a strong bond of trust with customers gives businesses competitive advantage in crowded markets—one that can be sustained over time. Toyota, for example, with both its Toyota and Lexus brands, has consistently racked up a stellar safety record. Gaining customer trust gave them license with the consumer

Exhibit 3

Marks & Spencer Goes With “Plan A” to Help Manage Reputation

In the large pool of companies trying to integrate corporate social responsibility as part of an effective and authentic corporate reputation strategy, British retailer Marks & Spencer (M&S) is among those doing it well.

M&S has created “Plan A” (because there is no Plan B), which is comprised of a set of 100 targets the retailer aims to achieve over the next five years. These include giving 15,000 Ugandan children a better education, saving 55,000 tons of CO₂ in a year, tripling sales of organic food, and converting 20 million garments to Fairtrade cotton.

How does it work? It has been a top-down effort. The chief executive’s committee in charge of Plan A is called the “How We Do Business Committee.” Each and every store has a dedicated Plan A champion. A scrolling ticker was installed in the lobby of M&S’ London headquarters to show progress to employees.

Most important, the retailer is putting its money where its mouth is, citing compelling business as well as moral reasons to be a good world citizen. Beginning in May 2008, all M&S outlets began charging \$0.05 for plastic grocery bags to discourage their use. Profits from the sale of food bags go to an environmental charity and the company has seen an 80 percent reduction in the bags’ use.

M&S has clearly proven to be a leader in the reputational arena, demonstrating profitability while also enhancing its image as being generous and socially responsible — two business objectives that companies can no longer afford to treat as mutually exclusive.

to transition as the green automotive leader, a key differentiator in today’s environment.

Reputation also has a decided impact on employees, and on a business’ ability to attract the best and the brightest. Procter & Gamble and Unilever both acknowledged in an Advertising Age article that their aggressive messaging touting their environmental and/or philanthropic causes is only partly designed to influence the public at large. It’s just as important for appealing to internal audiences and recruiting talent.

As Unilever U.S. President Kevin Havelock told the trade publication: “...the new generation of young business people and young marketers...[is] only attracted to companies that fit with their own value set. And (that is) one that says this company must take a positive and global view on the global environment.”

A Reputation Management Framework

Prophet’s reputation management framework has been developed to assist companies in diagnosing and shaping stakeholder perceptions of their reputation (see Exhibit 4). At the heart of the framework is the Reputation Management Index (RMI), which measures the extent to which stakeholders trust, admire, and respect a company.

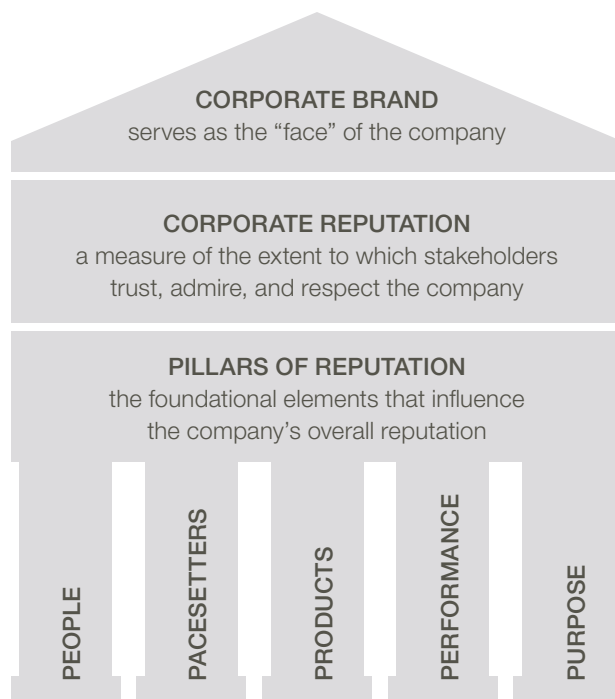
The foundation of the framework includes five “Pillars of Reputation.” Each of these pillars consists of a defined set of attributes that, depending on their importance to stakeholders, influence the company’s overall reputation.

Related to all of this is a key vehicle for guiding and shaping a company’s overall reputation: the corporate brand. As noted, the corporate brand serves as the “face” of the company, and can be used to strategically manage and convey what the company aspires to be known for—serving as a touchstone for the company’s future direction.

The Reputation Journey

Where does a company start when embarking on a reputation management journey? In our experience, a solid reputation management strategy is built in three distinct phases.

Exhibit 4: The Corporate Reputation Framework



Phase 1: Assess Current Reputation

The foundation of a well-managed reputation strategy begins with an audit of internal views of the company. This includes identifying perceived strengths and weaknesses, management’s views on the company’s strategic direction, and the set of values important to the company. It also includes aligning on the set of stakeholders critical to building the company’s reputation. This includes, of course, customers and employees, but is also likely to include a broader set of stakeholders or “influencers” such as the financial community, media, government, and advocacy groups, to name a few.

At the end of the assessment phase, the company will be able to understand the types of attributes that shape stakeholders’ perceptions. For example, from an employee perspective, does the company have the kind of culture and values needed to attract and retain the right people? Do customers believe it provides high quality products and services at a good value? Do advocates believe the company is being socially responsible and

doing its part to make the world a better place?

Once this assessment has been conducted, each stakeholder group needs to be prioritized according to its strategic importance to the organization. Both the types and relative importance of each group will vary across businesses, industries, and time. There is no “correct” number of groups, nor is there a “correct” way to think about their relative importance to the business. However, it is critical for the business’ leadership to agree on the set of stakeholders most influential in and important to achieving the company’s strategic objectives.

It is also worth mentioning that during the internal audit phase, there is an opportunity to add any unique company and/or industry-specific attributes to the already defined set included in the Pillars of Reputation. This comprehensive set of attributes will form the basis for determining the drivers of the company’s reputation. Understanding how the company is perceived relative to each of these attributes by key stakeholder groups will guide decisions on how best to focus (or re-focus) company activities. Defining where the company is today will also help determine how to reallocate or invest more in key areas (see Exhibit 5). The Pillars of Reputation are defined as follows:

People. The attribute statements within People describe the company’s employees and workplace environment. They measure things such as the extent to which a company “supports the development of its employees,” and “rewards and recognizes employees.” It also seeks to understand if a company provides equal opportunities and is generally perceived to be a “good place to work.”

Pacesetters. This pillar and its associated attributes reflect the company’s leadership, vision, and governance. Attribute statements within this pillar measure things such as whether the company has “strong and appealing leaders” and if the company “communicates clearly and openly.” Pacesetters represent the leadership of the organization and define and set the direction for the company.

Products. This pillar includes attribute statements that describe how the company delivers value to its end-users.

Three Phases of Reputation Management



The statements within this pillar include things like “offers high quality products and services” and “delivers reliable customer service and support.”

Performance. This reputation pillar focuses more on how the company performs from a financial and operational standpoint. It includes things like “delivers strong financial performance” and “effectively manages its operations.”

Purpose. The statements within Purpose describe the company’s approach and commitment to making the world a better place. The statements describe both environmental and community responsibilities and include statements like “is environmentally responsible” and “actively participates in its community.”

Qualitative and quantitative research should be conducted to gain a baseline understanding of how these attributes influence the company’s reputation. Qualitative research allows rich macro-level insights to be captured on what the statements within the pillars mean to specific stakeholders. Quantitative research enables a greater degree of precision in understanding the importance of the statements. Understanding these analyses will ultimately lead to findings that will help a company better understand the key drivers of its reputation—and any gaps that should be addressed in order to improve it.

Phase 2: Develop Reputation Strategy

With the underlying research and reputation gap analysis done, the basis for developing the company’s reputation strategy has been established. Specific objectives will

Exhibit 5: Pillars of Reputation Applied to a Fortune 500 Energy Client

Qualitative and quantitative research may reveal that more focus should be given to some pillars versus others.

People		Employees want more consistent treatment across business units
Pacesetters		Stakeholders want to see and hear more from leadership, and say company lacks a "face"
Products		Customers say company delivers reliable, consistent service
Performance		Strong financial performance expected to continue into the future
Purpose		Stakeholders want to know more about the company's environmental position, and want to see more "hands on" community involvement

Performance Rating Key: Weak ○ ●◐ ●◑ ●◒ ●◓ Strong

be established for each prioritized stakeholder group, including a current-state assessment of how the business is perceived today, and a definition of what the company should aspire to be in the future (using the business strategy as the guidepost). It is important to understand how the reputational end goal stacks up against the company's historical positioning, strategies, and values. This will ensure a realistic plan can be developed to close in on the identified reputation gaps.

The strategy should ultimately take the form of a multi-year plan designed to address the key stakeholder reputation gaps as well as deepen any existing areas of strength. To ensure internal buy-in and support, stakeholder-facing employees should be involved in developing the programs and activities required to achieve the specific stakeholder objectives and priorities. The plan should also reflect incremental investments required to embark on the journey, and, as a living document, should allow room for refinement based on progress against aligned-to goals.

Phase 3: Monitor and Measure

Advancing from planning to action requires a system under which reputation building and management

becomes an iterative, ongoing, and measurable organizational imperative. Among the activities that must be built into the program:

- Processes need to be developed that incorporate reputation into daily operations and decision-making.
- Performance must be tied to operational change, execution, and results.
- Metrics must be defined and performance measured regularly to track changes in stakeholder perceptions. This performance tracking should be ongoing and conducted annually, at a minimum.
- Finally, because the reputation management plan will need to be actively monitored and managed in order to make the necessary refinements, a measurement system should be in place from the beginning, or as early in plan activation as possible.

Critical Success Factors

Proctor & Gamble, Johnson & Johnson, Toyota, and a number of other companies that consistently rank high in the many lists that identify the world's most reputable organizations have created systematic processes to facilitate reputation-enhancing attitudes and behaviors. While their causes, initiatives, and outreach may all shape up differently, all share common ground in terms of the factors that are most critical to successfully achieving reputation excellence.

Senior Leadership Support. The first is a senior management team that fully supports the strategy and is committed to setting positive examples by using the strategy to guide their behaviors. This example setting will set the stage for empowering a broader base of employees to an equal level of commitment.

Employee Engagement. Going hand-in-hand with senior management support is employee engagement. This is critical, especially for those employees who engage with key stakeholders on a daily basis. The more they understand the strategy and the importance of their role in delivering on it, the greater the chance that stakeholders have a consistent experience with the company. Further,

The Johnson & Johnson Framework

Johnson & Johnson calls itself a “values-based” business. Since the mid-1990s, it has institutionalized a “Beyond Compliance” philosophy in its quest to set the standards as a sustainable business. Its underlying theme: Healthy People, Healthy Planet, Healthy Futures. The company has stated that it considers its Beyond Compliance philosophy a critical competitive advantage, one so powerful that it is a company-wide management imperative.

It’s led from the top, with senior management—chairmen, board members, presidents, and vice presidents—doing more than just financially committing to tactical safety, health, and environmental initiatives. They are assigned roles as champions, and wearing those mantles, actively communicate the message, monitor progress toward goals, and sign off on action plans that ensure Johnson & Johnson will stay on path.

And they’ve done their job well. More than 80 percent of its

employees actively volunteer in their communities. Many regularly blog to spread the word about their internal and external activities. On www.jnjbtw.com, one blogger discusses “an award winning partnership with mothers2mothers.” In another post, the author talks about having reached a tipping point with her peers in the organization in her efforts to raise awareness of her groups’ efforts and successes in the sustainable forestry front under the Healthy Planet 2010 goals.


And grassroots efforts by employees are not just encouraged, but actively supported. In the Asia Pacific region, where bicycle and motorbike riding is the common mode of transportation, Johnson & Johnson employees launched a program to protect their own children with helmets. The company embraced the initiative, which has led to thousands of helmets being distributed to school children by the corporation, whose regional division became the National Sponsor of the Helmets for Kids program in Vietnam.

by giving employees latitude to focus their efforts on areas where their personal belief systems dovetail with—and are supported by—their employer’s socially responsible values, the company stands to benefit from their energy and create a powerful army of ambassadors.

Defined Corporate Values. At the same time, the company values should underscore who it wants to be and how it wants to be experienced by stakeholders. Messages must be authentic—not just something “spun” as a hook to win positive press. The reality is that corporate reputations are beneficial to the extent that they solve problems and link to business strategy. Embarked on as a “me too” ploy to get a competitive advantage, efforts will likely falter, if not fail—and in the end, do a company’s reputation more damage than good.

Ongoing Commitment and Investment. Finally, reputation leaders understand that there is risk in almost every action and every decision made. And a reputation is hugely vulnerable to downside risk. Leadership must recognize that commitment takes the form of an ongoing investment—which time, money, and people must be put against. The other part of this commitment is shifting from being reactive to becoming a more proactive organization,

whereby key decision-makers and communicators use reputation as a lens to guide behaviors. This also requires making risk management and crisis management planning part of the process. Communications strategies must be anticipated before a crisis situation in order to ensure every effort is made to mitigate reputation damage. Being prepared for these situations enables swift and appropriate action to take place and protects the company from downside risk.

Reputation must be built. It must be supported and managed. And, it must be an authentic reflection of the business—its culture, value system, and behaviors. Businesses that expect to experience the kinds of success achieved by best-practice organizations will understand that truth. And they will create and live the kind of meaningful purpose that will allow them, too, to more effectively reap the benefits of a strong reputation. 

This paper reflects the collective thinking of Prophet leadership, and was spearheaded by Aneysha Pearce (apearce@prophet.com), an Associate Partner at Prophet, a strategic brand and marketing consultancy.