Reputation Life Cycle of The SM Foundation and Customers’ Support

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Reputation is a key construct in organizational sciences since reputation signals its past behavior and its prospect in the future. The purpose of this paper is to explore the development and influence of both personal and organizational reputation and its impact to the customers support. The organization life cycle theory is applied to the “SM” foundation, one of Indonesian largest Islamic social enterprise which experienced fast growing and declining due to the decline of its leader reputation. The case shows that personal reputation of leader is very important in the start-up and early development phase of the organization but it may threaten the organizational sustainability at a later stage when the leader’s personal reputation is conveyed into the organization reputation.

Keywords: personal reputation, organizational reputation, customers’ support, organizational life cycle.

Introduction

For so many years, leadership has become one focal point in social entrepreneurship research (Alvord, Brown, & Letts, 2004; Barendsen & Gardner, 2004; Prabhu, 1999; Rhodes & Donnelly-Cox, 2008; Roper & Cheney, 2005; Thompson, 2002; Waddock & Post, 1991). The growth and success of the social enterprises – an organization which conduct profit making activities and accrue the benefits taken from the activities to the same segment of society in order to achieve its social mission, (Tan, Williams, & Tan, 2005) had been strongly associated with the founders’ or leaders’ figure either they are working in the private, non-profit or public sector e.g. Body Shop label with Anita Roddick, Grameen Bank in Bangladesh with Muhammad Yunus (Roper & Cheney, 2005), and Ashoka foundation with Bill Drayton. Similar pattern also found in Indonesia. Many social enterprises in Indonesia had been developed based on the personal reputation of the leader.

Unfortunately, there is a “law of buy in” in followership in which followers will only supports the organizations as long as they love the leaders (Maxwell & Ziglar, 1998). Thus, the leaders are required to maintain good reputation and reputation in order to get continuous support from their stakeholder, including the customers. The failure to do so would only lead the stakeholder to turn down their support.

In social entrepreneurship literatures, there are various groups which are identified as their

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stakeholder. The groups are ranging from beneficiaries, donors, customers, government, etc. As the “business activity” had become one of the main characteristic of social entrepreneurship, customers are logically become the key stakeholder for social enterprise (Allan, 2005). To maintain the sustainability of its “business like” initiative, social entrepreneurs are suggested to conduct marketing efforts which is commonly executes by the business enterprise. One of the issues related to marketing effort that should be managed by the social entrepreneurs is branding. The branding issue is very essential for the social enterprise as currently they are facing more challenging situation due to the increasing cost of running the enterprise and much stiffer competition for getting the grants and charities from external sources (Dees, 1998). Specific attention to branding issues also gives more promising answer for the social enterprise to increase its market share and social impact (Allan, 2005). For this reason, it is particularly important for the scholars to explore the social enterprise from the branding perspective. To achieve the objective, the authors applied the dual reputation model theory as it enable the researchers to explain the intention formation of the customers from two perspectives, the social enterprises itself and the leaders who set up and lead the organization.

The research will contribute to social entrepreneurship body of research as there is still little research on social entrepreneurship using the customers’ perspective (Allan, 2005). The research will specifically illustrate the formation of reputation in social enterprise and its influence on the customers support. The research will also give practical implication for the social entrepreneurs to rely more on cooperation or team work (Bull, Crompton, & Jayawarna, 2008) compare to the reliance on their personal branding to gain success for their initiatives. It is also very important for the social entrepreneurs to gradually reduce the associative link between the founder and organization in order to enhance the customers’ support to the organization so that the level of public support can be maintained when the leaders’ personal reputation are deteriorated. To enrich the study, the organization life cycle theory was also used in the analysis to give an insight on the configuration of the leader and organization reputation across the social enterprise life stages.

**Literature Review**

**Personal and Organizational Reputation**

In any organization, both personal and organizational reputation is very important to the sustainability of the organization. Personal reputation reflects the complex combination of salient personal characteristics and accomplishments, demonstrated behavior, and intended images, presented over some period of time as observed directly and/or as reported from secondary sources (Blass & Ferris, 2007).

According to Charles Fornbrun, corporate reputation refers to “the perceptual representation of a company’s past action and future prospects that describes the firms’ overall appeal to all its key constituents when compare to other leading rival (Dowling & Moran, 2012)”

Thus, reputations are developed by the stated intent of the organization, its resulting action, and stakeholder’s belief about its prospects and valued outcomes (Dowling & Moran, 2012).

**Organizational Life Cycle Theory and Reputation**

The use of organizational life cycle theory is developed based on the biological metaphor in which the organization evolve from the inception period, to growth, maturity, decline and redevelopment (Gupta & Chin, 1994). The theory has become a well-researched topic as it has a significant premise to help the manager in choosing strategic action which is more appropriate to answer the challenging situation found in each stages (Gupta & Chin, 1994). One of the most appropriate approach relevant to the current study has been conducted by Jawahar and McLaughlin (Jawahar & Gary, 2001). Their study found that the importance of certain stakeholders differ in each stage of organizational development in the business context. In the start-up stage, of the organization will put higher attention to the stockholders, creditors and customers to avoid the failure in the initial stage. At a later stage, the emerging growth
stage, the organization will take more proactive approach to address the need of creditors, employees, suppliers and trade associations. During the mature stage, organization most likely will address the interest of all stakeholders. In the decline or stabilization period, the organization will revert to stockholder, creditor and customers with more reactive strategy as they become critical stakeholders for the organization survival. However, there are certain metamorphosing events which may affect the organization positively or negatively (Withey, 2002), first is the outside money event in which the organization rely more on the external sources of funds as the founder has limited financial resources. The second cataclysmic event is the first big customer stage. The occurrence of the event will require the organization to give special attention to the customers. The third influential event which may cause significant changes to the organization is the arrive event. At this stage, the organization will harvest the result of the relationship set up in the second event. The fourth stage is the precipitous revenue drop. Here, the customers find better competitor for the organization, so that the organization suffers a significant decline in revenue. The last cataclysmic event identified is outside manager joins the emerging organization. It is assume that the organization enter the stage after it is able to recover from the negative significant event takes place in the previous stage. The market is growing and the organization usually employs the expansion strategy.

In regards, to the life cycle theory, reputation may also evolve from the introduction to the death stage. Thus, once reputation has been built, reputations need to be nurtured and defended (Blass & Ferris, 2007).

**The Customers and Branding in Social Entrepreneurship Context**

Founders or leaders’ of social enterprises has been a primary focus in the social entrepreneurship literature (Diochon & Anderson, 2009). Leadership has been regarded as one of fundamental aspects for the success of the initiatives. However, leadership is a two way relationship. Leadership and followership should exist together (Townsend & Gebhara SM, 1997). This can be applied to any organization, including social enterprises. Social entrepreneurs may not be able to survive without their followers’ or stakeholders’ support (L. Haskell, Haskell, & Kwong, 2009). As social enterprises contains business elements in its operation, customers become one of its primary stakeholders (Allan, 2005). Unfortunately, there is still a dearth of research which specifically portrays the social entrepreneurship phenomenon from the perspective of customers. More articles are written on the role of marketing and the importance of marketing customers in the non-profit sectors but not social entrepreneurship context (e.g. (Andreasen, 1982; Nielsen & Samia, 2008). Therefore, the scholars are suggested to conduct more study by addressing marketing perspective in the research related to non-profit organization (Andreasen, 1982).

**Reputation and Customers**

Organizational reputation is often measured as the organization being good, admired, respected, and/or in held esteem (Dowling & Moran, 2012). Those attributes would generate trust and confidence in the organization’s integrity, abilities and plans for the future (Dowling & Moran, 2012). A good reputation reduces risk and the transaction cost as it would increase the level of trust between the producers and customers (Dowling & Moran, 2012).

**Introducing The Social Enterprise: The SM Foundation**

The study focuses on the experience of the SM (SM, not the real name). The SM foundation was found in 1990. It is a social enterprise which successfully combines religion, commerce and tourism businesses (Watson, 2005). Recently, the organization experienced a significant downfall due to the supporter resistances on the leader’s personal decision.

Prior to the leader’s followers shocking personal decision, SM has been successfully succeeded in managing four organizations under the organization umbrella. Those 4 organizations are: the Foundation, Boarding School Cooperative, SM Corporation (SM Corp) and Eco Boarding School (Haikal, 2006)
All those four organizations had large number of followers and customers e.g. there were usually 5,000 guests (jamaah) per week who visited SM complex, but the number declined to only 40-100 guests per week after the crisis (Trijaya & Aquaresta, 2007). SM Corp even had 19 subsidiaries up to October 2003 (Darandono, 2003) ranging from SM cassettes and books distribution, SM Multimedia, SMTours & Travel, SM Media, SMTV, SM FM (radio business), SMCustomer Goods (supermarket), SM Quality, SM IT, SM Publication, SM Production, SM Fashion, Advertising SM, SM Electronics, SM Sound System and SM Cafe. It is very unfortunate that after the personal issues of the leader, the number of members, customers, employees and fund raisers of the social enterprise falls significantly. Thus, result in downsizing and liquidation of some of the subsidiaries or division under the organization. Some of its SM corporate subsidiaries also had to lay off their employees such as SM TV and SM FM (radio business). The cooperative which previously had two-story store in SM complex now has reduced the store space into single-story store only. “SMKitchen from SM Cafe, SM Tabloid (Trijaya & Aquaresta, 2007) and SM Net (Multi Level Marketing) (Anonymous, 2008), even had to end its operations. Those layoffs and liquidation are happened due to the significant reduction of supports from the people who used to come to SM complex, customers who used to buy the products or fund raisers who used to give charity.

Based on the above discussion, both the reputation and organizational life cycle theory can also be applied to the social entrepreneurship context in Indonesia, as there is an evident found in Indonesia—that the social enterprise also experience a reputational evolutions analogous to the organizational life cycle found in business enterprise.

Methods

The objective of the study is to gain a practical insight on the relationship between the social entrepreneur’s reputation and the social enterprise’s organization reputation across its life stages in Indonesian context. The data was collected through a series of interview before and after the cataclysmic event took place in the organization. The in-depth interview on the evolution of the “SM” as a social enterprise was conducted with the acting head of the social enterprise in January 2011, the same person who was also interviewed in June 2006, prior to the occurrence of the cataclysmic changes in the social enterprise. Another interview also conducted with one of the founder of the Association of Social Enterprise in Indonesia (AKSI) and the venture and fellowship coordinator in Asoka Foundation Indonesia in order to give a different perspective to a problem. Thematic analysis was employed to analyze the data which enable the researchers to examine the relationships among the different concepts (Gibson & Brown, 2009). The structure of the analysis was presented based on the classification in the organization life cycle theory.

Result and Discussion

Fig.1 illustrate the development of SM foundation historically which is developed based on the explanation of the acting head of SM foundation. Based on the interview, in 201 SM stay on its renewal stage, after it has experience a
maturity and declining period due to the negative publicity on its leader.

A. Initial Stage (1990-1995)

According to Withy (Withey, 2002), it is very difficult for the founder to rely on external sources for developing the organization in the initial stage. Therefore, it is very common for the founder to rely more on the personal resources that they already had in this early stage. The pattern indicates that in the introductory stage, the organizational reputation has not existed yet. It is only personal reputation of the social entrepreneur which can be used as a medium to get the assistance from the external stakeholder.

In its initial stage, the SM foundation also had not yet gained its organizational reputation. It is only the personal reputation of the founder which can be used as a reference by the customers. As noted by Rizaldy (Rizaldy, 2010):

“It is very difficult for us to develop our organization if we didn’t have a leader who has a strong reputation as what we have here in SM. The strong reputation of the leader is important for the faith based organization. There is similar organization to SM foundation. It has many good programs like us. Unfortunately, it could not develop very well as it leader is not really popular in the society.

Similar notes were also stated by the manager of Ashoka Indonesia:

Based on my observations, the people would only give support to the social entrepreneurs when they believe in them. Expertise becomes the second criteria for them. Reputation of the leader should be gained first, only then the reputation of the brand was created (Eveline, 2011).

Based on the above arguments, we propose that:

**Proposition 1**: The effect of social entrepreneur’s personal reputation is higher than the effect of social enterprise’s organizational reputation in attracting the customer awareness during the start up period.

**Proposition 2**: There is a difference relationship between the personal reputation of social entrepreneurs and the organizational reputation of the social enterprise in the faith based and non faith based organization.


During the emerging stage, the organizational reputation starts to develop. The customers start to have awareness on the existence of the brand just like what we found in SM foundation.

In 1995, SM foundation entered its emerging growth period. Two years later, it experienced the first big customer event. The establishment of SM training centre became the precursor for the big event. One of the SM training centre program which is called Ta’lim Corporate was highly in demand. There were many top management of the large companies in Indonesia joined the program as they considered the program as an innovative program. The innovativeness lies in the SM ability to mix the religious teachings with the business practice theory. In this stage, the customers started to know the SM as an organizational brand. However, the effect of personal reputation on the customers’ attitude is still higher compare to the organizational reputation. This condition was beneficial for the SM foundation as the popularity of its leader had speed up the foundation to enter the emerging growth period, as it was noted by the acting head of SM foundation:

In 1995-2000, SM foundation experienced a rapid growth. We got many big customers. Many large companies such as The Central Bank of Indonesia, Bank National Indonesia, Bank Mandiri and many other large companies in Indonesia became our customers. We got a significant amount of fresh fund only in a very short time. It was really surprising for us (Rizaldy, 2010).

Thus we proposed that:

**Proposition 3**: The organization which has strong associative link between its leader personal reputation and social enterprise’s organization reputation will experience faster development in the emerging growth phase compare to the organization which has low associative link between its leader personal reputation and social enterprise’s organization reputation

C. Maturity (2003-2006)

Ideally, the organizational brand should be bigger than the personal branding of the leader. However, it is not easy for certain organization to dissociate the founder from the organization.
As pointed out by the acting head of SM:

The society become confuse with all the organizations under the SM brand umbrella. Many customers have difficulties to differentiate SM as a profit organization and SM as a social enterprise. The suppliers also have similar confusions. The suppliers never give us a discount for their services despite the social mission that we have. They think the corporation is similar to the foundation. They think that we are as rich as the SM corporation (Rizaldy, 2010).

The difficulties in disassociating the personal brand of the leader from the organizational brand probably would not be that serious if the leader could maintain its reputation in front of the customers. But the case was different to SM Foundation. The leader has decided to commit in the polygamous marriages, an issues which has already become a never ending topics in the country as it faces strong opposition from the women in the country, including the Muslim women themselves. The leader’s personal decision had unexpectedly resulted in negative contagious effects to the SM as a foundation. It was beyond the expectation of the management that the organization would only experience its maturity period in a very short time. Based on the above arguments, we propose:

**Proposition 4**: The organization which is successfully disassociate the social entrepreneur’s personal reputation and social enterprise’s organizational reputation will enjoy longer period of maturity phase compare to the social enterprise which has strong associative link between its leader personal reputation and social enterprise’s organization reputation.

D. Declining Stage (2006-2008)

The leader of SM foundation committed in polygamous marriages in the end of 2006. His decision had resulted in sour reactions from his followers including customers. Many customers who used to come to the SM Complex and bought the SM prefer to boycott the products and no longer visit the social enterprise complex.

We suffered from the negative publicity of our leader for almost 2 years. Prior to the branding crisis in the end of 2006, our revenue could reach 8 to 9 billion or even 11 billion per year. But it suddenly fell to 5-6 billion after 2006 and remained stagnant until 2008 (Rizaldy, 2010).

SM foundation realized that the association between the personal brand and organizational brand was too high and had given large contribution to the decline of organization.

We have deleted the morality tourism department, including the program under the department, as we think the program is ethically and philosophically wrong. There was an excessive publicity for our leader in the program and it has encouraged the society to see our organization based on our leader personal reputation. The society perceived him as a holly man but suddenly there was a significant change in the attitude of the public soon after they knew that our leader committed in polygamous marriage. The number of guest who used to join the morality tourism program was declined up to 50% (Rizaldy, 2010).

The above highlight leads to the following proposition:

**Proposition 5**: The negative publicity on the social entrepreneur tends to lower the customers’ attitude support which at certain point may lead the organization to jump from the maturity period to the declining period when there is a strong associative link between the personal and the organizational brand is high.

E. Renewal Stage (2009- now)

Since 2008, the SM foundation entered its renewal stage. The economic activities around the SM area was started to rejuvenate. According to the acting head of SM foundation the total revenue of the social enterprise had increased again recently. But it took more than 2 years for the organization to recover from the stagnancy period that it suffers since the beginning of 2007. The slow recovery of the organization probably took place due to inability of the organization to communicate their efforts to disassociate its leader personal branding from the social enterprise’s organizational branding in spite of the awareness of the management that the main source of their problems lies in the strong of relationship between the founder and the organization:

There is no formal program that we conduct to re-attract the customers after the crisis. SM is a faith based organization. That’s why we prefer to use spiritual approach to re-attract
them. We realized that previously majority of the programs were launched based on our leader ideas. He was also simultaneously become the endorser who introduce the new products to the market. That is why the public always think of him as the inseparable icon for the SM foundation (Rizaldy, 2010).

According to Dahlen and Lange (Dahlen & Lange, 2006), the negative brand publicity has a series of negative impact as the people consider publicity as a credible source of information, media prefers to publish a negative news and customers give higher weight for negative news than positive news. Therefore, it is very important for any organization to communicate the positive news to help them restore their image. The non–existence of explicit communication on the branding issues in SM foundation probably had slowed down the recovery process in the organization as customers tend to use their previous, easily processed information and perception on the brands. They will not know that there is something new in the brand unless the organization able to communicate it. (Dahlen & Lange, 2006). Thus, we propose that:

**Proposition 6**: The reduction in the associative link between the leader’s personal reputation and the social enterprise corporate reputation after the brand crisis may positively influence the customers’ support.

**Conclusion**

Social enterprise is identified and understood as the organization which has an altruistic mission for the society and it helps the society via profit making process (Tan et al., 2005). As it has a business like element, it requires the social entrepreneur who set up and manages the initiative to give a special attention to any marketing issues which is relevant to the context, similar to what the pure business organization has done. The case study has given several future directions for the social entrepreneurship scholars and practitioner. First, the social entrepreneurs should gradually reduce the associative link between the founder and organization by conducting brand succession plan to transfer the brand authority from the person to the organization (Fenwick, n.d). Reliance on team work and cooperation can also become an alternative to reduce the link between the personal and organizational reputation (Bull & Crompton, 2006).

Second, the leader should aware on the importance of communication framing as it can serve as the potential solutions to the reputation problems. Framing is about how an issue and problem is presented for consideration. Thus an ability to reframe the problem would enable the leader or organization to change public opinion. (Mahon & Wartick, 2003)

Third, the case exhibit the possibility that there is a potential difference of strength in relationship between social entrepreneur’s leader reputation and social enterprise’s personal reputation in the faith based and non faith based organization. Therefore, it would be fruitful to examine the difference between both types of social enterprises.

**References**


