Driving the Corporate Reputation

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The growing exposition of corporate scandals stresses the increasing demand for transparency in corporations. Stakeholders demand insight in the activities of the global corporations; NGOs make inquiries into the standards of the production of the company, investors are concerned with the values behind the company and customers are increasingly interested in the ethical standards of the company. Common for all is the demand for transparency, rendering amplified stakeholder responsiveness and communication a main differentiation strategy. Consequently, corporate reputation has climbed to the top of the attention of modern business leaders as a mean to build up credibility and trust with their stakeholders[1] .

Growing importance of Reputation

In the survey conducted among business leaders at the annual World Economic Forum in January 2004, corporate reputation along with corporate branding was considered increasingly important in the evaluation of a company's success:

> *"The reputation of a company and its products used to be regarded as an intangible asset that was very hard to quantify,".. "Now it is clear that reputation is a vital component of a company's value and it is becoming a key measure of a company's performance."* [2]

The importance of corporate/brand reputation was further reinforced by the findings that[3] :

- A majority of members believed 40% or more of their company's market capitalization was represented by their brand and/or reputation.
- Members also believed that economics/markets and competitors represent the biggest threats to a corporation's brand.
- Most (92%) perceived brand/reputation as important to their corporation's strategy.

The survey demonstrates that the reputation of a company belongs on the agenda of the corporate strategy, and must be managed in order to ensure future prosperity. However, at

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the same time, the perpetual question remained how to evaluate the return of investments in the corporate brand or reputation.

This is an extremely hard question to answer[4]. Some theories suggest a correlation between a good reputation and high stock prices, others vice versa. Most recent literature suggests interdependence between the two but few have been able to present convincing evidence for the actual connection between the corporate reputation and high financial performance[5]. However, numerous studies and measurement systems are being developed to obtain a deeper understanding of the driving forces behind corporate reputation and corporate branding. This becomes relevant as an understanding of the driving forces of key stakeholder groups, influential on the financial performance of the company, can help clarify the connection between corporate reputation and financial performance. Consequently, this paper offers an overview of the general driving forces behind corporate reputation and then takes a closer look at what is perceived to be the specific drivers within the financial community.

Reputation Drivers

In general, the perception of reputation used measuring the reputation of companies can be summarized as:

> *"..a collective representation of firms past behaviour and outcomes that [historically] depicts the firms ability to render valued results to multiple stakeholders"* [6]. *Furthermore, current images and impulses of the company generating future expectations of the delivery of valued results. Past and present will drive both trust in and attraction to the company* [7].

The market for measuring the strength of corporate reputation or corporate branding has grown significantly in recent years. Most advertising companies and brand consultancies have developed techniques for measuring the strength of reputations or brands or for creating hierarchical rankings comparing companies and products in the marketplace. Similarly, leading business journals have been key players in the development and publication of corporate reputation and image measurement systems. These measurement systems can be divided into two overall categories; those focusing mainly on product brands and those evaluating the corporate reputation of companies.

Ranking systems focusing on *product brands* are mostly based in the marketing industry**.** For instance, Young & Rubicam has developed the BAV (Brand Asset Evaluator) system measuring the strength and relevance of individual brands, which along with the Millward Brown brand tracking system have become some of the most widely accepted methods applied by many global companies across the world. Similarly, Saatchi & Saatchi has created the Lovemarks structure evaluating brands on the dimensions of Love and Respect[8]. Among the frequently publicized rankings, the most recognized ranking system is the annual Interbrand ranking, estimating the financial value of the most famous brands across the world[9]. This ranking is presented annually in Business Week and includes both product and corporate brands.

Box 1: *Top 10, World's Most Valuable Brands, Business Week, August 4, 2003*

Rank	Brand	Brand Value (bn $)	Country
1	Coca Cola	70.45	US
2	Microsoft	65.17	US
3	IBM	51.77	US
4	GE	42.34	US
5	Intel	31.11	US
6	Nokia	29.44	Finland
7	Disney	28.04	US
8	McDonald's	24.70	US
9	Marlboro	22.18	US
10	Mercedes	21.37	Germany

The group of systems focusing on *corporate brands, images and reputations* is broad and continuously increasing. Systems in this category are typically created by the consulting - or media industry. They are normally based on broad surveys targeting different stakeholders such as CEOs, analysts or the general public. Given the scope of this group of surveys, there is a multiplicity of more specialized surveys in this category, which aim at ranking companies according to specific areas, e.g. their environmental standards; their social reporting; their workplace attractiveness; the degree of corporate philanthropy etc.

However, the oldest and most famous ranking is Fortune's annual Most Admired Companies survey. The survey started in 1983 and has set precedence for most contemporary surveys. Along with the more recent study of the Worlds Most Admired Companies (PWC published in Financial Times) and the Reputation Quotient (Reputation Institute, published in Wall Street Journal and local newspapers), this provides an overview of the assumed drivers of reputation[10] in a recent study. A "driver" of a corporate reputation is a factor constituting a significant part of the stakeholders perception of the company, good or bad. This could be, for example, the products of the company, the clout of the CEO or the emotional attraction to the company.

As suggested above, corporate reputation involves creating trust that the company can render valued results to its stakeholders in the future. Therefore looking at reputation drivers across varies reputation surveys indicate what builds trust in the company and what generates (positive) future expectations.

The Reputation Quotient™:

The Reputation Quotient™ annually ranks the most visible companies on a national basis in a series of countries, ranging from the US to Denmark, Holland, Italy, Australia, Germany, UK, France, Sweden and Norway. The most visible companies are nominated by the general public based on their good or bad overall reputation. These companies are then, in a second phase, ranked according to 6 dimensions of reputation. (See Box 2 below). The survey was developed by Professor Charles Fombrun[11] in collaboration with Harris Interactive and has been further applied by the Reputation Institute[12].

The RQ survey uses the general public, which is further divided into demographic, social and boycot/non-boycot criteria. This implies that the reputation ranking of the company portrays the public opinion of the company, including the perceptions of all

***Box 2**: RQ Reputation Drivers*[13]

1. **Emotional Appeal:** How much the company is liked, admired, and respected.
2. **Products & Services:** Perceptions of the quality, innovation, value, and reliability of the company's products and services.
3. **Financial Performance:** Perceptions of the company's competitiveness, profitability, growth prospects, and risk.
4. **Vision & Leadership:** How much the company demonstrates a clear vision, strong leadership, and an ability to recognize and capitalize on market opportunities.
5. **Workplace Environment:** Perceptions of how well the company is managed, what it's like to work there, and the quality of its employees.
6. **Social Responsibility:** Perceptions of the company as having high standards in its dealings with people, good causes, and the environment.

stakeholders, such as consumers to employees and NGOs to investors. In the US 2003 ranking, more than 30.000 respondents were involved in nominating and rating American companies according to the dimensions of reputation (see Box 2). These dimensions are derived from previous global research on what determines perceptions of reputation.

Most Admired Companies:

The Fortune "Most Admired Companies" is the ranking system with the longest record. The survey is, unlike the RQ™ survey, directed at CEOs, Financial Analysts and other business related stakeholders. The chosen ranking dimensions are predetermined, and have remained almost constant since 83'. The main change was an addition of a 9th factor in 97' representing the global scope of the new "Worlds Most Admired Companies" (WMAC) ranking (see Box 3 below). Just like the RQ the driving factors function as framework for the survey and the questionnaire. The Fortune drivers differ from the RQ™ drivers in being more narrowly focused on business related issues, although it also includes areas such as products and services and community responsibility that are relevant to a wide array of stakeholders.

***Box 3:** Fortune Reputation Drivers*[14].

1. Quality of management
2. Quality of products and services
3. Innovativeness
4. Long-term investment value
5. Financial soundness
6. Ability to attract, develop and keep talented people
7. Responsibility to the community and the environment
8. Wise use of corporate assets
9. A company's effectiveness in doing business globally

Worlds Most Respected Companies

Since 1998, PWC has conducted the annual "Worlds Most Respected Companies". The survey has been published every year in December in Financial Times. The WMRC survey is similar to Fortune's WMAC survey in respondent themes. However, the PWC survey distinguishes itself from the Fortune and RQ™ surveys by using open-ended questions. Thus the survey does not have a set of predefined drivers of reputation. However, the results of the collection and processing of answers does show similar business related themes (see Box 4). This seems natural due to the similar choice of population as the Fortune survey, namely CEOs and business leaders from family companies and larger subsidiaries.

The drivers are arranged in categories more in line with the broad categories in the RQ™ survey. However, the categories are still based on a business perspective, demonstrated by its focus on CEO's and other stakeholders with specific knowledge of the companies in question.

A comparison of the three main measurement systems suggest a difference between the driving forces of multiple stakeholders derived from the general public and business related stakeholders such as CEO's and analysts. Clearly, the reputation drivers valued by the general public are more emotional and give greater emphasis on social responsibility and working environments, whereas the dimensions driving the CEO perception of his peer company have a more narrow business focus. This does not imply, however, that the business stakeholders are more objective in their assessment of the reputation of a given company. Events in the financial market over the last decade have indicated that financial analysts are all but objective in their ratings of companies. The .com wave and its demise is an example of how trends, emotional factors and expectations led analysts to recommend

Box 4: *Derived nomination themes of PWC/ FT survey[15].*

Internal driving factors

Financial: Growth rate, financial position, shareholder value of company, successful performance.
Management: leadership and management within company.
Strategy: business strategy of company, acquisitions, focus.
Innovation: vision, innovation in services, technology and products.
Action: always improving, developing, being agile, adapting, diversifying.
Structure: organisational structure of company, restructurings/ internal systems and technology.
Culture: Corporate culture of company, staff attitude.

External driving factors

Market presence: Market presence, dominance of company, icon status, leadership, sustainability.
Products and services: brand names managed or developed.
Emotional profile: ethical or responsible company, respectable, reputation, social responsibility.
International scope: global reach, international presence of company.
Customer focus: excellent service level, quality.
Marketing: advertising and marketing efforts.

the purchase of overvalued stocks of companies that never experienced a profit. The subsequent corporate scandals of WorldCom and Enron are also examples suggesting that financial analysts are largely driven by subjective factors. Therefore, we take a closer look at what drives the allegedly most objective stakeholder group of the all: the financial analysts.

Specific stakeholders: Financial analysts

The proposition that financial analysts are influenced by subjective factors has gained support over the last decade. The suggestion that the importance of communicating more than mere objective financial data to the financial community has been further strengthened recently, as investigations into the driving forces behind a buy-recommendation has revealed the importance of "softer" values.

Financial Analyst Survey

In 1999, Business Week published a survey on the interplay between advertising and the evaluations of financial analysts. The survey covered around 200 buy side analysts, asking them to rate the items influencing a potential "buy" recommendation of a given company stock. Initially the survey presented the items most likely to influence an investment, which was dominated by "hard" factors such as earnings, balance sheet and P/E ratios. But also a range of "softer" dimensions were included such as growth potential, trends and strength of management. The latter was especially significant in far outscoring all other items (see Box 5 below).

Box 5: *Corporate Branding LLC/ Business Week survey (1999).*

Driver:	Percentage of responses:
1. Strength of management	(53)
2. Expected cash flow growth	(31)
3. The company's products	(31)
4. Industry trends	(30)
5. The company's cash flow	(29)
6. P/E ratio	(19)
7. Government regulations	(16)
8. Management succession strategy	(16)
9. Likelihood of an acquisition	(11)
10. Past stock price growth	(10)
11. New product introductions	(9)
12. Annual dividend	(3,5)

Based on these findings the survey concluded that analysts are highly driven by qualitative values:

> *"People want to invest with those they understand, with those they believe in to move ahead with confidence and intelligence. Comfort is intrinsic to commitment."*[16]

In other words, trust is essential in the decision making of the financial analyst, which entails the trust that management will succeed in capturing future growth and financial prosperity.

Case Study: Coloplast

This argument was further supported by an investigation conducted by PriceWaterhouse-Coopers (PWC) and Schroeder in 2003. They approached the Danish company Coloplast that has been recognized as a leading company in the communication of total corporate performance, e.g. Coloplast has been awarded by Danish official organs for their intellectual capital reporting. However, the question for PWC remained whether this corporate transparency made any significant difference to the financial analyst. To answer this question, PWC and Schroeder presented two test groups of financial analysts with each their edition of the Coloplast report and account: The original full report with all additional information on intellectual capital, social and environment issues supporting the financial data, and an edition stripped of all additional information containing mere financial data. Each group was given two hours to give a recommendation for the stock.

The result of the test showed that the average revenue and earnings forecast by the group with the full report were lower than those with the mere financial data. This seems discouraging for investing in communicating the corporate brand to the financial community, had it not been for the fact that the group with the full report were tremendously in favour of buying the stock. This contrasted the recommendations of the group with the mere financial figures. Almost 80% of this group recommended selling the stock. Overall, the consensus of recommendations was far greater in the group with the full report who consequently held the stock to be no more risky than the average in the industry. Thus, supplying knowledge of both soft and hard values to the financial community seems to generate trust in the company.

Conclusion

Building on the increasing importance of managing corporate reputations, we have illuminated some of the reputation drivers used by various ranking systems demonstrating a difference in emotional dimensions ascribed to the general public and the business stakeholders by the existing ranking systems. However, we have also investigated the reputation driving forces possibly influencing financial analysts, showing the importance of trust and the influence of non-financial reputation drivers in their estimation of the future value of a company (buy-sell recommendations).

Consequently it finally becomes tempting to ask whether the reputation drivers of different stakeholders differ at all? We suggest that stakeholder differentiation might be increasingly less important in corporate branding and reputation strategies, as also financial analysts are clearly influenced by more and other factors than mere financial data. Thus, in the coming years, we may witness an increasing homogenisation in what drives the assessment of corporate reputation among the key stakeholders of the corporation.

Notes

[1] Schultz, M et. al. (2001).

[2] John Graham, Fleishman-Hillard's Chairman and Chief Executive Officer, in WEF Annual Meeting Survey 2004.

[3] WEF Annual Meeting Survey 2004.

[4] De la Fuente Sabate, JM & E de Quevedo Puente (2003).

[5] De la Fuente Sabate, JM & E de Quevedo Puente (2003).

[6] Fombrun and Rindova (1999).

[7] Own definition.

[8] www.lovemarks.com

[9] www.interbrand.com

[10] The study was conducted by author of this paper M.Sc. Simon Boge in connection with a bigger survey concerning how reputation affects the financial analyst. The survey was conducted in corporation with Reputation consultancy REPUTATION, based in Copenhagen.

[11] See Fombrun, Gardberg & Sever 2000.

[12] Se also Fombrun & Van Riel for a deeper discussion of the RQ.

[13] Fombrun and Van Riel, 2004.

[14] www.fortune.com

[15] Obtained from online interview with representatives at PWC, London.

[16] Corporate Branding LLC report (1999).

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