

**THE ROLES OF CERTIFICATION IN THE  
ANTECEDENTS AND CONSEQUENCES OF  
CORPORATE REPUTATION:  
EVIDENCE FROM THE UK COMMERCIAL OFFICE  
LETTINGS MARKET**

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Nigel. I. White

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## ABSTRACT

Corporate reputation has been widely researched and found to be a valuable asset as, amongst other things, it causes customers to give the fortunate company the ‘benefit of the doubt.’

Customers, facing uncertainty due to the imbalance in information held between themselves and the seller, will often use the latter’s reputation as a proxy for any missing information. This informational asymmetry is at its greatest when the offering is a service as opposed to a product and certifications can act as a signal of trustworthiness to those looking on.

This paper seeks to investigate the role of a certification within the commercial office lettings market in the UK. The results of the study give substantive support to the hypotheses that a certification causes tenants to bestow upon landlords positive character traits and predict favourable future behaviours in the interests of the tenants.

The author recommends that the company sponsor, Property Solutions (UK) Ltd. of Bristol, introduces a “Well-Managed Property” certification to the market.

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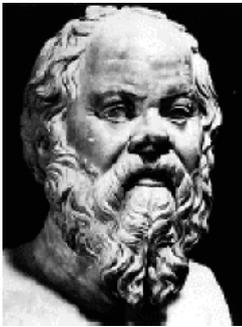
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(Kreis 2000)

*“Regard your good name as the richest jewel you can possibly be possessed of -- for credit is like fire; when once you have kindled it you may easily preserve it, but if you once extinguish it, you will find it an arduous task to rekindle it again. The way to a good reputation is to endeavour to be what you desire to appear.”*

**Socrates**

(cited by GoodReads 2013)

## 1. INTRODUCTION

Socrates called a “good name” the “richest jewel” and although he carries on to extol its’ self-propagating nature, he also warns against losing it as “re-kindling” it can be troublesome (cited by GoodReads 2013). Reputation according to Fombrun (1996) “embodies the history of other people’s experience” with the company in question and serves to make us “more confident that we’ll really get what we’re promised”. Herein lies reputation’s greatest strength; its ability to cause prospective customers to make inferential leaps. The company’s reputation, especially in situations where not all the information is available, is used as a proxy, a substitute, for what is not known. Especially in the service industries, this lack of information is even more marked, with the imbalance being termed informational asymmetry. This in turn leads to uncertainty in the mind of the customer and, depending on the importance of the transaction, a worry as to how to gain the information necessary in order to make the correct choice. Reputation has been seen to act as a substitute for the missing information, bridging the gap between what the customer does know presently and what they would like to know. This report investigates landlord reputation, in terms of its formation and outcomes on the perceptions of a tenant in the commercial office letting sector of the property market in the UK.

### **1.1 Background to the study.**

The Royal Institute of Chartered Surveyors have produced an “Occupier Satisfaction Survey” since 2007 which measures “commercial occupiers’ satisfaction with their landlords” (RICS 2012). The 2012 edition reported that

“nearly half (47%) of all occupiers reported a score of between 1 and 4 when asked about the value for money they receive for their service charges” (Using a 1 to 10 scale where 1 is extremely dissatisfied and 10 is extremely satisfied). This has prompted Property Solutions (UK) Ltd. (PSL (UK)) to ask the author to investigate the possible effect on tenants of a certification if one were introduced into the market. The badge would concentrate especially on reporting on the compliance of a property’s service charge provisions with the present RICS Service Charge Code of Practice (RICS 2011). The certification would serve to fill the void due to the Code only being prescriptive, having no legislation behind it unlike similar situations in the residential lettings market. The study seeks to answer PSL (UK)’s strategic question as to whether to market such a service by investigating its effect on landlord reputation in tenants’ eyes.

## **1.2 Objectives of the research.**

The original research question put forward in the project proposal was as follows: “What determines the degree to which signals of trustworthiness affect consumer intentions?”

The method chosen with which to measure this “degree”, in consultation with the company sponsor, was to investigate the effect that a certification implying that a landlord was “good” would have on prospective tenants of their premises. The theory being that a certification is a “signal of trustworthiness” and that “consumer intentions” would be linked closely to the tenants’ view of the reputation of the landlord in question. As the theoretical background to such a study was investigated it was decided to be more specific and alter the

research question to: “What effect will a ‘Landlord Performance’ certification have on the landlord’s character reputation in tenants’ eyes and will it cause them to predict future landlord behaviour that is in the tenants’ interests.” The three concepts of corporate reputation, informational asymmetry (and associated uncertainty) and consumer involvement were the main theoretical fields drawn upon to form the hypotheses and discuss the results of the data analysis used to test them.

Managerially, the objective of the research was to answer the question: “Should PSL (UK) market a ‘landlord’ certification and if so, what should it contain and how should they go about placing it on the market.” An understanding of how the industry is made up and what effect this certification would have on all parties concerned was an essential intermediate objective set in order to achieve the ultimate managerial goal of the project.

### **1.3 Value of the work.**

Academically, the value of this work centres on the data gathered and its analysis that will occur whilst investigating the concepts elaborated upon above. To the author’s knowledge, no work has been done on certifications and their effects on reputation in the property industry as a whole let alone within the service charge provision sector of commercial office lettings. The results will deepen the understanding of the effect that certifications have in terms of how tenants attribute positive character traits onto landlords that hold the badge. They will also investigate the link between the certification, the character traits “gained” as a result and predicted future landlord behaviour as seen from the perspective of tenants. The role of uncertainty in the presence

of informational asymmetry within this industry will also be a key element added to the academic literature on the subject.

As far as the industry as a whole is concerned, this work will serve to give landlords and tenants a peek into how the other thinks when faced with the possibility of a certification entering the market. The tenant questionnaires and the landlord interviews can be seen as a window by each group into how their opposite numbers react to the badge. This will help to deepen the understanding and therefore communication between the two sides in this particularly informationally asymmetric transaction that is so important to both parties.

Managerially, specifically with respect to the company sponsor PSL (UK), the work will help form and guide the strategic decisions that the company will take with respect to the possible introduction of such a certification. The informal answers of landlords to the questions aimed at discovering what their views were on what tenants considered important while deciding which premises to rent and what difference the appearance of a certification might make will be one part of the report that PSL (UK) will find useful. The tenants' responses to the survey will be another aid towards pitching the certification at the correct audience and making sure it includes the ingredients that they feel are important to them. Lastly, the interviews with other industry players will help fill in any gaps and confirm or question the things learned from the first two sources. It is the author's hope that from the work a certification that is useful and usable will be produced by PSL (UK) and that they in turn will benefit from the work by means of a return on their investments.

## 1.4 Structure of the report.

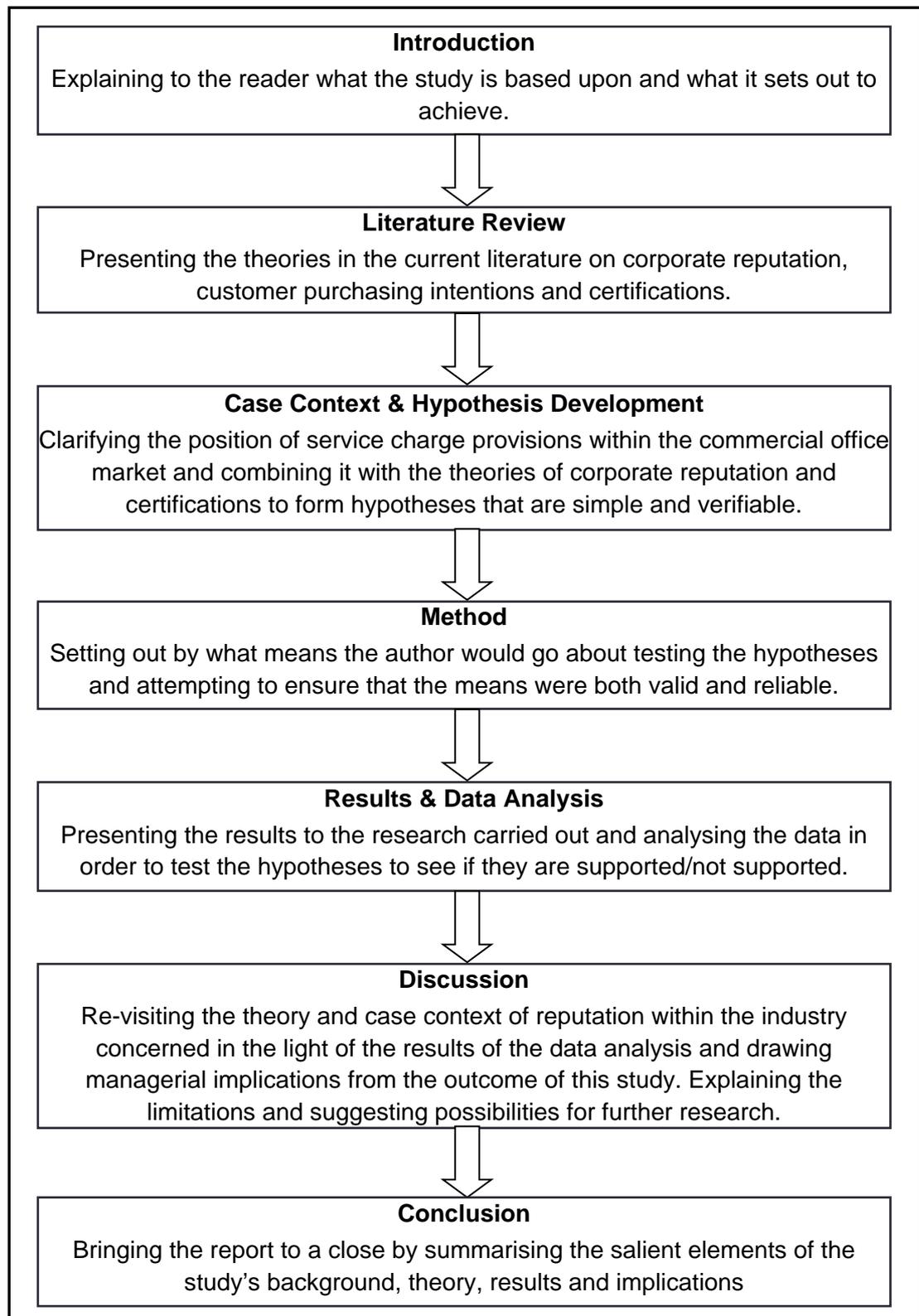


Figure 1 – Report Structure

## **2. LITERATURE REVIEW**

This study of the theoretical background of corporate reputation and the place of signals of trustworthiness in building it up and thereby affecting consumer intentions is split into four sections. First, reputation is defined by pulling together existing definitions and drawing out common ideas to produce one statement. The importance of reputation is outlined by looking at research which points to its benefits to the organization. Second, the antecedents and processes that work together to form a company's reputation in a customer's mind are considered culminating in the realisation that there are always gaps in this building process due to the informational asymmetry inherent in such relationships. Third, customer behaviour in terms of their purchasing intentions is looked at with special emphasis as to how they deal with the gaps in their knowledge with respect to the reputation of those sellers they are buying from. Signals of trustworthiness as a possible mechanism to fill in any gaps in the reputational perceptions of customers is evaluated leading onto the fourth section; the effect of certifications. The question, "Can certifications - more colloquially known as 'kite-marks' – form signals of trustworthiness in terms of causing customers to make inferential jumps from these signals to corporate reputation?" is posed and investigated.

### **2.1 Corporate Reputation: definition and importance.**

There are as many definitions as there are commentators on the subject of corporate reputation and so in order to formulate a general idea as to what is meant by this concept several definitions are given and then those features

that are common to all or some are distilled into one all-encompassing definition.

### **2.1.1 Definition of Corporate Reputation.**

Brunk ( 2010) citing Fombrun & Rindova (2000) defines reputation as “the more or less favourable regard in which companies are held by stakeholders.”

What this definition highlights is the fact that the reputation is held by stakeholders and these are a diverse group with many different calls on a company in terms of its activities. Whether they are consumers of the company’s products, employees, shareholders or governmental agencies (among a long list) they will all have different expectations and therefore the reputation may be different from each viewpoint. Mishina *et al.* ( 2012) calls these the “collective stakeholder group-specific assessments” and goes on to link these to the company’s “capability to create value based on its characteristics and qualities.” Brunk (2010) elaborates on the “more or less favourable regard” by calling it an “evaluative judgement” having two dimensions; direction, whether it is positive or negative, and extremity, how strongly it is held. Hillenbrand *et al.* ( 2012) bring in terms such as “overall trust”, “positive emotion” and “esteem” when describing the attributes that stakeholders assign to a company that collectively make up their evaluation of its reputation. Fombrun ( 1996), introduces several important concepts with his definition of reputation being “a perceptual representation of a company’s past actions and future prospects that describe the firm’s overall appeal to all its key constituents when compared to other leading rivals.” The fact that a reputation is a “perceptual representation” reminds us that it is a subjective

opinion that each “key constituent” has of the company. However, it is interesting that in Fombrun’s mind this “perception” applies to something that is both in the past (actions) and something that is in the future (prospects) meaning that even events that have already taken place can be interpreted differently by different groups. Lastly, the fact that reputation is considered as something relative to others - rivals or competitors – means that a company’s reputation is inextricably linked with how it fares compared to others in the same market.

Rindova *et al.* ( 2005) encourage us to consider the fact that these stakeholders may well adopt one of two “schools of thought” when forming a company’s reputation. If one stakeholder group is looking at the issue from an economics perspective, whereby they will gauge the company’s ability to produce good quality products or services then they will base their reputation on what the company has produced in the past. Firms use these past credentials to signal to stakeholders what they see as their “true attributes”. If however, the subject is approached from an “institutional theory” perspective then we see how the collective stakeholder group perceives the company – a “global impression” – and this is formed as a result of the exchange of information between the company and the various groups and the social influence among “various actors interacting in an organisational field”. In terms of these two schools of thought, Mishina *et al.* ( 2012) would say that when a stakeholder makes a reputational judgement they make it on two levels: “what the organisation can do (its capability reputation) and what the organization would likely do (its character reputation).

Therefore we can see that general definitions such as reputation being the “general estimation in which one is held by the public” (Van Riel and Fombrun 2007; (Fombrun and Van Riel 1997) are insufficient when attempting to understand exactly what a reputation is built on. The perceptions of both a company’s capability to perform and their values which will “constrain” them to do so are the two dimensions used by stakeholders when they form their reputation of the company.

### **2.1.2 Importance of Corporate Reputation.**

Corporate reputation, according to Brammer and Pavelin ( 2004), not only provides a “good summative proxy for the performance of organizations” but can also be an asset in and of itself. It forms part of what are termed intangible assets and are especially important as they can be a factor in differentiating between firms as it is an asset that is “rare, socially complex and difficult to trade and imitate” (Rao 1994). Fombrun and Shanley ( 1990) would add to this list the fact that good reputations can actually “inhibit rivals in an industry” and therefore cause a company to enjoy greater returns for themselves as a result. This is why firms “depend on” and will compete to gain a more favourable reputation than their competitors (Shrum and Wuthnow 1988).

Interestingly there are two unexpected pitfalls that companies face in the area of reputational capital; the danger of its perceived nature and its inertial characteristics (Brunk 2010; (Rindova and Fombrun 1999). Brunk (2010) draws attention to “numerous” companies that have had their reputations damaged when their actions were not necessarily unethical but were

perceived as such and consequently they were harmed financially. The inertial characteristic of reputation is just as dangerous and means that as reputations are built up over many years so they may lead to a firm thinking it is doing well applying a certain strategy when it is just reputation that is lengthening its success whilst the underlying trend is towards a collapse. Rindova & Fombrun (1999) believe that IBM was such a company and put it succinctly; “such a firm may be misled into believing that it enjoys actual advantage when it is using up accumulated goodwill.”

The most important effect of reputation as we shall investigate later on more fully in this section is that stakeholders will use it as “cognitive shorthand” or a shortcut to “make inferences about organizations” when they are unable or unwilling to search for more specific information regarding the party in question (Mishina *et al.* 2012).

## **2.2 How reputation is formed; antecedents and processes.**

Within the literature on the subject of corporate reputation there is much written on the antecedents and processes that aid its formation. “Reputation is created through multiple interactions” claims Davies (2003) and so it is difficult to split it up into particular parts and yet after a general paragraph based on Rindova and Fombrun’s (1999) work, several contributing factors are investigated in more detail.

A “web of interpretation” is formed as companies and stakeholders interact and information is exchanged. This web is characterized by five things:

“- How widespread the exchange and interaction is. This is often a function of the industry itself, some are more secretive than others.

- The varying degrees the stakeholder groups have about the industry and the firms that make it up.

- Subjective interpretations many of which are persuasive and self-serving in nature.

- Some degree of agreement (often again dependent on the industry in question) about standards of performance.

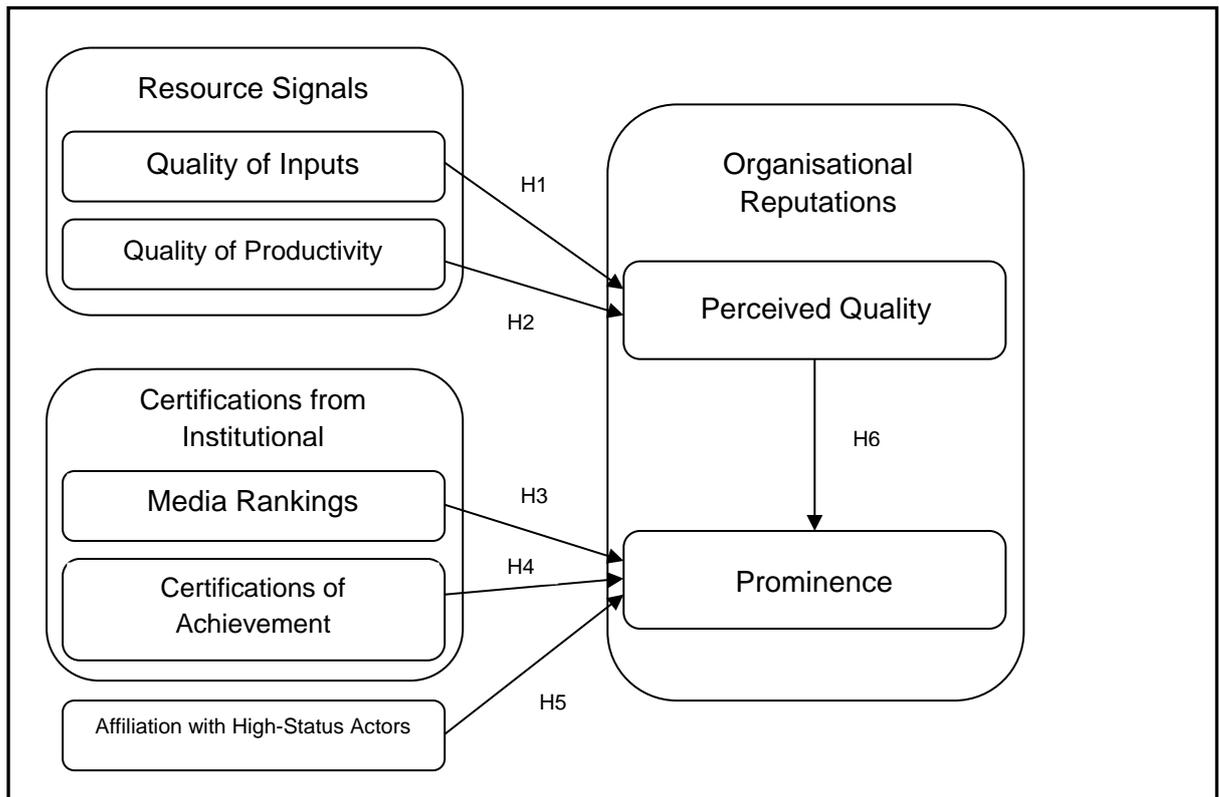
- Assessments as to where firms and their rivals lie on this standard.”

Rindova & Fombrun (1999) conclude their observations by stating that “insofar as the interpretations of constituents create preferences for some firms (and their products, stocks and the like) over others, favourable interpretations are a source of advantage.” This is what we determined at the end of our last section and yet to go back to the previous one on definitions, it is interesting that throughout the idea of stakeholder “interpretations” is used, terms such as “some degree of” lead us to admit the subject is not clear-cut and therefore the existence of a plethora of opinions on the topic.

Brammer and Pavelin (2006) would lead us to believe that the antecedents are more concrete and state “we find reputation [...] to be determined by a firm’s social performance, financial performance, market risk, the extent of long-term institutional ownership and the nature of its business.” However, even within this statement there is the idea of social performance which is notoriously hard to quantify and yet does help to see that there are some firm

bases on which to found at least the “capability reputation” (Mishina *et al.* 2012) of a company. Other commentators bring in the issue of subjectivity by saying that different stakeholders will weight various factors differently when making up their overall reputational assessment of a given company (Hillenbrand *et al.* 2012).

The diagram below lays out Rindova *et al.*'s (2005:1037) hypotheses of the “Antecedents of Organizational Reputation” in the context of U.S. Business Schools. It shows how they have split reputation into “perceived quality” and “prominence” and the author would venture that these are similar to the “capability” and “character” categories laid out in the first section. The first is fuelled by “resource signals”; the physical quality of inputs and assets which are assumed to be measured on past performance. The second is affected by more subjective things such as media rankings, certifications of achievement and what affiliations the firm hold with “high-status actors”. These, by very nature are more subjective as different stake-holders will rank the importance of such cues differently. All hypotheses were upheld except for H2 although in the context, testing the hypothesis by linking “quality of perceived assets” to “average years of academic experience of the faculty” could well explain the failure of the hypothesis in this particular case rather than it being generally true. It is interesting to note how one dimension of reputation fuels the other, it would have been interesting if the researchers had been able to ascertain if the relationship was two-way.



**Figure 2 - Antecedents of Organizational Reputation.** (Rindova *et al.* 2005)

### 2.2.1 Corporate Social Responsibility (CSR).

Bhattacharya and Sen (2004) define CSR as “the status and activities [of a firm] with respect to its perceived societal or at least stakeholder obligations.” Interestingly we see the appearance of that word perceived again indicating that CSR is not something absolute across different firms and industries but is dependent on what stakeholders perceive the obligations of such a company within a certain industry to be. Hillenbrand *et al.* (2012) expand on the term “obligations”, calling them stakeholder “attitudes and expectations” and encourage firms to undertake CSR activities that reflect these traits to “safeguard corporate reputation from damaging perceptions of irresponsibility.” This is why Brammer and Pavelin (2004) speak of the need

for a “fit” between a company’s CSR activities and its existing status and within which industry it finds itself; the “stakeholder environment”. They speak of the “strategic importance” of a firm making sure they have identified the “appropriate scope and extent of its CSR activism.” Stakeholders will often ask the question, “Why is company X engaging in activity Y?” They are generally wary of the sincerity of a company’s CSR motives although the two moderators of negative links between a company and its CSR activities are its existing reputation and how good the company’s fit is with the cause being espoused (Bhattacharya & Sen 2004).

There is a second important factor in using CSR activities to improve a firm’s reputation amongst its stakeholders and that is balancing between increasing awareness of such activities and being accused of becoming involved in self-glorification (Brunk 2010). Bhattacharya & Sen (2004) claim that “consumer lack of awareness about CSR initiatives is a major limiting factor in their ability to respond to these initiatives”. They would encourage companies to attempt to increase this awareness of what they are doing - termed “hearing the facts” - without being seen to “sell” CSR. If stakeholders suspect the latter such initiatives may actually backfire and result in negative reputation being attributed to the company in question.

Bhattacharya and Sen (2004) perhaps summarize it best when they say that “marketers need to make source and message decisions that minimize unfavourable attributions.”

### 2.2.2 Consumers' ethical beliefs.

Brunk (2010) lays out the three levels of beliefs that consumers utilise in forming the basis for their perceptions of a company's reputation, they are listed below in descending order in terms of the weight given to each when making such an evaluation. The first is "descriptive" and includes any first-hand dealings they have had with the company itself or its products and services. The second is "informational" and includes any exposure the company has had in the independent media and it is in this level where the stakeholder may ascribe negative attributions to a company if the "independent" media is actually perceived to have been used by the company as a vehicle for self-glorification (as was also true in the case of companies making their CSR activities public). The last level of belief, and least likely to affect stakeholders is called "inferential" although surprisingly "consumers will frequently go beyond first- and second-hand information to infer unknown attributes about evaluation objects". The inferential level becomes increasingly influential if the previous two levels are not available to stakeholders or indeed their efficacy is called into question. "In the absence of more prominent descriptive or informational beliefs, consumers may infer corporate (ethical) reputation" (Brunk 2010). In interviews, Brunk (2010) discovered a hierarchy of "four levels of inference cues on which ethical beliefs may be based: product-, company-, category- and origin-related cues." The framework suggests that the less specific the cue i.e. origin-related as opposed to product-related, the higher the degree of uncertainty the subject would have about their ethical judgement made on that basis. This should help to guide a company's decisions as to which "signals" to send when

attempting to cause stakeholders to infer ethical beliefs upon the company and therefore improving the firms' reputation.

Keller *et al.*'s (2002) work on points of difference links in well with the product-related cue being the highest in terms of affecting a consumer's ethical beliefs about the reputation on a firm. A point of difference is "a strong favourable unique association that distinguishes a brand from others" and firms are encouraged to cultivate these whilst also considering points of parity with competitors' products and services. There are three types of brand differences:

"- Brand performance associations. Based on intrinsic properties of the brand, does the product or service do what it says it does?

- Brand imagery associations. These are typically established by building associations between the brand and those using it and in what situations.

- Consumer insight associations. Often the first two will be similar to competitors and firms will attempt to show consumers that their brand has special insight into their problems and have produced just the offering that will solve those issues." (Keller *et al.* 2002)

The two questions that Keller *et al.* (2002) encourage firms to use when filtering the announcing of any points of difference are: "Are they desirable to consumers?" and "Can we deliver what we are promising to?"

### 2.2.3 Transparency.

Transparency is best described by as leaving a stakeholder feeling well-informed. Brounen *et al.* (2001), when investigating European listed property

markets found that “information transparency matters and that the stock market appears to respond favourably to investor relations efforts.”

Transparency is especially important when the informational asymmetry within a specific transaction is greater as we will look into more deeply in the ‘customer behaviour’ section of this literature review. This informational asymmetry is highest when the offering is a service as opposed to a physical product as Gylén (2013) states, “trust, and the knowledge that the firm you choose will deliver results is important because usually you can’t try a service before you buy.”

#### **2.2.4 Uncertainty due to incomplete knowledge.**

The topic of uncertainty within the whole subject of corporate reputation formation and customer purchasing intentions forms the backbone of much of the research of this present paper. Uncertainty is present due mainly to the informational asymmetry present in the seller-buyer dynamic especially within the service industries which are examples of “credence goods” (Howden and Pressey 2008). Uncertainty is a “multi-faceted construct” and affects reputation by raising two separate types of assessments:

- Technical Uncertainty. The capabilities of an actor should be able to be measured using known performance dimensions. However, if the direct observation of such activity is not possible this leads to this first type of uncertainty (Graffin and Ward 2010). This can be linked to the “capability reputation” (Mishina *et al.* 2012) mentioned in the definition section and shows that consumers often do not have enough information in order to fulfil this part of their reputational perception of a seller.

- Performance Standard Uncertainty. Even in cases where there is little technical uncertainty i.e. where seller's capabilities are perceived to be well known through having observed past performance, there still remains the question as to what standards to use in order to gauge whether or not the seller has acted acceptably and in the interest of the customer. For instance, a doctor may be very well qualified and competent but who is to say that you needed that particular operation (Graffin and Ward 2010). This then adds another strand to the second part of corporate reputation; character reputation (Mishina *et al.* 2012). Will a seller supply what they have said they will (assuming they are capable of doing so) but more than that will they apply the correct internal standards (or indeed are there external standards that I can buy in) to determine exactly what product or service the buyer needs?

Rindova *et al.* (2005) suggest that individuals will often investigate what others have done in similar conditions of uncertainty in order to "make up their own minds." And when writing with Fombrun they introduces the idea of "reputational ratings" and states that these can help reduce uncertainty as to a company's likely behaviours (character) or performance levels in the future (capability) (Rindova and Fombrun 1999).

It is therefore true that reputational perceptions act as "proxies" which help customers "describe the preferences" of sellers and help them determine their future steps. "Consumers rely on a firm's reputation because they have less information than managers do about the firm's commitment to delivering desirable product features like quality or reliability" (Fombrun and Van Riel 1997).

### **2.2.5 Conclusion.**

We have determined that there are many different factors that serve to create what we know as corporate reputation; a perception of the capabilities and character of a company in the minds of stakeholders. However, we are left with a vicious circle of customers having incomplete information on which to build such a reputation and filling that gap in knowledge with the existing reputation that they have of the firm. Thus we again see the importance of reputation in that it can be a self-propagating property; a good reputation, if handled well, can build upon itself whereas a bad reputation is often difficult to turn around as the gaps in information generated by activities meant to improve the firm's standing in this area are unfortunately filled by the same negative reputation that the plans were meant to overcome!

## **2.3 Customer behaviour and purchasing intentions.**

In order to investigate the bearing that reputation has on customers, specifically as they look to enter into a commercial relationship with a firm, this section sets out some of the theoretical background to purchasing intentions and what affects them. The section starts off with a re-iteration of the fact that we are especially interested in the difference in the nature of the transaction depending on whether it is a service or a product. Several other factors that affect purchasing intentions are then looked at before concluding with a section on "signals" and the role they play.

### **2.3.1 Product/service differences.**

The biggest difference between a product and a service is the fact that within the latter the customer's requirements are, to a large extent determined by the

seller. This in turn means that the relationship is “characterised by high levels of information asymmetry” (Howden and Pressey 2008). Fombrun (1996) maintains that reputation exerts its greatest influence in service transactions as the customer’s ability to make “judgements of quality” is limited compared to product-based transactions. The “distinctiveness, relevance, memorability and flexibility” of service brands mean that it is much harder for the customer to assess the quality of the transaction than in relationships involving products (Chang and Liu 2009). They can often feel that they are “putting their fate in the seller’s hands” (Wittreich 1966). Consequently the customer is often “compelled to trust the supplier” to price the service correctly and most importantly to ensure the service is fit for purpose in terms of it being the best available. In short the role of un-observable traits of the seller (their character reputation) becomes essential “to value creating for the customer” (Howden and Pressey 2008). This is even true after consumption when they may still have to trust that the service already provided was correct, this is why a transaction of this sort is considered “high-risk”.

Howden & Pressey (2008) studied the situation from both the customer’s and seller’s perspectives and from the customer’s point of view found six factors that create value as far as they are concerned; agent’s know-how, trust, personal interaction, service fulfilment, location and direct/indirect costs.

The common theme throughout the six factors was how customers felt that each helped redress the information asymmetry inherent in the transaction and thereby reduce the “perceived risk”. The over-arching factor “determining the framework and reference points” that enables a customer to make

comparisons and therefore feel value has been generated in the exchange is the “relationship manager” (Howden & Pressey 2009). Relationship is something we will return to in the results and discussion as well as the recommendations sections.

### **2.3.2 Consumer involvement.**

Consumer involvement means how involved the customer is in seeking out information that will enable them to make a good decision when it comes to entering into a transaction with a seller. Customers generally engage in activities such as “active search, extensive choice processes and active information processing” (Laurent and Kapferer 1985). The general rule of thumb being that “for high involvement products, consumers consider a wide range of features” (Cobbwalgren *et al.* 1995) and that the lower the involvement the less searching that goes on. However, over time researchers have found an “increasing emphasis on limited consumer information processing and on the unconscious processing of incomplete or simplified information, and simplifying product symbols and cues” (Poiesz 1989).

Kreps and Wilson ( 1982), investigating how behaviour in two seemingly independent markets is linked by the reputation of the competing players, found that imperfect information could be a mechanism that explained this connection. This could be seen as a basis for the concept that inferential leaps are made by customers from one part of corporate reputation: character, for instance, to another, such as capability. This means that customers rely on making inferences in the case of missing information rather

than actively searching for the missing pieces of their own perceptual map of the forthcoming transaction and its possible value to them.

Another process that serves to aid this trend towards lower involvement is categorisation whereby once a consumer has categorized a subject, “any prior knowledge or existing schemas may be applied to extrapolate unknown features or properties” (Brunk 2010).

A third process that plays a part is “attitude” which is akin to reputational perception in terms of its definition according to Fazio *et al.* (1989); “the individual’s current feelings about, or appraisal of, the object as experienced in the immediate situation.” A customer’s behaviour when approaching a transaction is affected by their attitude towards the offering in question at that time. It is also affected by the “accessibility of that attitude from memory” in terms of initiating the attitude-to-behaviour process that will cause their behaviour to alter. This has interesting implications for firms wishing to advertise any offering in that if its goal is to influence customer purchase behaviour then “one needs to be concerned not only with the valence of the resulting attitude but also with its accessibility from memory” (Fazio *et al.* 1989). Engel *et al.* (1987) state that when examining an “image”, customers engage in two processes; identifying the “particular attributes and associations” linked to the product and “assessing the strength of those associations [...], what comes to mind when they think about the product.”

Laurent and Kapferer (1985) claim that consumer involvement is a function of whether or not the following “conditions of involvement” are present; “perceived importance of the product or situation, perceived sign value,

perceived pleasure value and perceived risk.” In other words, the more important the transaction to the customer in terms of potential value and the higher the perceived risk then the higher the consumer involvement will be.

### **2.3.3 Selective information processing.**

The way in which consumers apply selective information processing and the factors that affect this is worth special mention. Kardes *et al.* ( 2004) state that “when the evidence supporting a focal hypothesis meets a minimum confirmation threshold, the hypothesis is accepted and information processing ceases”. Moreover if new evidence brings to light factors that may challenge the customer’s focal hypothesis then it will often be ignored as the new information “requires effortful inconsistency resolution“. Van Riel and Fombrun ( 2007) contend that reputation is a factor in reducing the search for information because customers use it to “simplify information processing.” In fact if we highlight customers of services we find that the increased costs of information gathering (due to the wider gulf in informational asymmetries) in these situations are economized upon by “exhibiting a tendency to transfer reputation effects to other goods or services offered by a firm” (Nayyar 1990).

When the transaction has to be completed within a certain limited time-frame, Kardes *et al.* (2004) claim that the customer will consider even less evidence and tends to come to rushed conclusions and “neglect[s] complex, ambiguous and belief inconsistent information.”

These cognitive shortcuts, mean that customers attribute “cognitive and affective meaning to cues received about an object they were directly or indirectly confronted with” (Fombrun and Van Riel 1997). Another shortcut

used by customers is that of brand equity which is defined as “the differential effect of brand knowledge on consumer response to the marketing of the brand” (Keller 1993). Keller (1993) continues by saying that this brand equity has purchasing intention implications when the brand holds “favourable, strong and unique brand associations in memory.” This falls within the definition of reputation that was discussed at the beginning of this section and indicates that the reputation of the brand itself as well as the firm can generate these shortcuts to information processing when the transaction is being considered.

#### **2.3.4 Information asymmetry.**

Brunk (2010) states that “consumers are known to frequently form judgements based on limited information.” Rindova *et al.* (2005) consider reputation to be one, if not the main, factor in reducing “the uncertainty stakeholders face in evaluating firms as potential suppliers of needed products and services.” Companies who make choices as to asset allocation or which strategy to follow, “reduce information asymmetries and thus market uncertainty.” (Rindova *et al.* 2005)

Information asymmetries are costly to customers in that they throw up two hazards; moral hazard and adverse selection hazard (Nayyar 1990). The author feels that both are linked to “performance standard uncertainty” (Graffin and Ward 2010) that has already been mentioned. The first involves a customer’s inability to see the seller’s actions and therefore ascertain whether or not those actions were “proper and adequate”. The second is linked to customers being unclear as to the characteristics of the seller especially in the

case where the seller has greater information than the buyer. Interestingly neither of these hazards fully addresses the “technical uncertainty” that customers feel which is linked to capability reputation. Nayyar (1990) suggests that there are “solutions” to these hazards, some of which are effective and some ineffective. Interestingly, considering the subject of this paper, certifications are considered “of no consequence in consumer choice behaviour” although the reason for this is quoted as them being “so widely prevalent”. Contingent contracts again are as subject to information asymmetries as the transaction in question and are “therefore ineffective.” Warranties, in a service situation are likewise considered meaningless as is monitoring because both depend on expert opinion as to what failure of the offering is or what exactly should be monitored. That expert opinion is commonly the seller and this only exacerbates the existing information asymmetries. Signalling in terms of follow-up education and writing contracts (even though ineffective in themselves) are seen as precursors to the one factor that forms the best solution to the problem of informational asymmetry; reputation. It acts as an “implicit contract” and is fuelled by the seller’s desire to secure future demand for their offering. The strength of this contract as a solution to the problem of uncertainty is determined by the size of this [future] demand and the ease with which information is “disseminated among buyers” (Nayyar 1990). Mishina *et al.* (2012) back this up by stating that “capability reputation can be useful in these types of situation because they can be used as proxies for underlying firm or product characteristics.” They also maintain that the moral hazard problem is countered by the character reputation held by a company as it helps customers gain insight as to how a company will act

in any given situation. It will also help them avoid being involved in transactions with companies that may act opportunistically although the author struggled to find exactly how much traction this has in one-off large transactions.

Perhaps Fombrun (1996) states it most succinctly when he says, “we trust those companies we respect, so we grant them the benefit of the doubt in ambiguous situations.” Transactions that involve high levels of uncertainty and informational asymmetry are indeed ambiguous.

### **2.3.5 What is a signal of trustworthiness?**

Inferences play a large part in much of what has already been discussed and these mostly “operate at a subconscious, hence personally uncontrollable level” (Brunk 2010). By definition these inferences are often not a true reflection of the “objective reality of a situation” but rather the perception of that situation in the mind of the customer.

Signals are “alterable observable attributes” (Fombrun and Shanley 1990) that take the form of “actions and/or announcements of a firm that convey information about its intentions and abilities” (Prabhu and Stewart 2001). They are designed to create awareness and enhance stakeholders’ knowledge of the firm with a view to causing an “attitudinal” change towards the firm and ultimately “behavioural” change in terms of purchasing intentions (Dowling 1986). These signals are important as they can be used as proxies to make “rational assumptions about the intentions and future behaviours of other actors” because most transactions are occurring in “a world of imperfect information” (Rao 1994). Different stakeholders will “selectively attend to

different informational cues, or signals in judging [a firm's] effectiveness" (Fombrun and Shanley 1990).

Customers often receive two types of signals about a certain firm; those that the company broadcasts itself and those "evaluative signals refracted by key intermediaries such as market analysts, professional investors and reporters" (Fombrun and Van Riel 1997). This latter group of signals are often given in terms of the company's "affiliations to buyers, third parties, and producers [and] are signals of quality that have beneficial spillover effects" (Rao *et al.* 2000). Brammer and Pavelin (2006) confirm this two-channel delivery system for signals stating that "a firm's current reputation is determined by the signals that publics receive concerning its behaviours, whether directly from the firm or via other information channels, such as the media or the stock market."

The effect of a customer's existing perception of a firm's reputation and the way in which they receive signals from such a firm is interesting. If those beliefs are well-formed then any information processing may well be dominated by it. "Receivers may ignore new and contradictory information, especially when [such] information is costly, lacking or too complex to process" (Prabhu and Stewart 2001).

Here, clarification is needed as there are two processes going on; one involves signals being taken by customers as indications of a firm's reputation and thereby influencing their purchasing intentions and the second where "reputations are [themselves] information signals" (Fombrun and Van Riel 1997) themselves. In conclusion, reputation can be self-propagating as we have already discussed which again underlines the value of such an asset.

This is all the more reason for firms to “cultivate, through their actions and disclosures, a reputation for truthfulness, reliability and a genuine regard for social welfare” (Hillenbrand *et al.* 2012).

Prabhu and Stewart (2001) encourage firms to “consider how their signals are likely to be interpreted by competitors” as they are an important group within the stakeholders of a company. Some signals can be taken as inferential about rival products or services and may produce unwanted retaliations by competitors.

The context of a particular signal is also important, as we saw in the work of Brammer and Pavelin (2004) where social “fit” was so important in how CSR strategy was received by stakeholders. “The timing of signals may play an especially important role in how they are interpreted” as will the “importance of receivers’ prior beliefs relative to new information contained in a signal and its context” (Prabhu and Stewart, 2001).

#### **2.4 Certifications and their effect.**

Finding one commentator who believes certification to be useless in affecting consumer purchasing intentions has not affected the author’s pursuit of finding what other researchers have to say on the subject. The qualification of the one commentator’s statement, namely that their failure is due to their prevalence, may well add to the discussion if anything.

Certification involves third parties, “expert intermediaries” (Rindova *et al.* 2005), who, by definition, must be able to satisfy both the “technical” and “performance standard” uncertainties by being both expert and independent.

This third-party “legitimises” the firm’s offering and Rao (1994) claims that “reputation becomes an outcome of the process.” These third parties could be “professional societies, ratings agencies, auditors and governmental regulators” and build the reputation of the organization by “embedding the organization in a status hierarchy” due to the “endorsement.” These third parties, sometimes called institutional agents, themselves gather assets that are rare, hard to imitate and therefore valuable, enhancing their own reputation in this “legitimizing role” (Durand and McGuire 2013).

In situations where the market is complex and therefore the informational asymmetry is higher “the demand for status rankings may increase as a means of coping with uncertainty” (Shrum and Wuthnow 1988). This is echoed by other researchers who claim that “the more uncertain the assessment of the actor’s capabilities becomes, the more likely it is that the actor’s reputation will be influenced by third-party quality signals such as certifications, accreditations, coverage by the media, or the opinions of other informed parties such as analysts” (Graffin and Ward, 2010). Certifications also serve to make the barriers to entry within a specific industry higher thus increasing the value of the firms already in existence. They are instrumental in “attracting new business as well as retaining current clients” (Gylen, 2013).

Clarification is required at this point as to the two distinct types of certification coming out of this discussion; the idea of a certification – how a firm measures up to certain objective criteria set by the expert legitimizing agency, a pass-fail system if you will - and the idea of status rankings – how well a firm measures up to its competitors based on the same criteria, an exact grading mechanism

if you will. Rao (1994) maintains that victories in the latter “are credentials that enable firms to acquire a reputation for competence.” Certification in the sense of a “kite-mark” is the former, the meeting of a minimum standard to be worthy of using such a badge.

Research carried out attempting to link such certifications with financial benefits concluded that “the observed association between stock return and information contained in the quality measure finding is noteworthy” (Aaker and Jacobson 1994).

## **2.5 Conclusion.**

Corporate reputation has been shown to be a difficult entity to define as it is based largely on the subjective viewpoints of those forming it within their own minds. Splitting it up into capability reputation and character reputation aided in guiding our thinking as to how stakeholders themselves build up this evaluative judgement; can the firm deliver the offering and possibly more importantly, will they do so. The formation of the judgement is made complicated by the fact that a lack of complete information thus leading to uncertainty leaves gaps in the customer’s mind. The same was found when turning to the issue of what customer behaviours are involved when considering their purchasing intentions. The concept of informational asymmetries especially in the realm of service provision meant that they rely on signals that point towards reputational status or indeed use reputation itself as a signal to use as a proxy for those elements of the transaction they find themselves unable or unwilling to find the information on. Certifications are one such signal of trustworthiness as they, if easily accessible and

understandable, serve to fill the gaps caused by the informational asymmetries present and thus influence customers' perceptions of the transaction itself and the organisation involved in the selling. The next part of this report involves an attempt to apply this theoretical background to the specific area of service charge management within the commercial lettings markets.

### **3. CASE CONTEXT AND HYPOTHESIS DEVELOPMENT**

Having discussed the theoretical background to the subject of corporate reputation, signals and certifications this section will set the scene for the present study. The case context of this research project is explained and hypotheses are developed based on the application of the theory to the circumstances found in this area of the business world – the commercial offices lettings market and the place of service charge provision within this sector.

#### **3.1 Case context.**

When a company wishes to let a premises from a landlord the person concerned will invariably seek the correct place through a letting agent, akin to an estate agent in the residential sector. The premises concerned are normally part of a multi-let building or complex where more than one – often many – companies are housed under one roof. They will have common areas such as the lobby and the lifts and enjoy common services such as reception and cleaning, ‘common’ in the sense that they are used by all the companies inhabiting the building and as such there will be a managing agent who “runs” the building on behalf of the landlord. In a few cases large landlords will have a part of their business which concerns itself with the managing of their own properties. The tenants will pay rent, rates and a third monetary charge – the service charge. Forrester, as cited by Eccles and Holt ( 2010:163) defines the service charge as follows:

*“[...] the mechanism by which a landlord recovers from tenants all landlord expenditure related to the repair and maintenance*

*of the common parts of the building, plant and machinery and the provision of common services.”*

Recently, service charges have become increasingly important, with pressure increasing on managers to get value for money in every area of their budget especially as “a result of the prevailing economic uncertainty” (Barrass 2013). However, it is true that others do not see it as that important because, monetarily, it is a far smaller outgoing than the rent itself and they say that it must be “taken in the context of the whole situation” (Davison 2013).

Interestingly the last quote was from a landlord as opposed to a tenant and Edwards ( 2010) would maintain that service charges have always been a “bone of contention” explaining the reason as “it is an external manager who is spending your business overheads!” Eccles and Holt ( 2010) term service charges a “source of dispute between landlord and tenant” and Heppelthwaite ( 2007) is more specific and says that the disputes are caused only when the service charges are “poorly managed.”

This poor management has been possible mainly due to the fact that there is “[...] no material legislation governing service charges in business leases and it is very much ‘what you read is what you get’” (Silman 2006). By ‘what you read’ Silman (2006) was alluding to the lease agreement which is a very important document as it is “the determining authority on a service charge” (Eccles and Holt 2012). This is in contrast to the residential sector where the Landlord and Tenant Act of 1985, together with the Royal Institute of Chartered Surveyors (RICS) and the Institute of Chartered Accountants of England and Wales (ICAEW) formed legislation which guides the lease rather

than vice-versa. With respect to the retail commercial lettings sector there have been improvements in service charge management, but this, according to Edwards ( 2010) is due to there being the Property Managers Association which is “a trade association for the estate managers of multiple retailers”. Edwards (2010) carries on to say the “results are plain to see, most particularly compared to the office market where there is no equivalent body.”

We see here the first glimpse of why this subject of service charges is so linked with the theory of corporate reputation especially when we think of the concept of informational asymmetry. In the Introduction to its 2011 Service Charge Code of Practice, the RICS ( 2011:15) quote Jonathan Gaunt QC who was sitting as a Deputy High Court Judge in a 2006 case that brought up the case of service charge:

*“Tenants who agree to service charge clauses under which they contract to pay against a surveyor’s estimate or an accountant’s certificate rely upon the professional people involved performing their roles with professional scrupulousness, diligence, integrity and independence and not in a partisan spirit, supposing their only task to be to recover as much money as they can for the landlord.”*

This reliance on the professionalism of managing agents, taken on by landlords, to act “not in a partisan spirit” is one of the main reasons that this is a problem in the industry. As far back as 1996, RICS was attempting to put in place some sort of advice on the subject and what follows is a short history of what has now become known as the RICS Code of Practice for Service

Charges in Commercial Property (RICS 2011). In 1996 a “Guide to Good Practice” was introduced followed in 2000 by an “Update” to this guide. In 2007 the first “Code of Practice” was produced and in 2011 there was an “Update” to this code. Finally RICS is planning to produce its 3<sup>rd</sup> edition of the code which will come into force in mid-2014. The code is described as “non-mandatory but agreed practice” (Eccles and Holt 2012) and is divided into six main headings as follows: Management, Communications, Transparency, Service Standards and Provision, Administration and Additional Shopping Centre Services. Forrester (2013), the lead writer of the code, states that the code is “built on established foundations; value for money, communication, transparency and timeliness.” This is echoed by Heppelthwaite (2007) who maintains that the code “provides the property and [Facilities Management] FM industry with a clear set of recommendations that will increase service transparency between manager and occupier.”

There is much confusion as to the effectiveness of the code and RICS (2011) themselves can only call on anecdotal evidence to say that the code has led to “improvements in the standards of management being achieved in much of the commercial property sector.” Eccles and Holt (2012) maintain, after a study of data on service charge provision from 2004 – 2008, “best practice is not being received by the majority of tenants, but the Code is driving improvement in the overall quality of the service charge management process.” The fact that the code only uses the word “must” with respect to the prescribed accounting codes advised and the rest of the time uses the word “should” is what the author sees as the main problem with the code. RICS

(2011) themselves admit that unless there is an “independent and substantially larger benchmarking service” then the property industry will be unable to “deliver on its key objective of transparency enabling owners, managers and their customers to be aware of how service charge costs are derived.” In the absence of such an official, legislative body to do such benchmarking then there will always be the “expectations gap” present; a difference between what the landlords (either directly or through their managing agents) provide and what the tenants expect in terms of service charge provisions (Holt *et al.* 2011). According to Hedley ( 2009) the benefits of such benchmarking would be as much on the side of those good landlords and managing agents as their tenants:

“- Landlords: comparison with competition / demonstrate best practice credentials / establish value for money / monitor performance of managing agents / competitive edge / basis of communication with tenants.

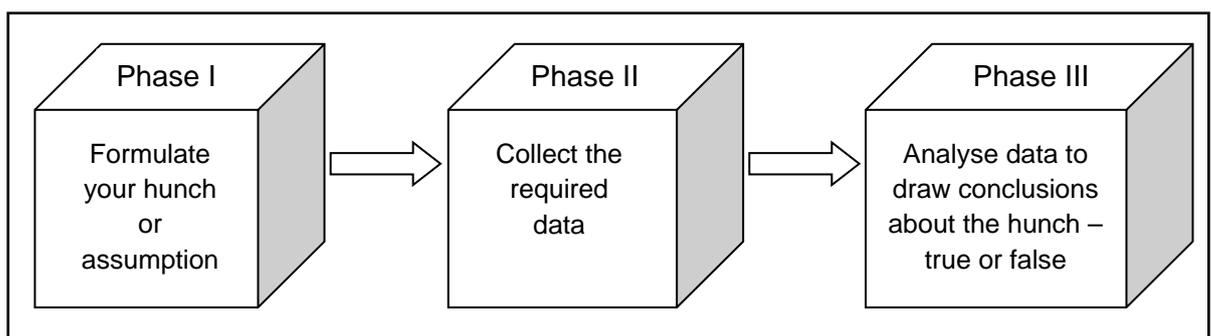
- Occupiers: like-for-like comparison of service charges / greater insight into costs / comparison of service levels / basis of communication with landlords / probable result: lower service charges.”

According to Davison (2013), the specific areas in which the benchmarking service could be instrumental in mitigating the negative repercussions of service charge ambiguity are: “accounting standards, provision for future expenditure, utility costs, environmental sustainability and marketing & promotions.” This benchmarking would be a certification in the sense discussed in the previous section and Property Solutions (UK) Ltd. is looking into such a scheme. It is termed a “forensic audit service” and has been

developed to “meet a growing need to understand the detail contained within a service charge provision” (Barrass 2013). It is this certification and a landlord’s attempt to obtain it that will be considered in this research and will serve to help as we develop the hypotheses concerning such a badge and its effect on corporate reputation and therefore customer intentions.

### 3.2 Hypothesis development.

Saunders (2012) defines a hypothesis as a “proposition stating that there is a significant difference or relationship between two or more variables”. Kumar (2011) suggests it is a “speculative statement that is subjected to verification through a research study.” Before concluding with such a formal definition Kumar (2011) defines about hypotheses as “hunches” about a given subject. A researcher may not know if something is linked or true and yet having completed some reading of salient literature they may have an idea of what processes are going on. The figure below gives an idea of the process of formulating a hypothesis and the following two phases involved.



**Figure 3 - The Process of Testing a Hypothesis.** Kumar (2011)

The link between all three phases, indeed the foundation for the process is the step of formulating that “hunch” correctly. In developing a hypothesis there are 4 pre-requisites according to Kumar (2011); the hypothesis must be:

- “- simple, specific and conceptually clear,
- able to be verified,
- rooted in an existing body of knowledge,
- able to be operationalized.“

Therefore these four characteristics will form the recipe for the formulation of the hypotheses in this section.

In the Literature Review it was concluded that reputation can best be split into two parts; capability and character (Mishina *et al.* 2012). The capability reputation of a company alludes to its ability to fulfil the needs of a customer and the character reputation its values that will constrain it to put into practice those capabilities. The two other issues that arose from discussing the theory underpinning this subject is the fact that the reputation of a firm is stakeholder group-specific (Mishina *et al.* 2012) and each group may well have a different view of the company and its activities depending on their own interests. In this study the group we are aiming our research towards is the tenants of commercial office-space, preferably in multi-let premises. The focus was therefore buyers, consumers, customers, basically the stakeholder group that is the recipient of the products and/or services offered by an organisation. The second issue to become clear from the study of the literature that reputation was a perception held, it was not something that could be pinned down and summarised in a few words. It was a feeling towards a firm and yet, although only a feeling, it served to fill gaps in a customer's knowledge of the company and in this lay its power. Reputation is used as a cognitive shortcut when the customer is unable or unwilling to search for more specific information as to

the ultimate value of a transaction to them (Mishina *et al.* 2012; Rindova *et al.* 2005; Brunk 2010).

In the case of the commercial office sector, buildings are tangible products, as are desks, chairs, parking spaces and lifts. However, on researching the industry it was discovered that, especially where service charge provision was concerned, the industry resembled a service more than a product. The agreement to pay service charges depending on the “professional scrupulousness” of the people administering the charge, in most cases a managing agent (RICS 2011). In its Occupier Satisfaction Survey 2012, RICS showed that the overall average score on a scale of 1 to 10 (1 being extremely dissatisfied and 10 being extremely satisfied) for commercial occupiers in the UK was 5.1. Nearly half of all occupiers (47%) reported a score between 1 and 4 when asked about the value for money they receive for their service charges (RICS 2012). The fact that there is “no material legislation” (Silman 2006) in the commercial lettings industry as compared to the residential lettings equivalent has meant that service charges have been called “bones of contention” (Edwards 2010) and “sources of dispute” (Heppelthwaite 2007). This would point towards the transaction entered into between tenants and landlords involves a good deal of informational asymmetry. The imbalance in the information held by the two parties leads to two forms of hazard (Nayyar 1990); moral hazard and adverse selection hazard. The first arises as the customer cannot see the seller’s actions while the second revolves around the buyer’s inability to see the characteristics or values of the seller. In one sense, in the industry chosen, the tenant can see the actions of the landlord by way of the service they receive whilst occupying

the building. However, when we look at Graffin and Ward's (2010) work on the results of a buyer experiencing uncertainty due to the informational asymmetry in a transaction it helps towards formulating our hypotheses for this particular study. They stipulate that the situation produces two types of uncertainty in the buyer's mind; technical and performance standard. Technical uncertainty means that because the buyer cannot see the actions of a seller, their capabilities cannot be measured. Performance standard uncertainty alludes to the fact that even if there is little technical uncertainty a buyer may be unsure as to whether or not a particular action, although seen or felt, was actually necessary. In other words, because the transaction is one in which the seller holds more knowledge than on what basis does the buyer even start measuring the actions. What "performance standard" should be used. Both ideas – hazards and uncertainties – can be combined to conclude that when a buyer is unsure as to the level of information they are in possession of they have need of something that will tell them two things; a performance standard for actions and a summary of the seller's values. The study of signals and how they are used helped in seeing that they are actions taken by a company that are designed to ultimately positively affect the way in which stakeholders perceive the firm and therefore create worth for the company (Fombrun and Shanley 1990; Prabhu and Stewart 2000; Dowling 1988). Signals not only help to form reputation but reputation itself can form a signal to customers. Not only, therefore, was reputation powerful in guiding customers' decisions but it could propagate itself if used wisely. It was thought that in the case of making a decision of such importance as to the choosing of premises for a business it would cause the person concerned

to exhibit high “consumer involvement” (Laurent and Kapferer 1985). According to this theory the dependence on reputation to fill the gaps in this asymmetric transaction would be mitigated by the customer seeking out information, even though it may be costly as the result of the process was of such value to them. The investigation as to which process would hold sway was the purpose of the hypotheses development. Would a signal enhance the seller’s reputation and would that enhanced reputation cause the buyer to ascribe hitherto unknown attributes to the seller? Or would the importance of the transaction mean the tenant would disregard such signals and rather seek to delve deeper in their quest for information that would help towards securing a more informationally balanced transaction?

The presence of a hypothetical certification where in reality there is none, called the “Landlord Performance” scheme, was devised to test the questions posed above. Graffin and Ward (2010) claim that the more uncertainty present, especially when it comes to a buyer being able to assess the seller’s actions and values then the “more likely that seller’s reputation will be influenced by third-party quality signals such as certifications ...” Would the adoption of such a certification by a landlord cause the tenant to be more willing to “put their fate in the seller’s hands” (Wittreich 1996) because the scheme caused the tenant to infer that the landlord had positive character attributes or indeed lessened the presence of negative ones.

The hypothesis to test the above must then be in the form of a simple, clear statement that opens itself to be supported or not through a means of collecting the correct data and analysing that data. To clarify, the “Landlord

Performance” badge is defined as a certification, awarded by a third party private company, for the correct administration of service charge provision in the commercial office sector. Therefore the overarching hypothesis will be:

**H<sub>1</sub>:** *A “Landlord Performance” certification will enhance the reputation of the landlord in tenants’ eyes.*

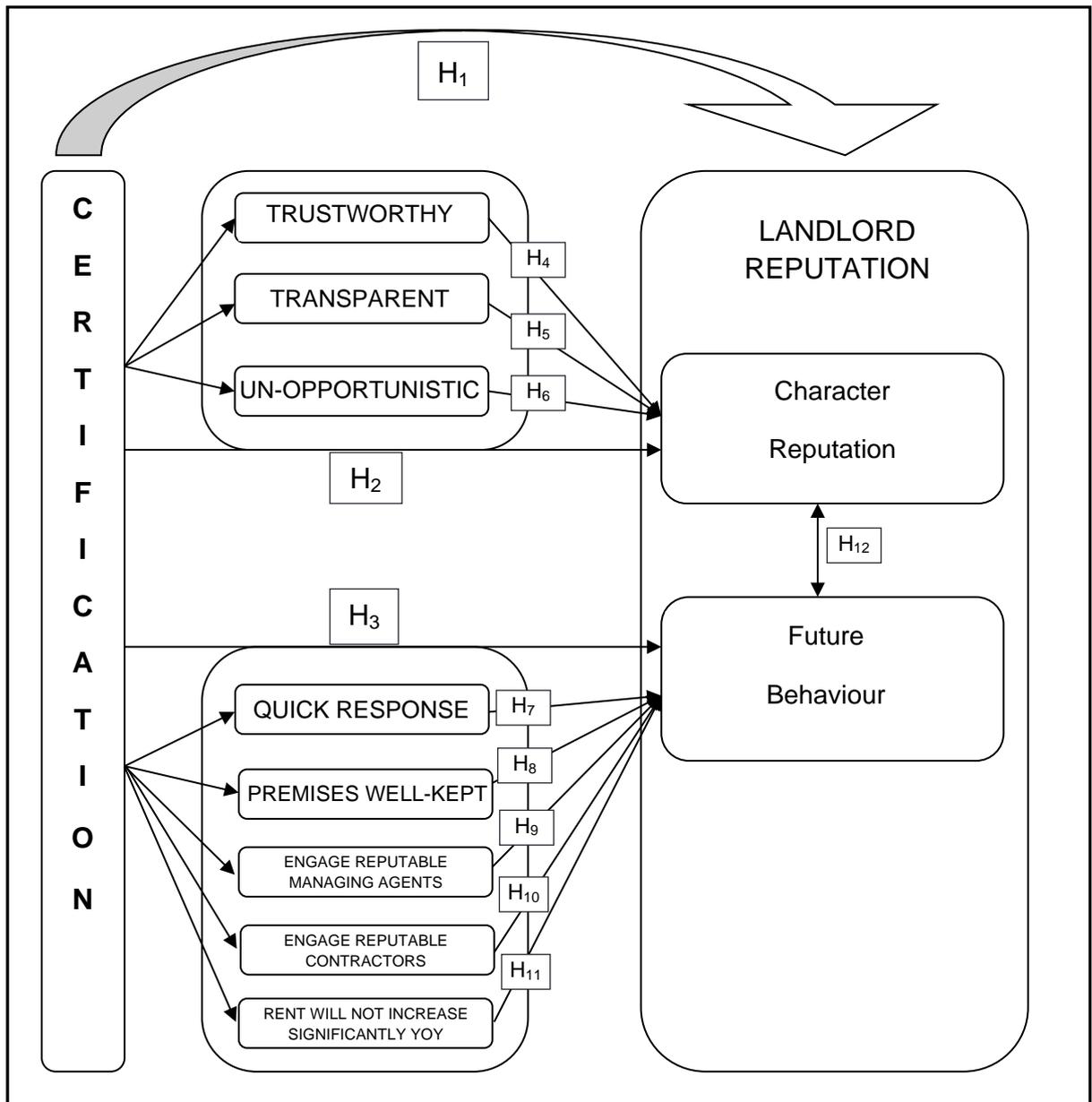
This can then be separated into two sub-hypotheses, the first involving the attribution of enhanced character reputation to the landlord because of their possession of the certification:

**H<sub>2</sub>:** *A “Landlord Performance” certification will enhance the character reputation of the landlord in tenants’ eyes.*

Due to the ambiguity of the actions commonly associated with landlords and what they are expected to carry out as “their side of the bargain”, the second sub-hypothesis states:

**H<sub>3</sub>:** *A “Landlord Performance” certification will cause tenants to predict future landlord behaviour that is in the interest of the tenant.*

These sub-hypotheses need to be split up into other hypotheses, as shown in the following figure, in order to test them across a different range of factors within each one.



**Figure 4 – Hypotheses Development.**

Within each sub-group the three and five hypotheses respectively relating to the specific items are:

**H<sub>4</sub>:** A “Landlord Performance” certification will enhance a tenant’s notion that the landlord is trustworthy.

**H<sub>5</sub>:** A “Landlord Performance” certification will enhance a tenant’s notion that the landlord is transparent.

**H<sub>6</sub>:** A “Landlord Performance” certification will enhance a tenant’s’ notion that the landlord is un-opportunistic.

**H<sub>7</sub>:** A “Landlord Performance” certification will enhance a tenant’s notion that the landlord will respond quickly to their demands.

**H<sub>8</sub>:** A “Landlord Performance” certification will enhance a tenant’s notion that the landlord will make sure the premises are well-kept.

**H<sub>9</sub>:** A “Landlord Performance” certification will enhance a tenant’s notion that the landlord will engage reputable managing agents.

**H<sub>10</sub>:** A “Landlord Performance” certification will enhance a tenant’s notion that the landlord will engage reputable contractors.

**H<sub>11</sub>:** A “Landlord Performance” certification will enhance a tenant’s notion that the landlord will not increase rent significantly year on year.

The testing of the hypotheses will be as follows, starting from the most specific and moving “outwards” towards **H<sub>1</sub>**.

Hypotheses **H<sub>4</sub>**, **H<sub>5</sub>**, **H<sub>6</sub>**, **H<sub>7</sub>**, **H<sub>8</sub>**, **H<sub>9</sub>**, **H<sub>10</sub>** and **H<sub>11</sub>** will be tested individually and either be seen to have been supported or not supported.

**H<sub>2</sub>** and **H<sub>3</sub>** will be tested using a combination of the three and five items respectively within each sub-group and analysing the results.

The results of the testing of **H<sub>2</sub>** and **H<sub>3</sub>** will indicate as to whether **H<sub>1</sub>** is supported or not. The author is aware that neither the support nor non-support of one or both of the two sub-hypotheses necessarily leads to the support or

non-support of  $H_1$ , rather it will be seen as evidence towards such statements.

Lastly but by no means least, the author puts forward a twelfth hypothesis which seeks to show an association between tenants' perception of a landlord's positive character traits and their predictions of better future behaviour on the landlord's behalf in the interests of the tenants.

***H<sub>12</sub>: A tenant's perception of better landlord character reputation is associated with a stronger tendency that the tenant will predict future landlord behaviour that is in the best interest of the tenant.***

This will be tested by investigating the correlation between the three "character" items and the five "future behaviour" items both individually and taken as two groups. This will be done by means of a correlation matrix and although any support of  $H_{12}$  will not imply causality one way or the other between the variables, it will help lend weight to the presence of an association between them.

## 4. METHOD

### 4.1 Introduction.

*“The testing of a hypothesis becomes meaningless if any one of the aspects of your study – design, sampling procedure, method of data collection, analysis of data, statistical procedures applied or conclusions drawn is faulty or inappropriate.”*

So says Kumar ( 2005) and rightly so; if we are to draw any conclusions from this piece of work then the method used must be appropriate and must have been correctly applied for the results to be reliable.

This section is based upon the “research onion” (Saunders 2012) shown below and unless expressly stated otherwise the reasoning behind the layout and logical thread of the argument building up the method for this research project is built on this work. Others such as Maylor and Blackmon ( 2005) speak of a “research hierarchy” and have included other layers or the layers are named slightly differently. To save confusion the author will use the research onion throughout and introduce ideas from other orders as and when they fit in with that framework.

The theory is based on working in from the outside of the “onion” as we hone in on the exact method pursued in attempting to test the hypotheses laid out in the previous section.

The layers are split into two categories:

- Macro Research Design: the Philosophy and Approach adopted.

- Micro Research Design: the Methodological Choice, Strategies, Time Horizon and Techniques & Procedures adopted. Discussions of the ethical considerations and the limitations of the research design are then laid out.

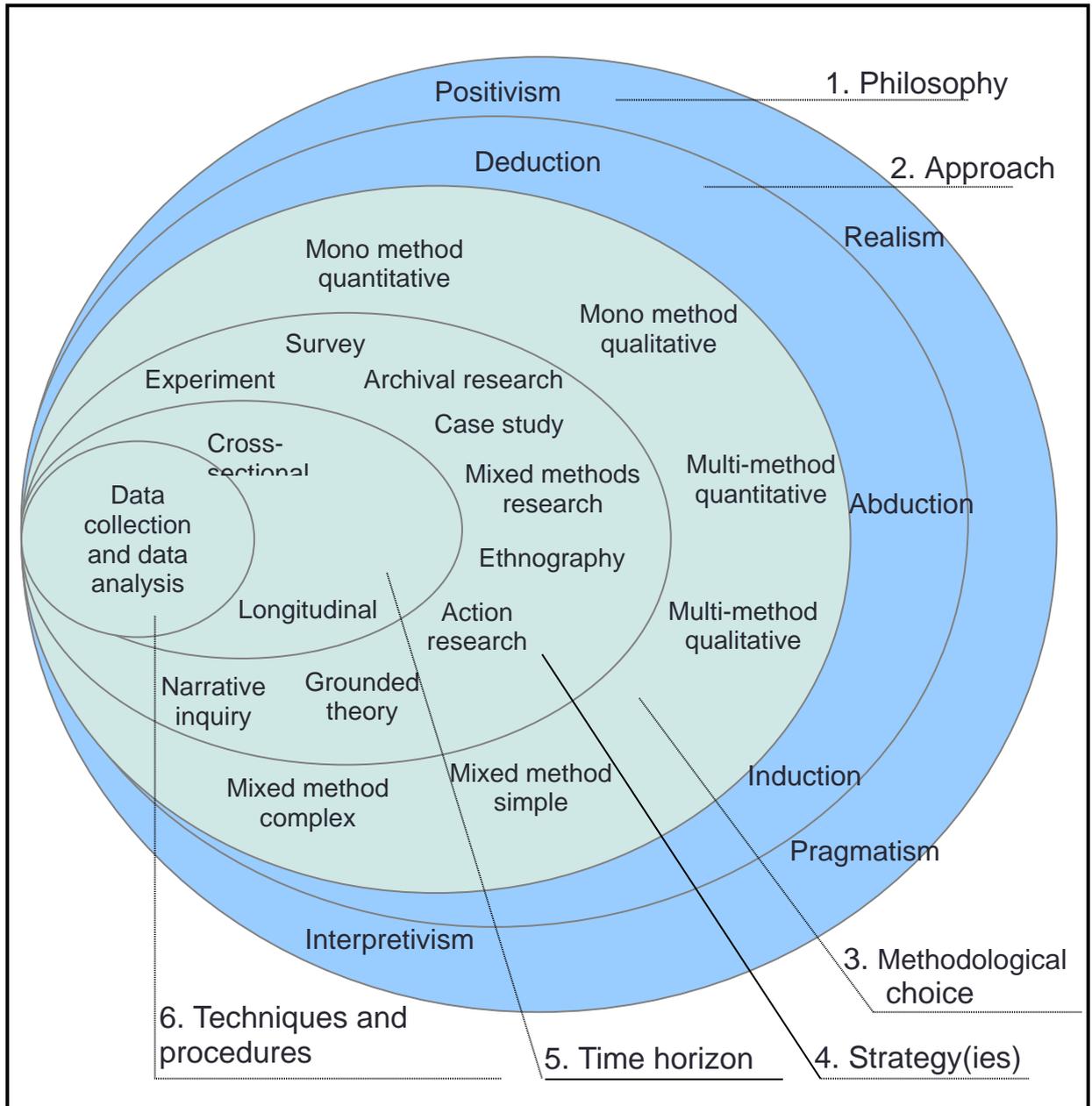


Figure 5 - The Research 'Onion'. (Saunders 2012)

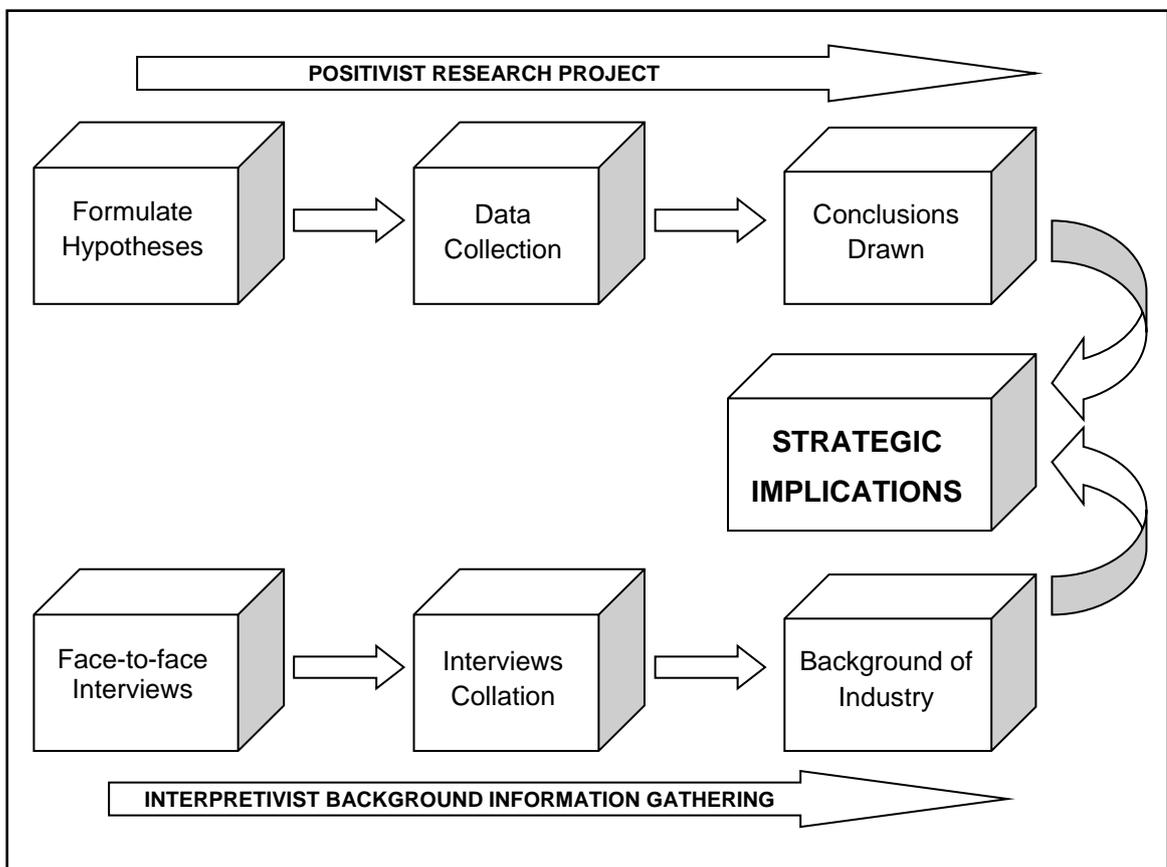
## 4.2 Research philosophy and approach.

### 4.2.1 Research philosophy.

There are four philosophies suggested; positivism, realism, interpretivism and pragmatism. Due to the fact that this project involves collecting data about “an observable reality” and using this information to confirm or fail to confirm the connections the hypotheses suggest exist between different variables it is undoubtedly a positivist project. Positivism is “the application of the methods of the natural sciences to the study of social reality and beyond” (Bryman 2007). Remenyi *et al.* ( 1998) remind us that the positivist, or “logical” positivist as they specify, approach assumes that “the researcher is independent of and neither affects nor is affected by the subject of the research.” That is why the nature of data collection is important and what is said prior to collection and in any communication with the subjects essential. It is worth pointing out here that with the semi-structured interviews with landlords and other players in the industry, because they were used as anecdotal information to inform the managerial implications of the research rather than the hypothesis testing itself, the approach bordered on interpretivism. This philosophy is based on the idea that the business world is built on a social world that is far too complex to lend itself to “theorising” by definite laws as in the natural world. The author found himself in face-to-face interviews with people who were “actors” just as he himself was an “actor” in a “play” that each interprets in their own way. Some argue that in a business research project interpretivism is the best philosophy to adopt and, having used both objective data and subjective anecdotal evidence, the author has

found both useful; the latter has given him an understanding of the basis on which the industry is founded whilst the former has actually allowed a study of some causal relationships within the industry.

Therefore, the research philosophy was positivist with some interpretivism entering the situation when the face-to-face interviews were carried out but this was nothing to do with the testing of the hypotheses rather the interpretation as to the findings' strategic implications for PSL.



**Figure 6 - Positivism and Interpretivism in the process.** Based on Kumar (2011)

Other than when the interviews are discussed it will be considered that the project was fully positivist in philosophy.

#### **4.2.2 Research approach.**

The form this research has taken is undoubtedly deductive in approach whereby we lend support to or find no support for hypotheses generated from the literature on a particular topic. The Literature Review investigated the extant literature on the subject of corporate reputation (although to say that the author had exhausted the entire body of work on the topic would be false), the case context gave the industry and sector that this research project would seek to apply this theory to and the hypotheses development section set out the “hunches” put forward. Through the design and application of a correct research method those hypotheses will be tested to see if they are supported or not. This is deduction and it owes much, as does positivism, to scientific research.

Therefore a positivist deductive research approach was chosen and this in turn indicates that the rest of this section holds even more importance than in the case of other research approaches. A “highly structured methodology” should now be laid out in order to facilitate replication which is an important issue as regards reliability (Gill and Johnson (2011) cited in Saunders (2012)).

#### **4.3 Research design.**

A research design has been called a plan, a blueprint, a structure, a strategy of investigation adopted in order to answer questions “validly, objectively accurately and economically” (Kumar 2005). So the design is as much about the quality of the plan as it is about the processes included within that plan. In Saunders’ (2012) onion the design is the inner 4 layers and is split into

methodological choice, strategy(ies), time horizon and techniques & procedures.

#### **4.3.1 Methodological choice.**

A simple way put forward to differentiate between quantitative and qualitative research is to distinguish between the use of numeric and non-numeric data. It is also true that having set out the positivist deductive approach as our overarching research design then this would point us towards choosing to collect data in a numeric format, which can then be used to support or not support our hypotheses. The methodological choice was therefore a mono-method quantitative one whilst keeping in mind that anecdotal evidence to support managerial implications will be drawn from a series of qualitative interviews.

#### **4.3.2 Research strategy.**

The strategy chosen was the survey, which according to Maylor and Blackmon (2005) are useful for “capturing facts, opinions, behaviours or attitudes.” They continue by explaining that surveys are used “to gain information directly from people or organisations, especially when secondary data aren’t available.” This is something that makes the choice of a survey suitable as Saunders (2012) criticises many researchers for choosing questionnaires “without considering other forms such as secondary data” but in this case there is no secondary data available of tenants’ decision making attitudes towards reputational status of landlords and what affects it. Surveys can take the form of a questionnaire or an interview and initially it was thought that the project would investigate the question from the tenants’ perspective

via a questionnaire and from the landlords' via a semi-structured interview. Although both were used it was decided, after feeling that the interviews were too subjective, that only the tenants' questionnaire would be used to support or not support the hypotheses. The interview still had a place but only within the strategic implications for PSL(UK). The same interviews were also used as a guide with the key industry players that did not fit into the tenant or landlord categories. These will also be used to inform the author's managerial implications in the discussion section of this report.

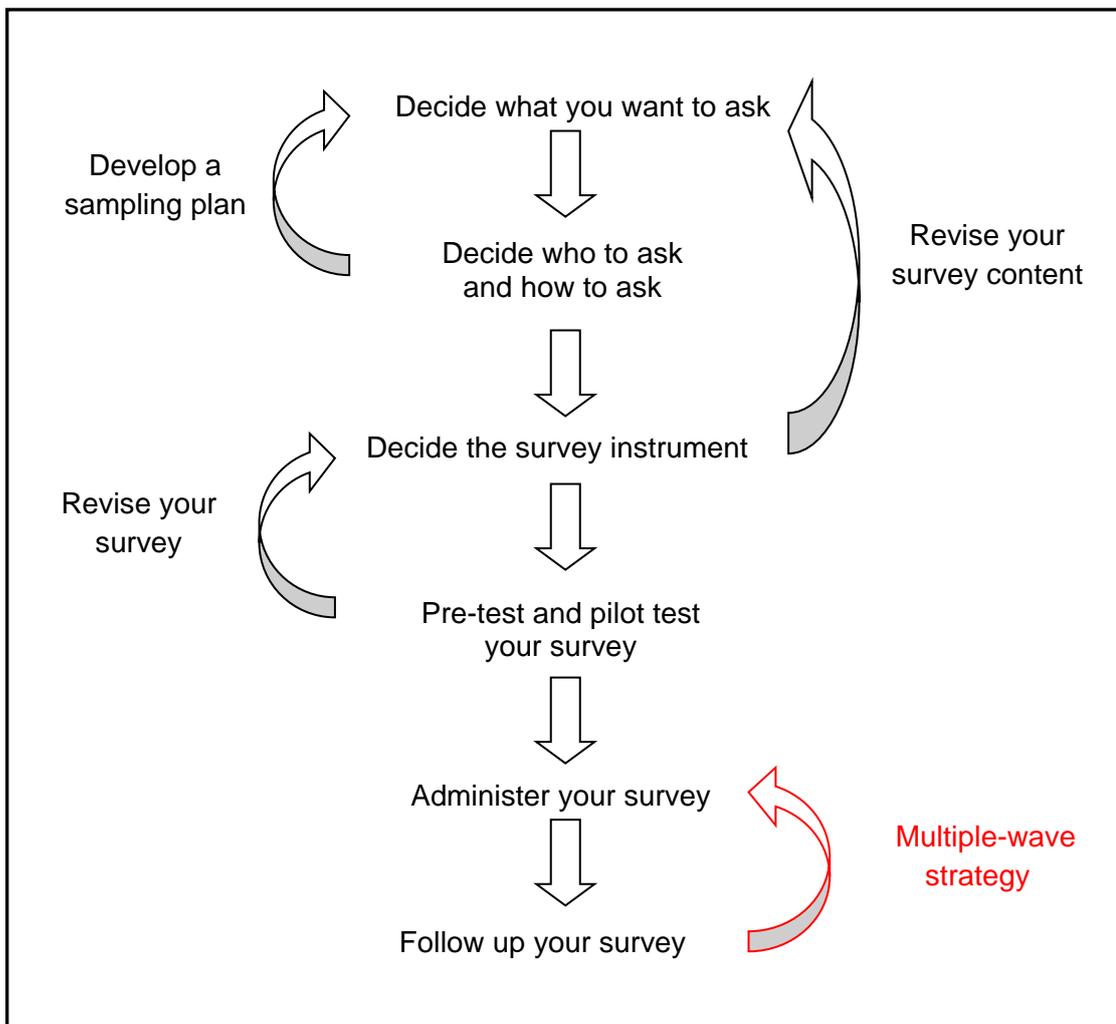
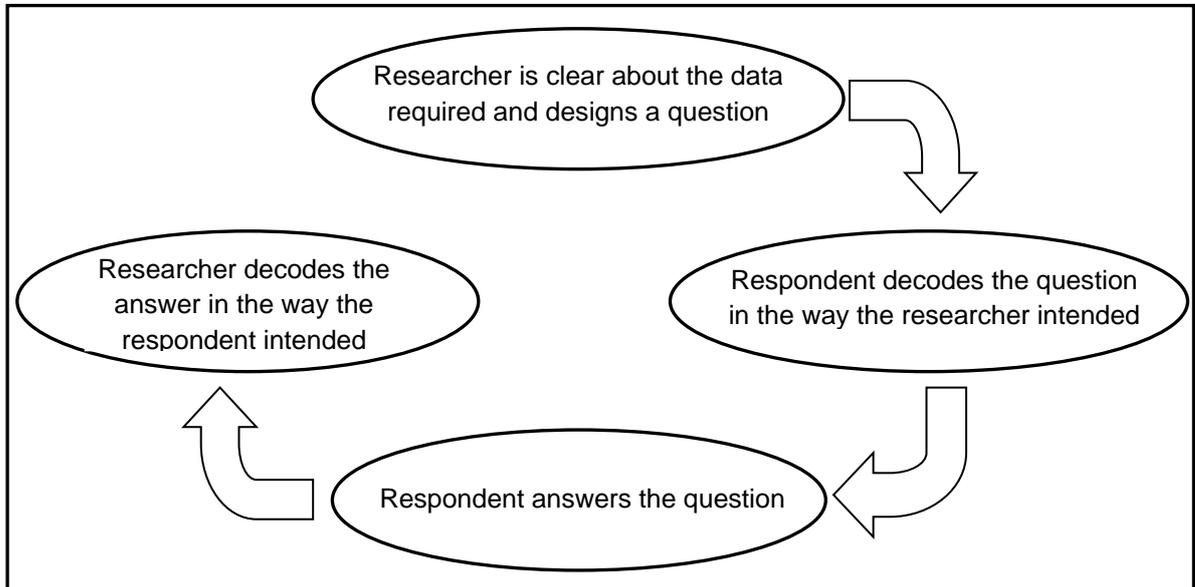


Figure 7 - An Overview of the Questionnaire Process. (Maylor and Blackmon 2005)

The process shown in Figure 7 was largely followed by the author although the “follow up to the survey” leading to the “multiple-wave strategy” was not used but rather the follow up to the survey involved only thanking the respondent.

There are several types of questionnaires split into self-completed and interviewer-completed types. Within the self-completed type chosen for this project there are three variants; internet-based, postal and delivery & collection. The easiest, in terms of time and financial constraints, and most appropriate method of administration was the internet self-completed questionnaire and that is what was chosen. Part of the appropriateness of the method chosen was the suggestion that interactive type questionnaires are helpful in respondents reading and understanding the questions being posed and an internet-based platform aids in this. Saunders (2012) maintains that the researcher needs to be confident that the questions within the survey will be “interpreted the same way by all respondents.” Kumar (2005) elaborates on this by explaining that the danger with questionnaires is that there is no one present when the respondent answer the questions “to explain [their] meaning [...] and so questions need to be “clear and easy to understand.” In order to avoid these “decoding” problems on the part of the respondent Kumar (2005) suggests the following guidelines which were adopted in the formulation of the questions; use simple language, don’t use ambiguous questions, don’t use double-barrelled questions, don’t ask leading questions, don’t ask questions that are based on presumptions. The term “opportunistic”

was one such instance of instead of using this term the author decided to use “likely to act against my [the tenant’s] interests if given the opportunity”.



**Figure 8 - Stages for a question to be valid and reliable. (Saunders 2012)**

Remenyi (1998) suggests the structure below and following each heading the way the final questionnaire fits into each is given. The full questionnaire is shown in Appendix A.

- “Background questions”. Six of these were asked, three of which were to see the department, industry and geographical location of the respondent. The next two investigated what qualifies the respondent, in terms of rental negotiation experience, to answer the questionnaire and the last question investigates the spread of the respondents’ search area when entering such negotiations.

- “Filter questions.” The three experience-related questions would act as filters, although even if they had no experience but were in that role their answers would be valid.

- “Funnel questions”. The seventh question involved the respondent thinking about what factors affected their decision-making process when embarking on the search for premises. This helped to guide the respondent towards “a progressively more narrow focus”.

- “Attitudinal questions”. Before asking the attitudinal questions, the questionnaire includes a little “vignette” asking the respondent to imagine the case where there was a certification of some sort called the “Landlord Performance Mark”. This was placed on a separate page to encourage the respondent to read it before clicking “next”. The next two questions ask the respondent to give their evaluations of certain statements related to the future behaviour and character traits of a landlord who holds such a certification. The final question as included at the request of the company sponsor and in hind-sight is also an attitudinal question and one that will aid in the strategic implications as to the premium tenants put on such a certification.

Overarching all these types of questions Remenyi (1998) speaks of the importance of the “sequencing of questions” in a questionnaire. Prior to the questionnaire being piloted it was written and re-written over a period of about 3 weeks with input from one industry expert and one academic. Only then was the questionnaire piloted with two academics (one who has an intimate knowledge of the property sector and one who has experience in investigating reputational-related issues), two industry experts (one who is involved in the marketing of service charge offerings and one who has over 20 years of experience in the field) and three other “lay-people” (class-mates of the author) who had no prior knowledge of the work being carried out. Replies

from one of the academics, one of the industry experts and two of the lay-people were useful in, as Saunders (2012) states, “refining the questionnaire” in terms of seeing there are no problems in “respondents answering the questions and in recording the data.” They also aided in being able to accurately estimate the time that the survey would take to complete. Remenyi (1998) states the benefit of piloting the questionnaire as “detecting possible shortcomings in design and administration.”

As part of the Likert scale (used in questions 8 and 9) explained by Kumar (2005) it was important to include negative as well as positive statements so as to test to see whether respondents were concentrating when answering or just doing so without taking care over the questions. There were also some characteristics of landlords included that were misnomers in terms of them being unrelated to the question being asked, again to aid in validating the responses of the tenants.

#### **4.3.3 Time horizon.**

Due to the time constraints a cross-sectional time horizon was chosen that is “useful in obtaining the overall picture” of a particular situation and is “extremely simple in design” where the researcher “decides what they want to find out, identifies the study population, selects a sample and contacts the respondents” (Kumar 2005). Saunders (2012) calls it a “snapshot [...], a study of a particular phenomenon at a particular time.” The limitation of this is that although the questionnaires were administered at a particular time, no attempt was made to determine when the experience of the respondents was actually

gained. The “number of years’ experience” mitigates this limitation but does not do away with it altogether.

#### **4.3.4 Data collection and analysis.**

##### **4.3.4.1 Data collection.**

Saunders (2012) advocates a 6-stage process for administering web-based surveys. The author’s variations on this theme are included in italics after each stage.

##### 1) Contact advising to expect an email with a survey

*All respondents were contacted by phone initially and the transcript of what was said to those who had downloaded information from the PSL website and those who hadn’t are given in Appendices B.1 and B.2. A discussion as to whether they had understood the study being carried out and their suitability to take part in it then took place. An explanatory follow-up email was sent if necessary, an example of which is given in Appendix C.1.*

##### 2) Email survey hyperlink

*Initially the questionnaire was sent to people on a one-off basis, see Appendix C.3. When the number of respondents was considered too low and more were needed the hyperlink was sent and the opportunity to forward the email to people who also qualified to answer the questionnaire was given, see Appendix C.4.*

##### 3) Include explicit request for the respondent’s consent.

*All the emails were clear about who was carrying out the research, who they were supported by at the University and who the company sponsor was. This is discussed more fully in the Ethics section.*

4) Email follow up after one week (if nothing is heard from them)

*In this case, this was carried out after one week of having no response to having left a message on voice-mail at the time of the first phone-call. This follow-up email is shown in Appendix C.2.*

5) Email second follow up after three weeks

6) Allow third follow up if time allows

*These last two steps were not carried out as the researcher felt it may well reflect badly on both the company sponsor and the University.*

The web-based survey platform “Survey Monkey” was used and although there were some design limitations these were not insurmountable and after having purchased a three month permit to use the enhanced features of the site it was considered adequate for the purposes of this research.

#### **4.3.4.2 Sampling method.**

It is impossible to test the hypotheses by asking the questions in the questionnaire to the whole population which in the case of this project is every person in the commercial office sector who is involved in the decision-making process when wanting to rent out new premises. All sampling involves the allowance of an error to creep into the findings of a research project and yet being aware of such errors and acting so that those errors are as small as

possible is the job of the researcher Kumar (2005). Remenyi (1998) states it is important that a sample should be both “representative and unbiased.” As the limitations part of this section will delineate the issue of sampling is crucial when it comes to the validity and reliability of this report. Of the two types of sampling – probability and non-probability – probability is the type that all researchers search to achieve. It is because the results may be analysed using statistical techniques and therefore allow for more robust conclusions to be made. The author could be accused of lying if the reader of this project was led to believe that the sample was a probability sample – where all elements of the population had equal chance of being chosen to answer the questionnaire – and yet every effort was made to make the sample as representative and unbiased as possible. PSL has many clients that they have had dealings with and have intimate knowledge of what PSL do and especially the importance service charges have within the whole rental landscape. These were omitted from the list, rather the start-point was those who had downloaded information from the PSL web-site, ethically this meant the researcher had a right to contact them. This was followed by asking these people to contact others they knew fitted the profile of a “tenant”. Attempts were made to contact tenants through both the British Council for Offices (BCO) who refused to help as divulging members’ particulars was not allowed and a member of the RICS Corporate Occupier Group (who is a member of the board of PSL) who provided several fruitful contacts. The last avenue for gaining respondents to the tenant questionnaire was to contact by telephone the occupiers of every building over 500,000 sq.ft.in London. This was a time-consuming activity that produced few leads and yet the researcher felt that at

least within this sub-population each was afforded the same probability of taking part in the questionnaire. The list of buildings used in this part of the sampling and the occupiers is given in Appendix D. This could well be seen as a form of “cluster” sampling as the occupiers of such buildings are the commercial office occupiers of multi-let buildings that the project was trying to target. An example of a follow-up email to a “large building” occupier is given in Appendix C.5.

The landlords were chosen on the basis that they had downloaded information from the PSL website and although initially two or three were required the discussions held by telephone produced seven semi-structured interviews, four face-to-face and three over the telephone. A list of the landlords interviewed is given in Appendix E.1. and the questions used as a guide to the interviews are shown in Appendix F. The “industry players” interviews also came about as a follow-up to the calls made from the list of individuals having downloaded information from the PSL website. A list of them is given in Appendix E.2.

#### ***4.3.4.3 Analysis.***

Remenyi (1998) claims that a “statistical analysis [is] only relevant to [a research project following a] positivist philosophy” although this must be tempered with the fact that the method of sampling also affects the appropriateness of such analysis. The first “background” questions on the questionnaire and the semi-structured landlord interviews lend themselves to descriptive statistics, where simple statistical diagrams will be used to report on the answers to these questions. Interestingly Bryman and Bell ( 2007)

state that there have been criticisms of using a quantitative statistical approach to business research projects as the “measurement process possesses an artificial and spurious sense of precision and accuracy.” This is something mentioned earlier in this section with respect to the social aspect to the business environment bringing into question how accurately conclusions can be drawn in such an imprecise field. Nonetheless an exploratory statistical approach has been applied to the questions involving attitudinal scales to indeed see if the hypotheses can be supported or not using these results. Implied in the process is the existence of a null hypothesis stating that there is “no relation” between the variables involved. A statistical investigation will then be made using parametric significance tests of means with a 5% level of significance. As far as the testing of  $H_{12}$  is concerned, a correlational analysis will take place where a matrix is set up with the correlations of each of the three “character” variables with the “future behaviour” variables is shown. The significance of these correlations will also be determined and the results analysed as to whether they help towards supporting  $H_{12}$  or not.

The two errors when embarking on such an endeavour are termed Type I error where the null hypotheses is rejected wrongly and Type II error where the null hypothesis is accepted wrongly. In both cases the wrong conclusion is drawn as a result of the error. When using the Likert scale (Kumar 2005) for the attitudinal questions the responses will be analysed by assigning a weighting – a numerical value – to the responses. Numerical values are assigned differently to positive and negative statements. For a positive

statement the response indicating the most favourable attitude is to be given the highest score. For a negative statement the opposite should be applied.

#### **4.4 Ethical considerations.**

Maylor and Blackmon (2005) clarify the difference between research ethics and the broader subject of ethics by defining the former as “the ethics of how you carry out your work.” They advocate using a golden rule that states:

“Treat others as you yourself would want to be treated and provide benefit to the organisation and individuals involved in your work.”

Research ethics can be split into the topics shown below, garnered from the work of Kumar (2005), Maylor and Blackmon (2005), Saunders (2012) and Bryman and Bell (2007). Each topic is briefly described and then, in italics, how these dangers were protected against in the current research is laid out.

- Information gathering. Why should someone help with your research? It is incumbent upon the researcher to show the relevance and usefulness of the work undertaken otherwise it is unethical to ask people for help.

*Participants were made fully aware of what the research was concerning, who was supporting it and what their input involved.*

- Harming participants. Will taking part in the research harm the people willing to help in gathering the data used.

*Anonymity of responses, although only asked for in the case of one of the landlords, has been honoured throughout this report.*

- Seeking informed consent. When asking for help participants must be aware of what they are being asked to do and what it will be used for. Otherwise the gathering can be seen as an invasion of privacy. This is especially important when using an internet-based questionnaire as this could be considered “spamming”. Interestingly some commentators caution about “giving the game away” when asking for replies to questionnaires and not saying anything that doesn’t need to be said so that the results are as unbiased as possible.

*All participants knew what they were being asked to do and no questionnaire link was sent out without having first phoned and clarified the research project beforehand unless it was forwarded on by a participant to their colleague. In these cases, the researcher assumed the email was self-explanatory as to what was required of any respondent. The fact that PSL was mainly concerned with managing service charges was not mentioned in initial contacts.*

- The providing of incentives. Some commentators believe this to be unethical and many believe it is so if the incentive is given before the data has been collected. If the incentive is given after the collection then most feel it is permissible.

*A summary of the findings of the project were promised to those who took part and this fits in with the strategic implications discussed later on in the paper.*

- Deception. The idea that people should not be lied to as to where information was gained as to their contact details and what they are entering into.

*Those whose information was gained from PSL were told as much and those whose information was gained from public sites (such as the phone numbers and details of the occupiers of the large London buildings) were not told as no names were used although some were available having been researched by previous Business Administration students at PSL.*

- Representing data correctly. Maintaining objectivity on the part of the researcher is especially important in guarding against misrepresenting data in order to cast the report in a good light.

*The researcher has left it until after the questionnaire has been closed in order to look at its results. This will mean that there is no chance of meddling with the results.*

- Taking responsibility for the report. It is considered unethical not to stand by a report once it has been written.

*The author has no intention of doing so as the results, whatever they may show, will advance the understanding of reputation in this sector of the property markets.*

#### **4.5 Quality of the research design.**

The quality of the research design can be split into two main parts; validity and reliability. Both will be discussed, once again with comments pertaining to this research project appearing in italics and finally a list of the limitations of the project will be given.

#### 4.5.1 Validity.

There are five dimensions that make up what is termed the validity of a research design. Kumar (2005) lists them as:

- Face Validity. Each questions or item on the scale must have a logical link with an objective.

*This was ensured through the process of checking and re-designing the questionnaire several times.*

- Content validity. Items or questions cover the full range of the issue or attitude being measured.

*Saunders (2012) states that the pilot test of a questionnaire can help with this. As explained earlier in this report the process of piloting the questionnaire was robust.*

- Concurrent validity. How well the instrument compares with a second assessment concurrently done.

*Although the semi-structured interviews are not to be used to support or not support the hypotheses they can be used, together with the industry player interviews and the many hundreds of small conversations over the telephone, to support the concurrent validity of the design.*

- Predictive validity. This is the degree to which an instrument can forecast an outcome.

*The strategic implications for PSL are based on the fact that this research will support or fail to support a move into this sector of their industry. The author suggests that this can only be shown to be right in time rather than making any instantaneous evaluations.*

- Construct validity. This can be determined by ascertaining the contribution of each construct to the total variance observed in a phenomenon.

*Again this is more complicated to verify and will be a by-product of the statistical analysis of the results in the next section of this paper.*

Maylor and Blackmon (2005) claim that many of the dangers of failing a validity test are due to “experimenter effects” which are intentional and unintentional mistakes made by the researcher in “collecting, recording, interpreting, reporting data and findings and interacting with subjects”. They also caution against “experimenter expectations” which can influence the design of the research in such a way as to gain the results they want it to produce.

#### **4.5.2 Reliability.**

The reliability of a research design is sorted into five parts by Kumar (2005), many of which have already been addressed in previous sections:

- The wording of the questions.
- The physical setting.

*Not applicable as the respondent is at their own computer when answering the questionnaire.*

- The respondent’s mood.

*Everything was done to make the respondent feel at ease with the process undertaken.*

- The nature of interaction.

*Again, this was positive and no ill-feeling was felt throughout the process with even those refusing to help doing so very politely.*

- The regression effect of an instrument which implies that there could be a difference between the first and second times if they were to answer it a second time.

*This is possible as the vignette explaining the certification should not be known about until half-way through in order to gain an unbiased insight into the “factors affecting decision-making” questions which comes prior to the paragraph about the badge.*

#### **4.6 Limitations of the research design.**

Although every care was taken to make the research design and process as robust as possible it is inevitable that limitations are present and given below is a list of the major ones as perceived by the author:

1) The most important limitation to these results relates to the sample that was taken. The reason for the difficulty in defining a correct sample is given earlier in this section and yet this is little use in attempting to mitigate the effects if the sample is seen not to be a probability sample. One of the huge problems was the lack of a sampling frame, which frankly would be impossible to obtain without huge expense. It must be said that from a statistical perspective the results and discussion in the following section should be treated with caution. With the time and financial constraints on such a research project it is felt that the sample taken was as close as possible to a representative and unbiased one as possible in the circumstances. This should lend support to the idea that the conclusions can be accepted as a generalisation of the processes going on within this domain.

2) The second limitation is that of sample size. Thirty three, whilst being above the goal of thirty replies to the questionnaire, means that the error in the results is larger than desired by the author of the report. A similar defence to the one given for the sample itself is offered, after over 300 phone-calls, the author believes that as much as could be was done to ensure a large enough sample size was acquired. As another defence to the ethicality of the process, the response rate once the author had actually been able to contact the correct person was in fact very high indeed, with no-one refusing to take part unless it was company policy that they did not.

3) Thirdly, due again to time constraints, the author was unable to run a full pilot of the questionnaire as those used in the pilot could not have been used again for the revised questionnaire that would have been produced.

4) The nature of the ranking questions on Survey Monkey, which was picked up by two of the people chosen to take part in the pilot questionnaire, was not changed and that may have caused some respondents to feel the package was unwieldy and could have affected their replies. This was only present in one question and it was felt that it was still a valid question as it gave the researcher useful background information prior to mentioning the certification.

5) In terms of the landlord semi-structured interviews no attempt was made to gain a representative sample of different types of landlords that are present within property markets in the UK. This limitation is mitigated by the fact that this was not the primary focus of the research and formed what is seen as a background to the industry and therefore not vital to the success of the project.

6) A second limitation with respect to the semi-structured interviews is that a pilot was not carried out. Due to not knowing whether or not there would be enough respondents (in the end there were easily enough), the author did not use the first few as pilots to help fashion the interview questions into a more effective vehicle to get the sorts of insights that were being sought.

7) As has been discussed already, the fact that the years when the respondents were involved in negotiations of this sort was not logged. Were they in difficult economic times or boom times? The answer to this question may have been useful to inform more fully the results gained. The time and financial constraints are again quoted as mitigating circumstances as to why more was not done on this front.

A discussion of some of the implications for further research in the discussion section of this report follows on from some of these limitations. On the whole, the researcher is satisfied that none of these limitations invalidate the findings and conclusions but that they do mean that they need to be treated with caution.

## 5. RESULTS AND DATA ANALYSIS

### 5.1 Introduction.

The online questionnaire had 34 respondents (with 1 answering only the first six questions) and a summary of the results is given below:

Question	Summary of Answers
Company department	Over 50% were in some sort of "Property Department"
Industry	Over 25% in "Finance and Financial Services"
Geographical location	50% in London
Letting negotiation experience	Respondents had an average of about seven negotiations each over an average of about thirteen years.
Search area	Just under 50% search nationwide
Factors affecting choice of premises	<p><b>1st - 2nd:</b> Location / Monetary Cost of Rent</p> <p><b>3rd - 6th:</b> Condition of Premises / Service Charge Provision / Interior Design and Layout / Rent Review Clause</p> <p><b>7th - 11th:</b> Landlord Reputation / Existing Tenants' Experience / Managing Agent Reputation / Previous Experience with Landlord / Previous Experience with Managing Agent</p>
<b>Introduction of the "Landlord Performance Mark" certification</b>	
Tenant perception of landlord future behaviour if certification held	<p><i>Attitudinal Average Scores: 1:Strongly Disagree, 3: neutral, 5: Strongly Agree</i></p> <p>Quick Response Time to Demands - 4.03 *</p> <p>Premises Well-kept - 4.12 *</p> <p>Engage Reputable Managing Agents - 3.91 *</p> <p>Engaging Reputable Contractors - 3.91 *</p> <p>Rent does not increase significantly YOY - 3.61 *</p>
Tenant perception of landlord character reputation if certification held	<p><i>Attitudinal Average Scores: 1:Strongly Disagree, 3: neutral, 5: Strongly Agree</i></p> <p>Trustworthiness - 3.61 *</p> <p>Transparency - 4.03 *</p> <p>Lack of opportunism - 3.48 *</p>
Willingness to pay a premium for a premises owned by a landlord if certification held	<p>Only 5 out of the 33 respondents said "Yes", the other 28 had various reasons for saying "No", chief among them being:</p> <ul style="list-style-type: none"> <li>- "the landlords should be conforming to standards anyway",</li> <li>- "the landlord would recoup the money in attracting more tenants",</li> <li>- "the certification would be merely a tick-box exercise".</li> </ul>

**Table 1 - Summary of tenant questionnaire answers.**

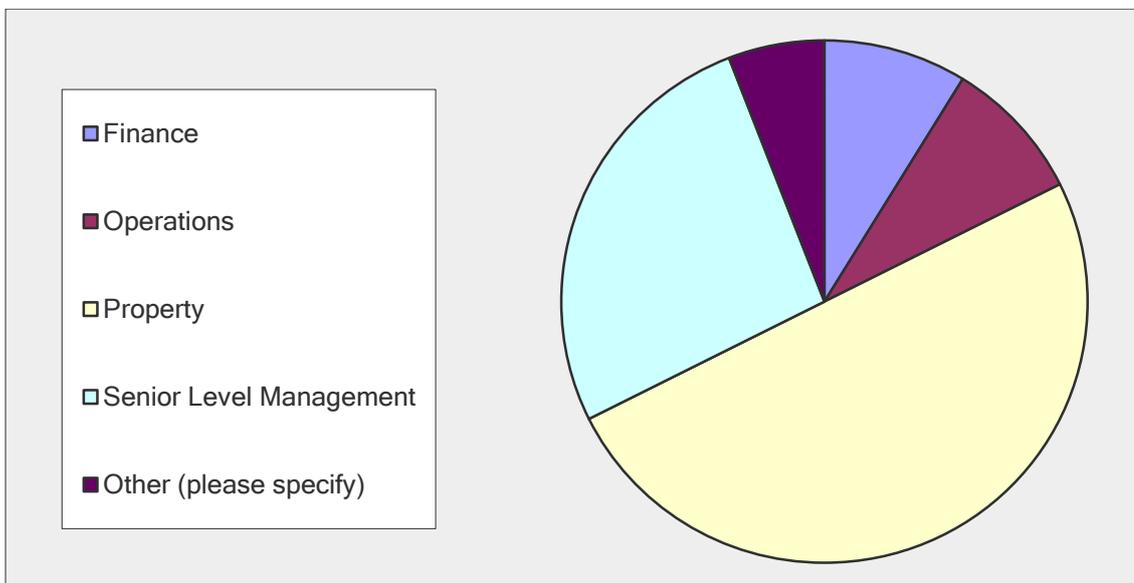
\* Result statistically significant

## 5.2 Demographics and experience in the industry.

The answers to the first six questions of the online questionnaire are given in this section.

### 5.2.1 Company department of respondent

This question was useful in two ways; first the company sponsor was interested to see in which department the decision-makers lie. This will aid future attempts to contact these people and market their products in a more focussed manner.



**Figure 9 - Qu.1. Within which department do you operate?**

The two “Other” responses were “Economic Development” and “Real Estate & Services”. The author would have placed the latter within the “Property” department but refrained from doing so as the respondent possibly had both departments within their company and was therefore being specific. The results show that half the companies represented had the decision-making taking place within a “Property” department and quite possibly more as some

of the “Senior Level Management” may hold that position within a property department.

### 5.2.2 Industry of respondent’s company.

Attempts had been made to focus on those in the commercial office multi-let sector and this question was designed to see if any respondents who see themselves as part of the “Retail” industry had responded. However, even if these were found, the respondents could well have been in the Head Office of such a company and therefore still qualify to answer.

The six “Other” respondents were: Graphic Design, Service Industry, Chemicals, Legal, Well-being and Executive Recruitment and Consultancy.

The results show a spread of industries, although over a quarter of the tenants are from the Finance & Financial Services sector.

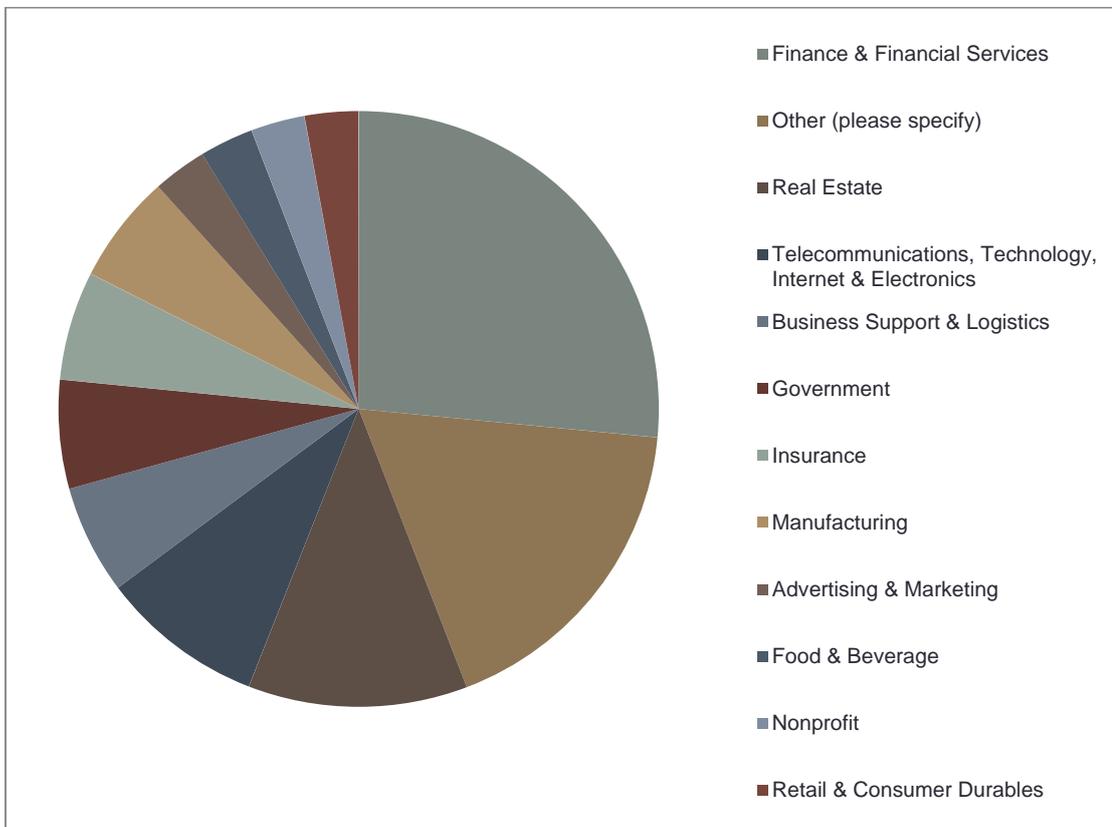


Figure 10 - Qu.2. What is the principal industry of your organisation?

### 5.2.3 Geographical location of respondents.

This question was interesting from a research point of view to see the geographical spread of the respondents but also to help inform the company sponsor's marketing strategies. The author has chosen to summarise the results by grouping the replies into the following categories; London, other UK cities, UK towns, smaller conurbations, nationwide and the one person who misunderstood the question and repeated their industry!

Half the respondents are based in London and considering only two respondents came from the contacting of the London buildings this is anecdotal support for the idea that the greatest concentration of office multi-let buildings is in the capital.

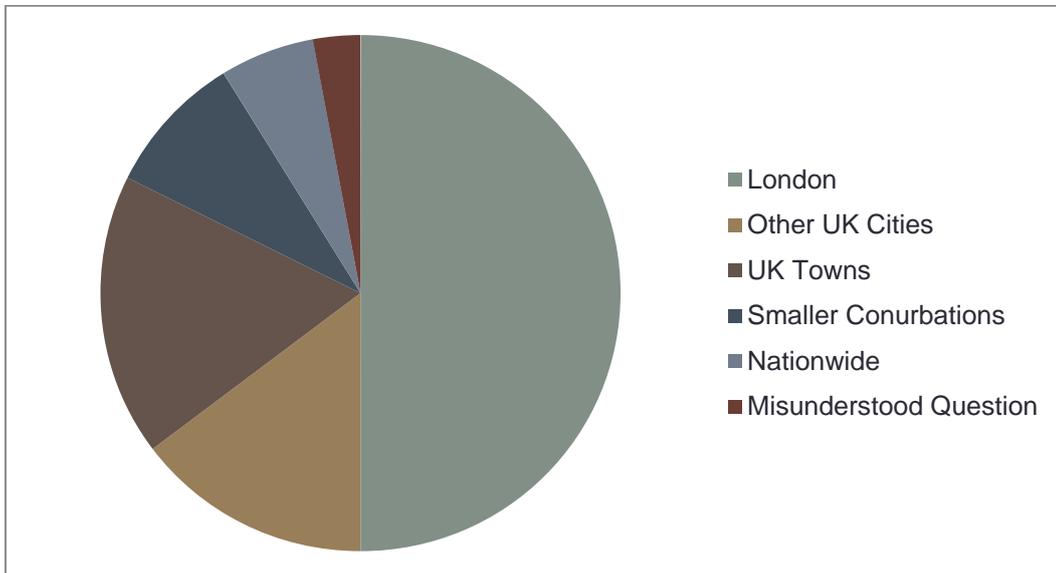


Figure 11 – Qu.3. What town or city are you based in?

#### 5.2.4 Experience in the decision-making role.

The fourth and fifth questions seek to validate the respondents' credentials to be taking part in this research, first by way of the number of negotiations they have been a part of and second how many years those negotiations have spanned. The answers to these questions were encouraging, indicating that each respondent had experience of, on average, just below seven negotiations spanning over thirteen years. This was important as the last questions being attitudinal would be more meaningful the more experience the group had.

##### 5.2.4.1 Experience of negotiations – number of times.

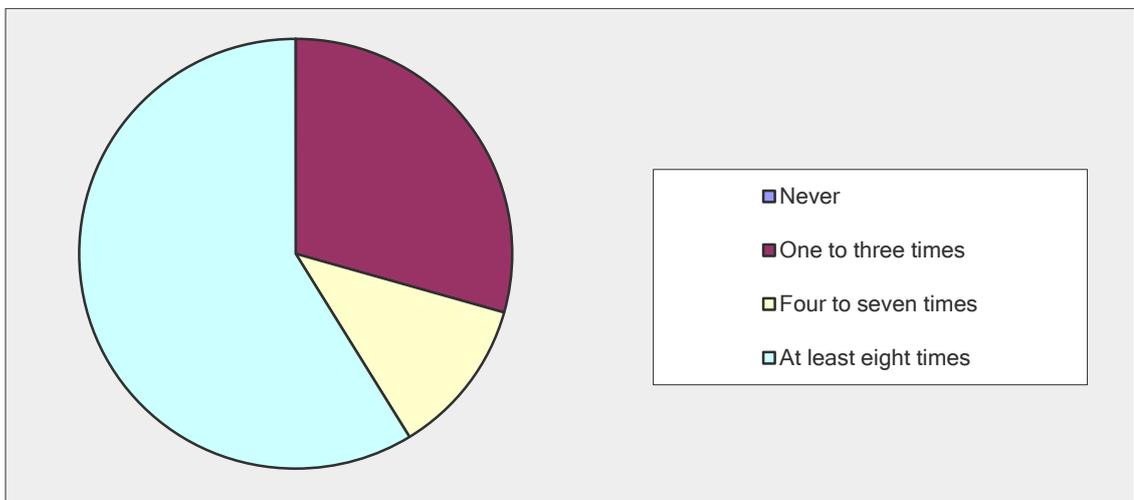


Figure 12 - Qu.4. How many times have you been involved in the negotiations to rent a work premises?

#### 5.2.4.2 Experience of negotiations – number of years.

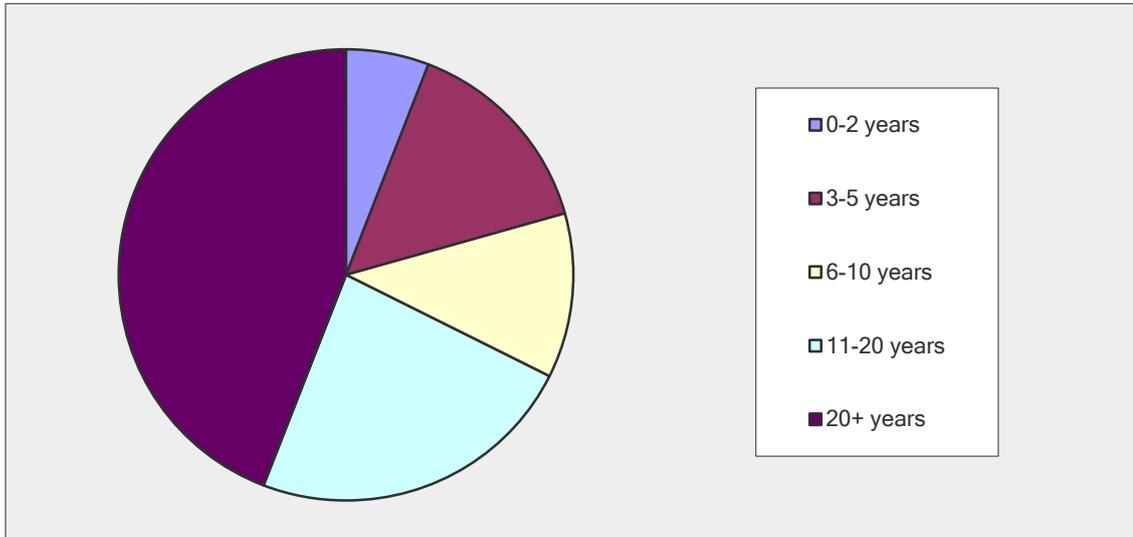


Figure 13 - Qu.5. Over how many years have you been involved in negotiations to rent work premises?

#### 5.2.5 Respondent's search area when looking for premises.

The sixth question was designed to be related to the third and to cast more light on the spread of the decision-makers' territories in terms of the properties they are responsible for.

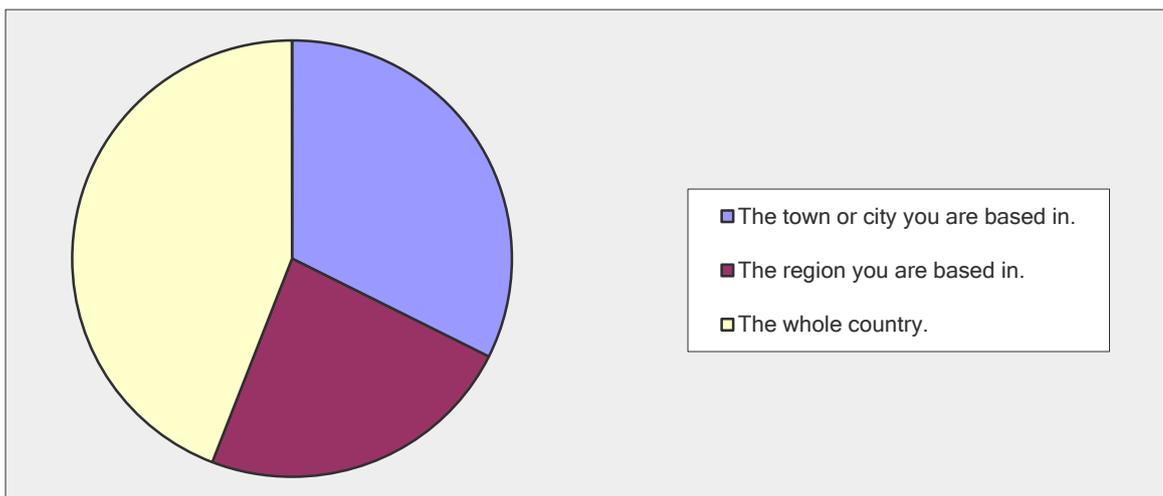


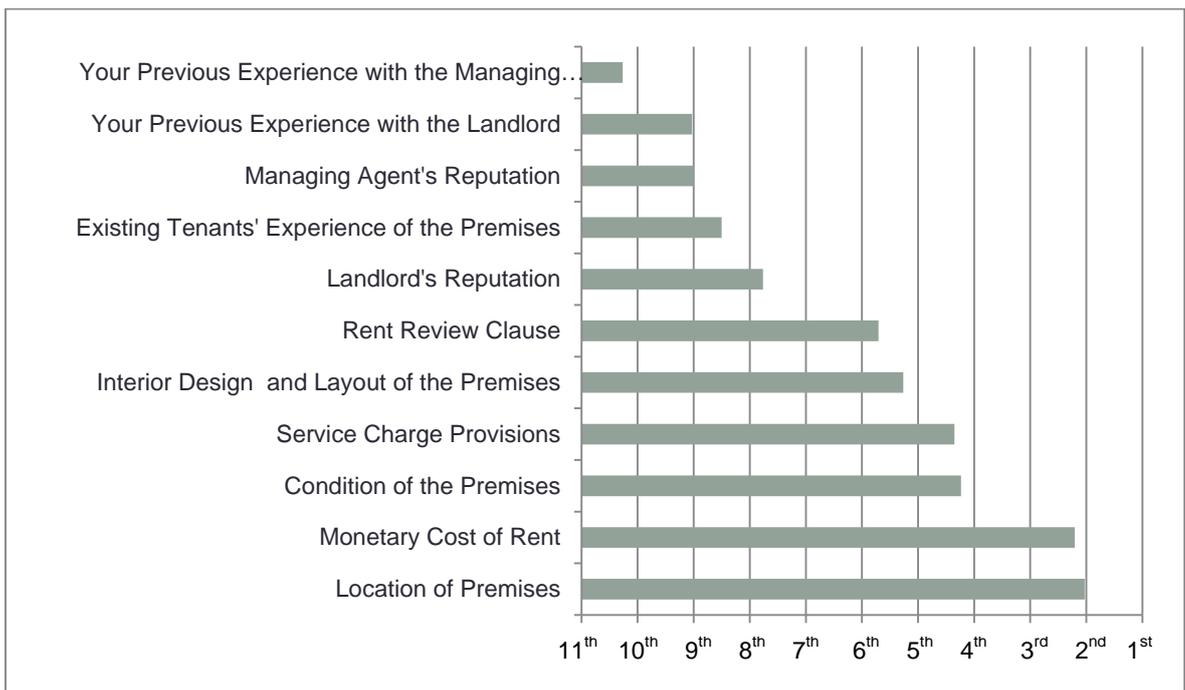
Figure 14 - Qu.6. When you look for premises, what is your search area?

Although only two respondents stated that they were based “nationwide”, fifteen of them stated that their search area was “the whole country”. Perhaps

this was a weakness in the questionnaire and the two questions could have been combined into one. However, 7 of those “extra” 13 people were not from London – one might have reasonably expected that “Head Offices” would be located in London and actually be responsible for the whole country. In fact only six of the seventeen London-based decision makers stated that they were looking nationwide when they made their choice.

### 5.3 Ranking of items that affect the choice of decision-makers.

In order to analyse these results the rankings were given a “scoring system” that saw the highest ranked in each case score eleven points, the second-highest ten points and so on down to “N/A” scoring zero points.



**Figure 15 - Qu.7. Rank items that affect your choice of which premises to rent.**

The way the question was worded was considered to satisfy the author’s attempt to separate those factors that were important with those that were seen as completely unimportant by asking the respondent to rank “at least 5” of the items. The rest they were allowed to designate as “N/A”. The system

seemed to work as five of the items were labelled as N/A at least five times by the respondents. Interestingly for this research both items including the word “reputation were amongst those five!

The correlation between these results and those of the landlord’s interviews will be discussed in both of the next two sections. Suffice it to say that not only is the low score of reputational factors a surprise but so is “previous experience”. This may well be to do with the fact that tenants rarely “meet” a landlord or managing agent that they have already dealt with.

#### **5.4 The certification introduced.**

At this point in the questionnaire the respondent is asked to read a vignette (see Appendix A) imagining the presence of a “Landlord Performance Mark” – a certification – gained when certain criteria are fulfilled with respect to the Service Charge Provisions of a property. The last three questions of the questionnaire are then to be answered in the light of the existence of such a certification and the landlord’s gaining of this badge. One of the thirty-four respondents skipped all these questions, the reason for this is not given and no email correspondence was received as to why this occurred.

The scale used in each of the two subsequent questions is a Likert attitudinal scale (Kumar 2005). In both questions negative as well as positive statements were included to make sure that respondents were reading the questions carefully. There was some evidence of two of the respondents not doing so but not enough to discount their replies altogether and therefore their responses have been included.

#### 5.4.1 Certification effect on tenants' perception of landlord's future behaviour.



Figure 16 - Average attitudinal scores of landlord's future behaviour.

[Key: 1: Strongly Disagree, 3: Neutral, 5: Strongly Agree]

Question 8 was designed to see whether or not the existence of the certification would cause the tenant's to make inferences as to the landlord's future behaviour. The item "... rent increases significantly year on year" is negative and was scored accordingly whereas all the other items were positive. Therefore the scores for those items was 5 for "strongly agree", 4 for "agree and so on down to 1 for "strongly disagree", only for the item mentioned as being negative were the scores the other way round.

#### 5.4.2 Certification effect on tenants' perception of landlord's character.

Question 9 investigated the concept of landlord "character" reputation (Mishina *et al.* 2012) and in this question there were two negative items; "likely to act against my interests if given the opportunity" and "likely to take risks". There was also an item that the author felt would be a good control

item to see what respondents would answer to a characteristic that should not have anything to do with what is being discussed – “generous”.

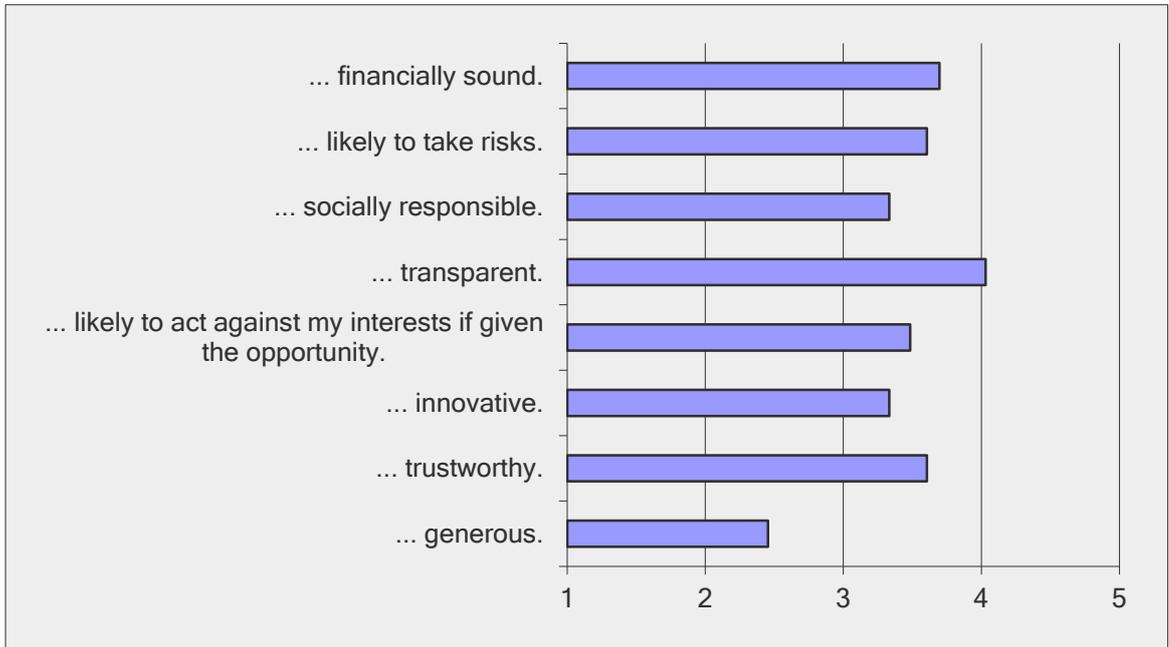


Figure 17 - Average attitudinal scores of landlord's character reputation.

[Key: 1: Strongly Disagree, 3: Neutral, 5: Strongly Agree]

### 5.5 Willingness to pay a premium for the certification.

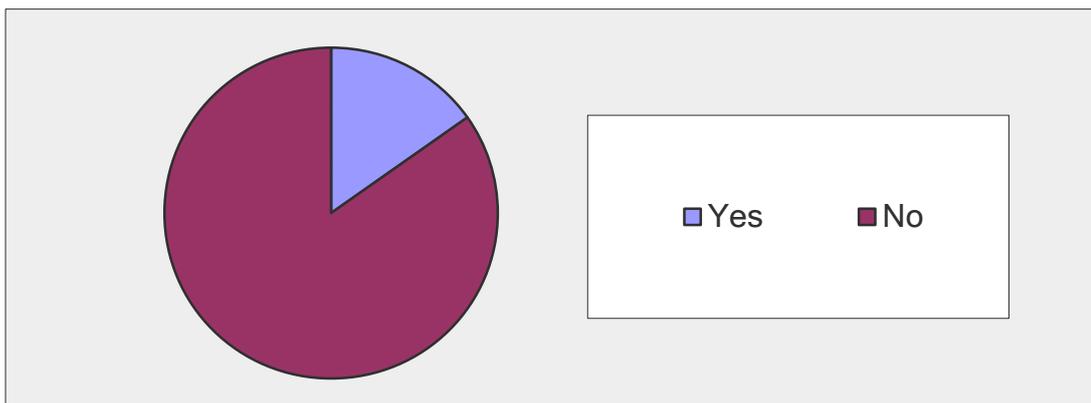


Figure 18 – Pie chart showing tenants' willingness to pay a premium because of certification.

The answers to question 10 showed that only 5 of the 33 respondents were willing to pay a premium for a premises owned by a landlord holding the “Landlord Performance” certification. By far the most prevalent reason (ten out

of twenty eight) as to why tenants would not be willing to pay a premium is that the landlords “should be fulfilling the criteria of the certification anyway”. Two other reasons appear four times each; the fact that the landlord would “recoup the money in other ways e.g. through more as the premises would be more desirable” and cynicism as to the “certifications practical effectiveness”. There are what the author calls “No means NO” responses where the tenants express opinions that effectively mean they would not be willing to pay a premium at all for the certification. A future section of the report has a fuller discussion of these responses.

## 5.6 Data analysis and hypotheses testing.

The data analysis of questions 1 to 7 and 10 will not be taken further than what has already appeared in this results section. The descriptive statistics used is enough to show what the responses to these questions tell us. They will be drawn upon once again in following sections.

Questions 8 and 9, however, require a more detailed statistical analysis as these are the questions that will be used to support hypothesis  $H_1$  or not as stated earlier on in the paper.

The method used was laid out in the Method section of this paper.

### 5.6.1 Testing $H_2$ and $H_4$ , $H_5$ & $H_6$ .

*$H_2$ : A “Landlord Performance” certification will enhance the character reputation of the landlord in tenants’ eyes.*

In order to map out exactly how the analysis is carried out, the steps followed in this particular case are given:

- Adopt an assumption that if  $H_0$  (the null hypothesis) is true then the answer to each of the items in Question 8 would definitely not have been “Agree” or “Strongly Agree”. The discussion as to whether the answers given if  $H_0$  were true should have been “Neutral” or “Disagree” as the questions called on respondents to say that the certification would make them “think a landlord belonging to such a scheme would be more likely to ...” is one that can take a considerable amount of time!
- It follows, therefore, that there should be no answers of 4 or 5 and therefore a mean of 3 is assumed – “neutral”.
- The actual mean and standard deviation of each item is calculated using the built-in functions on an Excel spread-sheet.
- The standard deviation of the population is assumed to be the same as that of the sample as the sample size was greater than 30.
- The standard deviation of the means is found using the equation:

$$s. d. (means) = \frac{s.d.(population)}{\sqrt{n}}$$

*[n is the sample size,33]*

- The z-value is found using the “expected” mean if  $H_0$  were true, i.e. 3
- The corresponding p-value found (Motulsky 2013).
- If this p-value passes the 5% test of statistical significance then it will not be possible to reject  $H_0$  and  $H_2$  will seem to have not been supported. However if the p-value is less than 5% then  $H_0$  will be rejected and  $H_2$  seen to be supported.

The results obtained are as follows:

	Mean	Standard deviation	Standard deviation of the means	z-value	p-value
<b>Three character traits</b>					
Trustworthiness $H_4$	3.61	0.74	0.13	4.73	<0.0001
Transparency $H_5$	4.03	0.67	0.12	8.79	<0.0001
Lack of opportunism $H_6$	3.48	0.74	0.13	3.75	0.0001
All three combined $H_2$	11.12	0.84	0.15	14.14	<0.0001

**Table 2 - Hypothesis testing for  $H_2$ .**

Note: as previously explained the “opportunistic” item was considered negative and an opposite scoring system was used, in the table it appears as “lack of opportunism”.

Therefore considering the results shown in the table above in the case of each of the four hypotheses, the associated null hypotheses are rejected and  $H_2$ ,  $H_4$ ,  $H_5$  and  $H_6$  are seen to be supported. As was mentioned earlier in the Method section due to limitations in the sampling process no results should be taken as meaning hypotheses should be “accepted” but rather the data is evidence of substantial support for the hypotheses. A certification will indeed cause a tenant to have an enhanced view of a landlord’s character in terms of their trustworthiness, transparency and lack of opportunism.

### 5.6.2 Testing $H_3$ and $H_7$ , $H_8$ , $H_9$ , $H_{10}$ & $H_{11}$

$H_3$ : A “Landlord Performance” certification will cause tenants to predict future landlord behaviour that is in the interests of the tenant.

The data will be analysed in exactly the same way as in the case of  $H_2$ .

The results obtained are as follows:

	Mean	Standard deviation	Standard deviation of the means	z-value	p-value
<b>Three future behaviours chosen</b>					
Quick Response Time to Demands $H_7$	4.03	0.73	0.13	8.13	<0.0001
Premises Well-kept $H_8$	4.12	0.86	0.15	7.51	<0.0001
Engage Reputable Managing Agents $H_9$	3.91	0.72	0.13	7.22	<0.0001
Engage Reputable Contractors $H_{10}$	3.91	0.80	0.14	6.49	<0.0001
Rent does not increase significantly $H_{11}$	3.61	0.93	0.16	3.73	0.0001
All five combined - $H_3$	12.06	2.22	0.39	11.83	<0.0001

**Table 3 - Hypothesis testing for  $H_3$ .**

Note: as previously explained the “rent does increase significantly year on year” is a negative behaviour and an opposite scoring system was used, in the table above it appears as “rent does **not** increase significantly”.

Therefore considering the results shown in the table above in the case of each of the six hypotheses,  $H_3$ ,  $H_7$ ,  $H_8$ ,  $H_9$ ,  $H_{10}$  and  $H_{11}$  are seen to be supported. A certification will indeed cause a tenant to ascribe positive future behaviours onto a landlord who holds it in terms of how they will respond quickly to tenant demands, keep their premises in good condition and engage reputable managing agents for their properties.

### 5.6.2 Hypothesis $H_1$ .

As  $H_2$  and  $H_3$  were seen to be largely supported by the data analysis carried out it is the author’s view that considerable evidence has been given in

support of  $H_1$ . A landlord's reputation is indeed enhanced by their adoption of the "Landlord Performance" certification suggested in this study.

### 5.6.3 Testing $H_{12}$ .

$H_{12}$ : *A tenant's perception of better landlord character reputation is associated with a stronger tendency that the tenant will predict future landlord behaviour that is in the best interest of the tenant.*

Unlike the testing of the previous hypotheses,  $H_{12}$  will be tested by investigating the correlation between the individual "character" items and "future behaviour" items to see if there is indeed a link between one and the other.

A correlation matrix was built up of the correlations between the individual items and the total of each group in the "character" and "future behaviour" parts of the study and the results are shown.

<b>CORRELATION (SIGNIFICANCE)</b>	<b>Overall "Character"</b>	Transparent	Trustworthy	Un- opportunistic
<b>Overall "Future Behaviour"</b>	<b>0.455 (0.004)</b>	<b>0.322 (0.03)</b>	<b>0.339 (0.003)</b>	<b>0.297 (0.08)</b>
Quick response	<b>0.248 (0.08)</b>	<b>0.249 (0.08)</b>	<b>0.195 (0.14)</b>	<b>0.086 (0.32)</b>
Premises well-kept	<b>0.344 (0.02)</b>	<b>0.367 (0.02)</b>	<b>0.321 (0.03)</b>	<b>0.051 (0.39)</b>
Engage reputable managing agents	<b>0.376 (0.02)</b>	<b>0.322 (0.03)</b>	<b>0.394 (0.01)</b>	<b>0.083 (0.32)</b>
Engage reputable contractors	<b>0.186 (0.15)</b>	<b>0.175 (0.17)</b>	<b>0.146 (0.21)</b>	<b>0.075 (0.34)</b>
Rent will not increase significantly YOY	<b>0.448 (0.004)</b>	<b>0.068 (0.35)</b>	<b>0.174 (0.17)</b>	<b>0.679 (&lt;0.0001)</b>

**Table 4 - Correlation matrix for  $H_{12}$  giving significance of each correlation. (Soper 2013)**

The correlation is positive in every case and in the cases of the shaded cells that correlation is statistically significant. Two interesting things to draw from the table are:

- The tenant-centred future behaviours termed “quick response” and “engage reputable contractors” both show positive correlations with the character traits and yet none of these is statistically significant.
- The character trait “un-opportunistic” is not significantly correlated with any other “future behaviour” save “rent will not increase significantly year on year”.

This is intuitively correct and the correlation is statistically significant and is also the highest of any at 0.679.

Overall the statistically significant correlation of 0.455 lends support to the hypothesis ( $H_{12}$ ) and the author concludes that there is a positive association between a tenant’s perception of better landlord character reputation and tenant’s prediction of future landlord behaviour that is in the best interest of the tenant.

## **5.7 Conclusion.**

The results obtained lent weight to the idea that the researcher’s method was sound and that the respondents to the questionnaire were, as far as possible, representative, unbiased and experienced in terms of the number of rent negotiations completed and number of years spent doing so. The data analysis enabled the author to state that considerable evidence in support of all sub-hypotheses of the main hypothesis was found and therefore suggested that the main hypotheses  $H_1$  is strongly supported by this study. The

subsequent hypothesis **H<sub>12</sub>**, investigating the association between a tenant's perception of better landlord character reputation and their tendency to predict future landlord behaviour that is in the best interest of the tenant was also found to be supported. Although the correlation between the two was not strong at 0.455 it was statistically significant.

## **6. DISCUSSION**

This section will include an in-depth discussion of the results and data analyses that were presented in the previous section. It will revolve around the outcomes of the hypotheses testing and link them with the theories that the formulation of those hypotheses were based upon. The section will end with a frank look at the limitations of the research undertaken and a look forward to possible opportunities for further research in this field.

### **6.1 Discussion of results and data analysis.**

#### **6.1.1 Demographics and experience in the industry.**

The answers to the first six questions gave a feel for the landscape of the industry in terms of where the decision makers on the tenants' side are found within a company and the sort of experience they have. Mishina *et al.* (2012) defined reputation as “collective stake-holder group-specific assessments” of a company and with the first six questions we are attempting to identify and define the particular group of stake-holders that this research targeted; tenants. The “company” in this case is the landlord of a building and as has already been mentioned the industry is far more complicated than simply landlord-tenant interactions and yet the scope of this research was to concentrate on this relationship. As the two ultimate beneficiaries of the transaction in question – landlords receive the rent and tenants receive an office-space – it was considered that the project would be of some merit to the company sponsor in investigating this interaction. It was found that most companies have a property department or something of that sort although when contacting the buildings in London and cold calling most door-keepers

(in most cases receptionists) assumed the department I wanted to talk to was some variant of “Facilities”. This will be useful in future contacting of companies as a “property” department of some sort must be contacted. Again, in light of the cold-calling, it seems that many of these departments are company-wide and may well not be found in the same office one is contacting. Over three-quarters of the respondents were from UK cities, well over half from London itself. This would suggest targeting cities with any certification as the concentration of tenants and therefore landlords is higher. Experience-wise the respondents had been involved in an average of just under seven negotiations each over an average period of over 13 years each. This will mean that anyone approaching tenants or landlords will have to have the required training about the industry as the clients will certainly be knowledgeable as to what any certification should include. The search area when looking for premises is unsurprising with just over half the respondents claiming to look within a town or region and the rest undertaking a nation-wide search.

### **6.1.2 Factors affecting the decision-maker.**

Mid-way through the questionnaire the respondents were asked to rank eleven factors in terms of their importance in the decision-making process, with the option of responding “N/A” to as many as they saw as having no bearing on the decision. The answers could be split into three groups:

- |                                   |   |
|-----------------------------------|---|
| 1 <sup>st</sup> / 2 <sup>nd</sup> | Location / Monetary Cost of Rent.   |
| 3 <sup>rd</sup> – 6 <sup>th</sup> | Condition of the Premises / Service Charge Provision / Interior Design and Layout of the Premises / Rent Review Clause. |

7<sup>th</sup> – 11<sup>th</sup> Landlord's and Managing Agent's Reputation / Existing Tenants' Experience of the Premises / Previous Experience with the Landlord and Managing Agent.

Unsurprisingly Location and Monetary Cost of Rent are also very high up on what Landlords perceive tenants will answer to this question. Landlords do, however, put more weight on the quality of the facilities than the tenants seem to.

There are two surprising issues that surface when comparing the two "lists" and both are particularly pertinent to the present research. First, landlords do not see Service Charge Provisions as important to tenants whereas tenants rank it 4<sup>th</sup> overall! Even when prompted and asked about the issue most landlords still considered it unimportant while one said that it was part of the "Total Occupancy Cost" although another did concede that it was a "distinct consideration" and that they were "always contentious". This disconnect between how important tenants hold Service Charges and how unimportant landlords perceive them to be will be picked up on in the managerial implications section of this report. Second, the tenants' rating of reputation as so low is surprising, especially when the subsequent questions show that reputational perceptions can have such a large effect on their view of a landlord's character and future behaviours. It could well be that reputation as such is indeed not considered important but its effects are important. No landlords suggested that reputations were important although when prompted three agreed they were while the other four suggested various reasons as to why they are not paramount in tenants' minds such as "landlords are too far

removed from tenants” and “landlords are not big enough to ever meet the same tenant twice”. Hillenbrand et al. (2012) defined reputation as the “overall trust” of a seller and Rindova et al (2005) says that this is formed as a result “of the exchange of information” between, in this case, the landlord and the tenant. In the case of the factors put to the tenants as possibly of importance to their decision, It is interesting to note that the top 6 were all “tangible”, things that did not require a great deal of effort on the part of the tenant to investigate. Mishina *et al.* (2012) mentions the two parts to reputation being a company’s “capability to perform” and the “values” which constrain them to do so. The top 6 were the capability to perform; location, cost, quality of premises, lease agreement content such as service charge provisions and rent review clause. Interestingly there was one other “tangible” item in the list – “existing tenants’ experience of the premises” - which scored far lower down. When discussing selective information processing it was noted that information gathering is “costly” and Kardes et al. (2004) maintain that buyers will cease to gather information if they feel they have enough to make an informed decision with. The location, cost, quality and lease agreement pertaining to a premises are all “low-hanging fruit” in terms of cost of gathering such information. It is clear that “existing tenants’ experience” is not unimportant as in question 8 tenants scored highest the item stating that they would “expect a landlord who has the certification more likely to ensure that existing tenants are happy with their service.” Indeed Rindova et al. (2005) suggest that customers “investigate what others have done in similar conditions of uncertainty in order to make up their own minds.” It must therefore be that the top six items in the list of factors were sufficient and

“cheap” enough to glean information from and therefore tenants did not need to investigate further.

Other factors that landlords mentioned were car parking, green issues, flexibility of use of the premises and even proximity of prospective offices to CEO’s house!

### **6.1.3 The effect of holding a certification on landlord reputation.**

The results of the data analysis gave support to the hypotheses that a “*Landlord Performance*” certification would improve both the tenants’ perception of the landlord’s character their prediction of landlord future behaviour that was in the tenant’s interests. However, although statistically significant, a correlation of only 0.455 was found as the association between these two “variables” measured in the questionnaire.

No attempt was made by the author to confirm the assertion that the commercial office letting market is one which is typified by informational asymmetry at least in terms of the service charge provisions of the property. This is mentioned as a possibility for future research to ascertain just how “uncertain” a transaction it is considered to be by those entering into it on both sides. Something discussed more fully in the next section - the fact that nearly half of the respondents believe that the elements found within the certification should already be occurring – points towards the assumption of the nature of the transaction being correct. However, the degree of information asymmetry would be a valid piece of research which could then be drawn upon in any future research into the reputational advantages of certifications in the industry.

Naturally the author would have expected the transaction to be one of high involvement and as such one in which customers “consider a wide range of features” (Cobbwalgren *et al.* 1995). However, as discussed in the previous part existing tenants’ experiences were ranked low on the “importance to decision-making” scale as – it has been suggested by the author – it is too costly to obtain such information. The conditions of involvement put forward by Laurent and Kapferer (1985) may also have a bearing on the difference between what the author predicted and eventually saw from the results. The four “conditions” were considered to point towards “high involvement” and yet the author offers reasons as to why they did not in this case:

- Perceived importance: although one assumes that this is high as the gaining of the right office-space is important to the company, the decision-maker themselves may well feel it is simply part of their job rather than holding any particular importance.
- Perceived sign value: unlike retail ventures, tenants of office-space may well see the value of this transaction, in terms of where exactly the office rented are, as secondary to the work of the company itself.
- Perceived pleasure value: for the person making the decision, the decision will have little if any pleasure value and therefore lead to low involvement.
- Perceived risk: however bad the landlord and indeed the whole experience at least the office-space is present and has with it a legally binding lease agreement and therefore the risk may well be seen as negligible. Interestingly two of the landlords mentioned that the certification would only be important if the tenant “had suffered from a bad renting experience” in the past. This, in

turn, would mean the perceived risk was higher thereby causing higher involvement. However, until a “tenant” has had a bad experience maybe the risk is indeed considered low.

The suggestion by Kardes et al. (2004) that when low involvement is present then the “minimum amount of evidence [is] needed to confirm [the] focal hypothesis” could well come into play here. They continue to say that often other information is ignored especially in the case where there is a limited time-frame to the decision. The fact that in both attitudinal questions all items were so strongly agreed with (or disagreed with in cases where the negative was put) supports Van Riel and Fombrun’s (2007) assertion that reputation can be used to “simplify information processing.”

As far as sub-hypothesis **H<sub>2</sub>** and its corollaries **H<sub>4</sub>**, **H<sub>5</sub>** and **H<sub>6</sub>** surrounding the characteristics ascribed to the landlord due to their holding of a “*Landlord Performance*” certification it was interesting to find that transparency and trustworthiness were the two traits to come out with the strongest link. This is in line with Gylen (2013) stating that “transparency and trust are important as you can’t try a service before you buy.” When discussing transactions with high information asymmetry Nayyar (1990), as stated in the literature review, brings up two “hazards”. “Moral hazard” involves the buyer not being able to see whether a seller’s actions are proper and adequate, while “adverse selection hazard” involves not being able to see the characteristics of the seller. In the case of the tenants who answered the questionnaire it is clear that the certification certainly answers both hazards admirably. In terms of the latter, the traits bestowed upon a landlord holding the certification would

suggest that tenants have their adverse selection hazard worries quietened. It is interesting to re-iterate that the results are made more reliable given that two of the eight traits put forward were “negative” and still supported the hypothesis (when “negative” scoring systems were applied) and one of the eight – generous – inserted as a “test” item came back as soundly not supported by the certification which was predicted when fashioning the questionnaire. “Moral hazard” is addressed in a following paragraph. Nayyar’s (1990) assertion that certifications are ineffective is called into question by this research and the author believes the reason is that Nayyar’s reason being that they are “too widely prevalent” does not apply in the case of commercial office lets where certifications of the sort found in other industries are not common-place. It certainly would be true to say that Rao’s (1994) assertion that “reputation becomes an outcome of the certification process was supported by the research. One reason for this is that it was clear that the certification would be overseen by a “third party private company” and would include a “detailed review” of the service charge provisions, both practical and accounting, of the property in question. This may well have satisfied the conditions that “expert intermediaries” (Rindova et al. 2005) carry out the certification.

Rindova and Fombrun’s (1999) claim that “reputational ratings help reduce uncertainty as to a company’s likely behaviours” was certainly supported as were sub-hypothesis **H<sub>3</sub>** and its corollaries **H<sub>7</sub>**, **H<sub>8</sub>**, **H<sub>9</sub>**, **H<sub>10</sub>** and **H<sub>11</sub>** surrounding future behaviours of landlords who hold a certification. The inferences made by the tenants in the questionnaire point towards them indeed not being a “true reflection of objective reality” (Brunk 2010). A landlord holding a

certification was thought by many tenants to engage in future behaviour that was not part of the scope of the certification itself. Two of the seven landlords, when prompted, mentioned that rent increases would be governed by market supply and demand and would not be considered an issue with tenants.

However, those landlords with a certification were considered to be unlikely to raise rents significantly year on year. Graffin and Ward's (2010) technical uncertainty felt by buyers was mitigated by the certification as items such as "premises will be well-kept" and "quick responses to tenants' demands" both scored highly on the attitudinal scale given. The performance standard uncertainty whereby buyers do not know what standard to use in order to assess a seller's actions was mitigated, as mentioned in the last part, by the certification and the fact that it would be granted by a third party private company. It is therefore considered that the certification would be seen as a signal and would, as Rao (1994) suggests, act as a "proxy to make rational assumptions about the intentions and future actions" of the landlords.

The results that supported to a large degree the main hypothesis that a "*Landlord Performance*" certification would enhance the reputation of the landlord in the tenants' eyes do not, however, help in supporting Shrum and Wuthnow's assertion (1998) that the "demand for status rankings increases as information asymmetry in higher." The terms "increases" and "higher" would suggest the need to compare the transaction considered within this research with one that exhibits more or less informational asymmetry. This research also does not address the concept of a certification whereby the "organisation is embedded in a status hierarchy" (Rao 1994) as the certification was put forward as a "pass/fail" achievement rather than a comparative scale as the

term “hierarchy” suggests. The context of the signal being important (Brammer and Pavelin 2004) is less applicable to this case as the previous experience of a landlord or managing agent with a particular tenant is of little importance in making the decision. This would therefore mean that the certification being consistent with a landlord’s present reputation would not be important. However, if the landlord was to act in an unexpectedly poor fashion compared to the expected behaviour then any future claims the landlord made would be negatively affected.

The final hypothesis, **H<sub>12</sub>**, attempting to connect the perception of possible future behaviours in tenants’ eyes to the characteristics they ascribe to the landlord by virtue of them holding a certification was also supported. The correlation of the three individual traits – trustworthiness, transparency and lack of opportunism – with the five individual future behaviours – quick response to tenant demands, well-kept premises, engaging reputable managing agents, engaging reputable contractors and not increasing the rent significantly year on year – was positive and statistically significant without being strong. Howden and Pressey (2008) maintained that, in the presence of uncertainty, the role of “unobservable traits of the seller becomes essential to value creation for the customer.” The strength of this role is not mentioned and the hope was that this research would in some way answer this and to an extent it did as we found that although they are linked that link is not strong. In general, a tenant who rates the combination of the three character traits of a landlord highly will score a combination of the five future behaviours highly too. The mechanism involved in making the inferential leap from character

trait to predicted future behaviour or vice-versa would help in understanding the strength of a certification.

#### **6.1.4 Financial worth of a certification to landlords and tenants.**

As previously stated, question 10 was included at the request of the company sponsor to gauge whether or not tenants would see the value of the certification to the extent that they would be willing to pay a premium on the premises in order to cover its cost. The individual responses of the 28 respondents who answered “No” are shown in Appendix G but Table 4 gives a summary of the responses. One would be forgiven for thinking that the number of negative responses does not bode well for the financial viability of the certification scheme. However, on closer inspection and by grouping the responses as per the table shown it is quite the opposite and shows not only the perceived effectiveness of the certification but gives guidance as to how to make it more effective.

The ten respondents who answered that the landlords should be doing so already are in fact simply in need of being given the facts that appear every year in two or three industry reports that show the poor percentages of properties having service charges correctly administered. They will then see the need for a certification scheme and like those in the “costs recouped through having a more attractive property” group will realise that having such a badge would enhance their own reputation as they are associated with a property that has such a stamp of approval. The group that doubts the quality of such a certification are a challenge to anyone marketing the scheme and

will have to won over by ensuring that the certification “has teeth” and is not open to manipulation.

Type of Response	Number of Respondents	Respondents	Examples of comments
<b>Yes</b>	5	3,6,9,11,12,16	-
<b>No;</b> Landlord should be doing so already	10	2,4,15,18,19,21,22,26,28,32	"should be adopting best practice anyway" / "should be the norm" / "should be performing to this standard" / "expect landlord to operate in such a manner"
<b>No;</b> Costs recouped by more attractive property	4	8,17,20,25	"property will be more valuable" / "will attract demand for property" / "attracting more tenants"
<b>No;</b> Certification not a good scheme	4	14,23,30,31	"cynicism about scheme" / "too many schemes" / "schemes can be manipulated"
<b>No;</b> Costs will appear anyway after "filtering"	2	1,24	"will be charged anyway" / would be filtered into service charge anyway"
<b>No;</b> Meaning NO	8	5,7,10,13,27,29,33,34	"cost is important to us" / "will negotiate own terms" / "landlord turnover greater than tenant turnover" / "no right to charge more" / "should be a cost to the landlord"

**Table 5 - Summary of tenant responses to "certification premium" question 10.**

The two respondents that feel they will be charged anyway seem to have had a relationship with their landlord typified by a lack of transparency, one of the landlord traits a certification will enhance. The eight respondents who answer “no means NO” make up a quarter of the total and therefore constitute a sizeable minority. They are not opposed to the idea of a certification but rather against that they should be the ones footing the bill. Two of the responses mention the concept of landlord turnover being greater than tenant turnover

and this was also something brought up by two of the landlords in terms of a limitation of the scheme. The managerial implications of these responses and the thinking behind them are tackled in the next section but far from being a negative influence on the result of the project, they merely raise important issues that need to be tackled.

## **6.2 Managerial implications.**

In this section of the paper the author will attempt to combine the theoretical background to corporate reputation and the industry context with the results of the research carried out in order to set out the managerial implications to the company sponsor. The extra ingredient to those given above is the anecdotal evidence that can be added from the seven landlord interviews and three industry player interviews whose details are given in Appendices E.1 and E.2. The introduction will seek to sketch the landscape of the industry and the place of service charges within it. The need and importance of a certification is then discussed before putting forward a suggestion for what the certification should include and the limitations that must be somehow mitigated.

### **6.2.1 Introduction.**

Unless a property is self-managed by the landlord, it is true that most landlords are invariably one link away from their tenants; that link being the managing agent. Although this is the case, a tenant will be aware of who their landlord is because any invoices raised to pay for any property costs are in the landlord's name and the original lease agreement is between the landlord and tenant. One landlord stated that their main goal was to reduce the number of "voids" (empty office-space) and the percentage of voids is often

given as a statistic when describing a portfolio of properties (Davison 2013). “Service charges are queried more than ever” said one landlord and yet a managing agent will counter that there is “no need for a certification” because there is the “RICS code”. A certification will satisfy both points of view, it does not seek to supersede the code, rather uphold it, and it will provide a framework for questions to be asked of the service charge and answers given. Some investment funds (one type of landlord in the market whether they be pension or life insurance funds) that have interests in property stipulate that their monies only be used by landlords that are members of some type of scheme already present such as Real Service (RealService 2013). This is, by the admission of the landlord who mentioned it and by investigating the nature of this “certification”, an exercise in comparing landlords with each other for the sake of investors and has very little tenant-facing element at all. Other benchmarking services such as OSCAR (JonesLangLaSalle 2012) and SCOR (Holt *et al.* 2013) highlight the deficiencies within the industry and report on RICS code compliance - which are invaluable in explaining to tenants the need for a certification - but do not themselves constitute a certification. What has been investigated in this paper, the certification put forward would be one expressly focussed on improving the reputation of landlords in tenants’ eyes and therefore benefiting the landlords financially by influencing future tenant decisions, as the findings of this research support. One landlord who is not a developer and therefore sees themselves as landlords of particular properties for long periods of time suggested that this “longevity mitigates the need for a badge”. This may well be true as two tenants also commented on the turnover of landlords being greater than that of tenants. This leads onto the first

managerial implication; the certification may well be more effective as a “Well-Managed **Property**” rather than a “**Landlord** Performance” scheme. This would not only mitigate the effects of this turnover as the badge would be connected to the property rather than the landlord. It would also have serious financial implications for the profit-making capabilities of the scheme as the badge would be gained annually on each property and therefore the company administering the certification would be guaranteed a revenue stream. This would fit in with the landlord who claimed that the “more concentrated the market, the more important” a scheme; properties that were geographically close to one another would be differentiated by holding the certification. This also feeds into marketing which is discussed in a subsequent section. The RICS interviewee agrees that the industry is in need of something like a certification as “in terms of a landscape, it’s all over the place”. Attempts have been made to put pressure on government to legislate the commercial lettings sector “not to no avail”. The Occupier Satisfaction Survey 2012 produced by RICS showed that “nearly half of all occupiers reported a score between 1 and 4 when asked about the value for money they receive for their service charges” (the scale being 1: extremely dissatisfied and 10: extremely satisfied) (RICS 2012). The managing agent feels “we need to find a way of getting trust into the whole realm of service charges” and the results to this research would suggest that the certification put forward would indeed accomplish such a thing.

### 6.2.2 The need for a certification and its possible limitations.

The landlords questioned during this research were not against such a certification, one saying that “tenants would like to see [the certification], to know how responsible the landlords are”. However they did not say that they would necessarily adopt such a certification if it became available. Indeed the author must point out that during the interviews (and the tenant questionnaire) no mention was made of the monetary amount of any applicable fee. The landlords admitted that their reputation would be “built [up] by certification and could mitigate negative factors” and that “tenants would like to see their interests matching those of the landlords” especially as it would be “an independent party scrutinizing accounts”. It would show “landlords wanting to follow guidelines” and “a signal showing adoption of best practices”. One landlord simply saw it as “ticking a box” and yet in order to avoid the negative connotations that this had in tenants’ eyes (some answers to Qu.10) it is important to distance the certification from being seen as such an exercise. Although this all sounds very positive it must be mentioned that the landlords felt the certification would only make a difference “if the property was on a short-list” in the first place as one of their number put it. The factors of “location” and “cost of rent” would not be addressed by any certification and these are the factors highest up in tenants’ minds and this was backed up by the landlords’ perceptions of tenant preferences. However, the findings did show that tenants feel that a holder of the certification will be “less opportunistic” and therefore “less likely to act against the interests of the tenants” which may affect the tenants’ perception of whether they are receiving “value-for-money” rent. The managing agent said the certification

would be a “trust measure” and that “occupiers would like it” whilst, as mentioned, maintaining that there is no need for such a scheme. The interviewee who already seeks to bridge the gap between tenants and landlords felt that the whole issue “revolved around relationship” not certification but far from being an argument against it the author feels that the scheme would only deepen the trust and transparency in the relationship so would be a positive step in this direction.

Although all this anecdotal evidence supports what the results show in terms of the certification indeed enhancing the landlord’s reputation in the tenants’ eyes it is also worth mentioning those limitations of any possible certification. In the landlords’ opinions these are closely linked to those that surfaced when tenants were asked to comment on whether they would be prepared to pay a premium for a property holding such a badge. The “change-over of landlords” issue has already been dealt with by linking the scheme to a property and making it an annual award. The fact that it will be “used by landlords to compare amongst themselves and will not benefit tenants” is a very real concern but will depend on how it is marketed and to whom. The first of two key limitations is that it will be seen as a “tick-box” exercise that it will become “just a badge”. If the terms of the certification are clear and well-communicated to the tenants, as the results show, this will not be a danger in the short to medium term. The research did not go so far as to investigate Nayar’s (1990) fear that the certification may become “meaningless” if it is “too prevalent”. One possible way to guard against such a danger is to instigate a two-tier certification which is explained in the following section, however it must be noted that the present research did not “measure” the

effectiveness of such a two-tier scheme. The last limitation and perhaps the most difficult to overcome is “proving value to the occupier [...] if the cost is passed down”. The way this limitation will be mitigated is by marketing the scheme to the landlords as something that will help reduce voids and therefore pay for itself without having to pass the cost down to the occupier. Again, whether or not a tenant believes the landlord has paid for the certification themselves is based on the type of relationship they have which in turn is strengthened by the certification. We are therefore reminded of the vicious circle that is the self-propagating nature of reputational perceptions. Any gaps in the tenants’ “view” of what the landlord is doing – “who is paying for this certification?” – will be filled by their perception of the landlord’s reputation - “They would never treat me like this, they must be paying.” Therefore we see that far from the limitations forcing us to re-consider the effectiveness of such a scheme, they rather focus and guide our formulation of the scheme.

### **6.2.3 The “Well-Managed Property” Certification.**

As can be seen from the title to this section the naming of the certification has changed from being centred on the landlord to being centred on the property. This section is split into content and marketing & visibility parts with both being an initial foray into what will make up the certification that could be put to the industry.

## Content

The certification used in the discussions with landlords and the tenant questionnaire was discussed with the company sponsor and the wording of the “**Landlord Performance Mark**” agreed upon was as follows:

**It would involve a third party private company performing a detailed review of the landlord's service charges as a whole including:**

- their operational procedures,**
- their management practices,**
- benchmarking of their costs,**
- their compliance with the RICS code of practice on service charges,**
- an audit of the accounting procedures involved.**

After completing the research the author does not feel in a position to change the basic wording except on the following points.

The “third party private company” would be named as PSL (UK) and its credentials given in the form of “with over 20 years’ experience in the service charge industry” or something similar. The service charges would be linked to the “property” rather than the “landlord” and the operational procedures, etc. would refer to the “management” of the property. After the RICS representative pointed out that the holding of tenants’ deposits is an important legal matter in lettings this has also been included. Therefore the completed brief may look something like:

**The Well-Managed Property scheme will involve **PSL (UK) Ltd., a private company with over 20 years’ experience in service charge management,** performing a detailed review of the **property’s service charge provisions including:****

- the management's operational procedures,
- their management practices,
- a benchmarking of their costs,
- their compliance with the RICS code of practice on service charges,
- an audit of the accounting procedures involved **and how tenant deposits are kept.**

It would also be made clear in the information which followed this headline that the certification could be gained via a two-stage process; Silver and Gold accreditation. As already mentioned although no empirical evidence for such a two-tier scheme was found this is because none was searched for. The two-tier scheme is a possible remedy for the fear amongst tenants and landlords alike that the scheme would become yet another tick-box exercise which was easily obtained.

- Silver would mean the property was in the process of being assessed and was working towards its Gold accreditation. A property on Silver would be given a plan of action and would be monitored throughout the process.

- Gold would only be achieved when the property fulfilled all the pre-requisites of the scheme as set out by PSL.

Not all properties would attain Gold standard and some would have to work towards it for more than one year. Each year the property would be re-assessed and either again awarded Gold or put back onto Silver. In this way a landlord could keep a tab on the progress of their properties and therefore their managing agents. This issue is one mentioned in one way or another by six of the seven landlords interviewed; that managing agents "reflect the

building” and “need to be monitored”. It would also be beneficial for managing agents as a form of self-assessment in order to improve their practices and stand out in the market. This would also fit in with one landlord who advocated there being “Key Performance Indices” for properties and these would be in the form of the five sections of the certification. The scheme would allow contact between the tenants, managing agents and landlords by way of the website that would be especially linked to the certification. This is discussed in more depth in the next section. This ‘contact’ and ‘feedback’ would help all three parties keep the lines of communication open. The idea of RICS compliance is paramount (according to the landlords) and with time the certification may well become something that RICS themselves would feel able to endorse, even if it was only amongst their own members.

It must be noted that many of these finer points are driven more by the anecdotal evidence of the interviews rather than the questionnaires that the tenants filled in. The over-arching concept of the effectiveness of a certification was supported by the findings and these details are the author’s attempt to fine-tune the process using the landlord, industry player and “premium” question tenant comments.

### Marketing and Visibility

Although the certification will be linked to a property as outlined above and therefore be marketed at landlords and marketing agents, PSL (UK) need to make tenants aware of it – the tenants only reacted the way they did to the scheme when they were confronted with it halfway through the questionnaire.

PSL (UK) already produce SCOR (the Service Charge Operating Report) but the vast majority of downloads are carried out by landlords, managing agents and industry specialists. Very few tenants are interested in the report and if the need for such a certification is to become clear to tenants then reports like this need to be put before them. The marketing plan must include making tenants more aware of non-compliance to the RICS code, this is clear from the tenants' comments assuming that landlords were already doing everything mentioned in the certification. This would not be to lay the blame at anyone's door but rather to position the certification as a solution to this lack of clarity. One landlord said that they already "targeted key tenants" to glean information from them and PSL (UK)'s marketing of the new scheme should do the same. Those property managers that are responsible for many offices spread throughout the country could be contacted and the issue discussed with them. This would raise awareness of the issue and if they have particular examples of buildings where they are facing issues with the service charge then this may help focus marketing plans.

The marketing of the product, again because it is now a "property" certification rather than a "landlord" one, can now be focussed on both managing agents - who want to improve their performance - and landlords - who want to improve their returns. One industry player claimed that PSL (UK) were not the people to put forward such a certification as in the past they have been seen as "antagonistic" to managing agents especially. This point was taken on board and yet the author believes, once again, that far from being something negative it is positive. If the company providing the certification were one traditionally seen as supporting managing agents and landlords then tenants

may well be sceptical of the scheme, indeed they may see it as a form of self-glorification. However, if PSL (UK), who is seen as being the tenants' champion, accredits the property then this may well lend more weight to the certification.

The author suggests that PSL (UK) produce a database of every building that they have dealt with or researched in the market and cross-reference the buildings' tenants, managing agents and landlords. This stems from the sampling design whereby the author and the company sponsor coordinated which people to contact and which not to as they were already in talks with some of them. In the case of this study this was to make sure the research design was as robust as possible but going forward it would be to better coordinate the company's communications with their clients, both present and prospective. All the members of the team could log any conversations they have on this database, thus reducing repetition and ruling out unfortunate cases of clients being contacted by two individuals from PSL (UK) who would be seen as not having communicated with each other.

The name of the scheme must be self-explanatory and not require too much investigation as to what is meant. The vignette that the tenants read was short and to the point and highlighted "Landlord Performance". The author has suggested "Well-Managed Property" although this may be seen as too bland. A website of the same name: "[www.wellmanagedproperty.co.uk](http://www.wellmanagedproperty.co.uk)" could be set up and all parties concerned can visit the site. Some areas of the website would be public domain and others available only, by way of a username and password, to those within the scheme.

Lastly, PSL (UK) need to make sure that the scheme at all times seeks to enhance the relationships between the three stakeholders involved in any one office-space, as gleaned from the interviews with both landlords and industry players. This can best be done by keeping the lines of communication open both between PSL (UK) and each of the three but also those lines that link the three with each other.

### **6.3 Limitations of the research.**

The best way to view the research that has been presented in this paper is an initial exploratory study, from which some interesting clues as to the dynamics of what is occurring in this industry within the field of certifications. The limitations that cause the author to stop short of putting forward the results of this project as solid enough to base concrete theories and actions upon can be broken into two groups; limitations as to the method in which the research was conducted and limitations as to the scope and initial definition of the study. The former have already been discussed towards the end of the Method section and involved difficulties in making sure the sample was good enough to satisfy the conditions set on any sample. It was not completely representative or unbiased as forming a “frame” for the population for all decision-makers amongst office tenants in the UK was impossible. The fact that time constraints meant a full pilot of the questionnaire was not run meant that comments received over the phone or by email regarding improvements to its contents could not be incorporated. The author believes that in the time available and with the resources that were to hand as much as possible was done to minimise the effects of these limitations on the research as a whole.

The limitations as to the scope of the study are that the research did not make as much use as it could have out of the willingness of landlords to take part in the survey. The semi-structured interviews could well have grown into or been replaced by a second online questionnaire that would have therefore made the investigation of the disconnect between landlord and tenant attitudes to certifications far easier to study. Ignoring the different types of landlords in the industry – although passing mention was made to them – was also a short-coming to the study and if two or three of each type had been interviewed or asked to fill in a survey it would have been enlightening if different landlords reacted to the certification differently. This was not in the initial remit and yet would have lent weight to the conclusions drawn especially in a practical sense in terms of the company sponsor and its future strategic decisions. Again, although these are given as limitations the author is confident that the results of the research do form a valid basis for taking the work onto the next level, both in terms of the industry in question and the whole field of corporate reputation and its effect on customer behaviour.

#### **6.4 Opportunities for further research.**

This section is largely based on the previous where the opportunities presented are a response to the limitations of the present study. However, some are genuine continuations of some of the theoretical and practical conclusions drawn from the research.

- 1) A comprehensive pilot of the questionnaire could be carried out with interviews of those tenants who participated in this research used to improve

the content of the questions asked and therefore enhance their predictive capability.

2) It may help to also categorize tenants using other criteria such as size of company or, as already mentioned, economic conditions when negotiations took place. This would aid the research in introducing more variables that may help explain the results gathered.

3) A study of the different types of landlords present in the market could be made using industry players, the company sponsor and the seven landlords already interviewed. This study could then be used to categorize each landlord approached and ask them to fill in a survey that closely mirrors that given to the tenants. This would help in investigating the informational asymmetry present in the transaction and therefore more easily apply the theories pertaining to customer behaviour in such situations.

4) Linked to the previous point, research on the generation of an I.A. (Informational Asymmetry) scale whereby a measure of the imbalance in information in any given transaction could be quantified. This would be interesting and beneficial to future research in many fields.

5) Two types of certification were discussed during this study; one involving a pass/fail system (although the one recommended was a pass/fail/'on the way to passing' hybrid certification) and the other a ranking system. A study investigating the effect of one compared to the other would help inform future adaptations to any certification marketed.

6) Linked to the last point, it would be interesting to find out the types of signals already present in the market, such as RealService (mentioned in a previous section), and investigate their effect, if any, on tenants.

The author suggests such opportunities in the very real hope that this very under-researched industry is better understood in the future leading to an easing of the tensions and misunderstandings that so typify it at present.

## **6.5 Conclusion.**

This report has shown that the “Well-Managed Property” scheme is a venture that will add benefit to the industry and in time will gain traction and will help PSL(UK) see returns on any monies invested to get it off the ground. Their experience in the industry, in terms of expertise and personal contacts, is invaluable and this is another factor helping towards the success of the scheme. The content and marketing & visibility sections above have outlined what PSL(UK), in the opinion of the author and those interviewed, must do to bring the scheme to a place where it is accepted by all three stake-holder groups. If PSL(UK)’s certification can increase the “satisfaction” ratings of occupiers, improve landlord returns and make managing agents stand out whilst enhancing the relationships between the three parties, then PSL(UK) stands to make substantial financial gains from such a venture.

## **7. CONCLUSIONS AND RECOMMENDATIONS**

In this final section of the report the author summarises the academic conclusions and the recommendations, both academic and managerial, that naturally flow from the work.

### **7.1 Conclusions.**

The hypotheses tested investigated the link between the holding of a certification and its effect on customers' perceptions of one's character and future behaviour in the interests of the customer. The study tested these hypotheses in the commercial office lettings sector of the property market in the UK. A "Landlord Performance" certification will indeed cause tenants to endow the landlord in question with positive characteristics such as trustworthiness and transparency. It will also cause them to doubt the existence of negative traits such as opportunism. The badge will also cause the tenants to predict more favourable future landlord behaviours in the interests of the tenant, such as "having quick responses to tenants' needs" even when such an action is not specifically contained within the certification remit. The mechanism for the inferential leaps in both cases is thought to be the informational asymmetry present within such a transaction causing a stronger need for cognitive shortcuts to redress the uncertainty. It was also found that there was a statistically significant correlation between the favourable character traits and positive future landlord behaviours that the tenants bestowed upon the landlords holding a certification.

## 7.2 Recommendations.

Academically, the author would recommend further research on this subject within the property industry and indeed in other industries where the line between product and service is blurred. The informational asymmetry that such transactions hold would be an interesting avenue of investigation; the generation of a “scale of asymmetry” would be especially beneficial and would allow some sort of normalisation between different studies on the subject.

Within the field covered by this research, the author suggests further study on the effect of certifications on different ‘types’ of tenants (by size, industry and other distinguishing characteristics) and involving different ‘types’ of landlords (private, insurance funds, pensions funds amongst others).

Managerially, the author recommends that PSL (UK) launch a certification into the market whilst taking into account the issues raised in the previous sections. The content of the certification must be clear, well-defined and centred on the RICS code of good practice with a name that encapsulates the concept succinctly. It may be advantageous to have it based around the property – a “Well-Managed Property” certification is suggested - as opposed to the landlord. If it were sought after and awarded annually this would help PSL (UK)’s revenue stream but also reduce the risk of it becoming a tick-box exercise. Another attempt to reduce the likelihood of it becoming toothless, the certification would consist of two “levels”, such as gold and silver where gold would indicate that the property had met all the standards set and silver that the property was on its way to attaining the gold standard. The two-tier system was not investigated in the research but rather is the author’s attempt

to mitigate some of the negative characteristics of a certification as perceived by tenants, landlords and industry players. The success of the venture will depend on the badge being easily seen by the whole industry and this could be helped by the use of a website that holds all the information about the certification. This would also serve as a portal for those already within the scheme to manage their own affairs with respect to the certification whether they are tenants, landlords or indeed managing agents of a particular property. Any communications concerning the building could then carry this certification and point all concerned to the website. The importance of managing agents is also stressed in that the goal of the certification is always to preserve rather than threaten relationships between the three main parties involved in these letting agreements; managing agents, tenants and landlords. Lastly, the author would recommend that both academics and managers take Socrates' words to heart mentioned at the very beginning of this report; that the "way to gain a good reputation is to endeavour to be what you desire to appear." No certification or any other signal of trustworthiness is a substitute for a company's true "endeavour" and "desire" to be better. It is when the certification, endeavour and desire go hand in hand that real progress can be made.

## APPENDICES

### Appendix A. Tenant questionnaire.

**Qu.1. Within which department do you operate?**

- Finance
- Operations
- Property
- Senior Level Management
- Other (please specify)

**Qu. 2. What is the principal industry of your organization?**

- Advertising & Marketing
- Agriculture
- Airline & Aerospace (including Defence)
- Automotive
- Business Support & Logistics
- Construction, Machinery, and Homes
- Education
- Entertainment & Leisure
- Finance & Financial Services
- Food & Beverage
- Government
- Healthcare & Pharmaceuticals
- Insurance
- Manufacturing
- Non-profit
- Real Estate
- Retail & Consumer Durables
- Telecommunications, Technology, Internet & Electronics
- Utilities, Energy, and Extraction

Other (please specify)

**Qu.3. What town or city are you based in?**

**Qu.4. How many times have you been involved in the negotiations to rent a work premises?**

- Never
- One to three times
- Four to seven times
- At least eight times

**Qu.5. Over how many years have you been involved in the negotiation to rent a work premises?**

- 0-2 years
- 3-5 years
- 6-10 years
- 11-20 years
- 20+ years

**Qu.6. When you look for premises, what is your search area?**

- The town or city you are based in.
- The region you are based in.
- The whole country.

**Qu.7. Rank at least five of the following items in importance in terms of their effect on your choice of which premises to rent, 1 being the most important and so on, simply choose N/A next to those items you see as unimportant.**

- Rent Review Clause
- Your Previous Experience with the Landlord
- Monetary Cost of Rent
- Service Charge Provisions
- Existing Tenants' Experience of the Premises
- Landlord's Reputation
- Condition of the Premises
- Location of Premises
- Managing Agent's Reputation
- Interior Design and Layout of the Premises
- Your Previous Experience with the Managing Agent

**Imagine there is a scheme called the "Landlord Performance Mark" which is optional for landlords to attempt to obtain.**

**It would involve a third party private company performing a detailed review of the landlord's service charges as a whole including:**

- their operational procedures,**
- their management practices,**
- benchmarking of their costs,**
- their compliance with the RICS code of practice on service charges,**
- an audit of the accounting procedures involved.**

**It will cost the landlord money to seek this award and it will be granted once per year which will entitle the landlord in question to use this "mark" for that year only.**

**Qu.8. I would expect a landlord who is a member of such a scheme to be more likely to ensure that ...**

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
... their premises are kept in good order.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... they offer “value-for-money” in terms of rent.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>
... existing tenants are happy with their service.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... they have a good reputation.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... rent increases significantly year on year.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... there is a quick response to tenants' demands.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... they engage reputable managing agents.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
... work done on the property is carried out by reputable contractors.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**Qu.9. I would expect a landlord who is a member of such a scheme to be more ...**

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
... generous.	<input type="radio"/>				
... trustworthy.	<input type="radio"/>				
... innovative.	<input type="radio"/>				
... likely to act against my interests if given the opportunity.	<input type="radio"/>				
... transparent.	<input type="radio"/>				
... socially responsible.	<input type="radio"/>				
... likely to take risks.	<input type="radio"/>				
... financially sound.	<input type="radio"/>				

**10. Would you be prepared to pay a premium for a premises because its landlord had opted into the scheme?**

- Yes
- No; please explain why not.

## Appendix B. Transcripts of telephone conversations

### B.1. Those people who had downloaded information from the PSL website

“Hello Mr./Ms.. X / First Name, my name is Nigel White and I am an MBA student from the University of Bath. I am doing my final project into corporate reputation within the property markets and am being assisted by Property Solutions UK Ltd, who are based in Bristol. It is through them that I was able to obtain your contact details as you must have downloaded some information from their website in the last year or so?”

*Depending on response and whether they wanted to carry on with the phone call, ...*

“The project is to do with how tenants view landlord reputation in terms of a factor as they decide which premises to rent within the commercial multi-let office sector. Which side of the ‘fence’ do you see yourself on?”

*Depending on response and whether they see themselves as landlords, tenants, industry players or none of these ...*

Landlords: “I was wondering if there was any chance of coming to see you at some point to conduct a 30 minute or so semi-structured interview to see your view of this whole situation within the property sector. I could come to you or if it would be easier it could be done over the phone at a time of your choosing?”

*The meeting or call would then be set up.*

Tenants: “I was wondering if I was to send you an email with a link to the survey, which will take approximately 4 to 5 minutes (or that is what the people told me who piloted it for me). Or would you rather I send some extra information for you to look at? I would be very grateful if you could help in this.”

*Either the information or survey email would then be sent (see Appendices C1. and C.3. respectively) and their response tracked on Survey Monkey. Once completed an email thanking them for their participation was sent including an option to forward the survey onto anyone they felt would be suitably qualified to also fill in the survey (see Appendix C.4)*

Industry Players: “I was wondering if there was any chance of coming to see you or arranging a longer phone-call to discuss your views on this area of the property sector.

*The meeting or call would then be set up.*

**B.2. Those who were occupiers of the London “over 500,000 sq. ft.” buildings.**

“Hello, my name is Nigel White and I am an MBA student from the University of Bath. I am doing my final project into corporate reputation within the property markets. I am looking as to whether or not tenants see landlord reputation as important when they come to choose anew premises in terms of office-space. I was wondering if there is anyone who I can speak to who would be within that decision making process at XXXXXXXX.

I realise that often names or email addresses cannot be given out over the phone but perhaps I could send an email to a generic “info” or “enquiries” email address and then it would be forwarded on to the correct person?

*Depending on response either the author was given that generic email address and an email was sent (see Appendix C.2.) or was put through to a second person who either helped or gave another email address to send the information to or the company had a policy of not helping in such circumstances. In all cases no follow-up emails were sent unless a response was received from the first email.*

## Appendix C. Email communications used

### C.1. Follow up informational email to respondents who had downloaded information from the PSL website and fit the “tenant” profile required.

Hello XXXXX,

*Thank you for your time on the phone when we chatted. I have included some information that I am sending to everyone to clarify who I am and what the project is about. If you are happy to proceed please get back to me and I will send you the link to the survey.*

*My name is Nigel White and I am an MBA student at the University of Bath School of Management. I am carrying out some research for the Centre for Business Organisations and Society into Corporate Reputation in the Property market. This research is being done with the assistance of Property Solutions (UK) Ltd. and it is through them that I was able to obtain your contact details.*

*Thank you so much for your time and I look forward to hearing from you,  
Nigel White*

### C.2. Email to people who had not replied to a message left on their answering machine.

Hello XXXXX,

*My name is Nigel White and I am an MBA student at the University of Bath School of Management. I called on XXXXXXXX of last week and there was no answer on XXXXXXXX and therefore have sent this message as a follow-up. I am wanting to ask for your assistance. I am carrying out some research for the Centre for Business Organisations and Society into Corporate Reputation in the Property market. This research is being done with the assistance of Property Solutions (UK) Ltd. and it is through them that I was able to obtain your contact details.*

*I was wondering if I could talk to you for two minutes to discuss my research. I could contact you at a time that is convenient for you if you reply to this email and give me that "best time" or if you could give me a call when you are free on 07502322900 then that would be great.*

*Thank you so much for your time and I look forward to hearing from you,  
Nigel White*

### C.3. Email to tenants including weblink to survey

*Here is the promised survey, your response would be appreciated.*

*This is the link to the survey:*

*[https://www.surveymonkey.com/s.aspx?sm=4MybhFbNDZDBFPVLJpgFhQ\\_3d\\_3d](https://www.surveymonkey.com/s.aspx?sm=4MybhFbNDZDBFPVLJpgFhQ_3d_3d)*

*This link is uniquely tied to this survey and your email address. Please do not forward this message.*

*Thank you for your participation!*

*Nigel*

*Please note: If you do not wish to receive further emails from us, please click the link below, and you will be automatically removed from our mailing list.*

*[https://www.surveymonkey.com/optout.aspx?sm=4MybhFbNDZDBFPVLJpgFhQ\\_3d\\_3d](https://www.surveymonkey.com/optout.aspx?sm=4MybhFbNDZDBFPVLJpgFhQ_3d_3d)*

#### **C.4. Email thanking tenants for their participation and asking if they could forward the link onto anyone who could also fill it in.**

Hello XXXXX,

Thank you so much for taking part in the survey. I am wondering if you would do me another huge favour? If you know of people who would also be able to answer the "Tenant Survey" that you filled in would you mind forwarding this email to them, I would greatly appreciate it. At present I have 13 responses and I have been told I need upwards of 30!!

Here is a link to the survey:

<https://www.surveymonkey.com/s/8GNXLVR>

Thanks again for your help,  
Nigel

#### **C.5. Email sent following phone-call to reception of London buildings occupiers.**

Hello XXXXX,

I have just been in contact with your front-desk and I said I would send an email explaining my case and so here it is! I hope I haven't disturbed you unduly.

My name is Nigel White and I am an MBA student at the University of Bath. For my final project I am researching the factors that govern commercial tenants' decisions when they come to decide which commercial space to rent. This is within multi-office let buildings or complexes in the UK. It will also investigate "signals of trustworthiness" and their affect on the decision process especially when landlord reputation is taken into consideration. I am carrying out this research with the Centre for Business Organisations and Society (CBOS) at the University of Bath School of Management with the assistance of Property Solutions (UK) Ltd. who are based in Bristol.

I am therefore looking for people who see themselves as "tenants" in this case and if you are that person or you know someone who is who you can forward this email onto then I would very much appreciate it. I will be sending out a summary of the findings of the research to everyone who has taken part on either the tenant or landlord side as soon as they are released back to me.

Here is the link to the survey:

<https://www.surveymonkey.com/s/8GNXLVR>

Thank you for your help,  
Nigel

## Appendix D. Occupiers in London “over 500,000 sq. ft.” buildings.

Building	Number of Occupiers Contacted	No Further Contact	Email to generic email sent	Email to specific person sent	Conversation with actual decision maker
1 America Square	<b>7</b>	<b>3</b>	<b>3</b>	<b>1</b>	-
1 Churchill Place	<b>3</b>	<b>3</b>	-	-	-
10 Bishops Square	<b>3</b>	-	<b>1</b>	<b>2</b>	-
10 Upper Bank Street	<b>6</b>	<b>3</b>	<b>3</b>	-	-
25 Bank Street	<b>2</b>	-	<b>1</b>	<b>1</b>	-
40 Bank Street	<b>11</b>	<b>2</b>	<b>5</b>	<b>4</b>	-
55 Baker Street	<b>14</b>	<b>6</b>	<b>4</b>	<b>4</b>	-
71 High Holborn	<b>11</b>	<b>8</b>	<b>3</b>	-	-
1 Ropemaker Street	<b>14</b>	<b>6</b>	<b>3</b>	<b>4</b>	<b>1</b>
The Walkie Talkie	<b>4</b>	<b>3</b>	-	<b>1</b>	-
1 Canada Square	<b>7</b>	<b>5</b>	-	<b>2</b>	-
Millbank Tower	<b>12</b>	<b>7</b>	<b>3</b>	<b>2</b>	-
<b>TOTAL</b>	<b>94</b>	<b>46</b>	<b>26</b>	<b>21</b>	<b>1</b>

**Table 6 - Occupiers of London "over 500,000 sq.ft." buildings.**

Note: Former and present clients of PSL were not contacted.

## Appendix E. List of interviewees

### E.1. Landlord Interviewees

Number	Type of Landlord	Size of Operation	Area or Region Covered	Notes
1	<b>Property Developer:</b> buy – redevelop – sell or rent for limited time	250-350 properties / 1000 occupiers	National	Mixed: hotel / student accommodation / retail / office
2	<b>Property Investment Company:</b> a few wholly owned and managed properties, otherwise part ownership, especially of large shopping centres.	£billions	National some German interests	Mainly Retail
3	<b>Landlord/Owners:</b> managed through sub-contractor	17 buildings	North West England	Health Centres: sub-let by “Community Health Partnerships” to others
4	<b>Portfolio owned by foreign investors:</b> wish to remain to all intents and purposes anonymous.	6 buildings – 140,000 sq. ft. + other smaller concerns	All on the Isle of Man	Office premises multi-let buildings
5	<b>Pension Fund:</b> Managed through agents	£500 million – 62 or 63 buildings,	National	10 of which are office multi-lets the remainder retail shopping centres
6	<b>London Borough Landlord:</b> managed by agents	£29 million:	Within London Borough	Mainly retail, two chambers of offices, otherwise individual offices, some agricultural plots.
7	<b>Property Investment of Life Insurance Funds:</b> Managed by agents	£26 billion	Global	Large research department.

Table 7 - Landlord interviewees.

**E.2. Industry Player Interviewees**

<b>Number</b>	<b>Type of Player</b>	<b>Notes</b>
<b>1</b>	Royal Institute of Chartered Surveyors Representative	Member of the “Global Regulation Policy and Ethics” Department
<b>2</b>	Private Company seeking to fill a tenant/managing agent/landlord niche	Member of team marketing and selling a product that is hosted on a website and that acts as a conduit for all communication between the three parties mentioned. Not a certification as such, rather a facilitator of communication.
<b>3</b>	Managing Agent	Runs a property in London that is itself branded due to its size.

**Table 8 - Industry player interviewees.**

## Appendix F. Semi-Structured Interview Questions

The following was used for the landlord interviews almost as it is whilst allowing landlords to pursue any point they wished. With the industry players this was used much more loosely and often not adhered to at all although the idea of a badge was always mentioned.

### **Section 1 : Type, Background, Size**

**Q.**What types of landlord are there?

PROMPTS: FUNDS: INVESTMENT and PENSION / PRIVATE / REITs

**Q.**What type would you fall into?

**Q.**What size of operation? Buildings?Sq. ft.?

**Q.**Geographical spread? London? Regional?

### **Section 2 : Tenants' Decision-Making Process**

**Q.**What factors does a tenant consider when choosing which premises to rent a commercial office let? Are they in any particular order?

PROMPTS:MANAGING AGENT REP'N / SERVICE CHARGE PROVISION / MONETARY COST OF RENT / LOCATION OF PREMISES / RENT REVIEW CLAUSE / EXISTING TENANTS' EXPERIENCES / CONDITION / LAYOUT / LANDLORD REPUTATION

**Q.**How do tenants perceive you? Is there a direct link? Or are you far-removed?

### **Section 3 : Signals in the property markets**

**Q.**Are you conscious that signals are sent and received by tenants?

**Q.**Do you purposefully send signals with the intention of affecting tenant perception of you?

**Q.**Do you think the signals sent by you are received as intended? What hinders / aids the process?

PROMPTS:TRUSTWORTHINESS / TRANSPARENCY / SOCIALLY RESPONSIBLE / NOT OPPORTUNISTIC / FINANCIALLY SOUND

**VIGNETTE:**

Imagine there is a scheme called the "Landlord Performance Mark" which is optional for landlords to attempt to obtain.

It would involve a third party private company performing a detailed review of the landlord's service charges as a whole including:

- their operational procedures,
- their management practices,
- benchmarking of their costs,
- their compliance with the RICS code of practice on service charges,
- an audit of the accounting procedures involved.

It will cost the landlord money to seek this award and it will be granted once per year which will entitle the landlord in question to use this "mark" for that year only.

\*\*\*\*\*

**Section 4 : Effect of the "mark"**

**Q.**Would going for this mark be seen as a signal by tenants? If so, a signal of what?

**Q.**Would tenants use it instead of delving deeper for other information about a landlord?

## Appendix G. Question 10 “No” explanations.

1	There would be a hidden premium anyway i.e. the landlord would most probably deduct the cost from the service charge pool
2	Should be adopting best practice anyway
4	Should be an industry standard
5	I would be more likely to consider the premises because the landlord had opted into the scheme, however, I would not expect to pay a premium because of it. We are a small business and costs are important to us. While we value service highly, if the premium charged for the scheme was more than we wished to pay for a particular premises we might be disinclined to take it.
7	Being part of a scheme doesn't give the landlord a right to charge more
8	Possibly, but I would expect it to be more of a benefit to landlord to influence the sale and marketing of his property
10	Landlords own buildings for less time than tenants lease them. They are likely to change and there is no guarantee that the new owner will be accredited.
13	This cost should not be paid by the tenant and should be a cost to the landlord
14	Cynicism about schemes which depend on box ticking
15	this should be the norm for all landlords.
17	The market demand will determine the rent - if the scheme is very effective it will have the effect of attracting demand to properties and resulting in high rent
18	IT SHOULD BE DONE AS A MATTER OF COURSE
19	It is what landlords should be doing already
20	In landlord interest and they should be able to absorb it into fees. Most service charges are overpriced anyway.
21	I believe a landlord has a duty to his tenant to provide services to the best of his ability to both maintain that tenant in the long term and protect his investment .
22	the premises should be in good order anyway
23	The matters on which the scheme is assessed are subjective anyway; a self certification (administered by a professional body whom Landlord already subscribe to) with redress would be more effective.
24	Landlord benefit so should foot the cost - would eventually be "filtered" into service charges
25	The landlord should benefit from the scheme by attracting more tenants so why should a premium be payable.
26	Such good practice should be the norm and a statutory requirement. It's a good selling point in a competitive market.
27	Content to negotiate own terms
28	We expect most landlords to already operate in such a manner.
29	Landlords rely upon the merits of their property/shopping centres not a kite mark/scheme.
30	There are too many schemes like this which are not usually truly beneficial
31	Because schemes and gradings can be manipulated and I'm not prepared to pay over the odds for a property
32	Because the landlord should be performing to this standard and the tenant pays the service charge
33	All terms negotiated beforehand and if not adhered to, would expect to deal on a legal basis or renegotiate rent etc
34	Because "Nice Landlord PLC" could always sell to "Shark & Co" who would then employ "Den of Thieves Zoo" as managing agents

Table 9 - "No" responses to questionnaire Qu. 10.

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