

# Vision, courage and the ability to execute strategy – the foundations of corporate reputation



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## **Is corporate reputation important?**

There is growing interest in corporate reputation and its contribution to business success. Corporate reputation is 'the overall estimation of a firm by its stakeholders, which is expressed by the net affective reactions of customers, investors, employees and the general public.' It is based on how a company is publicly perceived to perform in a wide variety of business areas; leadership, financial soundness, quality and the workplace amongst others.

This interest stems from recognition that there is a relationship between corporate reputation and corporate performance. Research has shown that:

- A superior reputation often goes hand in hand with superior financial performance. According to *Fortune* magazine 'A ten year investment in most admired companies ... across industrial winners and high growth services would have returned almost three times the shareholder value of the Standard & Poor's 500 stocks.'
- A favourable reputation encourages shareholders to invest in a company
- It contributes to the attraction of good employees
- It helps to retain customers

And given that up to 75% of a company's value can be derived from intangible assets, then corporate reputation, as the company's most important intangible, will be high on the strategic agenda.

### What information exists about corporate reputation?

There are three main sources for measuring corporate reputation.

First, there has been a British survey of Most Admired Companies since 1990. And over the years more than 600 British companies have participated first in the *Economist* and then in *Management Today* surveys. In the early years of Britain's survey it was a 'consistent, stable core of world class companies,' that seemed always to be on top and the correlation between 'financial performance and admiration is indisputable'. Then, as the years went by, the scope of reputation became broader – innovation was increasingly recognised, so as were the clarity of the company's strategy, the quality of its management and quality of goods and services.

In America, *Fortune* Magazine has run the Most Admired Companies awards, since 1983. Winners have included IBM, Dow Jones, Coca Cola, General Electric and Procter and Gamble. The Annual survey has become a feature in the America's business firmament and it has grown as an event over the 25 years of its existence. In the early 1980s America's Most Admired surveys covered around 250 companies; by 1992 this was up to 307. In later years this figure increased to over 500. By 2007 thousands of managers responded to the surveys with their views about American companies. The results provide a unique insight into the perceptions of America's business leaders into the performance of their leading companies – which also happen to be some of the leading companies in the world. The results showed that the survey was dynamic from one year to the next. In 2007 'having fresh ideas and being green were among the qualities that distinguish this year's winners'. In 2006 companies that took the long view received a boost and in 2005 it was the companies that 'avoided commodity hell.' The results of America's Most Admired survey reflect both a deep and wide view of American economic success for the past 2 decades.

And there's a world-view to complement these. Since 1997 Hay Group, on behalf of *Fortune* Magazine has conducted research to try and answer the question of which is the most admired company in the world.

The three surveys ask executives to rank each participating company against a series of characteristics. The ranking of the nine characteristics in order of importance in the British survey is as follows:

- Quality of management
- Financial soundness
- Quality of products
- Ability to attract, retain and develop top talent
- Value as a long term investment
- Capacity to innovate
- Quality of marketing
- Community and environmental responsibility
- Use of corporate assets

The American and World surveys use a similar approach though there are slight variants (the American survey doesn't have quality of marketing; the World survey adds 'globalness'.)

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### The Most Admired Companies in the World

In our book *The Admirable Company*, we have analysed the performance of over 1000 companies that have participated in the Most Admired surveys over a 20-year period and highlighted which companies have been at the forefront of corporate reputation. In Britain, for example, Tesco has built a formidable corporate reputation over a ten-year period. In America, General Electric, one of the first 12 companies in the Dow Jones Index in 1896, and more recently led by managerial icons Jack Welch and Jeffrey Immelt, has forged an equally impressive path to reputational advantage. These two are joined by, amongst others, Berkshire Hathaway, Microsoft, Toyota, BP, Nokia and BASF as exemplars for corporate reputation.

But the democracy of admiration ensures that no one company or business sector achieves an unassailable position over time. And so Steve Wynn's Mirage Hotels in Las Vegas, The New York Times and Manchester United Football club have been able to achieve 'admired' status. The tide of admiration ebbs and flows with each annual survey and only those companies with the greatest awareness of their own perceived position in their chosen markets are able to sustain their reputations in the face of this unyielding pressure.

Taking all of the results and out of the 1000 or so companies that have participated, around 50 have won in more than one category or for more than one year and include such companies as Dow Jones, Philip Morris, Cisco, Procter & Gamble, Unilever, Toyota, Astra Zeneca, Smiths Industries and Vodafone. Some

companies, such as Merck and IBM have a strong historical legacy achieving enormous success in the 1980s and 1990s, but have not won outside of their specific industry sectors since the year 2000. Others, such as Google, are fairly recent entrants into the most admired survey rankings. And yet others – BT and Unilever for example, are notable for some successes over time – often in a specific category of measurement.

However, a few companies have been able to build on historical success (before 2000), sustain this and come top in categories in the past few years as well. These companies have demonstrated that they have staying power as well as the ability to deliver in the short-term.

### **The Most Admired Companies in the World – Most Admired surveys 1983–2008**

- Microsoft
- Berkshire Hathaway
- Exxon Mobil
- Citigroup
- General Electric
- Wal Mart
- Tesco
- Cadbury Schweppes
- GSK (or Glaxo)
- BSkyB
- Shell
- BP
- Marks and Spencer

### **The Most Admired Companies in the World – conclusions**

Our research sought to identify which factors had made these companies stand out from others in terms of securing a high level of corporate reputation. A few key points stood out.

*First, a reputation, hard won over decades of successful business, can fall like a stone. Keeping that reputation is something that is a constant challenge to even the best companies. To do so means recognising that admirability isn't just about one big putsch but*

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*about processes enabling a long term, constantly improving approach.*

*Second, admirable companies learn from their performance and make adjustments to improve it; positively building barriers against competitors for the things it does well and remedially fixing things that aren't going well. Globally admirable companies learn as they go and their strategies evolve, even though the principles on which they have built national success may remain the same. And admirable companies are able to cope with and adapt to adversity, evolving their business strategies accordingly.*

*Third, winning Most Admired status is a platform on which to build. Admirable companies are able to do that in the long run, even if they have short-term difficulties. Admirable companies invest in the areas for which they are admired and eliminate or improve those for which they are not.*

*Fourth, there are some basic principles in Most Admired companies such as strategic focus; a commitment to the long term; increasing utilization of assets whilst controlling costs and leveraging economies of scale.*

*Fifth, admired companies instill the principles of partnership in the company. They also see shareholders as partners. In particular admirable companies pay close attention to their customers because if a company loses sight of its customers' needs, then it will fail, regardless of its reputation.*

Finally, to be successful in world markets requires both vision and courage. But even these two things aren't enough... the ability to execute strategy is also paramount.

The cataclysmic events in the world's stock markets at the end of 2008 prompted by the credit crunch and sub prime mortgage crisis will test the ability of companies to sustain their reputations. Following these key principles will be important contributions in this regard.

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