Do Actions Speak Louder than Words?

Research on the Relationship Between Financial Performance and Reputation

By Ryan Calsbeek, Ph.D.
MAHA Global and Dartmouth College

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The Evolution of Reputation Intelligence

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Introduction

Organizations use storytelling to make connections with internal and external stakeholders, often designed to educate and influence what people think and feel about the organization. Reputations rise and fall on stakeholder perceptions; companies that effectively communicate their vision and values both internally and externally have long enjoyed the benefits of robust reputations and brand value that come from positive public perception. In fact, corporate storytelling has a positive influence on strategy to build stakeholder engagement and loyalty, as well as improve reputation.[1]

MAHA Global and the Institute for Public Relations partnered to research the impact storytelling has on consumer perceptions, and ultimately reputation. A central premise of this study is that corporate reputation is influenced by interactions with many different stakeholders, such as customers, employees, shareholders, media, and the community, to name a few. We analyzed the attributes that influence corporate reputation, and how the gaps between public perception and organizational behavior impact financial performance.

We collected data on both public perception and actual corporate behavior across seven categories of corporate reputation including:

1. environmental impact
2. community impact
3. governance
4. how organizations treat their employees
5. commitment to diversity
6. customer satisfaction
7. financial performance

1. Gill, Robert (2015). Why the PR strategy of storytelling improves employee engagement and adds value to CDR: An integrated literature review. *Public Relations Review*, 41, 662-674

Methodology

Using MAHA Global's platform, data were gathered on 511 publicly traded companies, operating in 16 different industries around the world. Through data partnerships with Onclusive and Marketpsych, perception data were collected from every major/minor news and social media outlet around the world (including news articles, blogs, TV, radio, newswire, podcasts, X, Facebook, Pinterest, Reddit, LinkedIn, and TikTok, in over 100 different languages).

Sentiment was summarized across the seven categories of corporate reputation described above. **We scored perception on a 0 to 100 scale on a continuum with the following indicators:**

49 and below	**=**	**negative sentiment**
50	**=**	**neutral**
51 and above	**=**	**positive sentiment**

Scores closer to 0 are perceived to be more negative and scores closer to 100 are more positive. In general, we consider net sentiment scores above 65 to be "very good" and those above 70 to be "excellent."

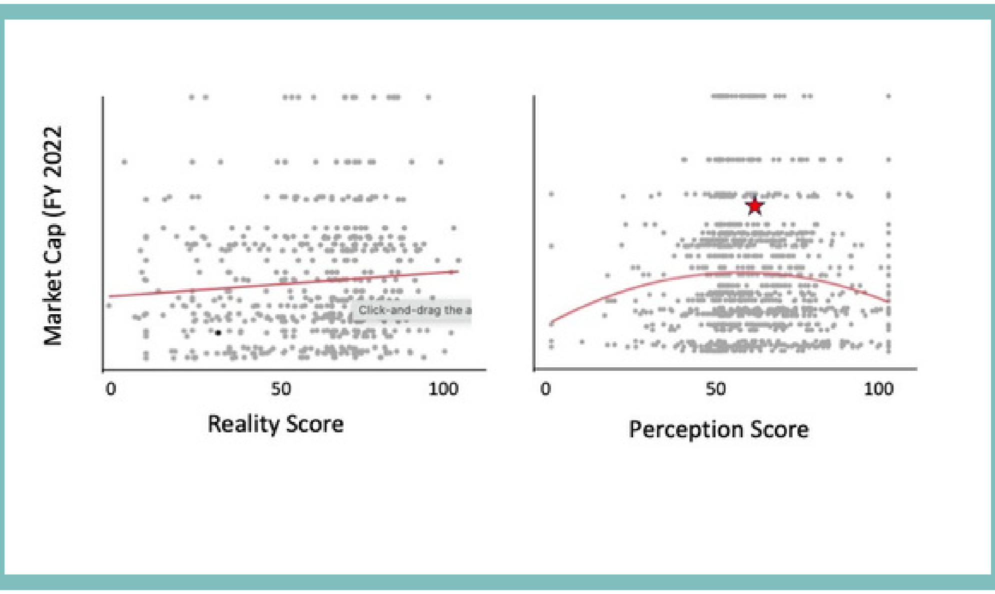
Behavioral or "reality" data were also gathered for these seven aforementioned categories. Behavior is defined as the "disclosed actions an organization takes that impact their various stakeholders." Behavioral data were aggregated from sources of public disclosure (e.g., 10K reports, SEC filings, EEO1 disclosures, etc.) and include quantitative metrics like "the average employee salary, numbers of tons of CO_2 emissions produced, numbers of women and minorities hired into managerial positions, stock price, total philanthropic donations relative to revenue, etc." Together, these two data sets capture information about what people "think, feel, and write" about the organization (perception) as well as how the organization behaves (reality).

Two measures of financial performance were collected—market cap and total sales—for each company in this data set during 2022. Financial performance measures were correlated with *perception* data and *reality* data.

Results

Companies with higher scores on the reality dimension or that behave better on reputation attributes performed better financially. This result was true even after variation due to industry was controlled (total sales: $r^2=0.11$, $P<0.001$; market cap: $r^2=0.06$, $P=0.01$).

By contrast, financial performance did not consistently improve with higher perception scores. In fact, the slope of the linear relationships between both sales and market cap were slightly negative (~ -0.05). A non-linear fit suggests that maximal financial returns were associated with intermediate perception values.**Therefore, actions do speak louder than words** (See Figure 1).



Misunderstood Companies

Some companies in certain industries scored lower on public perception scores despite scoring higher on behavior. This may indicate that stakeholders may not be aware of the work organizations are doing in key reputation areas. Companies with low perception scores and high behavior scores are referred to in this paper as “misunderstood companies.”

Misunderstood companies experienced a consistent trend, especially in the biotech/pharmaceutical industry, which saw a disproportionate gap between perception and reality. Biotech/pharma companies were “misunderstood” on nine of the 17 attributes[2] scored. Therefore, as a whole the industry is behaving better than the public perceives it to be.

2. Of the following 17 attributes, the nine bolded ones indicate where biotech/pharma companies are misunderstood: Community Development, **Compliance & Reporting**, **Diversity**, **Employee Comp**, Employee Engagement, Ethics, Financial Performance, Health & Safety, Human Rights & Equality, **Leadership**, Loyalty, Net Zero, Products & Services, **Reach (Penetration)**, Resource Management, **Supply Chain**, and **Vision**.

For example, some biotech/pharma companies serve communities with limited access to health-related resources. The perceived “penetration” of the biotech/healthcare industry into diverse communities was measured and then compared to their actual behavior. Perception scores in this area were net negative (perception = 44.97), whereas in reality, biotech/pharma scored in the top quartile of all industries, fully 17 points higher than the global average (biotech/pharma reality score = 70.4).

Similarly, public perception regarding the biotech/pharma industry’s ‘leadership’ hovers around neutral/slightly positive (perception = 56). Here, leadership refers to transparency and accountability around commitments made by the organization. This is a measure of how well the company follows through on its promises, as well as an assessment of the guidelines implemented to ensure ethical business practices. Although perception is neutral, the industry again scores in the top quartile of all companies for behavior (reality = 69.67) and betters the global mean by more than 11 points.

Of course, not every data point paints a rosy picture; the biotech/pharma industry is perceived to have a far better record of environmental stewardship (perception = 83) than its actual behavior merits (reality = 56). A 2023 report by the non-profit group “My Green Lab” found that although the largest biotech/pharma companies are making some progress on their environmental impact, the overall industry has actually increased its carbon emissions. The biggest impact appears to be coming from Asian markets, but this may be an indirect result of North American and European firms outsourcing their manufacturing practices. Overall, the industry needs to improve its resource efficiency, especially as it relates to sustainable energy use.

In contrast to the biotech/pharma industry, other industries, such as retail, saw smaller gaps between perception and behavior. Companies with “authenticity,” defined as those exhibiting minimal gaps between public perception and actual behavior, tended to outperform their counterparts across various financial metrics. This correlation underscores the intrinsic value of trust-building through a communication strategy that faithfully mirrors corporate conduct.

Implications of the Findings

Corporate reputation was found to be influenced by how companies are behaving rather than factors such as perception, historical behavior of the organization, message efficacy, brand equity, media coverage, etc. These factors, though, are important when building and maintaining corporate reputation, but must be tied to behavior.

Reputations of companies in the biotech/pharmaceutical industry are at historical lows[3] and the data suggest that this may be due to the gap between behavior and perception. On the other hand, the retail industry has one of the smallest gaps between perception and behavior. It should be noted that this industry invests more than double the advertising budget than that of any other industry.[4]

Taking a stand on polarizing social issues has never been more fraught with high impact outcomes. An evidence-based approach can help communications teams better understand when they should speak out and when they should stand by and listen instead. One way to tackle this challenge is to compare the gaps between perception and reality as has been done in this study.

Perception-reality gaps come in two flavors: those that portend reputational risk and those that signal communication opportunities. The former arises when public perception scores are higher than corporate behaviors merit. This gap reflects a scenario in which the company is not performing as well as people believe. Reputational risks may arise when new information released to the public could lead to worsened perceptions of the organization.

The second type of perception-reality gap arises in the opposite scenario, when the public is unaware of the good being done by an organization, among other potential factors. These gaps represent clear opportunities and may be the lowest-hanging fruit for a communications team. In some cases, the company has already done the hard work, but the public simply isn't aware of it. Effective storytelling tailored to specific stakeholders may close these perception-reality gaps. However, changing long-term perceptions and attitudes can be challenging.

Finally, the correlation between behavioral performance and financial outcomes suggests that better behavior, whether measured as environmental stewardship, attention to human rights, ethical leadership, or any other form of mindful business operation, is valued across stakeholder groups. Indeed, the combination of better behavior and effective communication about those behaviors showed the highest financial returns in this dataset. This supports the idea that campaigns without tangible actions are no longer a viable strategy for bolstering corporate reputations. It also underscores the fact that socially responsible companies can (and often do) outperform their competition.

3. Gallup (2023). Business and sector rankings. https://news.gallup.com/poll/12748/business-industry-sector-ratings.aspx
4. https://www.statista.com/chart/19241/top-10-digital-ad-spending-verticals/

Implications for Corporate Strategy

This study underscores the need for corporations to embrace authenticity and action as foundational pillars of reputation management. Rather than relying solely on communication strategies aimed at shaping perception, companies must prioritize substantive actions that resonate with stakeholders. By aligning rhetoric with reality, organizations can cultivate trust, enhance brand equity, and drive sustainable financial performance. Because as these findings indicate, it is far more important for companies to “walk the walk” than “talk the talk” and ensure their actions speak louder than words.

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About MAHA Global

MAHA Global is a leading evolutionary AI SaaS company that helps companies track and predict corporate reputation and related business outcomes. As a Public Benefit Corporation, MAHA is devoted to helping organizations positively transform and build more trust with their stakeholders. For additional information about the company, please visit https://maha.global/

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