Chapter 15
Innovation and Corporate Reputation:
Britain's Most Admired Company Surveys 1990–2009

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ABSTRACT

As much as 75% of a company's value derives from its intangible assets. One of the most important of these intangible assets is corporate reputation. The Britain's Most Admired Company surveys into corporate reputation includes nine characteristics, one of these is a company's 'capacity to innovate'. Surveys between 1990 and 2009 show that a good reputation for innovation does not guarantee a good overall reputation; nor does a reputation for innovation lead to business success. However, where a company has a reputation for innovation and is able to manage other characteristics, there is a better chance that this company will develop its innovation capability into long-term competitive advantage and profitability. Central to this conclusion is converting innovation into enhanced processes, products or services through effective implementation. The research identifies key attributes of companies that combine a reputation for innovation, with a good corporate reputation overall and business success.

INTRODUCTION

This chapter discusses the relationship between innovation and corporate reputation. It analyses peers' perceptions of the 'capacity to innovate' as measured in the Britain's Most Admired Company (BMAC) surveys of corporate reputation, against other measures of reputation such as leadership or financial soundness. Between 1990 and 2009, the surveys produced data on nine measures of reputation from 761 British companies. The perceptions of business leaders who participated in BMAC surveys provide a perspective on the value of innovation in determining a company's overall reputation; and offer insights into the practices of those companies that achieve a high rating in the surveys.

We use Fombrun's (1996) definition of corporate reputation as the 'net affective reactions of customers, investors, employees and the general public'. Reputation is an internally owned, externally evaluated, intangible asset that emanates from a company's history, location, culture, and from its distinctive capabilities or competencies. (Kay 1993). One of these competencies is the capacity to innovate.

BACKGROUND

The Schumpeterian assumption that 'static firms rapidly face losses and thus bankruptcy,' (Kurz 2007) provides a compelling case for organisations to be innovative. However, Repenning's (2002) view that 'the history of management practice is filled with innovations that failed to live up to the promise suggested by their early success' is indicative of the case against. Hawn (2004) echoes the view suggesting that; 'some of the most innovative companies in the history of American business have been colossal failures'. Innovation alone is insufficient; it does not guarantee delivery of corporate objectives, competitive advantage

or a superior, sustainable, corporate reputation, either in the medium or long term.

The analysis of the relationship between innovation and corporate reputation is intended to provide insight into the paradox between the objective of innovation as a route to prosperity and the actuality of innovation practice, which can be fraught with difficulty (Dougherty & Heller, 1994). Do those companies that achieve a high reputation for innovation have philosophies or practices that can help in the solution to this paradox?

There has been research into the relationships between innovation and profitability (Xin, Yeung & Cheng, 2010); firm performance (Artz, Norman & Cardinal, 2010) and the role of institutional investors (Kochhar & Parthiban, 1996). Other areas of interest include the relationships between innovation and the dynamics of organisational innovation (Monge, Cozzens & Contractor, 1992; the effectiveness of knowledge management (Vaccarro, 2010) cooperation and collaboration (De Faria Lima & Rui, 2010); and organisational change and renewal (Dougherty, 1992). Tzeng (2009) identified three classifications, or schools of thought about innovation from this research, namely those of capability, corporate entrepreneurship and culture.

There is less research into the linkages between innovation and corporate reputation. The findings from the BMAC surveys suggest that there are elements from each of Tzeng's three classifications.

BRITAIN'S MOST ADMIRED COMPANIES SURVEYS INTO CORPORATE REPUTATION (BMAC)

The Methodology of the BMAC Surveys

Since 1990, the BMAC survey has polled senior executives in companies with the highest market capitalisation on the British Stock Exchange. This process has provided data over a 19-year period

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