

# How to identify your reputation drivers to boost your reputation capital

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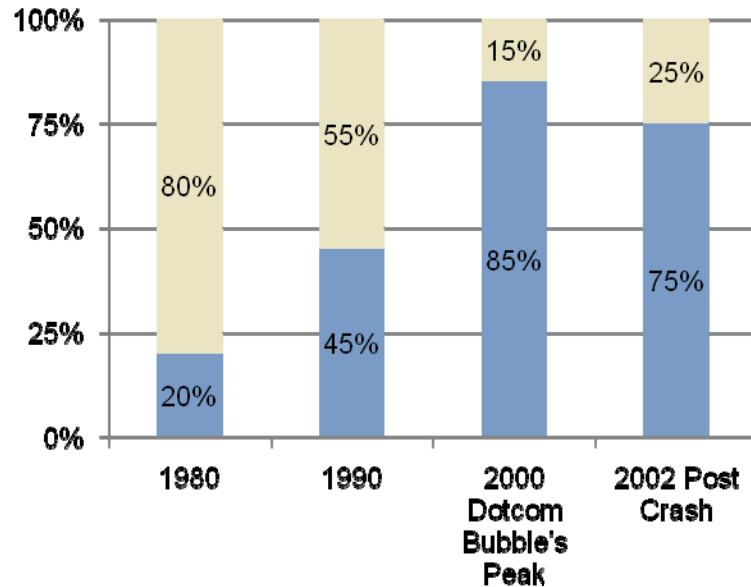
www <http://www.imm.bwl.lmu.de>



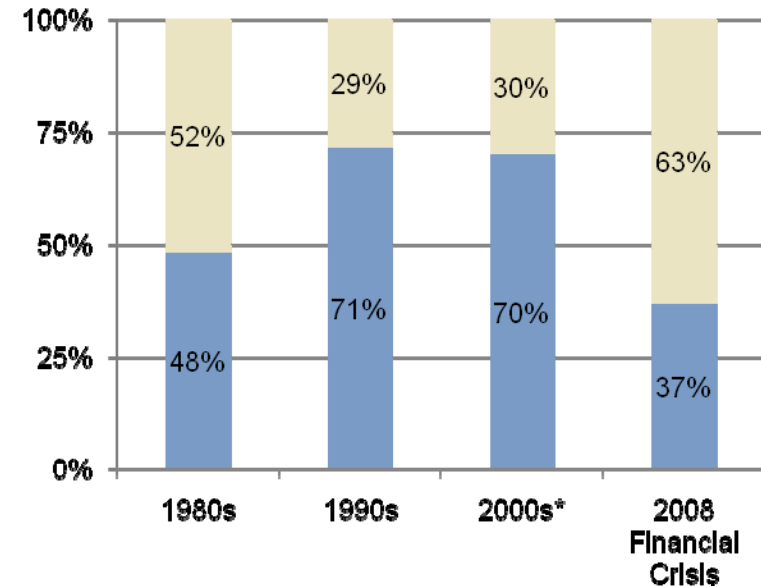
# 1. Reputation as a Management Objective

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

## S&P 500 (1980-2002)



## HDAX (1980-2008)\*\*



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

\* 2008 excluded \*\* HDAX contains stocks of 110 largest, publicly listed corporations in Germany (DAX, MDAX, TecDAX)

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

### Terms and definitions :

- Sobol et al. (1992, p. 19): „There is no general agreement on how to measure it, but there is a general agreement that it is important“.
- Fombrun (1996, Fombrun/Rindova 2000, p. 78f.): Reputation = overall estimation in which a company is held by its stakeholders, representing their “net emotional reaction to a company's name”
- Gray/Ballmer (1998, p. 696f.): Reputation = result of an evaluation done by the stakeholders of a company by rating the company's attributes .
- Hall (1992, p. 138): Reputation consists of the knowledge and the emotions about a company held by an individual.

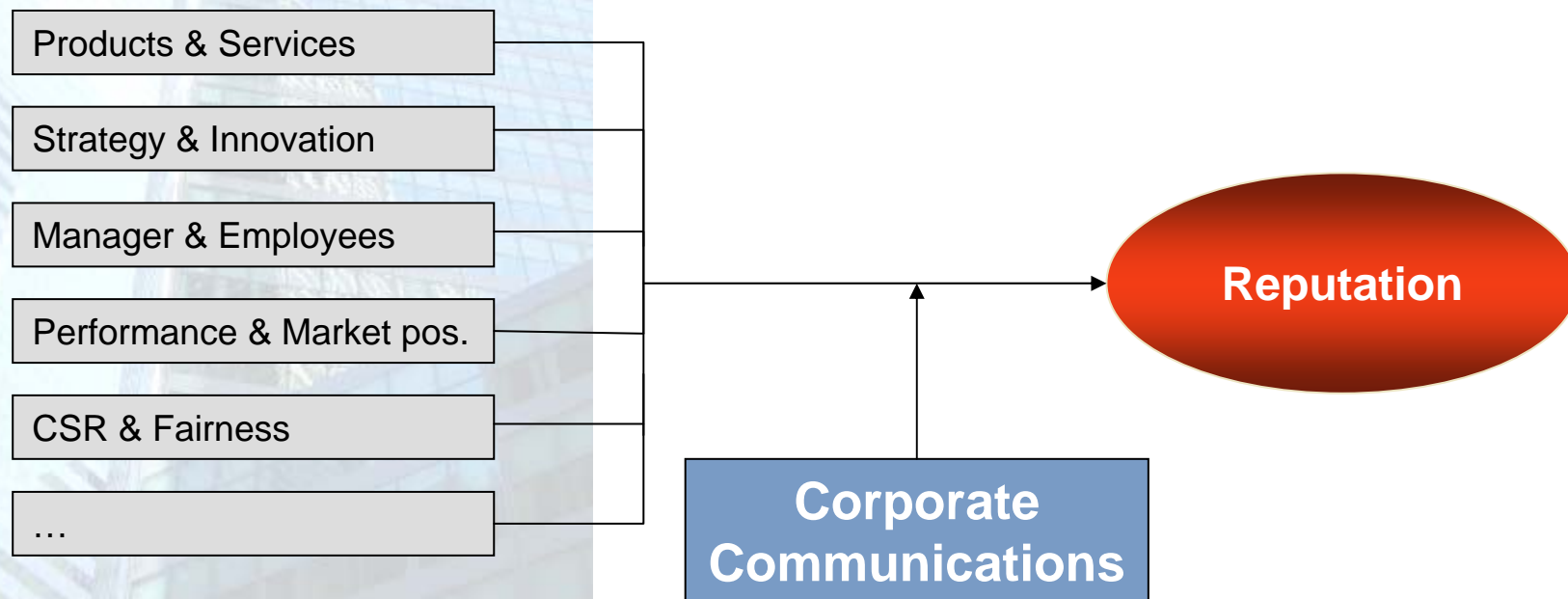
**Reputation:** general evaluation of a company by its various stakeholders.

Incorporates both, **cognitive and emotional components**.

An assessment of reputation is based on **factual experiences** as well as on **perceptions** relying on communicated messages.

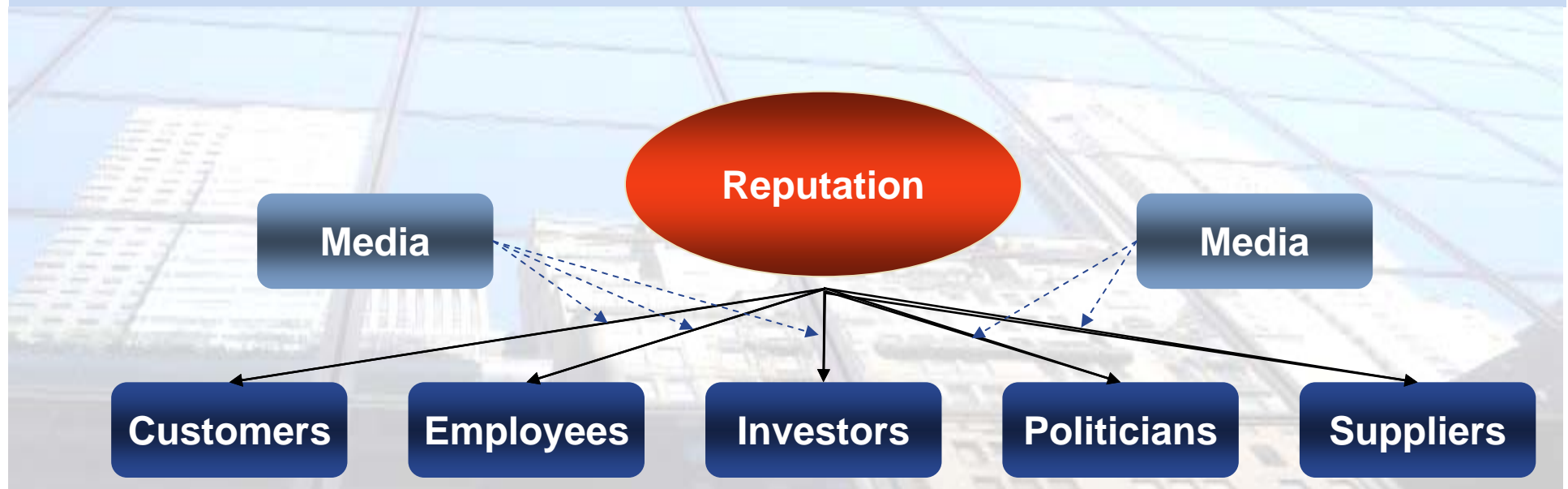
## ... the central intangible asset is a company's corporate reputation

**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.



Sources: Schwaiger/Cannon 2004, Sobol et al. 1992 ; Fombrun 1996; Gray/Ballmer 1998; Hall 1992; De Quevedo 2001 ; Tucker/Melewar 2005

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



- Trust in products and advertising
- Retention
- Higher purchase rates
- Price premium

- Win war for talents
- Better retention
- Higher productivity

- Better access to capital markets
- Lower credit costs
- Increased willingness to buy and hold shares and stocks

- Advantages in negotiations
- Favorableness and support
- Reduced risk of litigation

- Lower procurement costs
- Higher commitment

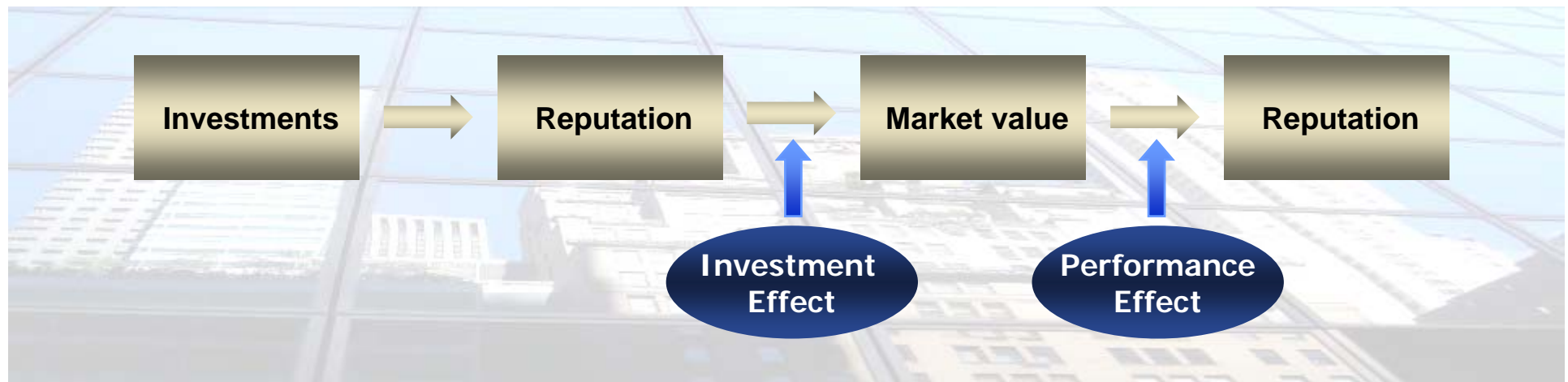
Sources: Fombrun/van Riel 1998; Goldberg/Hartwick 1990; Lafferty/Goldsmith 1999; Caminiti 1992; Preece et al. 1995; Klein/Leffler 1981; Milgrom/Roberts 1986; Dowling 1986; Eidson/Master 2000; Nakra 2000, Brown 1997; Cordeiro/Sambharya 1997; Deephouse 1997; Fombrun 1996; McMillan/Joshi 1997; Roberts/Dowling 1997; Srivastava et al. 1997

# Reputation drives financial performance

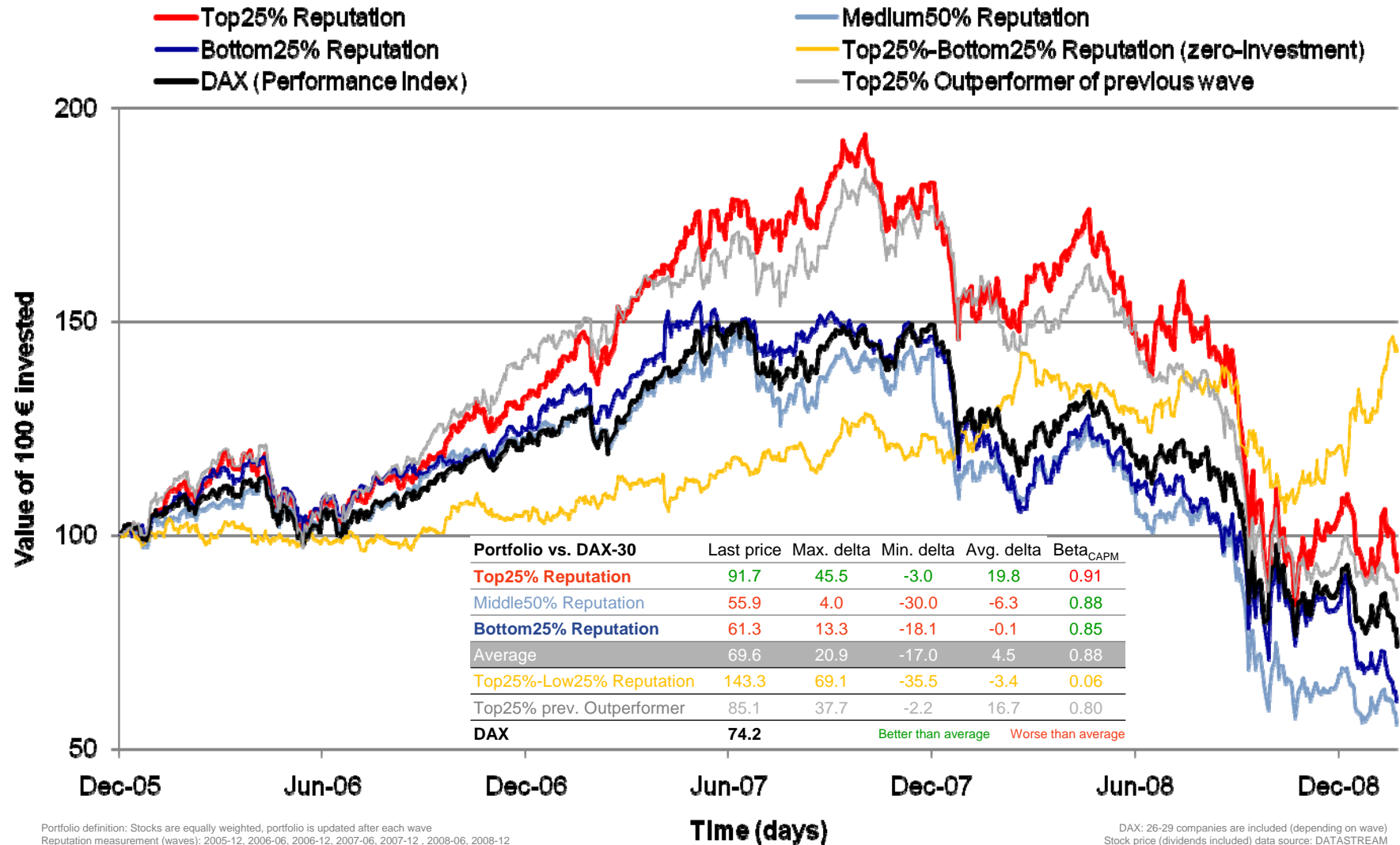
Regression analysis using reputation and stock data show:

- Investments in reputation-building activities over a longer period show a positive impact on the shareholder value (market value) (*“Investment Effect”*).
- The overall reputation depends on innovative and communicative capabilities as well as on finance based influence (*“Performance Effect”*).

Sources: Eberl/Schwaiger 2005; Roberts/Dowling 2002; Schwalbach 2000; Hildebrandt/Schwalbach 2000



# Reputation champions outperform the DAX-30 index



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, 2008-06, 2008-12  
 Surveyed individuals: General public

DAX: 26-29 companies are included (depending on wave)  
 Stock price (dividends included) data source: DATASTREAM  
 Timeframe: 30th December to 20th February 2009

## 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.

## 2. Managing Corporate Reputation

## There is no lack of measurement concepts ...

Fortune AMAC

Fortune GMAC

„Imageprofile“ of Manager Magazin

**FORTUNE**

**manager**

Harris-Fombrun Reputation<sup>sm</sup> Quotient

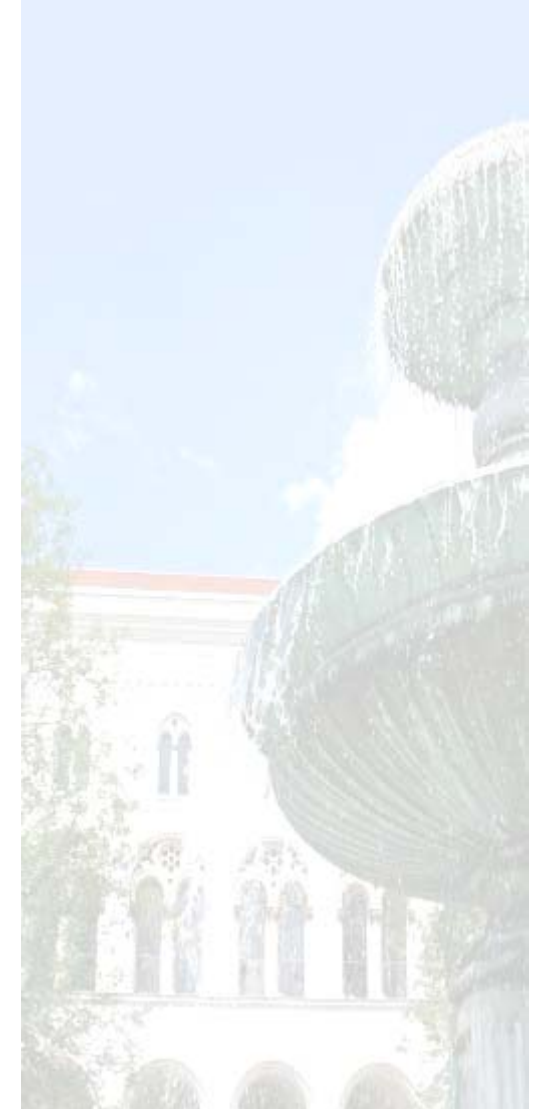
plus several magazine-/consultant indices:

- Financial Times: World's (Europe's) Most Respected Companies
- Management Today: Britain's Most Admired Companies
- Burson-Marsteller: Maximizing Corporate Reputation
- Asian Business: Asia's Most Admired Companies
- Delahaye Medialink: Delahaye Medialink Corporate Reputation Index
- Far Eastern Economic Review: REVIEW 200
- Corporate Branding LLC: Corporate Branding Index

## Criticism 1: Expert interviews are rarely appropriate

Fortune / ManagerMagazin are asking “industry experts“ only (inside and outside directors). These are:

- not your customers
- not your investors
- not your capital providers
- not your suppliers
- not policy makers
- probably not even public opinion leaders
- definitely people, who do not base their assessment of a company’s reputation on corporate communications.



## Criticism 2: Existing concepts show flaws in operationalization

Fortune Magazin asks the following topics:

- Innovation leadership
- Overall management quality
- **Recoverability as long term investment**
- Social and environmental responsibility
- Ability to recruit and keep talented junior employees
- Product and service quality
- Financial soundness
- Wise use of tangible and intangible corporate assets

What is recoverability as long term investment?

Manager Magazin asks the following topics not company-specific in addition to an overall evaluation (overall reputation):

- Management quality
- Overall management quality
- **Innovative spirit**
- **Communicative capabilities**
- Environmentalism
- Financial profitability

What do test persons understand by „innovative spirit“ and „communicative capabilities“?

Even more important: Do all subjects associate identical aspects with those terms?

## Criticism 3: Insufficient distinction between drivers and outcomes (Harris-Fombrun Reputation<sup>tm</sup> Quotient)

Six „pillars“ (Fombrun 2001, p. 24)

1. Products and Services

2. Financial Performance

3. Vision and Leadership

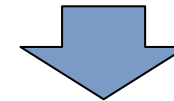
4. Workplace Environment

5. Social Responsibility

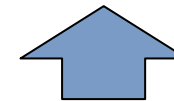
6. Emotional Appeal

- Have a good feeling about the company
- Admire and respect the company
- Trust the company a great deal

Good products and services are a **prerequisite** for the creation of reputation



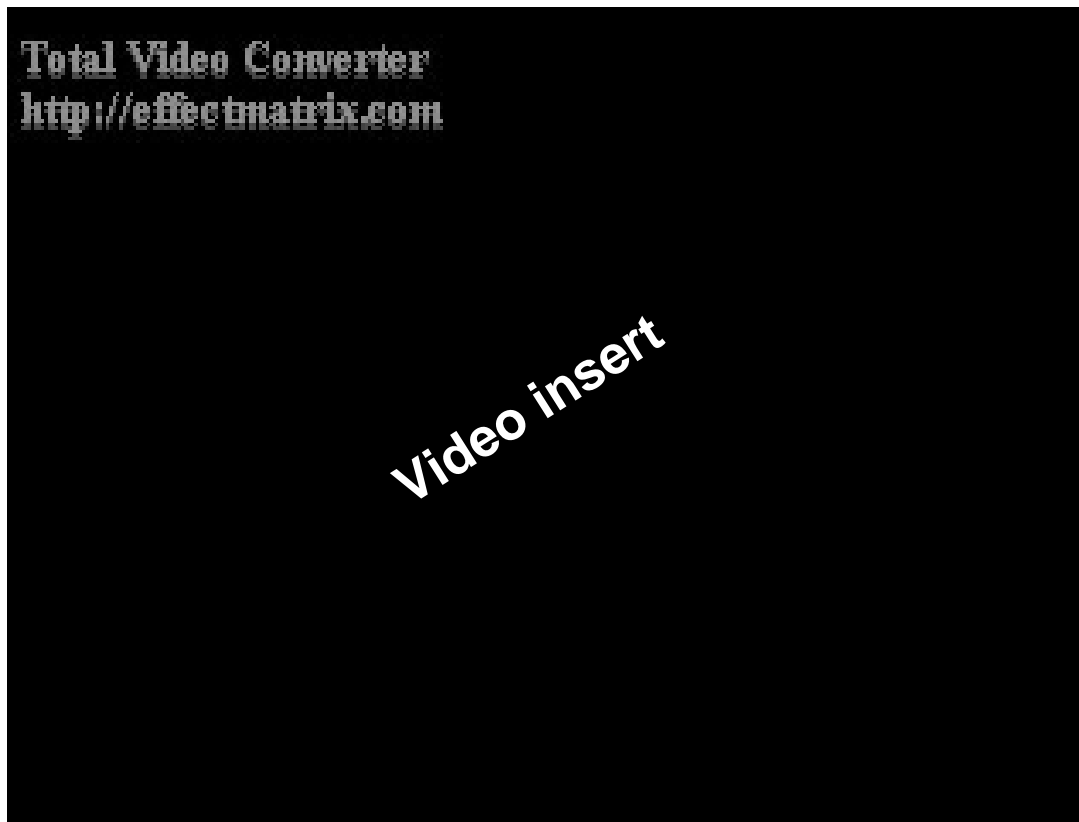
But: both indicators are merged in one reputation-index



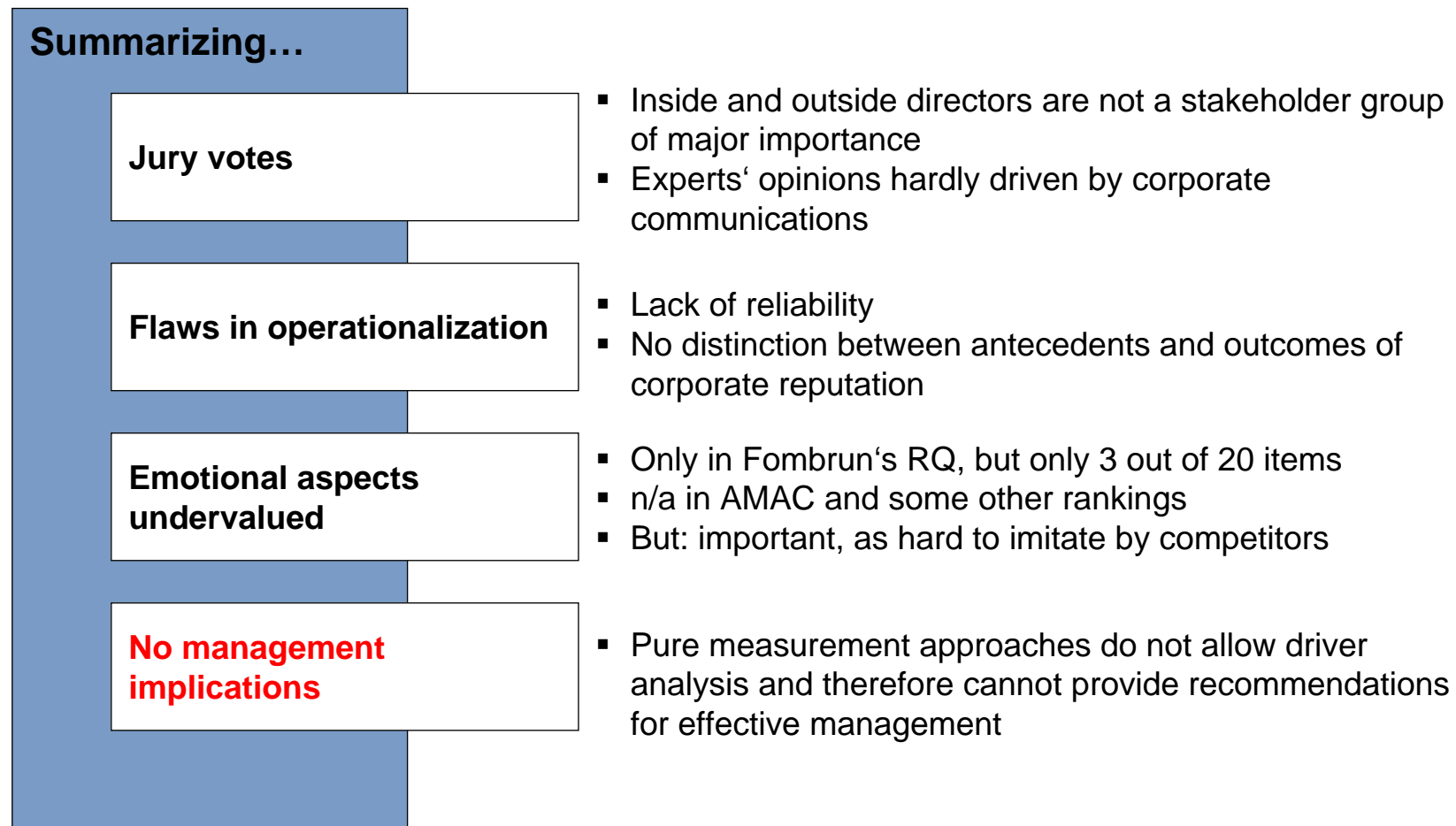
Admiration is an **outcome** of high reputation

## Criticism 4: Disregard of emotion!

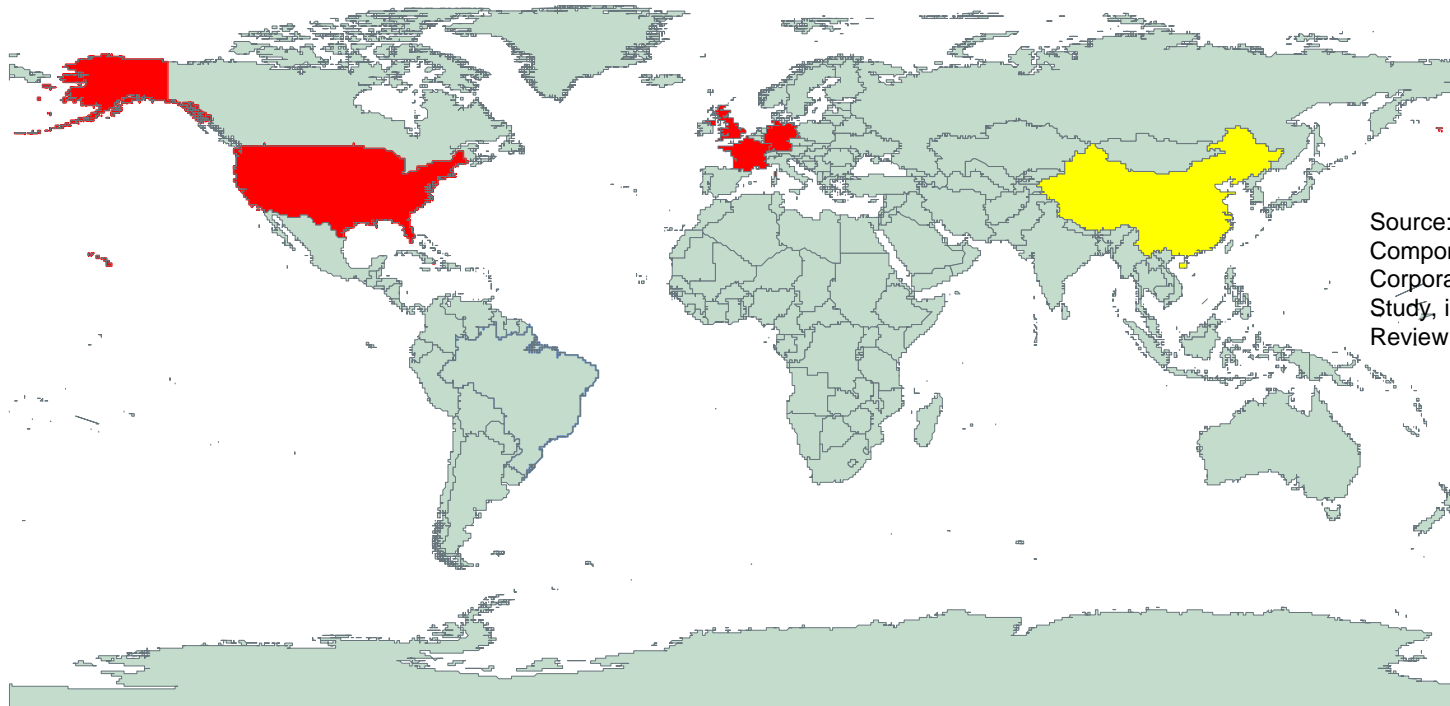
Existing measurement concepts do completely ignore (Fortune/Manager Magazin) or underestimate emotional aspects (Fombrun/HarrisInteractive).



# Critical Discussion of Reputation Measurement Approaches



# Consequence: New reputation model based on a multinational study



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



## Our corporate reputation measurement tool has been documented in refereed publications

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

*Schwaiger, M.; Cannon, H.M. (2004): Exploring Company Brand Equity, in: Rose, P. (ed.): Proceedings of the 2004 Conference of the American Academy of Advertising, Florida International University, North Miami, 2004, p. 67-73*

- Screening relevant literature on corporate reputation as well as analyzing and implementing prescriptions of the Council of PR Firms.
- Focus group discussions and expert interviews to uncover which aspects are underrepresented / omitted in existing tools.

## Our corporate reputation measurement concept: Relevant categories

**Management/  
Employees**

**Financial power**

**Quality/  
Good Value**

**Leadership/  
Vision**

**Attractiveness**

**Service/  
Customer Focus**

**Reliability**

**Responsibility**

**Ethical behavior**

**Fairness**

**Credibility**

**Openness/  
Candour**

# Our corporate reputation measurement concept: Research design

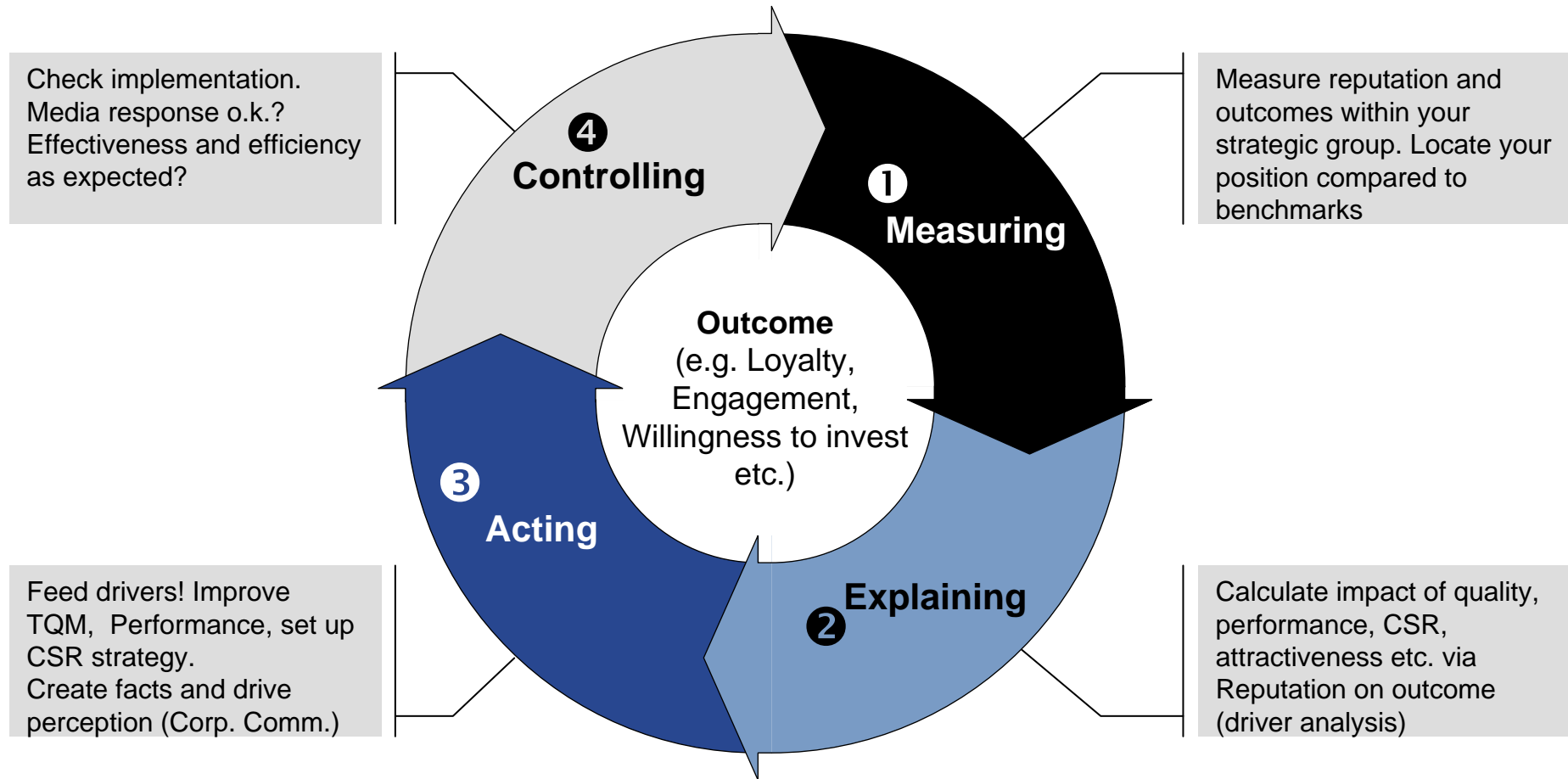
- Basic operationalization
- Qualitative interviews with 40 test persons
- Small quantitative survey (332 respondents, convenience sample)
- Two representatively designed CATI-surveys in Germany, USA and UK with a total of 6,000 randomly drawn evaluations (done by GfK)
- Conceptualization of a measurement concept and validation by means of structural equation modeling (MIMIC + Regression / PLS)
- In the meantime: Validation of the model in China, too (Zhang/Schwaiger 2009)

## Sources:

*Diamantopoulos, Adamantios; Winklhofer, Heidi M. (2001), Index Construction with Formative Indicators: An Alternative to Scale Development, in: Journal of Marketing Research, Vol. 38, pp. 269-277.*

*Rossiter, John R. (2002), The C-OAR-SE Procedure for Scale Development in Marketing, in: International Journal of Research in Marketing, Vol. 19, pp. 305-335.*

# The Reputation management cycle



# First Step: Measuring reputation

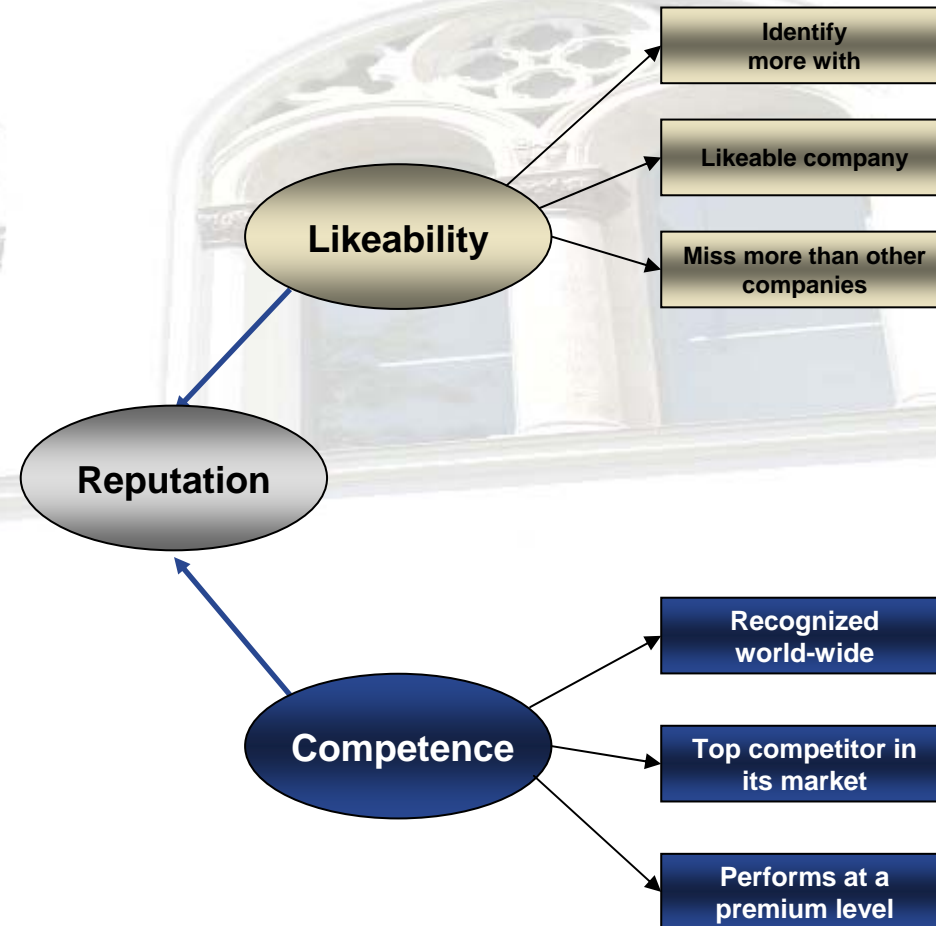
## Design of the study

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

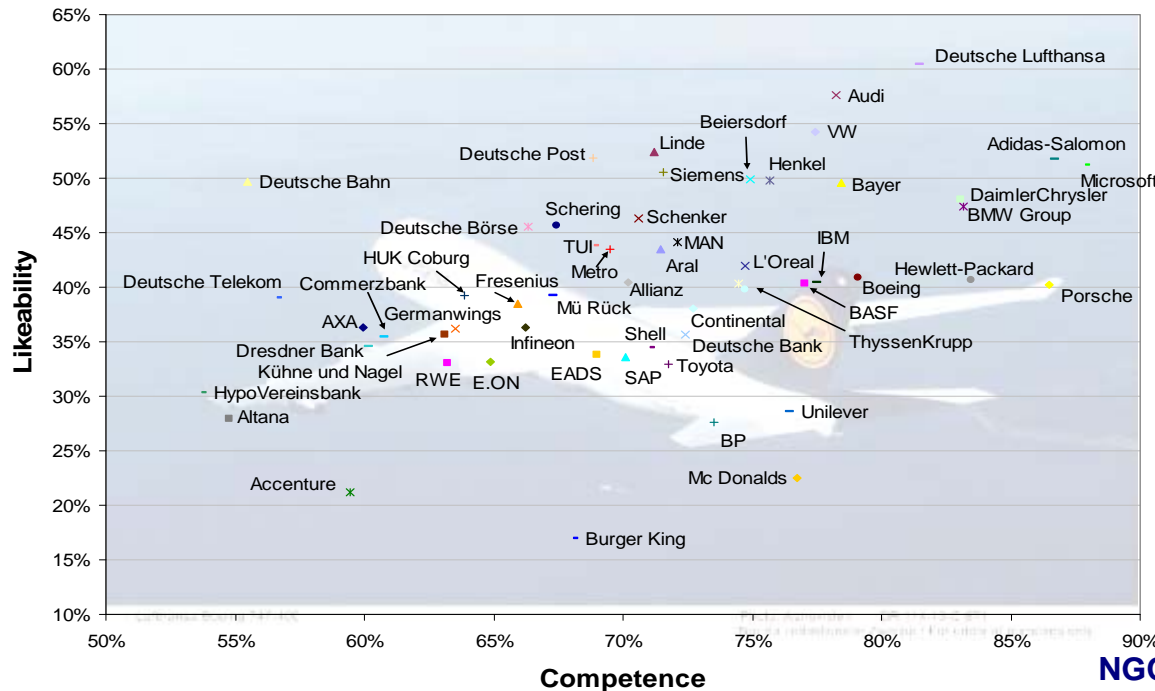
Data collection:  
TNS Infratest

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

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

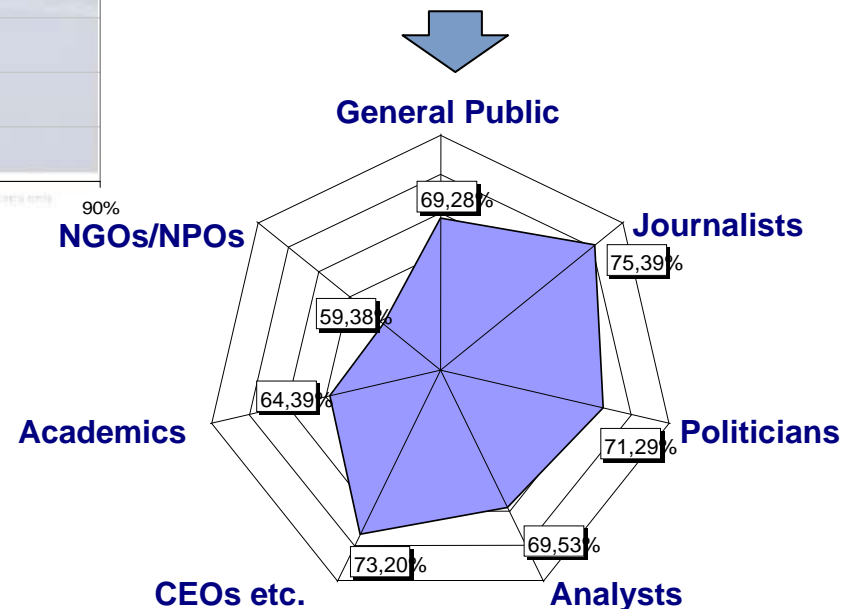


# Measurement results: Reputation Portfolio and Target Group Monitor

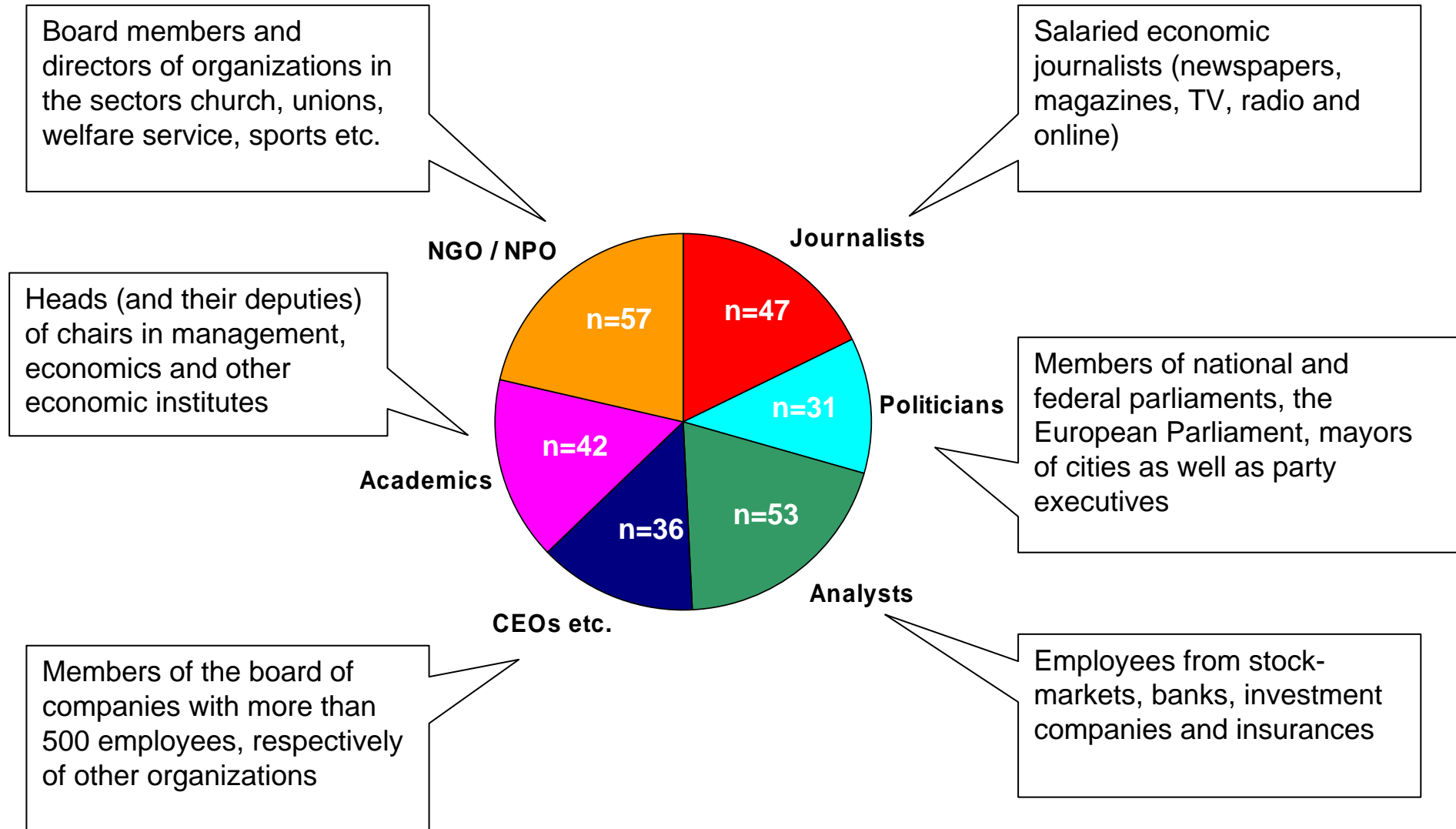


Reputation Monitor:  
Perception of Likeability and Competence of one  
selected stakeholder group  
(currently: ~60 companies)

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

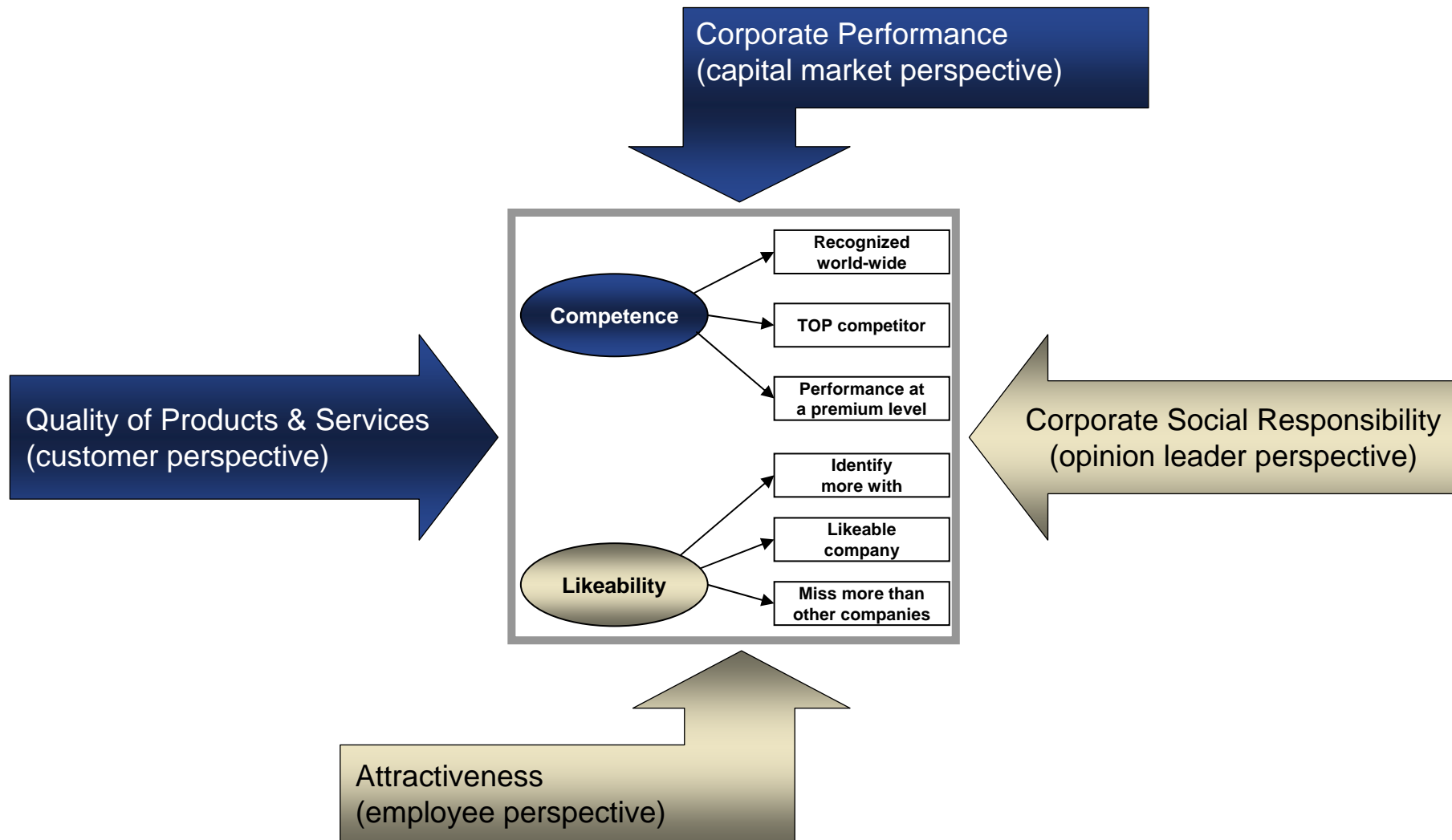


## Every Nov., $n > 250$ opinion leaders are polled



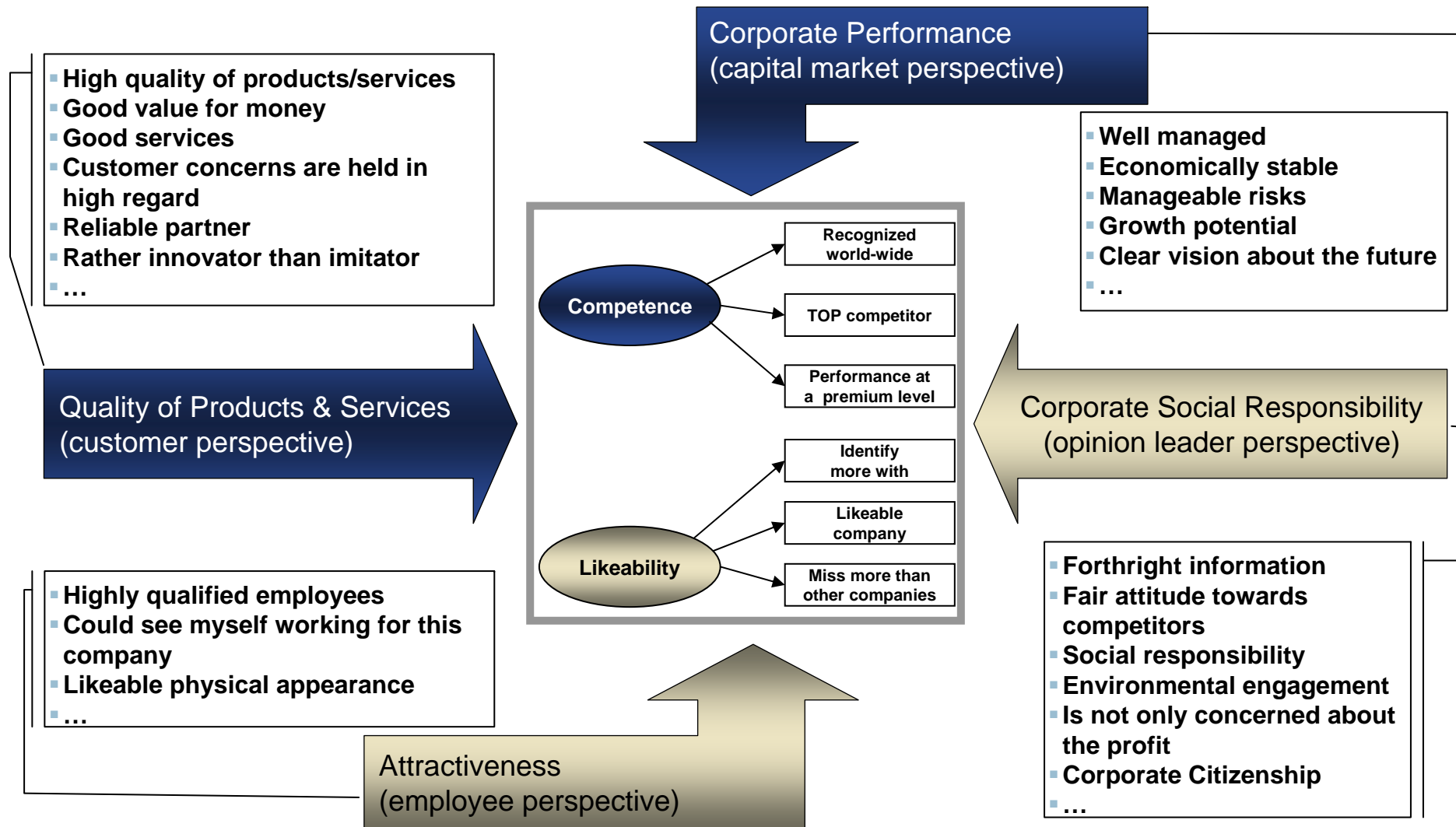
## Second Step: Analyzing reputation drivers

4 dimensions cover the main stakeholder groups



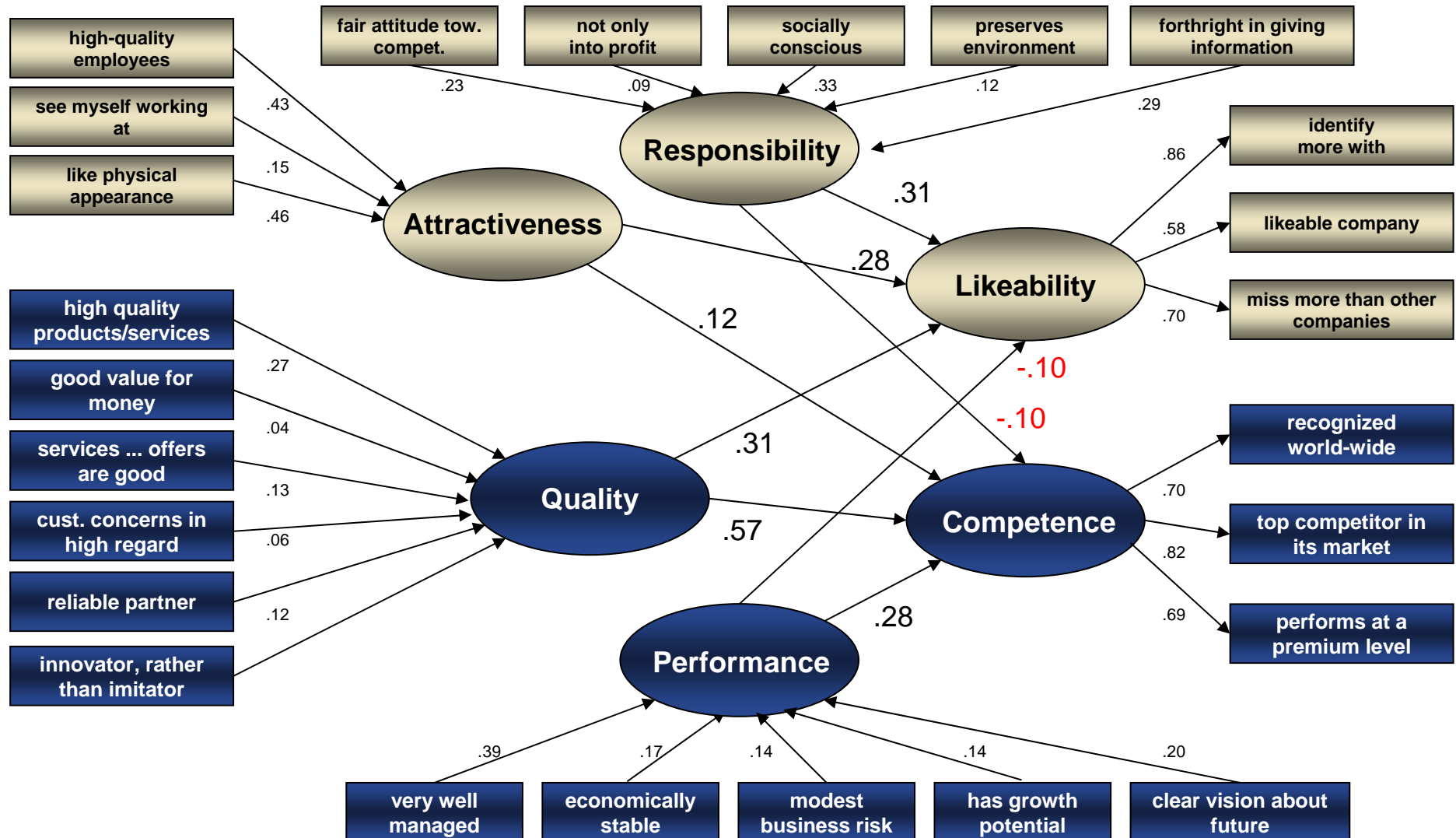
# Second Step: Explaining reputation

For every dimension drivers are deposited

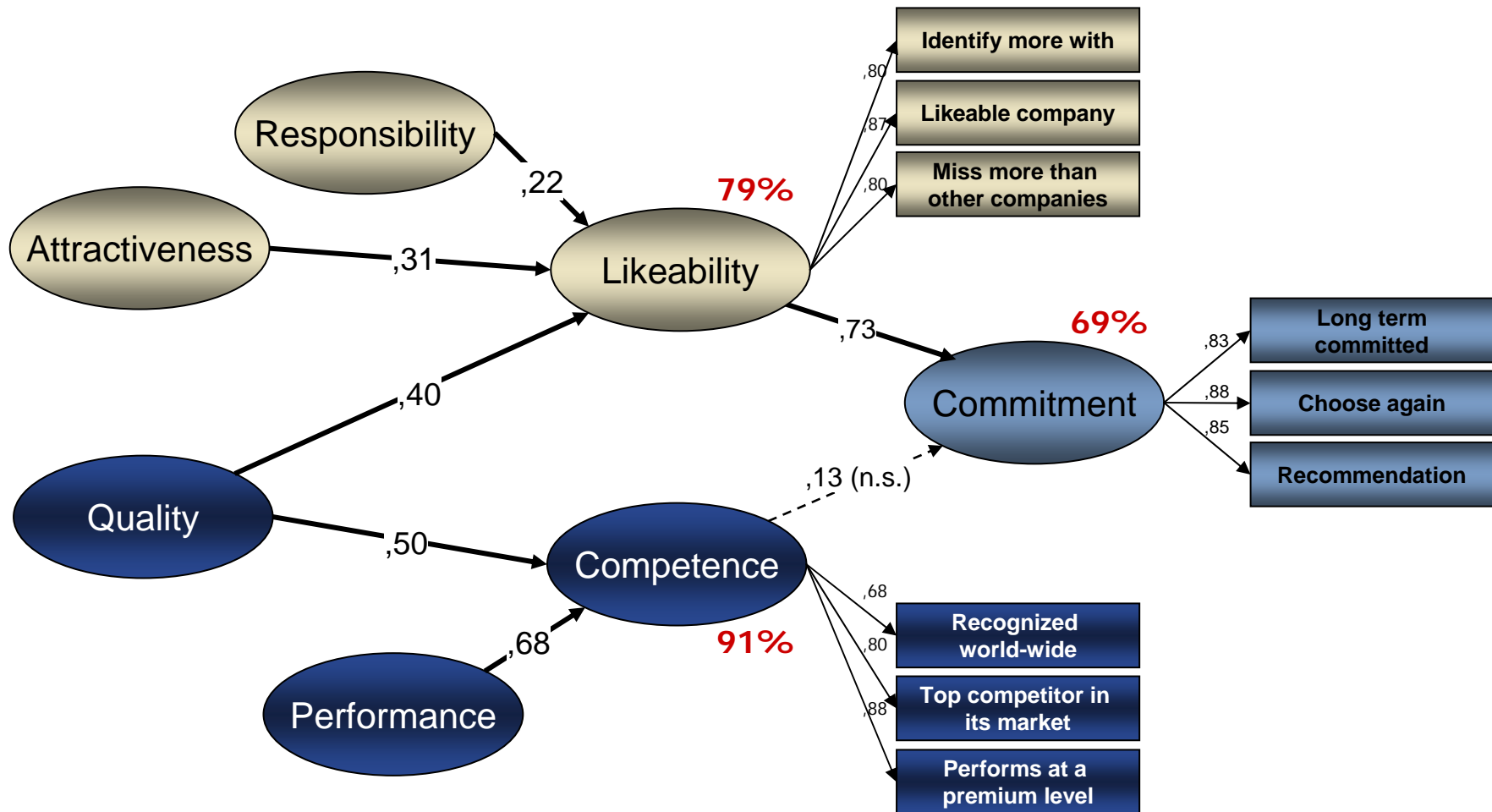


# Second Step: Analyzing reputation drivers

Impact is calculated by means of PLS

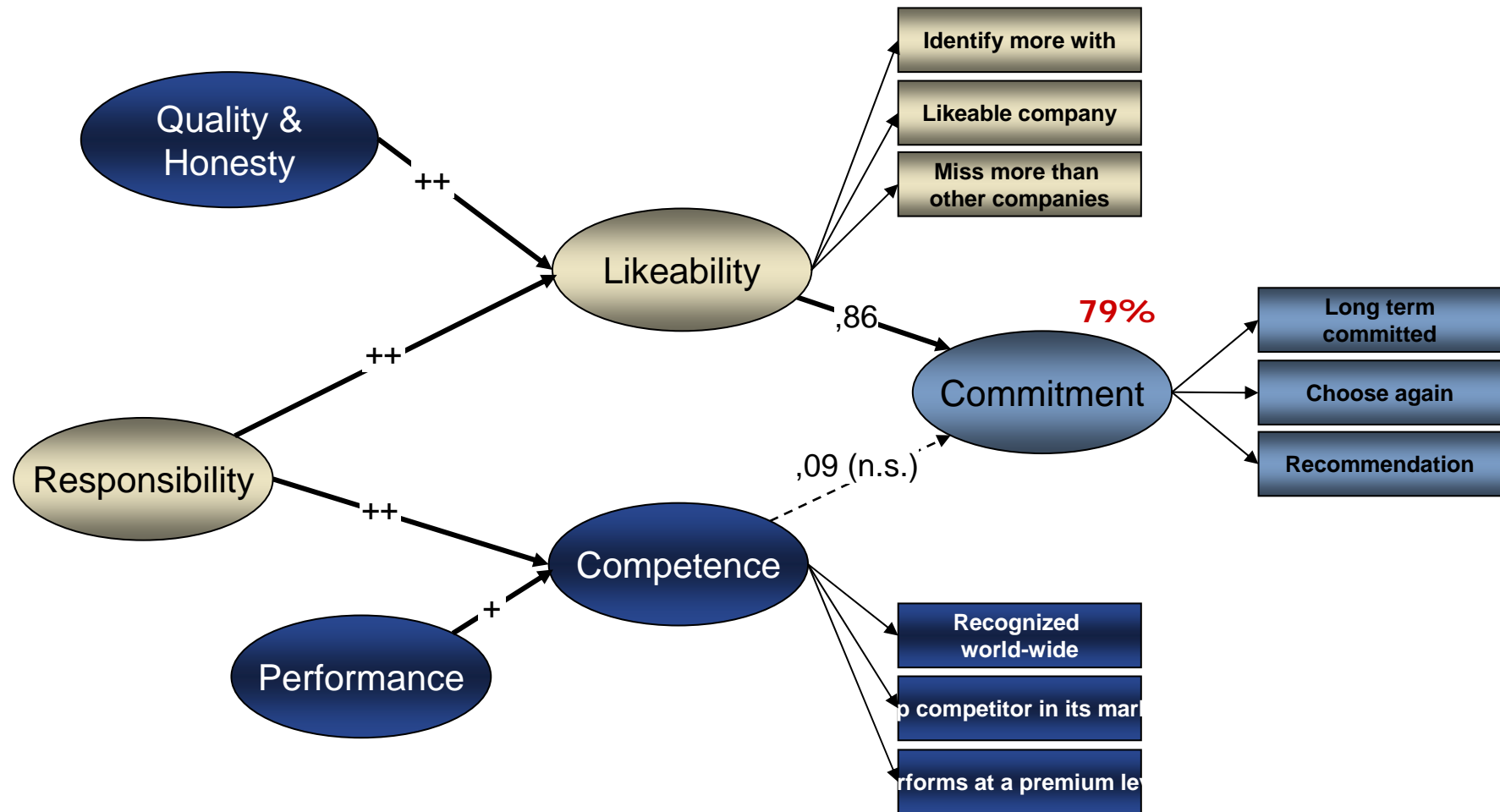


# Linking reputation to customer retention proofs a significant effect of likeability (ex.: power suppliers' market)



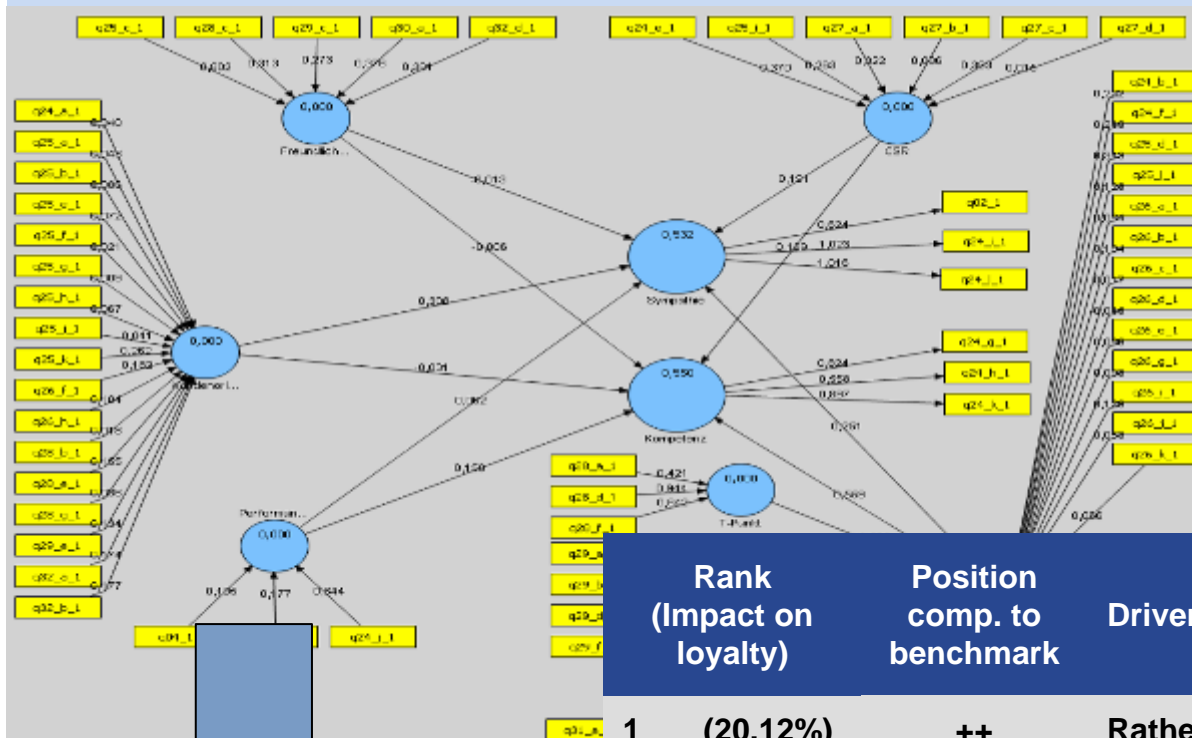
Source: Schwaiger, M.; Zinnbauer, M. (2003): Unternehmensreputation: Treiber der Kundenbindung auch bei mittelständischen EVUs, in: Zeitschrift für Energiewirtschaft, 27. Jahrgang (2003), No. 4, S. 275-280

## ... and in the bank market



Source: Zinnbauer, M.; Bakay, Z.; Schwaiger, M. (2004): Hohe Reputation stärkt bei Banken und Sparkassen die Kundenbindung, in: Betriebswirtschaftliche Blätter, Heft 06/2004, S. 271-274

# PLS analysis allows calculating a “driver ranking”



	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	...		...	...

## The impact factors indicate which claims change customer loyalty strongest (if indicator changes)

exemplary

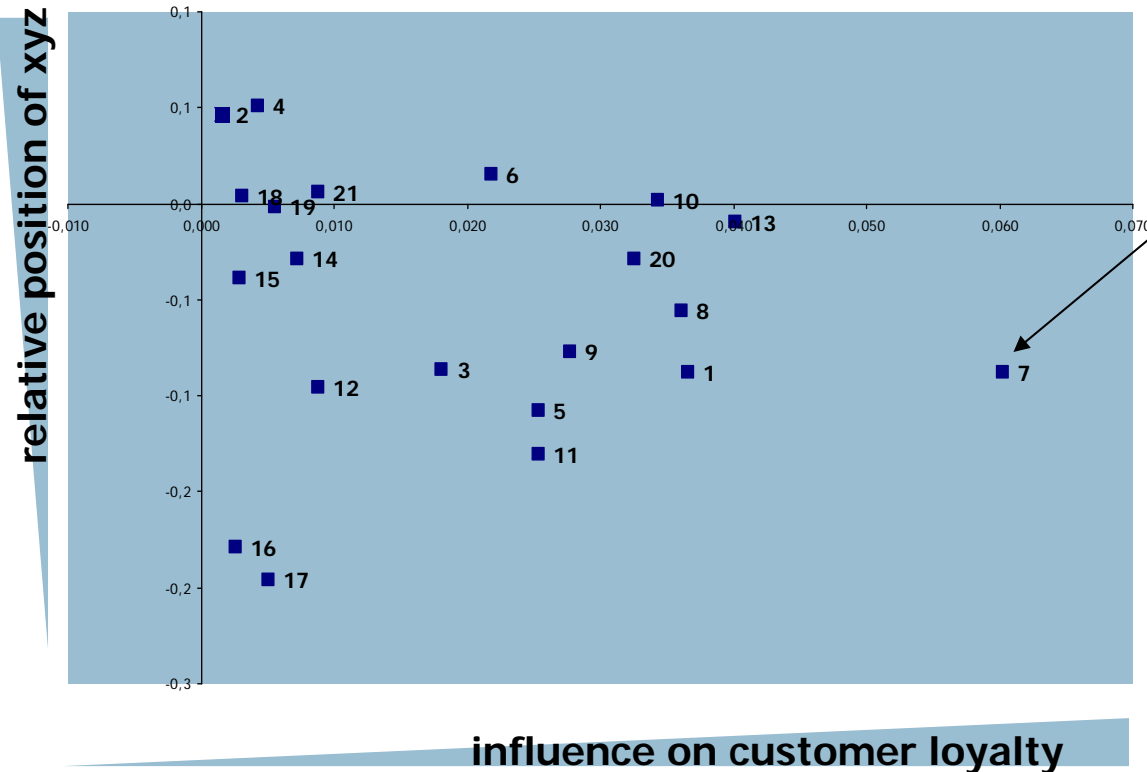
	<i>Driver of trust in XXX</i>	<i>Impact</i>	<i>Factor</i>
1	Reliable partner for customers	28.9%	Quality
2	Innovative	14.0%	Quality
3	Security of employment	12.5%	Attractiveness
4	Fair attitude towards competitor	8.6%	CSR
5	Worldwide leader in its sector	8.4%	Quality

How to read this table: If all collected and significant drivers determine reputation at 100%, how large is the fraction determined by the claim “reliable partner for customers” (ceteris paribus)? Answer: 28.9%

**Result in this example: Reliability, innovation, and job security are TOP-drivers of trust (via Reputation) in France**



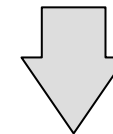
## Third Step: Derive recommended actions from driver rankings and competitive positions...



### 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.



2006 Strategist of the year

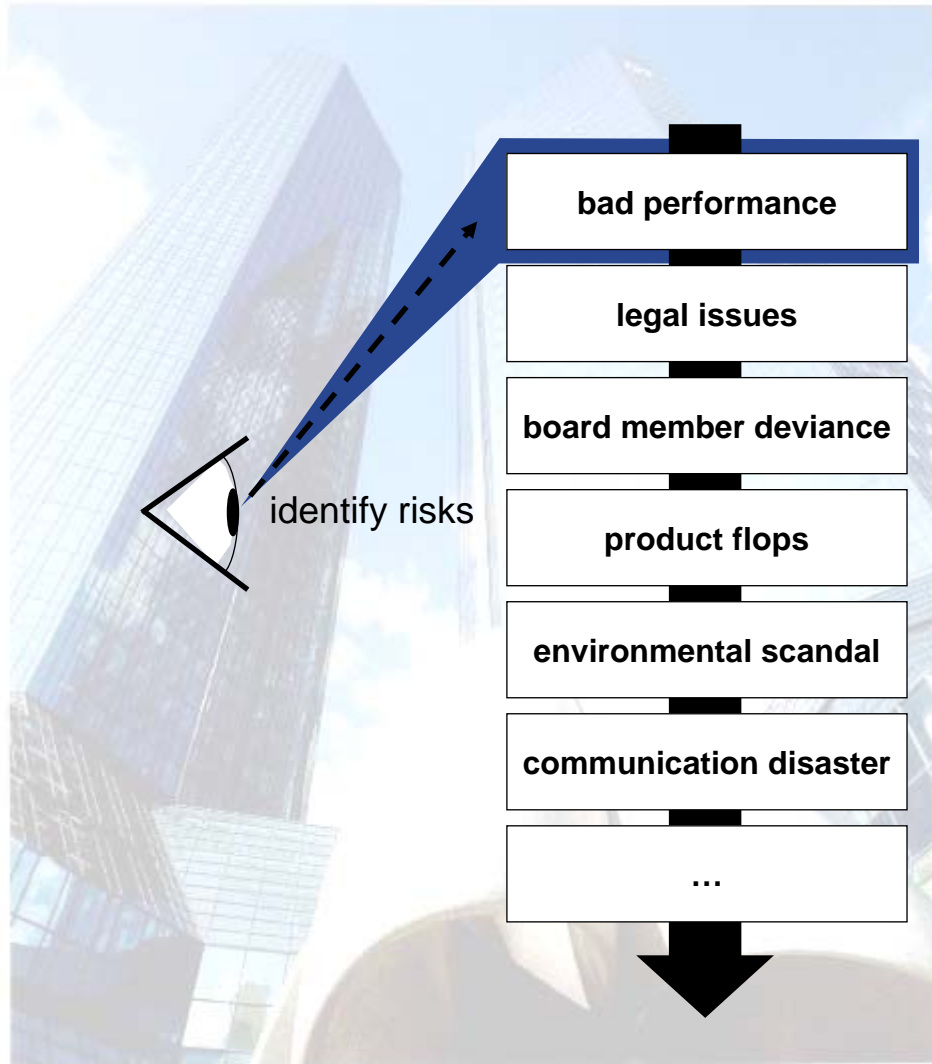
Dimension 1 = impact on outcome

Dimension 2 = position in the strategic benchmark group

**Facts are not sufficient – communication is essential**  
**Visualization example**

*Video insert*

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



Unfortunately: That does not always work...

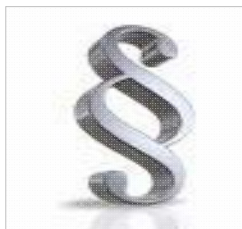


# Statistics would not let us determine downside risks → MA-RISK



**Output/  
Service**

**Ethics and  
social  
responsibility**



**Non -  
Compliance**

**Events/  
catastrophes**



# 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 eing...

### Reputation Tool - Demonstration

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

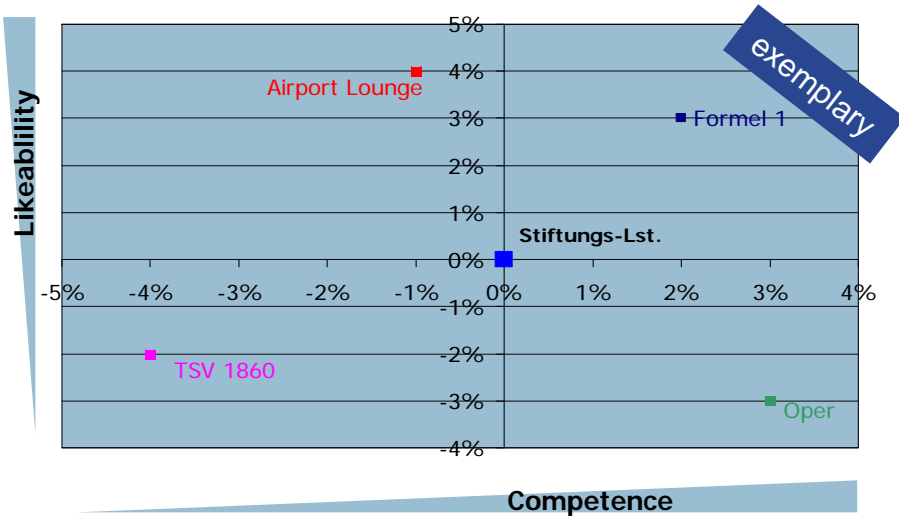
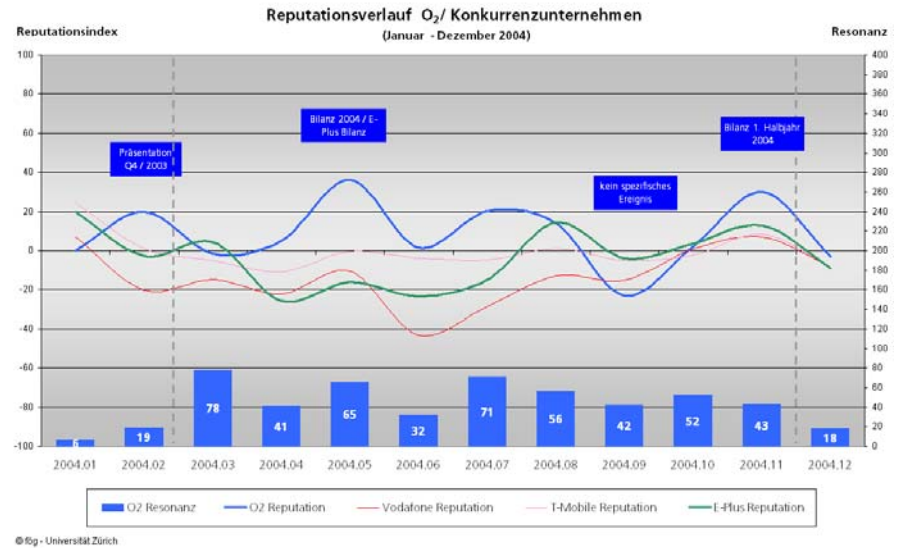
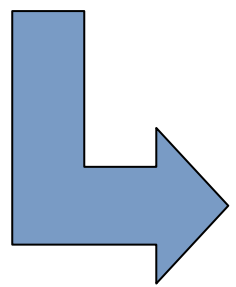
**Nachfolgend können Sie den erwarteten Reputationseinfluss einzelner Maßnahmen beurteilen und mit dem Reputation Score bewerten, der sich zwischen 0 und 10 bewegt.**  
 Und so gehen Sie vor: Bewerten Sie auf der Skala von 0 bis 10, wie stark die einzelnen Aussagen auf die betrachtete Maßnahme zutreffen. 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: ●●●●○

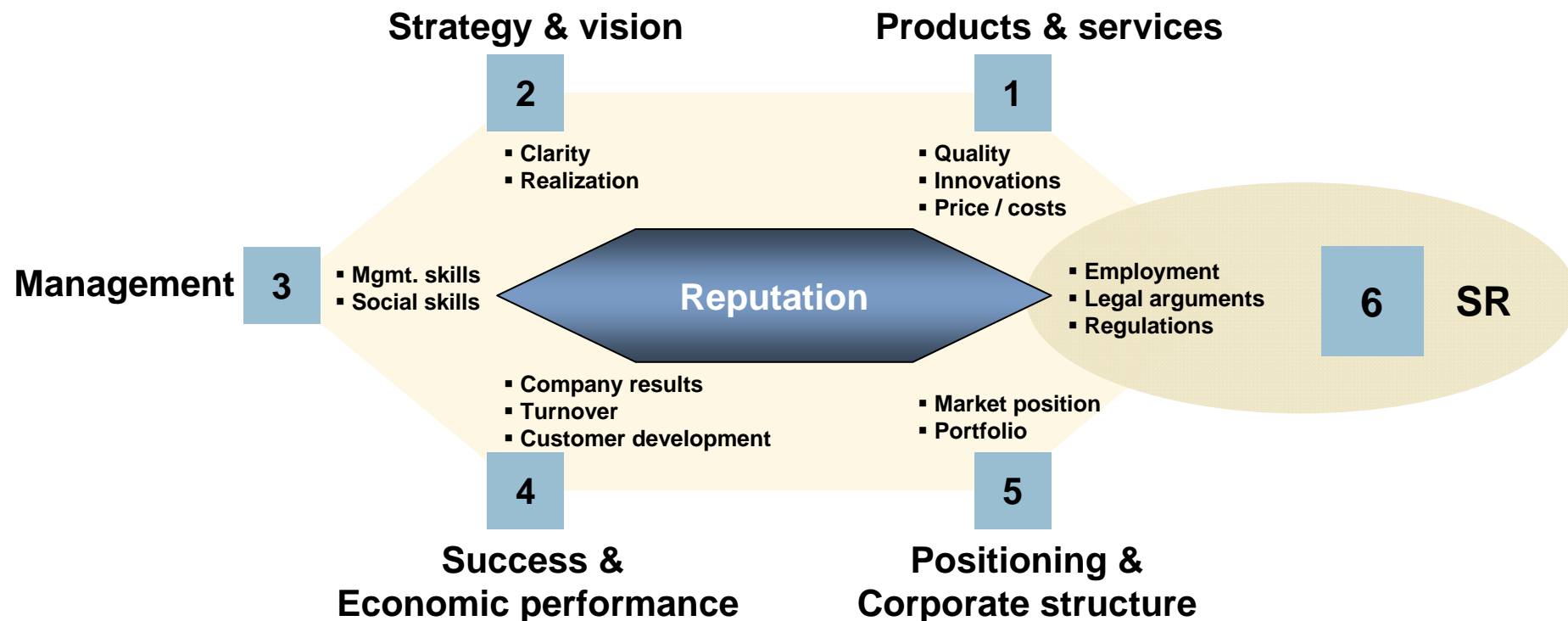


# Linking reputation management to media response

## Using driver analyses to generate an encoding tool

Inductive analysis of reports in main channels

→ Assignment to the measurement model based on detailed consideration of the contents / assignment of the dimensions is possible.



## Discussion

