



Putting a value on companies' reputations

By Catherine O'Mahony

On Wednesday, more than 100 firms operating in Ireland will find themselves ranked by corporate reputation, in the first Irish study of its kind.

The results come from RepTrak 2010, a survey organised by the Irish consultancy firm Corporate Reputations and the global consultancy organisation that it partners, the Reputation Institute.

Advance results include the following:

- the Toyota recall notwithstanding, the automotive industry is among those that are faring best in terms of corporate reputation,

- computers and consumer goods are also doing well, as are food manufacturing and retail,

- airlines and aerospace, the banks, insurers, tobacco, transport and media are all in the lowest ranked categories and

- in the middle rank are energy, pharmaceutical, food retail and telecommunications.

The results also found that, of the 20 companies operating here with the best reputations, 12 were foreign and eight were Irish.

The survey covered 58 indigenous Irish firms and 57 multinational firms, rating each company in terms of how people viewed them in seven categories: products and services, governance, citizenship, workplace, performance, innovation and leadership.

The survey will have particular resonance in light of the many corporate disasters of the past year.

The RepTrak survey was designed by Charles Fombrun, chairman and co-founder of the Reputation Institute, a US firm which conducts surveys of this kind in many markets across the world. The latest global ranking places baby products maker Johnson & Johnson as the world's most re-

putable. Ferrero and FedEx are also regulars in the top three.

Fombrun's research shows that, on average, a 1 per cent improvement in public perceptions of a company leads to a 1 per cent change in support and generates a 1.3 per cent improvement in financial performance. Simply put, if people like a firm enough, they will buy its products, and they will recommend it to others, which results in people investing in it.

On the other hand, a fall-off in reputation has a swift downward impact on a company, many have discovered in the past few years.

In general terms, Fombrun said corporate reputations were seldom studied, measured or even noticed until they were threatened.

"I've been doing this for 15 years now, but it's only in the last year that we got so much press coverage," said Fombrun. "What this is about is that we are undervaluing perception and the role it plays in company valuation. We're at a key point for recognising this."

Fombrun's thesis is that company's stock prices are almost entirely divorced now from their asset values. There is a widening gulf between the perceived value of any organisation and the value of what it actually owns.

The gap between those values is occupied by several things, but corporate reputation looms large among them.

"Look at Google," he said. "What a remarkable business model. Why do we like Google? Why do we trust Google?"

"People talk about corporate assets, but they forget entirely about what people are saying about them and the effect this is having on their stock. Your value lies just as much in the investment you make in your own community and issues of that kind. Advertising can help but, to sustain your reputations, you have to deliver on these matters.

"That is the difference be-

tween branding and reputation – your ability to sustain it."

Fombrun said Johnson & Johnson, a maker of baby care products, deserved its pole position as most reputable because "it's built around things like family structures, it shows images of friendly children in its ads, but it also lives by that philosophy in every way possible".

Car maker Toyota, on the other hand, built up its reputation on making good quality cars, but dropped the ball, in his view. "Toyota didn't live by that because it stopped investing in quality. It's lost so much ground that it's going to take a lot of time to build it back up."

Banks, naturally, have lost face as an industry and Fombrun has little sympathy for them. "They have been ignoring their customers," he said. "They haven't learned from their mistakes."

He noted that financial services group AIG made the mistake of giving giant bonus payments to staff, showing that the company's values were completely detached from the company's claims about responsibility and decency. In 2008, one in three people said they would definitely recommend the company. This plummeted to 13 per cent in 2009.

Bankers are particularly slow to accept the reality that many of today's investors aren't only looking to this year's bottom line when it comes to picking shares, he said.

He cited the example of legendary US investor Warren Buffett, who is famously unimpressed by trends.

Fombrun spends his time advising the world's largest companies on how to build a decent corporate reputation.

He starts out in every case, he said, with an audit of the status quo.

"It all begins by recognising that reputation is everything that you do. So if you employ 100,000 people, each and every one of those people has to be

your ambassador. If you take a company like Goldman Sachs, they saw themselves as a quiet company, they didn't want to be talked about, they were introverted. They had to change that culture dramatically when they went public and they are still dealing with the rift in their company culture.

"Firms need to realise that they have to operate in the limelight and they need to be fully transparent. That's a challenge and it requires new forms of management."

Fombrun argues that management boards need to add a new kind of director position alongside the chief executive, chief financial officer and the chief operating officer – a chief reputation officer.

As much as 80 to 90 per cent of company value lay in intangible factors such as reputation, he said, so it made sense to reflect that in the management team.

A chief reputation officer can oversee what a whole range of departments are doing that affect reputation, and make sure that all efforts are properly coordinated.

"Companies operate at the grace of society," said Fombrun. "They need to take stock of their position now."

Publication: Sunday Business Post

Date: Sunday, April 25, 2010

Page: 23

Extract: 2 of 2

Circulation: 52.271

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Headline: Putting a value on companies' reputations



Charles Fombrun, chairman and co-founder, the Reputation Institute