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The Notion of Reputation Risk: A Theoretical Survey

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Abstract: Dictionaries define reputation as the quality or skills of a person or organization, as judged by the public at large, or recognition of character or ability. Corporate reputation as a technical term, on the other hand, has received remarkable attention both in the managerial and quite a few other academic disciplines. Within this scientific scope, the notion of reputation is conceptualized as an important asset or liability bestowed upon a corporation by its stakeholders or perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all of its key constituents. In a world of global numerous forces in which trade, technology, and communications enhance competitive forcessubstantially, corporate reputation now stands as a pivotal strategic concern. Many researches on corporate reputation indicates that organizations with good reputations find more and better support from stakeholders and a desired and strong reputation brings in numerous benefits which include higher customer retention rates, increased sales, higher product selling prices, and reduced operating costs. However, it is also rather vulnerable to numerous risks and managers must review and guide strategies, major action plans, and a risk policy together as well as setting performance objectives. Moreover, legitimacy of organizations depend upon the extent to which they help stakeholders manage risks. In this paper, the notion and origin of reputation are theoretically discussed along with corporate reputation as an intangible risk in order to achieve a wholistic understanding.
Keywords:*Corporate Reputation, Reputation Risk, Reputation Management*
JEL Classification: M100, M140

I. Introduction

I.I. What is Reputation and What is not?

Semantically, "standard dictionaries define the term reputation as the quality or skills of an individual or an organization, as judged by the public at large, or recognition of character or ability" (Burke, 2011:164). Nevertheless, the interdisciplinary nature of corporate reputation as a scientific term which is repeatedly emphasized in literature has caused terminological difficulties to define corporate reputation (Chun, 2005). Lange *et al.* (201:163) attribute these terminological issues to theoretical pluralism claiming that "Corporate reputation is a multidimensional construct in part because it is shared by scholars from different academic fields that represent varied theoretical perspectives". Particularly, within the framework of this terminological difficulties - or confusion - such notions as identity, image, and status are commonly confused with the term reputation. Indeed, corporate identity and corporate image differs from the notion of status in that they are acknowledged as the major building blocks of corporate reputation. Status, on the other hand, is not regarded as a part or building blocks of corporate reputation, yet it is not same as corporate reputation. Albeit it is surely beyond doubt quite a few scholars took a chance on exhibiting the difference between the two, we firmly believe no other has been able to reach beyond Barnett and Pollock's (2012:6) clear cut distinction. Their explanation is as follows:

> *"Status often is conflated with reputation because both constructs deal with how observers assess a firm's characteristics and form expectations of its likely future behaviors. But, they differ in terms of how these assessments and expectations are formed. Reputation is commonly viewed as arising from observation of a firm's behaviors, while status is commonly viewed as arising from observation of a firm's affiliations. That is, status can be untethered from behavior, and may be deemed an unearned privilege based on the company one keeps".*

In the organizational studies and surveys under the head of strategic management paradigm, the term corporate reputation is commonly conceptualized as a *resource* or a strategic *asset* that is managed by organizational leaders. According to Love and Kraatz (2009) for example, "Reputation is an important asset or liability bestowed upon a corporation by its stakeholders". Likewise, Fombrun (1996) defines corporate reputation as "Perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all of its key constituents" .

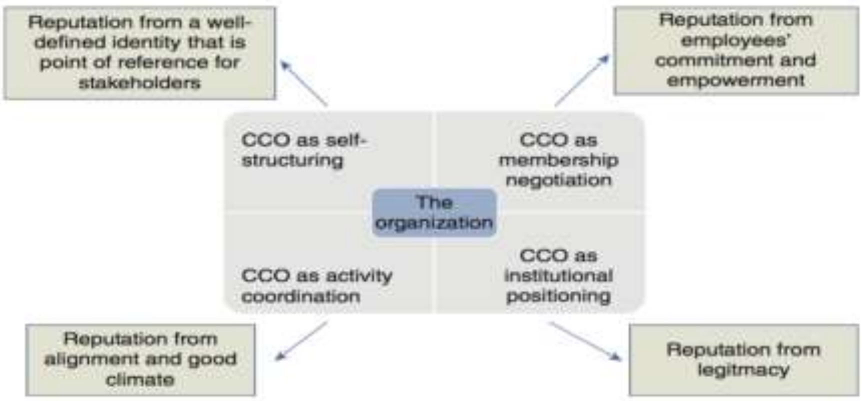
Though, defining the term corporate reputation is still an area of conflict by virtue of various paradigms dealing with it, there are certain dominant attributes that are commonly referred within the definitions of reputation. For instance, the emphasis on perceptions of stakeholders are one of these attributes which means that organizational reputation is closely associated with perceptions and thereby perceivers and their culture. Secondly, reputation is comperative; that is, it stems not only from the organization itself but also its rivals within a certain market. Thirdly, "Reputation is a soft concept. It is the overall estimation and judgment of an organization that is held by its internal and external stakeholders based on the corporation's past actions and expected future actions and behavior" (Gottchalk, 2011:28). Finally, Walker (2010) suggest that reputation is stable and enduring but could be negative as well as positive.

II. The Origin of Corporate Reputation

While considering the concept of reputation historically, it is vital that we are aware of a number offundamental themes. Among them, probably the most important one is that the notion of reputation as a reflection of what others think of a certain organization, is necessarily embedded in social relations. And accordingly, approaches to the term reputation changes as social relations evolve in the process of time (Rolp, 2008:40). Within this framework, it is commonly asserted that corporate reputation springs from multiple sources of self-esteem, e.g.from major stakeholders such as "employees, shareholders, suppliers and customers, or social claimants, including society at large, the media, or reputation enhancers like governments, bankers, professional critics, or competitors" (Burke *et al*., 2011:163). Moreover, organizational reputation also springs from public recognition of unique, special qualities and attributes. This means that, theoretically, the core competencies based on certain legitimate social norms must be good, moral, valuable, and remarkable.

As commonly defined in the literature of management and organization studies, "Corporate reputation is the sum of the values that stakeholders attribute to a company, based on their perception and interpretation of the image the company communicates and its behavior over time" (Dalton and Croft, 2003:9). Yet, at organizational activity level, reputation is hard to manage. In that, an effort to develop or sustain a good reputation without an awareness of its building blocks or in other words, its main pillars is destined to fail. Hence, a comprehensive strategic management planning should focus more on four main pillars from which organizational reputation stems.

Figure-1: Pillars of Organizational Reputation



Source: Romenti, S. and lllia, L. 2013:187

First one comprises of the identity of the organizations. In this regard, an organization needs a well defined and enduring identity (Stuebs and Li, 2009) which could fundamentally be defined as the most centraland distinctive basic character of an organization (Gottschalk, 2011:28). In other words, the notion of identity is used to portray the sentiments through which internal stakeholders perceive the organization and the necessity of a coherent and consistent organizational identity in building a strong reputation is overemphasized by scholars many of whom believe that identity and image together are the two main sources of corporate reputation.

Besides, as a part of corporate identity, corporate culture is also of vital importance within this scope. This is mainly because "the relationships between culture, image and identity form circular processes involving mutual interdependenceso that organizational identity is a self reflexive product of the dynamic processes of organizational culture" (Murhpy and Gilpin, 2013). Therefore, along with organization's characterand personality, organization's culture is also closely related to corporate reputation (Kowalczyk and Pawlish, 2002). Among various scales offering certain dimensions for organizational culture, Chatman and Jehn's (1994) is commonly accepted. They suggest a scale including seven dimensions and evaluate the organizational cultures in different industries. These dimensions are as follows :

- **Innovation** : Firm's desire to experiment new ideas and its attitude towards risk taking
- **Stability** : The extent to which a firm's performance is predictable and secure.

- **People Orientation** : Firms fair decision-making procedures and its respect for employees' rights.
- **Outcome orientation** : Firm's willingness to focus on achieving predetermined certain outcomes
- **Easygoingness** : Firm's traits of being agreeable, calm.
- **Detail Orientation** : Firms's preciseness and analytical ability
- **Team Orientation** : Firm's emphasis on collaboration and teamwork

Authenticity and trust form the second pillar together as these two are closely associated with an organizations mission, vision, values as well (Van Riel *et al.*, 2009). Particularly, in case of a lack of trust in a relationship with stakeholder groups, firms require transparency in order to deal with or repair it. Because stakeholders are quite interested in corporate ethics and transparency and more are focusing on social and environmental performance for the same reasons (Burke *et al*., 2011:102).

They should also focus on creating a desired dialog withstakeholders while communicating transparently and authentically to sustain their corporate reputation (Molleda, 2010). Trust develops slowly over time as trusting someone entails taking a risk by becoming vulnerable to the other or the others. It also requires behaving in a trustworthy way via protecting the vulnerability of the other (Tren and Jensen, 2008). Companies operate under a constant state of stakeholderpressure. Because, "stakeholders have expectations and damage to our relationship with them depends on how much our behavior diverges from their expectations" (Honey, 2009) and they react to organizational behaviors in certain patterns. Within this framework, Honey (2009) suggest a five level stakeholder response scale.

Table 1 : Stakeholder Response Scale.

Level	Stakeholder reaction	Trust damage	Characteristics
5	Outrage	**Trust completely lost** – not recoverable	Fraud, embezzlement, illegal or criminal activity
4	Disgust	**Trust severely damaged** – never fully recoverable	Incompetence, poor management decision making
3	Concern	**Trust diminished** – recoverable at considerable cost	Accident or safety issue e.g. product recall
2	Surprise	**Trust dented** – recoverable with time and good PR	Poor judgement or lack of control e.g. supply chain problems
1	Disappointment	**Trust questioned** – but recoverable speedily	Inconsistent behaviour e.g. gap between policy and reality

Source: Honey, G. 2009:16

Third pillar is sustained alignment between organizational values and actual daily performance of the company which means that when company commitments, claims and actual performance become disjointed, the company is certainly at risk of suffering a reputational damage. Finally, fourth pillar is about stakeholders and their power on organizational reputation. Here the notion of legitimacy within the scope of institutional approach comes to the front since stakeholders are the key partners of the firms who legitimate an organization as a social partner(Doorley and Garcia, 2011). An alternative way for an organization to be acknowledged reputable is adapting its organizational culture to the society surrounding the firm. Within this approach, to be regarded as legitimate, and accordingly have a *license to operate* from society, firms need respond to stakeholder demands as well as reflecting their own culture and identity.

III. The Notion of Reputation Risk

According to Damadoran (2003) the term risk could be defined as "the likelihood that in life's games of chance, we will receive an outcome that we will not like" and the popularity of the term within management paradigm does not date back to a very long time. Subsequent to vital events in 1980s such as oil spill off the

California coast and MIC release in India, when the term risk was referred as an important aspect of management in scientific environment, the notion of risk also started to take its place within issues management by means of specific analysis (Heath, 2013).

Based on a managerial perspective, as mentioned earlier above, reputation is a valuable, intangible and an economical asset for an organization and quite much effort is required for developing a strong and enduring corporate reputation. However, one thing that should definitely not escape the attention is that it is also rather vulnerable to numerous risks. Conceptually, within the context of notion of reputation risk, we could divide organizations into two main categories. First is the producers of high-risk products and services that may cause fatal or great damage like food, chemicals, health, cosmetics, transportation, and energy industries (Nowak *et al.*, 2002). The second category, on the other hand, is corporations which aim for *unprotected* visible or invisible populations. These categories in the following sections are dramatically influenced by different stakeholders groups including regulators, media, social communities, costumers, competitors, government… (Caywood, 2013). Based on the factors that constitute corporate reputation, the media and regulators generally hone in on products and services and also on citizenship, governance, and workplace factors since such factors reflect the public's basic interests and their regulatory scope (Burke *et al*., 2011:102).

Parum (2006) suggests that managers review and guide a strategy, major action plans, and risk policy as well as setting performance objectives. Not always is everything on the rails in business life and firms face and suffer quite much from unexpected crises arising out of blue. Risks could result from a wide variety of reasons including a poorly handled natural disaster, a financial crisis, a seemingly minor customer service issue, or a product recall (Cunningham and Hunt, 2010). Therefore, executive teams of the firms acknowledge that crises are just a matter of when and they pose relatively great threats to companies. "Any managers who believe that their organization is immune to crises are delusional and are creating unnecessary risk for their organizations and stakeholders" (Coombs, 2013). Crises are turbulent times of organizational lives during which a firm's reputation is abruptly tested. Whether it is believed to be temporary or relatively permanent, a crisis has effects on both internal stakeholders and external stakeholders. Naturally, not all crises can be controlled but quite a few of them can be foreseen in the light of current context that organization subsists in. Hence, what managers should first do is to identify the critical issues and prioritize them with regard to the magnitude and probability of occurrence. Hereafter, developing a communications plan is required to recover the crisis and regain a level of trust through a comprehensive crisis management (Burke *et al*., 2011: 29).

Yet, stakeholders and certain norms and values embraced by them are of great importance in terms of sustained competitive advantage thereby must be an ontological focus. Organizational values are built through strongreputations and demolished in disagreement or indifference. Theoretically, scholars of social sciences emphasize five main social values which could affect organizational reputation. These values are; morality, legality, consistency, coherence and inclusiveness.

Organizations with good reputations find more and better support from stakeholders. Moreover, legitimacy of organizations depends upon the extent to which they help stakeholders manage risks. It should also be noted here that stakeholder groups in a society is organized on the reason that it serves both individual and collective risk management.A good reputation built via serving stakeholder groups and satisfying their demands in a legitimate way has paybacks which are in the selfinterest of the company itself. Among these paybacks are premium prices when selling to customers, lower prices when buying from suppliers, high-performance employees when recruiting, feeling of belonging, increased loyalty fromcustomers and employees, smoothed customer demand even in turbulent times (Varey, 2013). Furthermore, according to Hatch and Schultz (2010) organizational visibility is another key point. In this sense, they assert that when stakeholders obtain access to the firm, more of the firm becomes visible to themand available to that are in their network, which leads eventually to revealing more of the organization's culture, and management practices based on its core competencies and business philosophy. However, the products and services are referred as higher risk by regulators or by society, the management of the reputation building process seems even more fragile. Likewise, "when the analysis shows that the stakeholder groups targeted to purchase or be involved with the product or service is a high visibility, high-risk population, the reputation building process is, once again, more tenuous" (Caywood,2013).As Fombrun (1996) indicates, such organizational values as trustworthiness, responsibility, reliability and credibility are pivotal organizationals traits for stakeholders' perceptions of an organization's reputation. That is actually why executives should adopt a certain level of awareness regarding how important it is to attend both stakeholders and shareholders to sustain a good and strong reputation (Pettigrew and Reber, 2013). However, stakeholders, no matter which group they are involved in, expect more from firms than merely goods, services or profits as a sign of success and reputation. Furthermore, as stated by Honey (2009) their demands or "expectations are not a static commodity; they are fickle and subject to other influences including media exposure, market knowledge, andcompetitor claims" and since the only part we are certain about is that under normal circumstances expectations generally go up, not down, and efficient management is about alignment of values to reduce risk.

Figure-2 : Alignment Risk

Source: Honey, G. 2009:14

For a company aiming at sustained competitive advantage and increasing customer loyalty within divergent environments and cultural contexts, the mechanism of reputation is an indispensable tool. Because, a good or desired reputation among consumers increases the likelihood of favorable purchase decisions. Specific brand promises or advertising claims are credible only if the organization has a good reputation (Goldberg and Hartwick, 1990). A good reputation works particularly in high-risk purchase situations. Within such risk assessments,reputation associations with innovation and trustworthiness become more dominant when evaluating the product (Gürhan-Canli and Batra, 2004; Thompson, 2000). Usually, it is claimed that a *reputational risk* of reputation damage arises if promise keeping is not consistent or if the promise is not kept and marketing promotion overpromises, and the service system underdelivers. Therefore, image development or improvement efforts should be based on reality (Varey, 2013). It is alo asserted that when company commitments, claims and actual performance become disjointed, the company is certainly at risk of suffering a reputational damage. This view is also shared by Deephouse (2000), who implies that news stories often include reports of organizational actions; hence, public relations must have a foundation in actual actions through the organization. However, the concept of reputation risk requires a broader and comprehensive approach in terms of the basic causes that damage on corporate reputation. To see the whole picture, it is useful to refer the model that Honey (2009) suggest; for him there are six main causes of reputation risk which are illustrated in table below:

Figure-3 : Causes of Reputation Damage

Source: Honey, G. 2009:24

The reason why cultural risks to avoid are highligted in the figure above is that it is thought to be the most interesting areas of reputation by the author. For him, since cultural/ethical risks are intra-company and also include divergent departments or business units which exhibit contradictory values, they risk the reputation of the entire company.

IV. Conclusion

As one of the hottest topics of the last decade, the term corporate reputation has received remarkable attention within numerous academic disciplines and social studies. However, despite the widespread interest towards the notion of corporate reputation, scholars have not been able to reach a full unanimity regarding the conceptualization of the term. Particularly in managerial literature, quite a few researchers identify this deficiency with theoretical pluralism and the interdisciplinary nature of the term reputation basing their claim on the grounds that reputation is a multidimensional construct.Since corporate reputation springs from public recognition of unique, special qualities, and attributes as well as legitimate social values and norms, the origin of reputation as a part of social phenomenon should also be considered in order to achieve a full understanding of the term.In this regard, there are four main sources to focus on. First one comprises of the identity of the organizations. Authenticity and trust form the second source together as these two are closely associated with an organizations mission, vision, values as well. Third source is sustained alignment between organizational values and actual daily performance of the company which means that when company commitments, claims and actual performance become disjointed, the company is certainly at risk of suffering a reputational damage. Last one is about stakeholders and their power on organizational reputation. For a company aiming at sustained competitive advantage and increasing customer loyalty within divergent environments and cultural contexts, the mechanism of reputation is an indispensable tool.When it comes to the notion of reputation risk, we could conceptually, divide organizations into two main categories. First is the producers of high-risk products and services that may cause fatal or great damage like food, chemicals, health, cosmetics, transportation, and energy industries. The second involves corporations aiming for unprotectedvisible or invisible populations. However, executives of each category are bound to keep in mind that a good reputation works particularly in high-risk purchase situations, no organization is immune to crises and managers must guide strategies, major action plans, and risk policy as well as setting performance objectives considering the stakeholders' divergent expectations. This is mainly because stakeholders and certain norms and values embraced by them such as morality, legality, consistency, coherence and inclusiveness are of great importance in terms of sustained competitive advantage thereby must be an ontological focus for organizations. Moreover, the legitimacy of organizations depend upon the extent to which they help stakeholders manage risk within their own cultural context.

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