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CompA-Z

Reputation's not just a money matter

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MUMBAI: When the Forbes Corporate Reputation Survey was announced, the Tata Group's presence in the top 20 was a pleasant surprise.

But it was clearly not a cause for debate, definitely not as much as that of an obscure pasta-company Barilla, scoring the highest on reputation. But scroll down the list, and you'll find some fairly obvious absentees among the Indian companies that made it, notably the two Reliance groups.

Corporate reputation is different from financial indicators. The financial health of a company has little to do with its reputation. The reason, according to most accounting and valuation firms, is the debacle that surrounded Enron, Worldcom and the others.

So what constitutes reputation or respect? Using the Forbes study with the **Reputation Institute** as a backgrounder, there are seven broad parameters in use, including corporate citizenship, value creation, management credibility and ethics. It's a mix of hard numbers combining with subjective parameters.

This is what the market would value higher than the book value of a company. Adds to Deepak Kapoor, executive director, PriceWaterhouse Coopers, "Innovation, best practices and ethics will always be an important part of what constitutes goodwill and reputation." According to him, Infosys' handling of the Phaneesh Murthy incident in '03 will often be cited as an example of high ethical values of a company.

Reputation depends more on the subjective parameters, or the intangibles like corporate social responsibility returns. Often, companies may spend huge amounts in charity and CSR, but unless there is something concrete that emerges from these, it won't aid the company's reputation much.

According to Nabankur Gupta, founder, Nobby Brand Architects and Consultants, "It's not enough to have CSR activities. They need to show positive returns from CSR activities, but these are not easy to measure." Hence, true perception of reputation might perhaps be reflected if there are visible signs like water supply and health, but it might not in the case of longer-term returns, which accrue from primary education and family planning activities.

A valuation specialist with an investment bank feels that what's paramount is the weightage assigned to these reputation surveys. He adds, "If there's too much stress on the company's interaction with its consumer, then you'll get one set of results, different from what it would be if there's more weightage on financials and peer group evaluation."

Theoretically, it is possible to derive concrete information from intangible returns, but it boils down finally to who you speak with to ascertain the company's reputation. Corporate reputation is also completely distinct from brand reputation. It's possible for companies, to separate one from the other.

Says Sanjiv Agarwal, Ernst and Young, "Some companies maintain their brands well and the consumers might rate the brands highly. But it's not a true reflection on corporate reputation." He believes that a firm can't sustain on good brands alone.

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