Reputation Management:
A Framework for Measurement and Valuation

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Reputation Institute

Henley Management College
22 September 2005
RI ‘At-A-Glance’: A Network Organization

RI Network
- CONFERENCES
- PUBLICATIONS
- EDUCATION
- COMMUNITY

RI Consulting
- Research
- Analytics
- Strategy
- Expression
Agenda

1. Why Reputation?
2. What is Reputation Management?
3. Measuring Reputations
4. Valuing Reputations
5. Changing Reputation
1. Why Reputation?
The Battle for Mind-Share

Media Saturation

Vocal Constituents

Globalization

Commoditization

Competition

Pressure to be Responsive

Pressure to Differentiate

Reputation as Competitive Advantage
The Growing Visibility of Corporate Brands

Infinite possibilities.
2. What is Reputation Management?
## Related Concepts in Reputation Analysis

<table>
<thead>
<tr>
<th>Inside-Out</th>
<th>Emergent</th>
<th>Strategic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identity</td>
<td><strong>The internal features of a company that are central, distinctive, and enduring.</strong></td>
<td><strong>Brand</strong></td>
</tr>
<tr>
<td><strong>Symbols that companies use systematically to distinguish themselves from rivals.</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Outside-In</th>
<th>Image</th>
<th>Reputation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The perceptions and associations that form in observers’ minds when they think about a company or its products.</strong></td>
<td><strong>The overall esteem in which a company is held by its constituents.</strong></td>
<td></td>
</tr>
</tbody>
</table>
Inconsistencies between Brand & Reputation Create Gaps in what Stakeholders “See” and “Say”

What Company Says…

Messaging

GAP

Media & Internet

What Others Say …

GAP

Perceptions

What Others See …

GAP

Behavior

What Company Is & Does…

GAP

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Key Steps in Managing Reputation

Outside-In Analysis
• How are we perceived by our key stakeholders?
  – Employees, Public, Media, Investors

Inside-Out Analysis
• What do we say about ourselves?
  – Do we have good “story” to tell? Do we tell our story well?

Gap Analysis
• What’s “real” and what’s not?
  – How do we improve what we are?

Consistency
• Is what we do consistent with what we say?
  – Across segments? Geographies?

Distinctiveness
• Are we distinctive in how/what we say and do?
  – Compared to rivals?

Reputation Risk
• How can we stand out more?
  – What are the downside risks of standing out?

TRACKING

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3. Measuring Reputations
Need a Valid Barometer to Measure & Track Slow Changing Conditions around Companies
# Initial Qualitative Research

## International Focus Groups in Seven Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Language</th>
<th>Individual</th>
<th>Affiliation</th>
<th>Number of Groups</th>
<th>Description of Groups</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>English</td>
<td>Don Porritt</td>
<td>AMR Interactive</td>
<td>2</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>Belgium</td>
<td>Dutch &amp; French</td>
<td>Frank Thevissen</td>
<td>University of Brussels</td>
<td>4</td>
<td>Professionals &amp; Consumers</td>
<td>32</td>
</tr>
<tr>
<td>Greece</td>
<td>Greek</td>
<td>Peter Constantinidis</td>
<td>Tradelink Reputation Management</td>
<td>2</td>
<td>Professionals &amp; Consumers</td>
<td>16</td>
</tr>
<tr>
<td>Italy</td>
<td>Italian</td>
<td>Davide Ravasi</td>
<td>Bocconi University</td>
<td>3</td>
<td>Professionals</td>
<td>15</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Dutch</td>
<td>Rinie Haverlag</td>
<td>Blauw Research</td>
<td>2</td>
<td>Professionals &amp; Consumers</td>
<td>14</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>English</td>
<td>Keith MacMillan</td>
<td>Henley Management College</td>
<td>4</td>
<td>Professionals &amp; Students</td>
<td>32</td>
</tr>
<tr>
<td>United States</td>
<td>English</td>
<td>Andy Semons</td>
<td>WeberShandwick</td>
<td>5</td>
<td>Professionals, Consumers &amp; Students</td>
<td>30</td>
</tr>
</tbody>
</table>
Led to the Harris-Fombrun Reputation Quotient℠ (RQ)

- **Social Responsibility**
  - Supports Good Causes
  - Environmental Responsibility
  - Community Responsibility

- **Emotional Appeal**
  - Feel Good About
  - Admire and Respect
  - Trust

- **Vision & Leadership**
  - Market Opportunities
  - Excellent Leadership
  - Clear Vision for the Future

- **Products & Services**
  - High Quality
  - Innovative
  - Value for Money
  - Stands Behind

- **Financial Performance**
  - Outperforms Competitors
  - Record of Profitability
  - Low Risk Investment
  - Growth Prospects

- **Workplace Environment**
  - Rewards Employees Fairly
  - Good Place to Work
  - Good Employees

- **Reputation**
  - Feel Good About
  - Admire and Respect
  - Trust
  - Enjoy and Use
  - Make you feel good
  - Be admired
  - Be respected
  - Be trusted

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### Annual RQ Methodology (2004)

<table>
<thead>
<tr>
<th>Country</th>
<th># Waves</th>
<th># of Companies Rated Each Year</th>
<th>Number of Interviews</th>
<th>Method</th>
<th>Number of Companies Measured</th>
<th>Average Ratings per Company</th>
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</thead>
<tbody>
<tr>
<td>USA</td>
<td>6</td>
<td>80</td>
<td>22,166</td>
<td>Online</td>
<td>60</td>
<td>600</td>
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<tr>
<td>Australia</td>
<td>5</td>
<td>25</td>
<td>6,523</td>
<td>Telephone + Online</td>
<td>25</td>
<td>235</td>
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<tr>
<td>Netherlands</td>
<td>4</td>
<td>30</td>
<td>3,000</td>
<td>Online</td>
<td>20</td>
<td>250</td>
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<tr>
<td>Denmark</td>
<td>4</td>
<td>20</td>
<td>3,242</td>
<td>Telephone + Online</td>
<td>15</td>
<td>250</td>
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<td>Sweden</td>
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<td>2,640</td>
<td>Online</td>
<td>15</td>
<td>250</td>
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<tr>
<td>Norway</td>
<td>2</td>
<td>20</td>
<td>2,787</td>
<td>Telephone + Online</td>
<td>16</td>
<td>250</td>
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<tr>
<td>UK</td>
<td>1</td>
<td>15</td>
<td>7,373</td>
<td>Online</td>
<td>15</td>
<td>600</td>
</tr>
<tr>
<td>France</td>
<td>1</td>
<td>15</td>
<td>3,607</td>
<td>Online</td>
<td>15</td>
<td>325</td>
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<tr>
<td>Germany</td>
<td>1</td>
<td>15</td>
<td>6,947</td>
<td>Online</td>
<td>15</td>
<td>600</td>
</tr>
</tbody>
</table>
## Results:
The Reputations of the Most Visible Companies (2004)

### United States

1. Johnson & Johnson 79.81
2. 3M Company 79.07
3. The Coca-Cola Company 78.90
4. The Procter & Gamble Company 78.26
5. United Parcel Service (UPS) 78.24

### United Kingdom

1. Virgin Group 77.2
2. Sony 76.1
3. The Body Shop 74.4
4. Microsoft 74.1
5. Tesco 72.8

### Germany

1. Porsche 75.4
2. ALDI 75.2
3. BMW 73.2
4. Microsoft 70.0
5. Siemens 69.0

### France

1. L’OREAL 76.1
2. Danone 73.5
3. Microsoft 69.8
4. PSA Peugeot Citroen 69.2
5. Carefour 68.2
National Biases are Evident when Comparing Scores Internationally

<table>
<thead>
<tr>
<th>Company</th>
<th>RQ</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.P. Møller-Mærsk</td>
<td>84.4</td>
<td>Denmark</td>
</tr>
<tr>
<td>Danfoss</td>
<td>82.4</td>
<td>Denmark</td>
</tr>
<tr>
<td>Grundfos</td>
<td>81.6</td>
<td>Denmark</td>
</tr>
<tr>
<td>Bang &amp; Olufsen</td>
<td>80.7</td>
<td>Denmark</td>
</tr>
<tr>
<td>Novo Nordisk</td>
<td>80.4</td>
<td>Denmark</td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
<td>79.8</td>
<td>USA</td>
</tr>
<tr>
<td>Virgin Blue</td>
<td>79.5</td>
<td>Australia</td>
</tr>
<tr>
<td>IKEA</td>
<td>79.3</td>
<td>Sweden</td>
</tr>
<tr>
<td>Microsoft</td>
<td>79.2</td>
<td>Australia</td>
</tr>
<tr>
<td>3M</td>
<td>79.1</td>
<td>USA</td>
</tr>
</tbody>
</table>
### Highest Rated Companies (2004)
**Adjusted for National Bias**

<table>
<thead>
<tr>
<th>Company</th>
<th>RQ* (Z-score)</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tine</td>
<td>1.74</td>
<td>Norway</td>
</tr>
<tr>
<td>Virgin Blue</td>
<td>1.64</td>
<td>Australia</td>
</tr>
<tr>
<td>Microsoft</td>
<td>1.59</td>
<td>Australia</td>
</tr>
<tr>
<td>L’Oreal</td>
<td>1.46</td>
<td>France</td>
</tr>
<tr>
<td>A.P. Møller-Mærsk</td>
<td>1.46</td>
<td>Denmark</td>
</tr>
<tr>
<td>IKEA</td>
<td>1.41</td>
<td>Sweden</td>
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<tr>
<td>Virgin Group</td>
<td>1.39</td>
<td>UK</td>
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<tr>
<td>Johnson &amp; Johnson</td>
<td>1.27</td>
<td>USA</td>
</tr>
<tr>
<td>REMA 1000</td>
<td>1.26</td>
<td>Norway</td>
</tr>
<tr>
<td>Sony</td>
<td>1.25</td>
<td>UK</td>
</tr>
<tr>
<td>Porsche</td>
<td>1.23</td>
<td>Germany</td>
</tr>
<tr>
<td>ALDI</td>
<td>1.20</td>
<td>Germany</td>
</tr>
<tr>
<td>Nokia</td>
<td>1.20</td>
<td>Sweden</td>
</tr>
<tr>
<td>3M</td>
<td>1.19</td>
<td>USA</td>
</tr>
<tr>
<td>Danone</td>
<td>1.18</td>
<td>France</td>
</tr>
</tbody>
</table>
Driver Analysis Shows Need to Weight Reputation Attributes

- Products & Services: 0.56
- Social Responsibility: 0.40
- Workplace Environment: 0.34
- Financial Performance: 0.15
- Vision & Leadership: 0.04

Emotional Appeal

Reputation
RI’s Revised Standard for Measuring Corporate Reputation

GOVERNANCE
No Unethical Activities
Does not Misuse its Market Power

PRODUCTS
High Quality
Value for Money
Stands Behind Customer Oriented

CITIZENSHIP
Environmental Responsibility
Supports Good Causes
Contributes to Local Economy

WORKPLACE
Rewards Employees Fairly
Is a Good Company to Work for
Values Employees Safety

INNOVATION
Encourages New Ideas
Adapts Quickly to Change
Regularly Innovates

PERFORMANCE
Makes Money for its Owners
Has Strong and Respected Leaders
Has Strong Growth Prospects
Has a Clear Vision
Good Financial Results
Apply Reputation Model to Assess Media Coverage

Prominence

Impact

Impressions

Media Reputation

Tone

Classify Media Content

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Example: The Media Conversation taking place about a High Tech Company

The ‘conversation’ IS about:
11: Future growth prospects
15: Leadership in innovation
16: Making high quality products
25: Taking advantage of market opportunities
13: Out-performing competitors
19: Making products that improve lives

The ‘conversation’ is NOT about:
9: Inviting open and frank conversations
24: Honesty and integrity in actions/communications
31: A good company to work for
21: Acts responsibly to protect the environment
4: Makes difficult business decisions in a timely way
6: Maintains an entrepreneurial spirit
5: Has an effective system of governance
32: Encourages employee growth and development
30: Hires the best employees
8: Adapt quicly to change
29: Rewarding its employees fairly
33: Recognizing and supporting employee diversity
34: Valuing employee safety
35: Encouraging development of women and minorities

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What is Company Saying in its Communications?

# of Mentions

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How Do Analysts & Media Interpret Company?

Financial Analysts

Positive

Negative

Media

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4. Valuing Reputation
Reputation is Part of the Value Equation

Economic Value

Physical Capital
  - Plant & Equipt

Human Capital
  - Training & Skills

Intellectual Capital
  - Patents & Knowhow

Social Capital
  - Stakeholder Relationships

Reputation Capital
  - Favorable Perceptions
High Estimates of Market Value of Intangible Assets

<table>
<thead>
<tr>
<th>Year</th>
<th>Intangible Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>38%</td>
</tr>
<tr>
<td>1992</td>
<td>62%</td>
</tr>
<tr>
<td>1998</td>
<td>85%</td>
</tr>
</tbody>
</table>

*Source: Brookings Institute, 1994; Fombrun, 1996; Lev, 2000*
Reputation & Market Value

- WorldCom, 86% decrease
- Enron Corp, 99% decrease
- Tyco, 65% decrease
- Parmalat, 96% decrease

Trading Days:
- -40 to 80
- -4 to 0

Time Periods:
- Two Months
- One Month
- Three Months
- Four Months

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Pharmaceuticals Stock Price Sept 2003 - Dec 2004

[Diagram showing stock price movements of various pharmaceutical companies compared to the S&P 500 over the period from Sept 2003 to Dec 2004.]

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Changes in Reputation Have a Powerful Effect on Market Value …and Vice-Versa

Based on multivariate analysis of all companies in Fortune’s Most Admired surveys (1983-1997), see Black, Carnes & Richardson, Corporate Reputation Review, Spring 2000

Based on comparative analysis of 10 portfolios of equivalent risk-return profiles, see Srivastava et al., Corporate Reputation Review, Fall 1997.
5. Changing Reputation
Optimization Analysis:
What’s the Optimal Path for Improving Both Reputation and Value?
Our Working Hypothesis:
Corporate Expressiveness Drives Reputation

- Distinctive
- Consistent
- Transparent
- Visible
- Authentic
Principle #1: Reputation Comes from Visibility...

<table>
<thead>
<tr>
<th></th>
<th>Low Reputation</th>
<th>High Reputation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Magazine Articles</td>
<td>28%</td>
<td>57%</td>
</tr>
<tr>
<td>Magazine Advertising</td>
<td>20</td>
<td>48</td>
</tr>
<tr>
<td>Newspaper Articles</td>
<td>22</td>
<td>45</td>
</tr>
<tr>
<td>TV Advertising</td>
<td>5</td>
<td>26</td>
</tr>
<tr>
<td>TV Programs</td>
<td>5</td>
<td>21</td>
</tr>
</tbody>
</table>
Principle #2: Distinctiveness from Emotions

Because newborns may not have fully developed blink or tearing reflexes, Johnson's Baby Shampoo was designed to be as gentle to your baby's as pure water. With your touch and Johnson's, she can face the future with her eyes wide open.

Johnson & Johnson
Principle #3: Authenticity Comes from Living the Values

Reputation

- Images
- Projections
- Identity

Values

Core Purpose

Live it
Principle #4: Consistency Develops from Aligning Internal & External

3M
To solve unsolved problems

Just Do It
To experience the emotion of competition, winning, and crushing competitors

Making Magic
To make people happy

Consistency

External Messaging

Internal Purpose

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Principle #5:
Transparency builds Trust with Stakeholders
Is Your Company Sufficiently “Expressive”?  

**Visible**
How visible are corporate themes and messaging elements generally—in internal and external channels?

**Distinctive**
Are messaging themes distinctive—clearly differentiated as a corporate position? Is there a clear promise?

**Consistent**
Is messaging integrated, coordinated across channels and stakeholder groups? Are the same symbols, slogans used?

**Transparent**
Is information delivered in the right amount, of the right type? How *forthright* is firm in disclosing information important to stakeholders? Is firm responsive to concerns?

**Authentic/Appealing**
To what extent do corporate themes appear authentic and inspire emotional appeal internally and externally? i.e., get attention and motivate supportive behaviors?
Integrate Brand & Reputation around a Reputation Platform

ABILITIES

ACTIVITIES

ACCOMPLISHMENTS

The Virgin Platform

The DaimlerChrysler Platform
## Track Effectiveness with a Reputation Dashboard

*Real-Time Continuous Measurement*

### COMPANY & RIVALS ---COUNTRY A, B, C…

<table>
<thead>
<tr>
<th></th>
<th>Employees</th>
<th>Customers</th>
<th>Public</th>
<th>Media</th>
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</thead>
<tbody>
<tr>
<td>Products</td>
<td></td>
<td></td>
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<tr>
<td>Workplace</td>
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</tr>
<tr>
<td>Leadership</td>
<td></td>
<td></td>
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<tr>
<td>Other Reputation Dimensions</td>
<td></td>
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</tbody>
</table>

**Stakeholder Alert**

**Reputation Driver Alert**

- **Weak**
- **Average**
- **Strong**
Reputation Platform Links Brand and Value

Reputation Platform

- Brand
- Identity
- Messaging
- Citizenship

Dashboard

- Media Coverage
- Analysts Opinions
- Network “Buzz”

- Corporate Reputation

Financial Performance

Stakeholder Support
Summary: Key Tools for Reputation Management

1. **Reputation Scorecards**: Validated measurement instruments against which to benchmark a company against key rivals

2. **Reputation Dashboards**: Integrated, real-time or periodic online systems for tracking a company’s reputation internationally, both with media and with consumers

3. **Reputation Platforms**: Grounded initiatives that can close perception gaps and capitalize on opportunities to strengthen a company’s reputation with its internal and external stakeholders