Corporate reputation: the main driver of business value

By Reputation Institute UK, May 2012

In an increasingly competitive environment, as companies fight for revenue, growth, market share and loyalty, measuring and managing corporate reputation has become the key driver of business value. But how can reputation be actively used to underpin success? What are leading organisations doing to respond to the 'reputation economy'? And what are their key challenges and priorities?

This paper shares insights from the CRO Study 2012 of 88 Senior Reputation Leaders from 79 leading UK companies. The survey was conducted by Reputation Institute in collaboration with the Chartered Institute of Public Relations.

The concept of reputation

Some commentators argue that reputation doesn't matter, and that business success relies on producing the best products and services (Schumpter Column, Economist). But this view ignores the entire concept of reputation, which focuses on what people expect from a company. It looks beyond products and services into areas such as open and honest communication, playing an active role in society on issues that matter to people, leadership and governance, and strong performance.

Successful companies perform well against all these areas. But it is important to understand which ones – in particular – drive reputation.

> "A cohesive strategy is needed for managing reputation. This is not an option anymore, but a necessity."
>
> *Jane Wilson, CEO of Chartered Institute of Public Relations*

Research (UK RepTrak™ 2012) shows that 69% of people's willingness to say something positive about an organisation is influenced by their perception of the company, and just 31% by what they think of the company's products and services.

This research confirms that perceptions are similar across stakeholder groups such as policy makers, regulators, media, investors, employees and government bodies. And although Senior Reputation Leaders believe this to be true, they underestimate the importance that their 'corporation' plays in this dynamic. (See appendix 2 for methodology notes).

The reputation economy

The reputation economy is an environment in which people buy products, take jobs or make investments based predominantly on their trust, admiration and appreciation for the companies and institutions that stand behind them.

Nearly all of the survey respondents (97%) agreed that companies are increasingly competing in a reputation economy. However, very few (38%) believe they are well positioned to take advantage of the opportunities that the reputation economy might present.

Companies need support from stakeholders to succeed, and with 69% of recommendations being driven by the perception of the company behind the brand, reputation is a key strategic asset.

Business success depends on people supporting a company. That means customers buying products, investors buying stock, regulators giving license to operate and employees delivering on strategy. For people to do this, they want to know that they can trust the company and it will live up to its promises.

That is the definition of reputation: the emotional connection stakeholders have with a company.

A recent example of how this emotional connection plays out in practice is Rupert Murdoch's BSkyB. Although not directly part of the phone-hacking scandal and subject to the Leveson enquiry, BskyB's reputation suffered by being associated with News International. According to the *Financial Times*, the company is distancing itself from News International in an attempt to restore its good name.

Rupert Murdoch appeared before the Leveson Inquiry into media ethics and apologised for his shortcomings during the News of the World phone-hacking scandal. *The Guardian* reported that he said it had been "a serious blot on my reputation". He admitted that he had failed, but that he didn't personally know about the extent of hacking. He blamed his editors for covering it up from him.

This blot on reputation manifested itself through share prices (see diagram), which dramatically decreased from April 2011 to April 2012, when Rupert Murdoch appeared before the inquiry.

Reputation Institute tracks the link between financial performance and its own reputation measurement system. This shows that in 2011, BSkyB's reputation was 'average' with a score of 63 out of 100. In 2012, it dropped to 53 with governance and trust in particular suffering.

Diagram: BSKYB's share price (source: londonstockexchange.com – April 2011 to April 2012)

British Sky Broadcasting Group PLC (on 4 April 2011 and 2012)

- April 2011: 830.00
- April 2012: 658.00

Reputation management is a necessity

Ten years ago business leaders were discussing what reputation is and whether it could be managed. It's a reasonable debate. Even the least complex company has many stakeholders – from consumers and employees, to investors and the media – each with different expectations and points of interaction.

However, this debate is null and void today. Not only do we know that reputation can be successfully measured, but research confirms that a good corporate reputation engenders positive support from stakeholders. We also know that positive support, such as recommendations, drives business results.

Reputation – an intangible asset which is gaining greater prominence and importance – is no longer a debate but a reality.

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"In 2011, when the mood was optimistic, there were improvements in trust. Businesses were responding to public calls for greater accountability and generally 'doing the right thing'. However, in 2012 we observe that many issues have yet to be resolved with some corporations flying in the face of public opinion and expectations, particularly in relation to executive remuneration and bonuses paid within the big banks."

Spencer Fox, Managing Director, Reputation Institute UK

Although there has been general decline in reputation across a range of industries, the UK banking sector has seen the largest decrease in reputation since 2011, by 4.85 points. Lloyds Banking Group bucked the trend with a 5-point improvement. RBS by contrast suffered a 10-point reduction.

RBS The Royal Bank of Scotland

Stephen Hester, Chief Executive of Royal Bank of Scotland (RBS), was awarded a bonus of £963,000 for 2011. This was controversial because the public bailed out the bank in 2008 and is 83% taxpayer owned. There were also accusations of the banking industry precipitating a global financial crisis and mistreating customers in the PPI scandal.

Sir Phillip Hampton, Chairman of RBS, told *The Times* that "we knew there would be a reaction… but the scale of it took us by surprise". The chair of RBS's remuneration committee, Penny Hughes, defended the bonus saying economic conditions "really can't concern our decision making at RBS".

After uproar from the public and politicians, and a series of unsuccessful defences, Hester waived the payment.

The mismatch of company strategy/execution and stakeholder expectations is fascinating. RBS's lack of understanding of the influence and importance of its key stakeholders meant it took a decision about something of great importance to them without first fully evaluating the implications.

This "surprise" cost RBS more than it could have expected. Like so many companies, RBS did not understand the power of perceptions and how they can build or damage reputation.

Sometimes the acts of one company can have a knock-on effect across an industry. For instance, when the RBS bonus controversy was being reported extensively in the media, one senior executive at a Wall Street bank told *The Times*: "London is now the worst major centre in the world to do banking."

Reputation can be managed

There are a number of ways that reputation can be measured. Systematic research and analysis allows a company to understand and calculate the emotional connection people have with it and evaluate how it is perceived to be performing across all areas of business. What's more, the perceptions and expectations of stakeholders can be mapped, and the changes that need to be made can be assessed and implemented.

Over 10 years of research and practice, Reputation Institute has devised a methodology to calculate what drives reputation and, importantly, how to systematically manage it.

The reputation journey

There are a number of phases that companies go through before they become fully equipped to respond to risks and take advantage of opportunities that the reputation economy presents. It's no surprise that 93% of the Senior Reputation Leaders surveyed said that they are in the early stages of their reputation journey. (See appendix 1 for explanation of the 5 reputation journey phases)

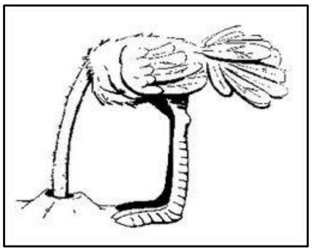
It is a journey because reputation needs to be understood and nurtured within an organisation. It requires buy-in from the board of directors as well as financial and people resources, and a change in thinking and behaviour.

93% of companies are within phases 1 to 3 of the reputation journey.

Executive boards can no longer make decisions without regard to public and stakeholder perceptions. But it is not just board level decision making, it is about the culture of the company and how that culture manifests itself through the acts, expressions and/or omissions of its employees.

Few have managed to integrate reputation across their business.

John Mitra Corporate Affairs Director of IPF (a personal finance company) describes his reputation management journey as:



1.Head in sand

2. Head in clouds

3. Head in hands

4. Hands in pockets

International Personal Finance

"We are a financially successful company. But the general public don't particularly like us (or personal finance companies like ours). Ignoring this problem won't make it go away. Pretending it doesn't matter isn't true – because it is. So our heads were in our hands.

Then we resolved to understand our reputation, what's driving the negative perceptions of our company. That's hands in pockets. We are just starting on this journey, but can already see how the work of measuring our reputation is enriching corporate strategy and future stability of our company"

John Mitra, Corporate Affairs Director of IPF

Challenges are being tackled with a broader corporate awareness

Managing reputation cannot be regarded as a role for a single department working in isolation. It has to be managed across every area of the business from the office of the CEO and the board of directors, through HR and PR, to customer relations and operations.

Senior Reputation Leaders say that within their organisations the reputation strategy is usually set by their communications or PR departments. This is the case in 50% of the companies surveyed and in 63% the same department is also responsible for managing reputation.

In Reputation Institute's experience, strategy setting for reputation management most comfortably sits at the CEO's office or board level. This helps overcome the challenges that departments are not aligned and issues getting buy-in from across the organisation. However, currently just 20% of the Senior Reputation Leaders say their reputation strategy is being set at this level.

Senior Reputation Leaders believe that the role of corporate communications is likely to increase over the next 2 to 3 years. They also believe that departments which have a 'stakeholder facing' role – such as customer experience and corporate affairs – will become more important.

"Whether reputation is being managed by communications or another department, it has to be central to the organisation."

Jane Wilson, CEO of Chartered Institute of Public Relations

The key challenges

Given the issues outlined above relating to organisation-wide buy-in and internal alignment, it is no surprise that Senior Reputation Leaders say their top challenges are: that they don't have a structured process for getting reputation thinking implemented into their business planning (47%), that internal stakeholder owners are not aligned and do not work together (32%), and that they are not leveraging the knowledge they have to be relevant to each stakeholder (41%).

With most companies at an early to mid stage of their reputation journey this is to be expected. In Reputation Institute's experience the first two challenges mentioned above are directly related to the third. Without having the 'proof points' of how reputation is influencing business results, implementing a system more widely and getting leaders across the organisation on board is all but impossible.

According to Alliance Boots, which has the third best reputation in the country (UK RepTrak™ Pulse), having the numbers to prove the impact of reputation is necessary to progress to a place where it is being proactively and systematically managed.

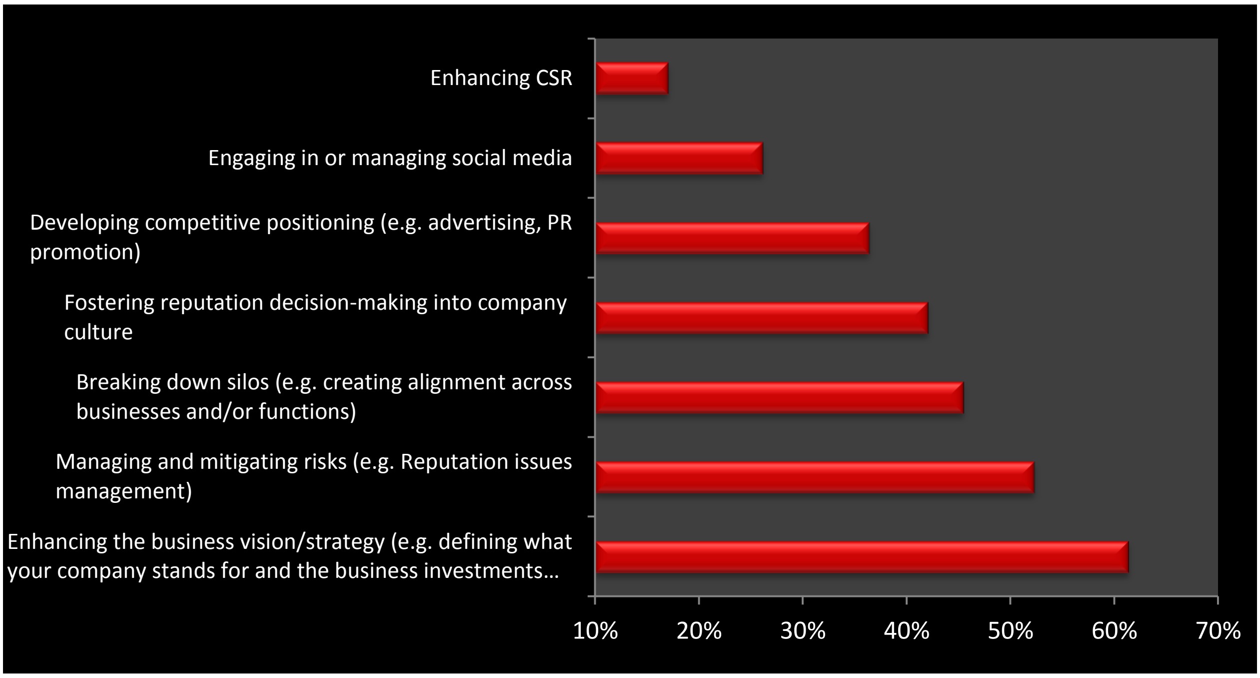
"In order for reputation management to make a difference in your organisation, you need to get a seat at the boardroom table. To do this you need to get the financial numbers which are the proof points of interest to senior executives. Once you have their attention you can then explain why reputation really matters."

Richard Ellis, Director of Corporate Social Responsibility, Alliance Boots

The top priorities for Senior Reputation Leaders

Senior Reputation Leaders say that their top priority for 2012 is to enhance the business vision and strategy as part of an organisation wide perspective. Enhancing CSR was rated a low 17% (see diagram below). At first glance, this could signal the decline in importance of corporates 'doing good'. However, this more likely demonstrates that the principles of CSR are being widely incorporated as part of the company's overall strategy and seen less as an add-on.

Diagram: Top reputation priorities for 2012



It is interesting to note that image and managing PR are not in the list of top priorities. This illustrates that companies are starting to understand that they need to 'be the part', not just look the part.

The BSkyB and RBS examples show that in this inclement economic environment, greater demands are being made of companies and reputation is having a profound impact on their value and stocks. In other words, companies ignore stakeholder perceptions and expectations at their peril.

Getting started

In terms of measuring perceptions, the most important KPIs – according to Senior Reputation Leaders – are customer satisfaction, corporate reputation and employee engagement. However, Reputation Institute knows that these distinct measures must be examined under a wider reputation management strategy.

As discussed earlier, the start point is to recognise that buy-in from across the organisation – including the CEO's office – is essential and, for that, proof is required. Like Alliance Boots – the most advanced in their reputation journey according to the CRO Survey 2012 – companies will overcome their main challenges by 'getting the numbers' to show how reputation impacts their organisation.

Reputation professionals around the world are focusing in on two challenges. The first is to build trust, respect and support with stakeholders. The second is to build a system for sustainable reputation management. This requires stakeholder insight and a framework to implement.

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"The solution is not easy. It takes commitment. But the good news is that there is a tested framework available to work from which will speed up the process and secure better results. 10 years ago, it would take 3 to 5 years to move to level 3 in the reputation journey. This can now be done in 18 months."

Kasper Nielsen, Executive Partner, Reputation Institute

Different organisations will have a different response in terms of managing and improving reputation. But there are some common aspects that Reputation Institute has learned from its many clients across the world:

- A good reputation drives business results and shareholder equity – it is the number one driver of value
- Companies can improve their reputation and 'move the needle'
- A systematic approach is needed to achieve sustainable, measurable reputation management
- A cultural shift is usually required but the starting point is an evidence-based business case to sell the proposition of reputation internally

Rolls-Royce

"We are delighted that Rolls-Royce has maintained the best corporate reputation in the UK for the last two years. We understand the inheritance that has been left to us and we work hard every day to make the company stronger still for future generations. That's why we take the business of managing our reputation very seriously."

Peter Morgan, Director of Corporate Affairs, Rolls-Royce

Appendix 1 - Five reputation journey phases

1 **Phase 1** is where reputation management is a fairly new concept that is being explored and possibly being tracked in published generic studies.

2 **Phase 2** is where corporate reputation is understood to have specific business impact and there is a company customised approach for measuring and understanding reputation. Here reputation management is seen primarily as being a function specific priority and not joined up across the rest of the company.

3 **Phase 3** is where corporate reputation is not only measured but also linked to business outcomes.

4 **Phase 4** reputation is a key business driver integrated across all stakeholders.

5 **Phase 5** is where reputation is built into the entire approach of the company's strategy and operations. Here we usually see an internal 'council' or similar steering committee dedicated to championing corporate reputation priorities.

Appendix 2 – Methodology and about Reputation Institute

CRO Study 2012 of the Senior Reputation Leaders across the UK
88 respondents, fielded in December 2011 to February 2012 including CEOs, Directors and Heads of Departments across a range of industries, with responsibility in reputation management.

UK RepTrak™ Pulse Study 2012

- A total of 35,908 ratings of the 300 selected companies were obtained from a sample of 10,532
- All companies were rated by at least 100 respondents.
- Ratings are statistically significant at a 95% confidence level
- Respondents distribution was balanced to the UK adult population on age and gender.

Quotations from the event 'Creating the Right Reputation' in London (April 2012)

Reputation Institute – Research, measurement and consultancy

After a ten year development cycle, Reputation Institute's research finds that corporate reputations are a measure of the emotional connection an individual has with a company. This emotional connection is a measure of a four part construct: measures of trust in a company, levels of admiration felt towards a company; general good feelings held towards a company and a sense of the overall esteem towards a company.

This emotional construct is strongly correlated to what are called the rational drivers – perceptions of a company's products/services, governance, innovation, citizenship, workplace, leadership and performance.

Reputation Institute has developed a model to find out what truly matters to stakeholders, but in doing so; we can uncover how to improve support which will have a direct impact on the company.
www.reputationinstitute.com