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Don't Confuse Reputation With Brand

Many executives talk about corporate reputation and brand as if they are one and the same. They are not, and confusing the two can lead to costly mistakes.

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The recent spate of corporate scandals and executive misdeeds, including backdating, pretexting, embezzling, anonymous blogging and other unsavory activities, has brought the "reputation imperative" to the top of the agenda for business leaders. This renewed emphasis on protecting and enhancing corporate reputation is both reflected in — and fueled by — the growing number of reputation rankings published in the popular business press.

To be sure, a company should make every effort to safeguard and improve its corporate reputation. Society is placing an increasing importance on business ethics, and stakeholders are more prepared than ever before to hold corporations accountable for their actions. What's more, a favorable reputation plays an important role in attracting the best talent, suppliers and investment. Numerous studies have demonstrated the importance that employees place on working for a company that they can be proud of. Suppliers recognize that they can lower their contractual hazards by working with partners they can trust. And financial analysts now include reputation metrics among their investment criteria.

But many executives often speak about corporate reputation and brand as if they are one and the same. They are not, and confusing the two can be costly. Focusing on reputation at the expense of brand can lead to product offerings that languish in the market. On the other hand, concentrating on brand and neglecting reputation can be equally dangerous, resulting in a lower stock price, difficulties in attracting top talent and even product boycotts.

Relevancy, Differentiation and Legitimacy

Simply put, brand is a "customercentric" concept that focuses on what a product, service or company has promised to its customers and what that commitment means to them. Reputation is a "companycentric" concept that focuses on the credibility and respect that an organization has among a broad set of constituencies, including employees, investors, regulators, journalists and local communities — as well as customers. In other words, brand is about relevancy and differentiation (with respect to the customer), and reputation is about legitimacy (of the organization with respect to a wide range of stakeholder groups, including but not limited to customers).

A strong brand helps communicate that the company and its offerings are relevant and uniquely able to meet customer needs. A solid reputation is desirable because all businesses ultimately depend (either directly or indirectly) on the goodwill of the governments and communities in which they operate. The strength of a brand depends on how well it has fulfilled its promise to customers over time. A company's reputation is affected by a variety of factors, including not just its management strength, financial performance and innovativeness but also its treatment of employees, efforts in workplace diversity, handling of ethical issues and commitment to the environment.

So, why the confusion? There are several reasons. First, reputation and brand are both recognized as valuable intangible assets that manifest themselves in a company's operations. As such, the actions of management and employees can simultaneously affect both reputation and brand (either positively or negatively). Second, both concepts rely on strategic communications to shape people's perceptions, and both share a similar goal: ensure that the appropriate audience considers the organization and its offerings in the best possible light. A third factor is the Internet. In the past, a company could maintain some degree of distance between different constituencies, for example, keeping customers apart from financial analysts. Not so today. Bloggers, chat rooms and other Web phenomena have facilitated communications between previously separate constituencies, making companies increasingly transparent to everyone.

In multibrand companies, the distinction between reputation and brand is relatively clear-cut. At General Motors Corp., for example, issues dealing with the company's reputation (for instance, its relationship with labor unions) are the purview of the corporate communications team, and the marketing group is tasked with defining and communicating the value proposition of the company's products (Chevrolet, Pontiac, Saturn and so on) to customers. In monobrand companies (Google Inc., for example), the distinction between reputation and brand is murkier because the company communicates with all stakeholders under a single name, requiring tight coordination between corporate communications and marketing. And it should be noted that, for one type of company — namely, companies that boast corporate ethics as the core of their brand positioning — the two concepts are virtually indistinguishable. An example is Seventh Generation Inc., which has made sustainable business practices and ethical sourcing the key pillars of its business. Many nonprofit organizations also fall into this category.

For the vast majority of companies, though, reputation and brand are separate concepts, and failing to make that distinction can lead to costly mistakes. Consider NIKE Inc. and Wal-Mart Stores Inc. Each is a prominent example of a business that focused on its brand and underestimated the importance that customers and communities place on feeling good about the behavior of the company behind that brand. Allegations of sweatshop labor and discriminatory employment practices led each company to the brink of a damaging boycott of its products. The lesson? A strong brand does not necessarily equate with a good reputation.

On the other hand, a solid reputation does not always result in a strong brand. Consider Owens Corning, the Fortune 500 manufacturer of building materials. After settling a series of asbestos-related lawsuits and undergoing a massive reorganization, the company has garnered the widespread respect of Wall Street as a resilient and well-managed business. Despite that, the company's brand is hardly a household name, even after a marketing campaign that touts the Pink Panther as its corporate spokesperson.

The Brand Distinction

Although reputation and brand aren't synonymous, they are nevertheless tightly interrelated. Damage to one can easily weaken the other. And both are crucial — but in different ways. Reputation is a precondition for people's willingness to do business with a company. Consider the typical dimensions of a top-notch reputation: The company has integrity and is reliable, accountable, responsible and quality-conscious. A deficiency in any of those areas will raise a red flag among key constituencies. But when executives ask themselves what is distinguishing or compelling about any of those dimensions, the answer is, simply put, not much.

In truth, any and all serious competitors in an industry will exhibit all of the characteristics that shape a positive reputation. Thus, dimensions of a strong reputation are merely points of parity that generate legitimacy for an organization. For most companies, even an outstanding reputation almost never comprises any unique characteristics that an organization can own and be known for. That's why the vast majority of successful companies enjoy high levels of respect, but there is still only one Starbucks, one Disney and one Apple.

In short, reputation is a necessary but not sufficient condition for excellence because a company also needs a strong brand. This explains why attempts to correlate measures of corporate reputation to the creation of shareholder value have failed to demonstrate a clear relationship. Even so, many executives have bought into that view, and a feature article in *BusinessWeek* last summer contended that the Coca-Cola Co. could boost its market value by $4 billion simply by burnishing its reputation to make it comparable to that of PepsiCo Inc. Similarly, Colgate-Palmolive Co. could increase its market value by $2 billion merely by having as sterling a reputation as rival the Procter & Gamble Co. does. The truth, though, is that a strong corporate reputation is more often the result of good financial performance than the cause of it. In contrast, there is solid evidence to suggest that strong brands do generate superior financial returns. Specifically, strong brands are characterized by high customer loyalty, pricing power and the ability to drive growth.

Put another way, every company must have three crucial qualities to succeed over the long haul — legitimacy, relevancy and differentiation, and that troika can be established through a focus on reputation as well as brand (both corporate and product). Take, for example, General Electric Co. The multinational corporation has garnered a reputation as a dynamic, well-run organization. (The one knock on the company has been its somewhat checkered history with respect to the environment, which GE is currently addressing through its "Ecomagination" initiative.) As a corporate brand, GE has recently moved its focus from customer comfort and convenience ("We Bring Good Things to Life") to a more future-oriented mantra ("Imagination at Work") that promises creative and innovative products. And one of GE's product brands — NBC — distinguishes itself from the competition with the promise of compelling, "must-see" programming. Thus GE has established legitimacy (through the positive aspects of its reputation), relevancy (through its corporate brand) and differentiation (through its product brand).

INTEREST IN CORPORATE REPUTATION has never been higher, and in today's business environment, executives should not waver in their pursuit of the "reputation imperative." But executives need to do more than just keep their company's reputation on track. They need to differentiate their offerings in ways that win the hearts, minds and wallets of customers, and what helps make a company and its products special and preferred is its brand, not its reputation.

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