CREATING A NEW CORPORATE CULTURE FOR SUSTAINABLE GROWTH AND HIGH PERFORMANCE

A case study

Selim Oktar
Emre Erdoğan
Tahsin Saltik

Corporate reputation has become an important component of today's business literature. Numerous academic studies and interest in coverage increase regularly. Parallel to this increasing emphasis, a significant opportunity is open to several actors. However, the discipline is suffering from institutionalization. This paper explores the emergence of methodological problems as signals of institutionalization of a new paradigm and underlines the importance of methodological criticisms. By specifically emphasizing the measurement of corporate reputation, this paper identifies methodological threats. A case study is presented as an example and to provide further learning.

INTRODUCTION

Corporate reputation has become an important component of today's business language. A recent issue of *Financial Times* contained a full page Deutsche Bank's advertising stating the importance attributed to this phenomenon: "What is more valuable than winning major awards" they asked, and then answered: "client relationships". When this advertising is considered with the statement of the chairman, Ackerman, noting that business leaders have to learn that they are paid to create value over time; the importance given to clients by the greatest bank of the Europe is clear.[1)]

Following this emerging interest, methodological confusion dominated the agenda and challenging institutionalization of the discipline. Several authors addressed the problem of a multiplicity of approaches and lack of a common language. The most important obstacle behind the expansion of the discipline is closely related to this methodological confusion. Increased communication between actors of the field is an important step towards establishing a common language.

This paper discusses this confusion from a systematic point of view. We believe that this confusion is a result of institutionalization of the paradigm. For this reason we propose opening up the field to mutual criticisms and provide a suitable environment for scientific improvement.

This paper starts with a description of two different views of businesses defining functions and limits of businesses. Thereafter the determinants of a shift from one view of business to other one is provided and alternative definitions of the concept of "corporate reputation" are presented. The following section emphasizes the lack of a common measurement of corporate reputation, showing how existing measurements of corporate reputation are faced with threats of validity. Our experience as the KOÇSİM project team will help demonstrate empirical evidence for these validity problems.

Finally, the case study emphasizing Koç Holding will show how close cooperation between clients and agents is critical and how numbers provided by research projects are converted to communication activities and strategies.

TWO VIEWS OF BUSINESSES

Why should corporations care about their reputation within society? Are they responsible to society and where do obligations towards society begin and end? Answers given to these questions are closely related to the "world view" and "*raison d'être*" of businesses. The famous economist and Nobel winner Milton Friedman (1970) has a very simple answer, summarized in his famous motto: "the business of businesses is making their businesses":

> *"(T)here is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud".*

The logic behind his approach to business world is not very complicated: According to Friedman, talking about the social responsibilities of business is analytically invalid and lacks rigor. First of all, the responsible person, the corporate executive, is an employee of the owners of the business and directly responsible to his employers. His responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom. If the corporate executive placed more priority on social responsibilities than making profit, "the corporate executive would be spending someone else's money for a general social interest", which is certainly contrary to his/her responsibilities. According to Friedman, enforcing corporations to care about social responsibilities is confusing politics with economics, which is a serious threat against free market capitalism. That's why the function of business is strictly limited to business.

These words of Friedman may be considered outdated, however it is a clear example of a world view about business functions labeled as the "efficiency view" by Rodriguez et al (2002: p. 1), who summarized with the "social responsibility of businesses is to increase their profits with no other limits than those established by law and common decency". According to Cook and Deakin (1999), the problematic definition of the functions of businesses is much related with the concept of "corporate governance" defined as 'the structures, processes, cultures and systems that engender the successful operation of the organisations' (p. 2). Cook and Deakin define alternative systems of corporate governance: the "outsider system" which is associated with Anglo Saxon-American system, characterized with separation between management control and shareholder ownership, contrasting with the "insider system" of the Continental Europe and Japan. The insider system of corporate governance is characterized by:

> *"... cross-shareholdings, cross-representation of directorates, large investor involvement in corporate decision making, and concentrations of share-ownership. Much is made of the potential that this establishes for inter-firm co-operation and relationship-specific investments among companies and their employees, suppliers, purchasers, investors and consumer groups" (p. 4).*

The outsider system of corporate governance is associated with an active market for corporate control where shareholders exercise control over management discretion through exit, which establishes the threat of hostile takeovers.

The reasons behind the different attributes of these two alternative – if not dichotic – systems of governance are dependent on the historical evolution of markets as institutions and many other cultural and political factors as described in Polanyi's *Great Transformations* (1949). From our perspective this distinction is critical since the operations of actors under these two systems are very different. The "outsider model/orthodox model" pushes firms to emphasize relationships that can be contained within explicit contracts; while the second model also includes implicit and explicit contracts and enlarges the scope of the firm (p. 6). The first model promotes emphasizing relationships with shareholders or other business stakeholders; while the second model underlines the importance of all stakeholders including social ones. Although Cook and Deakin categorized these two approaches as "shareholder vs. stakeholder", such a limitation of the first model does not seem logical as it incorporates the relationship with customers, employees and providers. The importance of stakeholders will be discussed below in detail.

The logical implications of this distinction are clear. The first model admits businesses as simple units competing in the market under legal and ethical restrictions, responsible to their shareholders, and perhaps to their employers as it is clearly accepted that higher employee satisfaction means higher levels of productivity. The major criteria in evaluating businesses are financial since dissatisfaction of shareholders may lead first to dissolution of the managerial staff, and second to takeover of the company. Consequently, corporations should care about these financial numbers, and care about other factors such as corporate image, reputation, etc. as much as they contribute to financial results. The second model sees businesses as a part of society with numerous backward and forward linkages with both economic and political structures. Their responsibilities are not limited to those against floating, anonymous and myopic shareholders; but perceptions of other actors are also critical since the corporation operates with many implicit contracts based on only one factor: trust. That's why the stakeholding model encompasses a wider set of objectives, applying to a broader set of constituencies and embodied in both quantitative financial and market share measures, as well as more qualitative relational aspects of performance involving trust and commitment (p.9).

Although the above-cited works presented the situation in a dichotic way, these two different visions of businesses are not mutually exclusive. "Outsider" and "insider" systems of corporate governance form two poles of a continuous scale rather than titles of two separate mutually exclusive categories. The last twenty years witnessed the shift of businesses of almost all developed economies towards the "insider" pole, even in the American case which is the classical example of free market capitalism. The well-known words of Alan Greenspan provide a good example of this shift:

> *"In today's world, where ideas are increasingly displacing the physical in the production of economic value, competition for reputation becomes a significant driving force, propelling our economy forward. Manufactured goods often can be evaluated before the completion of a transaction. Service providers, on the other hand, usually can offer only their reputations." (1999)*

The concept of corporate reputation is the keyword of this emerging business paradigm. Fombrun (1996) defines the concept as "… a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all of its constituents when compared with other leading rivals ..." (p.72).

The reasons behind this shift are numerous. Keefe (2000) states five trends as determinants of the emerging emphasis on the corporate reputation. According to him, the information-driven economy in which we are living pushed businesses to become more transparent. Secondly, transition to the information economy gave consumers and investors extra power stemming from their increased access to the information. Thirdly, increased sensitivity towards ecological issues created a significant pressure against corporations from different stakeholders in the form of questioning their activities. Fourthly, the large phenomena of globalization helped the emergence of global forms of governance, especially focused on the activities of multinational corporations. Lastly, almost half a century of experience with the welfare state of Western democracies resulted in the emergence of a significant liberal agenda, meaning failure of public institutions and rising expectations from the private sector.

According to Fombrun (2000), reputation is a growing factor in creating competitive advantage. Democratization, commoditization, globalization and "informatization" are factors contributing to increased competition and pressure to differentiate. Such a pressure for differentiation increases importance of reputation. Fombrun states that "reputation helps a company attract scarce resources from different stakeholders". Higher levels of reputation improves employee relations by increasing motivation and productivity; increases customer loyalties; attracts investors at lesser capital costs and finally creates a suitable environment of favorable press and public support as a result of more efficient public, community and media relations. A white paper published by Business for Social Responsibility claims that higher levels of corporate reputation improves financial performance, reduces operating costs, enhances brand image and reputation, increases sales and customer loyalty, productivity and quality, ability to attract and retain employee, reduces regulatory oversight and facilitates access to capital.

In addition to these theoretical expectations, several studies showed that the reputation of corporations provides them with significant advantages upon the society, customers and investors. The Reputation Institute states that a 5% difference in corporate reputation results in a 1% - 5% difference in market value. Another study cited by the same institute claims that high reputation companies handle crises better and recover much more rapidly compared to other corporations. A detailed statistical analysis conducted by Park et al (2000) showed that corporate reputation coupled with corporate advertising has a significant effect on purchasing decisions. Figlewicz and Szwajkowski (2002) show that stocks of companies from different levels of corporate reputation have different levels of systematic risks; and stocks of companies with lower levels of corporate reputation inhibits higher levels of systematic risks. Several studies of Harris Interactive show that customers agree with the argument that corporations are responsible to shareholders, employees, customers, plus broad social responsibility. According to a final report, only 1% of customers think that the corporations' major responsibility is only to generate profits for shareholders. Ruf et al (2001) showed that companies that improved their corporate social performance also performed better than their competitors in respect to certain financial performance measures such as growth in sales, and later on return on equity and growth within three years (p.151, 152).

Such increased importance given to corporate reputation created a significant opportunity space for several actors. As the number of academic studies concerning determinants of corporate reputation increased day by day, media's focus on the concept increased (for example the Reputation Institute states that 12.1% of total stories includes a citation to "trust in companies"), public relation companies, advertising agencies and marketing research companies developed specific competencies in this issue. However, this specific area includes a degree of methodological confusion. The Reputation Institute lists several different measures of reputation conducted by newspapers and journals (*Fortune*, *Financial Times*, *Asian Business Review*), research companies (Harris, Wirthlin, MORI UK, Yankelovich, ORC) and several other institutions. This plurality of approaches creates significant outcomes: As a result of agency competition, the area doesn't have a common language and the market is full of incomparable proprietary products. Clients are confused because of this diversification and agents fail to have value added metrics. This structure of the market leads to low credibility of agents and smaller "market size". In order to prevent this methodological confusion, several initiatives have been launched. Academic institutions have tried to develop unique methodologies of measurement (such as the Reputation Quotient of the Reputation Institute), national and supranational agencies have launched specific programmes to support standardization of the discipline (The Global

Compact of the United Nations and the Common Guidelines of the European Commission) and several standards have been launched (The Global Reporting Initiative, the Global Sullivan Principles, Social Accountability 8000 Standards, the Principles for Business of the Caux Roundtable, and the Sunshine Standards for Corporate Reporting to Stakeholders are leading examples).

This methodological confusion and lack of standardization is not surprising for a merely new discipline. From a Kuhnian approach to science, intensifying emphasis on corporate reputation as a decisive factor may be understood as a paradigm. According to Kuhn, a paradigm consists of two aspects. The intellectual aspect is composed of several axioms, "basic tenets about the broad character of nature and how it is to be studied" (Hollis, 1994: p. 84); these axioms are answers given to a given puzzle to which other existing paradigms fail to answer. In our case stated above, two views of businesses may be accepted as two different paradigms: "business of businesses is business" and "corporations as parts of society" paradigms. The crisis of a paradigm occurs when it fails to answer a specific question or puzzle: Given that there are amounting expectations from corporations in terms of responsibilities, and if social responsibilities are beyond the scope of activities of corporations; how will these expectations be satisfied? The orthodox approach failed to answer this question by only emphasizing charitable activities. When managers accepted the fact that consumers consider corporate reputations as decisive factors, they tried to improve their reputation by using their charity funds. However contribution to these charity activities remained limited compared to other factors. Then, the necessity for a new paradigm arose. Holmstörm (2000) explains the foundations of the new paradigm as follows:

> *"the business world has experienced that to ensure legitimacy a change in behaviour is required which takes on an expanded social responsibility…The neo-conventional business paradigm includes social, environmental and ethical considerations" (p. 21)*

The above-discussed arguments and explanations are other examples of challenges to the old paradigm of making business. Criticisms against the lack of theoretical foundations are highly related with attempts to develop meaningful axioms – or realistic assumptions of Friedman or testable hypotheses of Popper – which will form the foundations of the new approach.

The second aspect of a paradigm is institutional. According to Kuhn, scientific knowledge is embedded in the society through mechanisms such as fellowships, doctorate programs, government or private sector funds. Hollis (1994) states that young scientists are educated and serve apprenticeships "in which they learn to think and practice as required by the prevailing paradigm, and are promoted for learning the lesson well" (p. 86). In other words, a paradigm is institutionalized when funds are available, several academic institutions have specific programs to promote the paradigm and finally the paradigm is being reproduced through social mechanisms such as media, textbooks, etc. as a new social reality.

Several governmental, non-governmental institutions and programs launched by the academic world are clear examples of institutionalization of the new paradigm. The above-stated increased media coverage, augmented scientific interest in developing the new index, establishment of new awards and funds to be channeled and finally, excelled number of the corporate reputation congresses are clear signals of institutionalization of the new paradigm.

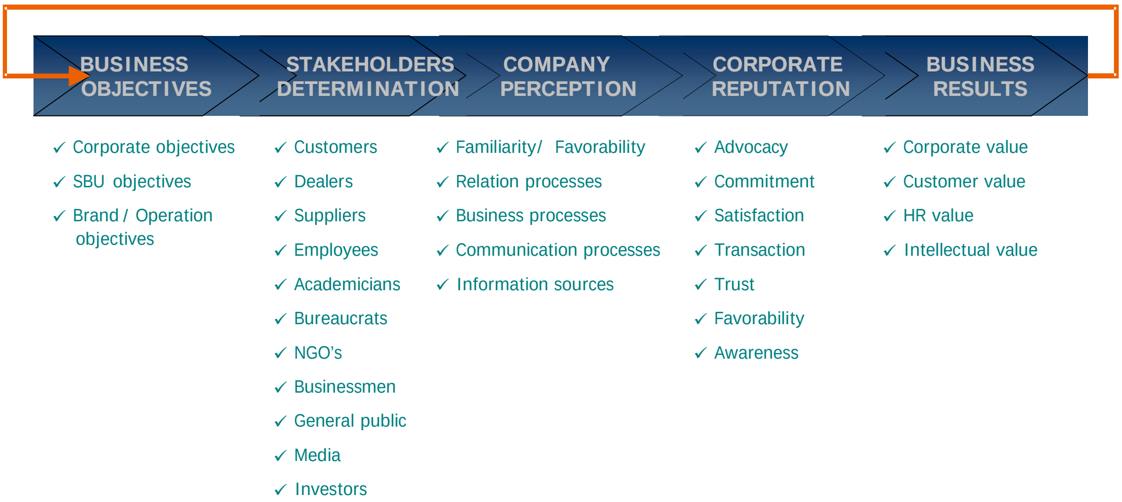
In this critical turning point, this paper aims to present some critical information to contribute to the institutionalization of the discipline. The remaining parts of this paper consists of two sections. The first discusses the validity problem of existing measurement methodologies by specifically emphasizing the validity problem. The second section emphasizes our experience as the Koç Holding and provides detailed information about how data collected through the research converted to specific actions and how research results are integrated with other kind of data.

KOÇSİM PROJECT

The KOÇSİM Project (the Turkish acronym of Corporate Strategic Communication Model of Koç Group) is a project launched by a consortium founded by three important actors: two prominent public relations companies (Bersay and Orsa) and a marketing research firm specialized in this field (Strateji|Mori, nowadays Knextep). The major target of the project was defined as "to create an ideal environment of interactive communication between the Holding and all stakeholders in short, medium and long terms". In the Green Book, the manifestation of approach and targets of the project, corporate reputation received special emphasis while the business target of the project is defined as "correct perception and transformation of corporate identity to corporate reputation and then business results" (p. 23).

The project incorporated a significant effort to be spent on research. First of all, as a baseline study several surveys launched simultaneously and later many other tracking projects have been conducted. Since the project was not limited with only the Holding Company, several affiliates (5 - 10) have been accepted within the boundaries of the project and they have been included to research projects. At the end of three years, the research effort spent was huge and such an integrated continuous project was not comparable in the Turkish marketing research sector. The study has been conducted annually since 1999 and approximately 15,000 interviews among 11 stakeholders have been conducted in total. Among these interviews, 6,000 interviews were with the general public, 6,000 were with the employees of 40 - 60 affiliate companies of the Koç Holding and 3,000 interviews with other nine stakeholders (media, NGO, dealer, supplier etc.) were conducted.

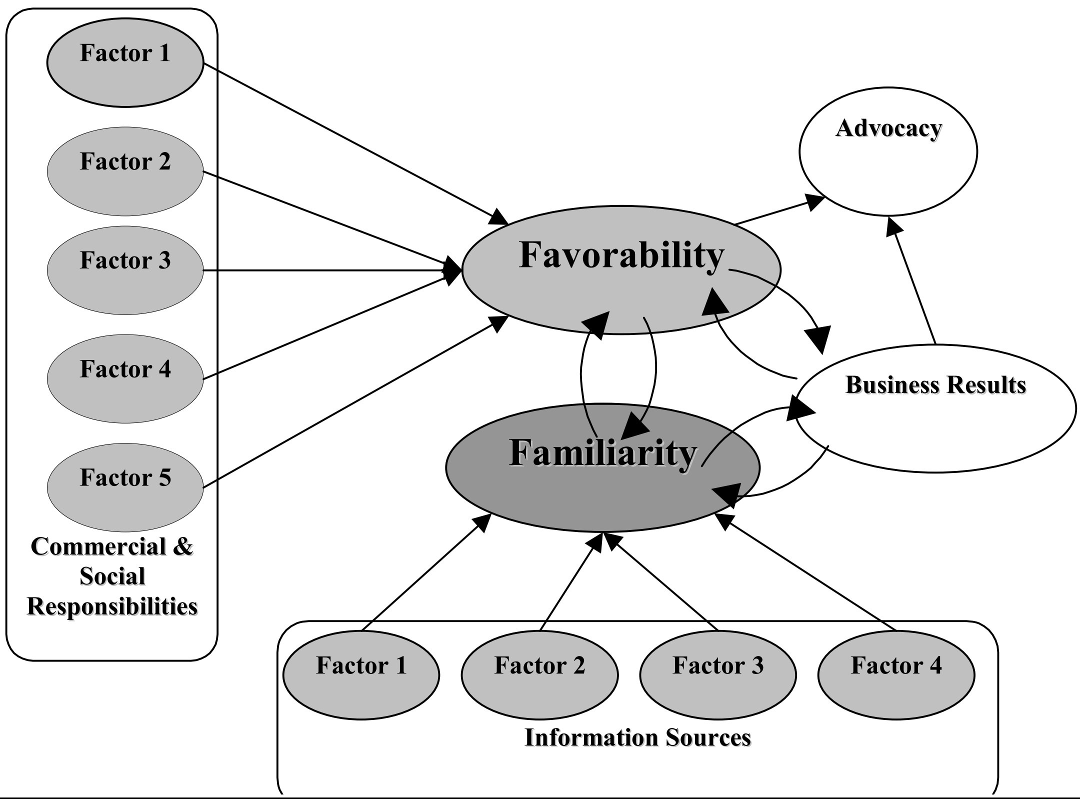
Figure 1
RESEARCH MODEL



The research process started with definition of corporate objectives at different managerial levels. Then, through a series of workshops, stakeholders of Koç Holding are determined. These stakeholders, both social and business, were accepted as critical in measuring company perceptions and corporate reputation through the above-listed different dimensions. Finally, the contributions of these dimensions of corporate reputation on business results are measured. That measurement gave a roadmap for the management of the company by setting up priority areas.

Figure 2 shows our statistical model in an illustrative way. The questionnaire includes a 30-item long battery of determinants of corporate reputation, from commercial to social responsibilities. These factors – their number changes, depending to stakeholder – affects favorability which is operationalized as a unique indicator of corporate reputation. In order to perform a comprehensive management of communicative activities, information sources through which different stakeholders receive information about the corporation are also asked and their effects on familiarity are calculated by using multivariate regression. Two additional factors are also included in the model, the advocacy and business results which are expected to be in interaction with favorability and familiarity.

Figure 2
INTERACTION MODEL



DIFFERENT MARKETS: DIFFERENT STAKEHOLDERS

The existence of stakeholders is an important assumption of the modern business paradigm. According to Gotsi and Wilson (2001), corporate reputation is "a stakeholder's overall evaluation of a company over time based on stakeholder's experience with the company". The concept is defined as groups "as all those who could affect or be affected by the company" (Cook and Deakin, 1999, p. 1). The Reputation Institute defines corporate reputation as "perceptions by customers, investors, employees, suppliers, public, analysts, media and regulators about a company's performance, products, services, activities, employees, organization". Such an emphasis placed stakeholders as the focal point of corporate reputation-related research. Today, almost all of relevant commercial or academic research includes evaluation of stakeholders.

The major problem which current studies about stakeholders face is the problem of cross-group validity of measurement. For example, the Reputation

Quotient of the Reputation Institute is calculated through investigation of a 20-item list composed of factors that could possibly affect the overall reputation of the company. This survey is applied to multiple stakeholders, allowing comparison of the reputation quotient of the company across stakeholders.

Another very well known measure of corporate reputation, the Most Admired Companies Study of Fortune, has been annually reported since the 1980s. It includes assessments of 300 or more companies sorted into 40 or so industries; it offers for assessment eight different components as part of its definition of corporate reputation; and includes in its respondent group thousands of senior executives, outside directors, and financial analysts. The measure is calculated as follows:

> *"(Corporate) equity is based on the perceptions of those influential executives outside the corner office and across all industries (the sample group consisted of 25,000 senior and middle-level management subscribers to Fortune magazine; the 35% responded assessed all companies in the survey, not just those in their industry"* (Wartick, 2002, p.13).

These two measures of The Reputation Institute and Fortune are well discussed and documented against criticisms and discussing its validity is beyond limits of this paper (Wartick, 2002). However, we can use their approaches as two idyllic models: The first admits corporate reputation as something referring to the same phenomenon across different groups and subgroups. The second approach neglects the existence of several stakeholders and emphasizes only one group of customers, potential customers or any one or other stakeholders. The second model is far from being realistic, as numerous studies showed that almost all stakeholders are relevant in determining corporate reputation. As argued above, focusing on only one stakeholder will result in oversimplification of the reality in which corporations are operating. For example, considering only shareholders or investors will result in increased emphasis on financial items; while expectations of current customers most probably will focus on product quality. Employees, potential customers, the society as a whole, the government, academia, suppliers and dealers have different expectations from a company. The reputation of a company is somewhat composed of the fulfilled expectations of these actors, while the hegemony of one of these stakeholders' perception will be surprising. That's why any research aiming measuring corporate reputation must consider the fact of plurality of stakeholders.

The first approach doesn't fail from ignoring this "plurality of stakeholders" assumption. The above-stated definition of the concept clearly refers to the multiplicity to relevant stakeholders. The methodological problem is based on calculation of the index. An important point to be stated here is that despite the multiplicity of indices, the majority of these indices are not open to the public or not documented. From a scientific point of view, the progress of a science is based upon competition of alternative paradigms. Competing paradigms present their answers to given puzzles and through scientific methodology, the most comprehensive of them becomes the dominant paradigm until it fails to answer another puzzle. Scientific inquiry is only possible through questioning of theoretical backgrounds, assumptions, findings and methodologies. If these components are not open to questioning, scientific improvement is not possible to observe. In our context, the lack of methodological documentation and unavailability of data to be replicated result in increasing criticisms against the field. The above-stated multiplicity of measures stems not from the complexity of the phenomena to be analyzed, but is related to this "black box" status of alternative measurements. We as well as other numerous authors have often cited and criticized works of Fomburn and the Reputation Institute, since they almost opened up and documented their methodologies and findings. Thus; they deserve much more praise than criticism.

It is so far argued that this approach targets to calculate an overall reputation index of a given company by aggregating measurements made upon different stakeholders. The simplest way of this aggregation is insisting on one unique formula and applying this formula to all stakeholders. The overall aggregate reputation index may then be calculated through weighted summation of these stakeholder reputation indices. It is possible to calculate weights by using complicated statistical tools or only attributing some arbitrary weights, both approaches are open to criticisms. However, the problematic point is not weighting algorithms but the external validity of measurement.[2)]

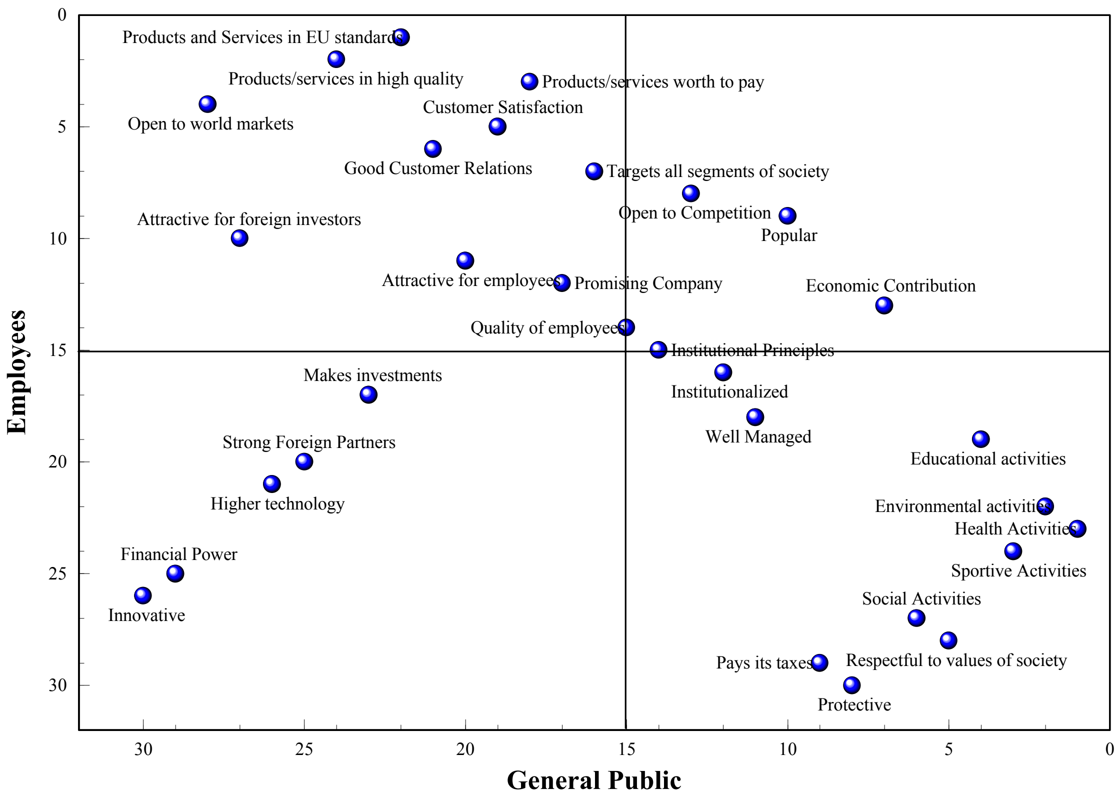
External validity is defined as the generalizability of findings of a specific measurement. This generalization may be from the test group to the real world or from one group to another group. Major threats to external validity are listed as different subjects, different settings and different time. Since the majority of surveys are conducted almost simultaneously or some control mechanisms exist to test the time effect; the first two threats deserve special emphasis. By definition, different stakeholders have different characteristics. Each stakeholder operates in a specific market under different institutional framework. Customers (existing and potential ones) live in the market in which they purchase a good or service and pay for it. Investors (shareholders) operate in capital markets in which stocks of companies embedding future earnings through dividends or trade profits are traded. Employees are suppliers of the labor market. Academicians and the media are actors of the information market, in which they produce information for use of other actors. The government is the major actor of the power market due to its regulatory and enforcement capacity. As a result of diversity of markets, it is not surprising that the priorities of these different actors vary. For example, a study conducted by MORI UK shows that the general public, members of parliaments, press and investors have different priorities in making judgements about a company (Worcester, 2003). Such a critical diversity of environments in which different actors operate poses a serious threat towards the external validity of the most common indices of corporate reputation. Is it appropriate to employ lists of criteria to every different stakeholder? Is it possible to calculate an overall reputation score for every stakeholder based on items with varying importance for them? Using the same formula for every subgroup may facilitate cross-group comparisons, however it also makes measurement questionable.

Table 1
COMPARISONS OF FACTORS AFFECTING DIFFERENT STAKEHOLDERS

	General public	*Employees*	*Investors*	*Media*
1	Health activities	Targets all segments of society	Environmental activities	Economic contribution
2	Environmental activities	Higher technology	Quality of employees	Respectful to values of society
3	Sportive activities	Products/services worth to pay	Institutionalized	Financial power
4	Educational activities	Makes investments	Institutional principles	Good customer relations
5	Respectful to values of society	Products/services worth paying for	Popular	Makes investments
6	Social activities	Institutional principles	Innovative	Popular
7	Economic contribution	Institutionalized	Respectful to values of society	Environmental activities
8	Protective	Financial power	Customer Satisfaction	Higher technology
10	Pays its taxes	Respectful to values of society	Higher technology	Health activities

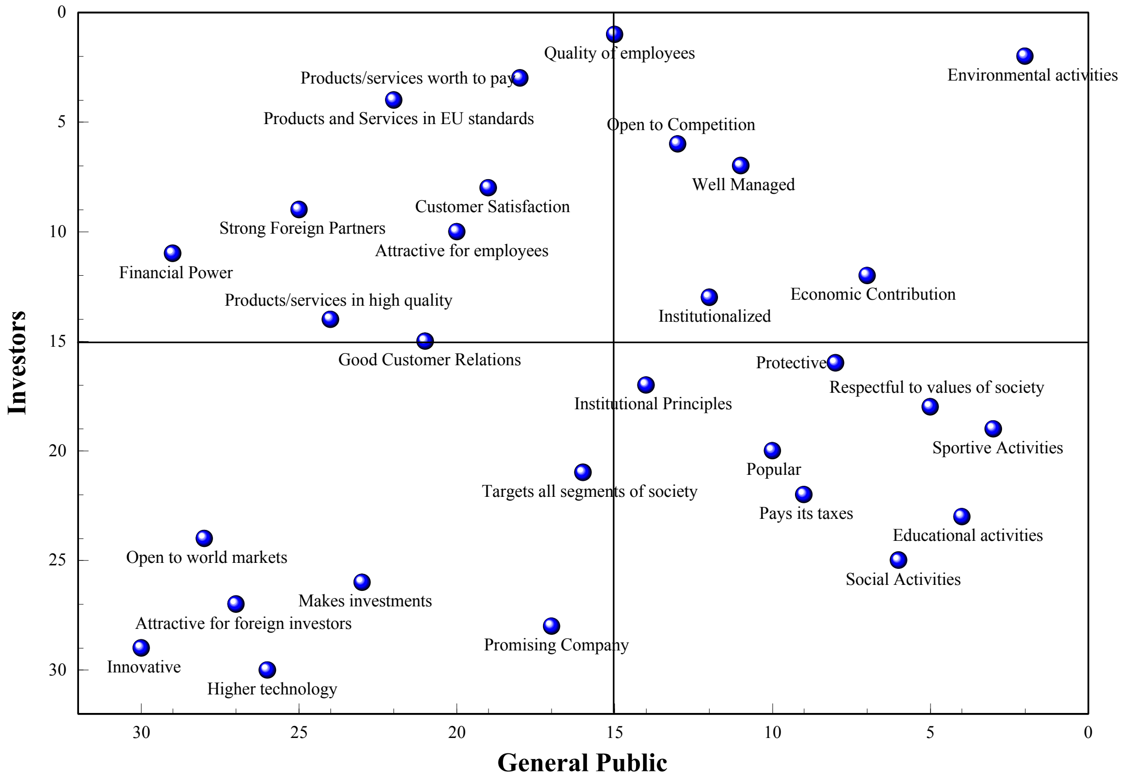
Table 1 shows the comparison of factors affecting the overall favorability of different stakeholders obtained from the last survey conducted in 2002. As argued above, our model is composed of 30 different communicable items and ten stakeholders. For the sake of simplicity, we present only findings of four stakeholders: general public, employees, investors and media. It is clearly observable that every stakeholder has its own set of priority. While factors associated with social responsibilities are very active in affecting perceptions of the general public, employees emphasize technological quality, institutionalization and financial power. Similar factors are valid for investors. Finally media's emphasis takes place on much more material side.

Figure 3
PRIORITIES OF GENERAL PUBLIC VS. EMPLOYEES (RANKINGS)



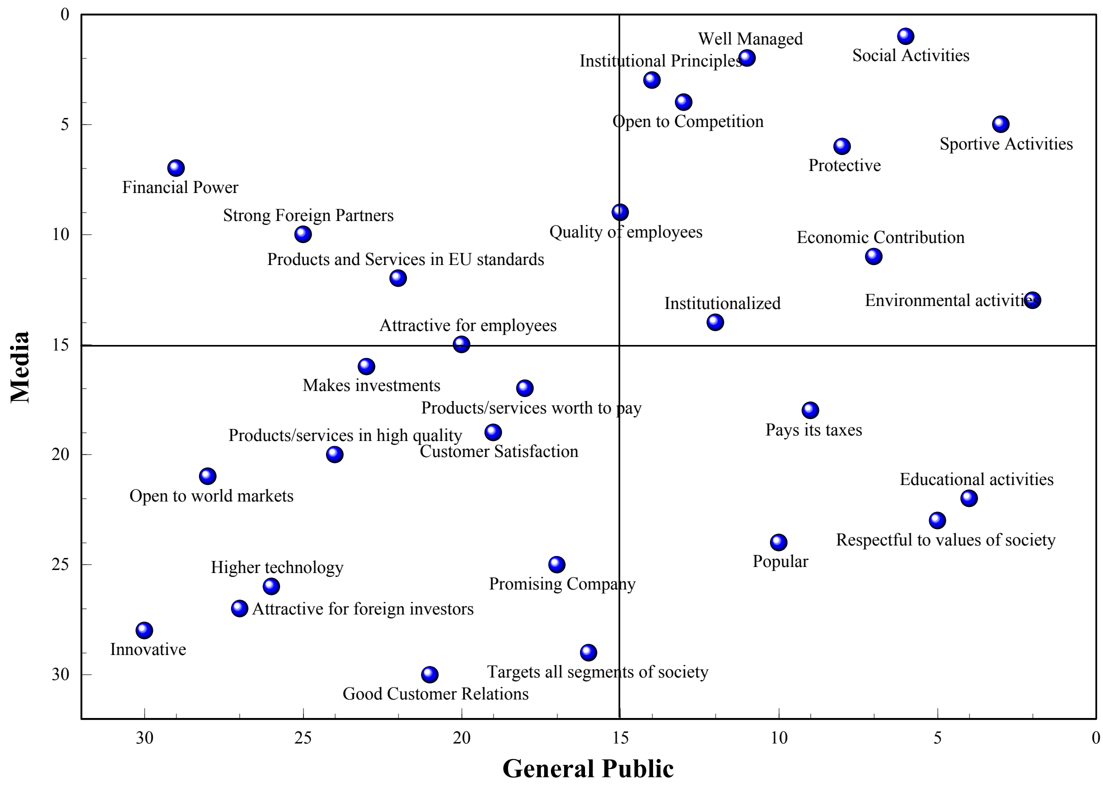
Figures 3 - 5 show much more detailed pictures of the previously stated diversity of markets and priorities. The upper right and lower left quadrants show consensual points of priorities for both stakeholders. The upper right quadrants present significant areas of action while the lower left quadrants show possible areas of ignorance when addressing these two different stakeholders. Once the fact is considered that these items also are bases for communicative action plans, such diversity becomes much more important. When you coordinate your communication activities, you have to emphasize selectively. More importantly, you have to care about findings of the research about communication channels of different stakeholders, by trying to send the most correct message to the most relevant stakeholder through the most effective channel. Using charity activities ignoring these diversities will not serve anything than increasing public relation expenses.

Figure 4
PRIORITIES OF GENERAL PUBLIC VS. INVESTORS (RANKINGS)



From our point of discussion, our experience with Koç Holding showed that the phenomenon of corporate reputation is not only something multidimensional, but also very context dependent. Indices ignoring the plurality of and variance between stakeholders may be very useful in benchmarking or comparing different institutions; but they are not very usable in constructing communicative action plans. Consequently, the field requires further discussion of alternative methods.

Figure 5
PRIORITIES OF GENERAL PUBLIC VS. MEDIA (RANKINGS)



DIFFERENT ENVIRONMENTS: DIFFERENT STRUCTURES

It has been argued so far that the majority of available indices are based on the application of the same battery of questionnaires to different stakeholders. An external validity problem is raised because of ignorance of the plurality of stakeholders and the logical implications are discussed above. Another characteristic of these indices is their standard calculation over time. For example, it is known that the methodology of the Most Admired Companies' of Fortune did not change over time. Such a standard approach contributes significantly to over time comparison and benchmarking, however it raises another threat for validity. Using the same methodology in calculating the index assumes that the phenomenon which this construct measures is time and context independent and when a change is observed, it is due to some external factors.

From a psychological perspective, corporate reputation is "the collective opinions of the members of a social group" comprised of individuals who often share impressions of corporations. Impressions of corporations are obtained very similarly to impressions of personalities: through direct experience or communication. The cognitive process that mediates impressions starts with the observation of action (any action of corporation). If this action is salient, it will be interpreted by the observer (any member of stakeholder groups) by including automatic attribution to actor's (corporation) personality. Finally, after feeding potential causes knowledgeable to the observer, the cognitive attributional process ends. This is the formation of reputation (Sjovall, 2002, p. 7). Fundamental attribution error is an important component of the automatic attribution process, meaning that there is a strong bias for such inferences even when external social or situational factors that could have caused the behavior are evident (p. 9).

This cognitive process clearly shows that perceptions of stakeholders towards any corporation are not invariable. Both saliency of actions and fundamental attribution error are subjects to external factors. For example, it is surprising that priorities of stakeholders remain invariant before and after an economic crisis. During the prosperity era, people will be much more positive against the future and more tolerant towards actions of corporations. However, if a serious economic crisis occurs, people will be much more introversive, pessimist and critical towards almost every action. These forward and backward steps may take a long time – similar to moving across Maslow's hierarchy of needs – or may occur in a very short time, like a pendulum movement. Since critical perceptions of people are very open to change, consistency of measurement over time is a subject of discussion.

In the case of use of the same battery of items which guarantees internal validity, any change in the position of given corporation may be stemming from two factors: actions of that corporation and its competitors; and secondly any external factors possibly affecting priorities of evaluators. Decomposing these two factors requires further methodological efforts, including concerning the environment in which these actors operate.

Our experience with Koç Holding coincided with a critical time period and our surveys conducted in 2000 and 2001 became affected by serious external factors. This time period is very critical since Turkey experienced a serious economic crisis in February 2001, leading to a 300% devaluation of currency, layoff of 400,000 individuals and closure of more than 100,000 companies. Such a negative economic environment resulted in changing priorities of the populace. Figure 6 shows how public opinion changed before and after the crisis. The left axis presents the percentage of respondents, while the right axis shows the net score of economic optimism. It is clearly observable that following the crisis the percentage of respondents arguing that inflation and unemployment is the most serious problem of the country increased continuously. On the other hand, terror, which dominated the public agenda during the 1990s, became irrelevant. The economic optimism index presented by using the right axis clearly shows that the public became more and more pessimist about economic conditions of the country.

Figure 6
MOST SERIOUS PROBLEMS OF THE COUNTRY AND ECONOMIC OPTIMISIM INDEX (RIGHT SCALE)

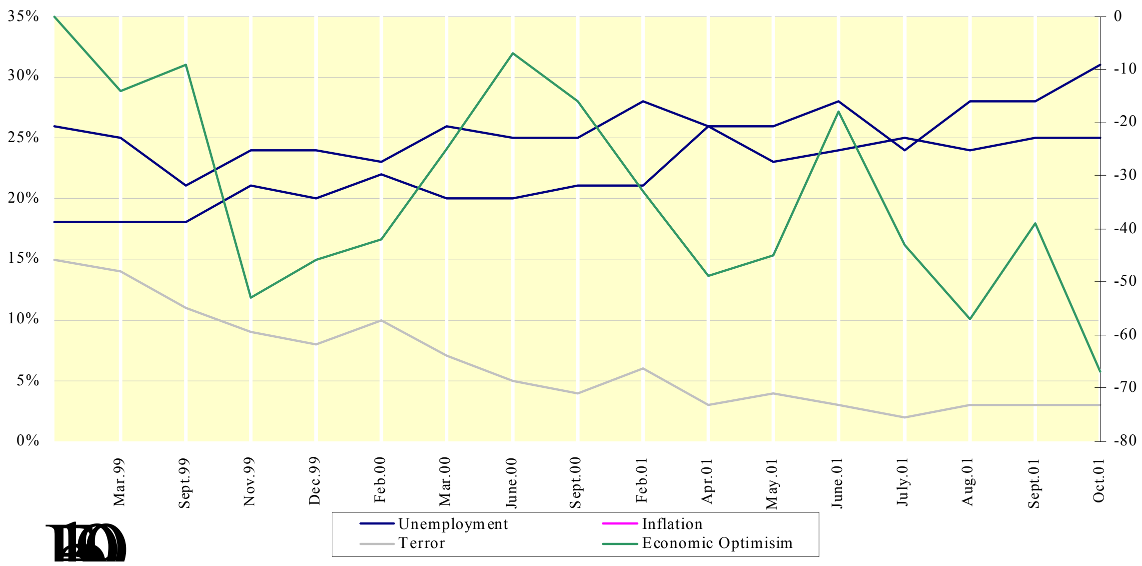


Figure 7 shows how priorities of the public changed between 2000 and 2001 (both surveys are conducted at the end of the year). The first quadrant shows items emphasized in 2001 and which were not emphasized in 2000. The second and fourth quadrants present unchanged priorities. Finally the third quadrant is composed of items emphasized in 2000 and not emphasized in 2001. The graph clearly shows that the importance of social responsibility issues did not change after the crisis, while the importance of educational activities increased significantly. Innovative capacity, technology, issues related with quality and customer satisfaction are underemphasized in 2001 while economic items like economic contribution, institutionalization gained importance after the crisis.

Figure 7
PRIORITIES OF GENERAL PUBLIC (2000-2001, RANKINGS)

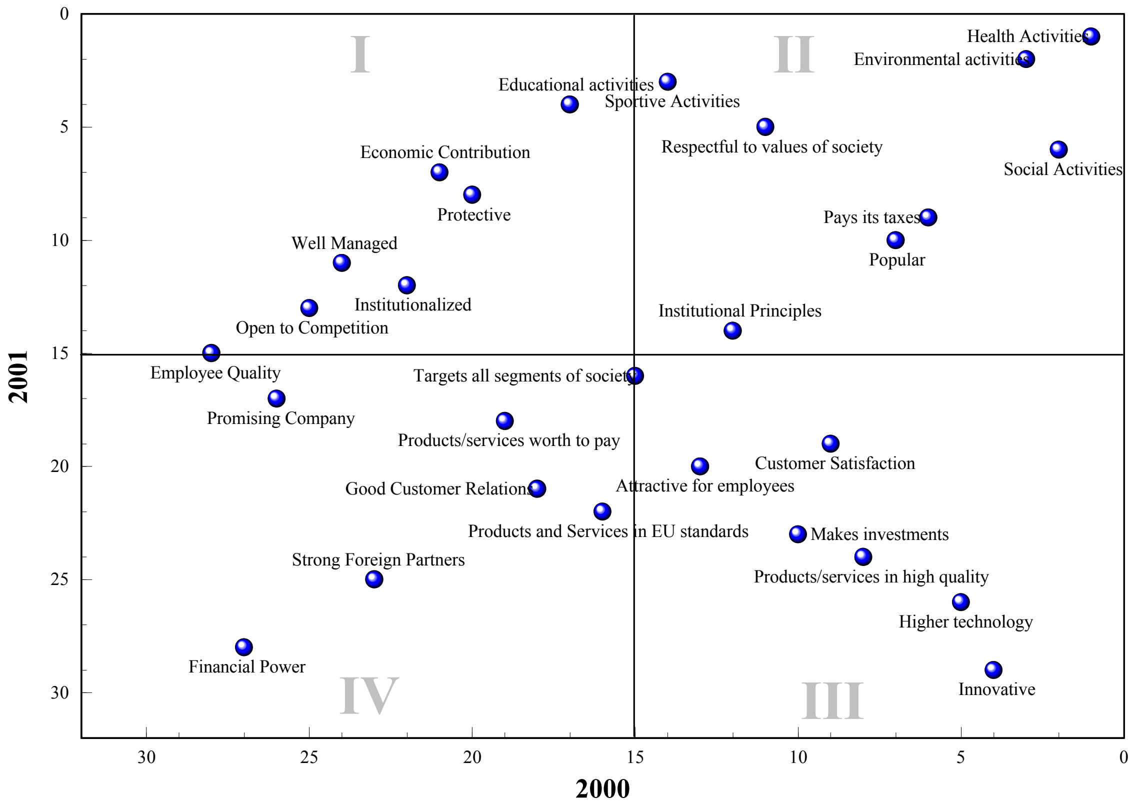
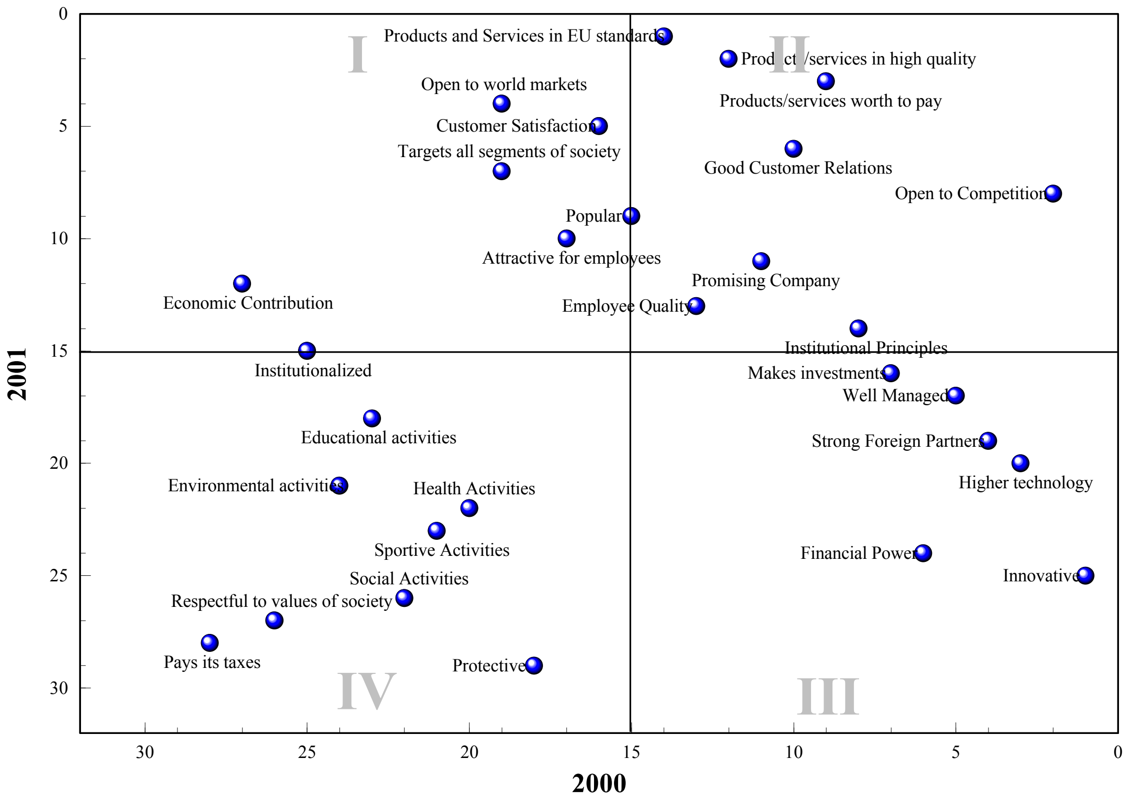


Figure 8 presents priorities of employees. The effect of the crisis became visible with increasing emphasis on product-related items such as quality, customer satisfaction, targeting all segments of society and economic contribution. While other items related with product/services remained unchanged; innovative capacity, technological leadership, strong foreign partners and management quality lost their relative importance. (See figure 8.)

Figure 8
PRIORITIES OF EMPLOYEES (2000-2001, RANKINGS)



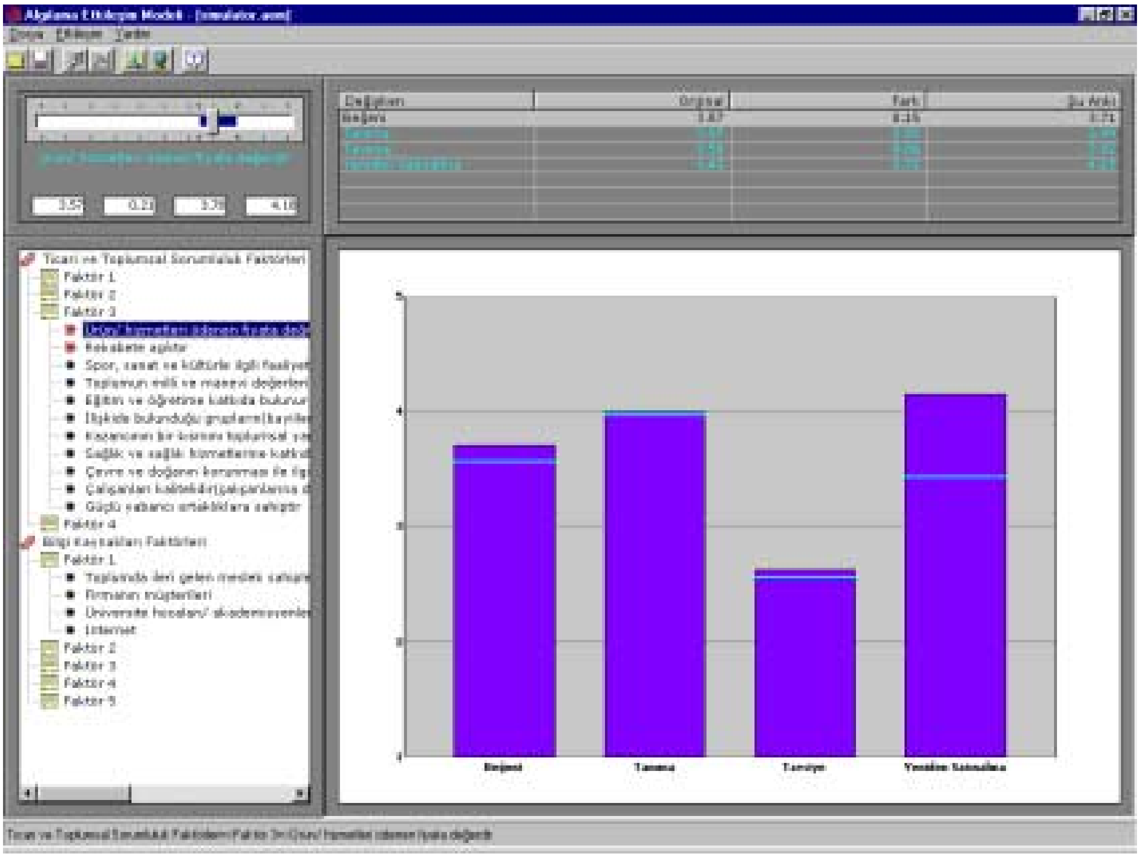
Our experience with other corporations showed that the above-presented change is valid for almost all stakeholders. Any attempt to measure corporate reputation without considering such a possible change in priorities will be misleading. For example, performance of the company may be unchanged, however as a result of declining priority the (saliency) of issue may decline leading to a declining overall corporate reputation score. If the fact that surveys are conducted to provide roadmaps for communication activities is considered, findings neglecting structural changes will most probably fail. Consequently, measurement schemes have to be dynamic, rather than static metrics, and results have to be "evaluated" within the general context in which actors are operating. As argued, static measurements are very important and valuable in comparing, benchmarking and observing overall change; however, the dynamic environment should not be neglected.

STRATEGIES BEYOND NUMBERS

As stated the major target of the KOÇSİM project was providing efficient information for the communication activities of KOÇ Holding. Thus, use of research findings by corporate executives was one of the most critical success factors. In order to guarantee "usability of findings", we provided an in-house produced software to corporate communication executives. This interactive tool measures the effectiveness of alternative messages on different stakeholders than business results. By using this interactive tool, the customer became able to simulate alternative communication activities and make a more coherent selection among them. The main motivation for producing such a tool was not only providing deterministic results in the event of any change in communication strategies. The tool is very important as an heuristic "toy" which facilitates communicating complex results of the above-described research, and users of the tool welcomed and heavily employed it in planning communication activities. This showed that providing interactive tools is an important factor affecting conversion of numbers to strategies and increases the efficiency and usability of statistical results. Mathematical algorithms of this tool are open to questions and criticisms, and it is sure that every actor in the market has the capacity to provide this kind of "toy" to customers, with better algorithms. The main point here is that industry has to discuss these kinds of simulators and emphasize increasing the usability of findings.

See figure 9 for a screenshot of the software.

Figure 9
SCREENSHOT OF THE SOFTWARE



THE CLIENT SIDE

The major motivation of KOÇ Holding in stimulating such a complicated and expensive effort was not too complex: The principal objective was to increase the market value of the holding company. The holding was planning on opening up its shares to foreign investors. An initial study conducted with foreign investors to learn how this plan would be successful showed that the company was undervalued, not only because of financial factors like country risk, financial performance, etc. There were three other major areas urgently necessitating improvement, which were mainly intangibles. The first was corporate reputation, the second was the company's blurred strategies and future plans, and the last was lack of a common understanding of company values such as openness, ethics and accountability.

The board of the Holding decided to emphasize on and improve these three issues and coordination of strategic communication became an important component of these efforts. As stated above, an ad-hoc consortium composed of three leading companies was established and this consortium received the full support of both the company's management and major shareholders. A specific department of corporate communication led by an experienced professional was founded to coordinate and execute strategic communication activities. A full-time employee selected by members of the consortium was appointed to function as representative of the company within the consortium. During the three-year project, periodic and continuous meetings of the project team occurred and every year, after a presentation to top level management of the Holding and its affiliate companies; the performance of the consortium was evaluated. The cooperation and harmony between the client and agents was impressively high and it is a good example of how the close cooperation with clients is critical for the success of the project.

After the first phase of the research, three main issues attracted attention. First was to understand Koç Holding's position in the eye of different stakeholders, second was to see which attributes could leverage this positioning and finally how stakeholders were communicating with each other. After the presentation of the results of the baseline study, the CEO decided to leverage the Holding's positioning at three major stakeholders: the investors, media and non-governmental institutions (NGOs).

The major tool of this strategy was a quarterly briefing to business journalists, starting just after the decision. The main logic behind selecting this tool was providing a sufficient level of information to the business press and making them aware of strategies, values and activities of the Holding. These briefings are composed of three major topics. First the financial figures of the Holding are presented. Secondly, the participants are informed about strategies chosen by the company and finally, social responsibility activities conducted by the Holding and their results are exhibited. The results were astonishing and over 60 journalist attended the meetings. A clear example of the success of these periodic meetings became visible when one of the leading journalists wrote an article about the meetings and stated 'Koç Holding is becoming transparent'. She gave examples from European countries and celebrated them as the leader in the business community. The same journalist has written various negative statements about the Holding in the past years. Another example of effectiveness of these meeting is provided by Pr-Net, an affiliate of Delahaye. Media measurement made by them showed that the coverage was much more than expected and the messages were all received.

After these results of the first briefing, the Investor Relations Officer of the Holding, appointed a few months before the KOÇSİM project started, asked for research on foreign institutional investors who were analysts and dealers for the emerging markets. The most important finding of this survey was that the investors were complaining about the lack of communication and low disclosure and when they were asked for the most reliable sources of information we found they were relying on the local analysts. Consequently, local analysts are also included to participants of these briefings. Figure 10 below presents major improvements gained during the project. It is clearly observable that the favorability of the Holding in the eye of investors increased significantly.

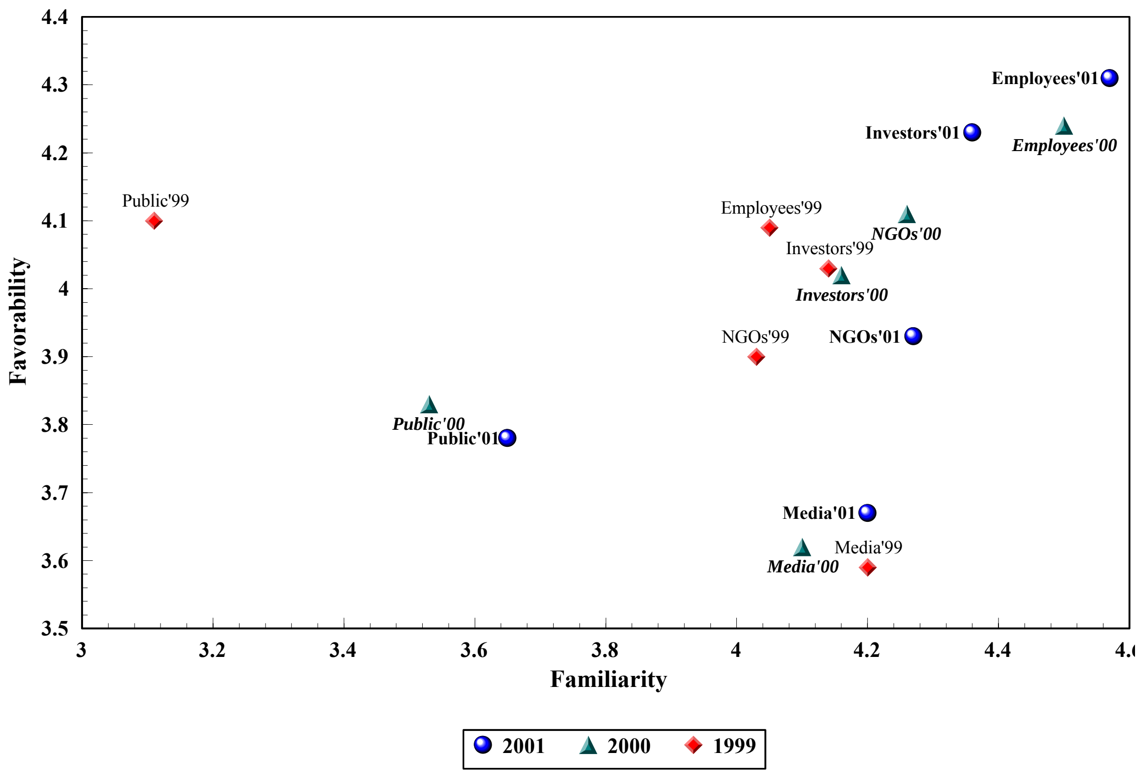
Another significant area of improvement is visible in NGOs between 1999 and 2000. We owe this improvement to the extraordinary performance of the Holding during the earthquake of 1999. A few hours after the earthquake a crisis center was organized in the central location of the Holding and in two days 120 people were rescued by emergency units organized from the heavy industry company's (owned by the holding) workers. The food supply was organized by the food and retail group. The KOÇSİM consortium led all activities voluntarily. This effort developed strong trust between the leading NGOs and the holding.

One major result of the company was through improving internal communication affecting the corporate culture and values. In 1999, when the program first started, in the leaders' meeting of the holding (450 attendees), there was a lack of knowledge of how intangibles, stakeholder relationships, corporate communication etc. could affect their performance. Four years later, when they had the same meeting, almost all of the speakers gave examples of what they did to improve in these areas, what kind of social responsibility programs they applied and how they improved their business results. This was probably the most important contribution that caused a paradigm change in the company culture.

Improvements are not limited with perception of different stakeholders. The IMKB index showed a similar improvement: the difference between the major benchmark competitor and Koç Holding was closed at the same period. (See figure 10.)

Within the title of the project, several dozens of communication activities were conducted, and it is not possible to individually evaluate all of these activities.[3)] However the above presented figure shows that the project became successful in selected stakeholders. Lack of significant improvements in other stakeholders is a result of limited scope of focus. Today, the Holding strongly emphasizes internal communication activities and Selim Oktar is a member of the project team as an advisor.

Figure 10
CHANGE IN FAVORABILITY - FAMILIARITY SCORES OF DIFFERENT STAKEHOLDERS (1999-2001)



CONCLUDING REMARKS

It is so far argued that orthodox views about the role of businesses limiting their scope with only satisfying shareholders' financial expectations became outdated and social responsibilities of businesses became commonly accepted. The reasons behind this shift are discussed above in detail. Several empirical studies show that consumers care about the reputations of companies and emotional factors are effective as determinants of purchase decisions. As a result of augmenting interest in corporate reputation, a significant opportunity space is opened up to several actors, from consultants to marketing research companies, from academicians to public relations executives. Today, the field is full of challenging alternative approaches, rival measurements and competing methodologies.

From our point of view, this confusion, which is challenging enlargement of the approach, is not par hazard. These are signals of the emergence of a new paradigm in business management from a Kuhnian perspective. There are many examples signaling institutionalization of the new paradigm. Our experience as the KOÇSİM project team is a good example of conducting a project with an institutionalizing paradigm. The first challenge comes from the lack of largely accepted unique metric of corporate reputation. Several institutions conduct their own measurements which are not comparable and the majority are not documented.

Two important points threaten the validity of these measurements. The first is ignorance of all the stakeholders of corporations and emphasizing only one stakeholder such as customers, investors or media. As a logical implication of the newly emerging paradigm, companies have to care for almost all of their stakeholders and ignorance of this plurality creates significant problems for managers. The second problem arises from application of the same battery of items to all stakeholders. Since these stakeholders are operating in different markets, their expectations and cognitive maps are very different from each other. Employing the same batteries and using the same methodology may facilitate comparisons and benchmarking, however it impedes converting numbers to communication strategies. Our experience with Koç Holding showed that each stakeholder has a different structure affecting their perception of corporate reputation. Consequently, communication activities have to target specific subgroups and research efforts must be able to bring information about these subgroups.

Another point to be considered is the possible effect of external factors. In order to guarantee a certain level of comparability, measurement techniques do not change overtime, assuming that structural changes will be limited. However, perceptions are affected by external social or situational factors and cognitive processes of every member of stakeholders are not invariant. Our experience showed that the severe economic conditions experienced by Turkey critically affected cognitive maps of stakeholders, and despite stability sent by the Holding remained same; priorities of stakeholders shifted significantly. After the crisis, material items became more important, signaling a short term cycle within the Maslowian hierarchy of needs. Thus, components of every index are sensitive towards external shocks, revealing a serious threat towards validity of measurement.

The KOÇSİM project explained above in detail became a turning point both for the client and agents. On the one hand, corporate management had the opportunity to observe components of their reputation and dynamically manage their reputation through communication activities. On the other hand, agents experienced a significant period of close cooperation and harmony with the client enabling higher understanding of business preferences and better performances. This experience showed the importance of close client-agent cooperation.

As we stated above, the discipline is facing a period of institutionalization. The role of ESOMAR, other marketing research associations and the intelligentsia is essential. Since powers of paradigms are limited with their explanatory and predictive powers; failure of standardization of the discipline may result in challenge of a new and more disciplined approach. The history of business administration is full of these kinds of premature paradigms. From our point of view, standardization does not mean imposing only one index. Scientific improvement is only possible with competition of alternative methods and survival of the fittest one through scientific elimination. This approach requires full documentation of methodologies and openness to replication. ESOMAR may play a significant role as the facilitator of scientific inquiry.

FOOTNOTES

1. *Financial Times*, 28 January 2003.
2. For an example of arbitrary assignment of factor weights, see Cravens et al, 2003
3. It is possible to provide a complete list of these activities upon request from authors.

REFERENCES

Business for Social Responsibility. Introduction to Corporate Social Responsibility. www.bsr.org/BSRResources/WhitePaperDetail.cfm?DocumentId=138

Cook, J. and S. Deakin, (1999). Stakeholding and Corporate Governance:Theory and Evidence on Economıc Performance. ESRC Centre for Business Research, University of Cambridge

Cravens, K., E.G. Oliver and S. Ramamoorti, (2003). The Reputation Index: Measuring and Managing Corporate Reputation. *European Management Journal*, Vol. 21, No. 2, pp. 201–212,

Figlewicz, R.E. and E. Szwajkowski, (2002). Systematic Risk Volatility and Corporate Reputation: A Longitudinal and Cross-Sectional Analysis. *Organization Science Electronic Letters,* Vol. 2, No. 1, July,

Fobmrun, C. (2000). Reputation the Asset. Available at http://reputationinstitute.com/sections/reputation_asset_apr3/sld001.htm

Fombrun, C.J. (1995). *Reputation: Realizing Value from the Corporate Image*. Harvard Business School Press, Boston.

Friedman, M. (1970). The Social Responsibilty of Business is to Increase Its Profits. *The New York Times Magazine*, September 13

Greenspan, A. Harvard University, (1999). Commencement Address, Cambridge, MA June 10

Hollis, M. (1994). *The Philosophy of Social Science*, Cambridge University Press

Holmström, S., (2000). The Reflective Paradigm Turning into Ceremony? Three Phases of Public Relations - Strategic, Normative and Cognitive -in the Institutionalisation of a New Business Paradigm, Leading to Three Scenarios. Paper presented at the 7th International Public Relations Research Symposium, Bled, Slovenia, July 7,

Keefe, J. (2000). Five Trends: The Rise of Corporate Reputation and CSR. http://www.csrwire.com/page.cgi/5trends.html

KOCSIM, (1998). *The Green Book*.

Park, J., L. Lyon and G.T. Cameron, 2000. Does Reputation Management Reap Rewards? A Path Analysis of Corporate Reputation Advertising's Impacts on Brand Attitudes and Purchase Decisions. *WJMCR*, 4:1 December

Polanyi, K. (1944). *The Great Transformation*, Beacon Press, Boston

Rodriguez, M.; J.E. Ricart, and P. Sanchez; (2002). Sustainable Development and Sustainability of Competitive Advantage: A Dynamic and Sustainable View of the Firm. *Creativity and Innovation Management*, Volume 11 Issue 3, September

Ruf, B. M., K. Muralidhar, R. M. Brown, J. J. Janney, K. Paul; (2001), “An Empirical Investigation of the Relationship Between Change in Corporate Social Performance and Financial Performance: A Stakeholder Theory Perspective”, Journal of Business Ethics, 32: 143–156

Sjovall, A. M., (2002). From Actions to Impressions: Cognitive Attribution Theory and the Formation of Corporate Reputation. Best MBA Paper in Corporate Citizenship, The Center for Corporate Citizenship at Boston College

Wartick, S.L. (2002). Measuring Corporate Reputation -Definition and Data. *Business & Society*, Vol. 41 No. 4, December

Wilson, A.M. and Gotsi, D. (2001). Corporate Reputation Management: Living the Brand. *Management Decision*, Vol 39 No.2 pp99-104

Worcester, R. (2003). Building and Maintaining a Good Corporate Reputation. Ric Foot Memorial Lecture, IPR Thames Valley Group, Kingston University, February.11

THE AUTHORS

Selim Oktar is President, KNEXTEP Knowledge Management Services, Turkey.

Emre Erdoğan is Consultant, KNEXTEP Knowledge Management Services, Turkey.

Tahsin Saltik is Investor Relations Officer, KOC Holding, Turkey.