„The Stakeholder is King“

About the Influene of Corporate Reputation on Busines Success

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A positive attitude towards a company has a positive effect on the assessment of the products and services offered by that company. The entirety of the attitudes that stakeholders – i.e. important key interest groups such as clients, business partners or investors – consciously or unconsciously have towards a company is called corporate reputation. It is generally also known as the “good name” or “prestige”.

It is important for the senior management to note that a good reputation and the associated positive attitudes towards the company are not only a vain end in itself but that they contribute to the business performance. A positive corporate reputation measurably increases, for example, recommendations and buying behaviour of clients or shareholders of the respective company. Apart from that, the reputation is an important factor in building up or strengthening the stakeholders' trust in the respective company, its management, its employees and ultimately in its products and services.

Unfortunately, this causal relation between corporate reputation, trust and business performance, which has been proven by empirical studies, does not only work in the positive direction but also the other way around: The financial result measurably suffers from a negative corporate reputation, as demonstrated repeatedly by numerous examples. Thus, sales of Volkswagen diesel cars in the US have been approaching zero ever since the “diesel gate” crisis became public and was managed unprofessionally by the German car maker.

Companies that systematically care about their reputation know this and act accordingly in order to continuously establish or strengthen their good reputation. This does not imply that “caring” must necessarily equal huge investments. What is essential is to seek regular, honest feedback of the most important stakeholders – and to analyse this feedback systematically and impartially and to draw the right conclusions from it.

A common mistake is that only existing clients are sur veyed. Of course, their feedback is very important. In order to detect hints to enhance business, however, it is more revealing to also survey potential clients that are currently using the products or services of competitors – and then to use modern analysis methods to determine how this group might be convinced to move away from the competition to the own company.

Business Result not only determined by clients

Yet another common mistake when it comes to surveys is the general limitation to clients or consumers – following the traditional motto: “The customer is king”. This perspective completely ignores, though, that corporate reputation – and thus business performance – is not solely determined by this group but also by other important stakeholders such as business partners, regulators, competitors, suppliers, employees or investors.

Potential corporate buyers also know that a company can only be sustainably successful if the key stakeholders trust the company and if it disposes of a good reputation. As part of the corporate review, it can therefore be useful to get the most accurate possible assessment of the reputation of the company and on the clients' trust in the company. If the seller is able to supply corresponding data thanks to a systematic reputation management, they can underpin the credibility of future business expectations. Should, in contrast, the buyer find indications that will lead him to think that it is not looking good for the reputation and trust of key stakeholder groups in the company, they should be aware of the fact that the aspired business development will take more time. Time, during which the company will not develop as fast as the market and, thus, competitors. In this case a reduction of the purchase price is justified.

Another important aspect, especially when it comes to the purchase and sale of small and medium-sized companies, is the role of the leaders or – as it is the case at private or owner-managed companies – the so-called “patrons”. Especially in the B2B business many stakeholder relations – and thus also a part of the overall reputation – is based on the personality of the owners themselves.

Self-Description and External View

In this context a vital role is accorded to the corporate brand, which determines the basic values, the self-image as well as the goals and the mission of the company and its management, and which should be familiar and obligatory to all employees. While the corporate brand represents a performance promise, the corporate reputation is the measurable feedback to what extent companies actually fulfil their own promises in the eyes of the stakeholders or which expectations and attitudes the stakeholders have towards the company. With this in mind, brand and reputation of a company are two sides of one coin: the brand as self-description and desired positioning and the reputation as the actual external view of the stakeholders of the company.

But how to credibly demonstrate that corporate reputation is not only “nice to have” but a solid strategic factor that needs to be professionally managed and, thus, justifies adequate attention and resources? Given the lack of empirical evidence, scepticism is understandable. But within the context of “predictive analytics” the issue is now moving more and more into focus of practice-oriented reputation research and reputation management.

The so-called causal-analytical approaches prove to be particularly promising. They calculate causes and effects of corporate reputation based on evidence. On the basis of stakeholder surveys this method is used to identify the key success factors of the reputation of individual companies for their business success.

More simply put, in a first step they calculate what aspects of the corporate reputation – for example “service quality”, “product quality”, “innovative power”, “social responsibility”, “sustainability” or “management quality” – are vital for the stakeholders' trust as well as for their future behaviour towards the respective company. In a second step they use a corresponding algorithm to identify the individual specific factors that are responsible for the positive perception of the important aspects calculated in the first step, for instance, “service quality”.

This way, the senior management receives reliable information on how the most important stakeholders perceive their company and which elements of corporate reputation are most relevant for business. And also what exactly needs to be done in order to shape these decisive perceptions (more) positively. By doing that resources can be better targeted and focused – without the usual scattering loss. Thanks to the causal-analytic methodology – unlike other conventional, purely descriptive approaches or those based solely on correlations – management can divert reliable, specific recommendations for action that will positively influence the behaviour and trust of stakeholders and, thus, will contribute measurably to the business success.

In this context, it is important to emphasize that this method is no “whitewash” exercise since the derived measures are indeed based on honest feedback and concrete expectations of the stakeholders towards the respective companies. So, basically, it is about knowing the stakeholders' expectations as precisely as possible – and about meeting them “custom-fit”. If applied consistently, this approach constitutes a scientifically-based further development of the slightly dusty slogan “The customer is king” – as in the future it should rather be “The stakeholder is king”.

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