

# Driving the Reputation of America's Leading Brands:

**A New Look at the Components of Reputation**

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# The Competitive Context of the 21<sup>st</sup> Century

- An intensely competitive, global marketplace
- 24/7 media and internet environments
- The drive for Inimitable advantages
  - commoditization
- Vocal consumerism/stakeholder centric
- Increased focus on corporate governance
- The rise of intangible assets

# Why Reputations Matter

- Reputation:
  - “A resilient asset to some companies in a difficult marketplace”
  - Stakeholders’ perceptions of reality
    - Customers, employees, investors, media, financial analysts
  - Influence investment decisions (herd mentality), prospective
  - A good one acts like a magnet
  - Create differentiation and competitive advantage
  - Affect strategic positioning
  - Mirror that reflects company success
- Environmental trends adding to increased importance of reputation
  - Globalization, Information Availability, Product Commoditization, Media Mania, Ad Saturation, Stakeholder Activism

# Understanding Reputation

- A concept held in the minds or cognitions of stakeholders.
- A set of attributes ascribed to a firm, inferred from past actions.
- Perceptions, attitudes and/or beliefs of stakeholders
- “A corporate reputation is a perceptual representation of a company’s past actions and future prospects that describe the firm’s overall appeal to all of its key constituents when compared with other leading rivals” (Fombrun, 1996).

# A conceptualization of Reputation

- Identity
  - The internal traits of the firm that are critical to its distinctiveness and longevity
- Image
  - The perceptions and associations that are constructed by the purchaser of the product/service
- Brand
  - The constructed visualization of the company's value proposition
- Reputation
  - The holistic viewpoint in which an organization is internalized by its stakeholders

# Reputation Management Defined

- A C-Suite responsibility with a cross-organizational focus
- Process to identifying an organization's value proposition
- Identify the organization's key stakeholders and prioritizing these stakeholders in terms both of their value and risk
- Strategically manage the organization in a way that consistently matches the value proposition of the organization with that of key stakeholders each and every time

# Why Manage Corporate Reputation?

## Tenets and Central Beliefs

1. Multiple stakeholders need to be considered
2. Reputation is created through multiple interaction
3. The main elements of reputation are linked
4. Reputations are valuable and have value
5. Reputation can be managed
6. Reputation and financial performance are linked
7. Relative reputation (ranking) drives financial performance
8. Reputation can be measured
9. Reputation can be lost more easily than it can be created
10. Reputation can best be studied using interdisciplinary approach

# What Are Reputations Worth?

- Reputation and financial value are related in three ways:
  - Operating performance
  - Profitability affects market perceptions of future prospects
  - Operating activities themselves contribute to building “reputation capital” – a shadow asset
- Reputation Affects Operating Performance
  - Stimulates employee productivity
  - Creates reservoir of goodwill
- Reputation Creates Financial Value That Builds Reputation
  - Receive favorable endorsements from stakeholders and the media
  - Fortune’s most admired
- Reputation Has Financial Value as a Corporate Asset
  - Branding and reputation-building help build a company’s visibility, familiarity, and fame – investments in creating reputational assets
- Crisis costs include loss of reputation capital

# Intangible Assets Increasingly Drive Reputation

- Ernst & Young (2003) found that 85% of market value of S&P 500 was comprised of perception of value of intangible assets, with 15% from tangible assets;
- In 1982, intangibles comprised only 38% of the market value;
- Intangible assets are “a claim to future benefits that do not have a physical or financial component” (Lev 2001);
- Intangible assets include: perceived quality of management, ability to attract and keep talent, specialized skills, quality of customers, relationships, innovation, technology, etc.

# Reputation is a Differentiator of Value

- **Employees**
  - **Attracts and keeps talent**
  - **Builds pride**
  - **Makes jobs more attractive and motivates employees**
- **Customers**
  - **Attracts new customers**
  - **Encourages repeat purchases**
  - **Builds market share**
  - **Opens new market opportunities**
- **Investors**
  - **Lowers cost of capital**
  - **Attracts new investments**
- **Media**
  - **Generates more positive coverage**
- **Government**
  - **Enhances support**
  - **Minimizes chance of enhanced scrutiny**
- **Communities**
  - **Builds support**
  - **Minimizes concerns**

# Reputation has a Powerful Effect

- **5% change in corporate reputation = 3% change in market value**
- Based on multivariate analysis of all companies in Fortune's Most Admired surveys (1983-1997)
- Based on comparative analysis of 10 portfolios of equivalent risk-return profiles
- Source: Srivastava et al., Corporate Reputation Review (1997) and Black et al., CRR 2000



# What Drives Corporate/Organizational Reputations?

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# What Drives Reputation?

- Relationships
- Trust/Emotional Appeal
- Quality of products/services
- Satisfaction – employees and customers
- Performance – financial and organizational
- Responsibility/Citizenship
- Word of Mouth/Credible Source
- Governance & Compliance – rules/regulations
- Leadership, vision and visibility

# The Drivers of Relationships

- Trust
- Transparency (Honesty and Openness)
- Commitment
- Satisfaction
- Control Sharing



# Trust As A Key Driver

- Trust drives business tangibles -- sales, investors, employees
- Underpins corporate reputation
- 80% will not purchase service or product
- 70% will criticize to people they know
- 50% refuse to work at firm without trust

# A Theoretical Measurement Framework

- **Organizational Reputation Ratio (OR<sup>2</sup>)**

$$R f [RD \times \sum s^{1\dots} (E \times S)^{t1\dots}] = OR^2$$

- **R = Reputation**
- **RD = Reputation Drivers (weighted)**
- **s1 = Stakeholder perspective**
- **(E x S) = Experiences x Satisfaction**
- **t1 = time**
- **OR<sup>2</sup> = Summative index of the organization's collective reputation**

# DeGroote/McMaster University Reputation Survey (September 2006)

- **Total Participants** **801**
- **Number of Countries** **26**
  - Canada 579 (72%)
  - France 98 (12%)
  - US 30 (4%)
  - Denmark 19
  - Germany 18
  - China 9
  - Lebanon 7
  - Belgium 5
  - UK 5

# Results

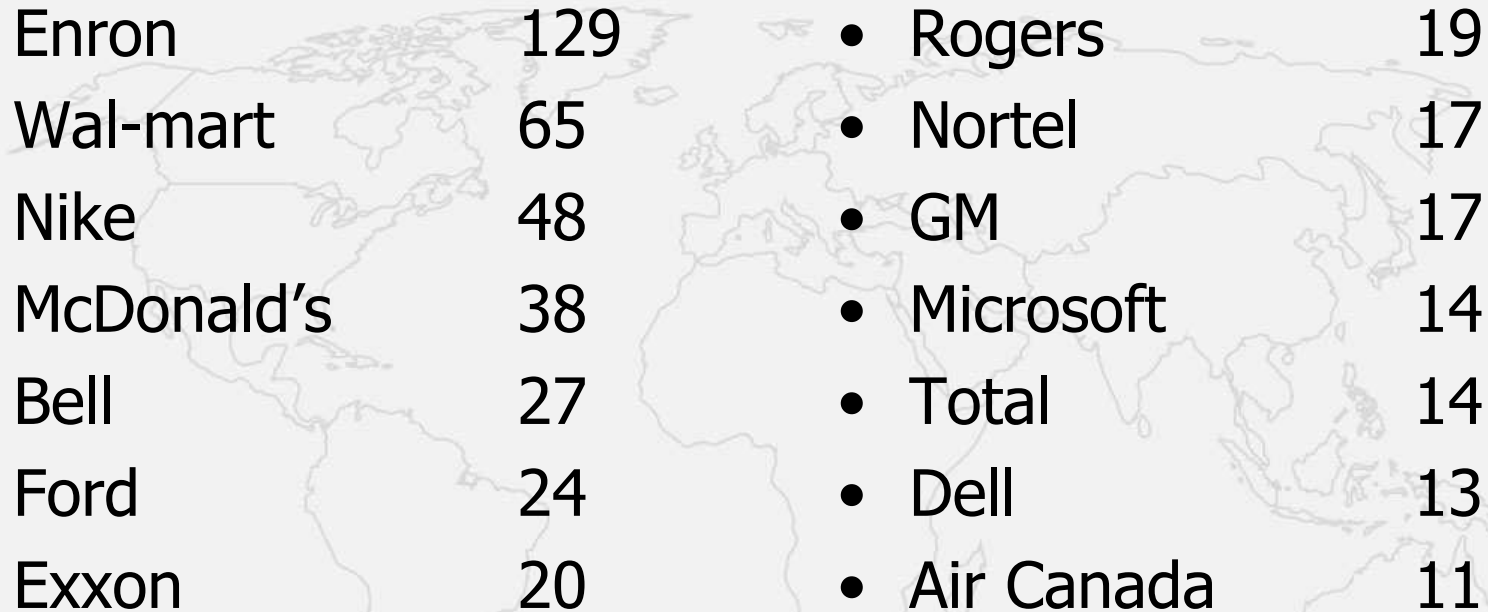
- Gender
  - Female 387 (48%)
  - Male 414 (52%)
- Age
  - Mean 29.08
  - Median 25
  - Mode 25
  - Range 68
    - Minimum 17
    - Maximum 85

# Good Companies



• Apple	50	• GE	16
• Microsoft	48	• Honda	15
• Google	25	• IKEA	13
• Coke	23	• Body Shop	13
• IBM	23	• Dell	11
• Toyota	20	• RIM	11
• Tim Horton	20	• Sony	10
• J&J	18	• Starbucks	10
• RBC	18	• L'Oreal	10

# Bad Companies



• Enron	129	• Rogers	19
• Wal-mart	65	• Nortel	17
• Nike	48	• GM	17
• McDonald's	38	• Microsoft	14
• Bell	27	• Total	14
• Ford	24	• Dell	13
• Exxon	20	• Air Canada	11

# Good & Bad Companies



Company	Good	Bad
• Microsoft	48	14
• Dell	11	13

# Importance in Determining The Reputation of an Organization

The Most Important only (Rank of 1)

- Innovation 9%
- Citizenship/CSR 21%
- Governance 6%
- Employee Engagement 10%
- Financial Performance 9%
- **Products & Services 48%**
- Emotional Appeal 6%

# Decision to Purchase

- Scale of 1-5 (not very to very important)
  - **Product Quality** **4.81**
  - **Price** **4.36**
  - **Trust** **4.19**
  - **Reputation** **4.16**
  
  - **Leader** **2.83**
  - **Vision** **3.04**
  - **Good Co to Work** **3.21**
  - **Awards/Recognition** **3.24**
  - **Financial Performance** **3.24**



# The Leger Marketing Reputational Drivers Study

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# Research Design

A random sample of 466 adults in the U.S. were contacted to complete a survey on-line from December 6<sup>th</sup> through December 12<sup>th</sup>. Respondents were asked to share with us some opinions they had regarding major companies. Respondents completed a 10 minute survey which asked of their awareness, and attitudes towards these brands.

Responses were weighted by AgeXGender to reflect the U.S. population at large based on the most recent U.S. Census data.

Unweighted

	Men	Women
<b>18-24</b>	10%	11%
<b>25-54</b>	15%	20%
<b>55+</b>	20%	22%

Weighted

	Men	Women
<b>18-24</b>	7%	6%
<b>25-54</b>	19%	19%
<b>55+</b>	23%	26%

# Research Design

	Unweighted	Weighted
Single, Never Married	31%	26%
Married	48%	52%
Divorced	10%	11%
Widowed	2%	2%
Separated	1%	1%
Living with Partner	8%	8%

	Unweighted	Weighted
Currently employed full time	49%	51%
Currently employed part time	16%	15%
Currently unemployed and seeking work	3%	4%
Currently unemployed and not seeking work	2%	2%
Homemaker	10%	10%
Retired	11%	12%
Student	9%	6%

	Unweighted	Weighted
Less than \$10,000 a year	5%	4%
\$10,000-\$14,999	5%	5%
\$15,000-\$24,999	9%	8%
\$25,000-\$34,999	11%	11%
\$35,000-\$49,999	18%	19%
\$50,000-\$74,999	23%	25%
\$75,000-\$99,999	13%	14%
\$100,000-\$124,999	5%	5%
\$125,000-\$149,999	2%	2%
\$150,000-\$174,999	1%	1%
\$175,000-\$199,999	1%	1%
\$200,000 or more	1%	1%
Refusal	5%	5%

# Driver Suite Methodology

- In this research we were interested in seeing what was driving reputation and corporate image. We asked 466 people, selected randomly, and weighted to reflect the population (age and gender weighted) to talk to us about a number of top U.S. companies. They evaluated companies across a series of attributes (taken from Leger's Global Reputation Index) and then were asked to rate their opinions of the companies overall and also tell us about their interest in doing business with these companies. The results of these scores were used to produce a suite of driver analyses.
- The Reputation Driver Analysis was run using four different analytical approaches, relying on the strengths of all four models to provide robust convergent driver results.
- **Methodologies:**
  - **Factor Analysis/Regression Combination:** This method is a two stage analysis which simulates the PLS (Partial Least Squares) technique.
  - **OLS Regression:** Stepwise regression is run on all the attributes with our reputation variables used as dependent variables.
  - **Segmentation Analysis:** This compares the mean attribute scores of two different segments. The first segment is those people who have a positive opinion of a company. The second group are those customers who do not have a positive opinion of that company. We then look at the gap between these groups. The larger the gap is, the more important we can infer the attribute is, in converting people from a negative to a positive reputation.
  - **Correlations:** These are simple bivariate correlations between the reputation dependent variables and each of the attributes. The stronger the relationship, the larger the correlation will be.
  - The results from each of the four methodologies is rebased and set to a maximum of 1.0 for comparability and then averaged to produce a final attribute score. Then we rank each score from highest to lowest to determine key drivers.

# Companies Evaluated

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- **Wal-Mart** (Retail)
- **Starbucks** (Food and Beverage)
- **Sony** (Electronics)
- **Dell** (Information Technology)
- **IBM** (Information Technology)
- **Amazon.com** (e-commerce)
- **Costco** (Retail)
- **Philip Morris** (Tobacco)
- **Honda** (Automotive)
- **General Electric** (Appliances, Many Others)
- **General Motors** (Automotive, Finance)
- **ExxonMobil** (Petroleum)
- **FedEx** (Courier)
- **Southwest Airlines** (Aviation)





# Company Performance

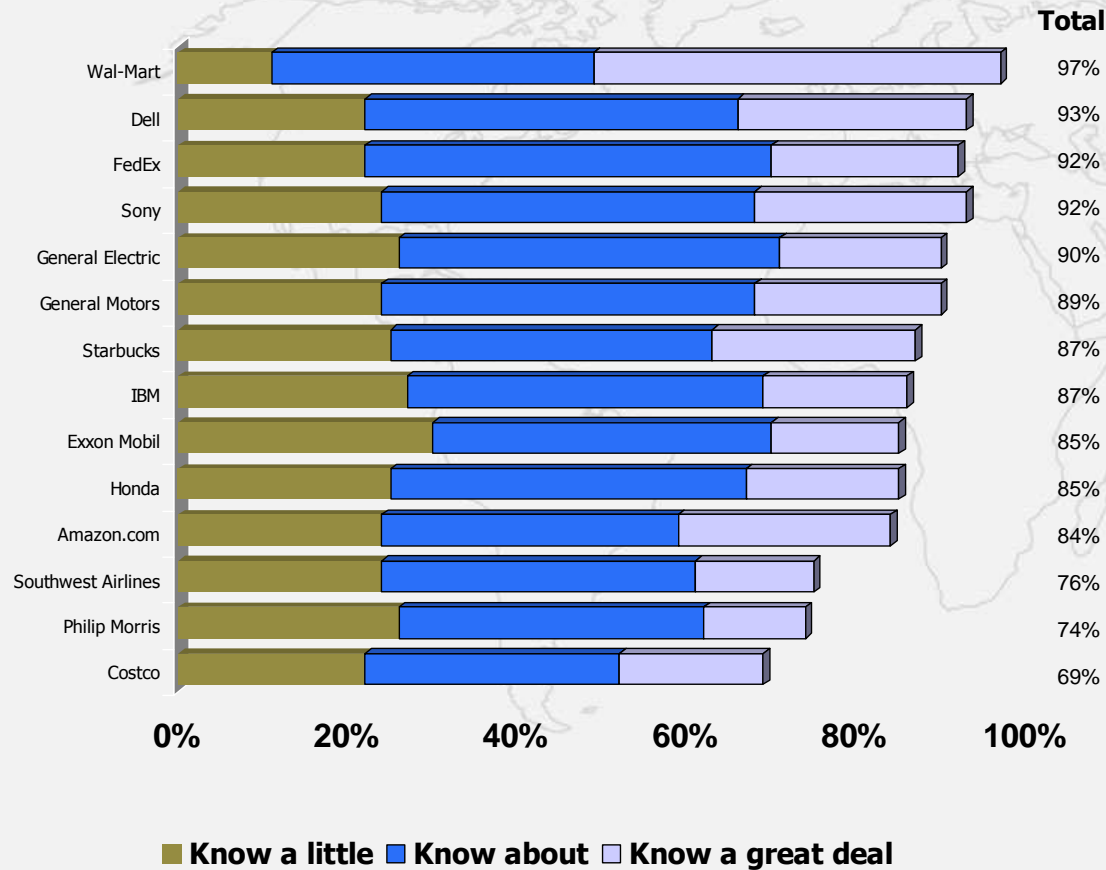
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# Company Awareness

## Awareness for Companies in Analysis



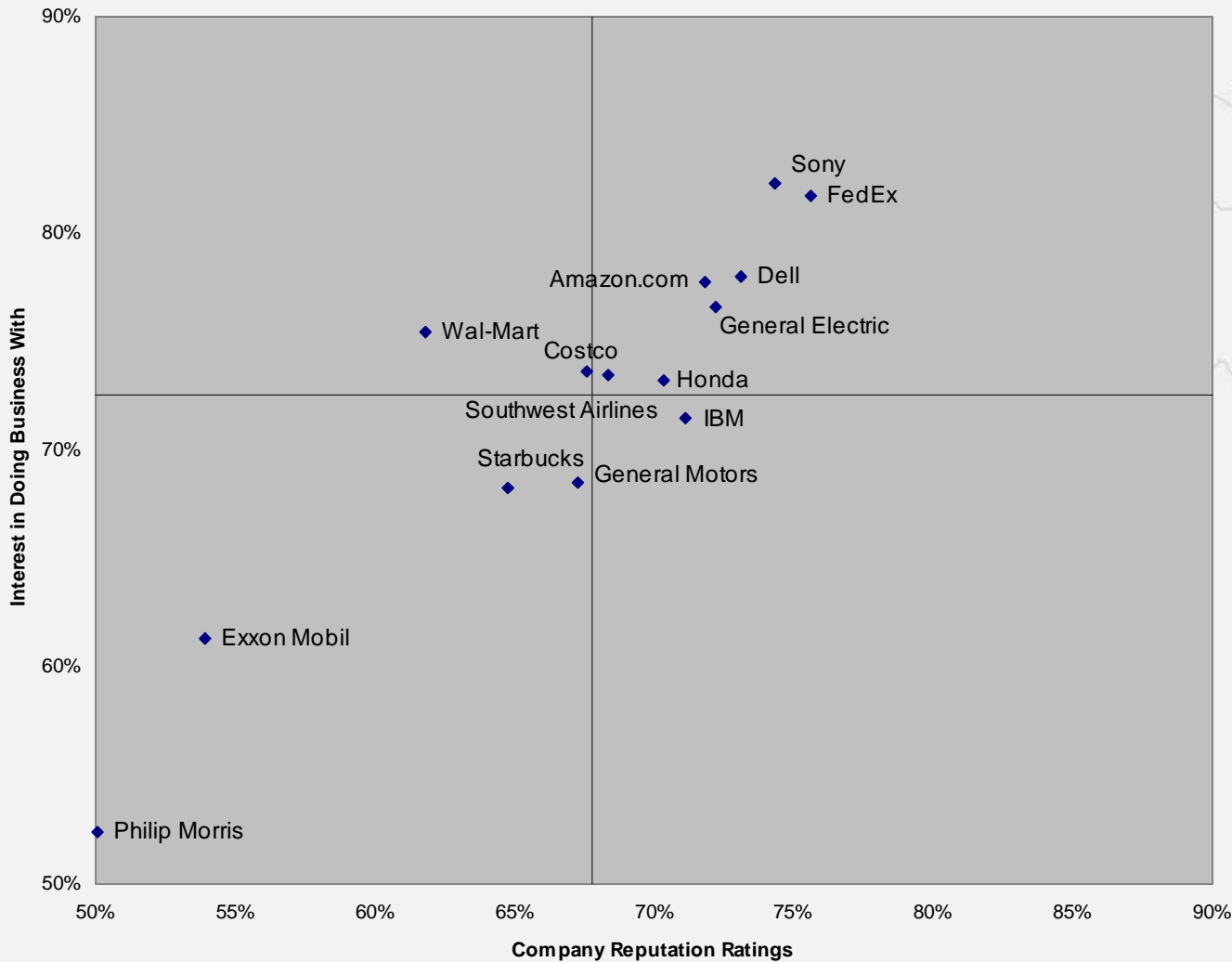
•Wal-Mart was the best known company in this research with all but 3% of respondents with some familiarity with it.

•Most of companies in this research are very well known. Costco, the company with the lowest familiarity, was still known by nearly 7 in 10 people.

Note: Sample size 466

# Company Performance: Comparison of Measures

Reputation and Interest in Doing Business With



Note: Sample size ranges from 435 to 466

•In general a pattern emerges demonstrating that interest in doing business with and reputation ratings are very closely related.

•However, Wal-Mart has a lower reputation but a positive interest in doing business with.





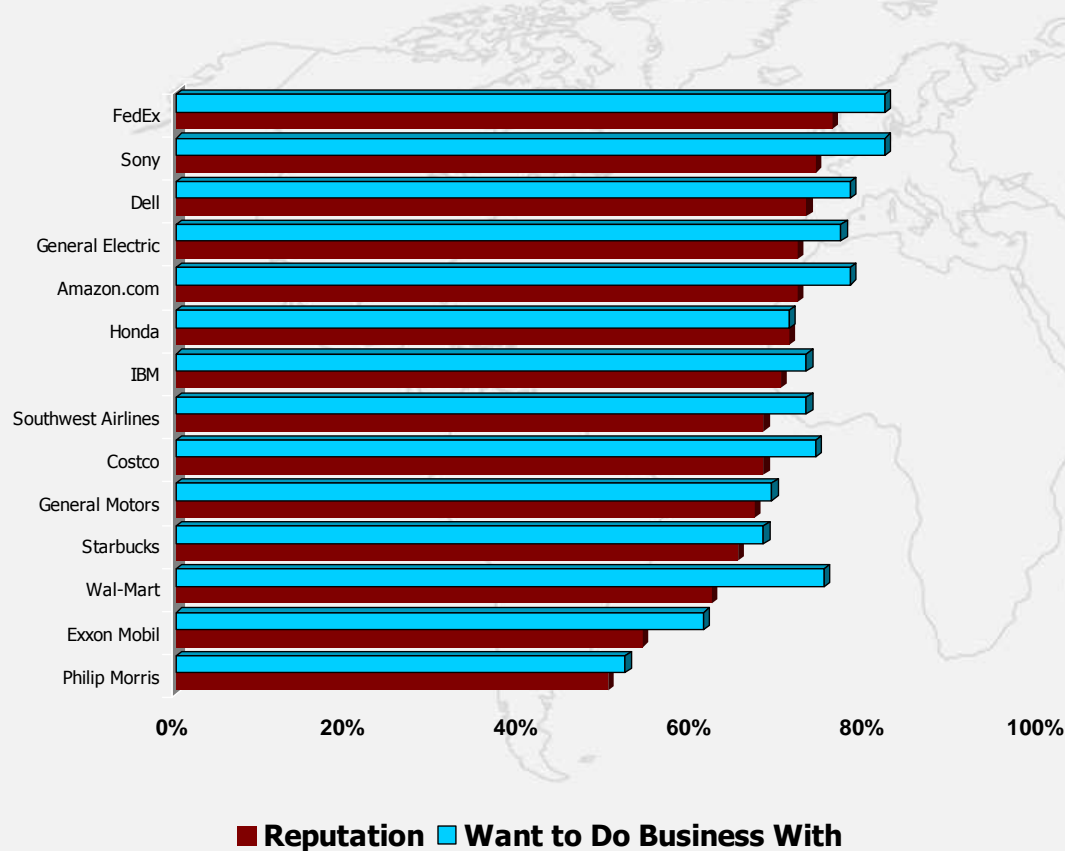
# Drivers of Reputation

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# Company Performance: Comparison Of Measures

## Reputation Ratings for Companies in Analysis

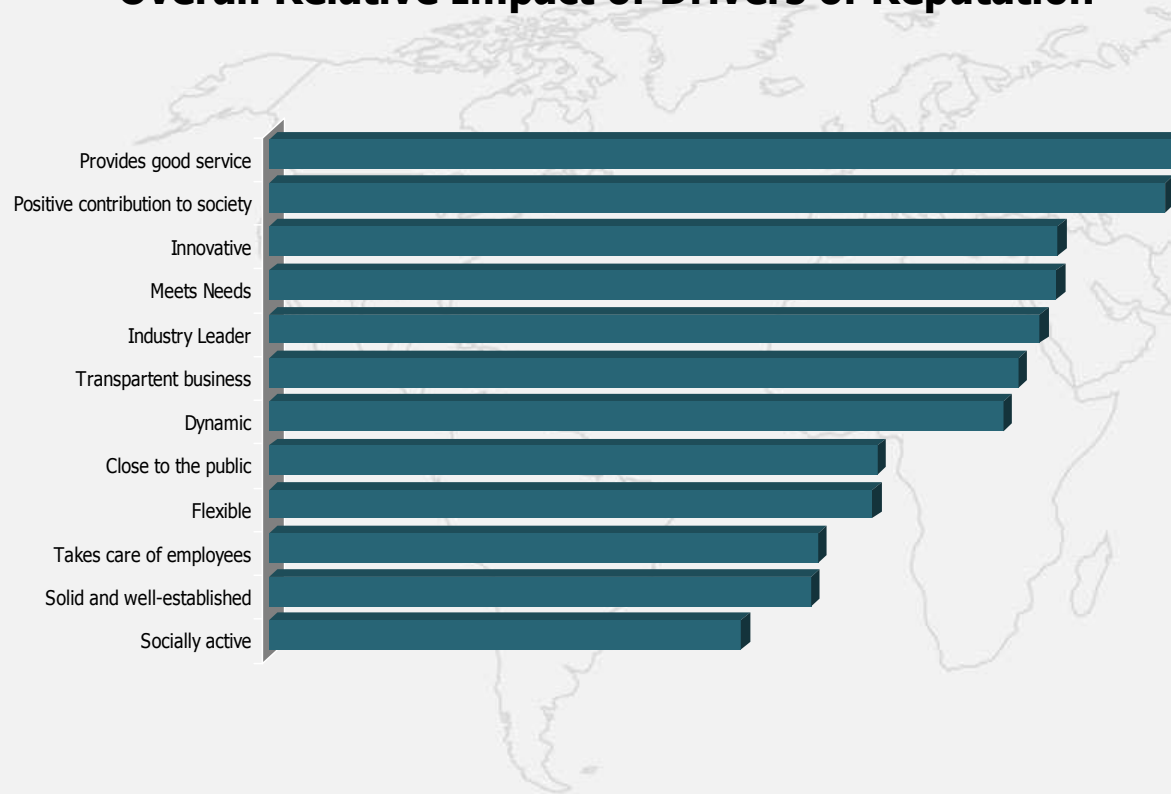


- Relative to the other drivers, providing good service is most important for having a strong reputation.
- Less important is how socially active a company is, how well-established they are and how they take care of their employees.
- It is interesting to note how highly offering a positive contribution to society rates.
- Focusing on good, innovative service while being seen as making a positive contribution to society appears to be the best global approach to building a strong reputation.

Note: Sample size ranges from 435 to 466

# Drivers of Reputation: Derived Importance

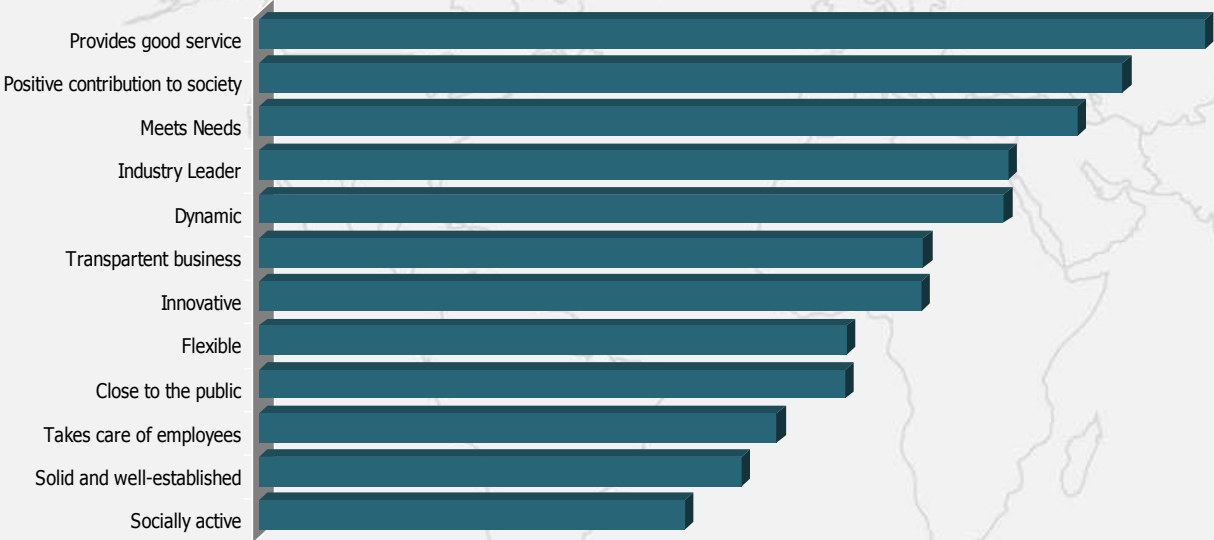
## Overall Relative Impact of Drivers of Reputation



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# Drivers of Reputation: Derived Importance

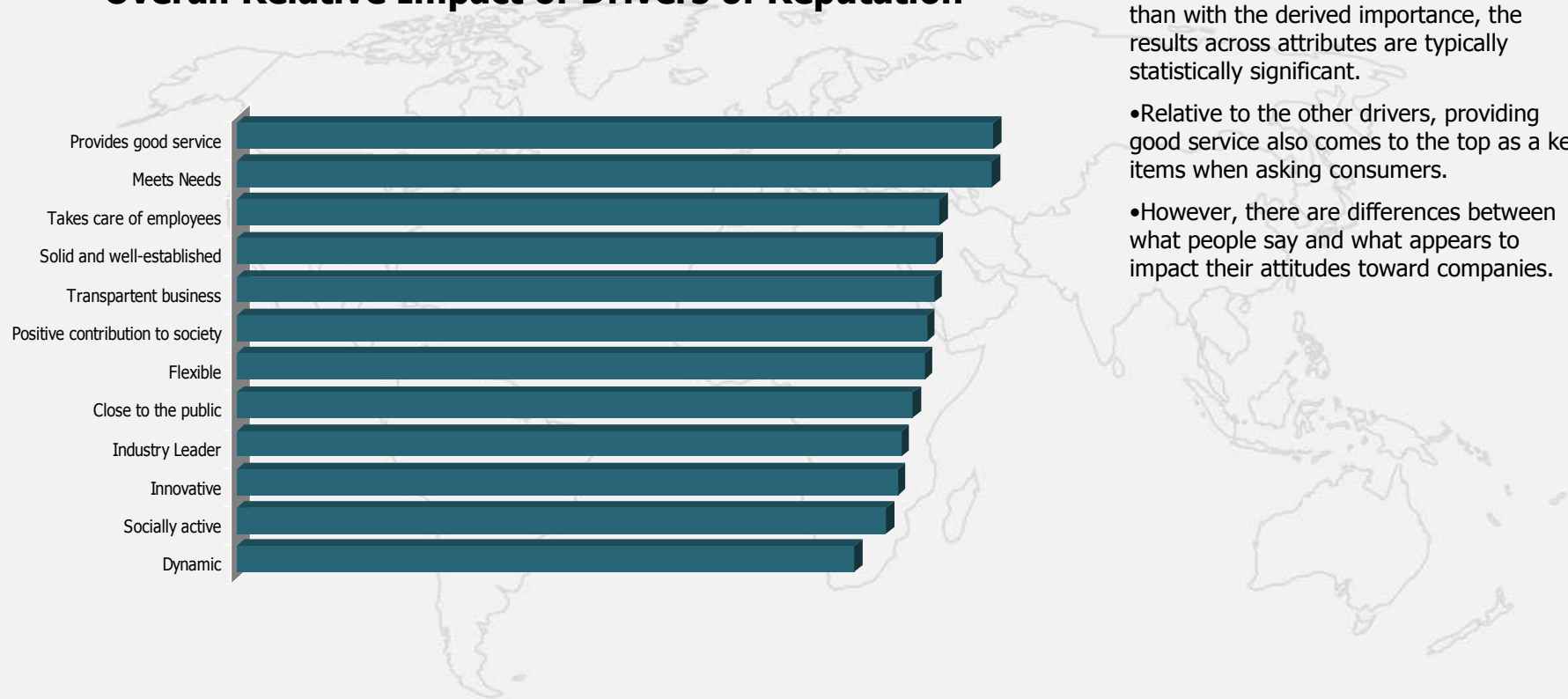
## Overall Relative Impact of Drivers of Want to Do Business With



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# Drivers of Reputation: Stated Importance

## Overall Relative Impact of Drivers of Reputation



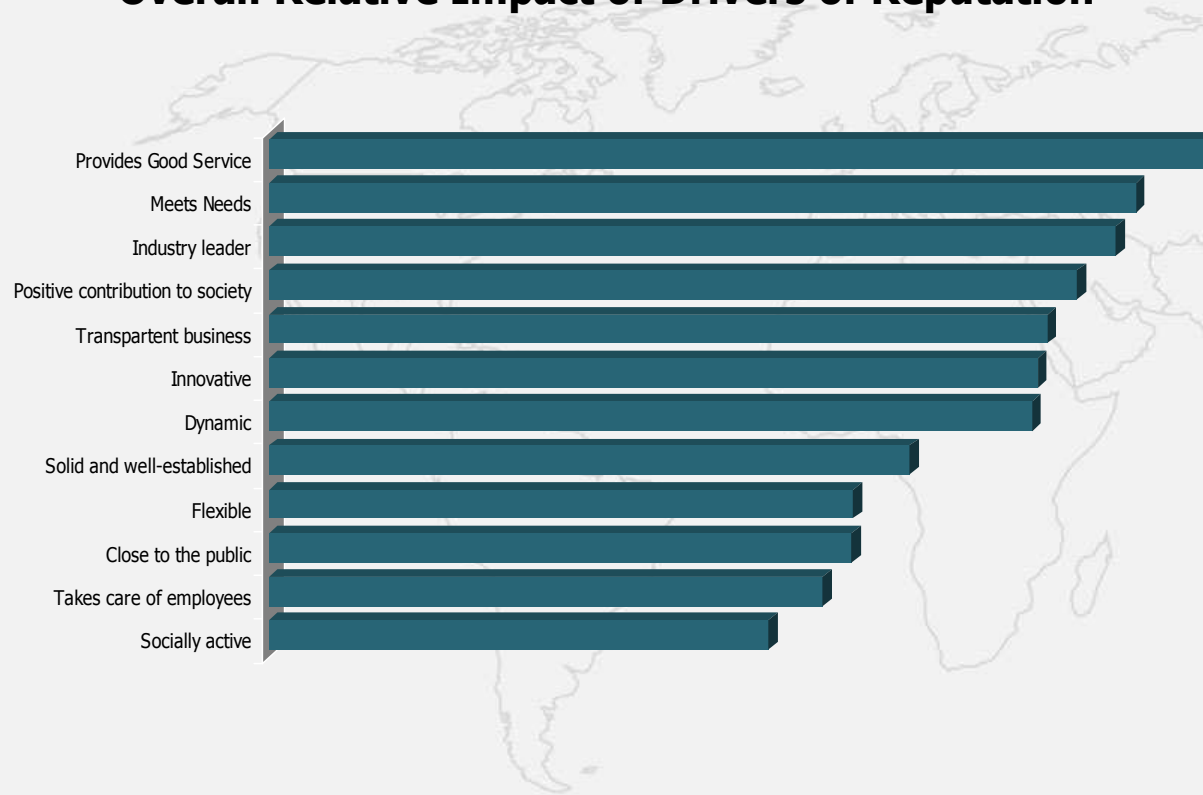
•While the difference looks more muted than with the derived importance, the results across attributes are typically statistically significant.

•Relative to the other drivers, providing good service also comes to the top as a key item when asking consumers.

•However, there are differences between what people say and what appears to impact their attitudes toward companies.

# Drivers of Reputation: Removing Negative Brands

## Overall Relative Impact of Drivers of Reputation



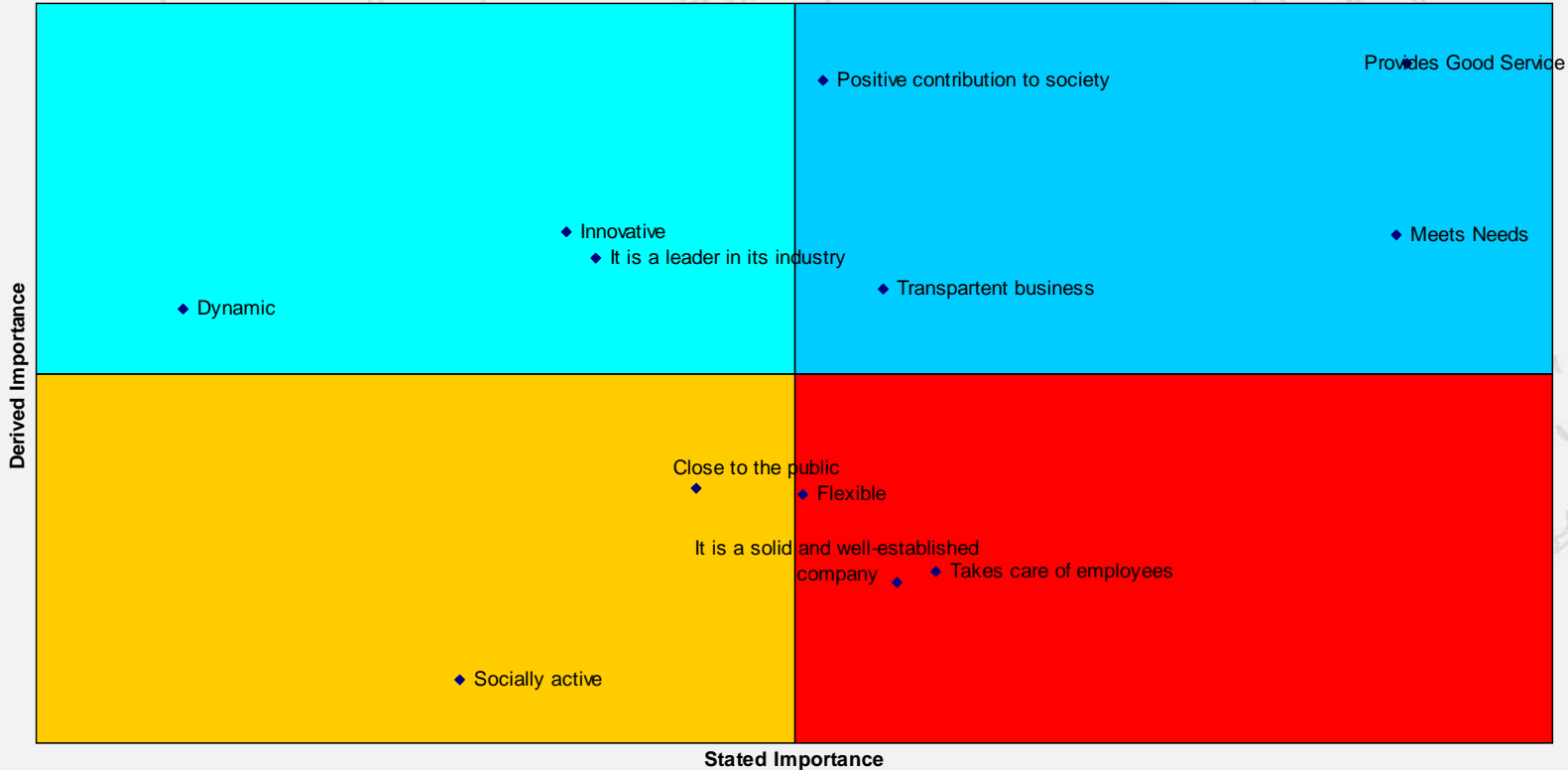
•This analysis removes Phillip Morris and ExxonMobil to try to understand if they have been driving the "Positive Contribution" attribute. While it drops from the number 2 attribute it remains high even without those negative brands.

•We maintain the importance of keeping the negative brands in the full analysis because understanding what drives negative reputation is as important as understanding what is driving the positive.

# Drivers of Reputation: Comparison

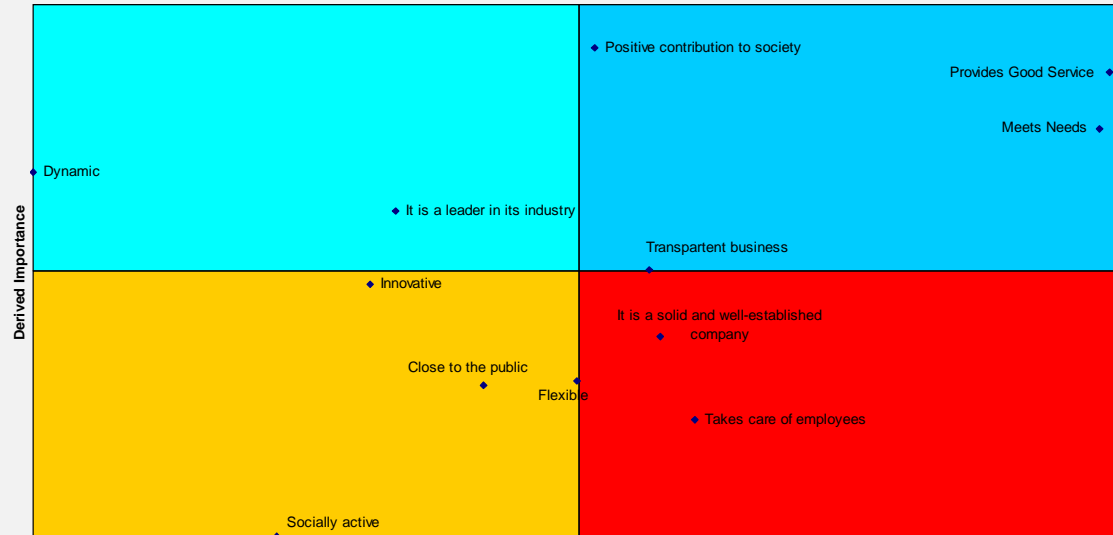
- As seen, providing good service is understood as a key driver of reputation and our analysis suggests this is true.
- People state than taking care of employees is relatively important, derived importance actually says it is among the least important attributes when evaluating a company’s reputation.

Quadrant Chart of Derived and Stated Importance



Note: Derived importance for this analysis is based on Reputation ratings.

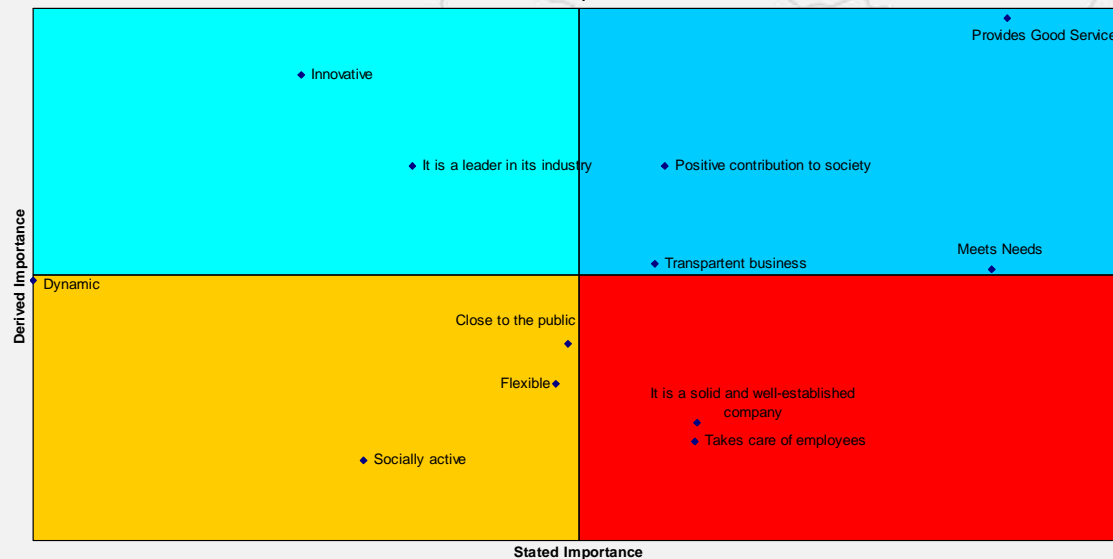
# Drivers of Reputation: Comparison Across Gender



Men

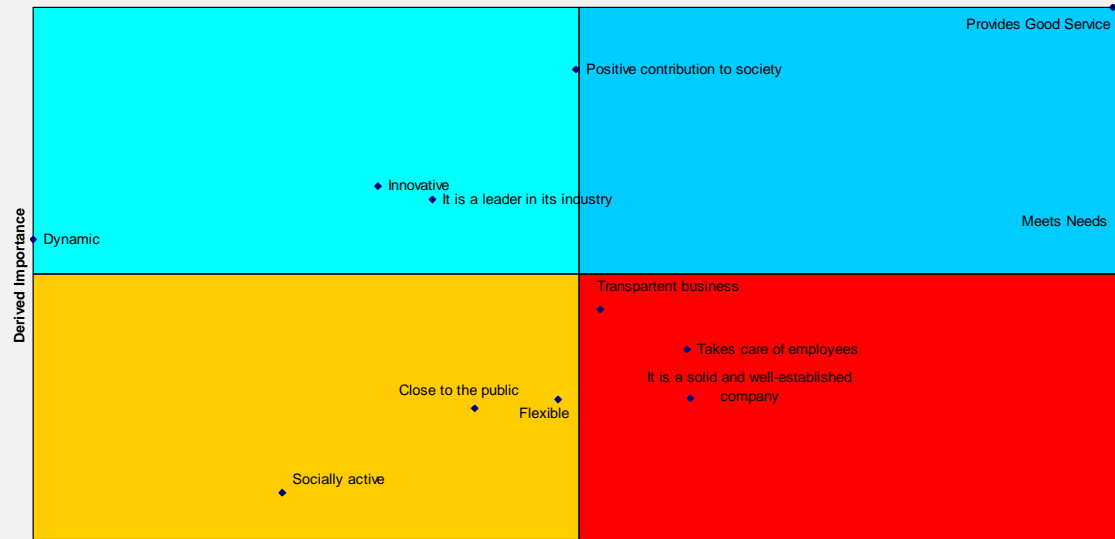
- Relatively speaking, believing a company makes a positive contribution to society has more of an impact on men's ratings of companies than women's.

- Women and men both believe that how innovative a company is ranks fairly low in importance. However innovation appears to be a key driver of reputation for women.



Women

# Drivers of Reputation: In the Workforce or Out



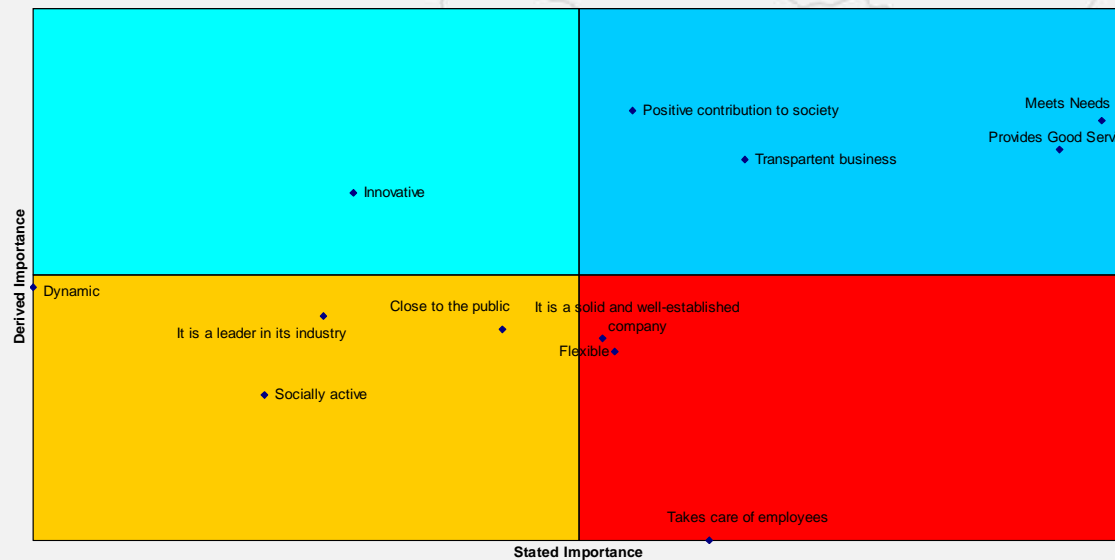
Employed or Looking for work

- Both those in the workforce and outside of it state that how a company treats employees is important in reputation.

- Those out the workforce demonstrate that despite what they say, how a company treats employees has little impact on their evaluations of companies.

- Industry leadership has a higher derived importance for those in the workforce than those outside it.

- Transparency is a critical issue for those out of the workforce while less so for those in the workforce.



Out of the Workforce (Retired, Student, Homemaker)

# And Finally...

To improve reputation and performance:

- Recognize reputation is a strategic issue
- Set up a structure for reputation management
- Measure beyond image & identity
- Identify what drives satisfaction & performance
- Identify what needs improvement
- Establish specific courses of action
- Support the ideas for changes (internally)
- Communicate the changes (externally)
- Measure the changes (in time)

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