Management for Professionals

Reputation Management

Bearbeitet von
Sabrina Helm, Kerstin Liehr-Gobbers, Christopher Storck

1. Auflage 2011. Buch. viii, 300 S. Hardcover
ISBN 978 3 642 19265 4
Format (B x L): 15,5 x 23,5 cm
Gewicht: 619 g

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Kerstin Liehr-Gobbers and Christopher Storck

Six basic ideas about managing corporate reputation:

- It is reputation that drives corporate value in the first place
- Corporate value depends on the behavior of various stakeholder groups
- Reputation management aims at creating shared interests with stakeholders
- Stakeholder perception is generated by every member of an organization
- Building and protecting the right reputation is a fundamental part of leadership
- Reputational goals need to be linked to corporate strategy

In July 2010, the results of the European Communication Monitor illustrated that corporate communication was facing a game change. The 1,863 communication professionals from 34 European countries who took part in the survey saw a priority shift. They expected enabling managers to engage employees in corporate strategy and drive organizational change to become their key assignment. Apart from that, CSR and sustainability were seen as the most important disciplines within corporate communications by 2012.

This new paradigm in professional communications could be anticipated at the turn of the century. The Internet became a mass medium. Economization was on the way to penetrate every aspect of life – even in developing countries. So did globalization: what Western elites had started was going to bounce back to their societies. NGOs and activist groups were on the move from do-gooders to powerful influencers in business and politics around the world. Foreseeing the consequences of these developments resulted in professional services firms combining management and communication consultancy. They were set up to enable corporations to meet the challenges of a dramatically changing business environment.

As of 2006, these changes were fueled by another trend. A generation entered the stage whose members learned to use a computer before they could read or write. They found a new way to use the Internet: as a platform for social interaction. The result is highly volatile groups of people driven by shared interests. Groups of people that can act locally as well as globally. And what is even more disturbing: the inhabitants of the blogosphere create news as much as they consume them.

S. Helm et al. (eds.), *Reputation Management*, Management for Professionals,
DOI 10.1007/978-3-642-19266-1_2, © Springer-Verlag Berlin Heidelberg 2011

In such an environment, corporate communications need to do more than just relying on messages picked up by traditional media. The various groups that can influence the success of an organization ask for dialog and personal engagement. Stakeholders deploy the new interactive tools on the Internet to increase speed, reach and impact of their activities. Platforms such as Facebook or Twitter not only support existing social networks, but they also help to develop and grow new communities that not necessarily remain virtual. All of them communicate all the time, either with an organization they take interest in or about it. It is like joining the local pub group or staying at home.

Since 2008, the economic crises brought about additional challenges corporate communicators need to deal with: the failure of unregulated capitalism prepared the way for a return of the state. The lay-off of hundred thousands of employees by top executives, whom the public regards as absurdly overpaid, transformed corporate responsibility into a prerequisite of financial success. Companies who want their stakeholders to prolong the social license to operate have to fulfill growing demands for sustainability and ethical business behavior.

Accordingly, corporations are facing new challenges. They need to find ways to interact more effectively with more stakeholder groups. Reputation has become a prerequisite for an organizational success. It is reputation that makes a product or services portfolio valuable. What determines the price at which a company can sell a good? Production costs, material value or product quality in itself? Most price premiums can only be explained by how customers perceive the value the product will bring to them, and this is driven by reputational aspects. Quality may be one of them; business ethics and social responsibility are others.

If reputation is the key driver of corporate value, managing it cannot be restricted to the communications department. It is a matter of leadership. Holding leaders across an organization accountable for it, however, asks for new approaches to plan, steer and evaluate communications.

The process of finding such new approaches starts with a simple question: what is the purpose of corporate communications? Building “a good media image” or “a strong corporate brand” is definitively not the right answer. Nobody will deny that both are desirable. But is this what a company or institution wants to achieve through organizational communications? And even the fashionable answer “We want to build and protect a strong reputation” is not really clarifying but provokes a new question: what does reputation stand for? The following answer has the advantage of being practical:

Reputation is the collective perception of a company or institution through its stakeholders. It is the result of an exchange of personal and conveyed experiences between the organization, its stakeholders and third parties over time. In this, stakeholders are all groups that can influence the success of an organization through their behavior – immediately or on the long run, directly or indirectly.

On the basis of this, defining the purpose of organizational communications is easy. It aims at influencing stakeholder perceptions and expectations in such a way that these groups recognize shared interests with the organization and act accordingly. It is about making sure that stakeholder behavior is as much as possible in tune with the goals of the organization. In other words: developing and protecting reputation aims at securing the willingness of internal and external stakeholder groups to cooperate. This is how communication creates value for a company or institution: through impacts on stakeholders' minds leading to maximum cooperation leading to the achievement of strategic goals.

But who are these stakeholders? Which groups need to be taken into account? What does the organization want them to do? Or not to do? And what will be the benefit of this behavior? Some obvious examples:

- *Consumers* shall buy more of our products, make increased use of our services, pay a higher price.
- *Retail partners* shall list more of our products, give us more shelf space, sell more of our goods by preferably recommending them to customers.
- *Suppliers* shall provide better services at lower costs.
- *Capital market players* shall invest more in our organization, pay a higher price for our shares and bonds, provide credits at lower costs.
- *Employees* shall be more productive, show more initiative, take more responsibility and stay longer in our organization.
- *Future talents* shall apply for jobs on their own initiative and are motivated by reasons other than payment and social benefits.
- *Local communities* and *NGOs* (including labor, social, environmental or animal rights activists) shall be willing to enter and maintain dialog with us – in order to increase cooperation and at least listen to us in situations prone to conflict.
- *Policy makers* and *regulators* shall consider the needs of our organization to a higher degree in legislative or regulatory processes.
- Professional mediators such as *journalists* and *financial analysts* shall increase the picking up of our key messages while limiting criticism to fact-based coverage.

Who can make all of these happen? On its own, the corporate communications department can deal with the media – online and offline. But in how far does this help us to manage stakeholder expectations and strengthen the reputation of our organization?

A master thesis at the University of Düsseldorf in 2008 has examined which correlation between the development of a reputation and media coverage can be proven statistically in the case of a pharmaceutical company in the US and four European countries. The development of the reputation was measured through a survey among 2,000 stakeholders of nine different groups that was repeated 1 year later. The media analysis was based on more than 4,500 articles on the industry that appeared in the 12 months between both survey waves.

The study revealed that an influence between media coverage and corporate reputation was only clearly detectable with three stakeholder groups: with nongovernmental organizations, university graduates and pharmacists. The perception and behavioral intentions of six other groups were seemingly not affected by what was written in top-tier and business media.

The interesting thing is that these groups – business partners, competitors, healthcare policy makers, investors and financial advisors, medical doctors and patient associations – have one thing in common: they have a privileged, direct access to pharmaceutical companies. In contrast to those NGOs, graduates and retail pharmacists are very similar to the general public in the way how they inform themselves about the industry. The study arrived at the conclusion that the more other touch points with a company a stakeholder group has, the less influence does media coverage exert on the development of corporate reputation.

In other words: Experience and dialog have a higher influence on stakeholders' perceptions of a company than communication via media channels. It is therefore essential to complement media relations through platforms for direct contact with stakeholder groups.

This does not mean that corporate communications cannot create value for businesses and institutions. But it clarifies that the reputation of an organization cannot be managed by the communication department alone. It is a task every member of the organization is responsible for. So who is ultimately accountable for it? The leadership.

This is why accepting the challenges of the age of the stakeholder brings with it a great opportunity for corporate communications to expand its range of activities through higher business integration. The key to this is cooperation with other communication disciplines and corporate functions. Some of them have already been initiated. For example:

- With the HR department for employer branding
- With the legal- and M&A office for mergers and acquisitions
- With investor relations for IPOs, bond issues and other ECM activities
- With the CSR department for sustainable communications
- With public affairs for agenda setting regarding politics and regulatory bodies
- With the top management for internal communications

Corporate communications can effectively support initiatives of this kind, as long as it is integrated in the strategic process of an organization. This is the key to determining the value creation of reputation management.

Everything starts with translating corporate strategy into projects the corporate communications department can drive or support (see "How to manage reputation", Part IV). Tracking the progress of such projects and evaluating their impact asks for more and better measurement (see "How to measure reputation", Part III).

http://www.springer.com/978-3-642-19265-4

Reputation Management
(Eds.)S. Helm; K. Liehr-Gobbers; C. Storck
2011, VII, 297 p. 53 illus., Hardcover
ISBN: 978-3-642-19265-4