REPUTATION DIVIDEND What's your reputation worth?

Frequently asked questions

Introduction

It is now widely accepted that reputation is one of the most valuable assets a company possesses. Without the confidence, admiration, respect and advocacy of all its stakeholders enterprises will struggle to compete let alone thrive. This document answers some of the most frequently asked questions about Reputation Dividend, our proprietary methodology for measuring the value of a corporate reputation.

Please address any comments or further questions to: info@reputationdividend.com

1. *What is Reputation Valuation*?

'Reputation valuation' is the analytical process by which the contribution of a company's corporate reputation is measured in terms of the direct economic benefit it delivers to shareholders.

Reputation valuation is based on the notion that a company's corporate reputation creates economic value by building confidence amongst the investment community that it will deliver the financial returns promised or expected. It is calculated using a variety of empirical data, including financial metrics and measures of corporate reputation from survey research.

Reputation value is expressed in terms of its contribution to shareholder value in the form of a percentage of the company's market capitalisation.

2. *Why is it worth knowing the value drivers of corporate reputation?*

Reputation Dividend provides tools for managers of corporate reputation and brand that speak the language of the c-suite, the CEO and the CFO. It has been set up to help them identify the gaps that exist between the company's actual modus operandi and the way it is being perceived in the marketplace, especially by the investment community. In knowledge of these discrepancies, management can then adopt the necessary initiatives (internally, externally or both) so perception is more closely aligned with reality.

3. *What are the benefits*?

The strength of Reputation Dividend's analytics lies the provision of a wide variety of insights.

Specifically:

- Calculating the economic importance of corporate reputation to the business as a whole
- Identifying the individual reputation drivers that are working hardest to secure shareholder value
- Indicating which parts of the communications budget are most productive, and which are producing the lowest yield
- Informing priorities for corporate communications and messaging
- Providing a sound basis for communications planning, resourcing and budget allocation
- Demonstrating the returns on investment in reputation management
- Offering practical pointers to the management initiatives needed to spark strategic and or operational changes
- Presenting the case for communications and messaging in the language of the CFO

In addition to its direct role in corporate communications planning, Reputation Dividend provides a means to help align the management of corporate brand to that of the wider consumer and internal brand management practices.

4. *Does Reputation Dividend offer anything new*?

Yes.

Reputation Dividend reveals the hitherto opaque links between corporate reputation and shareholder value. It puts a tangible value on it.

Reputation Dividend's approach to diagnosing the value-generating components of corporate reputation provides managers with a practical means to maximise the impact of their efforts. It can constitute an evidenced based platform to make judgments about how to manage corporate reputation from the perspective of its value contribution, whether through internal tweaking of operational practices, procedures and so on, or through external fine-tuning of your communication and messaging efforts.

In the final analysis, Reputation Dividend brings a previously unknown degree of objectivity to reputation management.

5. *Is 'Reputation Valuation' any different from traditional 'Brand Valuation'*?

Yes.

Traditional brand value and reputation value offer quite different but complementary perspectives on the same intangible asset, the 'brand'. Whereas the former explains the impact of the brand on consumers' choice of the company's products or services, the latter is concerned with the impact of the corporate brand on the investor audience.

In other words, reputation valuation measures the economic impact of the corporate brand in terms of its ability to support share price by building the confidence the investment community has in 'the company's ability to deliver the returns promised'. On the other hand, traditional brand value measures the economic affect of the product or service brand in terms of its 'ability to secure customer choice and/or support higher prices'.

As such, reputation valuation can be considered a 'top-down' measure while traditional brand valuation is 'bottom-up'. The former is calculated as a percentage of the company's market cap (as established by equity markets) whereas the latter is determined through revenues generated.

There are a number of different approaches to traditional brand valuation including economic use, premium pricing, royalty relief, historic cost, replacement cost, etc. First and foremost amongst those is the 'economic use' method. This calculates the 'net present value of future economic earnings fairly attributable to the brand'. In that sense traditional brand value is therefore predicated on customers making purchases.

Because of that traditional brand valuation does not apply to corporate brands. Corporate brands, by definition, relate to the perceptions, thoughts and feelings for the business or the company as a whole. There is no comparable transaction or stream of purchases. Rather, there is a market in the shares or stock based upon an expectation amongst the investment community with regards to the company's ability to deliver an economic return in the future.

Reputation valuation calculates the extent to which the corporate reputation directly supports shareholder value by underpinning that expectation.

6. *How are reputation and brand value related? Are they mutually exclusive and so additive, or do they overlap? Why*?

'Effective product branding' may be recognised as part of the corporate reputation by the investment community and appreciated to the extent that it enhances their confidence in the company to deliver the expected results. In that instance, it will be contributing to the overall reputation value. Similarly, the image of the company behind the goods or services - its 'corporate reputation' - may well enhance customers' impressions of the (product) brand and therefore have a material impact on their decision to consume. In that case, the corporate reputation is creating 'brand value'.

In those cases an amount of value is common to both. As such, reputation value and brand value do overlap, but only in part. The extent of the overlap may vary depending on the circumstances of the company and the brands in question. Some are closely linked and intertwined, or may even bear the same name (as in the case of Coca-Cola), whereas others have distinct monikers and/or are not recognized as being part of the same umbrella (as in the case of Guinness and Diageo).

7. *Which is better to know? When should I do one, the other, or both*?

Neither is 'better' than the other. Each serves a different purpose and both are important.

Reputation Dividend is concerned with the brand as it relates to the company as a whole. Traditional brand valuation techniques are focussed on the brand as it influences customer choice.

Both offer invaluable insights into how to better manage the intangible asset that is the brand.

8. *What kind of information is required to conduct a reputation valuation?*

Quantitative data: Empirical evidence relating to a combination of standard financial metrics, and measures of the company's corporate reputation amongst the investment community.

The financial metrics include all the usual suspects; historic and reported EBITDA, EPS, net dividend yield, shareholder equity, sector, index and return on assets.

The corporate reputation measures are derived from market research amongst a suitable stakeholder audience. They should include measures of the overall strength and a variety of individual constituent reputational components.

9. *Who gauges/rates the reputation of my company? What is measured?*

The source of the reputation data could greatly vary. For instance, for the UK ranking of Corporate Reputations, the data are derived from the Most Admired Companies studies which poll a combination of senior executives from major companies along with business journalists and investment professionals. Respondents are asked to rate peer group competitors or companies in which they have an interest according to nine different dimensions, using a scale of 0 ('poor') to 5 ('average') to 10 ('excellent'). In the United States, the upcoming ranking will utilise market research data from similar sources.

Tailor made studies can be populated with reputation data that are more granular, more specific and more up-to-date. This is produced from ad-hoc quantitative research designed to the circumstances and requirements of the company in question. It is based on samples representative of the investment community along similar lines to the Most Admired research.

Independently of the source, the principal dimensions of reputation are likely to include:

- Quality of management
- Quality of goods and services
- Value as a long term investment
- Financial soundness
- Ability to attract talent
- Capacity to innovate
- Quality of marketing
- Community and environmental responsibility
- Use of corporate assets

10. *Where do the input data come from and how reliable are they*?

For the published rankings, the financial metrics are sourced from standard financial data bases including Factset, Bloomberg and Thomson Reuters. For ad-hoc studies, they are obtained directly from the client.

The same principle applies to the reputation measures. They are derived from either publicly reported sources in the case of our rankings, or from extant or newly commissioned proprietary market research for ad-hoc projects. In each case they are quantitative studies based on sample surveys. As such, the data is reliable within normal margins for error.

In the UK and the US the publicly available reputation data are compiled in the 'Most Admired Companies' studies. The UK study is conducted by Birmingham Business School and published by Management Today. The US study is conducted by the Hay Group and published in Forbes. Both studies are produced annually from research conducted in July/August in the UK and October/November in the US. Although the studies may have some inevitable shortcomings each has more than 20 years history and is widely accepted to provide fair and generally sound representations of corporate reputations.

11. ***If the study is based on data produced at a specific point in time does it mean it only has a limited shelf life*****?**

No.

Reputation Dividend analyses 'investor' behaviour from the perspective of how it is influenced by different corporate indicators. In general terms this is broadly stable. While attitudes and sentiment towards individual companies can and do change over time – and sometimes rather rapidly - the underlying mechanism tends to be more enduring.

Because of that we can refresh the findings for individual companies as and when we have updates or revisions to any of the input variables. Conversely, for ad-hoc engagements, new research can be commissioned as seen suitable by the client.

12. ***What are the statistical tools at the heart of the Reputation Dividend model, and how does it work*****?**

Reputation Dividend employs a variety of standard statistical techniques.

Correlation analysis. We start by examining all potential input variables - the 'explanatory factors' - in order to isolate the ones that are most highly dependent on what we are seeking to explain: namely, the company's market cap. This helps us to distinguish between the factors that are most likely to be correlated to market cap and those that aren't.

Regression analysis: Having identified the correlated factors we use regression analysis. This is a widely used tool for prediction and forecasting. Regression analysis allows us to estimate each company's market cap in the knowledge of the different explanatory factors determined from the correlation analysis. It allows us to consolidate the 'correlated' factors into a model - a mathematical equation - in a way that specifies the precise relationship between them. More importantly, it helps us to understand how the of any company's market cap may change when any one of the explanatory factors is varied.

Statistical testing: We test the model and underlying analysis using a variety of standard statistical tools including:

- Residuals analysis
- Goodness of fit
- Significance testing

Note: These are all widely accepted techniques.

13. *Has the methodology been validated? How can we be sure that it is tried and tested*?

The statistical techniques at the heart of Reputation Dividend analysis are all proven. They are described and explained in most standard statistical text books.

14. *If all the input data are 'historic', how can Reputation Dividend be used to understand - or even predict - the future*?

Modelling such as this forms the basis of most statistical forecasting. In that, it provides the wherewithal to make what can only ever be an informed judgement. The skill is to make that judgement as informed founded as possible.

At its most basic, Reputation Dividend's analytics provide an explanation of the past. It tells us 'how' and 'to what extent' different factors, including corporate reputation, influenced the investment community and thus determined the value placed on each particular company by the market at the time.

The challenge then becomes to gauge which of those findings can or cannot be used as reasonable pointers to the way things will be in the near future. We believe we achieve that balance for a combination of reasons.

First, common sense tells us that human behaviour tends to follow similar patterns, particularly in the absence of game-changing events. Behaviours exhibited 'last week' are likely to be much the same 'next week' unless something dramatic occurs. This suggests that the things that the investment community look for in companies tend to be much the same week in and week out. So interest in a particular company will rise or fall more due to its ability to satisfy those conditions than because of changes in the overall judgement criteria per se.

Second, the underlying model has proven remarkably stable and consistent over the course of five years of Reputation Dividend analysis.

Finally, assumptions like this are commonplace in this form of analysis and generally regarded as good practice.

Quite separately, it's important to recognise that when we use the model to estimate what might happen in the future we are in fact using forward looking variables. We are to all intents and purposes asking the model what is likely to happen if one variable or another had a different i.e. 'future' rating.

15. *Isn't this simply a restatement or rehash of data from other sources*?

No.

The data inputs are the 'ingredients' of Reputation Dividend's work, not the output. Our analysis and modelling build on and interpret them to answer the question 'so what?' It explains the consequence of the strength and make-up of the company's corporate reputation and the practical implications that improving the reputational drivers will have on you market value.

Therefore, Reputation Dividend reveals the hitherto unquantified impact of those ratings. It provides the lens through which meaning of that data can be understood and so best used.

16. *Does it really tell me anything I don't already know i.e. more than just that stronger corporate reputations equate to higher market cap*?

Yes.

The relationship between corporate reputation and the shareholder value to which it contributes is not a simple one. While a stronger reputation equates broadly to higher Reputation Contribution (the proportion of a company's market cap attributable to the reputation), the extent to which that happens varies from company to company. Two companies may have equally strong corporate reputations but the values they represent can be quite different. Equally, two companies with the same Reputation Contribution do not necessarily have the same reputational strength.

In this light, Reputation Dividend reveals the detail of how any particular company's corporate reputation is creating (or destroying) value. It explains the level of shareholder value gain it can reasonably expect for any given improvement in the strength of its reputation – or loss resulting from a decline. It identifies the value contributed by each component and spells out the returns that can be expected from different messaging strategies.

17. *Isn't reputation value simply another expression of 'goodwill*?

No.

'Goodwill' is the technical accounting term that refers to the value of an entity over and above that of its tangible assets.

While reputation value may lie within goodwill, it can equally exist outside of it. For example, reputation influences ratings (thus value) of tangible assets such as debt.
Conversely, there might be instances where a company has a zero or even a negative goodwill. That does not automatically mean that the reputation value is similarly zero or negative. It can still be positive.

18. *If the reputation contribution is very high, does it mean that the company is more vulnerable to potential problems, internal crisis and/or the vicissitudes of the market place*?

No.

A high Reputation Contribution does equate to a higher value at risk, but not necessarily to increased vulnerability.

Just because a reputation value might have farther to fall it doesn't mean falling is more (or less) likely.

In fact, Reputation Dividend provides important insight into the source and scale of reputation value at risk, therefore better equipping management on how to secure and nurture it.

19. *If the strength of a company's corporate reputation changes by a certain amount, does the Reputation Contribution change by the same amount*?

No.

First, because while the strength of a reputation rating is an absolute measure, Reputation Contribution is a percentage of the market cap.

Second, because our model tells us that reputation works in concert with a variety of factors to create value, all of which are unique to the company in question. As a result, a specific change in the strength of the reputation rating will inevitably deliver change in the Reputation Contribution that is specific to the company in question, so by definition not a constant.

20. If the strength of a company's corporate reputation is the only factor subject to change, will any fluctuation in market cap be solely due to changes in reputation value?

Yes.

If the reputation rating (the research-based measure) changes then, ceteris paribus, the Reputation Contribution will change such that the values from the other factors remain the same.

21. ***Is the valuation process different in an ad-hoc study from the one used for the rankings*****?**

Yes.

While the model is the same, the process differs because the reputation data is sourced from different places and with distinct breadth and depth.

As mentioned before, the rankings are produced using publicly available reputation data found in the Most Admired Companies studies in the UK and in the US. We use that to specify the overarching model as it pertains to the largest public companies in each market.

On the other hand, the reputation data used in an ad-hoc study is generated from original market research tailored to the specific circumstances and needs of the company in question. That provides a more granular, timelier and more focussed picture and therefore a much richer and more comprehensive roadmap for future decisions.

22. *How can I get a Reputation Dividend study for my company? What's available*?

Reputation Dividend analytics are available at two levels.

Level 1: An individual company report based on the annual rankings (UK & US)

We offer a dedicated corporate reputation report for any company included in our research of the UK's FTSE350 and for the S&P 500 in the US.

The Level 1 report includes:

- The company's Reputation Contribution – the value of the company's corporate reputation based on the most recent study, including historical trend data (where they exist)
- Comparisons to the value of individual corporate reputations of peer group companies (i.e. those included within the data base)
- A breakdown of the main reputation value drivers and their impact on the company's market cap - the company's 'reputation risk profile' i.e. where, within the current reputation, the value is located
- A breakdown of relevant and available peer group companies' historical trend data (where it exists)
- The incremental value enhancement opportunity of each of the reputational drivers and expectations of ROI
- Contextual analysis of the company's reputation profile. We review the communications environment in order to provide sector and company specific analysis of the likely drivers behind the Reputation Dividend

- Headline pointers on reputational messaging priorities as they relate to securing and growing shareholder value

In addition, an individual company report will include listings of Reputation Contribution and Reputation Leverage for all companies in the data base along with details of the method and analysis.

The individual company report includes a face-to-face meeting to present the findings and to provide an opportunity to discuss their implications.

Level 2: Ad-hoc Reputation Dividend consulting

For any company wishing to take a deeper dive investigation we offer a second level of research and analysis. This provides a more comprehensive and bespoke examination of the drivers of a company's reputation and its capacity to drive shareholder value.

This service is for organisations that wish to assess the value and impact of corporate reputation in more detail and against company-specific or unique reputational drivers or against a specific timeframe (for example in the run up to financial results.)

Level 2 reports take account of 'on' and 'off' line reputational and financial data from a mix of the client's own internal and external sources. It also involves additional custom research as required.

These engagements also involve in-depth interviews with senior management, investment and industry analysts and communications specialists to ensure that existing corporate brand and communications strategies are factored into the analysis.

In addition to all the information in a Level 1 report a Level 2 report can provide:

- The detailed information necessary to inform executive management teams how to allocate resources and budget more effectively
- The means to align and adjust communications, messaging channels and budgets
- Guidelines for revising the internal strategies to support the reputation opportunities
- A framework to better coordinate communications and operational strategies
- The insight and knowledge to better align corporate, internal and customer brand management
- The basis of a fully integrated and on-going reputation value management programme

Level 2 engagements include regular client liaison and findings review throughout the process and culminate in a presentation and discussion with your senior leadership team costed on a case by case basis.

23. ***Can I have access to the analysis, the value components, sources etc from the ranking publication*?**

Yes.

All the input data – financial and reputation – for the company in question are included in all reports.

24. ***How often should I do it*?**

Level 1 reports can be repeated annually.

Level 2 studies should be conducted periodically as and when needed. For example, in the run up to and immediately after results, major events etc.

25. ***Is Reputation Dividend the newest fad or does it have staying power? Why*?**

The concept of brands as assets with economic value has been around since the 1980s. Since then the traditional approach to managing them has concentrated on measuring the impact of product or service brands on customers in terms of their ability to guide and secure preference to alternative options. Far less attention has been paid to the corporate brand.

Until now.

… because of the growing board room appreciation for corporate reputation as a major asset of the business in need of appropriate management.
...because of the growing understanding of the importance of integrated brand management, and the inevitable reality that brand is a singular property consumed in different ways by different stakeholders.

...because of the recognition that effective management demands objective measurement.

26. ***Does reputation Dividend only work for publicly traded companies (listed on a stock exchange)*?**

No.

Reputation value can be calculated for private as well as public companies.

Although the model is based on analysis of public companies, it can be extended to private unlisted companies. The model provides a lens through which we can examine most companies once we have the necessary input measures (described above). In these instances, however, the value is imputed rather than derived because of the absence of an actual free-floating market parameter.

27. *How large does my company have to be to justify this investment*?

No specific size is required. Rather, the decision hinges on how your company perceives reputation as a driver of your business.