

Difficult art of managing company's reputation

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REPUTATION management is big business and managing reputation within leading global companies is emerging as a full-time job for CEOs and a growing cadre of professional corporate reputation officers.

Between a quarter and a half of the market value of leading corporations is estimated to be attributable to the intangible benefits firms' reputations provide them with by building consumer trust and confidence, and attracting employees and investors. Banking fraud, PPI mis-selling, supply-chain issues such as the horse and fox meat scandals, sweatshops in the fashion industry, and product recalls in the car sector have undermined public trust in business in recent years and stakeholders are increasingly seeking assurance that firms are effectively led and managed.

At the same time, providing that assurance is increasingly complicated by the proliferation of activist groups and new technologies that provide new platforms and tools for discontented stakeholders to share their dissatisfaction.

Managing reputation is challenging for many firms, but some companies and industries have experienced particular reputational challenges in recent years, signalling a shared aspect to reputations that is often under-appreciated. Persistent fallout from the global financial crisis, the Libor scandal, rogue and insider traders, fraud, and money laundering have all contributed further challenge to the a banking sector that is

already held in low public esteem, while a spate of product recalls in recent years has harmed the reputation of the automotive sector.

Beyond industry, firms' country of origin has recently emerged as an important reputational driver – geopolitical conflict over uninhabited islands north-east of Taiwan has led to severe consequences for Japanese companies doing business in China, many of which have experienced reductions in sales volumes of a third or more.

Reputation lost and won

Effectively managing reputational capital is perhaps of even greater significance within Asian economies within which building trusting business relationships is a key driver of business success. At the same time, Asian companies are thought to lag their western counterparts in relation to developing strategies for managing their reputations.

Poor reputation management approaches at Toyota, Huawei, Kingfisher Airlines, and Olympus have probably cost each company billions of dollars in lost sales and market value. Equally, the Asian context can present significant reputational challenges. Example are Apple's continuing labour issue at Foxconn and Pegatron, the impact of the Rana Plaza disaster on the reputations of global textile brands, and public health concerns raised in relation to food and pharmaceutical production in China.

These examples highlight that traditional approaches to reputation management characterised by denial and a refusal to engage with stakeholders generally fail and that a firm's reputation can be dented by partners over which the firm lacks visibility and control.

Reputations are hard won and easily lost, but that doesn't mean that firms that face reputation challenges can't address

them and rebuild their public status. However, to effectively manage reputation, firms need to understand several key aspects to reputation management.

First, they need to understand that their reputations are multiple and that particular stakeholder constituencies have distinct wants and expectations such that firms need to identify these, and prioritise their responses so as to satisfy them.

Second, on any given dimension of reputation stakeholders generally distinguish between perceptions of firms' capabilities or capacities (such as making good products or offering good service, being financially sound) and firms' character traits (such as their integrity, ethics, and trustworthiness). This implies that companies need to pay attention to establishing their track record in relation to both these aspects of reputation.

Issuing apology and providing support

A good recent example of reputation management arose at Japanese cosmetics giant Kanebo which faced skin complaints from customers who had used their popular line of skin-whitening treatments. Kanebo scientists identified the ingredient that caused the skin complaints and the company recalled and discontinued all of the more than 50 products that included it, established a "Rhododenol Task Force" headed by company President and CEO Masumi Natusaka to oversee the management of the incident, and issued an apology to consumers for harm done and established support for the long-term care of those affected.

Measures like these, taken in a timely fashion can do much to reduce the reputational harm potentially arising from any given incident.

Contemporary business increasingly often involves managing complex unforeseen events that can't be anticipated

but which provide stakeholders with opportunities to evaluate companies' capabilities and character. The challenges of managing reputations are still further complicated by the diversity of expectations encountered when doing business across many borders. Firms tackle these issues in a range of ways to help to "insure" their reputations against possible challenge, but many of these strategies also involve downsides. For example, strategies that involve 'compensatory' actions such as demonstrations of good citizenship or attempts to build deeper local engagement can seem inauthentic to, or confuse, firms' stakeholders.

Pro-active approaches

Technology is changing the ways that firms and their stakeholders interact, presenting both significant opportunities and threats for firms in relation to reputation management. While firms are perhaps more vulnerable to virtual attack, some companies have developed pro-active approaches to engaging through these new media.

Dell, for example, has made proactive use of social media in its customer relations activities by establishing channels by which customers are enabled to share ideas, provide feedback, and share knowledge with the company. Dell's social media command centre in China allows them to engage with, and learn from over 25,000 daily customer conversations and has been accompanied by significant falls in customer complaints.

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