Corporate Reputation Management in the U.S. Pharmaceutical Industry

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Abstract

The reputations of firms may be linked to the degree to which they have formal reputation management programs. To examine that hypothesis the authors surveyed firms in the U.S. pharmaceutical industry where reputation is a highly visible challenge. We compared the reputation measurement and management efforts of the most admired firms with those of less admired firms. The data indicate a positive correlation in five areas – that is, between reputation and having an ongoing reputation measurement program; having an active reputation management program; having a formal reputation management plan; having an individual or unit charged with responsibility for coordinating / overseeing reputation management; and having the chief communication officer as a member of the company's executive committee.

Introduction- the importance of corporate reputation

This paper deals with the subject of corporate reputation in the U.S. Pharmaceutical sector and whether the allocation of dedicated resource to its management has measurable benefits to the enhancement of that reputation.

The paper is promulgated on the assumption that the effective utilization of intangible assets, including corporate reputation, is an increasingly important part of business strategy in the post- industrial economy. In the pharmaceutical sector, for example, 50% or more of a company's total assets can be intangible, as in the case of Pfizer, or constitute a significant part in the growth in assets, as in the case of Procter and Gamble, (Boekstein, 2006).

Intangible assets in the sector can be classified into two categories. The first, people dependent, includes human and intellectual capital. The second, people independent, include technological or relational factors, trademarks, licenses and patents (Helens, McGrath and Leach, 2008; Fernandez, Montes and Vasquez, 2000). However, there is a view that a company's most 'critical, strategic, and enduring' intangible asset is its reputation, (Cravens, Oliver, Ramamoorti, 2003) and it is this area that the paper will address.

Research on the subject of corporate reputation has shown associations between it and most aspects of business performance including pricing and profitability (Landon and Smith, 1998; Roberts and Dowling, 2002); people management, (Gatewood, Gowan, & Lautenschlager, 1993; Ryne, 1991); supplier relationships (Fombrun, 1995); and increased awareness and press coverage (Worcester, 2009). In the pharmaceutical sector companies such as Johnson & Johnson, Merck and SmithKlineBeecham, who were in the top 10 of America's Most Admired companies in 1983; Merck in 1993 and Johnson & Johnson in 2003, have long recognized the importance of a good corporate reputation. Both Pfizer and Johnson & Johnson were featured in the "World's Most Admired Companies" ratings in 1998 and 2007 respectively (Brown and Turner 2008). In *Fortune's* latest survey of the "World's Most Admired Companies," thirteen were from the pharmaceutical sector (Fortune, 2010).

Table 1
***Fortune* magazine's 2010 "World's Most Admired Companies"**

Industry: Pharmaceuticals

Most Admired:

Company	Score
1. Abbott Laboratories	**6.68**
2. Johnson & Johnson	**6.67**
3. Novartis	**6.61**
4. Roche Group	**6.19**
5. GlaxoSmithKline	**5.94**
6. AstraZeneca	**5.93**
7. Amgen	**5.91**

Contenders:

Company	Score
8. Merck	**5.89**
9. Sanofi-Aventis	**5.54**
10. Bristol-Myers Squibb	**5.40**
11. Eli Lilly	**5.20**
12. Boehringer Ingelheim	**5.13**
13. Pfizer	**5.06**

Source: *Fortune* 2010, from the 22 March issue.

It has been argued that an effective strategy for the management of corporate reputation will require both recognition of its value and its effective management (Vallens, 2008; Doorley & Garcia, 2007).This paper is intended as a contribution to the understanding of this point by analyzing the nature of corporate reputation in the pharmaceutical sector; by placing this in a macro economic, political and environmental context and by testing five hypotheses about corporate reputation management with U.S. pharmaceutical companies. The outcome will be a contribution to the knowledge and practice of corporate reputation in one of the United States' most successful and high profile business sectors.

Defining corporate reputation in the U.S. Pharmaceutical sector

The complexity and intangibility of corporate reputation is reflected in attempts to define it. Fombrun and van Riel (1997), for example, saw corporate reputation as 'a collective representation of a firm's past actions and results that describes the firm's ability to deliver valued outcomes to multiple stakeholders. It gauged a firm's relative standing both internally with employees and externally with its stakeholders, in both its competitive and institutional environments.' However, further research by Barnett et al. (2006) identified 49 definitional statements in academic literature between 2001and 2003 falling into three categories: reputation as a state of awareness, reputation as an assessment and reputation as an asset. The authors suggested that these three categories confused the concept of corporate reputation with the concepts of corporate identity, corporate image and corporate reputation capital. Because of this confusion they proposed their own definition of the term focusing on the importance of judgments as:

> *Observers' collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time* (Barnett et al., 2006: 34)

A consistent theme in both Fombrun and van Riel (1997) and Barnett et al (2006) is the importance of performance/behavior over time in their definitions of reputation. A possible addition to this assumption might be the importance of communication, since, the way that performance is communicated to stakeholders also affects corporate reputation.

Doorley and Garcia (2007) therefore took a different stance. They acknowledged that reputation did in fact involve the perceptions and images that various stakeholders have of a firm, but developed the view further in the formula:

Reputation = Sum of Images = (Performance and Behavior) + Communication

Doorley & Garcia also explained where these images come from; both the performance and behavior of the firm and how those components are communicated. This definition of reputation will be used in this paper in the examination of the pharmaceutical industry:

Just as there is no consensus on a common definition of reputation, no standard model exists detailing how a firm can manage its reputation (Vallens, 2008). However, several models have emerged from the literature and from these models some commonalities are clear. The basic components of reputation management are identification of organizational stakeholders, measurement and evaluation, and a strategic reputation management plan.

Reputational challenges faced by the U.S. Pharmaceutical Industry

The context of corporate reputation is a critical determinant of both the process and position for its management. This is accentuated for pharmaceutical companies which face a dilemma that is unique to the sector in that on the one hand they improve the quality of human life on a daily basis; on the other, they have to make profits in order to fund further research and development and satisfy the needs of shareholders. In embracing both objectives, the sector faces some difficult reputational challenges. These may be summarized as:

Economic Challenges

The pharmaceutical sector faces a number of economic challenges among the most prominent of which are competition and industry structure, the number of mergers and acquisitions and the nature of drug pricing.

The economic takeoff in the pharmaceutical industry that occurred in the 1950's was the result of advanced scientific approaches and provided the catalyst for improving manufacturing techniques ("Pharmaceutical Industry"). The sector's attractiveness provided a stimulus to companies wishing to enter the market resulting in competition from multiple areas including intercompany rivalry; from generic drug manufacturers **a**nd from other industries (Davidson and Greblov, 2005). In addition to facing competition on three different levels, pharmaceutical companies also compete in an industry with a unique structure. Mergers and acquisitions occur very frequently in the sector, posing an additional reputation challenge. From January 2007 to September 2009, the globe's ten largest pharmaceutical companies spent $230 billion on M&A activity (www.ReportLinker.com, 2009), from the completion of 64 M&A transactions (www.ReportLinker.com, 2009). This year alone has seen the takeover of two companies; Wyeth and Schering-Plough by Pfizer and Merck respectively. M&A activity can threaten a company's reputation because by its very nature it is the joining of two separate entities with two separate reputations and cultures.

A further economic challenge relates to drug pricing which can be a contentious issue (Lu and Comanor 1998) and the pricing of drugs to market presents something of a business dilemma compounded by the sheer cost of development of new drugs. On average, the cost of bringing just one new prescription medication to the U.S. market is a staggering $1.3 billion (Waller, Shah and Nolte, 2007). Considering the odds of successfully bringing a compound to the U.S. market are about 10,000 to 1 (Vagelos, 1991), the amount of money spent on compounds that don't make it to market is astronomical. In addition to offsetting the costs of research and development, pharmaceutical companies also must consider issues like attracting talent and investors when pricing drugs.

Legal challenges

The second group of reputational challenges emerges from the complex legal framework within which pharmaceutical companies operate. The regulatory environment has continued to tighten since the beginning of the industry's take off. For example, the FDA's Comprehensive Drug Abuse Prevention and Control Act of 1970 required the pharmaceutical industry to retain physical security and stringent record keeping for certain drugs. Further legislation included The Drug Price Competition and Patent Term Restoration Act, (1984) commonly known as the Hatch Waxman Act, which was essentially responsible for establishing the current system of generic drugs, and changes in the law on direct to consumer (DTC) advertising in 1985, amended in 1997.

Advertising and Consumer demand

Thirdly, advertising and consumer demand can also present a series of reputational challenges.

In 1996 DTC advertising spending for the pharmaceutical industry totaled $800 million (The Henry J. Kaiser Family Foundation, 2003). Five years later this figure had more than doubled to $2.7 billion in 2001 (The Henry J. Kaiser Family Foundation, 2003).

As DTC drug advertising began to increase after the 1997 FDA guidance, the process was almost immediately seen as controversial, and much of that controversy still exists today. On the one hand, critics feel that advertising prescription medicines in a way similar to the way other commonly used products are advertised has led to an emergence of consumer self-prescription. The power of prescribing is seen as being taken away from the doctor because “ads employ a message of ‘Ask your doctor,’ which really mean[s]‘Tell your doctor to write you a prescription, or you’ll find a doctor who *will*” (Fried, 1998: 296). Alternatively, DTC advertising can also be viewed as an education tool. While there are obvious benefits (largely financial) for pharmaceutical firms who successfully use DTC advertising, it is also their opportunity to educate the public about what drugs are out there. However, DTC advertising still remains a challenging area for pharmaceutical companies to navigate successfully in the public eye.

In the context of consumer demand, brand myopia is a further challenge. More formally, brand myopia is: “the practice of shutting out all the possibilities for [a] brand because of a preconceived notion that the only lessons applicable to [a] category are those learned from other companies in [that] category” (Moser, 2003:8). Brand myopia is a problem in many industries, but it has a particularly strong presence in the pharmaceutical industry. This is because, on a basic level, most major pharmaceutical companies do the same thing; they discover and develop medicines. Most pharmaceutical firms “are not diversified,” for example “only two out of the 15 major pharmaceutical companies have revenues from sales of pharmaceutical products that are lower than 50% of their total sales” (Davidson & Greblov, 2005:3).

Political Challenges

And finally, the political environment is a potential reputational risk for pharmaceutical companies, as demonstrated by the opposition to Hilary Clinton’s 1993 plan to change the U.S. Healthcare system; pharmaceutical companies were not her number one supporter. The pharmaceutical industry was a strong enemy of ‘Hilarycare’ and certainly contributed to its demise. This did not help the industry’s reputation in the eyes of the American public (Herper, 2009). Now, in 2010, President Obama’s initiative to drastically restructure the U.S. healthcare system has succeeded and a health care bill was passed in March 2010.

So far the pharmaceutical industry has taken a different approach to the antagonism they showed towards Clinton’s plan. Billy Tauzin, then CEO and President of Pharmaceutical Research and Manufacturers of America (PhRMA), the leading trade association for the pharmaceutical industry, demonstrated this supportive attitude with his June 21, 2009 statement on the Health Care Reform Agreement. He said:

> Millions of uninsured and financially-struggling Americans are depending on us to accomplish comprehensive health care reform this year. America’s pharmaceutical research and biotechnology

> companies are signaling their strong support for these critically important efforts. This is a once-in-a-lifetime opportunity and, working together, we can make this hope for a better tomorrow a reality today (Tauzin, 6/21/2009).

The adaptation of the original Obamacare plan that passed in the House of Representatives in 2009 did not have the full support of the industry. Worried that this new variation of the bill would destroy tens of thousands of jobs in the sector, PhRMA, representing the views of the industry, treaded carefully with its next statement. Senior Vice President Ken Johnson explained:

> Despite the shortcomings in the House legislation, we remain completely committed to helping the President and Congress pass comprehensive health care reform this year. We continue to be guided by a single-minded purpose: everyone in America — not just some of us, but all of us — should have access to high-quality, affordable health care coverage and services. Done in a smart way, health care reform will benefit patients, the economy and the future of our nation (Johnson, 11/07/2009).

Those companies in the pharmaceutical sector have to tread a careful path through political issues.

A survey to assess the management of corporate reputation in the U.S. pharmaceutical industry- methodology

Given the nature of this business environment, the reputational challenges faced by pharmaceutical companies in the USA are both complex and difficult to manage. In order to gauge the practice of reputation management in this context, a survey was carried out of the leading companies in the sector. The following is an outline of the methodology used and some of the findings.

The annual *Fortune* magazine analysis of "America's Most Admired Companies," and now the "World's Most Admired Companies" uses data provided by senior executives, outside directors, and financial analysts to rate companies on 'nine key attributes of reputation' (innovation, people management, use of corporate assets, social responsibility, quality of management, financial soundness, long-term investment, quality of product/services and global competitiveness), and from these nine components an ultimate ranking is generated. While the *Fortune* survey has the weakness of only surveying three audiences, it has one of the best reputations in the industry. Further, this process has become one of the most common indicators of corporate reputation (Highouse, Broadfoot & Yugo, 2009).

Seven pharmaceutical companies were included in *Fortune* magazine's 2010 "World's Most Admired Companies" list and an additional six were 'contenders'.

Despite all of the aforementioned reputational challenges facing the pharmaceutical industry, these companies were still able to succeed in maintaining a strong corporate reputation. Because corporate reputation is something that a company can actively track and manage, it is possible that the reputation measurement and management efforts of these 13 companies played a role in their success. The question that arises is: do the reputation management practices of the successful seven (and the six ‘contenders’) vary from those of the rest of the pharmaceutical industry?

One hundred and sixty five communication professionals working at different U.S. pharmaceutical companies (including U.S. subsidiaries of international pharmaceutical companies) were approached via email to participate in this study. Only one person at any given firm was contacted. An email was sent to the potential participants asking for their help completing a short survey. Of the communication professionals approached, 43 responded. Of these 43 responses, 39 were complete and were used as the data source for this research. The survey used a 10-item questionnaire to test five key hypotheses. Both the hypotheses and the results are shown in Table 2.

Table 2
Results of corporate reputation survey of companies in the Pharmaceutical Industry

		% of Companies listed on Fortune's World's Most Admired Companies list including contenders	*% of Companies listed on Fortune's World's Most Admired Companies list excluding contenders*	*% of Companies not listed on Fortune's World's Most Admired Companies list*
Hypothesis 1. Firms with better reputations are more likely to have either an individual or department within their organisation, or employ and external firm tasked with reputation management	*Having a specific department that handles reputation management*	**90**	**86**	**45**
	Employing an external firm to handle reputation	**50**	**57**	**21**
Hypothesis 2. Firms with better reputations are more likely to have written strategic/ tactical reputation management plan	*Having a written strategic/tactical plan*	**100**	**100**	**32**
Hypothesis 3. Firms with better reputations are more likely to actively measure their reputations	*Firms measuring reputation*	**89**	**86**	**35**
Hypothesis 4. Firms with better reputations are more likely to have a communications team that is involved in decisions about reputation	*Communications team involved to a moderate or large extent*	**90**	**86**	**76**
Hypothesis 5.Firms with better reputations are more likely to have a firms Head of Communication have a seat on the Executive Committee	*Have a seat on Executive Committee*	**60**	**57**	**48**
	Report to the CEO	**50**	**57**	**36**

All survey results in the following section are broken down into three groups, responses from companies not on *Fortune* magazine's "World's Most Admired Companies" list, responses from companies on *Fortune* magazine's "World's Most Admired Companies" list (including 'contenders') and responses from companies on *Fortune* magazine's "World's Most Admired Companies" list (excluding 'contenders').

A survey to assess the management of corporate reputation in the US pharmaceutical industry- results

An analysis of the responses to the survey is discussed against each of the hypotheses below.

H1. Firms with better reputations are more likely to have either an individual or department within their organization, or employ an external firm, tasked with reputation management.

Two survey questions were used to collect data to test this hypothesis. The data indicate that 90% of all pharmaceutical companies on *Fortune* magazine's "World's Most Admired Companies" list (85.71% of companies if the 'contenders' are excluded) have an individual or department within their organization that handles reputation management. In addition, 50% of companies (57.14% of companies if the 'contenders' are excluded) indicated they employ at least one external firm to handle reputation management. Contrarily, just 44.83% of companies not on *Fortune* magazine's list have an individual or department within their organization that handles reputation management. Similarly, only 20.69% of these companies indicated they employ at least one external firm to handle reputation management.

These data support hypothesis one. The percentage of companies on the "World's Most Admired Companies" list, companies with the strongest reputations in the pharmaceutical industry, that have an individual or department within their organization that handles reputation management is much higher than for the companies not in *Fortune* magazine's rankings. A significant difference in percentage is also seen with respect to whether companies employ an external firm to handle reputation management.

H2. Firms with better reputations are more likely to have a written strategic/tactical reputation management plan.

One survey question was used to collect data to test this hypothesis. The data indicate that 100% of all pharmaceutical companies on *Fortune* magazine's "World's Most Admired Companies" list (both including and excluding 'contenders') have a written strategic/tactical plan to manage firm reputation. Contrarily, just 32% of companies not on *Fortune* magazine's list have a written/strategic tactical plan to manage firm reputation.

These data support hypothesis two. The percentage of companies on the "World's Most Admired Companies" list, companies with the strongest reputations in the pharmaceutical industry, who have a written strategic/tactical plan to manage reputation is much higher, a staggering 100%, than for companies not in *Fortune* magazine's rankings.

H3. Firms with better reputations are more likely to actively measure their reputations.

One survey question was used to collect data to test this hypothesis. The data indicate that 88.89% of all pharmaceutical companies on *Fortune* magazine's "World's Most Admired Companies" list (85.71% of companies if the 'contenders' are excluded) actively measure their corporate reputations. Contrarily, just 34.62% of companies not on *Fortune* magazine's list actively measure their corporate reputations.

These data support hypothesis three. The percentage of companies on the "World's Most Admired Companies" list, companies with the strongest reputations in the pharmaceutical industry, that actively measure their corporate reputations is much higher, than for companies not in *Fortune* magazine's rankings.

H4. Firms with better reputations are more likely to have a Communication Team that is either largely or moderately involved in their organization's decision-making process (regarding firm performance and behavior).

One survey question was used to collect data to test this hypothesis. The data indicate that 90% of all pharmaceutical companies on *Fortune* magazine's "World's Most Admired Companies" list (85.71% of companies if the 'contenders' are excluded) have a Communication Team that is either largely or moderately involved in the firm's decision-making process regarding firm performance and behavior. Additionally, 75.87% of companies not on *Fortune* magazine's "list have a Communication Team that is either largely or moderately involved in the firm's decision-making process regarding firm performance and behavior.

These data support hypothesis four. The percentage of companies on the "World's Most Admired Companies" list, companies with the strongest reputations in the pharmaceutical industry, that have a Communication Team that is either largely or moderately involved in the firm's decision-making process regarding firm performance and behavior is higher, albeit by a small interval, than for companies not in *Fortune* magazine's rankings.

H5. Firms with better reputations are more likely to have the firm's Head of Communication have a seat on the firm's executive committee.

One survey question was used to collect data to test this hypothesis. The data indicate that 60% of all pharmaceutical companies on *Fortune* magazine's "World's Most Admired Companies" list (57.14% of companies if the 'contenders' are excluded) have a Head of Communication that has a seat on the firm's executive committee. Additionally, 48.28% of companies not on *Fortune* magazine's list have Head of Communication that has a seat on the firm's executive committee.

These data support hypothesis five. The percentage of companies on the "World's Most Admired Companies" list, companies with the strongest reputations in the pharmaceutical industry, that have a Head of Communication with a seat on the firm's executive committee is higher, albeit by a small interval, than for companies not in *Fortune* magazine's rankings.

Discussion

There is evidence of the tangible benefits a strong corporate reputation can have for an organization. However, not all companies take a proactive approach to reputation management (Doorley and Garcia, 2007). Nor historically was there the prevalence of systematic methods for measuring and managing reputation (Vallens, 2008; Doorley and Garcia, 2007). Nonetheless, all of the pharmaceutical companies on *Fortune* magazine's 2010 "World's Most Admired Companies" list do have written strategic plans to manage corporate reputation, while 32% of the pharmaceutical companies surveyed that were not included on *Fortune* magazine's list indicated that they had a written strategic/tactical plan to manage firm reputation.

This finding indicates a possible relationship between reputation management and corporate reputation. Data from the survey can also be used to indicate areas of best practice to enhance both.

- **Having an individual or department within the organization tasked with reputation management.**

One area in which pharmaceutical companies on *Fortune* magazine's "World's Most Admired Companies" list differed largely from companies not on the list was having an individual or department within the firm that is responsible for reputation management. This makes perfect sense because while it is often argued that all employees are responsible for a firm's reputation, tasking a specific individual or a group with reputation management indicates that a firm believes reputation management is important to organizational success. It also means there is someone in the organization responsible and accountable for creating and maintaining a strategy to manage corporate reputation.

The survey responses show that while 90% of all pharmaceutical companies on *Fortune* magazine's list (85.71% of companies if the 'contenders' are excluded) have an individual or department within their organization that handles reputation management, only 44.83% of companies surveyed that were not included on the list do. This difference suggests that having an individual or department within the organization tasked with reputation management is a crucial first step for reputational success.

- **Actively, continuously and comprehensively measuring firm reputation.**

Reputation measurement is another area in which pharmaceutical firms with better corporate reputations showed a greater commitment. Specifically, our survey found that 88.89% of all pharmaceutical companies on *Fortune* magazine's "Most Admired Companies" list (85.71% of companies if the 'contenders' are excluded) actively measure their corporate reputations, compared to just 34.62% of companies not on the list. This finding makes sense because companies that are constantly aware of the state of their reputations are more able to actively affect them.

In order to take control of and maintain corporate reputation, measurement is necessary. A firm must identify where it stands, evaluate whether its strategy is working and analyze the end results of any strategic reputation management activity. Actively, continuously and comprehensively measuring firm reputation is a necessary component of reputational success.

- **Having a formal strategic/tactical plan to manage firm reputation.**

In order to effectively manage firm reputation, a formal plan that is both strategic and tactical is necessary. This sort of plan ensures that all departments within an organization are on the same page and that the messages coming from an organization are consistent. The data from our survey, as described previously, strongly support this notion. All of the pharmaceutical companies on *Fortune* magazine's list indicated they had a written strategic/tactical plan to manage firm reputation, not taking a scattered approach or ignoring reputation management altogether. To achieve reputational success, a written strategic/tactical reputation management plan, tied to business objectives, is a must.

Conclusion and Suggestions for Future Research

The data generated from this study is meant to inspire further discussion as to the possibility of a correlation between a company's reputation management practices and its corporate reputation. The findings are not generic and can only be considered in the context of the pharmaceutical sector. Nonetheless, there are some important conclusions.

Among these are the relationship between the quality of firm reputation and the reputation management activities of that firm. Because of this, using the data collected during this study, a series of best practice reputation management suggestions were developed, but this area still requires further research.

Future research should continue to examine the differences in reputation management activities between pharmaceutical firms with strong reputations and those with weaker ones. Learning about the specific reputational practices of the top companies would indeed be useful, as would further investigation as to whether a causal relationship or a positive correlation between reputation management behavior and reputation exists.

Many in the pharmaceutical industry and many observers may be surprised by the formality, aggressiveness and pervasiveness of reputation management initiatives in the industry. While the authors suspect that such reputation management activity has increased over recent years as the value of the reputation asset has become better appreciated, no conclusions about historical trends can be drawn from this study.

Investigating the relationship between reputation and reputation management outside of the pharmaceutical industry, across all sectors, is also a worthwhile and necessary direction for future research. If a positive relationship is found, the implications for Corporate America are potentially monumental. Hence, reputation management and how it affects corporate reputation is an important topic and worthy of continued research and discussion.

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