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# The Strategic Importance Of Measuring Corporate Reputation: A Philips Case Study

By Jules Prast

Reputation measurement has attracted quite some attention in the corporate world in recent years. Yet, despite all the conferences, books and articles (many of good quality), some of the necessary conditions to let reputation management grow into a respected discipline remain unfulfilled.



All too often reputation management is an area that communications professionals keep for themselves. True, the approach has strong roots in their domain, but they should focus much more on looking for dialogue with business management and representatives from other functions.

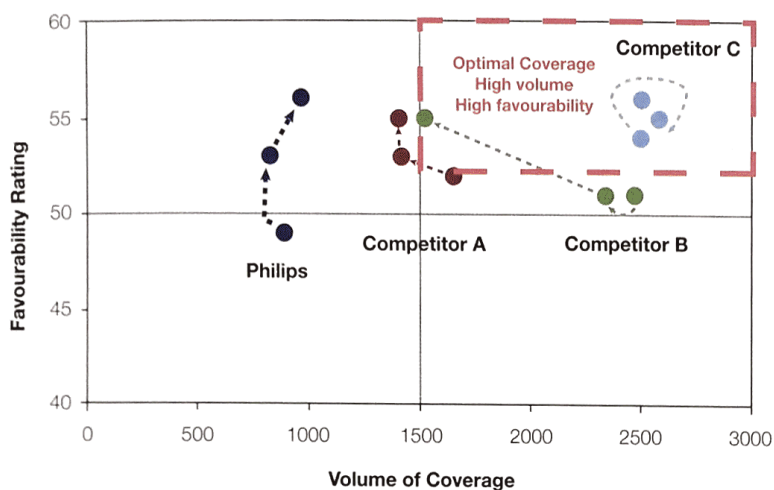
Furthermore, little is publicly known about the application of reputation management within companies. There is a difference between reputation *measurement* and reputation *management*. Annual rankings from Financial Times/KPMG, Fortune/Hay Group and Harris Interactive's Reputation Quotient (RQ) generate a lot of publicity on the measurement side, but the management angle tends to stay underrepresented. And when there is a degree of awareness, most of the time this is anecdotal and not based on verifiable metrics over a longer period of time.

However, companies are showing increasing interest in the management aspect. A 2004 survey among large multinational corporations by the Corporate Executive Board, a research institution, showed that 57% are planning to develop reputation scorecards. In companies across the world, there is a wide variety of approaches to reputation management. I would like to focus on that of a growing group of practitioners who query if and how the drivers of corporate reputation can be managed. Their approach to reputation measurement is driven by a desire for reverse engineering: if you want to manage, then the measurement should be specific and actionable - and more specific and actionable than most of the above-mentioned 'usual suspects' can offer through their existing instruments. What this group of practitioners wants is to design the processes to *deploy* reputation management into their organisations.

There is a clear trend towards companies looking for peer-to-peer contacts to share their insights and experiences as they try to find a road through this largely uncharted territory. This is a welcome development that is fostering common learning. Hopefully it will lead over time to a better understanding of the process and deployment side of reputation management and, eventually, even to the emergence of clear and generally accepted best practice examples.

In this article I will share some of the learnings and observations we at Royal Philips Electronics have acquired as we took our first steps on the path towards a reputation management system for our company, a path that started in the communications domain and only subsequently extended company-wide.

Ours is not a story about fast progress and



**Fig 1. What gets measured, gets done - media analysis drives optimising of broadcasting - annual trends in top global media 2001 - 2003**

Source: Carma

## REPUTATION MANAGEMENT IS NOT ABOUT QUICK FIXES; RATHER, IT IS AN EXERCISE IN PRACTISING THE PRINCIPLES OF 'BUILT TO LAST'

easy answers. All too often authors link reputation management with crisis communications, or suggest its adoption could have prevented the kind of scandals that a number of well known companies have gone through. Another unproven contention we often hear about with regard to reputation is that 'fame' will lead to 'fortune'. In fact, the evidence points in the opposite direction: you can only have a sustained, good company reputation if there is a favourable stakeholder perception of the soundness of your financial performance.

My approach takes a different angle. First, I will argue that, at the current stage of its development, the real value of 'reversely engineered' reputation measurement is that, if properly executed, it enables a constructive, holistic dialogue among all constituencies within a company about ways to align business practices with stakeholder interests.

Second, I would like to explore the relationship between reputation management and quality management. Philips is committed to an integral quality management system, and I think there is a clear link between the two that could help develop a sound, management proof language and practice around reputation management by submitting it to the same kind of scrutiny and analytical rigour as that we apply to any other business approach.

### THEMED MESSAGING

At Philips, we came to our attempt at reputation management as a company-wide system by way of a

two-step approach. After a difficult time in the early 1990s, Philips had undergone nearly a decade of portfolio change, strict financial discipline and had adopted a governance model that placed bottom line responsibility firmly with the group's businesses.

Despite successes in winning back the confidence of shareholders, these measures had produced an unintended, less positive, impact on the company's internal and external communications. Fragmentation and 'financialisation' had started to undermine the ability of the company to reach out to multiple stakeholders with consistent, strong, balanced communications. Management realised this, and when I came to Philips in 2000 there was a climate at the top of the company that stimulated the process of getting things changed for the better in our communications as part of a concerted effort to develop a more effective organisation.

As a company you have to select a communications model that fits and supports your culture, strategy and configuration. Given the diverse nature of Philips' businesses – lighting, medical systems, domestic appliances, consumer electronics and semiconductors – we adopted an 'orchestration model'. This required our businesses to participate in a global communications management system. We also organised our internal and external communications around themes that served as a common reference point.

The theme-driven communications approach is well understood by management and employees and it also energises the community of communications professionals. 'Themed messaging', as we have come to call the methodology which we developed in accordance with international best practice, enables a company to communicate its own agenda and reduce its dependence on external factors. What's more, the practice has proven to be successful not only at the corporate level, but also within our individual businesses. Here, product innovations are beginning to contribute to the public perception that we are approaching our stated goal of becoming more of a truly market-driven company. Independent measurement by CARMA, a boutique specialising in international media analysis, has shown a consistent improvement in competitive share of voice and, especially, favourability.

What makes our themed messaging approach different from just another drive to optimise a company's communications, is that we have taken a corporate reputation model as a starting point to structure the way in which we tell the Philips story. Our assumption was that such a model should provide a solid base for *balance* in our messaging.





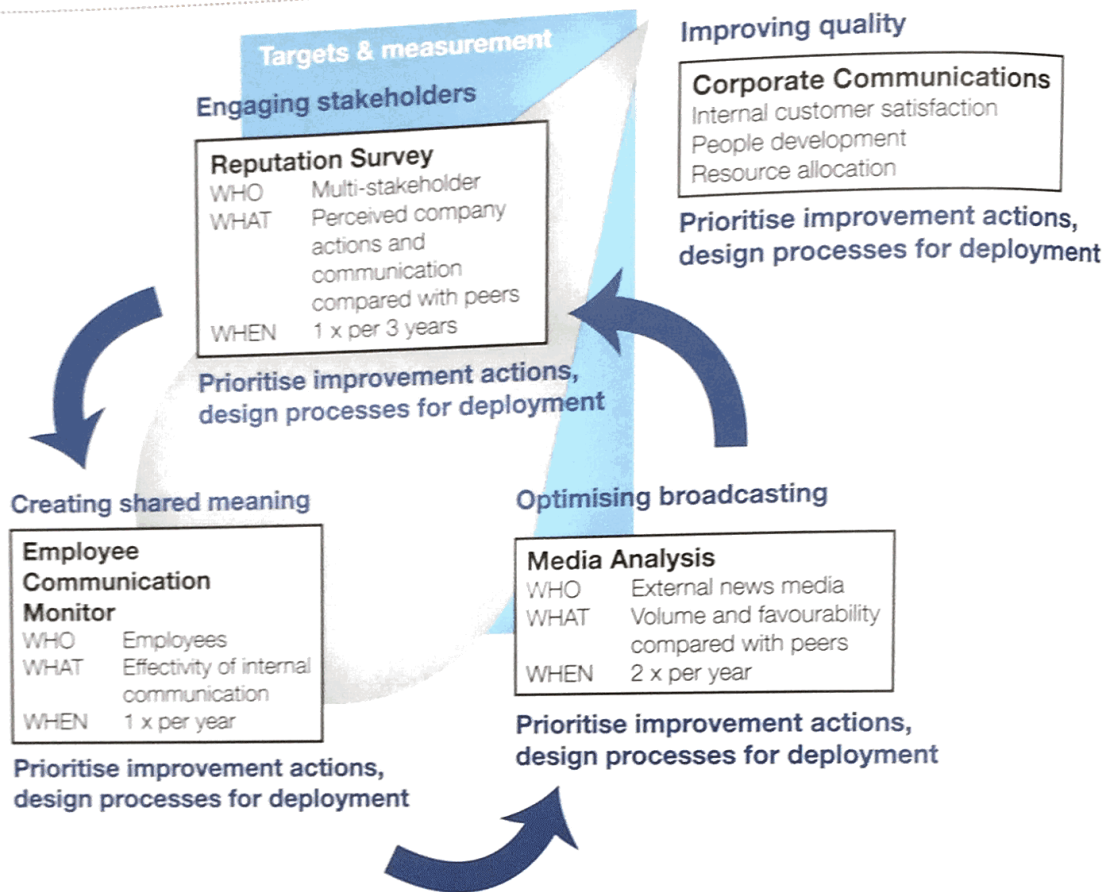


Fig 2. Closing the loop - Performance indicators for a balanced stakeholder outreach

Source: Philips

There are various models for reputation measurement, and the one we found useful to inspire and guide our corporate communications is the Reputation Quotient model (which was the subject of an article in the September 2004 issue of CriticalEYE REVIEW). From this model, we derived a set of categories we call 'message platforms', consisting of Vision, Marketing, People, Performance and Sustainability. In a formalised annual planning process, the communication function's global leadership defines the following year's corporate and business themes within the framework of these platforms. It then validates these with management before deploying them across the organisation.

#### WHAT GETS MEASURED, GETS DONE.

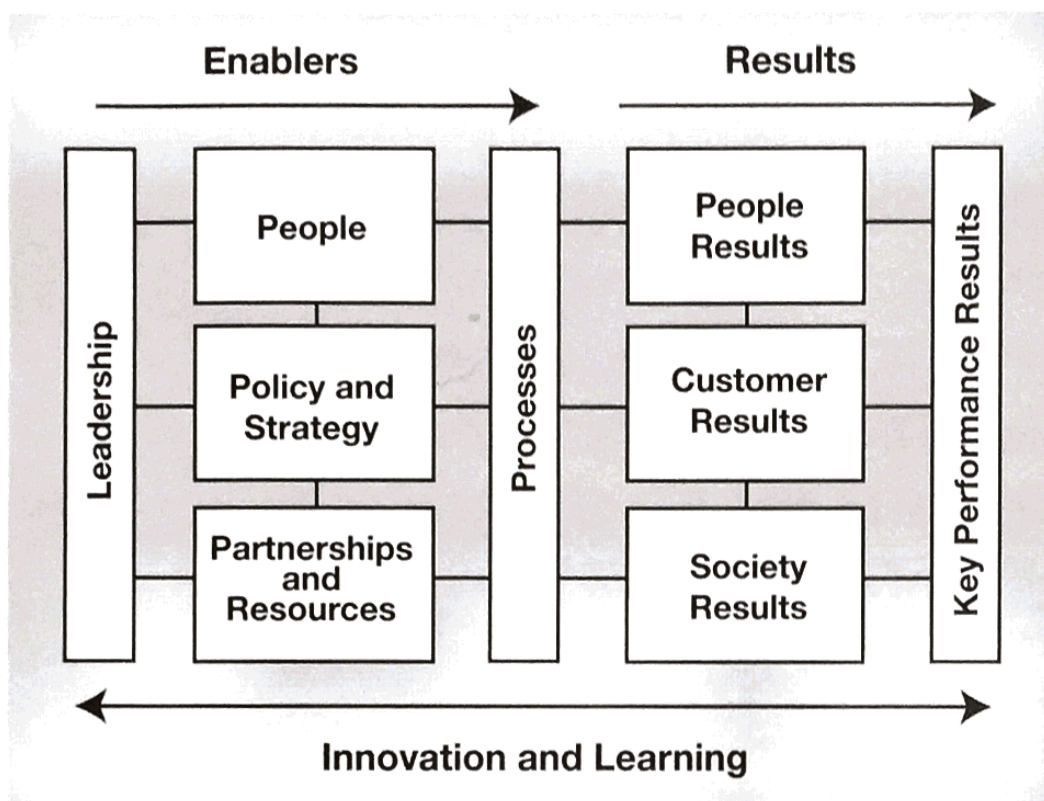
In keeping with the Philips quality imperative, the whole themed messaging drive was executed as a closed loop cycle, accompanied by a recurring

plan-do-check-act (PDCA) discipline – a major learning point for communications, where measurement and accountability are still relatively new concepts and at the early stages of professional maturity. An essential part of this cycle is its measurement. This process-led improvement discipline and the application of analytical rigour have been the key to securing a place for communications on the management agenda.

However, over time we discovered that using a particular set of metrics - such as media impact analysis - over and over again, drives professional behaviour in a specific direction. If you hold your people accountable around the world for increasing the levels of competitive share of voice and favourability, you are driving towards optimising your organisation's 'broadcasting' potential. In other words, the old mantra of 'what gets measured, gets done', has acquired a new meaning for us. Often used to state that target-setting will add to a focus

**A 2004 SURVEY AMONG LARGE MULTINATIONAL CORPORATIONS BY THE CORPORATE EXECUTIVE BOARD, A RESEARCH INSTITUTION, SHOWED THAT 57% ARE PLANNING TO DEVELOP REPUTATION SCORECARDS**





**Fig 3. Reputation management and quality management - a subsystem of the business excellence model**

The Philips Business Excellence Model (PBE-EFQM) Source: Philips

## THERE IS A CLEAR TREND TOWARDS COMPANIES LOOKING FOR PEER-TO-PEER CONTACTS TO SHARE THEIR INSIGHTS AND EXPERIENCES....

on results, for us it has led to the insight that a particular set of metrics leads to a specific kind of behaviour and, in the same way, results. Obviously, communications should aim higher, including stakeholder engagement and shared meaning in the kind of results to which it aims to contribute.

The changes in our communications have coincided with a major change programme within Philips, called 'Transforming into One Philips' (TOP). The dual aim of this programme has been to drive down cost and to promote a culture in which we can also grasp the market opportunities at the boundaries of our businesses. Through its themed messaging capabilities, communications could become a key instrument in our growth to a higher level of strategic business alignment; as the Conference Board found in its 2003 report *Forging Strategic Business Alignment*, there is a clear role here for communications. And, given the trust we have built up, we were well-positioned when the requirement arose for a more comprehensive reputation-based approach, as Philips started its quest to change its public perception from a traditional consumer electronics group into a healthcare, lifestyle and technology company, with a more unified face and voice directed towards its stakeholders.

For us, this was the starting point for taking a

fresh look at existing reputation measurement instruments. Given our experience in using the RQ model's segmentation as one of the guiding principles for our messaging, we naturally took a very intense look at this model too. Based on the academic research of Charles Fombrun and Cees van Riel and their followers, and its validation in many industries across the globe, the model is both elaborate and flexible; it is a tribute to the effort put into it that the six dimensional segmentation is increasingly cited as extremely practical by communication specialists and business managers alike. The RQ model probably holds the best credentials for wider adoption in the corporate world and may well be capable of becoming the de facto standard, if it were not for its trademarked status which, some would argue, constitutes a practical barrier to open innovation and real breakthrough in critical mass.

However, in Philips we decided we needed a different research model. It needed to be cost effective and with dimensions that are closer to our kind of industry, a multi-stakeholder base, a focused selection of global and local competitive comparators, interlinkage with our marketing intelligence and a methodology that would lead to actionable results for our businesses and functions. In 2003, we commissioned a reputation survey which was held in eight countries among ten stakeholder groups. The resulting report includes a reputation scorecard for the entire company and separate ones for its country organisations and each of its stakeholder groups.

### 'BUSINESS EXMOBILEENCE'

As a company we use the 'business exmobileence' model of the European Federation for Quality Management (EFQM) to drive continuous quality improvement, not only in our business operations but all across our functional areas. Though ours is an exact copy of the EFQM model, we have renamed it Philips 'Business Exmobileence', or PBE, which, as a global corporation, supports and encourages its use all over the world.

Reputation measurement is highly relevant from a PBE perspective. According to the requirements of the model, policy and strategy must be based on the present and future needs and expectations of stakeholders and must be communicated and deployed through a framework of key processes. Leaders must interact with customers, partners and representatives of society. Individuals and the organisation itself must have a dialogue. Indicators are given for each of these criteria of 'business exmobileence', which include performance measures as well as perception measures. In other





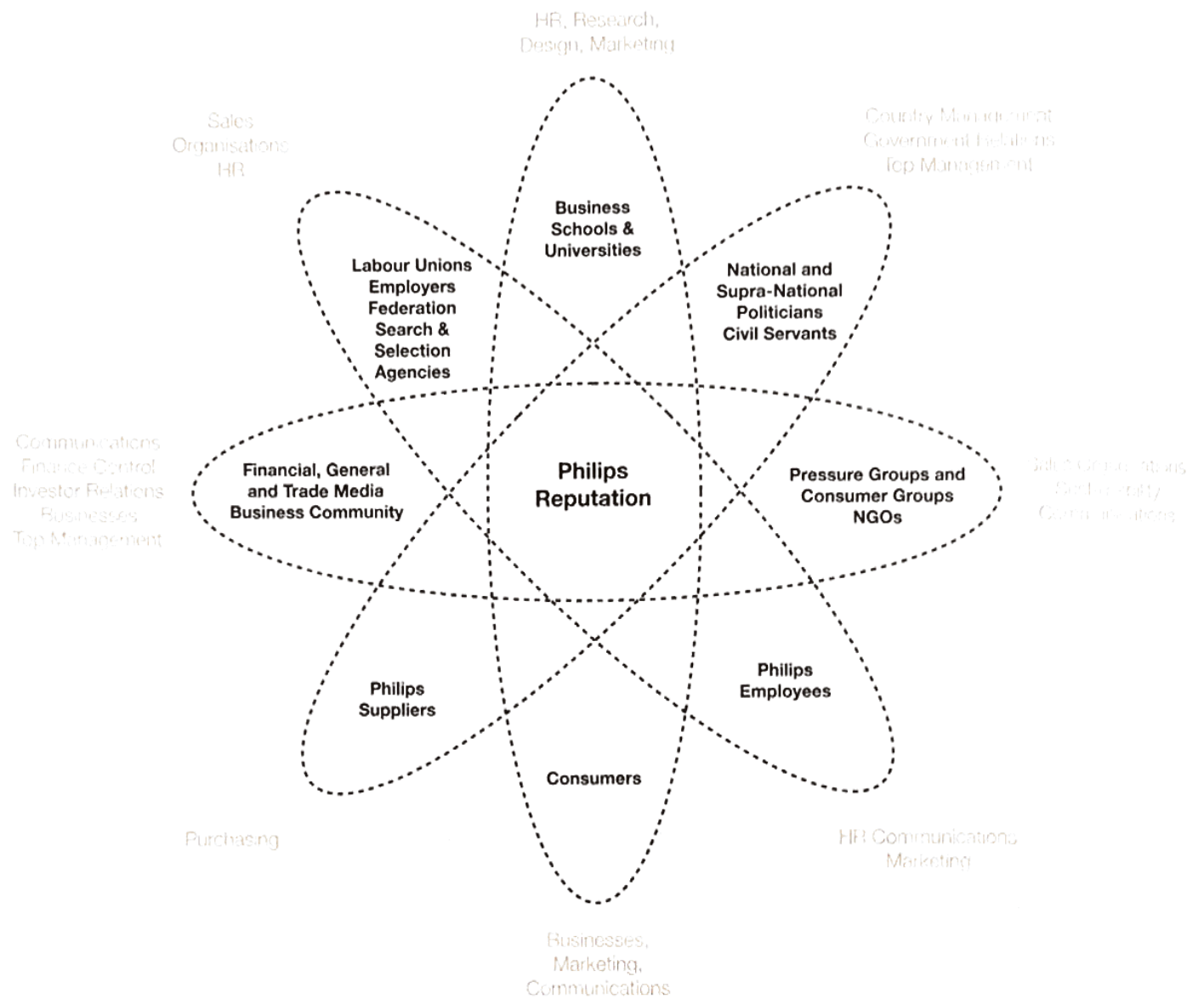


Fig 4. Deep access and credibility - reputation management fosters collaboration across the company  
Source: Philips

## IN A SENSE, REPUTATION MEASUREMENT IS THE QUEEN AMONG PERCEPTION-BASED SURVEYS - A 'SILO-BUSTER'....

words, reputation management is pre-programmed as a kind of subsystem into the 'business exmobileence' model and reputation measurement is required for the purpose of assessment and review – a necessary step to establish if there are real results based on accumulated evidence over a longer period of time, or only anecdotal information.

In our way of thinking and acting, the strategic importance of measuring company reputation can, therefore, only really be proven if our reputation survey leads to a recurring sequence of target-driven processes that culminate in measurable, fact-based evidence of actual improvements.

For us, our 2003 reputation survey serves as a benchmark. Our reputation scorecards and the resulting action programmes have led to the development of a coordinated series of experiments to investigate if, and to what extent, reputation drivers can be influenced. Thorough analysis and common sense all point in the same direction: if it can be done, change will only come slowly.

Reputation management is not about quick fixes; rather, it is an exercise in practising the principles of 'built to last'.

In a sense, reputation measurement is the queen among perception-based surveys – a 'silo-buster', linking the perception measures from business and functional silos into a radar screen environment, which has a clear appeal to top management. It also enables cooperation across the traditional boundaries of constituencies throughout the company. Because this can reveal organisational disconnects, this may not always improve your chances of winning a popularity contest.

There are a couple of downsides to reputation measurement, however. If a reputation survey is a collection of perception measures in all kinds of different business and functional areas, in practice the only way of realising concrete improvements is to set targets based on more specific measurements within these areas. Reputation measurement is the integrator, but by itself it is not



**THE WHOLE THEMED MESSAGING DRIVE WAS EXECUTED AS A CLOSED LOOP CYCLE, ACCOMPANIED BY A RECURRING PLAN-DO-CHECK-ACT (PDCA) DISCIPLINE – A MAJOR LEARNING POINT FOR COMMUNICATIONS, WHERE MEASUREMENT AND ACCOUNTABILITY ARE STILL RELATIVELY NEW CONCEPTS AND AT THE EARLY STAGES OF PROFESSIONAL MATURITY**

a very meaningful parameter upon which to base action; in quality terms, a Reputation Quotient, or any kind of other top-level score the entire company might get in a survey, is a lagging rather than a leading indicator.

Another challenge of reputation measurement is how to disentangle perception and the underlying business realities; for example, you may achieve a low score on innovation in a particular country, but if this is because you have an actual deficiency in your product innovation rate, a reputation survey may not help you to set in motion the necessary improvements.

Some authors have pointed out that the drivers of company reputation always have one leg in stakeholder outreach (the external aspect) and one in the corresponding business, or functional, dimension inside the company (the internal aspect). If the communications function is leading the reputation management effort, this makes for a function which has deep access and credibility within the company – which a benchmarking study from 2002 by Morgan Stanley, the investment bank, found is one of nine critical success factors for best-in-class in communications. However, if reputation management involves all the business and functional dimensions, this goes way beyond the scope of one function; the question is who, in fact, can oversee all of this?

In Philips we have solved this for the moment by forming a reputation committee, with representatives from key constituencies across the company and chaired by the CEO, responsible for overseeing the deployment of improvement actions in selected areas in which action is thought to make

sense. And, of course, the 'business exmobileence' system provides a platform for assessing each and everyone's contribution to the overall company reputation. Will this help? Given the systemic congruence of quality management and reputation management, there is reason to believe there is a way forward – but only time and consistently pursued rigour will provide the evidence.



Jules trained as a journalist at the business weekly Elseviers Weekblad. In 2000 he joined Royal Philips Electronics as Global Director of Corporate Communications. Reporting to the President & CEO, he is responsible for internal and external communications and for strengthening the global communications function after years of change to the group's structure. In December 2003 he was elected Communications Manager of the Year by the Dutch professional communications association BVC and the Communications magazine. He can be contacted at [jules.prast@philips.com](mailto:jules.prast@philips.com)

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