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Why Reputation Matters As a Source of Corporate Value

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Reputation is an important system that underlies the operations of any organization. Now, as a result of changes in the business environment, it offers leaders of organizations, marketers and communicators a new opportunity to specifically impact business outcomes and grow the value of any enterprise.

In a business context, good reputation is the product of multitudes of specific positive experiences and expectations, based on actions and communications between people inside and outside of an organization. As it is created, reputation acts as a catalyst in every decision that an individual makes regarding an institution.

In the past, all of those interactions and their resulting communications have been thought of as a consequence, to be generally addressed through good corporate values and strong brands. Reputation, as a result, has been somewhat outside the hard-edged tools that managers use to make organizations produce results.

In today's increasingly uncontrolled environment for marketing and communications, reputation takes on new importance as a tool, and as a measure of current success and future potential. In short, reputation has become an important new focus for management teams that want to create or protect value.

As *BusinessWeek* said in a recent article:

"Many savvy companies are starting to realize that a good name can be their most important asset—and actually boost the stock price. More and more companies are finding that the way in which the outside world expects a company to behave and perform can be its most important asset... Indeed, a company's reputation for being able to deliver growth, attract top talent, and avoid ethical mishaps can account for much of the 30%-to-70% gap between the book value of most companies and their market capitalizations."

So, reputation is a practical matter in business, not just an undefined halo of goodwill, or an unavoidable black cloud of mistrust. But, leaders of companies often feel—with some frustration—that, in an ideal world, the quality of products and our results should speak for themselves.

The problem with that ideal is that someone has to be listening, in order to make those qualities attractive and effective in support of business goals. In practice, marketing and communications professionals have solved that problem with different tactics, ranging from paid visibility and story telling, through advertising, sponsorship, direct marketing

and promotions, to “earned” credibility through placing stories in the news media and generating advocacy and third-party endorsement.

Given the widespread view that reputation is a consequence, rather than a tool or an intentional ingredient of success, management teams often focus on the specifics of reputation when it is threatened, or when it has to be rebuilt. That focus reflects the fact that reputation risk has an immediate chilling effect on the company’s ability to carry out its operations through customer, business partner, investor, employee and policy maker relationships.

So, it is commonly accepted that the proof of reputation’s importance is in the breach. But the opportunity is more profound in the opposite direction—specifically building reputation value to drive specific business outcomes and generate greater business value overall. This is possible and very timely for two reasons.

We now have more sophisticated reputation evaluation processes, better data collection and econometric modeling to show the causal impact of elements of reputation, and reputation as a whole, by itself, and with brand value, on any business outcome, from stock price and sales, to customer loyalty and customer retention. Now that we can see the way reputation really works to drive outcomes in business, we can change specific aspects of reputation, through actions and communications, to support specific business objectives.

At the same time, businesses urgently need a single, integrated framework for creating and managing the impact and value of their relationships in a world characterized by instant information flow, disintermediation of traditional media and the advertising it carries, complex implications of globalization, and low credibility for institutions and brands of all kinds. This changing environment has hastened the arrival of the era of accountability in which managers now operate. That means an increasing number of organizations adhere to the mandate that any driver of value or process should be made transparent and optimized to create the greatest value for owners and, potentially, other stakeholders.

As a result, many companies see an immediate opportunity to benefit from both a testable valuation of reputation and an engineering diagram of the mechanics of reputation. That principle is behind the best thinking in marketing and communications today.

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Measure. Grow. Protect. The Value of Reputation.