

# Study on Reputation Strategy of Corporation<sup>1</sup>

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**Abstract:** Based on the corporate reputation is the source of competitive advantage in the viewpoint. This paper proposes the reputation strategy is inevitable trend of the evolution of the corporate strategy, under the market reputation mechanism is not perfect environment. explaining the meaning and nature of corporate reputation, building strategic framework of the corporate reputation, and dealing with the problem when construct the reputation strategy of corporation.

**Key words:** reputation, reputation strategy, competitive advantage, corporate strategy

## 1. Introduction

The reputation is the foundation of market economy. Western economists have studied the relations of great importance to the reputation and human economic behavior very early. Economics ancestor Adam Smith said in *The Wealth of Nations* that economic activity is built on the basis of social and moral habits. It will shake the foundation of the trading activities if drop the habits and ethics<sup>[1]</sup>. Classical economic school study the role of reputation in economics from different perspectives, but their outcomes are not included in the scope of classical economics. The role of reputation was not recognized widely. For near 20 years, especially the last 10 years, international academic study Corporate Reputation with an unprecedented degree. From perceptual to rational, quantitative to qualitative development, their research and application is being increasingly recognized. From 1982, *Fortune* magazine annual appraisals "highly respected business." So far, it has 20 years of history, have had a far-reaching impact in the international arena. 1996, Honorary Professor Fombrun of Stern School of Business defined corporate reputation clearly<sup>[2]</sup>. 1997, in the *Corporate Reputation Commentary* magazine, Fombrun and Van Riel traced origins of the corporate reputation of the theory from economics and other six subjects' literature, and proposed corporate of the attributes<sup>[3]</sup>. Subsequently, Fombrun built the evaluation system of the RQ. Corporate reputation theory and reputation management started to integrate into mainstream management in recent years. 1998, Gray built a corporate reputation and image management workable mode. He especially looked corporate reputation as an important strategic resource and proposed that reputation was Competitive Advantage of view.

Foreign scholars make a tremendous contribution to corporate reputation researches, push reputation into the mainstream corporate management, promote the reputation in the corporate application, propose reputation is an intangible assets and strategic resource's perspective. But they have not study the reputation of intangible assets and the view of strategic resources further. They do not look reputation as a long goal to run business, it is said that they do not discuss corporate reputation as the strategic goal of corporate development.

Reputation is studied late in China, lags its attention of people and is still in the theoretical stage. Li Xiangyang, researcher of Chinese Academy of Social Sciences, studied corporate reputation theory earlier, who wrote *Corporate Reputation, Corporate Behavior and Market Mechanism —Japanese Corporate Model Research* in 1999. Professor Zhang Weiying studied the reputation of the business environment from the property, government control and game theory point of views in 2001, and proposed "No permanent without perseverance, no perseverance without credit "point of view<sup>[4]</sup>. In practice, Beijing University and the *Economic Observer Reported* painted "China's most respected enterprises" to prompt Chinese people to build corporate reputation from 2001. In recent years, many scholars evaluate foreign reputation management theory, and propose some ways and ideas of how to

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build valuable reputations of system. Zhang Min and Qi Litao are worth mentioning that they think reputation is the core competitiveness and victory of enterprises of the view<sup>[5][6]</sup>, Yang Weilong and Li Jiexin further suggest that corporate reputation is the root of sustaining competition advantage.

## **2. Corporate reputation strategy is the natural evolution of corporate strategic theory**

American renowned scholar Chandler proposed the strategic concept in *Strategy and Structure*, and thought the strategy is the premise and the key which a corporate wins in the market. Henceforth, the corporate strategy becomes the key point that management scientists studying. Taking corporate strategy theory known, corporate strategy has been developing along two different viewpoints: One kind is the corporate external environment view, representative of this viewpoint, Porter's (1980) market industry competition view, mainly emphasizes the influence of the external environment and the competition localization to the strategic management; Shapiro (1989) and Brandenburger (1995) have analyzed the enterprise and the product competition with the competition conflict and the game theory, emphasized the strategic interaction between enterprises mainly. Another is the concept of internal resources, the representative of the views, Rumelt (1984) and Wemerfelt's (1995) base theory of resource, which stresses the unique resources are the key resources for sustaining competitive advantages, the main object is to accumulate the key corporate strategy resources. Prahalad and Hamel's (1990) core competitiveness and Teece's (1997) dynamic ability, the theories think corporate unique ability is the root that corporate gain long-time competitive advantage, emphasizing the corporate to make and implement corporate competitive strategy is the main objective of nurturing the unique capabilities.

From the end of 1990s' to the beginning of this century, the study in strategy management pays much attention on two aspects: First, attach importance to the dynamic of the theory. The traditional theory of corporate strategy management think much of static and it can apply in the environment that steady and changing slowly. The new strategy management theory pays more attention on the theory of that the exterior circumstance is changing discontinuously and the interaction and dynamic cooperating between corporate wish, strategy, the organizational capacity, internal system and process. Second, the different theory schools have the trend of combination. In the traditional theory of corporate strategy management think a lot of study from various aspects and using diverse tools of different subjects. But in the primary pattern of new strategy management, each theory schools should show the obvious trend of combination. This common opinion has already formed among the scholars and enterprisers who are study in strategy management.

In order to gain competitive advantage in the enterprise environment dynamic and uncertainty existence situation, enterprises must build competitive power from both inside and outside. Enterprise constructs the sole possession of Resources and ability from internal, and construct stable business environment from exterior. Enterprise integrates unique of enterprise internal resources and ability with stability of enterprise external environment is the fundamental of keeping survive and competitive advantages. From theoretical and empirical perspective, the key element that integrates unique of enterprise internal resources and stability of enterprise external environment is only to be corporate reputation. Corporate reputation is an invisible resource of valuable, heterogeneous and can't copy. It can bring value to enterprises and builds mobile barriers; Corporate reputation also is one kind of signal transmission mechanism, enterprise transmits enterprise's quality to enterprise stakeholder by reputation signal and gains Stakeholders' motion and operations' supports; Corporate reputation can construct commercial reputation and make the entire commercial mechanism operate in a healthy manner, and creates harmonious environment for enterprise development. In short, corporate reputation can strengthen enterprise's resources and unique ability, builds the external reputation mechanism of entire business, and brings lasting competitive advantage for enterprise<sup>[7]</sup>. Therefore, corporate reputation is the inevitable development of corporate strategy.

## **3. Corporate reputation strategic meaning and characteristics**

### **3.1 Corporate reputation strategic meaning**

Enterprise operation is not a short-time action, facing dynamic competitive environment, the content of "strategy" shows long-term operating performance and decision-making for enterprise. According to the position and role of "strategy" in the economic management and based on strategic natural characteristics. Zhao Dong (2005) defined corporate strategy as: "according to the market situation and its own resources, through analysis, judgment, forecast, establish long-range goal and realize the development of enterprise of overall goals, guiding plan." Corporate reputation is that through adapting to social environment, forming moral reputation by observing long-term psychological restraint mechanism, forming intangible resources that can improve operational performance and maintain competitive advantage in the long course of business, guiding and standardizing corporate performances' System <sup>[8]</sup>. Knowing from corporate strategic definition and corporate reputation definition, strategy and reputation have intrinsic relation, strategy and reputation's common characteristics are long-term characteristic and stability. The reputation is the foundation that enterprise implements strategy successfully. If an enterprise has no reputation, the strategy is not impossibly implemented effectively. The strategic logic <sup>[14]</sup> of customer Value Innovation Center proposed strategic focus should "done better than competitor" to "the enterprise provides unique value for customers and has nothing to do with the competitors." Here, the "unique" is that customers who experience products and services to get "trust" and "loyalty". This illustrates that corporate reputation is "the advantage that can't compete with". Strategy is a commitment chain that is constituted by commitment <sup>[15]</sup>, strategy could also be regarded as reputation superposition. Strategy is combined with reputation. Reputation strategy is the nature of enterprise, and enterprise operates effective competitive fundamental strategy.

According to the essence of corporate strategy and corporate reputation we know that strategy and reputation have natural relation. Based on this viewpoint, we define corporate reputation strategy from "operation": Corporate reputation strategy is that the enterprise depends on market environment and the condition of using resources, observes long-term psychological restraint mechanism, then unifies corporate long-term management goal and behavior in the entire corporate reputation framework system's planning guidance.

### **3.2 Corporate reputation strategic characteristics**

#### **3.2.1 Corporate reputation strategic long-term characteristic**

Corporate reputation strategic long-term characteristic is not only operating strategy for a long time but also gain outcomes for a long time. The strategic long-term characteristic is the long-term operational objective which the enterprise pursuit. And the object is the highest requirements of future development of the enterprise. Corporate reputation strategy has strategic general character - - long-term characteristic, without doubting. Enterprise implements corporate reputation strategy, but the strategy can not bring result to enterprise immediately, because the reputation cultivation is a long-term process. Corporate reputation strategic implementation is a long-term process too, and brings reputation superiority to enterprise also is a long-term process.

#### **3.2.2 Corporate reputation strategic system**

Corporate reputation strategy is a system which contains enterprise internal and external reputation strategic system. Enterprise internal reputation strategic system is constituted by various sub-systems of human resources system, financial system, logistics system, marketing system, production system. Enterprise external reputation strategic system is constituted by various sub-systems which market system, consumers system, manufacturers and suppliers' system. The whole Corporate reputation strategic systems are constituted by enterprise internal various reputation strategic sub-systems and enterprise external various reputation strategic sub-systems which coordinate each other.

#### **3.2.3 Corporate reputation strategic guidance**

Corporate reputation strategy is the soul of enterprise business. If no corporate reputation strategic guidance, there is no healthy development of enterprises and can't gain future competitive advantage. Abandoning corporate reputation strategy, enterprises may miss the road of competitive mode, and damage future competitive advantage. Corporate reputation strategy is very right to guide corporate competitive functions, make enterprise business tactical plan, formulation, implementation, and evaluation, feedback surrounds enterprise to win the overall goal of enterprise, and guarantee the

enterprise to win future competitive advantage.

#### 3.2.4 Corporate reputation strategic ability

Enterprise ability is the key element to develop reputation strategic. Enterprise ability consists of the ability of enterprise deals with market changes and the ability of enterprise constructs its own core competitive power. Market dynamics and uncertainty intensifying, enterprise obtains competitive advantage's traditional strategy meets challenges and can't deal with changes well enough. Enterprises can rely on corporate reputation strategic ability to deal with these changes, and keep corporate competitive advantage. The establishment of core competence is the result of efforts of all personnel concert within enterprises. The reputation in enterprise culture strengths enterprise personnel condense, and corporate reputation strategy may make enterprise to construct enterprise core competitive advantage with all resources and ability.

#### 3.2.5 Corporate reputation strategic uncertainty

Constructing corporate reputation strategic result is uncertainty as same as the result of any investment. To construct reputation strategy needs long-term investment, but long-term investment may not bring the desired result. The reason is that building corporate reputation strategy must face with many uncertainty interferers. The combined effect of these factors brings uncertainty to corporate reputation strategic investment; Many reputation events are to build the foundation of reputation strategy, immoral events can destroy the foundation of corporate reputation strategy, but enterprise manages reputation events is uncertainty ,this means that reputation events impact corporate reputation strategy is uncertainty.

### 4. Construct enterprise reputation strategic system

Under the environment of market reputation mechanism is not perfect, enterprise constructs reputation strategy need the support of good inside and outside environment. Enterprises from both themselves and stakeholders to construct enterprise reputation strategic system: in order to develop the core competitive power, Building reputation strategy from own myself; To respond market dynamics and uncertainty to impact enterprise, enterprise should construct reputation strategic system from stakeholders to create a stable external environment. The whole corporate reputation strategic systems are constituted by enterprise internal reputation strategic systems and enterprise external reputation strategic systems which coordinate each other.

#### 4.1 Construct own corporate strategic system

In the 80's if you have products you will have the customer, in the 90's if you have the advertisement you will have the sale, and in the 21st century only has the reputation to have market <sup>[16]</sup>. Corporate reputation in the 21st century has become the best weapon for winning in competitive. Building corporate reputation strategy becomes an inevitable choice to enterprise. Constructing corporate reputation strategic system: (1) Plan enterprise long-term reputation. Corporate reputation as enterprise goal of a long-term business planning, corporate businesses and the future activities should focus on long-term reputation target. Enterprise pursuit the main goal is corporate reputation goal, corporate officers draw up a detailed, concise implementation of plan, long-term reputation strategic plan is prerequisite for building own reputation strategy; (2) Foster corporation reputation culture, penetrate corporation reputation consciousness. Culture in corporate management idea, and manages enterprise policy, decides the enterprise destiny. Putting reputation in corporate culture, corporate culture has become the core of corporate reputation and essential management concepts. The process of enterprise operates natural concept is the process of builds and implements corporate reputation strategic; Enterprise insists on educating the existing staff and future staff for corporate reputation, puts the concept of corporate reputation in the awareness of enterprise employees, makes employees implement consciously corporate reputation. Building corporate strategic concept from employees; (3) Establish corporate reputation system. System is the key to successfully implement corporate strategy. Enterprise constructs and implements reputation strategy, it is necessary to have corresponding corporate reputation system. Corporate reputation system is the guarantee of effective function of reputation

strategy. Enterprise constructs reputation strategy; it is necessary to establish its own reputation system and changes the current competitive system. In order to operate effectively reputation system, enterprise establishes Chief Reputation Officer's position to monitor reputation system is necessity; (4) Have sufficient resource base. Resource is the material basis for enterprise to implement corporate strategy. The resource we are talking about is not only the available resource, but also the rich reserve. Enterprise must have adequate resources to support the construction of corporate strategy, if enterprise has no resources to support reputation strategy that can be a castle in the air;(5) Shoulder social responsibility. Enterprise is the cell of society, the society require enterprise to shoulder social responsibility. Enterprise construct corporate reputation strategy, he must shoulder social responsibility. Enterprise can eliminate society to prevent reputation strategy only when enterprise shoulder social responsibility, and ensure the implementation of reputation strategy. No corporate social responsibility, no space for survival of the enterprise, no way to corporate competitive advantages.

#### **4.2 Construct stakeholders' reputation strategic system**

Today, the union thinking and competing ideas are prevalent, enterprises have been formed the interdependence of "I have you, you have me". The relative stability of the external environment has become effective implementation of the corporate strategy. Enterprise has a good reputation environment to build reputation strategy, especially has a good reputation environment from stakeholders. Under the market reputation mechanism is not perfect environment, enterprise implements reputation strategy, it is necessary to help stakeholders to construct their reputation strategic system. Aspects of stakeholders that enterprise constructs reputation strategy from: (1) Foster stakeholders reputation ideas and common reputation values. If the reputation ideas stakeholder has are not as enterprise, it will prevent enterprise to implement reputation strategy. In this case, enterprise communicates frankly with stakeholders, and helps them to strengthen reputation ideas, makes stakeholders and you have common reputation ideas; Enterprises learn and plan reputation strategy together, making reputation strategy and they pursuit reputation values to have common target .Putting reputation ideas and reputation values ideas in interest groups overall goal; (2) Build stakeholders reputation system. Good reputation environment can reduce the number of unnecessary transaction costs and win largest interests and get advantage in competitive. Building stakeholders reputation system, we can reduce transaction costs and enhance mutual cohesion and form a stable environment. The stable reputation environment is one of the key factors that enterprise implements corporate reputation strategy. Enterprise builds stakeholders reputation system by joint planning, common credit agreements and other measures conducive to the establishment of reputation; (3) Formulate reputation strategy together. The 21st century is the era of reputation competition, the common mission of enterprise is to pursuit corporate reputation. Developing corporate reputation strategy has become an inevitable choice for enterprises. Today, market reputation mechanism is not perfect environment. Enterprise carries out corporate reputation strategy that still faces many difficulties in stakeholder groups. So, enterprises based on common purpose, uses a series of communication and planning activities to jointly formulate the long-term reputation goal, and adopt the same corporate strategy – corporate strategy to help enterprise to implement reputation strategy and obtain competitive advantage.

### **5. Problems that construct corporate reputation strategy need to deal with**

#### **5.1 Mechanism coordination's problem**

Mechanism regulates corporate business and protects healthily enterprises along the road to strategic goals. Enterprise mechanism contains its own mechanism and external mechanisms. Enterprises mechanisms decide enterprise destiny, so enterprise concerns Enterprises mechanisms very much; external mechanism is not directly related to enterprise fate, and it is often neglected. In fact, external mechanisms seriously affect corporate reputation strategy. Enterprise constructs corporate reputation strategy, in fact, constructing corporate reputation strategic system. Enterprise not only deal with internal mechanisms coordination problem and clear away internal obstacles to build corporate reputation strategy, but also deal with external mechanism coordination problem, it is that enterprise

deal with mechanism coordination problem with stakeholders, dealing with external mechanism coordination problem as a key issue. To establish a communication mechanism environment to enable enterprise internal and external mechanism to coordinate each other, standardize and protect corporate reputation strategy to work effectively.

### **5.2 Information transmission problem**

Accuracy of the information conveyed directly to implement corporate reputation strategy effectively, any organization face information transmission problems. Due to internal interests, enterprise often amplifiers, conceals or hides information which damage their interests. Such false information gradually accumulated in the course of transmission, the ultimate recipient achieves information and real information exist gap, and if they implement strategy with false information, false information will affect the strategic results. Stakeholders Recognize enterprise information exist gap, and they all do not understand enterprise information. They do not understand effectively corporate intentions, strategic intentions can not be achieved. Enterprise Builds corporate reputation strategy to deal with the information transmission problem is critical issue.

### **5.3 Pursuit profitable goal's problem**

Enterprise Constructs corporate reputation strategy, it is not to abandon enterprise to pursuit profitable goal, on the contrary, it is to strengthen enterprise to pursuit profitable target, but profitable goal only establish the foundation of corporate reputation strategy. Enterprise establishes corporate reputation strategy to cultivate corporate long-outstanding and obtain competitive advantages, and the advantage for enterprise to win high-profit to provide reputation monopoly. Establishing reputation strategy, need to sacrifice the present interests of enterprises and reduce short-term profits, which can be harmful to corporate development and impact the performance and status of enterprise, the enterprise operators are not willing to build or execute strategic corporate reputation strategy. Constructing corporate reputation strategy, corporate owners must have a correct reputation strategic concept. Formulating corporate reputation strategy in line with the corporate profitable objectives, both are equilibrium.

### **5.4 Stakeholders problem**

Implementing corporate reputation strategy is not depart relative stable external environment, but stakeholders' behavior affects directly corporate external reputation environment, and affects more the implementation of corporate reputation strategy. Enterprise implements reputation strategy, it is necessary to deal with stakeholders' problem correctly. All stakeholders do not support corporate reputation strategy, in order to maximize their profit, they are not willing to adopt mechanism and business static to match corporate reputation strategy, even might take legitimate and without compassion to get resources, undermine corporate reputation strategic resources, impact the development of corporate reputation strategy. Conducting reputation strategy, enterprise must fully understand stakeholders' attitude to reputation strategy, and properly handled reputation strategic developable problem with stakeholders' relevant, likely, affectedness.

### **5.5 Construct reputation system's problem**

Developing corporate reputation strategy need good environment, under the market reputation mechanism is not perfect environment, Constructing stable local reputation system has become enterprise to construct reputation strategic inevitable requirement. Local reputation system is composed of corporate reputation and stakeholders' reputation. Man's economic sex, asking someone to maximize their own interests, When constructing reputation's costs over profits that enterprise which has no reputation gains, stakeholders have no incentive to build their own reputation, and it would be very difficult to build local reputation system. Even stakeholders build a reputation system, but "free-rider" may undermine reputation system's stability. No stable local reputation environment, no reputation strategic effective development. Therefore, enterprise correctly deal with the construction of reputation system's problem is the safeguard of the effective implementation of reputation strategy.

## **6. Conclusion**

Under the unperfected environment of the market reputation mechanism, reputation becomes scarce

resource. Enterprise constructs reputation strategy is to be inevitable choice. We propose corporate strategy from the perspective of the evolution of corporate strategic theory, and qualitatively explain corporate reputation strategic meaning and characteristics, construct reputation strategic system and need to deal with problems. How to implement, control and evaluate corporate reputation strategy is our future work.

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