CHAPTER 2

FROM COMMUNICATION TO REPUTATION

Reputation is only a candle,
of wavering and uncertain flame,
and easily blown out,
but it is the light by which the world looks
for and finds merit.

James Russell Lowell[1]

Corporate communication affects the perceptions of stakeholders about the organization's prospects, and so influences the resources that are made available to the organization. Stakeholder perceptions about organizations are described by different terms across disciplines. By far the most popular are the constructs of "brand", "image", and "reputation." Differences between them are relevant, not for reasons of academic purity, but because they represent different points of view and their pragmatic implications vary. Communication specialists should understand how their colleagues in different departments think about these matters since they are called upon to interface directly on strategic issues. Understanding one another is crucial if an effective dialogue is to result, and if a consistent form of corporate communication is to develop in the organization.

This chapter focuses on conceptualizations of brand, image, and reputation, and proposes that "corporate reputation" is a multi-stakeholder construct that is particularly appropriate for measuring the effectiveness of an organization's communication system. We indicate that the concept of corporate reputation, both in theory and practice, owes a large debt to the academic marketing literature (Dichter, 1964) as well as to prominent

practitioners from the 1950s. We also recognize that the study of corporate reputations has been complemented more recently by contributions from other disciplines. In this chapter, we therefore add to the marketing mix a variety of perspectives that are anchored in psychology, strategic management, sociology, organizational science, and accounting. Chapter 2 sets the stage for the development of the corporate communication perspective that is articulated in the rest of the book.

Brand, image, and reputation

What is a brand? According to practitioners "a brand is a mixture of attributes, tangible and intangible, symbolized in a trademark, which, if managed properly, creates value and influence" (see www.brandchannel.com). The *Dictionary of Business and Management* similarly defines a brand as "a name, sign or symbol used to identify items or services of the seller(s) and to differentiate them from goods of competitors." Advertising guru David Ogilvy positioned a brand more expansively as "the intangible sum of a product's attributes: its name, packaging, and price, its history, its reputation, and the way it's advertised." More recently, David Aaker (1996) described a brand as a "mental box," and indicated that "brand equity" consists of "a set of assets (or liabilities) linked to a brand's name and symbol that adds to (or subtracts from) the value provided by a product or service." Al Ries (2002) asserts that "if you want to build a brand, you must focus your branding efforts on establishing a word in the prospect's mind – a word that nobody else owns."

Common to all of these definitions is the idea that brands create images in the minds of observers. They do so by communicating a combination of verbal, visual, and emotional cues that encourage targeted observers to identify with the brand. Historically, the branding literature has concentrated its efforts on explaining how organizations can create positive product perceptions with consumers. More recently, researchers have extended the brand concept and argued that the same branding principles can be used to create positive perceptions of the organization as a whole with targeted groups such as employees, communities, or environmental groups. It is part and parcel of a growing interest in "corporate branding" – the degree of endorsement a company chooses to put on all of its products and services. Chapter 4 addresses this issue at length.

The related term "image" is more commonly used to describe the specific configuration of perceptions that take root in the minds of observers. These

images can be described in many ways. We dwell here on the content of the "corporate image" – the features of the company that stakeholders come to perceive. According to Dowling (1986), "an image is the set of meanings by which an object is known and through which people describe, remember and relate to it. That is it is the net result of the interaction of a person's beliefs, ideas, feelings and impressions about an object."

In fact, corporate image research can be traced to industrial design. As Tom Brown (1998) indicates:

> *The notion of a "corporate identity system" was established during the 1930s, chiefly by such companies as Lord & Taylor, Steuben Glass, and the Container Corporation of America. In 1933, Lord & Taylor began to coordinate the manner in which the retailer would be presented to its publics through the design and consistent use of the Lord & Taylor signature in long-hand as the corporate logo. At the Container Corporation of America, total design integration was introduced so that the company as a whole could be promoted through all media reaching the consumer. Through the coordination of design and careful attention to the identity presented to important audiences, the notion of a corporate personality began to develop.*

A number of researchers have sought to describe corporate images in terms of human personality. Jennifer Aaker (1997) proposed a typology based on the work of human psychologists who believe that personality can be described using words to label the way people act or react in certain contexts. Aaker's (1997) quantitative scale of corporate personality is shown in Table 2.1 and consists of 42 items organized around five dimensions: sincerity, sophistication, competence, excitement, and ruggedness.

More recently, Davies *et al.* (2003) developed an empirical measurement instrument for calibrating "corporate personality" that identifies seven central dimensions of corporate image: agreeableness, enterprise, competence, chic, ruthlessness, machismo, and informality. Table 2.2 provides a breakdown of those dimensions and the 49 items they encompass.

In our view, the concept of "corporate reputation" has gained attention recently because it captures *the effects* that brands and images have on the overall *evaluations* which stakeholders make of companies. Brand and image attributes are more or less appreciated by stakeholders. Organizations with particular brands and image attributes therefore develop greater or lesser *reputations*. "Reputation" can therefore serve a useful function by gauging the overall estimation in which the organization is held by its constituents

Table 2.1 Aaker's scale of corporate personality

Sincerity	*Excitement*	*Competence*	*Sophistication*	*Ruggedness*
Down-to-earth	Daring	Reliable	Upper class	Outdoorsy
Family-oriented	Trendy	Hard-working	Glamorous	Masculine
Small town	Exciting	Secure	Good looking	Western
Honest	Spirited	Intelligent	Charming	Tough
Sincere	Cool	Technical	Feminine	Rugged
Real	Young	Corporate	Smooth	
Wholesome	Imaginative	Successful		
Original	Unique	Leader		
Cheerful	Up-to-date	Confident		
Sentimental	Independent			
Friendly	Contemporary			

Source: Aaker (1997)

– and so measure the effectiveness of the organization's communications with those stakeholders (Fombrun, 1996). Figure 2.1 suggests that reputations evolve from the images that organizations develop in each of four domains: the product domain, the social domain, the financial domain, and the employment domain.

The popularity of the concept of "corporate reputation" owes much to the publication in 1982 by *Fortune* magazine of its first list of *America's Most Admired Companies*, a rating of the largest companies in the US that was developed from a quantitative opinion survey of top industry executives and analysts. The attention it received ensured that it would become an annual event, and it has since been widely imitated in other countries and regions.

A number of theoretical and empirical developments also explain the growing interest in corporate reputation analysis. Fombrun and Shanley (1990) presented one of the first and most influential empirical studies of the *Fortune* ratings. Their analysis explained corporate reputations on the basis of the communication halo that surrounds companies – created from a combination of signals broadcast by companies themselves, by financial analysts, and by the media. Grahame Dowling (1994) looked at reputations as extensions of the corporate brand. Van Riel's (1995) *Principles of Corporate Communication* presented a broad overview of the multiple disciplines contributing to the study of corporate communication in organizations. Fombrun (1996) proposed the broadest business framework for examining corporate reputations. He

Table 2.2 Components of corporate personality

Agreeableness	*Enterprise*	*Competence*	*Chic*	*Ruthlessness*	*Machismo*	*Informality*
Friendly	Cool	Reliable	Charming	Arrogant	Masculine	Casual
Pleasant	Trendy	Secure	Stylish	Aggressive	Tough	Simple
Open	Young	Hardworking	Elegant	Selfish	Rugged	Easy going
Straightforward	Imaginative	Ambitious	Prestigious	Inward looking		
Concerned	Up to date	Achievement oriented	Exclusive	Authoritarian		
Reassuring	Exciting	Leading	Refined	Controlling		
Supportive	Innovative	Technical	Snobby			
Agreeable	Extrovert	Corporate	Elitist			
Honest	Daring					
Sincere						
Trustworthy						
Socially responsible						

Source: Davies *et al.* (2003)

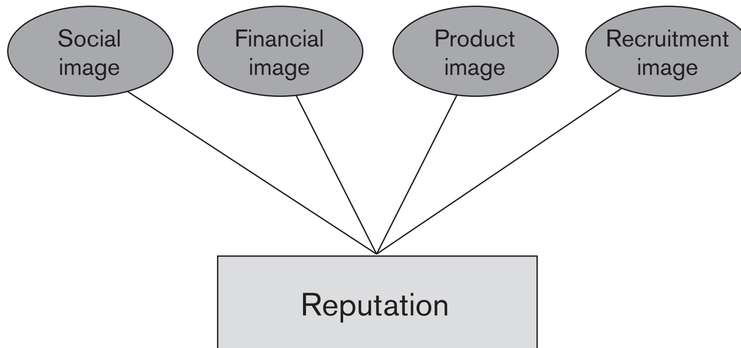

Figure 2.1 The relationship between image and reputation
Source: Fombrun (1996)

described a corporate reputation as a multi-stakeholder social construction that resulted from strategic communications created by an organization and refracted by the media and by analysts.

Despite the negative connotation of the word "reputation" in various European languages, the concept of "corporate reputation" has gained widespread acceptance around the world. Some of that resonance can be attributed to growing research in the US and around the world, a good deal of which has been featured at conferences organized by the Reputation Institute (RI) and in the RI's quarterly journal *Corporate Reputation Review* since 1997. Some of it is also due to multi-country measurements of visible companies initiated by the Reputation Institute with various research partners since 1999 that has relied on the standardized Harris–Fombrun "Reputation Quotient" (RQ) measurement instrument developed by Charles Fombrun and Harris Interactive. Schultz *et al.*'s (2000) edition of *The Expressive Organization* brought together many RI authors around an integrative view of the corporate brand.

What are corporate reputations?

Reputations are overall assessments of organizations by their stakeholders. They are aggregate perceptions by stakeholders of an organization's ability to fulfil their expectations, whether these stakeholders are interested in buying the company's products, working for the company, or investing in the company's shares. Box 2.1 illustrates a variety of definitions that have been proposed for the construct "corporate reputation" since 1984.

Box 2.1 Definitions of corporate communication

"Corporate reputation refers to the expectations, attitudes and feelings that consumers have about the nature and underlying reality of the company as represented by its corporate identity" (Topalian, 1984).

"A reputation is the set of meanings by which a company is known and through which people describe, remember and relate to it. It is the net result of the interaction of a person's beliefs, ideas, feelings and impressions about the company. A company will not have an reputation – people hold reputations of the company" (Dowling, 1986).

"Reputation refers to a holistic and vivid impression held by a particular group towards a corporation, partly as a result of information processing (sense-making) carried out by the group's members and partly by the aggregated communication of the corporation in question concerning its nature, i.e. the fabricated and projected picture of itself" (Alvesson, 1990).

"Corporate reputation is the overall estimation in which a company is held by its constituents. A corporate reputation represents the 'net' affective or emotional reaction – good-bad, weak or strong – of customers, investors, employees, and general public to the company's name" (Fombrun, 1996, of contradictions that could harm the organization's image).

As Box 2.1 suggests, an organization's reputation can be described in many ways. One way to describe it is to distinguish "levels" of analysis. Knecht (1986) proposed seven levels of analysis to which the notion of "reputation" could be applied: a product class, a brand, a company, a sector, a shop, a country, and a user. So we could examine the reputation of a product class such as "beer", for instance. We could also examine the reputation of a particular beer brand such as Heineken. The reputation of an organization as a whole should be distinguished from the reputation of an operating unit or subsidiary, and from the reputation of the industry in which it operates. Finally, a country-of-origin effect can be identified, such as the reputation that attaches to being a Dutch company. Viewed in this way, the reputation of any single organization derives partly from reputations that exist at other levels in which the organization is involved.

Country-of-origin effects are especially important for international organizations, and have a powerful effect on international trade. For instance, the high-quality reputation of Germany has historically had a favorable influence on German products such as cars and appliances. Nagashima (1977) defines the country-of-origin effect as "the picture, the reputation, the stereotype that businessmen and consumers attach to products of a specific country."

Country of residence also influences the degree of stereotyping. People tend to judge a country based on similarities: the closer one is to a country both physically and psychologically, the more favorable their opinion of that country. Some Japanese companies have applied this idea by moving selected manufacturing or assembly plants to high-reputation countries in the belief that "a company can improve its brand reputation significantly by building cars in a higher status country" (Johansson and Nebenzahl, 1986).

The expression "corporate reputation" is increasingly used to refer solely to the reputation of the organization as a whole and not to sub-brands. In order to indicate the reputation of an industrial sector, the term "industry reputation" is appropriate. The reputation of Microsoft is thus a corporate reputation, while the reputation of the information technology industry is the industry reputation. Its US country of origin doubtless affects the company's reputation as a global leader in software, and helps to raise the reputation of Microsoft's Game Studios. All three set a context for the company's ability to generate reputation for its X-Box product or brand. Figure 2.2 describes a simplified hierarchy of reputation levels in which the company is involved.

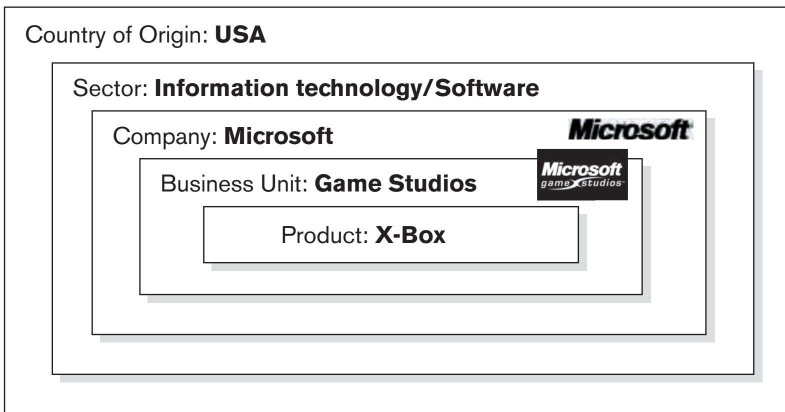

Figure 2.2 An example of the relationship between reputation levels for Microsoft

How do reputations form?

A reputation forms from networks of cognitive associations that develop over time from a group's cumulative exposure to sensory stimuli. The mosaic of associations comes together to create an overall impression.

Holzauer (1991) suggests that reputations develop from:

> *the knowledge which we have of a company as a result of being confronted by forms of advertising. We know nothing about the company that owns the Marlboro cigarette brand. However, we should not be surprised if the company strongly resembled the cigarettes. We often develop a company reputation on the basis of the reputation we have of its products, i.e. the brand reputation. The brand reputation is formed on the basis of the only information we have about the company, namely, brand advertising. In other words, brand advertising can determine the reputation of the company. Conversely, the picture we have of a company (Woolworth, Philips, Braun) can determine what we think of the products of that company.*

In reflecting on this example, it's important to point out that the reputation of the company (in this case Altria, parent of Philip Morris, itself parent of the Marlboro brand) does not come about solely because of advertising. In fact, there are three levels of information processing that affect people's impressions of the company (Bromley, 2000):

1. information processing at a primary level (based on personal experience);
2. information processing at a secondary level (based on what friends and colleagues have to say about an organization or product);
3. information processing at a tertiary level (based on mass media information, including paid advertising and unpaid publicity).

The largest influence on reputation takes place at the primary level – from direct personal experience. But people only assimilate a limited amount of direct information. Most of the information people absorb comes indirectly from friends and colleagues and through the amplificatory power of the mass media. In other words, although primary level influences have the greatest effect on individual perceptions, there are far fewer of them. The reputations of Altria and Philip Morris are therefore colored by the direct experience that people have from smoking its Marlboro cigarettes. But they are probably more affected by the ubiquitous cowboy imagery in the brand's secondary marketing com-

munications. Most recently, many people's impressions of the company will also have been heavily colored by tertiary information revealed during the widely publicized anti-trust and health-care lawsuits brought by the US federal and state regulators against the tobacco industry in the 1990s (to which Altria/Philip Morris was a party).

A positive reputation works like a magnet. It strengthens the attractiveness of an organization, simplifying the realization of a broad range of activities. From the research literature, we know that companies with a positive reputation can more easily attract and retain employees and can ask a higher price for its products. They more easily attract new sources of financial capital and are less likely to find themselves at risk. The importance of reputation is recognized by most managers, and is visible in the increased attention paid to empirical measurement of corporate reputation – a topic we develop more fully in Chapter 9. The search for a standardized measure of brands and reputation, in particular, is clearly visible in the growing appreciation shown for measurement tools like Young & Rubicam's "Brand Asset Valuator", *Fortune*'s "Most Admired Company" measures, and the Harris–Fombrun "Reputation Quotient".

Reputations are important both for the owners of the reputation and for the subjects that have stored its reputation in their long-term memory. When a company owns a favorable reputation, it considers the transmission of its positive reputation an essential precondition for establishing a commercial relationship with its stakeholders. The company's reputation provides easy access to the "evoked set" of stimuli with the target group. Similarly, for the targeted subject, the company's reputation summarizes their perceptions of the company in terms of global assessments of effectiveness (good/bad, strong/weak, high/low). The more stakeholders rely on a company's reputation to make purchasing or investment decisions, the more important it is for the company to have a strong reputation. Box 2.2 summarizes some of the main arguments used to describe the importance of reputations.

Poiesz (1988) suggests that reputations are especially helpful when:

- the kind of information stakeholders need to make decisions is complex, conflicting or incomplete;
- the amount of information available to stakeholders is insufficient or too abundant to make a sound judgment;
- people have too low a degree of involvement with the product or the company to go through a complex information analysing process;
- there are external conditions that pressure stakeholders to make more rapid decisions.

Box 2.2 The value of a good reputation

A good reputation helps a company attract the people necessary for its success analysts, investors, customers, partners, and employees. Identity management can secure that good reputation (Chajet, 1989).

Reputation is a representation in the mind. It affects attitudes, which in turn affect behavior. No company can afford to ignore reputation. The impression it creates – consciously or unconsciously, whether it wishes to or not – inevitable affects people who do business with it (Bernstein, 1986).

Research has found 9 out of 10 consumers reporting that when choosing between products that are similar in quality and price, the reputation of the company determines which product or service they buy (Mackiewicz, 1993).

A good reputation can serve to buffer a corporation from economic loss in specific types of crises (Jones, 2000).

A good reputation acts like a magnet: It attracts us to those who have it (Fombrun and van Riel, 2004).

Poiesz (1988) adds that if consumers did not draw on reputation, they would have difficulty deciding which products to buy. Day-by-day, consumers are losing their ability to act as the economists' ideal-type "rational decision-makers": in judging a product, consumers are not familiar with all available alternatives; they are not aware of all the features of a particular product; they are unable to judge all of those features correctly prior to purchasing the product. Consumers also cannot make use of all their previous experience, because their memory is imperfect, and are not always able to process and store new experiences at all. Jointly, it means that consumers are unable to act in purely rational terms, and are more and more inclined to base decisions on earlier, imperfect, experiences, on hearsay, on emotions, on incomplete information, and on unconscious processes – and so are more likely to rely on "reputational data" (Poiesz, 1988).

Ultimately, reputation reduces the search for information by simplifying information processing (Lilli, 1983). Growing similarity among products and brands makes it more difficult for customers to distinguish between them.

Customers therefore look for simple ways to make distinctions between brands and companies and rely on subjective, non-observable features of the product. A corporate reputation provides a simple guideline for making decisions: if the customer's degree of involvement with the product is low, he or she should simply buy the product made by the company with the best reputation. Reputation creates a mental shortcut for stakeholders by providing them a global understanding that they can ascribe to a company and on which they can rely to justify relevant decisions (Pruyn, 1990).

Disciplinary contributions to analysis of corporate reputations

Concepts related to "reputation" have developed in various disciplines (Fombrun and van Riel, 1997). On one hand, diversity has enriched our theoretical understanding of the construct by incorporating insights from diverse literatures. On the other hand, it has also occasionally made the field resemble the proverbial Tower of Babble. In this section, we summarize key contributions from six disciplines to our understanding of corporate reputations: psychology, economics, strategic management, sociology, organizational science, and accounting. Table 2.3 previews the core themes from each perspective.

The influence of psychology

Insights from psychology regularly find their way into corporate reputation studies, explicitly or implicitly. The underlying framework for most discussions of reputation formation are information processing theories. The "Elaboration Likelihood" theory of Petty and Cacioppo (1986), for instance, suggests that a reputation is formed when a range of stimuli are presented to a subject by an object. The interpretation made by the subject, and the relative weight these stimuli attain in the mind of the subject, can be influenced by many factors. The process of evaluation that takes place is a function of how individuals process information. Figure 2.3 describes the five key phases involved in individual information processing.

Stimuli that are communicated to targeted individuals will only be retained when all stages of information processing are completed. A company seeking to influence a target audience must therefore ensure that its message meets three criteria: (1) generates appropriate awareness of the company, (2) gets

Table 2.3 Multiple points of view on corporate reputation

Psychology/ marketing	*Economics*	*Strategic management*	*Sociology*	*Organizational science*	*Accounting*
Reputations are cognitive associations about companies that predict stakeholder attachments and supportive behavior	Reputations are signals that are used by firms to convey the company's key strengths and build competitive advantage	Reputations are mobility barriers or mobility catalysts	Reputations are social constructions that are used or misused by companies to carry out impression management	Reputations are cognitive interpretations used by observers for sense-making and used by top managers to carry out sense-giving	Reputation is an intangible asset that measures the difference between a company's book value and its market value

Source: Fombrun and van Riel (1997)

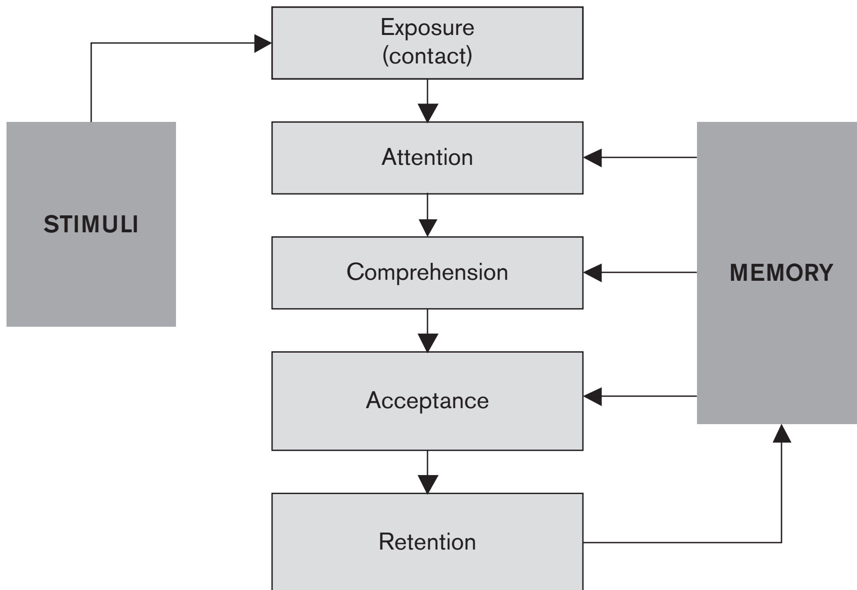

Figure 2.3 Individual information processing
Source: Engel *et al.* (1990)

the audience's attention, and (3) generates understanding. Traditional marketing communication typically falls short of addressing (3), and so often fails because it falls short of generating comprehension, acceptance, and retention.

By addressing comprehension, a company's communications can help audiences attach relevant meaning to the stimuli they are presented with. Meaning is created when individuals are able to classify stimuli into concepts already stored in their memory. Familiar concepts of salience, similarity, and difference derived from Gestalt theory are relevant here: individuals are more likely to create meaning from stimuli that are similar to others they have previously encountered – if they appear relevant. They are also more likely to attach meaning to stimuli that make the company stand out from others.

Acceptance centres on whether information stimuli produce the intended effects. This depends, amongst other things, on the extent to which the stimuli presented to the target audience can be integrated into each individual's existing conceptual system as a "script" – a kind of elaboration that Engel *et al.* (1990) define as "the amount of integration between the new information and existing knowledge stored in memory." The more favorable the reactions

individuals have to the stimuli in the comprehension phase, the greater the probability of those stimuli being preserved in the retention phase – at which point individuals store the stimuli into their long-term memory.

Human memory has three components: sensory memory, short-term memory, and long-term memory. Figure 2.4 illustrates how they are interrelated. A stimulus enters sensory memory from available information about shape, color, and sound. At this stage, no meaning is attached to the stimulus – it simply generates awareness. Think of a logo (McDonald's golden arches), symbol (Nike's "Swoosh"), taste (Starbucks coffee), or sound (a Steinway piano).

Since human capacity in short-term memory is limited, these symbolic cues will only be transferred into short-term memory if they are attached to a meaning system. "Chunking" is the process through which information is broken down into bite-size, comprehensible units and organized in the human mind. Stimuli conveyed by an organization's communications, for instance, if it can be organized into chunks, will more easily enter into memory. When the Steinway "sound" is described by a well-known pianist playing the grand piano at La Scala in Milan, the information is organized as a "chunk" in people's minds – and creates a reputation for Steinway that makes it stand out from other rival piano-makers.

In this way, reputations are themselves chunks – they are meaning-systems or shorthand scripts that individuals use to organize impressions about an organization. They simplify reality. The process of reputation formation therefore consists of "chunking". When chunks appear repeatedly in an individual's short-term memory, they get transferred into long-term memory – and reputations crystallize. Long-term memory contains the lasting deposits

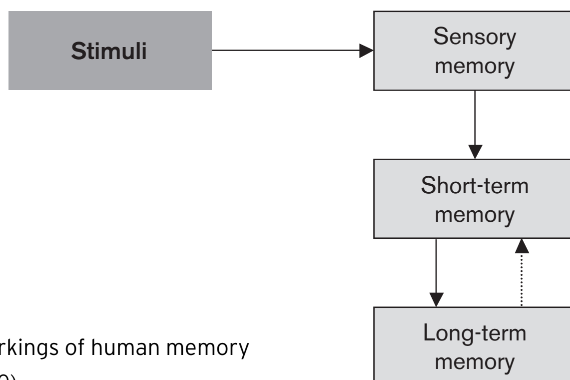

Figure 2.4 The workings of human memory
Source: Engel *et al.* (1990)

of our experiences and knowledge about an organization or its products. The diagram in Figure 2.4 summarizes the processes through which stimuli are retained in human memory.

The influence of communication depends on the degree of "elaboration" that occurs during information processing. In their Elaboration Likelihood Model (ELM), Petty and Cacioppo (1986) postulate that if the degree of elaboration is high, the subject is on the way to being convinced (see also Beijk and van Raaij, 1989). The only "signs" or "cues" that are important during information processing are those that shape *rational* understanding. Only the content and force of the arguments raised will influence opinion formation.

However, if the degree of elaboration is low, then the subject is less likely to be convinced. Message elements which are irrelevant to rational understanding become more important. Peripheral clues such as the attractiveness of the person conveying the message or the number of arguments contained in the message play a more important role in opinion formation (Wierenga and van Raaij, 1987). The path taken depends in large part on the degree to which people are motivated to process the information content in the messages communicated to them.

Important factors include the degree of involvement of subjects, their personal characteristics, and whether the message is consonant with their personal experience. For instance, if involvement with the company or product is high, the rational route will be taken; if involvement is low, the peripheral path will be taken. If the subject has a deep-seated "need for knowledge", it's likely that the level of involvement with the product or company will be high. Under time pressure, the peripheral path is more likely.

Most importantly for communication, when involvement is low, when audiences are not motivated to process information about the company or its products, and audiences embark on the more peripheral path, then corporate reputations will play an even more central role in influencing their behaviors.

The influence of economics

Economists view reputations as either traits or signals that organizations use to build a competitive advantage. Game theorists describe reputations as character traits that distinguish among "types" of firms and can explain their strategic behavior. Signaling theorists call our attention to the informational content of reputations. Both acknowledge that reputations are actually

perceptions of firms held by external observers, a definition that is consistent with those proposed by psychologists.

In an influential article, two behavioral economists pointed out that "in game theory the reputation of a player is the perception others have of the player's values . . . which determine his/her choice of strategies" (Weigelt and Camerer, 1988). Information asymmetry forces external observers to rely on proxies to describe the preferences of rivals and their likely courses of action. Consumers rely on the reputations of organizations because they have less information than managers do about the commitment of those organizations to deliver desirable product features like quality or reliability (Grossman and Stiglitz, 1980; Stiglitz, 1989). Similarly, since outside investors in a company's securities are less informed than managers about the company's future actions, a good corporate reputation increases investor confidence that managers will act in ways that are reputation-consistent. For game theorists, then, reputations are functional: they generate perceptions among employees, customers, investors, competitors, and the general public about what a company is, what it does, what it stands for. These perceptions stabilize interactions between a firm and its publics.

Signaling theorists concur. A good reputation derives from the prior resource allocations managers make to first-order activities likely to create perceptions of reliability and predictability to outside observers (Myers and Majluf, 1984; Ross, 1977; Stigler, 1962). Since many features of a company and its products are hidden from view, reputations are information signals that increase an observer's confidence and trust in the company's products and services. Naturally, then, managers can make strategic use of a company's reputation to signal its attractiveness. When the quality of a company's products and services is not directly observable, high-quality producers are said to invest in reputation building in order to signal their quality (Shapiro, 1983). Their past investments in reputation-building allow them to charge premium prices, and may also earn them rents from the repeat purchases that their quality products will generate. In contrast, low quality producers avoid investing in reputation-building because they do not foresee repeat purchases (Allen, 1984; Bagwell, 1992; Milgrom and Roberts, 1986).

Similar dynamics operate in the capital and labor markets. For instance, managers routinely try to signal investors about their financial performance. Since investors are more favorably disposed to companies that demonstrate high and stable earnings, managers often try to smooth quarterly earnings and keep dividend payout ratios high and fixed, despite earnings fluctuations (Brealy and Myers, 1988). Sometimes companies pay a premium price to hire

high-reputation auditors and outside counsel. They rent the reputations of their agents in order to signal investors, regulators, and other publics about their company's probity and credibility (Wilson, 1985).

The influence of strategic management

To strategists, reputations are both assets and mobility barriers (Caves and Porter, 1977). Established reputations impede mobility and produce returns to firms because they are difficult to imitate. By circumscribing firms' actions and rivals' reactions, reputations are therefore a distinct element of industry-level structure (Fombrun and Zajac, 1987). Reputations are difficult to duplicate because they derive from unique internal features of firms. By accumulating the history of firms' interactions with stakeholders they suggest to observers what companies stand for (Freeman, 1984; Dutton and Dukerich, 1991). Reputations are also externally perceived, and so are largely outside the direct control of firms' managers (Fombrun and Shanley, 1990). It takes time for a reputation to coalesce in observers' minds. Empirical studies show that even when confronted with negative information, observers resist changing their reputational assessments (Wartick, 1992). Therefore, reputations are valuable intangible assets because they are inert (Cramer and Ruefli, 1994).

Like economists, then, strategists call attention to the competitive benefits of acquiring favorable reputations (Rindova and Fombrun, 1999). They implicitly support a focus on the resource allocations that firms must make over time to create reputational barriers to the mobility of rivals (Barney, 1986). Since primary resource allocations also stand to improve organizational performance directly, however, it proves difficult to isolate their unique impact on performance and reputation. This explains why empirical studies have had difficulty untangling a causal ordering: both are produced by the same underlying initiatives (McGuire *et al.*,1988; Chakravarthy,1986).

The influence of sociology

Most economic and strategic models ignore the socio-cognitive process that actually generates reputation rankings (Granovetter, 1985; White, 1981). In contrast, organizational sociologists argue out that rankings are social constructions that come into being through the relationships that a focal firm has with its stakeholders in a shared institutional environment (Ashforth and

Gibbs, 1990). Firms have multiple evaluators, each of whom apply different criteria in assessing firms. However, these evaluators interact within a common organizational field and exchange information, including information about firms' actions in relation to prevailing norms and expectations. Thus, corporate reputations represent aggregated assessments of firms' institutional prestige and describe the stratification of the social system surrounding firms and industries (Shapiro, 1987; DiMaggio and Powell, 1983).

Faced with incomplete information about a company's likely actions, audiences not only interpret the signals that firms routinely broadcast, but also rely on the evaluations refracted by key intermediaries such as market analysts, professional investors, and reporters. Reporters and financial analysts are actors in an organizational field. They transmit and refract information among companies and their stakeholders (Abrahamson and Fombrun, 1992). An empirical study of firms involved in nuclear-waste disposal and photovoltaic cell development demonstrated how in both these industries reputational status depended not only on structural factors like company size and economic performance, but also on a firm's position in the interaction networks linking firms in each institutional field (Shrum and Wuthnow, 1988).

To sociologists, then, reputations are indicators of legitimacy: they are aggregate assessments of an organization's performance relative to expectations and norms in an institutional field. Sociologists point to the multiplicity of actors involved in the process of constructing reputations and their interconnectedness.

Consistent with the sociological approach, Alvesson (1990) suggests that a reputation consists of the picture that someone has of an organization (the sense reputation) and the impressions that the organization communicates (the communicated reputation). A reputation arises primarily out of information which is transmitted via the mass media and through interpersonal communication, and which is haphazard, infrequent, and superficial in nature. It does not arise from direct experiences with the "real" organization. At the heart of Alvesson's critique is the belief that Western society is flooded with reputational cues. Organizations are pressured to continually create signals that convey stronger reputations than they have to their audiences in order to stand out from rivals. Confusion results when discrepancies develop between people's personal experience with the company and the fabricated reputations conveyed by the media.

Alvesson's critique aligns with Daniel Boorstin's well-known 1961 book, *The Image, or What Happened to the American Dream*. Boorstin argued that American society had become overly dominated by an artificial reality that

results from the wholesale manufacture of pseudo-events. As he suggests: "Initially, the reputation is the representation of reality, but ultimately reality becomes a representation of the reputation."

A more literary exposition of the view expressed by Alvesson and by Boorstin, can be found in the work of Milan Kundera (1990). He describes the pernicious effects of reputation in our society; the following is an amusing quotation from his section on "Reputationology":

> *If as I write these pages everyone has decided to make Heidegger out to be a scatterbrain and a black sheep, this is not because his thinking has been overtaken by that of other philosophers, but because at that moment he has become the unlucky number in the reputationological roulette, the anti-ideal. The reputationologists create systems of ideals and anti-ideals, short-lived systems which follow each other in rapid succession, but which influence our behavior, our political opinions and aesthetic tastes, the color of carpets and the choice of books, just as strongly as ideological systems used to do.*

The influence of organizational science

To organizational scholars, corporate reputations are rooted in the sense-making experiences of employees. A company's culture and identity shape an organization's business practices, as well as the kinds of relationships that its managers establish with key stakeholders.

Corporate culture influences managers' perceptions and motivations (Barney, 1986; Dutton and Penner, 1992). Corporate identity affects how managers both interpret and react to environmental circumstances (Meyer, 1982; Dutton and Dukerich, 1991). Shared cultural values and a strong sense of identity therefore guide managers, not only in defining what their firms stand for, but in justifying their strategies for interacting with key stakeholders (Miles and Cameron, 1982; Porac and Thomas, 1990).

Thick cultures homogenize perceptions inside an organization and so increase the likelihood that managers will make more consistent self-presentations to external observers. By creating focal principles, that is, general understanding of the right way of doing things in a firm, thick cultures contribute to the consistency of firms' reputations with stakeholders (Camerer and Vepsalainen, 1988).

Identity and culture are related. As we discuss in Chapter 3, identity describes the core, enduring, and distinctive features of an organization that

produce shared interpretations among managers about how they should accommodate to external circumstances (Albert and Whetten, 1985). For instance, a comparative study of Bay Area hospitals showed how each institution responded differently to a strike because of their distinct self-reputations (Meyer, 1982). A case study of how the Port Authority coped with the problem of homelessness in New York demonstrated how an organization's self-reputation as a high-quality, first-class institution played a central role in constraining managers' actions to cope with the problem (Dutton and Dukerich, 1991). These reports suggest that organizations with strong, coherent cultures and identities are more likely to engage in systematic efforts to influence the perceptions of stakeholders. Managers in such firms will probably attend carefully to how their firms' key audiences feel about them (Albert and Whetten, 1985).

The influence of accounting

A vocal group of academic accountants has recently acknowledged the insufficiency of financial reporting standards in documenting the value of intangible assets like brands and reputations. They highlight the widening gap between factual earnings reported in annual statements and the market valuations of companies.

There are many reasons for this widening gap. Some of it is due to conservative accounting rules that prohibit capitalization of uncertain assets like goodwill, brands, and reputations. In most countries, goodwill is only recognized when assets are sold – the difference between the original price of the asset (its book value) and the market price paid for the asset is then capitalized. It is also subject to drastic depreciation schedules that invite quickly reducing its value to zero (generally over no longer than a ten-year term).

Standard accounting rules also require managers to fund research and development (R&D) activities, advertising, and training expenses activities, all of which contribute to enhancing actual and perceptual resource positions of a company (Scheutze, 1993; Lev and Sougiannis, 1996). As Deng and Lev (1997) suggest, current accounting practice induces a mismatch in the allocation of costs to revenues, and so misleads observers about the earning capabilities of firms and the true value of their assets. In regards to the valuation of R&D, they conclude that "hundreds of corporate executives, along with their auditors appear to be able to value R&D and technology in the development stage. This apparent inconsistency between the current regulatory environment

which sanctions immediate expending of R&D and a fast developing business practice, obviously deserves a careful examination."

Instead, many accounting researchers have been calling for a broad-based effort to develop better measures for understanding how investments in branding, training, and research build important stocks of intangible assets not presently recorded in financial statements – assets that, not coincidentally, are said by strategists to build higher reputational assessments among observers (Rindova and Fombrun, 1997; Barney, 1986). Appropriate capitalization of these expenditures would better describe the value of a company's investments in what are fundamentally reputation-building activities.

In quantitative terms, accountants agree that the value of a public company's intangibles can be estimated using the market-to-book ratio. Fombrun (1996) described it as the company's "reputational capital" and made some cross-industry comparisons by subtracting the market value of a company (share price times number of shares in circulation) from the company's book value (assets minus liabilities), a quantitative estimate that provides a potentially useful benchmark for the hidden economic value of the company's intellectual, social, and institutional assets – the economic assets that effective corporate communication helps to defend.

Linking corporate communication to reputation

Although the analysis of reputation owes much to marketing, contributions to reputation studies are coming from far afield. Researchers and practitioners benefit from insights developed in psychology, economics, strategic management, organization science, and accountancy. Across disciplines, one can discern implications for how corporate communication influences reputation-building.

Figure 2.5 presents a framework for thinking strategically about the link between a company's strategic objectives, corporate communication, reputation, and financial performance. It describes two cycles that should complement each other. The "business cycle" is based on standard development of corporate strategies from which flow an array of business activities which, insofar as they are successfully implemented, build financial performance. Effective implementation calls for a parallel "communication cycle" that develops and executes an appropriate communication system for building reputation. If successfully carried out, corporate communication induces

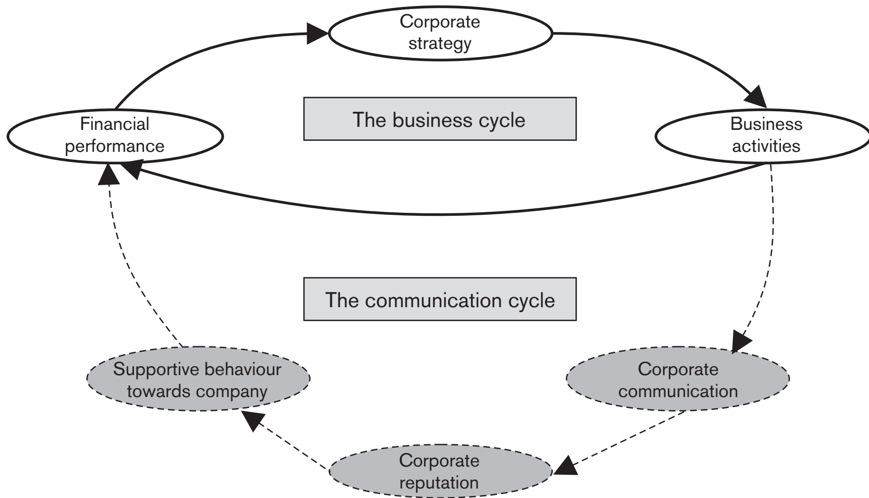

Figure 2.5 Linking communication and reputation to the business

stakeholder identification and stimulates supportive behaviors from the organization's stakeholders.

In the next chapter, we expand on the communication cycle and examine closely the process through which organizations build identity and identification with internal and external audiences.

Discussion Questions

1. Describe the differences between related constructs such as corporate reputation, corporate brand, and corporate image.
2. Explain the mnemonic process through which observers come to know a company. What role does advertising play?
3. How might a company's philanthropic activities contribute to strengthening its reputation with the public? Would it also apply to customers? To financial analysts? To journalists? Why or why not?

Notes

1 Source: ThinkExist.com Quotations. "James Russell Lowell quotes". *ThinkExist.com Quotations Online*, 1 March 2006. 4 April 2006.