

Ludwig-Maximilians-Universität München – European Centre for Reputation Studies (ECRS)

# Recognition or Rejection — How a Company's Reputation Influences Stakeholder Behavior

Rome, October 24th, 2008

**Prof. Dr. Manfred Schwaiger, Sascha Raithel & Matthias Schloderer**

ECRS European Centre for Reputation Studies  
Kaulbachstraße 45/I, D-80539 München

Phone: +49 89 2180-5640  
Fax: +49 89 2180-5651  
E-Mail: [info@reputation-centre.org](mailto:info@reputation-centre.org)  
[schwaiger@lmu.de](mailto:schwaiger@lmu.de)  
Internet: [www.reputation-centre.org](http://www.reputation-centre.org)



# Agenda

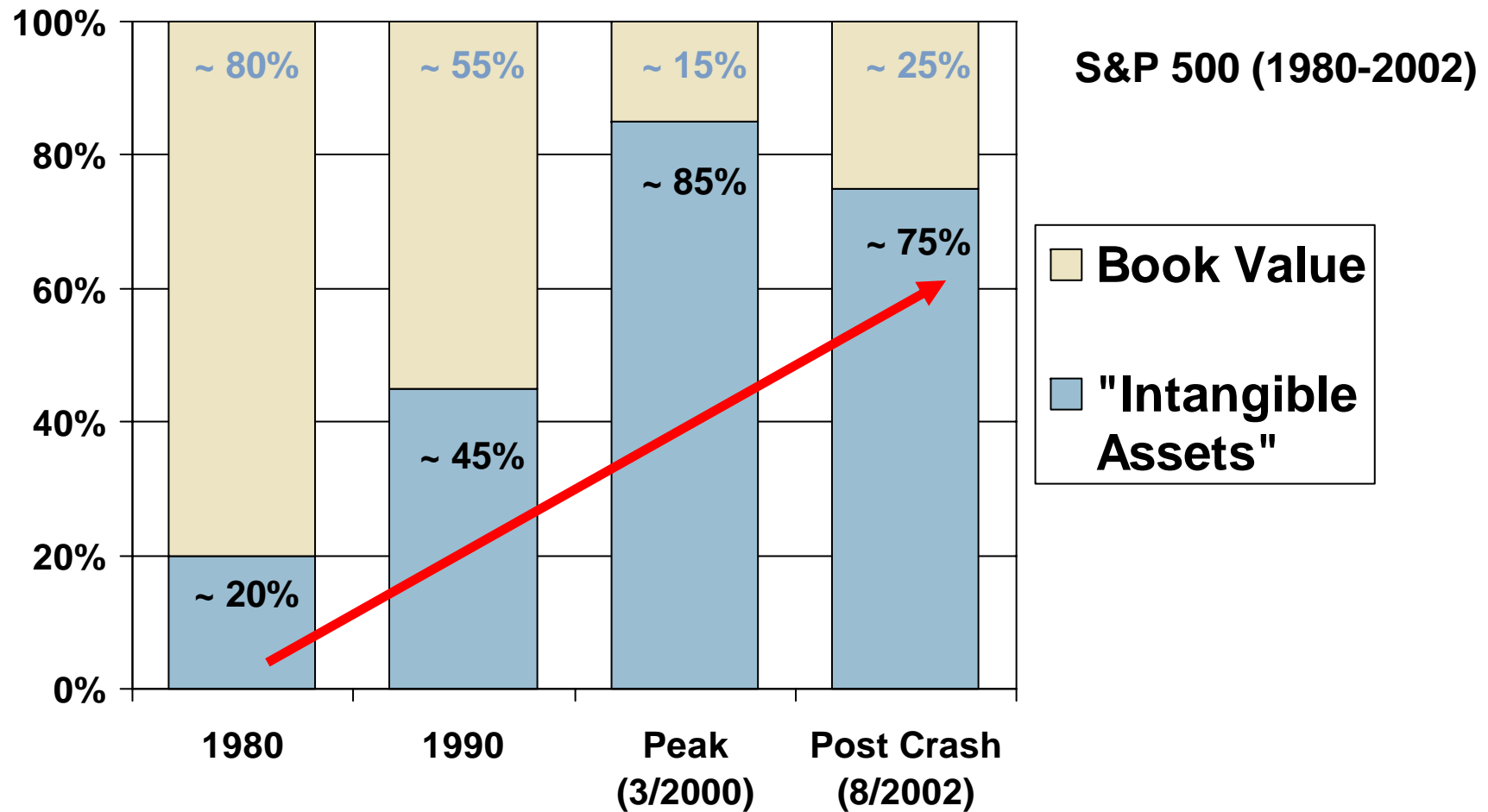
1. Reputation as a Management Objective
2. Our Approach of Corporate Reputation Management
3. Reputation and Capital Market Performance
4. Reputation and the War for Talents

Backup

# 1. Reputation as a Management Objective



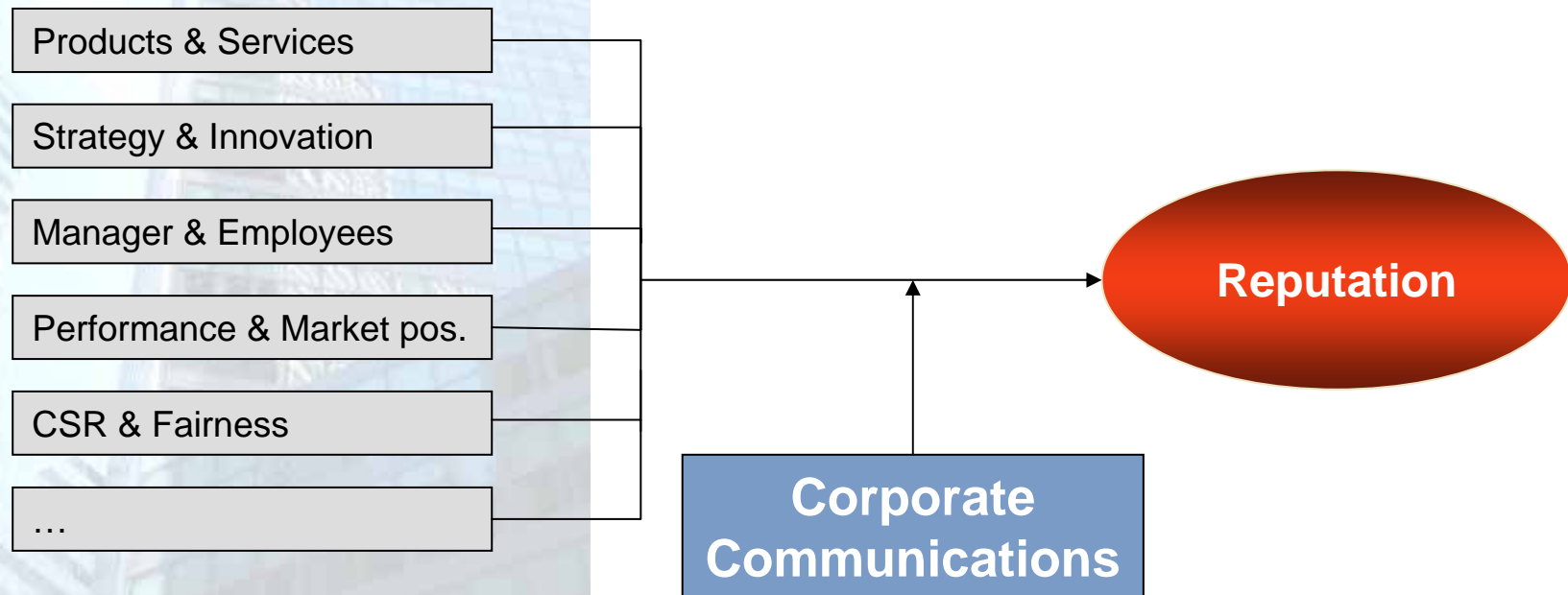
# A company's market value can hardly be derived from tangible assets...



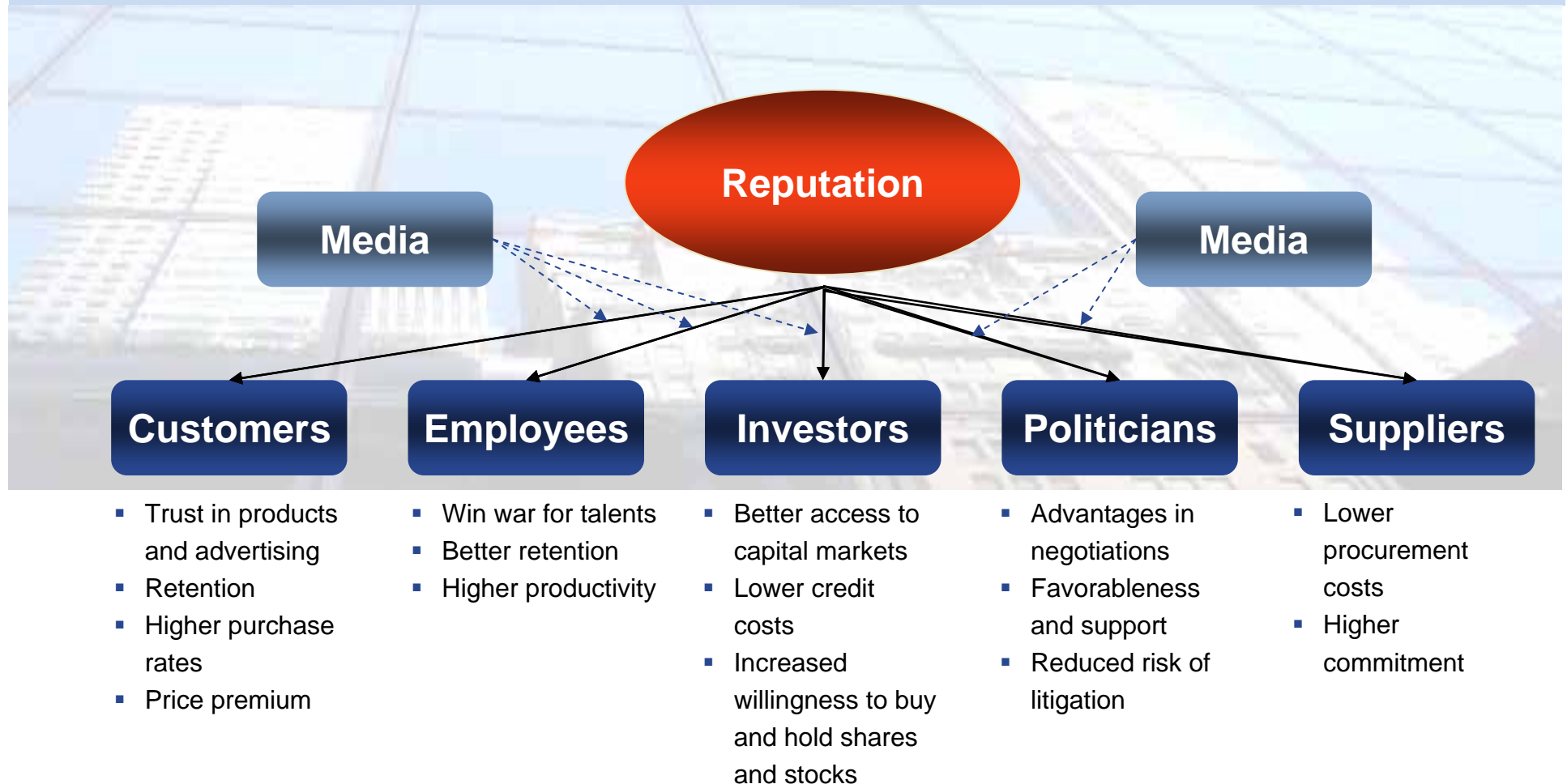
Source: John Ballow/Roland Burgman/Göran Roos/Michael Molnar: "A New Paradigm for Managing Shareholder Value, July 2004, p. 7  
 Lev, Baruch: Intangibles: Management, Measurement, and Reporting," Brookings Institution Press, 2001  
 Lev, Baruch: Remarks on the Measurement, Valuation, and Reporting of Intangible Assets. Economic Policy Review, Sept. 2003

## ... the central intangible asset is a company's corporate reputation

**Reputation:** general evaluation of a company by its various stakeholders. Incorporates both, **cognitive and emotional components**. An assessment of reputation is based on **factual experiences** as well as on **perceptions** relying on communicated messages.



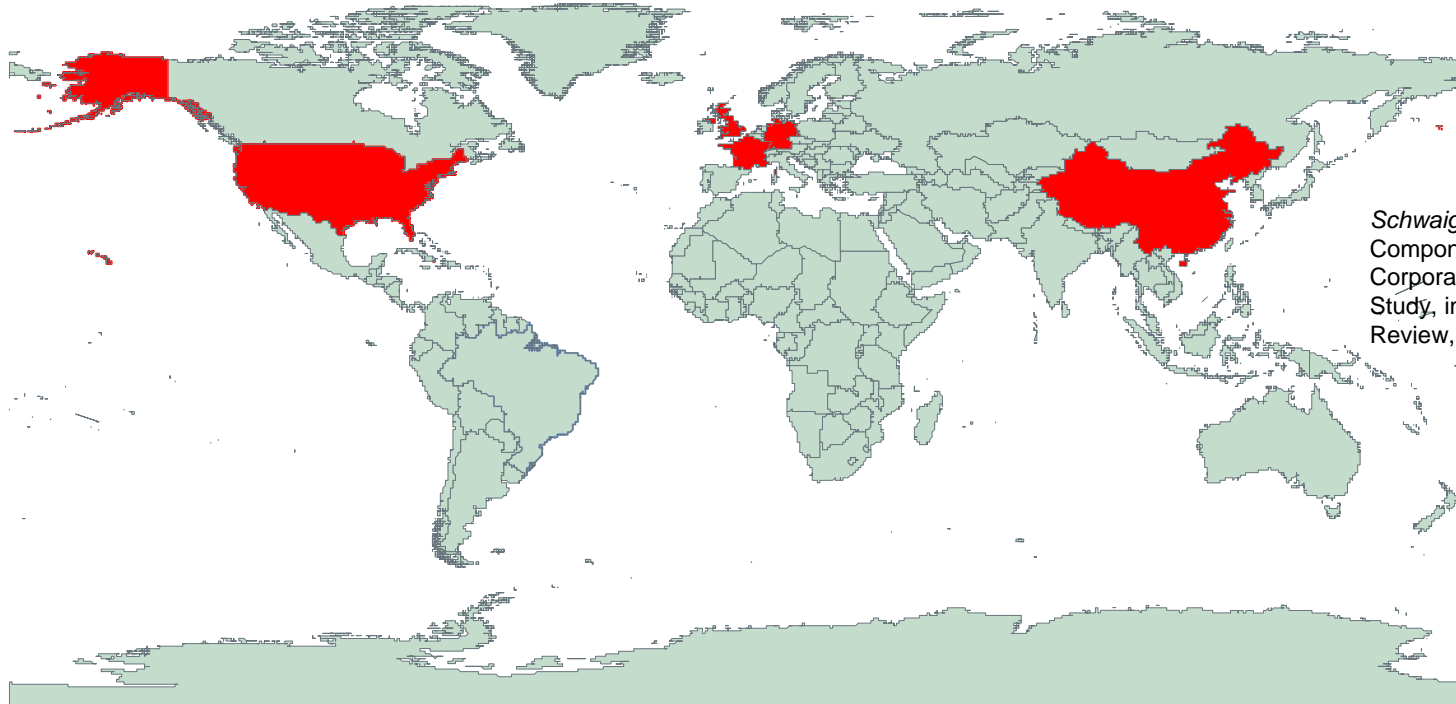
# Companies build competitive advantages and increase their market value by fostering reputation



## 2. Our Approach of Corporate Reputation Management



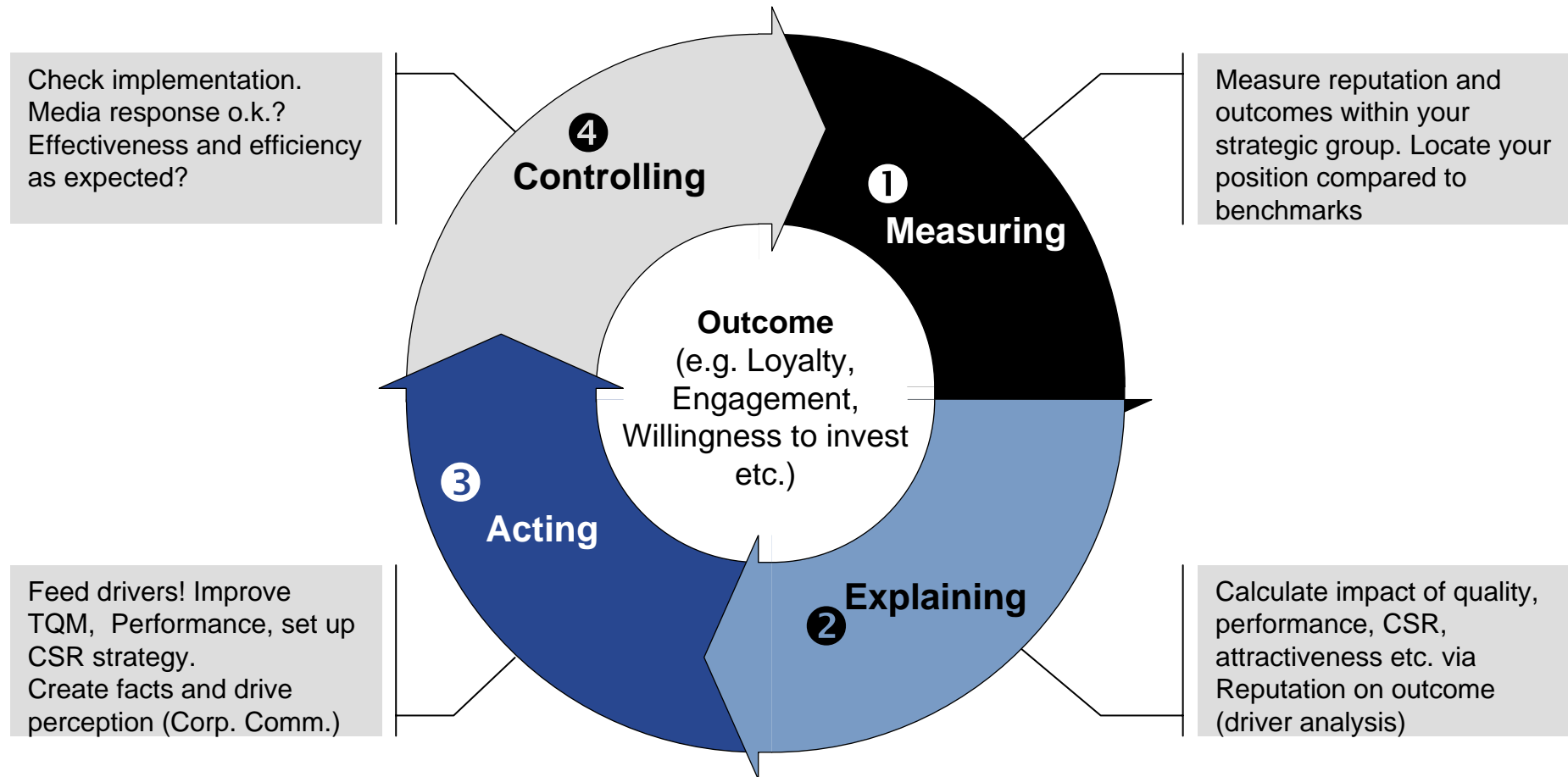
# Our reputation model is based on a multinational study and has been taken over by many blue chip companies



Schwaiger, M. (2004):  
Components and Parameters of  
Corporate Reputation – an Empirical  
Study, in: Schmalenbach Business  
Review, Vol. 56, S. 46-71



# Reputation is not a goal in itself. It has to be linked to important outcomes and enable their management!



# First Step: Measuring reputation

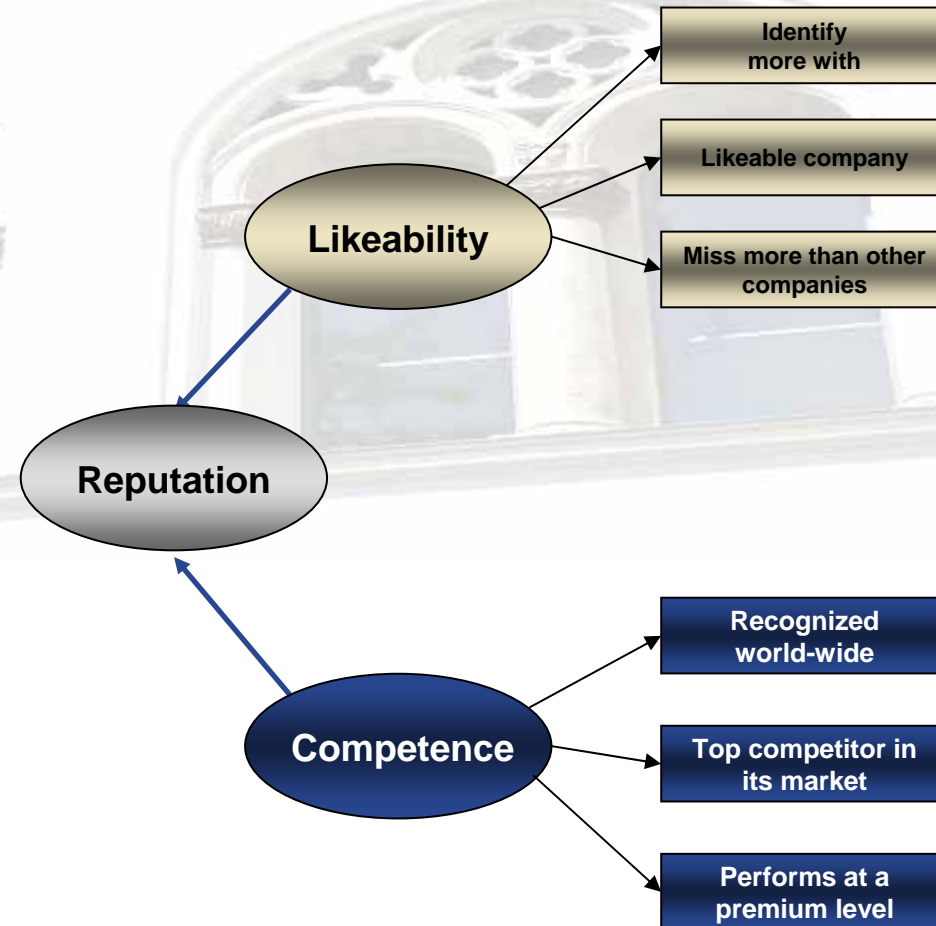
## Design of the study

General public: CATI  
Opinion leader: CAPI  
Recruiting Market: Online

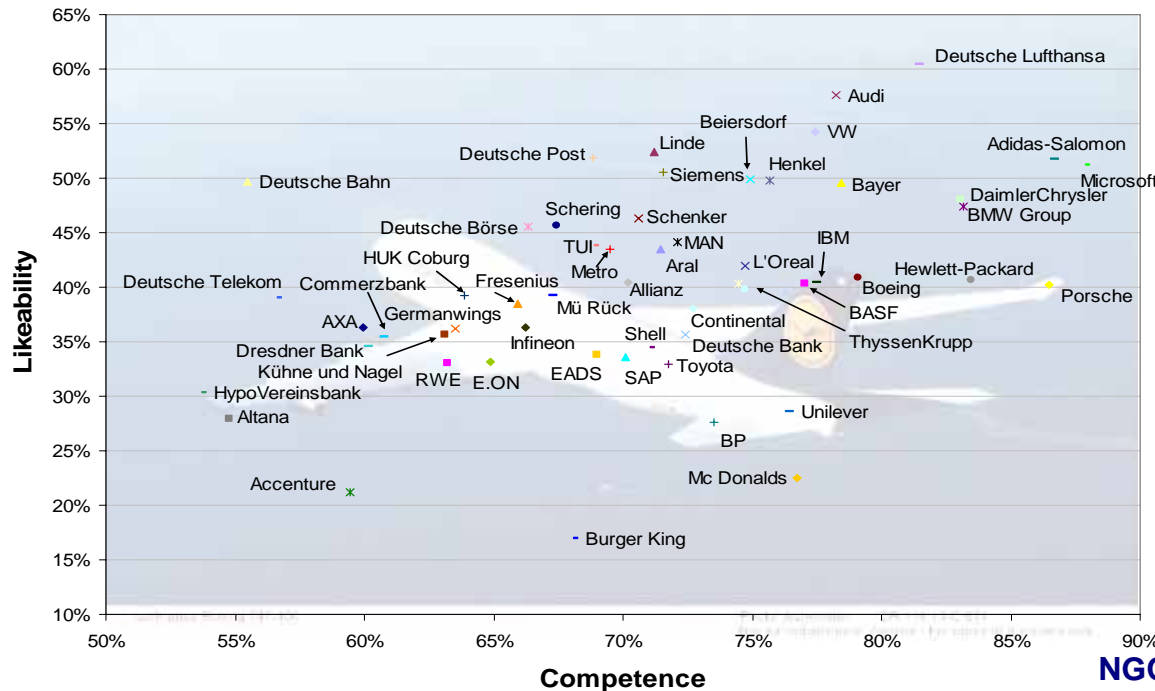
Data collection:  
TNS Infratest

About 2.000 / 300 / 2000  
interviews, 50-60 companies

Companies selected for  
evaluation have to be known  
at least by name

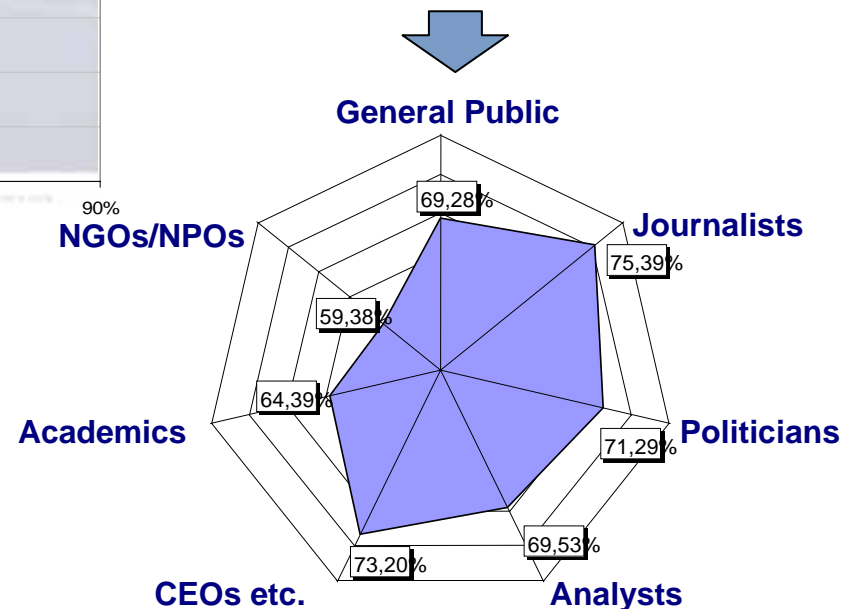


# Measurement results: Reputation Portfolio and Target Group Monitor



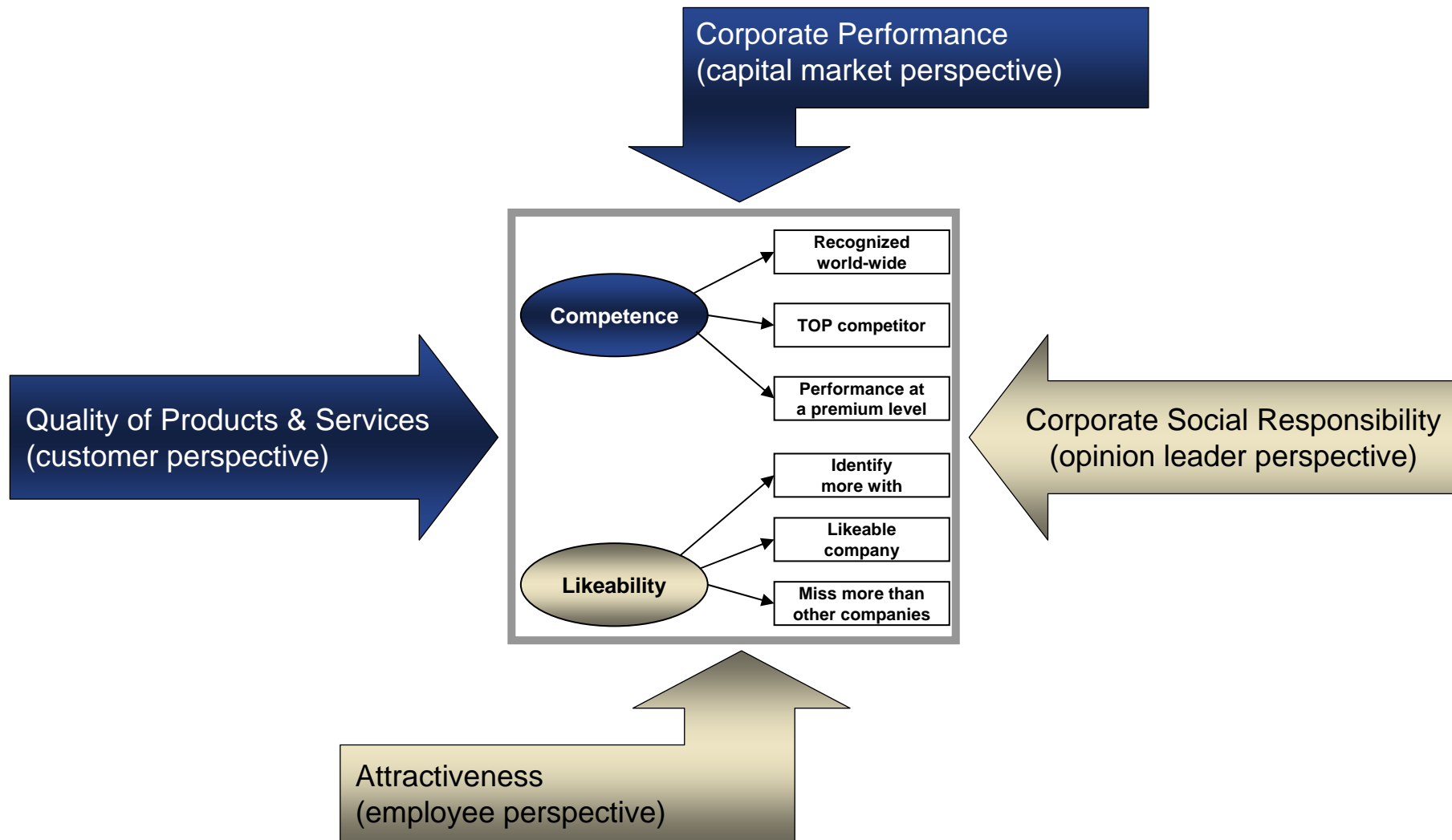
Reputation Monitor:  
Perception of Likeability and Competence of one  
selected stakeholder group  
(currently: 55 companies)

Target Group Monitor:  
Reputation of a company in all  
surveyed stakeholder groups



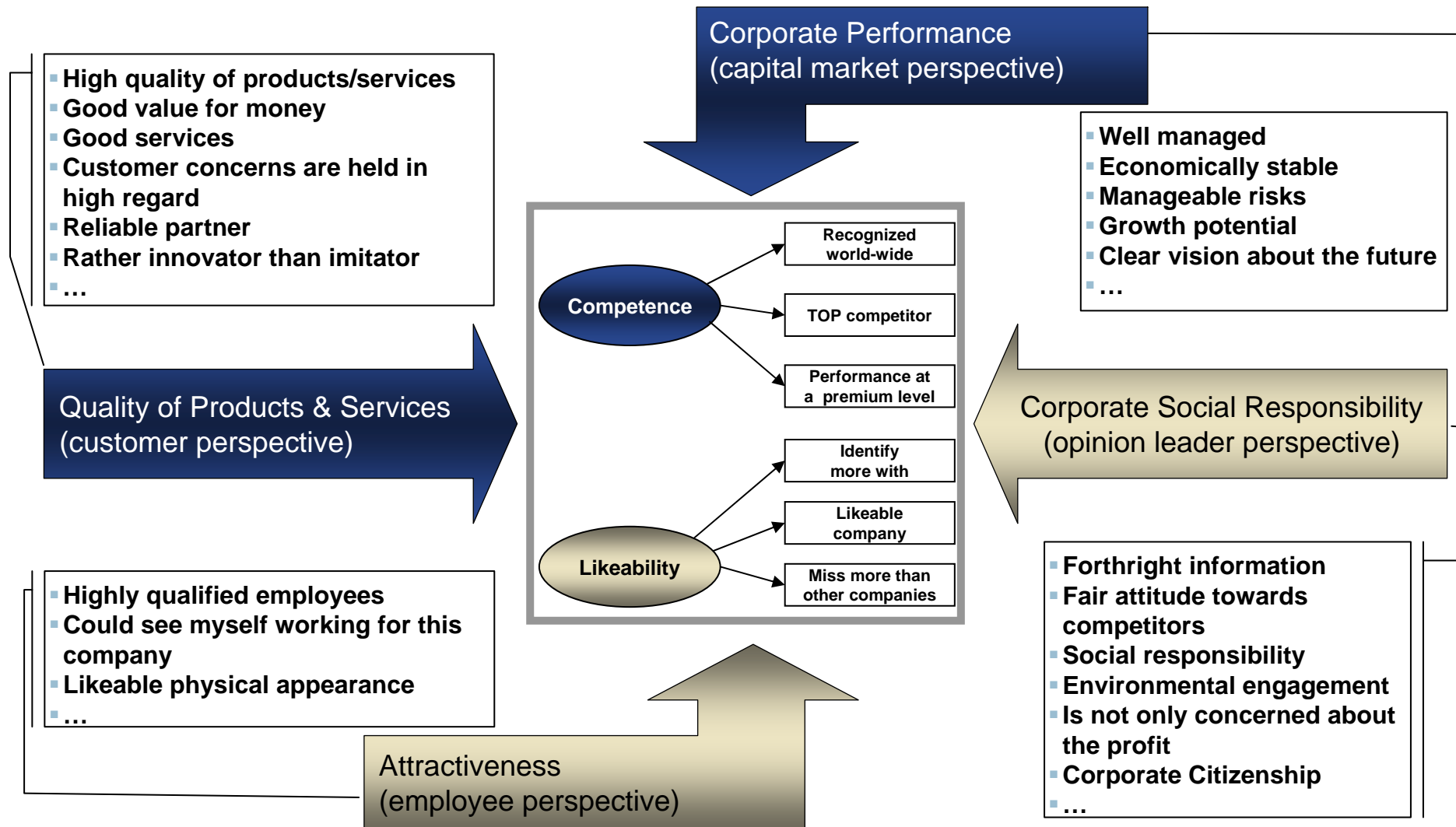
## Second Step: Analyzing reputation drivers

4 dimensions cover the main stakeholder groups

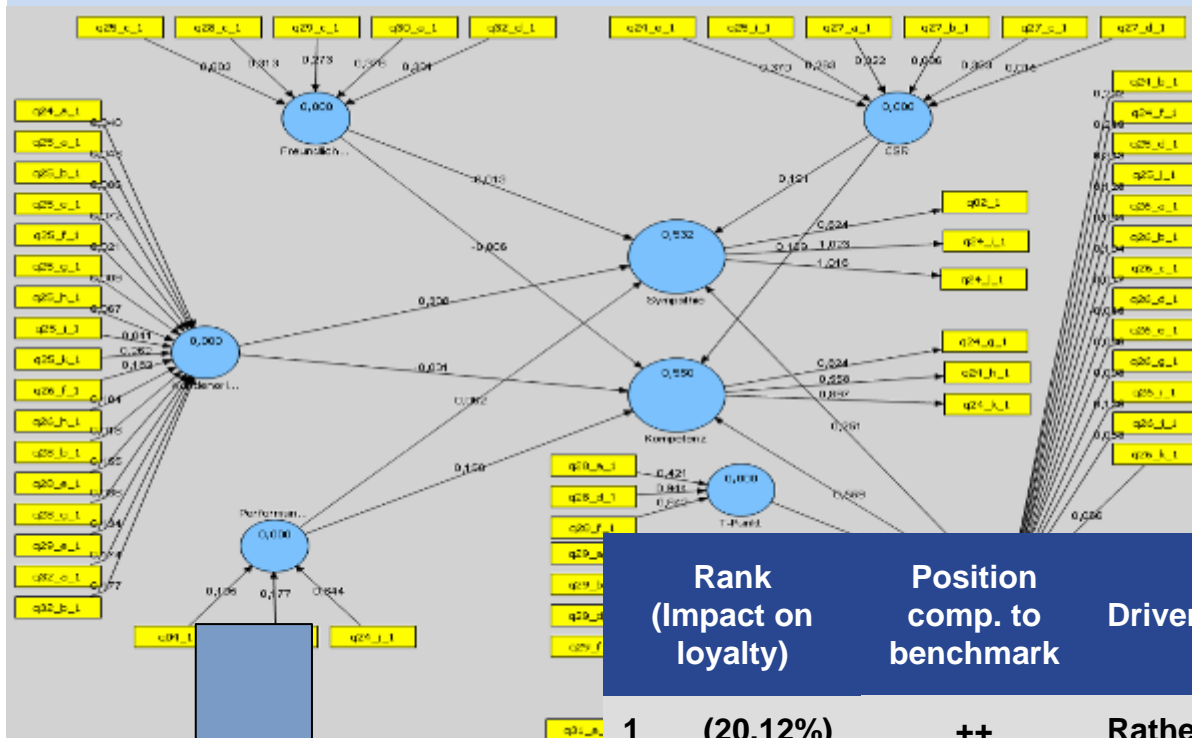


# Second Step: Explaining reputation

For every dimension drivers are deposited



# By means of structural equation models we calculate impacts via PLS analysis



	Rank (Impact on loyalty)	Position comp. to benchmark	Driver	Factor
1	(20.12%)	++	Rather innovator than imitator	Quality
2	(16.74%)	-	Well managed	Performance
3	(12.70%)	o	Customer centricity	Quality
4	(6.68%)	+	Physical appearance	Attractiveness
5	(6.22%)	--	Sincere information	CSR
6	...		...	...

## Third Step: Derive recommended actions from driver rankings and competitive positions...

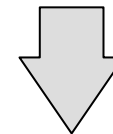


### For example:

indicator 7: „well managed“

Indicator has high influence on customer loyalty (via reputation) and is less developed than for the other benchmarks. This driver has to be worked on.

exemplary

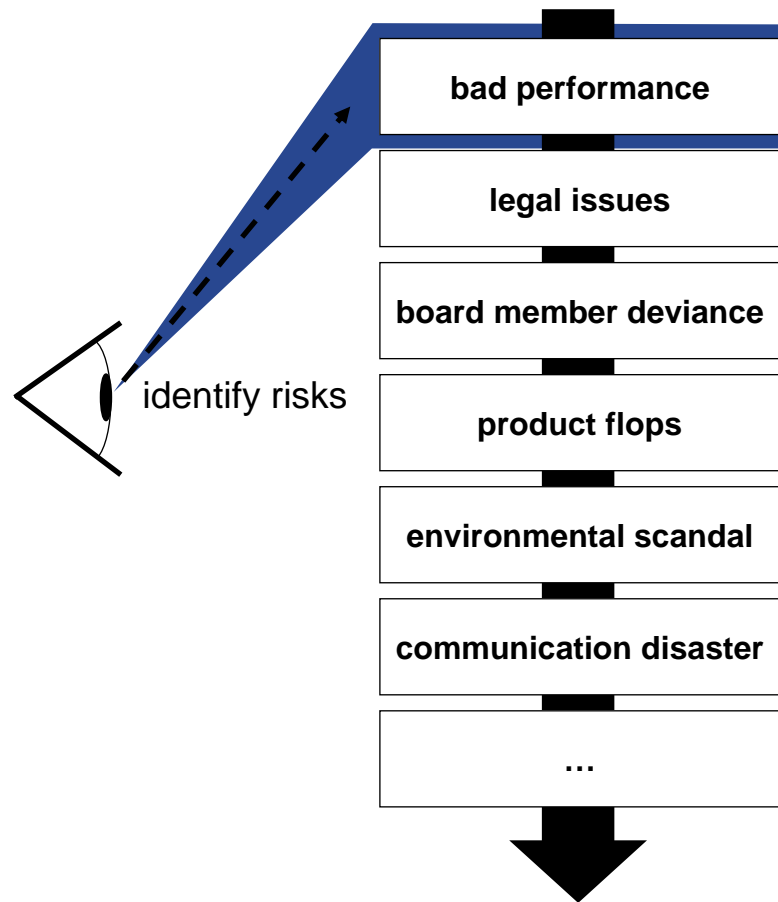


2006 Strategist of the year

Dimension 1 = impact on outcome

Dimension 2 = position in the strategic benchmark group

## ... analyze risks, develop strategic communication guidelines and implement them creatively



# Fourth Step: Controlling Measures

## pretest – media resonance analysis - posttest

Das Anzeigen aktiver Inhalte, die auf den Computer zugreifen können, wurde für diese Datei aus Sicherheitsgründen ein...

### Reputation Tool - Demonstration

Institut für Marktorientierte Unternehmensführung der LMU München  
[www.imm.bwl.uni-muenchen.de](http://www.imm.bwl.uni-muenchen.de)

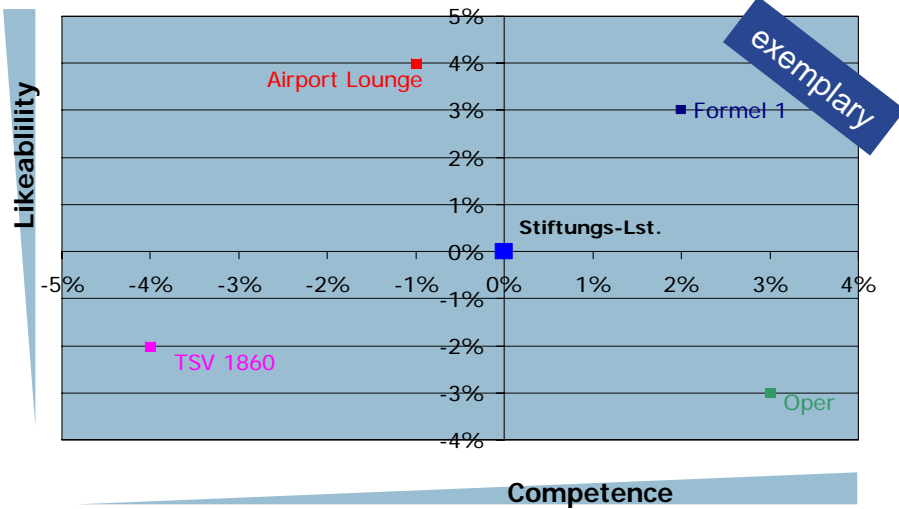
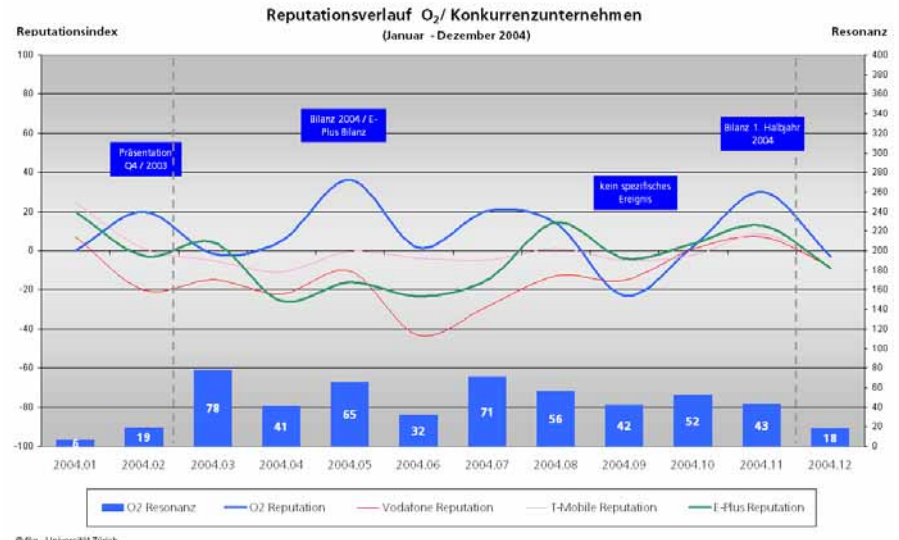
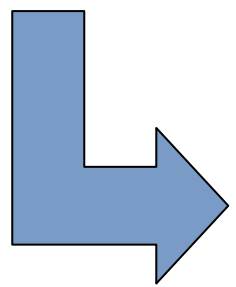
Nachfolgend können Sie den erwarteten Reputationseinfluss einzelner Maßnahmen beurteilen und mit dem Reputation Score bewerten, der sich zwischen 0 und 10 bewegt. Und so gehen Sie vor: Bewerten Sie auf der Skala von 0 bis 10, wie stark die einzelnen Aussagen auf die betrachtete Maßnahme zutreffen. Nach Beantwortung aller Fragen berechnen sie mit Klick auf "Angaben auswerten" den Reputationsscore.

**ACHTUNG:** Die hier genannten Indikatoren sind lediglich beispielhaft dargestellt. Ebenso ist in diesem Beispiel noch keine sinnvolle Gewichtung der Reputationstreiber hinterlegt. Die Gewichte werden später aus der Treiberanalyse ermittelt.

**Die Maßnahme...**

...transportiert Zukunftsfähigkeit und Innovationsanspruch: (Details)  
 Bedeutung: ●●●●○

...prägt die Reputationsidentität durch deutliche Wettbewerbsabgrenzung: (Details)  
 Bedeutung: ●●●●○



# 3. Reputation and Capital Market Performance



# Understanding Stock Market Performance - Reputation Counts

— Top25% Reputation      — Medium50% Reputation      — Bottom25% Reputation  
— DAX Performance-Index      — Top25% Outperformer of previous wave

Portfolio vs. DAX 30	Last price	Max. delta	Min. delta	Avg. delta	Beta
<b>Top25% Reputation</b>	139.6	39.8	0.0	17.5	0.78
Middle50% Reputation	111.5	3.7	-11.4	-2.5	0.98
<b>Bottom25% Reputation</b>	102.0	3.8	-19.3	-4.8	0.83
Average	117.7	15.7	-10.2	3.4	0.87
Top25% prev. Outperformer	138.6	29.4	-3.4	12.5	0.73
<b>DAX</b>	<b>118.7</b>				

Better than average  
Worse than average



Portfolio definition: Stocks are equally weighted, portfolio is updated after each wave  
 Reputation measurement (waves): 2005-12, 2006-06, 2006-12, 2007-06, 2007-12  
 Surveyed individuals: General public

DAX: 27 companies are included as surveyed in each of the waves  
 Stock price data source: DATASTREAM  
 Timeframe: 30th December to 30th June 2008

# Comparing Reputation between Stakeholder Groups: Wisdom of the Crowd

Top25% Reputation Portfolio	Last price 30-Jun-08 [Base: 100 on 30-Dec-05]	Max. delta vs. DAX [% points]	Min. delta vs. DAX [% points]	Avg. delta vs. DAX [% Punkte]	BETA vs. DAX [calc. on a daily basis]
General Public	157.1	60.3	-0.2	24.1	0.90
Opinion leaders	147.2	37.6	-1.0	12.2	0.81
Analysts	138.6	32.0	-0.5	10.2	0.77
Economic leaders	147.2	37.6	-1.0	12.2	0.81
Economists	108.0	0.8	-13.4	-5.5	0.89
Journalists	147.2	37.6	-1.0	12.2	0.81
NGO, NPO	148.6	39.8	-2.9	14.2	0.86
Politicians	146.3	37.6	-3.2	13.0	0.84
<b>Average</b>	<b>142.5</b>	<b>35.4</b>	<b>-2.9</b>	<b>11.6</b>	<b>0.84</b>
<b>DAX</b>	<b>118.7</b>				

Better than average  
Worse than average

Portfolio definition: Stocks are equally weighted, portfolio is updated after each wave  
Reputation measurement (waves): 2007-12  
Surveyed individuals: Different stakeholder groups

DAX: 27 companies are included  
Stock price data source: DATASTREAM  
Timeframe: 30th December to 30th June 2008

# Comparing Likeability between Stakeholder Groups: Wisdom of the Crowd

Top25% Likeability Portfolio	Last price 30-Jun-08 <small>[Base: 100 on 30-Dec-05]</small>	Max. delta vs. DAX <small>[% points]</small>	Min. delta vs. DAX <small>[% points]</small>	Avg. delta vs. DAX <small>[% Punkte]</small>	BETA vs. DAX <small>[calc. on a daily basis]</small>
General Public	156.6	50.0	-0.4	21.7	0.89
Opinion leaders	137.0	30.9	-2.9	8.5	0.77
Analysts	149.2	51.7	-0.1	19.7	0.89
Economic leaders	146.3	38.9	-2.3	13.3	0.80
Economists	137.0	30.9	-2.9	8.5	0.77
Journalists	147.7	53.7	0.0	19.7	0.90
NGO, NPO	136.9	32.3	-3.3	8.9	0.79
Politicians	109.5	1.8	-9.2	-3.5	0.94
<b>Average</b>	<b>140.0</b>	<b>36.3</b>	<b>-2.6</b>	<b>12.1</b>	<b>0.84</b>
<b>DAX</b>	<b>118.7</b>				

Better than average  
Worse than average

Portfolio definition: Stocks are equally weighted, portfolio is updated after each wave  
Likeability measurement (waves): 2007-12  
Surveyed individuals: Different stakeholder groups

DAX: 27 companies are included  
Stock price data source: DATASTREAM  
Timeframe: 30th December to 30th June 2008

# Comparing Competence between Stakeholder Groups: Wisdom of the Crowd

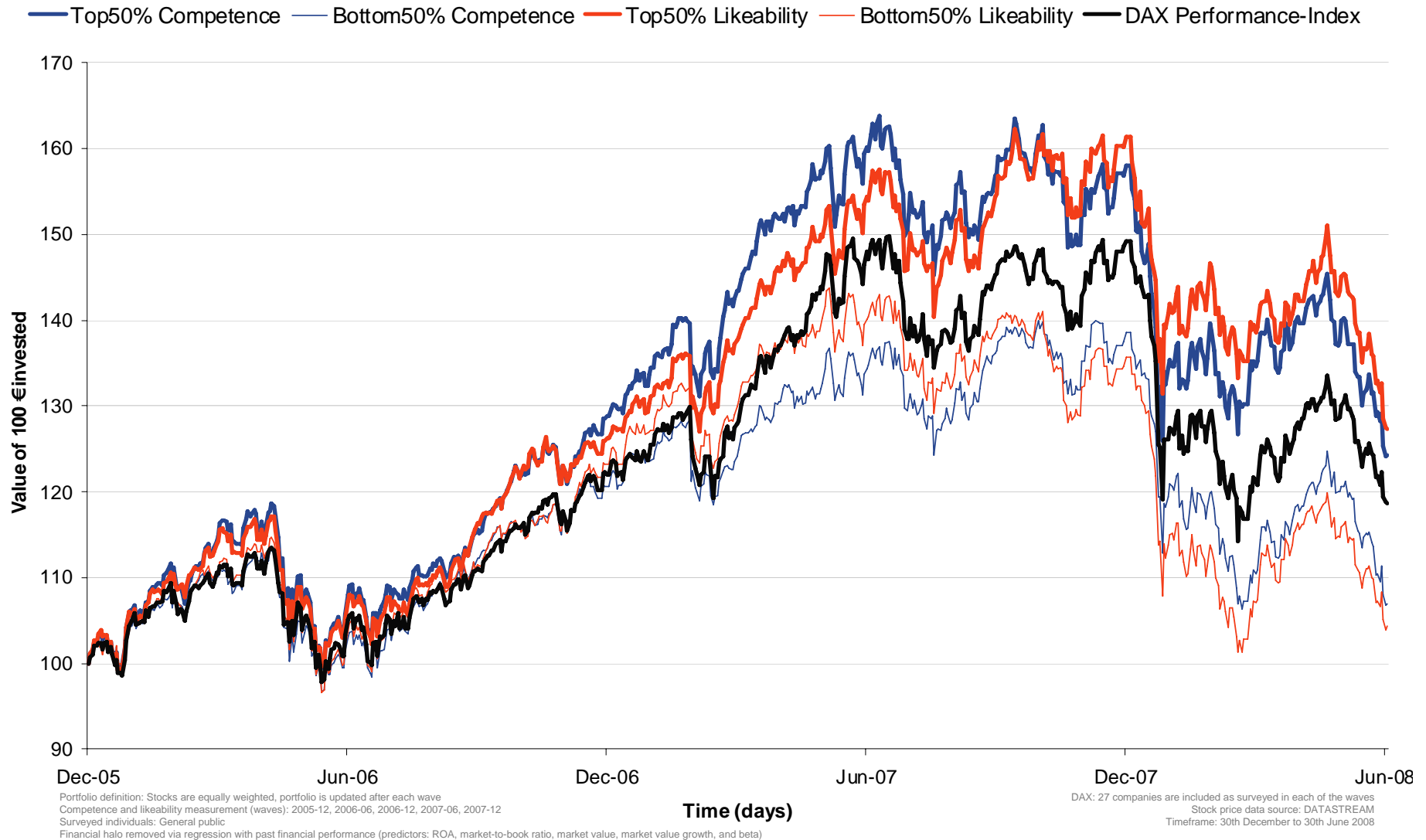
Top25% Competence Portfolio	Last price 30-Jun-08 <small>[Base: 100 on 30-Dec-05]</small>	Max. delta vs. DAX <small>[% points]</small>	Min. delta vs. DAX <small>[% points]</small>	Avg. delta vs. DAX <small>[% Punkte]</small>	BETA vs. DAX <small>[calc. on a daily basis]</small>
<b>General Public</b>	<b>154.1</b>	<b>44.0</b>	<b>-2.4</b>	<b>15.7</b>	<b>0.82</b>
<b>Opinion leaders</b>	<b>103.2</b>	<b>2.1</b>	<b>-15.5</b>	<b>-4.3</b>	<b>0.92</b>
Analysts	106.2	1.7	-13.7	-4.5	0.93
Economic leaders	103.2	2.1	-15.5	-4.3	0.92
Economists	101.8	0.8	-18.7	-9.7	0.91
Journalists	97.8	2.2	-20.9	-5.9	0.98
NGO, NPO	106.2	0.5	-15.9	-9.6	0.93
Politicians	120.1	14.8	-2.8	5.3	0.99
<b>Average</b>	<b>111.6</b>	<b>8.5</b>	<b>-13.2</b>	<b>-2.1</b>	<b>0.93</b>
<b>DAX</b>	<b>118.7</b>				

Better than average  
Worse than average

Portfolio definition: Stocks are equally weighted, portfolio is updated after each wave  
Competence measurement (waves): 2007-12  
Surveyed individuals: Different stakeholder groups

DAX: 27 companies are included  
Stock price data source: DATASTREAM  
Timeframe: 30th December to 30th June 2008

# Removing Halo-Effect of Past Financial Performance: Idiosyncratic Competence and Likeability Still Count



# Managing reputation is favorable

## Resuming

- Corresponding to Porter's five forces, companies increase loyalty, build barriers and strengthen their strategic position in their competitive environment by fostering their reputation.
- Building up reputation leads to an increased shareholder value.

# 4. Reputation and the War for Talents



## Win the war for talents



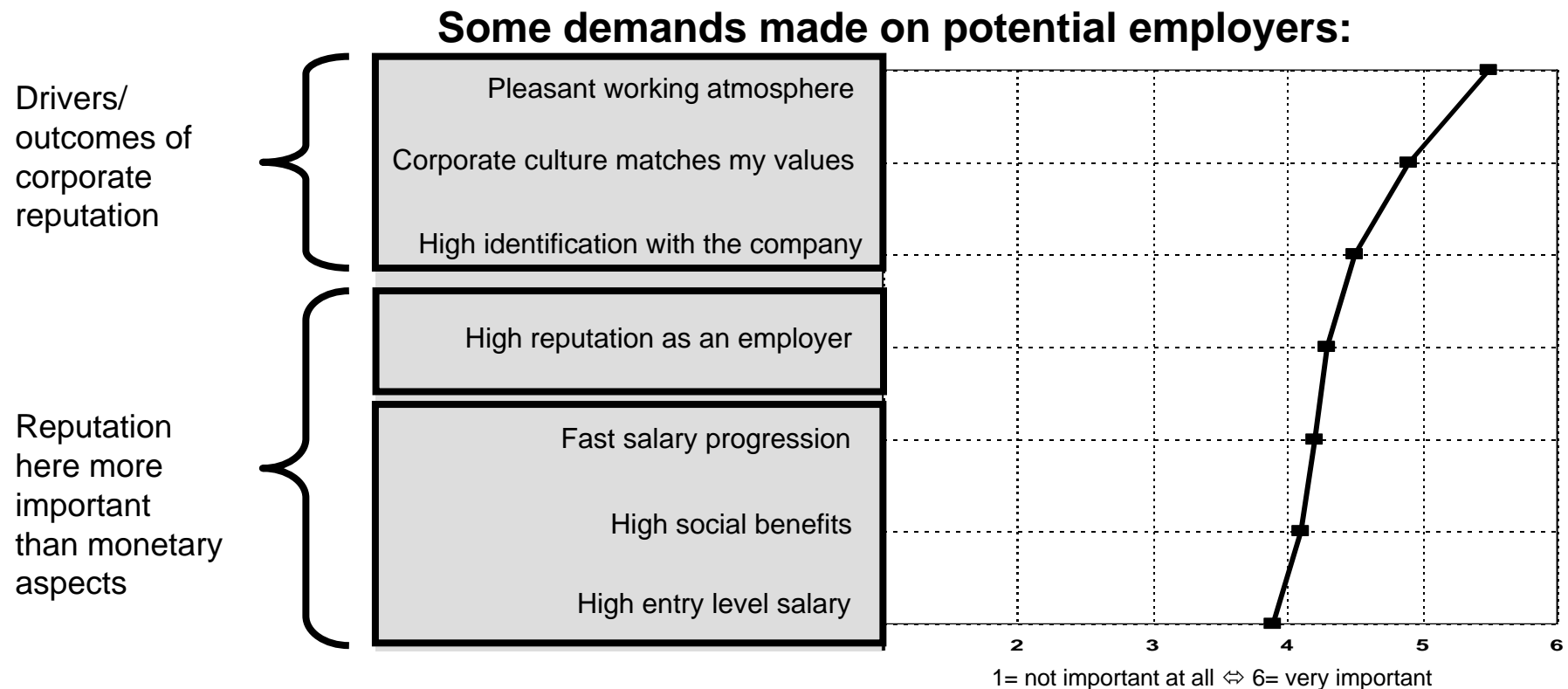
*“Those who build great companies understand that the ultimate throttle on growth for any great company is not markets, or technology, or competition, or products. It is one thing above all others: the ability to get and keep enough of the right people.”*

Jim Collins

# Win the war for talents

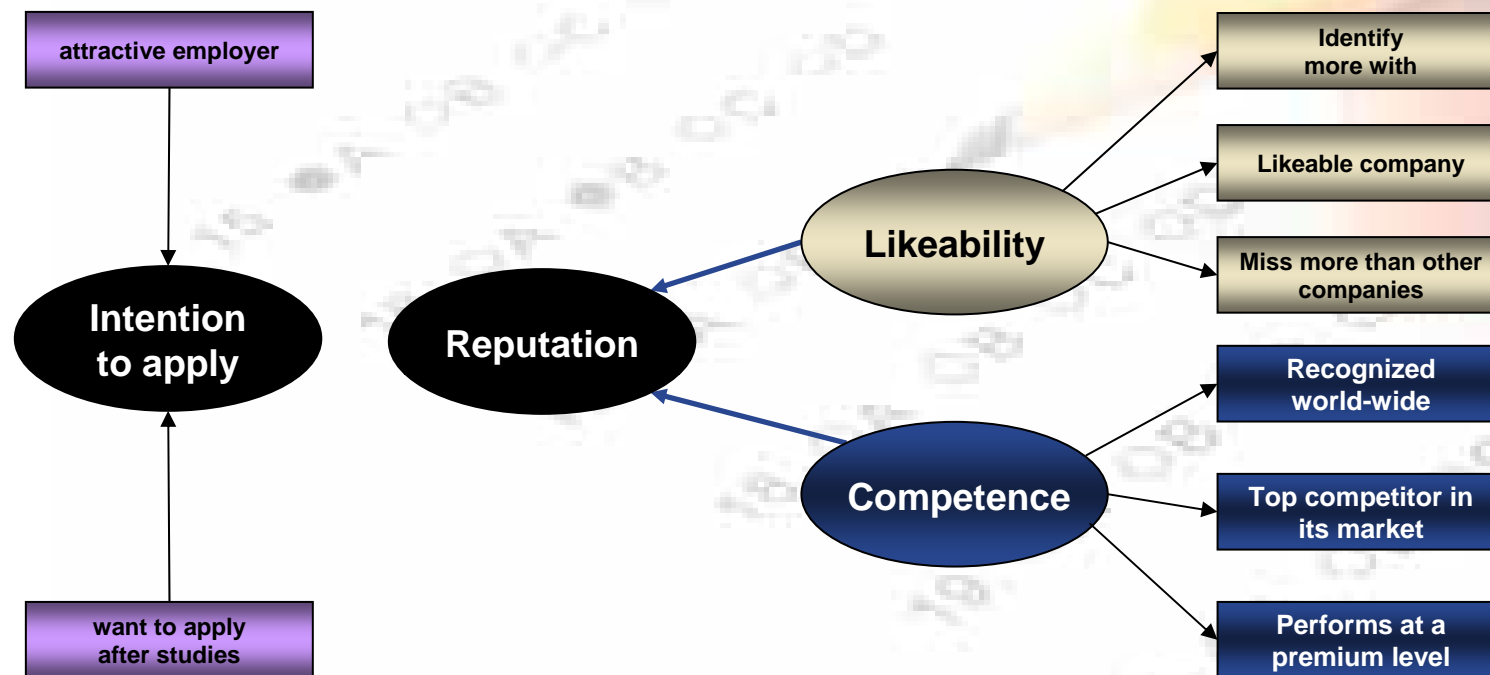
Not only monetary aspects determine the attention to apply

- Many studies show:  
Salary is not the most important driver of the intention to apply
- Extract of a survey **among high potentials** (Grobe 2003):



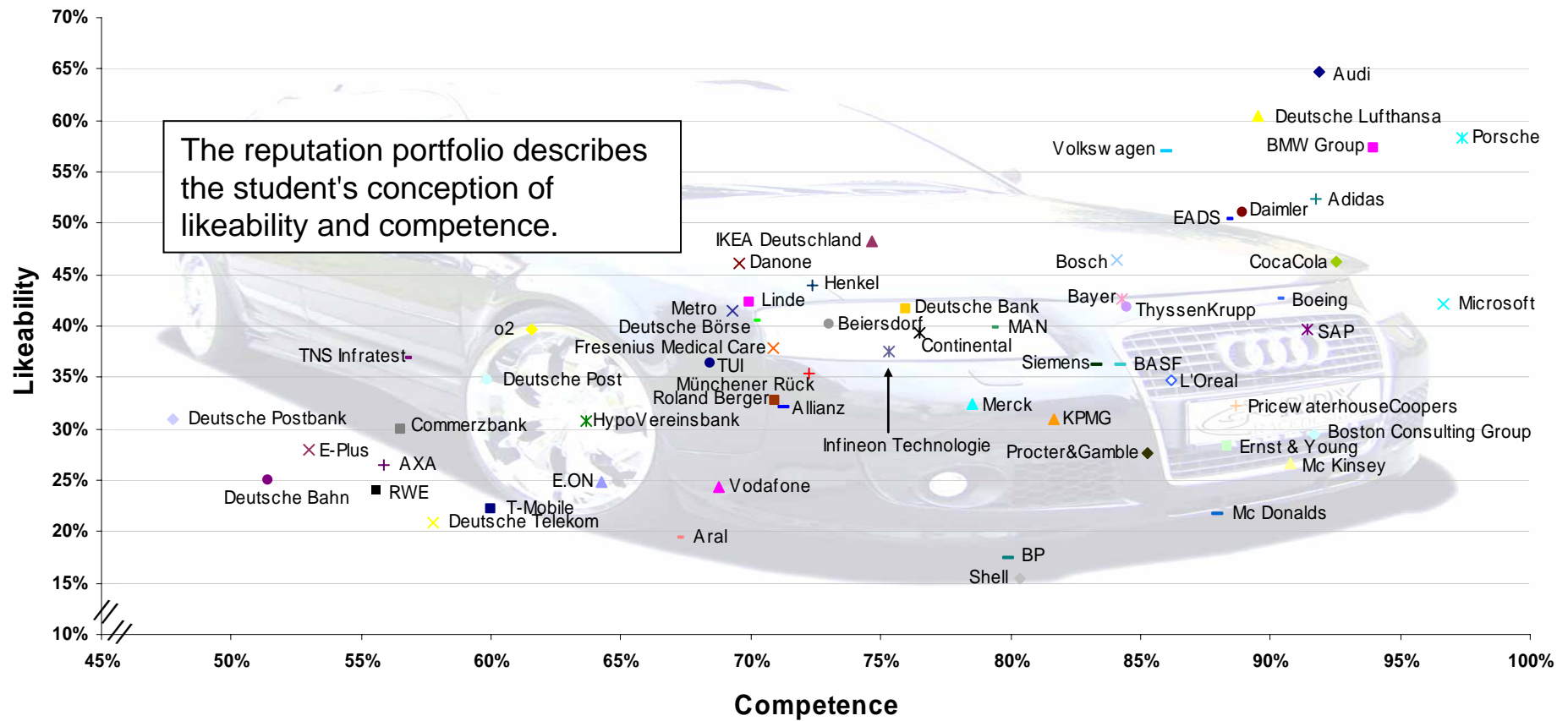
# Results of a pilot study at LMU Munich

- Sample: 421 students in business administration, economics and business education at LMU Munich
- Enquiry period: May 12th to 26th, 2008
- Every student had to evaluate 12 randomly selected companies regarding reputation and the intention to apply



# Results of a pilot study at LMU Munich

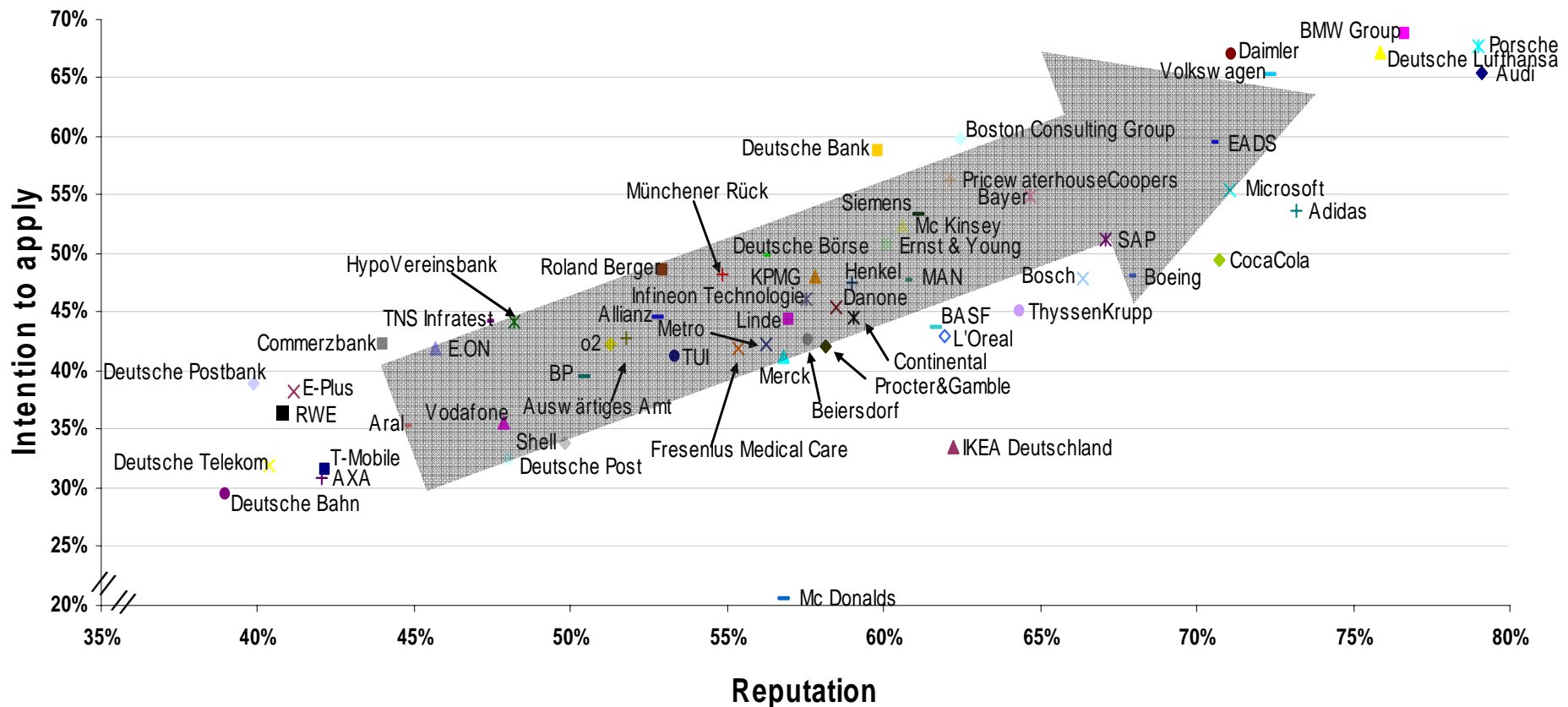
## Reputation portfolio



# Results of a pilot study at LMU Munich

## Reputation and intention to apply

→ The higher the reputation of a company, the higher the intention of students to apply ( $r=0.77$ )



# Good reputation can build up salary premiums

Results of a pilot study at LMU Munich

Question administered to 421 students at LMU Munich in May 2008:

- *Please suppose that...*
  - ... your preferred company ...
  - ... would offer you for the scope of activities of your choice ...
  - ... at your preferred location ...
  - ... a salary of 50.000 € per annum.
  
- *How much salary per annum ...*
  - ... would company X have to offer you ...
  - ... for the same scope of activities ...
  - ... at the same location ...
  - ... for that you would choose company X instead?

**Hypothesis:**      **Companies with a fine reputation can generate a (negative) salary premium, i.e. students would accept less salary**

# Good reputation can build up salary premiums

Results of a pilot study at LMU Munich

Rank Reputation	Company	Higher salary claim
1.	Audi	+5,83%
2.	Porsche	+5,87%
3.	BMW Group	+1,78%
...	...	...
...	...	...
58.	Deutsche Telekom	+22,97%
59.	Deutsche Postbank	+21,61%
60.	Deutsche Bahn	+24,83%

If your position at the reputation ranking is at place ...	... than there is a higher salary claim, compared to your preferred company, of about ...
Top 3	+4,49%
4-10	+10,12%
11-20	+13,99%
21-30	+14,61%
31-40	+15,63%
41-50	+17,56%
51-57	+18,17%
Bottom 3	+23,14%

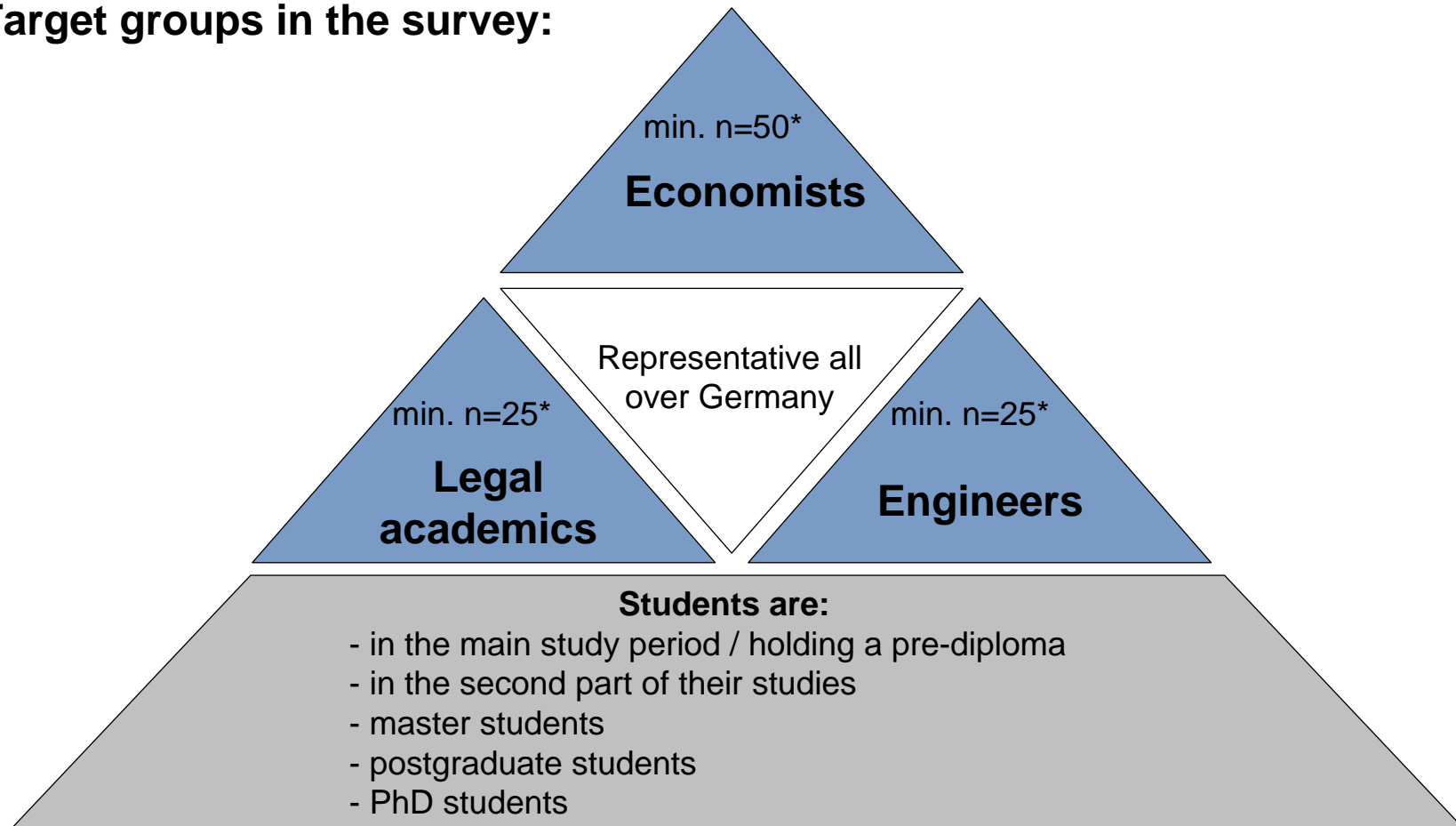
- While we observe a higher salary demand of +5% for the top 3 reputation leaders in comparison to the desired company ...
- ... the top 3 reputation laggards have to pay on average a +20% higher salary than the desired employer to attract a LMU graduate!

The outcome of this is vice versa:

- The higher the reputation, the higher the salary deduction!

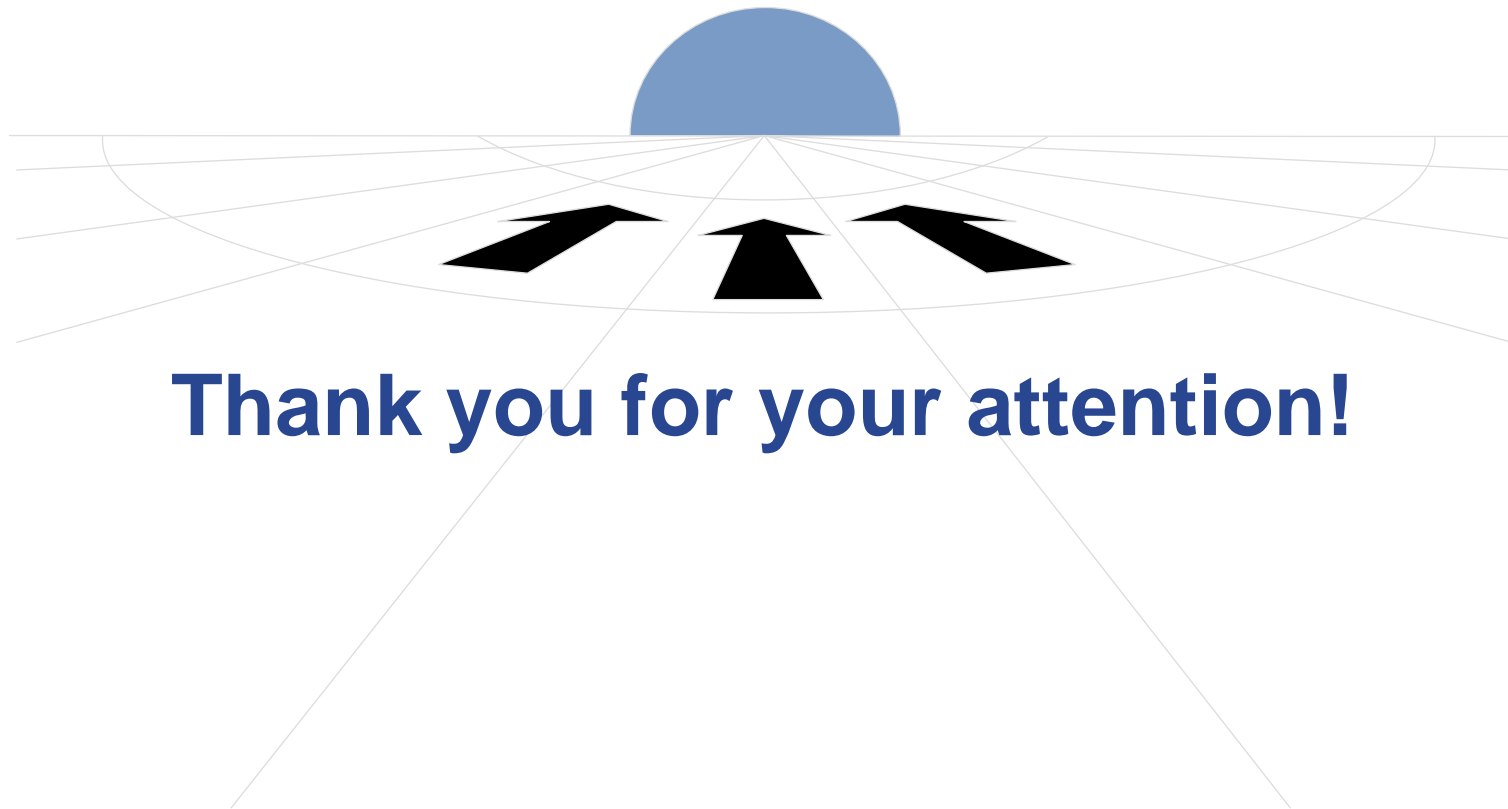
## Next step: The Corporate Reputation Monitor<sup>©</sup> in the Recruiting Market

Target groups in the survey:



\* Sample size per company

# Discussion

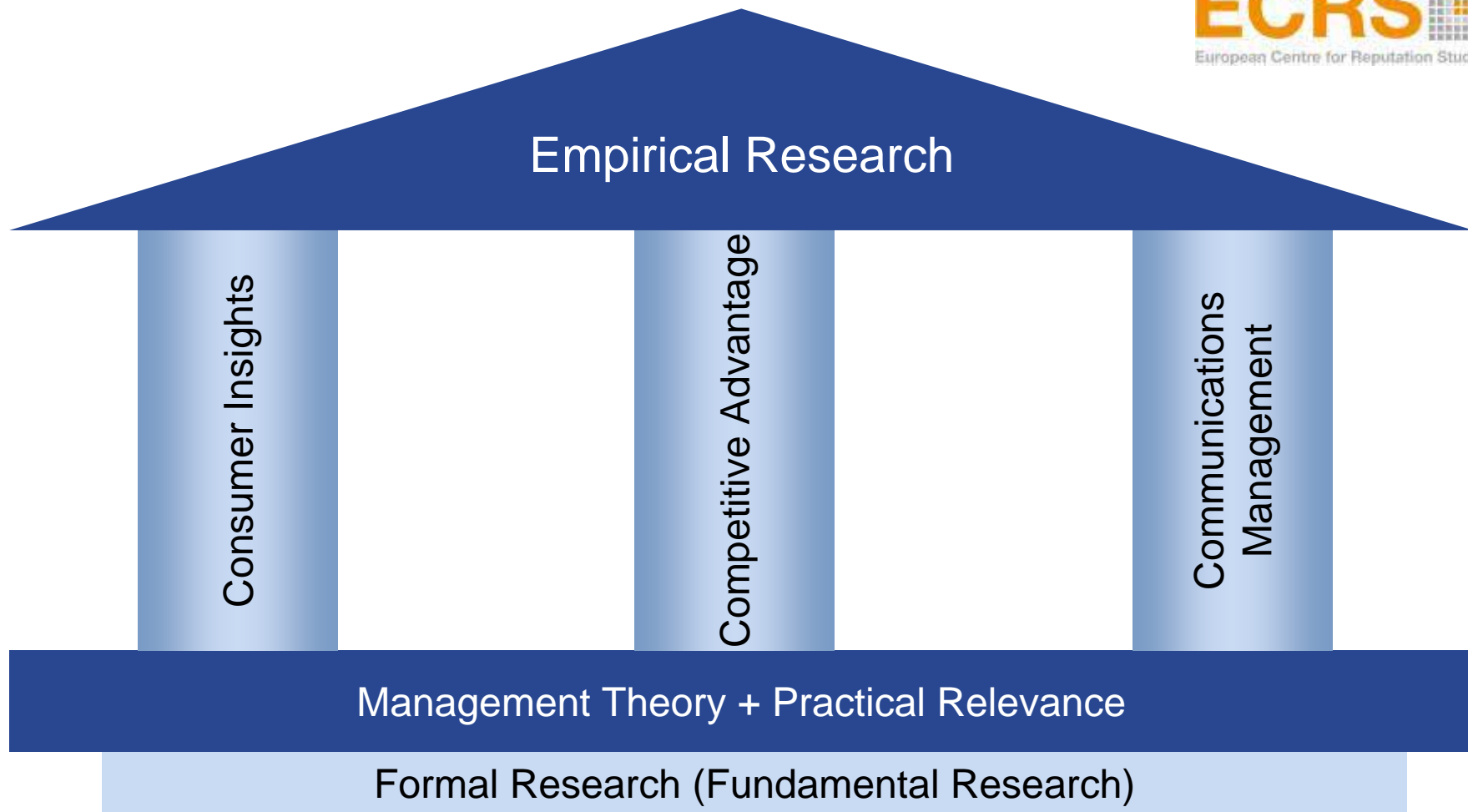


Ludwig-Maximilians-Universität München – European Centre for Reputation Studies (ECRS)

# About IMM, CVs & Examples



# IMM - Research Concept



# Our industry partners



# Subject Matter Expert



**Prof. Dr. Manfred Schwaiger**  
University Professor of Management  
Ludwig-Maximilians-Universität  
Munich

## Executive Summary

- One of the leading international specialists in corporate reputation management (in terms of refereed publications and clients served)

## Education

- Diplom-Ökonom Augsburg University
- Ph.D. (Dr.rer.pol.) and post-doctoral thesis (Habilitation) from Augsburg University

## Relevant Experience

- Set up reputation management programs for several blue-chip companies (industry sectors: Automotive, Energy, Aviation, Telecommunication, Insurance)
- Consultant to international market research agencies in the field of reputation measurement
- Developed a two-dimensional model to measure and explain corporate reputation
- Member of the Board of the European Centre for Reputation Studies (German/Swiss organization)
- Chaired several conferences on reputation management (Munich, Zurich, Rome)

# Subject Matter Experts



- **Matthias Schloderer**
  - Diploma degree from in management from Ludwig-Maximilians-Universität Munich.
  - Responsible for Reputation Monitors® in the opinion leader market and in the recruiting market
  - Industry Experience: Insurance, Telco, Aviation, Defense



- **Sascha Raithe**
  - Diploma degree from in management from Augsburg University
  - Specialized on exploring the link between Corporate Reputation and Corporate Performance
  - Industry Experience: Insurance



- **Petra Wilczynski**
  - Diploma degree from in management from Ludwig-Maximilians-Universität Munich.
  - Responsible for Reputation Monitors® in the general public
  - Industry Experience: Insurance, Telco

# Subject Matter Experts



- **Richard Rinkenburger**
  - Diploma degree from in management from Ludwig-Maximilians-Universität Munich.
  - Specialized on exploring the link between Corporate Reputation and CEO's Reputation
  - Industry Experience: Packing machines, screening machines, paper management systems



- **Sebastian Fuchs**
  - Diploma degree from in management from Ludwig-Maximilians-Universität Munich.
  - Specialized on exploring the link between Corporate Reputation and Brand Strength
  - Industry Experience: Media

## Project example 1:

### Situation

- Client is market leader in Germany, suffers from severe customer churn, CEO under pressure in media
- Media response mostly negative

### Problem

- Comprehensive analysis of customers, employees, financial community and opinion leader markets in Germany (driver analysis)
- additional studies not desired, integration in existing ones

### Support provided

- Identification of claims that show positive impact on reputation in all stakeholder groups
- Feed drivers that distinguish client from competitors

### Exemplary results

- As opposed to competitors, innovation is not a main driver, but good management is.
- Draw benefits from physical appearance (better evaluated than competitors' appearance), refrain from specific sponsoring activities
- Understanding customer needs far more important than friendliness in service fields

## Project example 2:

### Situation

- Oligopoly market, client is one out of two global players and technology leader
- Media response mostly negative, CSR activities on trial

### Problem

- Effective reputation management in Germany and France
- Check whether global or regional (communications-)strategy seems more effective

### Support provided

- Custom-made Study (GER/F): CAP-interviews (TNS) with journalists, analysts, top managers and politicians
- Derive implications for operations and corporate communications

### Exemplary results

- Advantages in perceived innovativeness and market leadership claims should be exploited by means of communications (skimming; no additional investments)
- Increase reliability, which is perceived below benchmarks (investment program)
- CSR activities show minor impact (savings possible!)

## Project example 3:

### Situation

- Client is regional energy supplier
- Commitment and trust are important in all stakeholder groups, but difficult to manage

### Problem

- Identify drivers of reputation as antecedent of trust focusing on customer loyalty and derive suitable measures

### Support provided

- Development of a loyalty model (SEM)
- Identification of loyalty drivers based on a regional CATI sample

### Exemplary results

- Reputation model explains 70% of loyalty variance
- Only likeability component has significant impact
- CSR activities are effective and are perceived better than those of the benchmarks
- Lack of competence (compared to benchmarks) should be eliminated with respect to other stakeholder groups