

CRUNCH TIME FOR REPUTATION MANAGEMENT

As the recession bites, Milorad Ajder explores the reasons for keeping reputation management high up the corporate agenda.

The corporate landscape is increasingly littered with casualties of the global recession with many commentators predicting worse to come. The combination of deteriorating company earnings and cash-strapped consumers has spilled into the area of reputation management. The economic crisis has placed a question mark in some people's minds as to whether issues such as sustainability, transparency and social responsibility will retain their importance at the leadership top table or be the victims of budget cutting.

The apparent rationale for cutting back in the area of reputation management is that reputation is a good insurance policy for the future but is not seen to have any present value (in terms of an immediate impact on the bottom line). In this world, reputation and reputation management are considered to be important but somewhat amorphous. The leadership team struggles to measure or manage it, and in some cases end up paying it lip-service. This leads to the conclusion that companies are free to invest significant resources in corporate reputation activity when times are good, but when times are difficult the accountant's red pen can find savings in this area due to its perceived lack of present value.

This viewpoint is not the same as the active stewardship of a company's good name – where its management is 'hardwired' into the organisation's business strategy and customer facing offer. Rather, it is more akin to 'corporate wallpaper', where reputation management is more about how a company looks, than how it behaves.

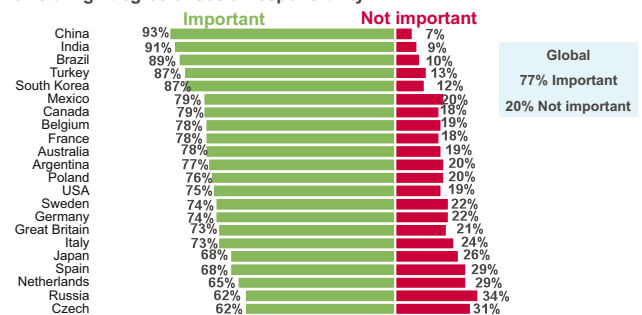
Both future value (insurance) and present value (bottom line) considerations provide impetus for many companies to invest in active reputation management and corporate responsibility. Organisations such as Dow Jones with its Sustainability Index have provided evidence of the present value to be gained. The index has tracked its performance since 1999 relative to other 'non-sustainable indexes' such as MSCI Global and has consistently fared better.

The main thrust for integrating reputation management with business goals has been creating corporate responsibility functions and committees that report directly into the CEO, the idea being that the ownership of such issues by the CEO would increase the likelihood that they would either permeate, or be consciously managed, into the business strategy planning process. The question is whether these new structures are robust or whether they will be dismantled as the recession takes root.

But findings from the latest Ipsos Global @dvisor survey warn against any 'relegation' of the issue of reputation. The data show that the majority of online consumer citizens in each of 22 countries say that responsibility is important in their purchasing considerations. The fact that the data were gathered in October 2008 is also significant, given that it was well into the credit crunch. The message is that, whether in a recession or economic boom, people still need to feel that they trust the organisations that are delivering products or services to them.

Social responsibility & Purchase

When forming a decision about buying a product or service from a particular company or organization, how important is it to you that it shows a high degree of social responsibility?



Ipsos has also explored the linkage between reputation and consumer behaviour with regard to purchasing and advertising. Our research indicates that advertising effectiveness, measured as advertising impact on the one hand and product/service brand attributes on the other, is driven by the degree of trust that consumers assign to the organisations themselves. In other words, a company with a good reputation needs to spend less to break through to consumers with its marketing communications, and so has a higher “marketing efficiency”.

The Reputation Halo

So how does all of this tie together, and what are the key dynamics at play? Well the diagram below is a good starting point. Although a point of view rather than an empirical model, it does provide a useful overview when trying to pull all of this together.

The Reputation Halo acts as the bridge between corporate reputation and brand equity. Just to be clear: **brand** is what you say about yourself; **reputation** is what people think about you once they have got to know you; and **brand equity** is the positive impact that knowledge has on the decisions they make, e.g. to buy your product, invest in you, choose to work for you.

The Halo's strength is determined by the key building blocks of reputation: awareness, familiarity, favourability, trust and advocacy, as well as the attributes you are associated with. Therefore depending on your performance in these areas, the Halo could have a positive impact or a negative impact on your brand equity. This is the area that strategic reputation research is concerned with – understanding the factors that impact on reputation, and enabling organizations to improve their Halo through communications and actions that drive these factors.

Final thoughts

The current global recession will cause businesses to increasingly look at costs and probably divide expenditure into something like ‘must do’, ‘should do’ and ‘nice to do’ categories. The question is, where does reputation management sit?

If optimising your reputation is about building trust (and the evidence says it is), there are two good reasons for it being placed in the ‘must do’ box. Firstly, the traditional strategic consideration still exists – to build trust equity with key stakeholders in order to generate support and goodwill that can be used to develop your business and manage the impact of crises. And secondly, at the end of the day the more you are trusted, the more you are listened to – and when it comes to marketing and advertising budgets, the more receptive the audience, the more effective your spend.

This is an edited version of an article that appeared in The Global @dvisor Report – The Gathering Storm, [available here](#).

