Corporate Reputation

An exploration of its measures, drivers and impacts as non-tangible business assets

Just as the more tangible assets of financial capital or plant and equipment may influence the bottom line, so too a company's reputational capital can also influence profits. On-going management of a company's reputation – the extent to which the images a company projects coincide with and reinforce its identity – is, ultimately, a source of considerable competitive advantage. Because reputation is an 'amorphous' concept and means for its achievement diverse, it has the potential to be under-valued within organisations. Increasingly, however, companies are becoming aware of the value of corporate reputation as a non-tangible business asset and the impact it has on the bottom line. In March 1998 the Centre held a workshop on the subject. Edited versions of presentations appear below.

Keynote Address

Prof. Charles Fombrun, Stern School of Management, New York University

There are four points I would like to examine:

- why reputation management is suddenly such a hot topic;
- how companies are affected by reputation issues;
- how some of the major companies out there are doing it; and
- challenges that are facing us as professionals interested in the area of reputation management.

Why is reputation such a hot topic?

Judging by all the press clipping it seems that everybody is talking about reputation. Perceptions have a lot more importance than they have ever had before, and in terms of the evidence, ratings are big business. Fortune magazine's annual ratings issue is the best seller that they have. The Financial Times imitates it with a list of their own, as does Asian Business. US News and World Report put out endless lists. Just about every month there is a new type of rating being published.

There are also numerous books trying to advise people on what they should be looking for, such as the best companies to work for, the most responsible companies and job seeker guides. There is a strong interest in who is on the top and why. If you look at the four winners across the board in the American list, the European list and the Asian list you see some pretty prominent names. Last month Fortune published the results of a survey in which they asked around 12,000 executives, for the first time ever, the question "Which companies across the board do you most admire?" There are prominent names on the list, some of them are certainly familiar to most of us, and then there are those of which I have never heard. Where do they come from? What do they do that makes them so well regarded?

Research is the focal point of what I do when I try to approach the issue of reputation management. There is a lot of research and much literature, in marketing, economics, strategy and organisation. They are in varied and disparate places. However, I think they show one thing fairly consistently. This is that good reputation attracts better employees. You tend to get premium prices from consumers because of your reputation, better ratings by financial analysts, favourable coverage in the media. It improves employee morale to be so well regarded. Employee morale tends to be associated with customer retention, which in turn represents a greater degree of loyalty from the customer. Better credit terms, a lower cost of capital, and if there is a lower cost of capital, there is an enhanced competitive

So we can see that the logic is there and it is not really an issue about which we ought to be arguing. All of us would be reasonable converts. There is a mosaic of evidence supporting the idea. A study done in this area shows that if you compare the value of high reputation organisations to the value of the twenty low reputation companies during a very turbulent period in the stock market, recovery is much more difficult for the low reputation than for the high.

Every two years Fortune magazine conducts a survey called the Corporate Equity research. Here they survey their own 25,000 readers. They calculate a corporate reputation score, which they call a corporate equity score. It measures the characteristics of favourableness of the company, high quality, and to what degree people would demonstrate supportive behaviour toward them. This question refers not just to the attitude the readers have to each company but whether they would act in favour to support it – by recommending the products, investing in the stock or partnering in a joint venture. From this survey they gather some interesting results that seem to have face validity as those companies which have high scores are reasonably convincing candidates. For example, when Intel faced its pentium chip problems in 1994 the company was associated with a very low corporate equity score, and when they recovered a much higher one. Low reputation firms also seem to have a lower corporate equity ratio than the high reputation firms. Therefore reputation has an effect on financial performance and is also tied to supportive behaviours – the company is seen as a better place to work, it is more likely to be recommended as an investment and so forth.

So why is reputation management a topic of such interest to us all? I see four aspects in particular:

- 'Informatisation' – We are constantly bombarded with messages about products to buy, places to go and services that are offered to us. An estimated 38,000 TV commercials every year hit our retinas. The informatisation process is one of learning how to filter. I argue that reputation is fruitful in this process.

- Democratisation – In the USA five trillion is invested in mutual funds and 63 million people own shares. The statistics show that around 40 to 43 per cent of the population of the USA own shares, similar to Australia. This represents multiple voices that are now acting at our shareholder meetings. Not too long ago, a group of nuns who had purchased 10 shares in a major corporation attended the shareholder meeting and were vociferously arguing what the company's strategic priorities ought to be. They paralysed the meeting for quite a while. The power of activist stakeholders is increasing.

- Globalisation – The growing travel, financial slows in trade and a growing pattern of inter-dependence may be represented by movements for sustainability. The fact that I can use my power point projector in Australia emphasises my point. It is, in part, because of reputation that a lot of these technologies are being implemented and homogenising the world.

- Commoditisation – It is hard to go to an airport and not see the exact same things everywhere you go. The homogenisation of global culture is creating this 'sameness' which, in part, is what is inducing this particular process; making reputation a key factor.

All the above forces are shaping an increasingly competitive domain. There is an increasing pressure on companies to differentiate themselves from their rivals, to find a way of creating a difference, making something look different despite the fact that everything looks the same.

Crises are another important factor, and the tremendous costs that we see associated with a crisis. Some recent examples include: Bankers Trust and their problems with derivatives trading and the misleading advice they gave to customers. Exxon's oil spill problems. Motorola and health concerns associated with cellular phones. Solomon Brothers' problems concerning the bond market, a case that highlights the role of the individual in bringing down a company. This is particularly crucial in investment banking, where the behaviour of an individual can dismantle the reputation of the firm.

All these above examples were associated with enormous market value losses in a one week ‘window’ around the event. The reality is that they recover, so the Chief Financial Officers that you interact with will probably tell you “oh well, we just have to ride it out”. What they say leads to the conclusion that the people who are trading the shares of the company between now and the time you write off the loss do not matter. However, there is a whole trading period during which there is a loss for somebody and those people are very sure not to be favourably inclined towards the company and certainly are not spreading good words to the financial community. Therefore, I do not buy the argument that it eventually recovers. There is a loss that takes place and that loss is not just financial but a reputation loss which hits across the board.

For all these reasons our interest in reputation management is being shaped because reputation is significant. Reputation management is speaking to the strategy of companies, telling them to understand that the ground is shifting and that a different view of the world is required.

How are companies affected?

The prevailing way of looking at the world is that it is all about the customer – the customer is king. The way in which this is managed is by making sure that you reach those customers and you keep them. How? Well, you spend a lot of money on advertising because that is the best way to reach the mass market. If you spend a lot of dollars on advertising, you attract people to your products, and then if you spend enough money on service, you keep them and they will keep coming back for more. That way you achieve a strangle hold on the market – you have customers coming to you.

The question being raised is that maybe this model is a little misleading. I believe that this is the wrong world view. There are many crucial people also involved in this process of generating revenue for the firm. Employees, investors, local communities, media and analysts are just some of those. It is as if their support and loyalty is a derivative of everything else that you do for customers. While branding is important and crucial, it is not the only way in which you support the organisation.

“On average US companies now lose half their customers in five years, half their employees in four, and half their investors in less than one” (source: Reichheld, The Loyalty Effect, 1996). This is a provocative set of statistics. Furthermore, if you look at the profitability of industries, there is an interesting correlation between success (ie highest profits) and retention rates, not just of customers but of employees and investors as well (source: Reichheld). Therefore, the better the retention rate the better the profitability of the firm.

Let us consider the economic value added (EVA) and market value added (MVA) measurements of the top value creators. What they try to do is correct standard accounting profitability measures for things like advertising, research and development and other items that are traditionally expensed in a standard financial statement. Normally, advertising and R&D go on the income statement as a cost. They do not even appear on a balance sheet as something that invested in for the future. Yet why else are we doing it? Because we think we are going to get something back from it. So while it is understandable that conservative accountants want to forego the opportunity to capitalise it (because there is a high risk component on the returns that you will get from it), it is also a little foolish for those of us making careful investments in allocations of funds to say that everything ought to be accepted. Some portion of it could at least be capitalised.

So by trying to correct this, the EVA and MVA measurements recognise that there is value being created in these activities. The names that appear as highest market value added – Coca Cola, G.E., Merck, Philip Morris, Microsoft – are not very different from the ones that come out in the reputation surveys. In other words, there is a high correlation between those companies that add a lot of market value, and those that are highly regarded (fig. 1). The same thing is seen in the UK statistics (fig. 2).

Fig. 1 US's top value creators (1996)

	MVA	EVA (millions $)
Coca Cola	87,820	2,140
General Electric	80,792	1,852
Merck	63,440	1,115
Philip Morris	51,628	1,165
Microsoft	44,850	1,345

Source: Stern Stewart

Fig. 2 UK's top value creators (1996)

	MVA	EVA (millions $)
Royal Dutch/Shell	28,410	2,593
Glaxo Wellcome	22,387	2,169
Smith Kline Beecham	15,437	517
Unilever	13,762	596
BAT Industries	11,178	758

Source: Stern Stewart

The point is that all value creators appear to be companies that have strong brands and powerful brand portfolios; great media presence; consistent corporate images; and interestingly enough, they combine not just advertising but fairly significant roles in the corporate citizenship domain. They are skilful reputation managers.

There is a new game in town that involves a shift in mindset away from advertising and customer service and warranties as the drivers of the process towards citizenship, public relations and industrial relations. This leads to a different value chain than the branding one – the value chain of reputation management. It involves a coordinated effort across all of these relational groups that are supported in turn by the two parallel functions of corporate communication and corporate citizenship activities. You add value – you increase profits – to the extent that you strengthen that chain.

How companies are doing it

Let me give some examples. Church & Dwight, manufacturer of baking soda, demonstrate this reputation management value chain. Church & Dwight was looking to the environment as a possible source of opportunity. In addition being benign, baking soda is very slightly abrasive. Ideal for removing light surface. That slight abrasion can be used for removing graffiti on walls. They sought an alliance with City Government. It wanted the graffiti cleaned, but wanted to know who was going to do it. The company looked at the problems cities have with the homeless and established a partnership to create profit making programmes where homeless people used the equipment for graffiti cleaning and set up small businesses to generate profit and thereby sell the soda. It was an indirect meshing of customer with economic development and social welfare with political systems. They gained an enormous amount of positive publicity out of it, worth a lot of advertising dollars.

Another example is Shell, a company I have had the opportunity to work with for the last year and a half and a company that has had a fascinating experience with reputation management. 1995 was Shell's annus horribilus. One of the things that this propelled was a questioning of what a company like Shell's role was in society. They mounted a massive international effort to try and gain a better understanding by polling opinion leaders, community leaders, and all kinds of diverse stakeholders to try and address society's changing expectations.

Part of the outcome was a sense that Shell, as an organisation, had misunderstood the cues from the environment about what it should be doing. So they issued a new Statement of Business Principles that recognised the existence of different stakeholders and embarked upon a transformation project, part of which was the creation of a group called the WMAC group. WMAC was the World's Most Admired Corporation, and they were trying to answer the questions: "How could we become the world's most admired corporation? What would it mean to be the world's most admired corporation?" Together we spent a lot of

The consensus was that it had to come from within. All the things being said outside were not meaningful unless they represented at least an interaction with what people felt inside the organisation. We tried to peel back the elements and say, “Well, what does Shell stand for, what are we about, how do we feel, what do we want to be?” And the “want to be” is the crucial part. The company launched groups around the world to try and identify the core values. This was pulled together, sorted, debated and positions were taken on what the organisation really stood for. An advertising agency was hired to develop the visual representation of what those statements embodied and a campaign to propagate that began. “Shell TV” was created and a global campaign resulted. This visual representation, (note that it was not an advertising campaign), was targeted to the employee population.

An accountability statement was designed that reflected how stakeholders would observe the firm so it could become part of the annual reporting process so not only a financial reporting statement would be issued.

Finally, a reputation scorecard was designed for each of the jobs within Shell. The idea was that they would be incorporated all the way down the line, from the very top to the very bottom. Part of that whole exercise was a translation of reputation management from an abstract construct to something the entire organisation could became mobilised around.

Moving on from Shell, another aspect I find interesting is looking at philanthropic programmes that companies involve themselves in. It puzzles me that these are seldom, if ever, tied to any kind of a bottom line return measure. I have come to believe that profit corporations should not be in the business of doing social good. This is one of my biases now, that companies should not be doing social good purely for the sake of it. It should be tied to something meaningful. This is an economic rationale that flies in the face of some proponents of social welfare. I cannot find a defence for it other than the economic. And the economic is rooted in reputation.

There are three pillars typically argued here, the moral, the community and the economic. I want a marriage of the three. Yes, companies have to do good things and there are many problems out there that need solving. But the particular problems that a company picks to focus on should not just be morally right and supportive of community integrations, but should have an economic justification behind them that is tied and rooted in reputation building. That is the cycle I look at.

Another side of reputation management is the public relations industry. Here I am debating where reputation management belongs, and so I have been working (with Shandwick International) to try and understand the process by which you start with an assessment and develop, leverage and protect it. Measuring the cycle of maintaining and defending reputation as a counter to the old model of public relations that lacked certain characteristics. We argue that there are two real steps to building reputation. The first step involves shaping a unique identity, to focus on the “within the organisation” side as with the Shell experience. What is the company’s core purpose and is it widely understood and shared by all employees? Not a lot of what we do in reputation management has focussed very heavily on sharing of values within the organisation, but it is crucial and, perhaps, where we can make the greatest advance. Before we start worrying about projecting coherent attitudes externally (the second step) it has to have the heart.

Challenges ahead

Finally, we need to develop a reputation scorecard. There is no consistency in how reputation is measured in all these surveys. The way you ask a question is often how you get the answer, so finding a way of getting an agreed dimensional space is something that has become a pet concern of mine. I have been working on this with the Lou Harris organisation, the people that do the Harris poll. We are hoping to do our own survey. We have decided upon eight dimensions that we measure companies against, no matter what industry they are in. We want to find out the capacity of the organisation. What is driving these matters is a strategy. To what extent are you impacting all the different stakeholder groups in certain ways? Probably the most important thing is creating value. How can you measure this across companies and industries? It will benefit us all to have a barometer for this.

This leads to the infamous problem that if reputation is a valuable asset – measured in whatever way you can – who is doing it? Investor relations is doing it, public relations is doing it, customer relations within the product end is doing it. If everybody is doing it, then nobody is doing it. There is a challenge for us to examine ourselves internally to see how to create an integrated system that would enable us to carry out reputation management.

One of the challenges ahead is where for some reason chief executives think that they have a gut feel approach to reputation management. This can be a problem because it does not enable us to bring to the table a really strong presentation about what it takes to do a good job. We need a body of knowledge to do that, which at present simply does not exist.

The fragmentation of communications has historically been in our disfavour. We have not done enough work to change that by making it clear that a coherent communication can enhance something of value. We have to show how it provides value. Unless we can contribute to the bottom line in some strategic, offensive capacity, we are not going to make much headway. We are acute care specialists, but maybe we have been surgeons for too long. We need to become primary care givers and learn how to prevent issues from hitting the press in the first place, thereby preventing a crisis.

Would it not be nice if our work was impossible to ignore? At present it sits in a great shadow that needs to disappear as we get ready to address the drivers of reputation and the influences of reputation on performance.

Reputation with government

Geoff Allen, Chairman, Centre for Corporate Public Affairs
and Chairman, The Allen Consulting Group

Having a better rather than a less regarded reputation with government adds value to the bottom line of an enterprise. A good standing with government puts you in a position where you are more likely to see an early warning of issues emerging within government on account of a better dialogue. This gives you a stronger capacity to respond, largely because you are trusted and are a part of discussions and participating in the debates.

A good reputation with government puts a company top of the mind with government when views are sought or collaborations are conceived. By way of example, one of the most effective collaborations I have been involved in was when I was with the Business Council and we became engaged in a process of "inverse lobbying". This is a process where people well disposed to you in government – and it helps if they're cabinet ministers – contact you to tell you that something is moving strongly in Canberra and forewarning you of the need to protect your industry or establish your position in relation to the matter.

It also comes down to the question of influence on policy. If you're trusted and you're respected and there is a contest of ideas or there is a contest of interest, being human beings it is likely that you will get the benefit of the doubt over rivals who are less well positioned.

A lot of dealings with governments have very specific business objectives. We see within companies line management engagement when, for instance, they are seeking support for projects and procurements, winning investment or doing business overseas. Many Australian subsidiaries of international companies are competing internally for investment location with a business unit located elsewhere. There are numerous examples, whether it's the location of a refinery or a smelter or other something else. In those circumstances, governments are often enlisted for the processes of supporting the local position with the global company and reputation helps that local positioning.

There are many companies, for example, in the construction industry or the resource development industry, who are positioning themselves closer to government and are earning the respect of government and winning support for the pursuit of their activities abroad. In many countries overseas and particularly in Asia, governments have a tendency to see the competition for that investment, licence or activity by country and not necessarily by company. When China announced that Australia would be the next insurance licensee both Australian companies involved at the front end of insurance worked very hard to achieve support for their activities overseas.

Companies in Australia competing for instance to acquire privatised assets will not only spend money on technical, economic and financial issues but also on activities designed to enhance reputation. This is important for governments because the reputation of government itself is tied up ultimately in the behaviour and performance of the entity that gets the license. All this helps to demonstrate that the win rate for getting major procurement contracts is enhanced very dramatically by the involvement of public affairs in the pursuit of those licenses.

Characteristics of good reputation

What are the characteristics of a business with a good reputation from a government perspective? I think that first of all, and most importantly, a general reputation for being effective business people. Being good at your business is an important factor that is sometimes overlooked. Just prior to merger with RTZ, CRA surveyed significant opinion leaders, seeking their opinions and enquiring about their expectations of business. The dominant message was that these people expected the company to be good at what it did and that's certainly the case in Canberra.

Notwithstanding a reputation for performance in business, reputations may be low with government leaders because the people who carry those reputations in their dealings do not show an understanding and knowledge of the matters that drive those leaders and the political issues which concern them. Business representatives must be adequately briefed about the issues

Obviously those in government are looking for alignment with “the public interest”. But remember government is not monolithic and what aligns with the public interest in Treasury might be tangential to what aligns in the public interest in the health portfolio or in the industry portfolio etc. People become incorporated in their own ideologies and their own departmental or institutional frames of reference and value systems and aligning what you want to do with the public interest needs further interaction and further analysis.

It is important to try and add value as part of the solution and not be part of the problem. It’s not always easy to bring solutions. Although you must deal on your own terms and with your own issues, there is a great deal of respect for those people who can show that they have thought about the issues and positioned those issues from the mindset of the person who’s responding to the discussion. There is an overhang for negative reputation where people have not thought of the constituency problems before they go to government. Information is the currency of exchange. Government representatives respond very favourably when provided with information that will help them do their jobs. They value greatly information, understanding and knowledge of what’s going on out there in the markets. Great respect and gratitude has been earned from government for those business representatives who attempt to understand what goes on in government or who come to government with a value proposition adding value to government, providing information.

My proposition to business representatives is to make your case and be strong about it, be prepared to discuss it and be open minded about it, but put it firmly and stand by it. Don’t be cowered and bullied. I think that earns respect. A trap for unsophisticated players on the scene is to become incorporated into tribal warfare. That can have significant reverberations in terms of reputation. Who you ‘align’ with and what role you play in relevant Associations frequently is an issue. And finally reduce unrealistic expectations. Problems can arise where you as a business person in a company or within an industry have not dealt with the expectations of government and then market realities set in. You set yourself up for failure if you haven’t met that expectation/reality gap we talk about so much. A process of continuing education and positioning people for let down is vital. Withdrawal from decentralised towns, increasing bank charges or changes in petrol prices, without having done the homework and explaining the policy have a big impact on reputation.

Techniques and processes

Proximity breaks down the stereotypes. It is harder to attack or hold a negative stereotype of the people that you break bread with or those with whom you have achieved some sort of commonality of process. How do you get that proximity, how do you build that relationship across the board between business and government? Hospitality is an issue. It can work and there are various forms of it but it has its dangers. Early briefing and data flows add value. Putting a compliments slip to a newsletter or something interesting that comes across your desk that would be of value to someone you have established a relationship with saying “I thought you’d be interested in this” renews the acquaintance and adds value to that process.

Constructive contributions to policy debates picks up on being part of the solutions rather than part of the problems. A lot of American companies have developed substantial programs for sponsoring debates in a constructive manner around key public policy questions for the company, involving political leaders and others as an important part of their sponsorship program to position themselves as constructive supports of policy issues. This is done in addition to policy outcomes and policy activities, for example, some companies here are involved in supporting regional Australia initiatives or employment initiatives and others, very much at the heart of the Federal government’s agenda.

Collaborations are also important. Collaborations with constituents, agencies and government advisory bodies. A classic example is the initiative by the National Farmers’ Federation and the Australian Conservation Foundation to build a relationship between them, rather than have the government act as umpire on every issue. While it is important to be discriminating, I have always encouraged people to consider activities in government advisory bodies not only for the data and information flow but for the proximity that it builds and the opportunity to add value through that process. Those who have done the work and come with real constructive value to add in these meetings enhance reputations substantially.

Line management awareness is crucial. You can do all of these things and do them really well but if someone out there in the field creates a huge problem for politicians or causes disharmony in terms of their perception of public interest then a lot of capital is lost.

In sum, seek to achieve open, trusted communications of value. Seek positive image and goodwill by associating your performance with the public interest as the various constituencies you are dealing with see the public interest. Educate government about the gap between expectations and performance. This is achieved by becoming a well known and reliable source of disinterested and useful information that adds value to those with whom you are dealing. This will help to achieve the benefit of doubt over more distant rivals, greater influence over the shape of issues and better capacity to respond to political and regulatory developments. Achieving and maintaining a positive reputation in government can help you shift from fighting the rules to writing the rules.

Reputation - what is it?

Lyndell Fraser, Executive Director, Commonwealth Connect Insurance Ltd

From my perspective corporate reputation is a very interesting topic. I was a practitioner in Group Corporate Relations and have returned to the line where I have been able to take all that accumulated wisdom and begin to put it into practice. As I go about my current work, I am conscious of our reputation, our brand, our image – all those elements of how the company presents itself, how it interacts with customers and, ultimately, how that translates into results for shareholders over the long-term.

Looked at in its simplest form reputation is the outcome of behaviour. It is what the various stakeholders anticipate will be the company's actions across a series of activities. It is a cumulative expectation. A reputation derives from the company's past behaviour, from what it articulates its future behaviour will be and whether this can be believed. In other words, reputation is a composite of past behaviour, corporate mythology and the expectations people hold about it. It is not something that changes quickly. It is a process of accretion. Notwithstanding what a company proclaims, you cannot deny the expectations which result from past behaviour.

Human nature is such that expectations and perceptions are powerful determinants of behaviour. In our field of practice, we constantly deal with perceptions, whether they be those of the media, interest groups or customers. If corporate reputation is for executing a consistent promise of performance across the value chain, it is more likely to attract and hold stakeholders and secure a conducive environment. People look at every element of the value chain to see whether it is being delivered upon. So whether it's production, sourcing methods, marketing activities, interaction with shareholders, even sponsorship – they all build reputation. If this is consistent, well delivered and well executed and people are confident about the promise that comes with the company's brand and its reputation, then the environment which drives shareholder value is much more conducive. Whether in negotiations with government regarding the terms of legislative framework or codes of practice, much will depend upon a company's success in driving reputation.

Stakeholders – the drivers of corporate reputation

Stakeholders are important in driving corporate reputation. The drivers of corporate reputation include customers, employees, shareholders, suppliers and all areas of the community.

Customers

For customers, corporate reputation is what they take from the product and service experience. That is affected by the search process a customer may go through before they buy the product, what happens when they actually purchase it and the servicing afterwards. What happens when something goes wrong is one of the most critical determinants of reputation. It is also much influenced by advertising, by media and by the recommendations of others, whether they be positive or negative. It is influenced by statements made by the company and the activities with which it chooses to be involved.

As regards customers, corporate reputation is acute to discontinuities. Let me illustrate by way of case study. The core promise of company X, a retail store, was that it would offer very cheaply priced but satisfactory goods. Its stores were geared to lower socio-economic consumers. The company devised a Christmas package where people could buy goods for the family for Christmas which they could pay off over time. The problem was that the effective interest rate the company was charging was extortionate and totally at odds with the needs of the group it was targeting. The company suffered severe damage to its reputation and invariably lost custom.

Another case study, perhaps more familiar to those of us of the female gender. Company Y pitches motor vehicles at middle/upper income earners. Some potential purchasers are female. However, the sales executives approach and talk to the male partner, ignoring the female buyer. Portrayal of the motor vehicle, its brand and image is destroyed because there is no follow through down the line as regards the way the company presents its product. From the customer's perspective, the company's reputation was sullied.

Employees

Companies give out an equally important value proposition to employees as they do to customers and others. After all, these are the people who are expected to deliver the brand experience. If employees are not on board, then the company's reputation is at great risk. It is critical to examine what behaviour is rewarded and sanctioned and whether there is consistency. Every time inconsistency results, there is a risk that the company's reputation will be damaged. Rewarding or sanctioning various behaviour is far more powerful than any corporate handbook I have seen. The mythology which results endures for many years.

Company N is a low cost producer in a very competitive industry. Like most management it says that it values its workers. However, the behaviour of this company, is also such that when times are tough everybody takes a pay cut (for executives this may be between 60 and 70 per cent), in order that employees may keep their jobs. As a result, the company has witnessed outstanding improvements in productivity over time, there have been no lay offs and a profit made every quarter since 1996 with an average ROE of plus 20%.

Shareholders

Shareholders are conscious of the value of reputation. Well satisfied customers translate to sales to revenue to profit and growth. Attendance at the AGM can be salutary in keeping a finger on the pulse of how shareholders perceive the company's reputation. Shareholders can be important advocates for your business. A company wants them on side, not just in terms of understanding profit or when developing new lines but as advocates for the way the company goes about its business and recommending the company for future custom.

In 1997, approximately 35% of the adult Australian population were shareholders. This has virtually doubled since 1991. It is a mistake to believe shareholders see the company the same way analysts do. Shareholders are conscious of dividends and price earnings but they are also conscious of the company's image and how it presents to the community. Recent research shows that many have a long term perspective on their investments and expect that corporate reputation will be nurtured over the long term.

Have a look at your shareholder newsletters. They are designed to keep shareholders informed of important issues. A lack of clarity in pitch only serves to raise more questions.

Suppliers

Suppliers respond to the company's reputation. They use it as an indicator of a company's attention to quality, reliability and the potential worth of a relationship. Suppliers will judge a company on how it is perceived and how it acts as an indication of whether it is a good company to rely on as a purchaser of their goods.

Community

The community sets the social mores and values and it critically influences the regulatory environment in which a company operates. It directly affects reputation through its access to a number of channels – the media, the Internet and lobbying. The community observes and makes judgments often without ever purchasing or having an interest in acquiring the company's product. It is a much more difficult group to manage because of this.

Nike had been faced with criticism of its labour practices over the Internet. This then moved from the Internet into more traditional media channels and to its customer base – articulate, well educated and generally 'well heeled', able to purchase the upper levels of their products. If its reputation is being consistently damaged, demand and growth for their product suffers.

Talking from the banking industry, the Choice surveys, for instance, caused enormous amounts of angst in our various organisations. They pick off pretty unattractive comparisons but all the work in the world with those organisations, in terms of trying to get them to put a more balanced approach to understand all the elements of the products and services we offer, invariably hits a brick wall, so you spend your time publicly defending often quite suitable products. Because Choice doesn't choose to look at them in the same way, then you're in a constant battle.

The way Johnson & Johnson managed the Tylenol incident is a classic example of crisis management. It also demonstrates that trust in a product is fundamental to a company's reputation. The way J&J handled the matter meant that people could feel confident regarding their expectations about quality, safe products.

Closer to home, some of you may have observed the heated discussion over corporate sponsorship of school children through various education departments. This has been pilloried as out and out consumerism by some. Here a company's reputation, which has been relatively squeaky clean, is being damaged by groups who may not have anything to do with the purchase of your product.

A reputation framework

- All aspects of the company's external reputation must be embraced – including the product, aftercare, marketing, delivery and communication.

- The "mythology" that is allowed to flourish by condoning behaviour must be critically examined for business fit regularly and be acted upon. It is not something to be looked at every few years. It must be continually examined to see whether there are any gaps.

- It is important to recognise the range of stakeholders and in particular employees and management. If there is weakness with these stakeholders, all the marketing claims in the world will be hollow. Employees are the core group for delivering product and service. If they don't believe in the company's reputation and what it stands for, then all that work is easily brought undone.

- There is a need for regular audit which must be embraced from the top. Commitment from the top to understand reputation and a willingness to act upon mythologies in order to change behaviour is critically important.

- Discontinuities will out.

A good reputation matters. It is hard to keep and very easy to lose. A good one is like a savings account – you can draw against it in times of trouble; but if it's allowed to go too low then it's hard to borrow and the interest rate may be unacceptable.

Reputation management – an investor relations perspective

Robert Hadler, General Manager Corporate Affairs, Goodman Fielder

At Goodman Fielder, Corporate Affairs encompasses the function of investor relations. When I talk of corporate reputation, I am looking at it from an investor relations perspective. I have found that the skill base that you use as a public affairs professional is very similar to that required in investor relations but the focus is much narrower and more specific and you're dealing with issues that are very measurable.

Perhaps the difference between reputation management in the US and reputation management in Australia is that there is a much stronger focus on the bottom line and the share price in the US. In the US, companies are much more driven by the day-to-day movement of the share price. CEOs can live and die according to movements in the share price.

Someone asked what was most important, the profit of the company and how that drove perceptions or its reputation. My answer is that it is both. I think they are linked. In the 1990s strong financial performance is necessary just to stay in the race. Double digit earnings performance is required to satisfy investors. To out-perform your competitors a strong corporate reputation is vital. As research by Fortune 500 has shown, it can sustain above average returns in the share market and bolster your standing with customers and other stakeholders. In the globalised sharemarket, Goodman Fielder is competing with a host of multi-national companies. We not only have to demonstrate strong financial performance now and into the foreseeable future, we have to have a strong corporate reputation to attract scarce investment dollars.

What is reputation? Well, for most of us the prevailing paradigm was one where corporate reputation was intangible. Certainly it involves key values including honesty, integrity and fairness in dealing with all your key stakeholders. But I think when you get into the area of investor relations you start to get into the real nuts and bolts of corporate reputation. As I've tried to show with BHP and other examples, the share price provides a daily barometer of financial performance and reputation in financial markets. However, share markets are flawed and often reflect exogenous factors that can swamp individual performance. Factors such as what's happening in Asia or on Wall Street for example.

Investor sentiment, if you can track it, is a much more reliable and important indicator because the investors are your shareholders and talking with them is what will really drive the share price in a sustainable way over the longer term. For those of you who are not familiar with it, there is an independent company based in North Sydney that provides a six monthly survey of investor sentiment called the Corporate Confidence Index (CCI). It's a comprehensive and consistent guide to corporate credibility. It rates the top 50 industrial and financial companies in Australia against a range of criteria. Companies are compared against 26 categories. That can be a very salutary experience. At Goodman Fielder we use the CCI to gauge our current performance in reputation management and to try and proactively plan communication strategies with investors in the share market.

The CCI rates the top 50 firms on five key areas: strength of management, strategic positioning, financial risk, the financial prospects of the company and communications. Now the last one is obviously most closely aligned with what we would traditionally regard as corporate affairs and reputation management but corporate affairs and investor relations has a critical role to play in each of those other four factors that the investment community look at.

Strength of management

Analysts and shareholders look at in particular how effective the CEO is and how capable is the senior management team. Whether there is a leader that can be groomed to take over, how effective the board is, how strong their commitment is to corporate governance and what the overall focus of the company is on adding shareholder value are critical to the investment community.

Strategic positioning

A company needs a clear growth strategy that investors can clearly understand. It has to clearly articulate what its competitive advantages are to the investment community. Also important are its acquisitions and divestments.

Financial risk

The difficulty here is communicating in simple terms with the investment community, being as cooperative as you can while taking care not to provide more than the minimum level of information where the information is commercially sensitive. Analysts are driven by models which forecast earnings in future years. You want to be cooperative but you can't give too much away because a lot of the information is commercially sensitive, particularly in markets where you operate with private companies which don't issue information to the market. So, they look at whether your cash flow is predictable, the strength and quality of your earnings, how strong the balance sheet is and how high your return on assets are.

Prospects

This is focused on financial performance. Earnings per share growth, (both current and prospect), performance against the all ordinaries and what the prospects are for takeover.

Communications

The focus here is on how good your information disclosure is, how informative the analysis is that the CEO and the Chief Financial Officer provide to the analysts after results, the level of integrity and how good access to the company is – access not only to the Chairman, the CEO and the CFO but to senior management in each of the operating divisions as well. It is important to promote the credentials of the management team around the CEO.

Goodman Fielder

Goodman Fielder in the period 1990-1995 was characterised by Board and management instability, confused strategy, poor performance, a weak outlook and poor communications. So what happened? The company in the period 1995-98 now has a new Chairman and CEO which broke the gridlock with the investment community. We spent a long time developing a simple strategy and we focused on improved operational performance. We now have a stronger outlook and, I believe, improved communications. And I think it's a testament to the quality of the people at the company that we have been able to undertake major management change while still producing double digit earnings growth. That's a major selling point to the investment community. If there's one message I can leave you with to perform your job better as public affairs managers, you must get to understand and work closely with the investor relations and corporate strategy people in your business.

Communications

When I came to Goodman Fielder we were very reactive in our communications and we have tried to turn that around. We have tried to be as open and honest as possible. The only areas where we don't divulge information is when it's commercially sensitive or where we would suffer a competitive disadvantage by giving the information away. Otherwise we provide as much information as possible, even to the point in the early days of providing information overload.

We try to be consistent, even though the media tires of the same message over and over and they want you to try and outperform every time. But you have to focus on a consistent message and a consistent theme over a number of years.

You have to be even handed. The market is more incestuous than the media so you have to be even handed with brokers and analysts. You can't favour one over the other if you're going to get total market support. You have to be even handed in all your dealings.

If you look at the bottom line I think it shows two things and they are the two messages I have. Financial performance is critical to corporate reputation and financial markets but a

What is a brand?

David Byers, Director Corporate Services, Mobil Oil Australia

Conceptually the issue of corporate brand and reputation is not very difficult. It is putting it into practice which is most difficult. Over the last couple of years, my organisation on a global level has been putting a lot of time into what we call our “brand positioning”. I would make the point that the way in which we define the brand is very broadly based, rather than a strict marketing concept.

Let me begin by explaining what a brand is not. It is not a name, a slogan, an advertisement, a corporate identity program, a list of products or services nor a simple mission statement. It is really a matter of what people think when they hear/see a company’s name or symbol. In our context, it boils down to what people think about when they see the Mobil symbols or hear the Mobil name. What do people think about when they see the Nike swoosh? What do they think about when they hear the name Mercedes Benz? It does not matter who the stakeholders are – whether a member of the community, an employee, a consumer – all these disparate impressions distil down to some simple propositions.

Why build?

I would like to touch on a couple of matters. It communicates a consistent message. This has considerable advantages and assists any area of the company which has dealings with the outside world. Moreover, the brand and what it represents can command a price premium. So too, it helps to attract the best employees and business partners. It can provide insulation from crisis. In particular, it can help break ground for new investments. We have found that around the world the brand and the reputation of the company is very important for gaining new business. In our business, in exploration and production, we often deal with governments in less developed countries or governments opening up to foreign investment capital so it is important to have a good reputation.

How build?

Here I want to contrast two terms, image and positioning. “Image” is what audiences think of an organisation. “Positioning” is how an organisation wants to position itself and what it wants people to think about itself. The ideal is to ensure that both these are equal. Over the last couple of years at Mobil we have been looking into this.

The first stage looked at our positioning. We began researching how people around the world saw the company. This was conducted in 19 countries, including Australia. We conducted interviews with our employees in our three divisions. We held interviews with business partners, consumers, opinion leaders around the world, members of the media, people from government, interest groups, environmental groups and so forth to get an overall picture of what the brand represented. We wanted to identify what was necessary to be a great global company. We examined a lot of comparative data. We obtained a great deal of data and information. From this, we were able to determine our core equities of most importance to people.

Having identified our core equities, we moved to create a positioning around them. You can’t change the character of a company, but you can re-align and adjust it. To create a positioning, it is best to build on your key strengths. It must be simple and it must be credible. You have to be able to deliver. It is important that it be integrated through all communications and it must be applied consistently. Differentiating – which is extremely difficult, particularly on a global level – is also crucial. And it must be relevant to all audiences.

It is not so much what you come up with but how you execute it. A company’s positioning may be based around high level concepts but it must be able to bring these all together and communicate them throughout the organisation and externally. At Mobil, we use the following through all our communications: “Mobil. The energy to make a difference”. This is not a slogan or a tag line. For us, it is a theme which we use in all of our communication. It addresses the business we are in and the way in which we would like to go about our business, the things that we want to bring to the task. This is defined in a number of different ways depending on the circumstance, whether that be in a marketing context or entering a new country. Many elements are built around the idea of being the company which has the energy to make a difference.

The really difficult issue is the third stage, bringing the brand positioning to life. This is a long term exercise. Essentially, this is done by examining all of the areas where we have contact with outside communities and seeing how each of these areas touch on the brand positioning. Below are some examples of the different ways in which we have contact with the external world and how we have gone about building up a picture of consistency in our communications.

Human resources. In our human resources strategies, we discovered early in the process that you have to get your employees involved in the exercise. This comes back to ensuring that whatever positioning you develop it has to be credible and you must be able to live up to it. Presentations have been given to all our employees worldwide, along with regular sessions aimed at reinforcing these messages.

Sponsorships. We have chosen sponsorships which are consistent with our positioning. We are also beginning to get employees involved in our Make a Difference Program which has charitable aspects to it.

Advertising. About eighteen months ago, we launched a worldwide advertising campaign on “Energy to make a difference”.

Lessons learnt

This has been a global exercise involving some 40,000 Mobil employees worldwide. This is not the only way to go about it. G.E., for example, which was very much a pathfinder in this area, has done this in a very centralised fashion beginning from the top. We decided to proceed in a different fashion, decentralising responsibility out into the various divisions. In Australia, for example, we have set up what we call a brand co-ordination council which is made up of all our key communications people, our key marketing people and our public affairs people, who co-ordinate the activities and communication exercises. This is done in a decentralised fashion. That is the way which the company is run. At the end of the day, you can’t conduct something like this in a different way to the way in which the company is managed.

There is a strong element of culture change in the process. We realise this is a long term exercise. As we all know you can talk to your employees, deliver presentations, undertake briefings and so forth but it is a slow process to achieve change and get people to see and reinforce that you are trying to do things differently. We try to do this by linking into our business and marketing strategies.

Brand valuation methodology is critical to on-going success. In a company like ours, with a strong engineering discipline, there is a big drive to try and be able to measure the contributions of a good brand, because it assists in maintaining the momentum and in how much you spend in supporting this activity. We have endeavoured to come up with methods for determining what impact it has on stock value, price premium valuations and return on investment for communication spend. One of the inherent difficulties in this area is how to evaluate its impact on share price when there are other activities which play a role. How do you actually segregate all those different elements of the value which you place on the brand?

Ongoing tracking is vital. We established a 1996 base line which we revisit on an annual basis. A worldwide advertising campaign was launched to kick the process off. If you are out there advertising it shows, if nothing else, some degree of commitment to the program.

Finally, I would emphasise that this is a long term exercise. It requires a continuing effort to keep it going. I think one of the key things that we have learned is that if you know where you are going and you know what you are trying to do, or at least have a sense of direction about it, it really becomes a task of execution and trying to execute it in the best way possible.

Building corporate reputations

Rob Lomdahl, Director Stakeholder & Issues Management, Telstra Corporation

What does reputation mean? It is really the set of impressions people have as a result of all the activities that a company carries out. This may then be divided into each particular audience, as others have already explained, which allows for a communications perspective.

When I present to senior management on “reputation management”, there is a real risk that it will be seen as just another management fad. It is important to translate it into concepts which they can understand and show that it is an umbrella strategy.

Telstra’s environment

Telstra has a particularly challenging environment for reputation management. Partial privatisation means that there is intense political interest in everything we do. The market is changing rapidly and there is considerable industry convergence.

The residual obligations of being a government business enterprise carries certain benefits. People regard Telstra as an icon, important for the character of Australia. But this comes at a price as expectations of the company are high and the temptation for regulatory intervention is always there.

Notwithstanding the market liberalisation which has taken place this year, there remains extensive regulation. This covers price regulation and access provisions to ensure that competitors have access to the network. There is strong competition in most markets in which we operate. Extensive regulation means that there is much competitor lobbying. All this means there is intense scrutiny of Telstra and its actions.

Reputation management

Performance

Above all, performance is crucial because without performance on customer service and products, all else fails. Service is fundamental. We conducted some statistical analysis, based on consumer research, at the beginning of this project, to understand what influenced peoples’ opinion of Telstra. We took a set of brand attributes and examined the effects of media coverage, advertising, marketing contact, and service.

The results indicated that if people remember media, they generally have a lower opinion of the company. It’s that old adage that “mud sticks” and there’s no such thing as goods news to sell newspapers. The exception to that was privatisation which was the only positive media recollection which sat in their memories. The results also showed that if people remember advertising about Telstra, they generally thought more highly of us, particularly in relation to price advertising. Customer contact is very important for winning and maintaining customers but it is not necessarily related to brand directly. As regards service, if problems aren’t resolved in an excellent fashion then people will think worse of you. Satisfactory service won’t do. Why is that? By the time people contact you about a problem, they have generally worked themselves into a higher emotional state which must be handled with sensitivity. If you want to have a good reputation, at least in the customer arena – fundamentally, the most important one – you have to deliver good service. That’s what performance is all about. Issues of price and value, sound revenue growth, cost control, steady profits and trustworthiness are probably more important for the investment community.

Strategy

A differentiated strategy which distinguishes a company from its competitors is vital. What is unique about the company that will appeal to your stakeholders? Over the last 18 months at Telstra we have been re-examining our strategy, looking to adopt a customer orientated view of the world. Telstra accepts it may not be a world beater in technology. We will adopt good technology but what we are really concerned about is understanding customers and how to serve them. This influences the investment decisions we are making, the new products we propose to develop. Also important is determining what is the service and value this relates to offshore investments and alliances and joint ventures that we undertake is also crucial.

Brand

Our brand strategy "Making Life Easier" compliments the idea that what we want to do is focus on the customer. The brand is linked to our customer orientated strategy. We want to ensure that our level of customer contact reflects our strategy, the basis of which is customer driven. Over the last twelve months, the last six in particular, Telstra has moved from a technology/engineering focus to a more customer oriented expression.

Issues management

Particularly pertinent from a corporate affairs perspective is how we manage issues. Over the last 18 months, we have worked assiduously to put in place an issues management system. An important process to underpin the system has been its roll out through our management training program, involving some 5,000-6,000 managers. The training program runs for three to six days, with a half to full day spent on issues management. Issues management is clearly a significant component of training for management. National issues management IT infrastructure has been established. The system is reviewed on a daily basis.

Relationships

An important element of the issues management framework is how to establish long term relationships. It is critical to develop relationships with each group of stakeholders with whom you engage. People are constantly bombarded by so many messages. Within our marketing area, there has been considerable emphasis on segmentation and establishing a better relationship with those groups of customers at the "top end", along with account management. Underpinning the idea of relationships is the notion that loyalty is a key driver of value. A great deal of effort is going on inside Telstra into understanding what makes people want to stay with us and how we might offer a better value proposition to prevent them from moving to our competitors.

Relationships with influentials, investors and employees are also very important in reputation management. One remaining area of focus is how to establish relationships with employees, investors and influentials in the same way in which a company might try and establish a relationship with customers.

Measurement

As I already mentioned, we have done extensive statistical analysis on our customer base to understand what makes people tick and what makes people want to move from one supplier to another. We have extensive data subject to increasing analysis.

In Realizing the Value of Corporate Reputation, Charles Fombrun set up a model which examines the predictors of corporate reputation. Our analysis is fairly consistent with that picture.

We are instituting key performance indicators for management, based on the important brand drivers that we have. For example, one of the accountabilities of some senior managers will be trustworthiness. "What do your customers think of you in terms of trustworthiness?" "What do they think of you in terms of excellent customer service?" The aim is to make people focus on the drivers of reputation, at least as regards the customer component.

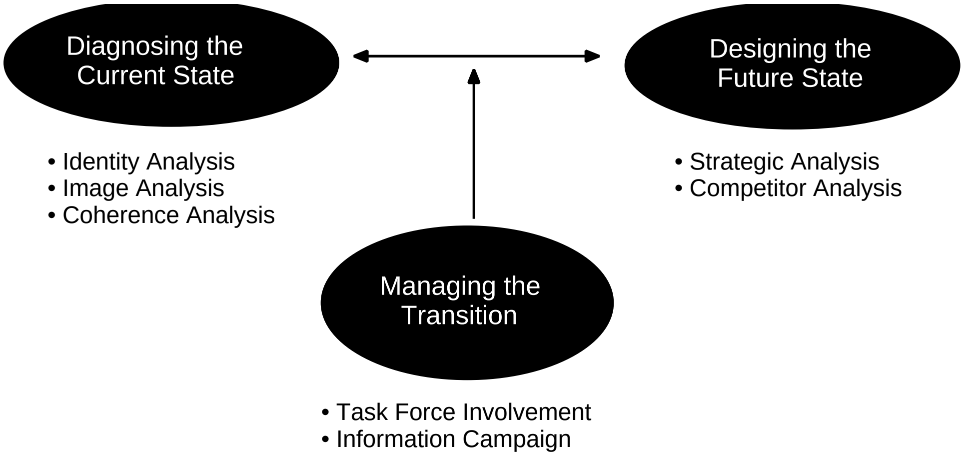
Work is also under way to decide what framework will be used to measure the areas of investor and influentials.

Going forward

From my perspective it is important to ensure that we are supporting performance improvement throughout the company so that everyone recognises the importance of good service and good products, which is perhaps the major component of reputation

One issue in such a large corporation is to make sure that we have an integrated approach to communications – how do you ensure a coherent approach across the corporation?

I am not convinced that there is only one model for reputation management. It seems to me that what is important to customers is likely to be quite different from that which is important to investors, influential stakeholders and employees. I believe there is more that we can do with the analysis and framework for managing reputation. A unified theory of reputation management might take a long time coming and a lot of PHDs to sort it out. In the meantime, you are probably better off focusing on stakeholder groups.



Source: Fombrun, C., *Reputation Realizing Value from the Corporate Image,* Harvard Business School Press, 1996

Measuring and valuing reputation – the reputation audit

Prof. Charles Fombrun, Stern School of Management, New York University

I want to begin with an approach I call “the reputation audit” which looks at reputation in the broadest way possible. I think of the reputation audit as a process that involves different modules (fig. 1).

Before we can move the needle in any direction, we have to understand where we are today. The audit diagnoses the current state. This includes an image assessment – understanding, from a research point of view, where we stand and who the different stakeholders are. A cultural assessment follows examining the organisation’s culture and how it is interpreted by employees. We then look at how these match up – to what extent do the perceptions, interpretations, feelings and emotions that employees have about the organisation match the images outside the organisation? To what extent should they?

The second part of the audit looks at designing the future strategy – what do we want to be, what do we want to become, what do we want to be seen as? This involves vision setting in which the roles of leadership are particularly crucial. An organisation does not necessarily need a star CEO but it does need a top team that energises this process. This strategy is also about competition which involves some benchmarking. What is the competitive posture that we are adopting within this industry? Where do we stand vis-a-vis our rivals?

Next, in this section is a strategic analysis, that involves asking “How is our reputation going to contribute to our strategic position?” To what extent is the business plan in dialogue with the reputation side of the organisation? I do not believe that it ought to be a marginal contributor. The strategies that we pursue are often not implemented successfully because of considerations of reputation. In strategy language, this is called the mobility barrier. You say you want to go one direction strategically, and the CEO endorses that, but in reality this will not be achieved without a better understanding of what all stakeholders feel about it. They may prevent you from achieving it. Strategic analysis is therefore very important.

In between these two modules (current assessment and strategy) sits the reputation strategy. How do we move from the current state to the future state? This covers organisational issues, such as where should reputation management be done. An outreach strategy is needed. How do you go out and what ways do you go out to each stakeholder group? Finally, how are you going to choose to implement a program? Which parties are to be involved etc.

Being	• Maintain everyday excellence • Achieve sustainability • Be a responsive corporate citizen
Listening	• Understand stakholders • Check reputational radar screen • Examine reputational vulnerabilities
Doing	• Do what's right • Fix what's wrong • Anticipate discontinuities
Anticipating	• What are role models doing? • How high is the bar? • Where will the bar be tomorrow?
Communicating	• Broadcast consistent messages • Target themes to stakeholders • Align messages with medium

The audit is about all these pieces: research on the current state, thinking and processing on the strategy side, and ultimately about how to configure the reputation portfolio, which changes to make when and how. I think of this as a systematic process that we need to engage in if we are to move to the level of reputation management. At the core of this is measurement. If we do not have measurement we are not going to succeed.

Developing a reputation strategy

One of the prescriptions that I have come out of this with is a model that helps companies organise how to reach the heart of the entire reputation management process (fig. 2). It involves asking the core purpose issues question and the commitment of excellence. Excellence has to come from within – how committed are we to excellence in terms of everything that we do, and can we actually monitor and secure it?

The second piece is listening to the stakeholder. If you do not listen carefully then you are unlikely to do anything very meaningful. There may be a lot of activity, but it may not satisfy any particular objective. This means listening to what people are telling you instead of just hearing what you want to hear. The "reputational radar screen" tries to understand what things are moving, what values stakeholders hold and what is shifting outside of the organisation that may create a challenge. Reputation vulnerabilities may apply more to some industries than others, but I think all industries have vulnerabilities. How can we create measures that will tell us what these vulnerabilities are and what risks we may face? To what extent do we have an index of vulnerability and can we think of this index within an industry and rate ourselves against our competitors and the degree to which we are vulnerable to a particular type of risk? This is discussed below.

From listening we move to the doing. Are we doing the things that are right? Are we fixing the things that are wrong, and what impact might discontinuities have on what we do? Can we anticipate this?

In the anticipation role, we need to look at what our peers are doing. If the bar is being raised outside the organisation, then it does not really matter what we are doing; we have to do better or more than our peers or competitors. Where will the bar be tomorrow, is that shifting, and to what extent do I need to raise my activity level?

Then we move onto the communicating side. Here, I think we agree that a consistent message is necessary, through all the mechanisms by which we interface with stakeholders. The issue of themes should be highlighted. Are there common themes? To what extent are we using the same themes throughout all communications and do these messages align with the values of the core for the purpose of the organisation?

Customers	Face appeal Performance	Design, Innovation, Measure, Status/Trend, Quality, Reliability
Employees	HR growth Leadership	HR investments, Empowerment Management Talent
Investors	Financial returns Risk	Profits, Value added, Growth Variability of returns
Public	Environment Justice Safety/Security	Pollution Discrimination, Diversity Threat to life

Measurement

Let me turn to the issue of measurement systems and what I have observed. You probably all have some kind of barometer, more or less quantified, more or less qualitative. Those systems that are published and have more visibility seem to suffer from certain problems. They tend to be driven by the financial respondents. But those more economic in focus tend to have a more specific view. With these, lists in particular, the managerial view of the world predominates and the views of the minority stakeholder and activist groups, and others are not included. They contain untested metrics. I believe that if you are not talking about the same thing then they are not comparable. Having a metric that we agree upon would be useful for all of us.

Ideally, what should we have? I want to create a careful representation of constituents to have a real measure of reputation. It is a matter of aggregating the different stakeholder groups to the level of the organisation as a whole. The scales themselves should be validated and the instruments should have some reliability tests. This will give us greater credibility with management.

What do we mean by reputation index? On the left hand side put all the stakeholder groups. Next to each group list the necessary reputation attributes they look for in business fundamentals (what it is that we are measuring the company against, what standard we are asking them to live up to). Then list the intangibles that parallel the business fundamentals. Reputation has to address business fundamentals and the intangibles (fig. 3). Design a reputation scorecard based on looking at all these measures.

Theoretically, what do we think people are going to rate favourably? Customers tend to respond to the face appeal of the product or service that is being sold, as well as their performance characteristics. Therefore, a measure of how happy customers are should cover such things as whether the product is well designed, whether it is attractive, the appearance of its facilities/site. Does it have a status or a trendy component to it? In terms of performance of the product, how high quality is it? How reliable is it?

For employees, it seems that a common set of measures involves questions like the extent to which the company invests in human resource growth. Employees seem to rate companies more highly according to the degree to which they invest in human resource areas like training and development. On the leadership side, employees focus on questions like whether there is a career succession process within the company and whether strong management talent is fostered inside the company.

Investors tend to have a more limited focus. They want to know about high financial returns and low risk. We have to look at profits, value added growth and on the risk side, the variability of returns. The lower the risk, the higher the profitability and the higher the rating by investors.

On the public side the environment is a big issue. Therefore pollution and sustainability is one set of criteria. Justice is also a consideration so issues such as discrimination and diversity are the hot buttons for generating better ratings. Safety and security are also part of their focus which may be measured by whether there is a threat to life working for the company.

All these matters are crucial contributors to being well regarded. If we want to understand the driving forces of a well regarded company, then we need to measure all these areas, because those are the characteristics that go into someone's reading of a good company.

From all of this I have distilled eight key dimensions that I believe capture, from a theoretical stand point, all the variance in producing a reputation.

1) You cannot be well regarded unless you are familiar; you have to be known. The ability to recall the company's advertisements, or media coverage, the activities in which it recently participated, all appear to be factors that contribute to a reputation.

2) The second dimension is to be capable. Is this a capable company? Does it have strength in management? Does it have capable employees? If you look at any well regarded company they always point to certain skill sets. Why is McKinsey & Company the number one consulting firm in the world? They have the brightest people. They take pains in projecting that image and in keeping these people. They recruit on college campuses using methods that maintain and promote the leading image that they have.

3) Third is the 'value creating' attribute. Does the product create value in the minds of the customers? Are there innovative features in the products and services being offered? Is it creating value in terms of the quality to price ratio. If you pay more for a product you expect more from it. There must be a balance of quality and pricing in terms of the value creating dimension.

4) Fourth, is the credibility of the company to its various stakeholder groups. This seems to be a common predictor. Does the company live up to its promises? Measuring promises that are made with those kept, and the reliability of the company in delivering those goods. Is the company trustworthy?

5) Distinctiveness also contributes to reputation from the appeal of the name of the company to everything about it. How distinctive are the products and services of the company? Are they unique in some way? Think about the way we plaster labels on ourselves when we wear clothing and buy other status products. A high reputation correlates to those names or brands with which we seek to identify.

6) The sixth dimension is competitiveness. How strong, in terms of the competitive domain, is the company? Leadership measures would be appropriate here. Do you have market leadership or market power? Are you perceived as somebody who can really influence outcomes? Wealthy companies, other than the bigger ones, seem to be the ones that generate a perception of being more competitive and therefore have the better reputation.

7) Seventh is social significance. Are your products important in some way? Do they make a difference? High reputation companies often have the ability to generate the perception that they make a difference to our lives and therefore are socially significant.

8) Finally, is your company caring? Caring companies, those that invest more in their employees and contribute more to their communities will have a better reputation.

Ultimately, what we have is a scorecard that lists the eight attributes and the stakeholder groups relevant to each of these dimensions. Then it is a matter of comparing your reputation scorecard with how you perceive that of your competitors'. What are the significant differences between your score and those of your rivals? You might have an advantage over a rival that you could capitalise on or vice versa. The question is then which of the particular attributes matters most to a particular stakeholder group? Here, I run a regression model where I look at the responses that I received from the stakeholder group and look at all the possible attributes against that. Then I can find the one that has the strongest weight. In other words, I disaggregate the reputation index by stakeholder group and look for predictors of excellence among each of the stakeholders. They will be different stakeholder group. You want to invest where you can produce returns. The highest returns come from those that have the strongest psychological impact on that particular stakeholder group.

Valuing reputation

Let's turn to the issue of the economic value of reputation. The logic is the connection between performance and reputation. How do you actually create a measurement that shows how supportive behaviours will ultimately translate into increased financial performance?

There are five basic methods for looking at this kind of impact: accounting values (balance sheet), royalties from licensing the company's name, market value to book value, changes in stock market prices, and controlled event studies.

Balance sheet

This measure looks at the price you are prepared to pay for something, subtracts the liquidation value of the assets underneath it, and then goodwill represents excess market value. It is typically only realised in merger and acquisition situations. Goodwill is normally perceived of as something that depreciates and you write off when surely it is something you should be capitalising on. This is one of the problems with this method. So if you are going to do a goodwill measurement, I think you should try and bring expense items (advertising, training etc) into your equation and argue that they be capitalised. Furthermore, there are a lot of differences internationally. Great Britain, for instance, recognises in mergers and acquisitions capitalising on goodwill on the balance sheet but the USA does not.

Royalties on licensing name

Some measurement systems are based on the belief that every name has the power to generate sales, some more than others. The more valuable the name, the greater its ability to generate sales. If I introduce another product, to what extent will the presence of that name generate more sales than not having it? This method tries to estimate the future royalties that will be derived from the future projection of sales. Therefore, it is the present value of all future royalties. Pierre Cardin puts his name on a watch. To what extent will the watch without a name and the watch with the name get more money? How much more money can you expect? This is what they try to estimate.

This was the logic of Coca Cola when it introduced a clothes line throughout retail outlets in the late 1980's. It discovered, however, that its name did not translate into clothing sales. If you look at the numbers in different industries – the clothing or perfume industry – putting a name on a product generates sales to a certain level. The royalty rate is typically about seven to eight per cent of sales in perfume. Of course, these numbers are subjective estimates much like everything else that we do in estimating the value of reputation.

Tobin's Q: market value/book value

This is a more common measure, although it is only applicable to publicly traded companies. Here, reputation is the difference between the market value of the firm at any one point in time and its liquidation value, or replacement value of the assets that it has. That difference is the unexplained, and that is the reputation of capital that you are in the business of defending. If you take all the Fortune 500 companies together, their total market value is about $3.5 trillion, while their book value is $1.5 trillion. The difference is 57 per cent of the market value. This puts an upper limit on the value of reputation. It is the hidden capital inside the market.

Changes in stock market prices; controlled event studies

This is another way of estimating that part of the company's value that is attributable to reputation. Let us look at the cost of a crisis. Take events where between five and thirty per cent of the value of the company diminished in a crisis. Most of this hits that 57 per cent that I said was reputation capital. If companies do not cope with a crisis, its value can drop down to its book value, the liquidation value of assets. Studies look at the change in the stock price and correct it for other events that may have influenced the market in order to isolate the stock price change that is directly attributable to a particular crisis. This enables you to demonstrate more clearly the impact.

Conclusion

To conclude, let me emphasise the need to link measurement with performance. This is the target that I would love to see reputation management reach – management in terms of impacts and the trade-offs made between stakeholder groups. Field analysis showing what kind of thing we ought to be doing, in principle or in general, would not be necessary as we would be able to demonstrate the costs and benefits and what we can hope to achieve as a result. If we get to that point, we would have a science as opposed to an art.