

HOW MUCH DOES SOCIAL RESPONSIBILITY CONTRIBUTE TO CORPORATE REPUTATION?

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Today it is commonly recognized that reputation is a valuable intangible asset of any company, crucial for its long-term success. This asset cannot be easily acquired – it takes time to build a good reputation, but it can be ruined instantly, causing the company value to plummet.

The rapid advances in information and communication technologies that facilitate and accelerate access to information have both positive and negative effects on corporate reputation, depending on what kind of information about the company is transmitted. The most important is that in the digital era it is much more difficult to cover up or control the spread of information detrimental to a company's reputation.

If a good corporate reputation has an economic pay-off, it should be effectively managed. For this purpose, it is necessary to measure it so that one could track changes in the corporate reputation over time and assess the results of actions aimed at improving the reputation. Corporate reputation is a complex phenomenon having a great number of dimensions. The Reputation Institute, the world's leading provider of reputation measurement and management services, developed the RepTrak[®] methodology for measuring corporate reputation, which is successfully used in global as well as country- and industry-specific surveys. Apart from measuring the emotional connection of stakeholders with the companies assessed, the RepTrak[®] methodology includes the rational evaluation of the companies along seven dimensions, specifically product, innovation, leadership, performance, workplace, governance, and corporate citizenship. Each of these dimensions is further broken down into a number of attributes. The dimensions are assigned weights to show their relative importance. Three dimensions out of the seven (workplace, governance and citizenship) are directly related to social responsibility, and their total weight in the overall reputation score is about 40 % [1]. However, it can be argued that social responsibility extends to other dimensions too (e.g. product, innovation) and the total weight of social responsibility factors is actually higher. No significant differences in the dimension weights across world regions were detected, however in Latin America a higher stress was placed on performance than on corporate citizenship [1].

The importance of social responsibility is also reflected in the Dow Jones Sustainability Indices (DJSI) that track financial performances of the leading sustainability-driven companies. To be listed on the DJSI, the largest companies by market capitalization first undergo the corporate sustainability assessment. Since sustainable investing grows in popularity, being listed on the DJSI has a positive effect on the corporate reputation and makes the company more attractive to prospective investors.

References:

1. 2018 Global RepTrak. Available at: <https://www.reputationinstitute.com/research/2018-global-reprtrak>