

## RISK FACTORS OF CONTRACTOR'S CORPORATE REPUTATION

Fuziah Ismail<sup>1</sup>, Muzani Mustapa<sup>2</sup> and Fara Diva Mustapa<sup>3</sup>

Department of Quantity Surveying, Universiti Teknologi Malaysia,  
UTM Skudai 81310, Johor Bahru, Malaysia

<sup>1</sup>[fuziahismail05@yahoo.com](mailto:fuziahismail05@yahoo.com), <sup>2</sup>[muzani@utm.my](mailto:muzani@utm.my), <sup>3</sup>[faradiva@utm.my](mailto:faradiva@utm.my)

**ABSTRACT:** Apparently, the quest for product and service differentiation has highlighted that intangible assets like reputation provide potential competitive advantage to an organisation. Reputation is built from 'inside out' of an organisation. The process would involved building a solid foundation of corporate vision and values that are strengthened by management policies, moulding one's image and responding to external expectations accordingly. Any action by an organisation has a direct impact on its reputation, which may damage it. Literature showed that the risk factors involved vary considerably. This paper therefore set out to establish the issues impacting corporate reputation of a construction company and prioritizes it.

**Keywords:** Risk, reputation, image, corporate.

### 1. INTRODUCTION

Reputation builds strategic value for a company by granting it a competitive advantage against rival. For instance, companies try to outdo rivals by being the first to market new products, to hire the best job candidates and to show profitability. By doing that, it gains reputation and good reputation can mean higher sales. For an example, picking the low bidder was once a common practice, now the inclination is to rely on word of mouth and reputation as the basis for selecting a service provider as contractor's reputation acts as an equalizer (Fombrun, 1996). In other words, the contractor's reputation acts as a warranty that they will meet client's expectations.

Murray (2003) described that reputation can be considered as a business threat nowadays. This is proved by the recent incident where Jarvis, a construction service provider based in UK has made a decision to hand back its railway maintenance contracts. The decision was made based on the evaluation of its profit and reputation being damaged by the train accident of Potters Bar crash on 10 May 2002 and derailment at Kings Cross station in London on September 2003. The debacle not only did cost the company money in lost of contract, but it temporarily eroded its valuable reputation. The market value of the company fell by close to 90 percent since the start of 2004 (BBC News, 2 July 2004). This paper therefore, aimed at identifying issues that are most likely to impact corporate reputation.

## **2. CORPORATE AND REPUTATION**

Oxford Advanced Learner's Dictionary (2000) defined corporate as "connection with a large business company". Fombrun (1996) defined corporate reputation as "the overall estimation in which a company is held by its constituents," through perceptual representation of a company's past actions and future prospects when compared with other leading rivals. It is a collection of perceptions and beliefs (Rayner J., 2003). Reputation confers clear-cut advantages and privileges on companies. It prove difficult to imitate. At the same time, reputation creates responsibilities, whereas an obligations that managers and companies must fulfil, for instance, meeting the personal standards of employees, the quality standards of customers, the ethical standards of the community, or the profitability standards of investors. As a result, companies sustain their reputations by building strong and supportive relationships with all of their constituents (Fombrun, 1996).

## **3. OVERVIEW OF RISK ON REPUTATION**

Hertz and Thomas (1983) stated the definition of risk which taken from the Random House College Dictionary as "exposure to the chance of injury or loss;" and the Health and Safety Commission (1995) defined risk as "the likelihood that harm will occur" (Janadi et al, 2003). From Ewing et al. (1999) discovered that risk is uncertainty of outcome (West and Berthon, 1997). Alfredo and Pillar (2002) has established the concept of risk as "an uncertain event that if it occurs, has a positive (opportunities) or negative (threats) effect on a project objective."

Companies depend heavily on their reputation to compete for customers, as such contribute to the company's economic performance (Fombrun, 1996). In turn, unfavourable reputation can mean lost of sales. For example, Intel, the highly regarded maker of silicon chips, uncovered a design flaw in its Pentium processor in 1994. They initially denied that a flaw existed. However they failed to recognize the perceived flaw in the chip. The company not only lost sales but it damaged the company's valuable reputational capital.

## **4. REPUTATION RISK FACTOR**

Reputation risk is "any action, event or circumstance that could adversely or beneficially impact an organisation's reputation" (Rayner, 2003). Therefore, identifying reputation risk factors wholly would not be an easy task as it was very broad. However, from the literature search, the reputation risk factors identified for any organisation generally with

emphasis to construction company specifically, may consist of: elements of reputation; corporate risk measures; publicity of media; and economic, environmental, society, political and technological driving forces. The 5 forces focus on challenges of internal and external environment of businesses in order to create long-term stakeholder value. Thus, it has been selected to impact corporate reputation, which will be considered during identification of risks in the risk assessment process. The forces criteria are shown in Table 1.

*Table 1: Criteria for economic, environmental, society, political and technological forces*

Forces	Criteria	
Economic	Corporate codes of conduct	Strategic planning
	Risk and crisis management	Financial reporting
	Corporate governance	Innovative services
	R&D spending	Organisational development
Environmental	Eco-design of product	Environmental liabilities
	Environmental reporting	Environmental performance
	Environmental policy	Responsibility for environmental issues
Social	Health & Safety	Remuneration
	Conflict resolution	Community program
	Employee benefit	Employee satisfaction
Political	Legislation	Party political priorities
Technological	IT Management	
	Improved equipment/techniques	

*(Source: Knoepfel I., 2001)*

## 5. RESEARCH METHODOLOGY

The structured questionnaire and in-depth interviews were selected in order to gain qualitative information. The data gathered are analysed by using intuitive scales. According to Upshaw (1968), the scale values can be assigned to observation of any three belief components: intuitive-subject, intuitive-content, or intuitive object. Thus, the concept of the intuitive scales was applied in mapping out the ranking, which the total of each contractor answers are one (1.000) under each category. The prioritising activity is based on the cumulative value of the three contractors. In addition, the intuitive scale is also used to determine the degree of quality for positive (1 would be the lowest impact whilst 10 would be the highest impact) or negative impact (-1 would be the lowest impact whilst -10 would be the highest impact) of reputation risk factors based on respondent perception. The values from the three contractors are accumulating, which then divided by three giving the consensus values. The results are presented in graphs.

## 6. RESEARCH FINDINGS

### 6.1 The Ranking of Risk Factors

The economic force is the ultimate factors that could impact an organisation's reputation, followed by environmental and technological forces. Social forces rank at fourth place may indicate that all policy is in place has been designed to the maximum benefits of the employees and communities. Thus reduced the likelihood of occurrence in the organisation's environment itself. Meanwhile the political force is relatively the least risky factor compared to other factors as shown in Table 2.

*Table 2: Ranking for economic, environmental, social, political and technological forces*

Risk factors	Contractor 1	Contractor 2	Contractor 3	Total	Ranking
Economic	0.267	0.200	0.333	0.800	1
Environmental	0.133	0.333	0.267	0.733	2
Social	0.200	0.267	0.133	0.600	4
Political	0.067	0.067	0.067	0.200	5
Technological	0.333	0.133	0.200	0.667	3

Under the economic force, the strategic planning, corporate governance and corporate codes of conduct are at the top priority that could impact reputation of an organisation. This may indicate that it is important to show the constituents the highest standards of management responsibility, organisational capability and corporate culture. While innovative services and R&D spending are at the lowest ranking indicate that investing in product and service innovation was not the main activity of an organisation, thus did not have significant importance to the reputation.

The ranking of criteria of environmental forces is that environmental audit and management system are at the top ranking, for instance, it could pinpoint whether or not a formal environmental program is needed, and the direction of the program should take if it is developed. Hence it may indicate that a system is a necessity to keep the organisation in track when the environmental is concerned.

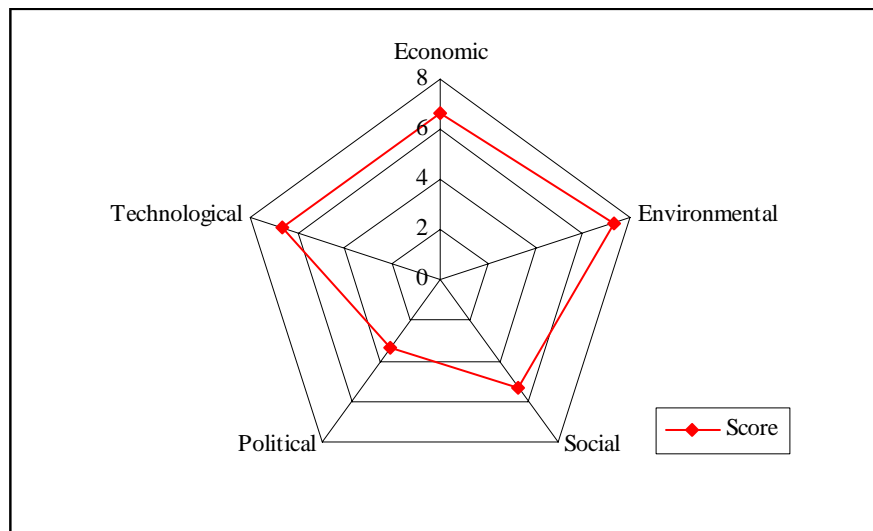
For social force, health and safety is the most importance criteria that can impact reputation, followed by employee satisfaction. It shows that first class health and safety performance is essential to deliver reputational growth. Meanwhile, responsibility for social issues and conflict resolution has been rated lowered than others.

The ranking for political force criteria is that the impact of legislation could have the biggest positive impact than party political priorities. The greater impact on legislation is perhaps an indication of involvement of legal action that leads to wide coverage by the media if the construction company unable to comply.

**6.2 The Quality for Positive and Negative Impact based on Risk Factors**

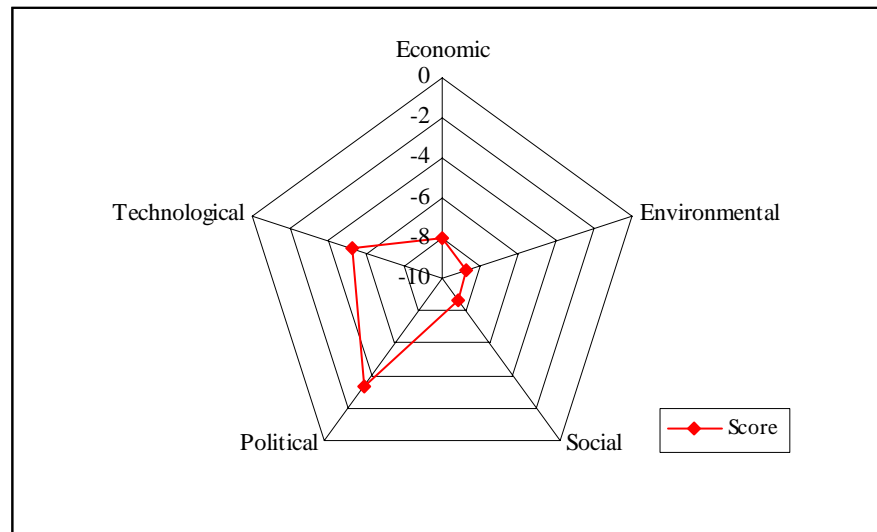
The quality for positive impact on reputation based on economic, environmental, social, political and technological forces are shown in Figure 3. While political forces maintain the least impact to the reputation; economic, environmental and technological are in the same range of positive impact, which is 7 out of 10, making them very importance for the survival of organisation’s reputation.

*Figure 3: Quality for positive impact based on economic, environmental, social, political and technological forces*



While Figure 4 indicates that social and environmental forces could give the greatest negative impact to the reputation, followed by economic and technological forces. This may be due to the perception groups: employees and communities, which involved a large number of people. Hence, any wrong doing by the contractor’s company would impact the organisation negatively.

Figure 4: Quality for negative impact based on economic, environmental, social, political and technological forces



The distribution of quality for positive impact on reputation based on economic forces criteria shows that the risk and crisis management; innovative services and strategic planning could have the biggest positive impact than others. The greater impact on risk and crisis management is perhaps indicative of the constituent’s expectation that a control mechanism of unforeseen risk should be in place in order to provide a safety net to the organisation. Similarly, the failure to have the best risk and crisis management in place gives the highest negative impact to the organisation’s reputation. It indicate that inability to manage risk and crisis strategically would not only cause damaged reputation to construction company but create a greater loss of sales that could jeopardized the organisation very existence.

Meanwhile, the responsibility for environmental issues followed by environmental performance would have the biggest positive impact on reputation under the environmental force. It indicates the importance of supporting the environment, for example, through partnership with a wide range of environmental organisations and minimisation of waste. Only a small negative impact indicated for eco-design of product. While environmental liabilities shows the greatest negative impact to organisation’s reputation. The impact is perhaps indicative of the commonly constituents perception for any organisation that faced any environmental or ethical prosecutions.

Besides that, health and safety; employee satisfaction and community program was viewed as the biggest positive impact for social force criteria. However, the quality of positive impact has been indicated between 4 to 9 out of 10. The impact clearly reflects the nature and justifies the better understanding of the support received from both community and employees in which the organisation operate. Similarly, health and safety, employee satisfaction, employee benefit, and community program could give amongst the greatest negative impact to the reputation. This may be due to the operation of the construction company that almost everything does affect people and the communities. While, the quality of positive and negative impact of legislation is both 8 out of 10, while party political priorities is 3 out of 10.

The findings point to improved equipment/techniques that have the greatest impact either positive or negative. This impact is possibly due to the fact that being differentiator helps the organisation gain more work and deliver better services to the customers or reversed. In addition, the lowest positive and negative impact indicated the substitution of materials with +6 and -4 out of  $\pm 10$ .

## 7. CONCLUSION

Various studies revealed that a large portion of a company's value is made up of intangible assets that can be up to 50 percent (Brady, 2003). Hence the need to identify factors affecting the intangibles should be emphasised as it becomes more relevant. Reputation has been described as organisation's valuable that went unrecorded and difficult to imitate. This recognition led by the cumulative benefits received, for instance, loyalty improvement and stability increment. It also enables the audiences making appropriate judgement on what products to buy, what companies to work for or what stocks to invest in.

Previously, very little information had been available on factors that could most likely impact reputation and image. Although publication of related subject had been produced, the information reviewed is only in general. The research addressed this by providing an insight of construction contractor context. It can serve as a checklist of issues to be investigated thoroughly in identifying risks associated with reputation. Identification of factors that can impact reputation and image proved to be difficult as the subject involved was very broad. The literature suggested that corporate risk measures and the five forces: economic, environmental, social, political and technological would influence reputation. According to the priority tables, the factors that have the highest impact to reputation are economic force under five forces with 7 out of 10 for positive impact and 8 out of 10 for negative impact.

According to the quality impact, positive or negative, strategic planning for economic force criteria is equally impact positively and negatively (8 out of 10). Meanwhile, environmental audits and management system for environmental force criteria is 7 out of 10 for positive impact and 6 out of 10 for negative impact. The quality impact (9 out of 10) for positive Health and safety under social force criteria is slightly lower than negative impact (10 out of 10). As for legislation under political force criteria, both have equal impact positively and negatively (8 out of 10). Lastly, the quality for positive impact (9 out of 10) for improved equipment/techniques under technological force criteria is slightly higher than negative impact (8 out of 10).

## 8. REFERENCES

- Alfredo del Cano and Pillar, M. (2002), "Integrated Methodology for Project Risk Management", *Construction Engineering and Management*, 2002, Volume 128, pp. 473-485.
- Brady, A. (2003), Profiling Corporate Imagery: A Sustainability Perspective, Judge Institute of Management Working Paper 15/02.
- Charles J. Fombrun (1996), "*Reputation: Realizing Value from the Corporate Image*". Prentice Hall, Great Britain.
- Ewing, M.T., Caruana, A. and Loy, E.R. (1999), "Corporate Reputation and Perceived Risk in Professional Engineering Services", *Corporate Communications: An International Journal*, 1999, Volume 4, pp. 121-128.  
<http://news.bbc.co.uk/1/hi/business/3179640.stm>
- Jannadi, O.A. and Almishari, S (2003), "Risk Assessment in Construction", *Construction Engineering and Management*, 2003, Volume 129, pp. 492-500.
- Rayner J. (2003), *Risk Management – 10 principles*, Elsevier plc Group, Great Britain.
- Knoepfel I. (2001), Dow Jones Sustainability Group Index: A Global Benchmark for Corporate Sustainability", *Corporate Environmental Strategy*, Vol. 8, Issue 1.
- Murray, K. (2003), "Managing the Single Greatest Risk Facing Business Today", *Communication Management*, 2003, Volume 8, pp. 142.