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Reputation: An Important Component of Corporations' Value

Malikeh Beheshtifar
Management Department, Rafsanjan Branch, Islamic AZAD University, Iran

Azam Korouki
Management Department, Rafsanjan Branch, Islamic AZAD University, Iran

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Abstract

Corporate reputation may also be a critical factor in responding to a crisis. Reputation may be seen to arise as an output of different activities in the professions.Reputation is a set of collectively held beliefs about a company's ability to satisfy the interest of its various stakeholders**.** Corporate reputation also is: Observers' collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time**.** The organization which doing a good job managing their corporate reputations stressed the factors as distinctiveness, focus, consistency, identity, and transparency. Corporate reputation has more benefits such as to raise financial and equity market performance, to affect a firm's workforce composition, to support the persistence of above-average profits, to increase firm's performance, and so on. Without a clear and commonly agreed upon definition, however, it is difficult to move forward in this field of study. Corporate reputation can be a key contributor to an organization's success and it can just as easily be a contributing factor to an organization's failure.

Keywords: reputation, corporate reputation, value

Introduction

Nowadays, reputation is considered more and more a precious and decisive factor for the competitive advantage of the organizations and for its sustainability (Cramer & Ruefli, 1994), and corporate reputation has become a "hot" topic in the past few years given the evidence linking a favorable corporate reputation and various intangible and tangible benefits, the high profile corporate scandals that have come to dominate the media, and the generally low opinion the general public has of corporations and business (Backhaus & Tikoo, 2004).Reputational challenges often create opportunities for reputation building. If achallenge is handled poorly, reputation can be damaged and if a challenge is handled well, reputation can be enhanced (Goldstein, 2010); in other word, corporate reputation may also be a critical factor in responding to a crisis (Schnietz & Epstein, 2005).

Reputation is about building trust that an organization lives up to a set of core values, acts with integrity, takes responsibility for its mistakes by fixing them quickly, provides quality goods and services, treats employees well, and returns fair value to its shareholders. Increasingly, business organizations also are expected to also provide some societal value beyond the goods and services they offer. Plainly, building reputation involves many diverse challenges (Weber, 2007). Reputation may be seen to arise as an output of different activities in the professions (Iwu-Egwuonwu, 2011). Martin de Castro (2006) hint that corporate reputation is compartmentalized into three major areas, as follows:
a. Managerial reputation
b. Financial reputation; and
c. Product reputation.
On-going issues within the corporate reputation research literature center on the definition of the reputation and corporate reputation, and it study outcomes of corporate reputation.

Nature of reputation

The term 'paradigm' is usually used in the literature to explain various groups of approaches to a certain field of study. For example, Smircich (1983) suggested that five different paradigms exist in the study of organizational culture, including one involving the use of metaphor, an approach of relevance to this paper. While the topic has become increasingly popular, from an academic perspective, the concept of corporate reputation remains unclear. Within the reputation paradigm, there is arguably no one source as yet which captures the entirety of the concept of reputation (Chun, 2005).
Dictionary definitions of reputation include the beliefs or opinions that are generally held about someone or something and a widespread belief that someone or something has a particular characteristic" (Soanes & Stevenson, 2005).Maclnniss (1999) define reputation as general perception that represents the level of esteem and favorability towards the company. Reputation is a set of collectively held beliefs about a company's ability to satisfy the interest of its various stakeholders (Gabbioneta, et al., 2007).
Corporate reputations have many aspects (e.g., are multidimensional) and vary with different stakeholder groups (e.g., are stakeholder specific). Corporate identity results from assessments by insiders to an organization, though insiders can be aware of how outsiders perceive their organization and the attitudes outsiders hold towards it (Bouchikhi & Kimberly, 2008). Fombrun (1996, p.37) defines corporate reputation as "the overall estimation in which a particular company is held by its various constituents".
Schwaiger (2004) argues for corporate reputation to be treated as an attitude toward a firm.Zyglidoupoulos (2001, p.418) defines it "as the set of knowledge and emotions held by various stakeholder groups concerning aspect of a firm and its activities." Corporate reputation also is: Observers' collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time (Barnett et al., 2006: 34).
Doorley and Garcia (2007), in their book Reputation Management, take a different approach to defining reputation. They acknowledge that reputation is the aggregation of the perceptions and images that various stakeholders have of a firm, but they do not stop here. They get to the

very core of what creates these images, defining reputation with a simple formula: Reputation = Sum of Images = (Performance and Behavior) + Communication. This formula accounts for the fact that reputation is the sum of the images of all of an organization's stakeholders and then delves even deeper. The formula also explains where these images come from; the performance and behavior of the firm and how they are communicated.

As a result, reputation is characterized as:

- the result of a corporate branding in the area of marketing,
- a signal about future actions and behavior, a pledge that justifies and promotes expectations of a principal about the actions of the agent in the field of principle agent theory5,
- a kind of goodwill in accounting,
- the manifestation of a corporate identity in the field of organization theory, and
- a potential market entry barrier in the field of management (Schwaiger, 2004).

Corporate reputations also make it possible to compare organizations (Dowling, 2004), and it could study from different viewpoints. The most marked difference exists in the definition of reputation from an economist's perspective: the perceived likelihood that it will defend its markets and those working from a marketing or strategy perspective who define it as the accumulated impression that stakeholders form of the firm, resulting from their interactions with and communications received about the firm. Reputation has been seen as a valuable intangible asset from an accounting perspective. Enron and other similar cases have added further focus on the accounting perspective: for example, overstatement of profits and the use of financing methods that allow companies to incur debts without disclosing them on their balance sheets. Wrong accounting practices can threaten not only a firm's reputation, but also the accounting firms who audited the firm's accounts. The reputation literature emphasizes that employees stay longer with a firm with a good reputation (Chun, 2005).

A corporate reputation is the composite or overall assessment by groups of individuals of an organization that goes beyond assessments of particular features or qualities (Shenkar & Yuchtman-Yaar, 1997). An alternative set of reputation components has been developed by the Reputation Institute for its Global Pulse ranking of corporate reputation, based on Fombrun's Reputation Quotient (RQ). This ranking uses seven dimensions of reputation: performance, products and services, innovation, workplace, governance, citizenship, and leadership (Barron & Rolfe, 2011).Another study shows that corporate reputation has two components: sympathy—emotional identification and liking—and competence—the quality of services and products delivered (MacMillan et al., 2005).

Fombrun (1996) observed that organizations doing a good job managing their corporate reputations stressed the following factors:

1. Distinctiveness—firms occupied a distinct place in the views of stakeholders.
2. Focus—firms emphasized a core them.
3. Consistency—firms were consistent in their communications with all stakeholders.
4. Identity—firms were seen as genuine by stakeholders.
5. Transparency—firms were seen as open and forthright in going about their business.

Corporation reputation

For ages, the view that corporate reputation positively impacts on firm performance has been documented (Iwu-Egwuonwu, 2011). Strong corporate reputation helps win the war for talents, and fosters employee Retention (Schwaiger, 2004).

Studies of the Fortune 500 companies have shown that the most “admired” companies have much higher price: earnings ratios (about 12 percent higher) than do the less “admired” companies, a $5 billion increase in market capitalization for the typical Fortune 500 companies. Thus company reputation is associated with a company’s financial performance (Dube, 2009).

There is also a lot of empirical evidence that establish a positive relationship between firm publicperception/reputation and its financial and equity market performance. In contrast, the relationship betweenfirm reputation and the price of its products as well as the value of the firm (Iwu-Egwuonwu, 2011).

Corporate reputation can also directly affect a firm’s workforce composition. Research hasshown that reputation is strongly correlated to potential job applicants'intentions to pursue continued contact with a company (Goldstein, 2010).

Roberts & Dowling (2002) show that over time, corporate reputation supports the persistence of above-average profits. To prove this, they decompose overall reputation into a component that is predicted by previous financial performance and that which is “left over”. They find that both elements have positive impact (Schwaiger, 2004).

Hill & Knowlton (2006) reported a study of the role of corporate reputation in the decisions of financial analysts when assessing a firm’s performance. Quality of management (a strong leadership team, keeping promises, a sound corporate strategy) emerged as the most significant factor in corporate reputation, when financial performance was excluded. CEO reputation was the next most important factor in their decision to recommend a firm for investment. The analysts strongly believed that a CEO should be terminated if his/her behavior negatively influenced the firm’s reputation. Financial analysts also saw clear firm communication with all stakeholders as an important factor in their financial assessment of a firm.

Roberts and Dowling (2002) found that better performing firms that also had a superior reputation were more likely to maintain solid financial performance over time. Simply, reputation, built in part on financial performance, can help high-performing firms continue to perform well financially. In addition, “research also shows that good firm reputations increase the length of time that a firm spends earning superior financial returns and reduces the length of time a firm spends earning below-average financial returns” (Ang & Wight, 2009: 23-24).

Conclusion

The reputation of a company and of its products depends on the degree of respect and credibility that stakeholders have about an organization (Mahon & Wartic, 2003). A good corporate reputation is enhanced by the tangible things that it does—not by advertising (e.g., by delivering better products and services, being seen as a good place to work, and the building of trust with internal and external stakeholders).This leads to a distinction between well-known celebrity firms and firms having a solid corporate reputation (Rindova, et al., 2006).Corporate reputation has more benefits such as to raise financial and equity market performance, to affect a firm's workforce composition, to support the persistence of above-average profits, to increase firm's performance, and so on.

Steps to Building a Favorable Corporate Reputation are as following:

1. Formulate a corporate reputation strategy and key factors in business sustainability.
2. Integrate the communication and social responsibilities into the company's corporate reputation strategy.
3. Develop a crisis management strategy to defend against threats to reputation.
4. Communicate the corporate story to internal and external stakeholders (Wartick, 2002).

It is doubtful that anyone today would argue that organizational reputation is unimportant. Without a clear and commonly agreed upon definition, however, it is difficult to move forward in this field of study. Corporate reputation can be a key contributor to an organization's success and it can just as easily be a contributing factor to an organization's failure.

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