

# CORPORATE REPUTATION IN SPAIN

## MERCO RANKING & EL CORTE INGLÉS CASE STUDY

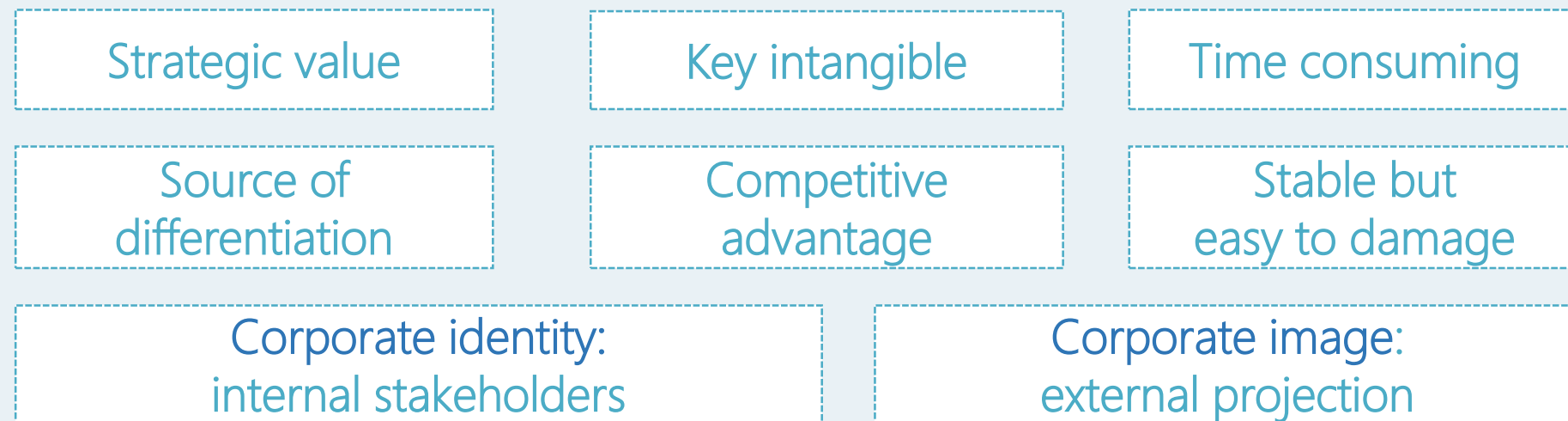
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### INTRODUCTION

It is usual to assess companies based on quantitative, material and substantial facts such as Return on Equity and other financial ratios. However, there are many intangible traits that must be kept in mind due to the influence they have on performance such as satisfaction or reputation. This study shows the importance to track corporate reputation and its impact in a context of globalization, great information flows and high competitiveness by analyzing the evolution of MERCO ranking in Spain and providing a real example through a case study of El Corte Inglés.

### THEORETICAL BACKGROUND

#### Corporate reputation attributes



The aggregate perceptions held by all stakeholders, people inside and outside the company and it can be positive or negative (Fombrun, 1996; Walker 2010).

Nowadays, it is one of the **two most popular indicators worldwide** for organizations (Carreras, Alloza and Carreras, 2013).

### LITERATURE REVIEW

Good Corporate Reputation is achieved with the fulfilment of **expectations** risen to all stakeholders by the company. It is driven by:

Credibility Reliability Trustworthiness Responsibility

According to Walker (2010), reputation can be examined from many different perspectives. The most common theories to examine reputation are *Signalling Theory*, *Institutional Theory* and *Resource-Based-View*.

Fombrun (1996) states that in order to measure corporate reputation correctly, company's stakeholders must be identified and there must be a good representation of each group.

Some indexes are the *World's Most Admired Companies (WMAC)*, *Reprtrak™ Index* and *Monitor Empresarial Reputación Corporativa (MERCO)*, a worldwide referent in the business sector.

### MERCO RANKING

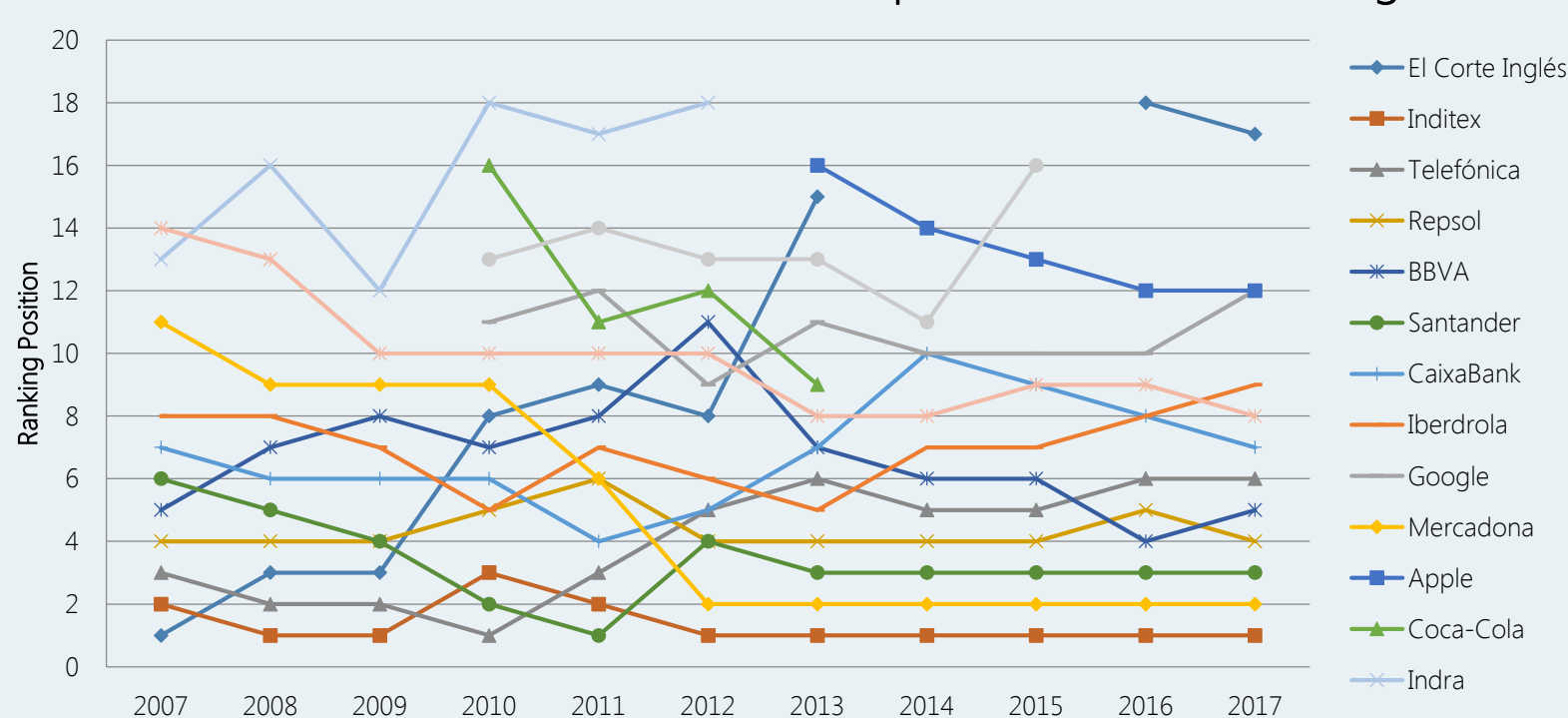
MERCO Ranking provides an assessment of corporate reputation of large companies operating in Spain by combining audits and direct evaluations.

Main top ten companies included in MERCO (2007-2017)

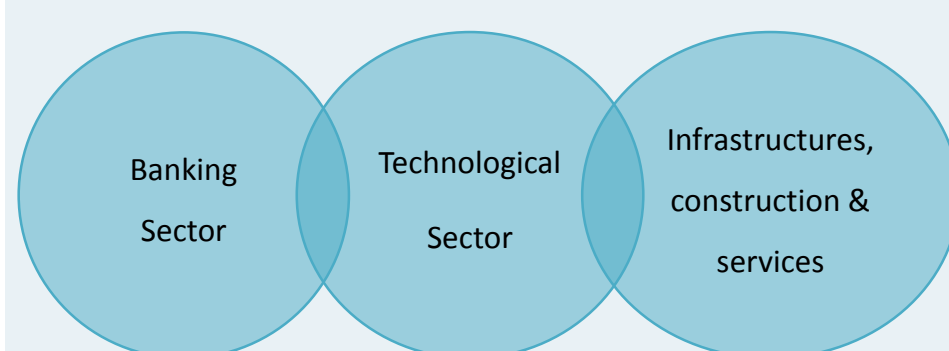


Inditex shows the best results with the greatest stability and highest score. It is followed by Mercadona, Santander, Repsol and Telefonía. All of them present a stable pattern mainly from 2012 onwards.

Evolution of most well assessed companies in MERCO ranking



Main sectors (2007-2017)

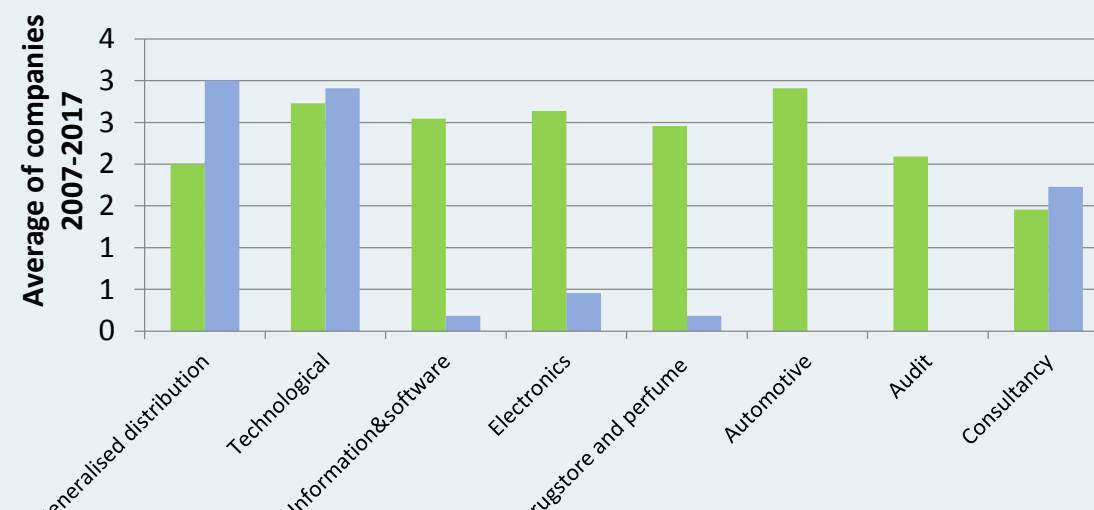


**Generalised distribution** presents an upscaling trend since 2013 including *Carrefour*, *Amazon* or *El Corte Inglés*.

The **Clothing and Retail** moved from stability to almost the triple since 2013.

Presence of local and foreign companies by sectors (2007-2017)

**Local** companies represented more than **60%** in the ranking being leaders of generalized distribution, Technology and consultancy. **Foreign** companies are gaining presence achieving great reputation assessment in almost every sector.

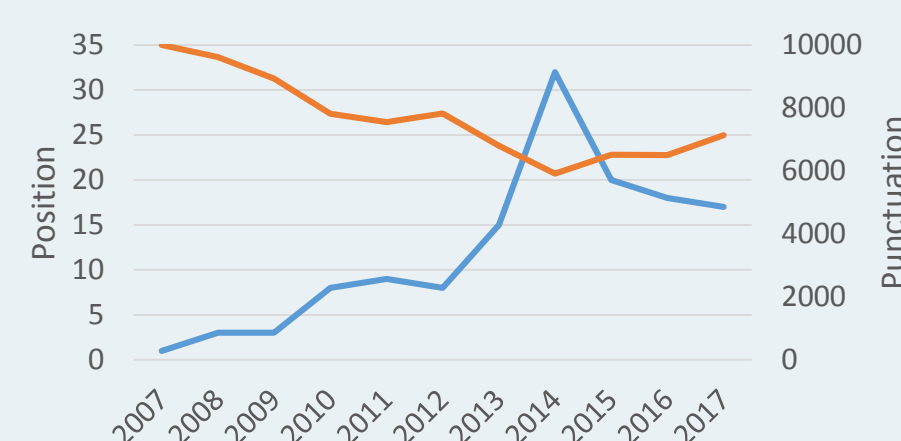


### CASE STUDY: EL CORTE INGLÉS

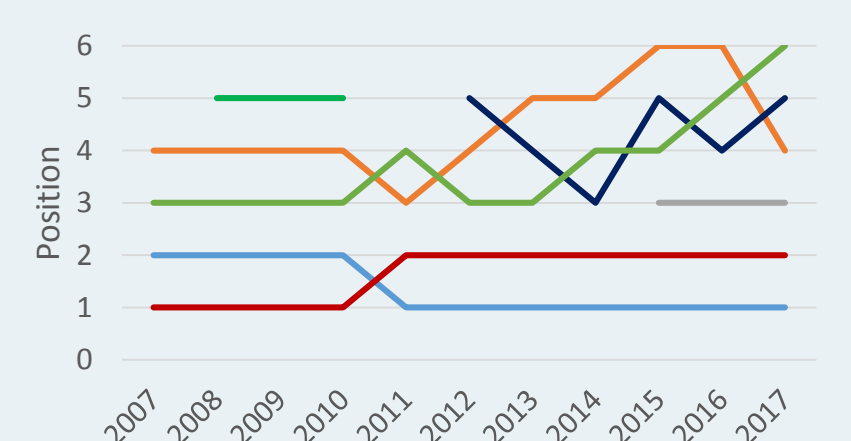
It is considered a European **referent** in the Generalized distribution sector.

- Top leader in corporate reputation until the arrival of the crisis in 2007.
- Huge loss of **reputational score** in 2014 to the 32<sup>nd</sup> position.
- El **Corte Inglés** and **Mercadona** switched as leaders of generalised distribution sector which keeps increasing over the years.

Evolution El Corte Inglés in MERCO Ranking



Evolution of Generalised distribution (MERCO)

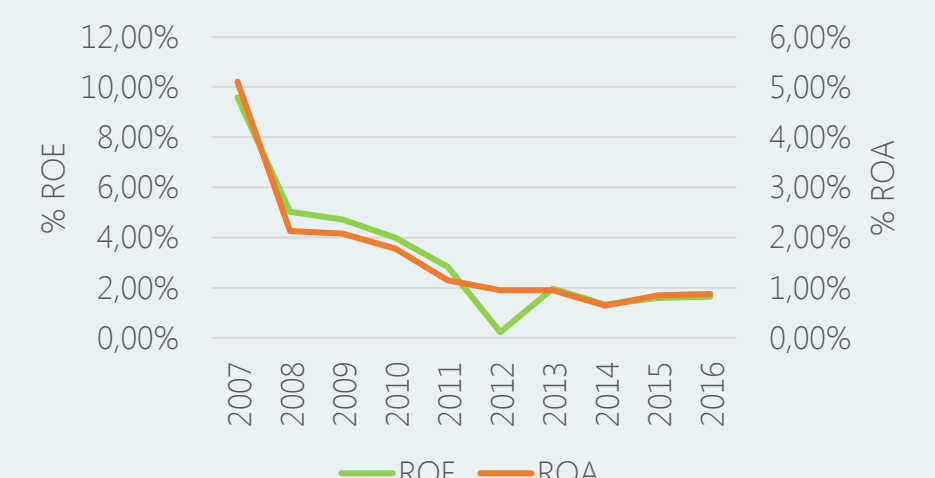


El Corte Inglés Business Model:  
Client orientation & High Innovation



ECI's business model **restricts growth opportunities** due to high specialization and increasing competition. **Outdated** model that has to be adapted to global competition and new market needs.

El Corte Inglés Financial Analysis:  
ROE & ROA



- Low earnings generation from its capital and investments (ROE&ROA) which evinces **inefficient management of its resources**.
- High borrowing dependence & financial leverage:** debt source of growth.
- More than **50% of investments** dedicated to material assets, mainly **property, plant and equipment** which are not generating profits.
- Ownership conflicts** due to conservative and familiar structure. Need to **adapt the business model**.
- Dependence on one single market:** Spanish and Portuguese households are their only source of income. Need to **enter new markets**.

### CONCLUSION

**Powerful intangible Resources properly managed Value creation Convenient & beneficial Competitive advantage**  
Corporate reputation proves company's ability to manage properly not only **perceptions** held by **multiple stakeholders**, but also its ability to fulfil their **expectations**. It must build a **strong and trustworthy reputation** based on good management of company's **relationships** with all its stakeholders in order to face and overcome possible challenging situations for the company.

*'When a company serves its constituents well, its name becomes a valuable asset'*, Fombrun (1996)