

Reputation Formation of Innovations

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Reputation formation of Innovations

While the journalistic processes of innovation journalism have been widely examined, the formation of reputation for an innovation has received little attention. Innovation is understood as something new, and the reputation of an innovation determines to a large extent the future and success of it. Reputation of innovations is often formed through the media, emphasizing the journalists' individual experiences and attitudes toward the innovation. In addition to media, other sources also contribute to the reputation of an innovation. Moreover, while scholars agree that journalism plays a central part in the formation of corporate or organizational reputation, reputation formation of innovations does not follow the traditional way of reputation formation. Factors such as industry reputation, lack of past records and national legislations as well as the personal appeal of the innovation creator contribute to the reputation of an innovation.

1 Reputation society

When people make decisions, they seldom make them in a mental vacuum. Decisions are affected by peer experiences, advertising, PR, ratings, authority advice and estimates as well as personal or mediated impressions. Impressions and experiences may or may not be based on reality, but for the decision-maker, they are often the best available advice, and as such become reality. This increased importance of impression has led to rethinking and redefining the present era altogether.

It has been suggested that we are moving away from a competitive market, where exchange enables provision, towards a reputation society¹. In a reputation society the participants estimate each other on basis of past behavior and anticipation of future behavior. In a reputation society, there is a special emphasis on social networks². Intangibles are becoming more important for exchange and society as a whole, as decisions are made based on impressions and reputation, instead of rationality³. This shift creates new challenges for corporations and organizations, as their survival and success is no longer dependent only on economic performance, but also on stakeholder perceptions. Stakeholders are here understood as anyone

¹ Luoma-aho, V. 2005. Faith-holders as Social Capital of Finnish Public Organizations. Academic Dissertation. Studies in Humanities 42, University of Jyväskylä: Jyväskylä.

² Pizzorno, A. (2004). Resources of Social Capital: Reputation and Visibility. A presentation given at the ECSR Summer School on Social Capital, Trento Italy, August 22nd -27th, 2004.

³ Fombrun, C. J. (1996) Reputation. Realizing value from the corporate image. Harvard Business School: Boston.

affecting or affected by the innovation, those groups without which the innovation would not exist⁴.

This development has severe effects on innovations as well as journalism. The traditional role of the media is complemented by an army of new writers (such as citizen journalists, bloggers, wiki-writers), and rumors and experiences may receive an exponential amount of attention. Moreover, the threshold for publishing something through the new media is much lower, and ongoing debates and discussions may sometimes be taken as final opinions and statements. For innovations, reputation society provides both advantages and disadvantages, depending on the communication expertise of the innovator. The reputation formed plays a critical role in the success or failure of an innovation.

A new innovation calls for a reputation that supports its development. In fact, a good reputation among different stakeholders can be understood as reputational capital. In studies on organizations, reputational capital has been claimed to contribute to reduced transaction costs through trust⁵, added employee loyalty⁶ as well as legitimacy⁷. A strong reputation results from “consistent information signals over time, which constituents believe, share and trust”⁸, but innovations lack this record of past deeds. Initially innovations require trust, and with time this trust, whether good or bad, will turn into a reputation.⁹

Reputation can be described as the sum of stories told about something¹⁰ or the value of public awareness in social networks. Reputation is especially important for innovations, as they are often intangible, existing in the beginning only on the level of ideas, and thus have little history to build on.

The paper addresses the central topic of the 2007 conference of the mutual driving powers of journalism and innovation. The topic is linked to the narratives of innovation; how journalists perceive the innovation will influence their reporting for better or worse, and affect both innovation success as well as corporate productivity. The differences between target reputation, media reputation and

⁴ Stanford Research Group, 1963; Freeman, R.E. (1984) *Strategic Management: A Stakeholder Approach*. Pitman: Boston.

⁵ Hosmer, L. T. (1995). Trust: The connecting link between organizational theory and philosophical ethics. *Academy of Management Review*. Vol. 20, No. 2, pp. 379-403.

⁶ Fombrun, C. & van Riel, C. (2003) *Fame and Fortune: how successful companies build winning reputations*. Prentice Hall: Upper Saddle River.

⁷ Deephouse, D. & Carter, S. (2005) “An Examination of Differences Between Organizational Legitimacy and Organizational Reputation”, *Journal of Management Studies*, 42(2), pp. 329-360.

⁸ Dentchev, N. A. & Heene, A. (2004) ‘Managing the reputation of restructuring corporations: send the right signal to the right stakeholder’, *Journal of Public Affairs*, 4(1), 56-72.

⁹ Luoma-aho, V. 2005. *Faith-holders as Social Capital of Finnish Public Organizations*. Academic Dissertation. Studies in Humanities 42, University of Jyväskylä: Jyväskylä.

¹⁰ Sztompka, P. (2000). *Trust. A Sociological Theory*. Port Chester, NJ.: Cambridge University Press.

stakeholder reputation are also examined, and implications for theory and practice are discussed. The paper discusses the importance of reputation for innovations, and constructs a preliminary model for reputation formation of innovations.

2 The concept of Reputation

Reputation is an umbrella concept, and its contents may be positive, negative or neutral¹¹. For innovations, a reputation is the sum of stories told about it, the value of public awareness in social networks. Reputation hence does not exist “on” the innovation itself, but rather in the minds of the various stakeholders, such as citizens, consumers and the media. Stakeholder assessments vary, and different stakeholders may well hold various assessments of the innovation. Reputation is, however, more than the sum of individual assessments; it is an overall estimate consisting of all these estimates.

The value of a good long-term reputation exceeds the value of any passing short term advantages¹². Reputation is a possibility for others; it brings along certain expectations, as ‘noblesse oblige’. Thus in a reputation society the performance of entities is controlled not so much by others as by the entity itself, it is in the entity’s interests to maintain the good reputation they have achieved. This self control or ‘reputation management’ is often a function of public relations (PR). Public relations professionals are concerned not only with the maintenance of positive stakeholder relations, but also with media relations, since they affect the public at large. Moreover, often reputation and media visibility go together; those entities with especially good or especially bad reputations are more interesting to the media than those with neutral or normal reputations.

Reputation, like trust, helps one manage the complexity of modern social life. Fombrun¹³ suggests that reputation is made up of four different characteristics: credibility, reliability, responsibility, and trustworthiness. The stronger the stakeholders estimate these characteristics to be, the better the reputation. These characteristics are like pillars of strength both in good times and bad.

For game theorists, reputation is the perception others have of the player’s value, which determines the strategies applied. Sztompka¹⁴ defines reputation as a record of past deeds. This definition is quite useful, as reputation is more connected to actual deeds than, for example, its sister concept, image. From this point of view,

¹¹ Luoma-aho, V. (2007) ‘Neutral reputation and public sector organizations’, *Corporate Reputation Review*, forthcoming.

¹² Lahno, B. (1995). Trust, Reputation, and Exit in Exchange Relationships. *The Journal of Conflict Resolution*, 39(3), 495-510.

¹³ Fombrun, C. J. (1996) *Reputation. Realizing value from the corporate image*. Harvard Business School: Boston.

¹⁴ Sztompka, P. (2000). *Trust. A Sociological Theory*. Port Chester, NJ.: Cambridge University Press.

the reputation of an innovation is the most frequently given assessment by stakeholders; it is the value of public awareness in the social networks important to the innovation. Reputation is “a common recognition of one’s standing in terms of trustworthiness”¹⁵.

Reputation is ‘an inter-temporal identity’¹⁶ (Pizzorno 2004), a record of trustworthy or untrustworthy behavior. Reputation is linked with past actions, “particularly the historical trustworthiness of parties in previous interactions with others, and it is the social context that makes reputational effects possible”¹⁷. Reputation, like other intangibles, is particularly valuable only after it has been recognized by significant others, i.e. people whose opinion matters. This makes building a reputation a strategic choice. Reputation, however, is a more ambiguous concept than trust, as it is a publicly held opinion, and thus more vulnerable to influences.

The value which arises from stakeholders’ trust, commitment and a positive impression of future development can be called reputational capital¹⁸. Others view reputational capital as closely related to tangible capital, claiming that it can be created and transformed from one form or organization to another¹⁹. Petrick et al. note that reputational capital is the initial part of social capital, and that it consolidates credibility, reliability, responsibility, trustworthiness, and accountability.

2.1 Different stakeholders, different reputations

Consensus exists on the idea that an innovation will benefit from a good reputation. Higher prices, cheaper supplies, satisfied personnel, lower risk of crises, better recruits and lower transaction costs on the whole top the list²⁰. A good reputation creates a favorable operating environment, although it also demands continuous maintenance and proof in good daily practices. Despite these general benefits, the role of reputation on behavior change is complex. Some evidence has been found supporting the organizational ability to influence the perception formed and its

¹⁵ Misztal, B. (1996). *Trust in Modern Societies*. Polity Press: Padstow, p. 120.

¹⁶ Pizzorno, A. (2004). *Resources of Social Capital: Reputation and Visibility*. A presentation given at the ECSR Summer School on Social Capital, Trento Italy, August 22nd -27th, 2004.

¹⁷ Rousseau, D.M., Sitkin, S.B, Burt, R.S. & Camerer, C. (1998). Not So Different After All. A Cross-discipline View of Trust. *Academy of Management Review*. Vol. 23, pp. 393-404.

¹⁸ Petrick, J., Scherer, R., Brodzinski, J., Quinn, J. & Ainina, M. (1999). Global leadership skills and reputational capital: Intangible resources for sustainable competitive advantage. *Academy of Management Executive* Vol. 13, No. 1, pp. 58-69.

¹⁹ Carow, K. A. (1999) ‘Underwriting Spreads and Reputational Capital; An Analysis of New Corporate Securities’, *Journal of Financial Research*, Spring, pp. 15-28.

²⁰ Fombrun, C. J. (1996) *Reputation. Realizing value from the corporate image*. Harvard Business School: Boston.

interpretation. For example, the buyers' concepts of a vendor's reputation have been found to be consistent with their response to the service provided²¹.

When the innovation is ready to be introduced, the innovator will have an idea of how the innovation would at best be perceived and what the reputation of the innovation should be. This idea is called a target reputation, Stage 1 in Figure 1. The target reputation is often very positive and enhanced with PR activities. In practice, however, the target reputation may differ from the actual outcome, the reputation among stakeholders and the public at large, stage 3 in Figure 1. Before the stakeholders ever hear about the innovation, the media forms its own impression and reputation of it. Media reputation (stage 2 in Figure 1) describes the reputation of the innovation among journalists, and it affects the way the innovation is reported on, and also whether it ever is reported on.

These different reputations may overlap, and they all look at same phenomena through different criteria. Moreover, they may even oppose each other. Each group (innovators, media and stakeholders) have their own point of view, and neither of them necessarily describes the reality. The innovators aim to emphasize the most positive sides of the innovation, whereas journalists (whether professional or not) aim to critically observe and test its value. The stakeholders or public at large often view the phenomena through their own lenses of usefulness and benefit. There is therefore not just one reputation, but each group can be understood to have their own specific understanding and reputation of the innovation²².



Figure 1. The process of reputation formation of innovation: target reputation (what the innovator aims at) becomes media reputation (what the media interprets) through which it is turned into a stakeholder reputation (how the stakeholders and public at large understand the innovation).

²¹ Yoon, E., Guffey, H. J. & Kijewski V. (1993). The effects of information and company reputation on intentions to buy a business service. *Journal of Business Research*. Vol. 27, pp. 215-228.

²² Bromley, D.B. (1993). *Reputation, Image and Impression Management*. West Sussex: Wiley.

Reputation management can be understood as various communication functions aiming to positively impress stakeholders and contribute to the wellbeing and success of the organization or individual in the future. Dialogue with stakeholders is of great value. In fact, the results of Corporate Reputation Watch 2002²³ suggested that the most influential factor in safeguarding corporate reputation was the corporation's ability to communicate. Corporations may regard themselves as open in their communication and well developed in communication skills, but it is stakeholders who have the final say. Where the impressions formed in stakeholders' minds can not directly be influenced, the contents of the stories told about innovations can be managed, and thus contribute to reputation management.

Managing the reputation of an innovation is a twofold issue. On one hand, reputation should result from actions and thus a good reputation would eventually result from good and just actions. A good innovation would "sell itself". The argument for this is that the most credible reputation results from satisfied stakeholders sharing their experiences informally in various social networks²⁴. Yet in the case of innovations, stakeholders may not have any experiences to share. Moreover, even if some experiences and test and pilot-groups have become acquainted with the innovation, neither the media nor stakeholders may know about the innovation. Innovations require public relations to build a reputation.

3 Reputation formation

How can a reputation be built without previous experiences?

Though the media and stakeholders may not have any direct or personal experiences of the particular innovation, they are by no means without clues as to how to view it. No innovation exists in a vacuum, and clues are applied from different sources. Figure 2 describes the different levels affecting reputation formation of innovations. These sources described in figure 2 are not static, but may change in importance at different points of time and across contexts.

Stakeholders view these levels with different foci: industry media, for example may emphasize industry reputation and recent developments, whereas customers may depend more on the personal traits and presentation of the innovator or the creator of the innovation. In case of global businesses, the cultural contexts may become dominant even for innovation of reputation. For a pilot-group or a trade, the expectations toward the innovation itself may play a much greater role than the other factors in the formation of reputation.

²³ Pharoah, A. (2003) 'Corporate reputation: the boardroom challenge', *Corporate Governance*, 3(4), pp. 46-51.

²⁴ Sjøvall, A. & Talk, A. (2004). From Actions to Impressions: Cognitive Attribution Theory and the Formation of Corporate Reputation. *Corporate Reputation Review*, 7(3), 269-281.

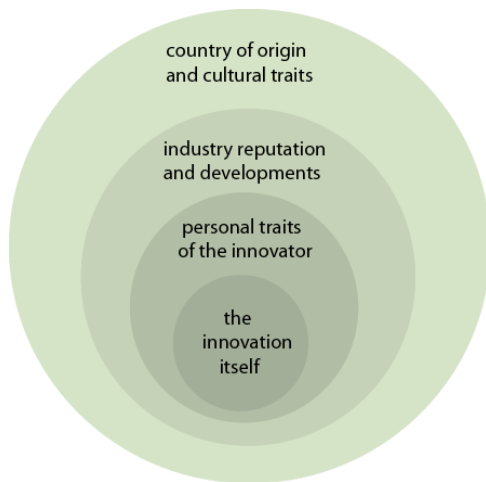


Figure 2. The different levels affecting reputation formation of innovations.

On the macro level, the country of origin and cultural traits still contribute to impressions, despite increased globalization. The economic and political situation of the country of origin may also affect the reputation of the innovation. National legislation may also play a role for reputation formation, as well as slow or push the reporting and trademarking of an innovation.

On the meso-level, the industry or field into which the innovation is formed or created has an emphasis on the reputation of innovation. Industry success, failure or challenges, as well as prior experiences and reputation of similar innovations all play major roles. Future predictions concerning the industry are also important. On this level, industry propaganda as well as public relations activities come into play, and aim to shape the reputation of the innovation.

On the micro level, and through the increased celebrization of individuals, the people associated with the innovation affect its reputation. These people may be the innovators themselves, spokespeople or representatives and leaders. The chosen frame for reporting on these people has an affect on the reputation of the innovation. Moreover, the personal characteristics and traits (both good and bad) of these people may extend over to the reputation of the innovation as well.

At the core of figure 2 is the innovation itself. The amount of prior expectations and the hype built around the innovation will have to be met in practice. The innovation must do what it was promised to do. Here factors such as visual form and usability also play a role. Should the innovation be easily associated with strong positive feelings or accomplish what it was expected, a strong reputation is likely to result.

3.1 The process of reputation formation

Reputation formation does not happen overnight, though innovations sometimes may seem to appear on the public agenda quickly and “out of nowhere”. Reputation formation is always an ongoing process of forming impressions and expectations, and testing whether these impressions are true and expectations are

met. Reputation is a sum of experiences, whether mediated or personal, and it takes time for an initial impression to turn into reputation.

Reputation is actually portrayed in the innovator’s ability to meet stakeholder expectations. Whether or not stakeholder expectations are reasonable, depends on the innovator’s ability to communicate. Expectations will be formed also without communication and public relations, but with strategic thinking and planning, expectations can be applied to fortify a reputation. A good reputation derives from the innovator’s ability to manage impressions, build strong relations with key stakeholders and manage any criticism targeted toward the innovation²⁵.

When stakeholders (whether journalists, bloggers, customers or colleagues of the innovator) first hear of an innovation, they form initial impressions. These initial impressions together with available information, form a basic level of trust toward the innovation. This trust is contagious, and may be “loaned” from other similar innovations, trustworthy friendships or authority reports. This first initial trust, or total lack of trust in turn creates expectations. Based on further information and experiences, whether mediated or personal, the trust step by step turns into reputation. This newly formed reputation in turn affects future trust. This logic is portrayed in figure 3.

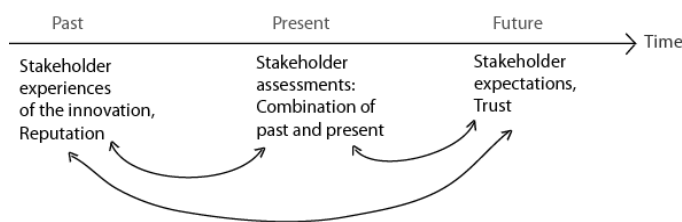


Figure 3. Over time, initial trust creates expectations and these expectations whether fulfilled or not create a reputation.

“A good reputation is the result of trustworthy behavior, and trust in this sense... is the economically rational decision to do exactly what you have contracted to do or promised to do because otherwise you would suffer an eventual loss in reputation and hence, in contracting opportunities.”²⁶. As shown in Figure 3, trust becomes reputation as present turns into history, yet reputation in turn creates trust. Where trust is an element of a relationship between the innovation and the stakeholder (personal or mediated), reputation is the experience of the relationship.

Reputation and trust spread via networks. However, it is important to remember that reputation may be either positive or negative: a good reputation creates trust whereas a bad reputation may diminish trust. Trust on the other hand is

²⁵ Fombrun, C. J. (1996) Reputation. Realizing value from the corporate image. Harvard Business School: Boston.

²⁶ Hosmer, L. T. (1995). Trust: The connecting link between organizational theory and philosophical ethics. Academy of Management Review. Vol. 20, No. 2, pp. 379-403 (p. 386).

unequivocal: it exists to some degree or it is lacking. Experiences of untrustworthy behavior may lead to a bad reputation. Untrustworthy conduct or a bad reputation can be amended and improved over time with positive experiences, but absence of experience or negative experience deepens the lack of trust and worsens the reputation. Prior research has shown, however, that a negative reputation and poor trust are much harder to rebuild and repair than damage to an otherwise good reputation and trust²⁷. In the end, much of the innovation's reputation rests in the hands of the people and institutes responsible for communicating about the innovation.

4 Discussion

A good reputation is beneficial for innovations, yet it rarely evolves well by itself. Reputation society provides challenges but also possibilities for innovations to blossom. The process of reputation formation of innovations has its specific traits, but the main process is the same: stakeholders estimate innovations on the basis of the available clues varying from culture, industry and personal traits of people involved. Though the assessments and impressions as such can not be managed, the sources from which these impressions result can and should be strategically planned. This places communication in the centre of the process of reputation formation of innovations. Reputation society is in need of strategic communicators.

The ideas presented in this paper have also practical implications. The four distinct areas of reputation should be consulted to fully understand reputation of innovations. Target reputation, media reputation, stakeholder reputation and reality may or may not go together. Still they all affect the innovation, and should be taken into consideration.

This paper hopes to have served as an introduction into the important topic of reputation of innovations. Future studies should concentrate on the possible differences in reputation formation among different stakeholder groups, across cultures and different types of innovations and industries. Empirical testing and international comparisons of the processes of reputation formation of innovations would also be of great benefit.

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²⁷ Sjøvall, A. & Talk, A. (2004). From Actions to Impressions: Cognitive Attribution Theory and the Formation of Corporate Reputation. *Corporate Reputation Review*, 7(3), 269-281.