What's it all about RONA? What about me, ROE? Can we value reputation?

By John Bradfield

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Corporate reputation models are important for understanding a company's reputation position in the market, how to strengthen and build reputational capital, and for ensuring that a strong reputation becomes a lasting source of competitive advantage.

Recently two authors, both academics, Charles Fombrun and Cees van Riel, visited South Africa to discuss their Reputational Quotient (RQ) model, which is detailed in their book, "Fame & Fortune: How successful companies build winning reputations", published this year. This column takes a look at reputation models and what they offer for the communications practitioner.

It's good to note at the outset the distinction that the authors make about reputation and brands: They say that a good reputation often "sits on the bedrock of a strong product or corporate brand". "A brand describes the set of associations that customers have with the company's products. Reputation involves the assessments that multiple stakeholders make about the company's ability to fulfil their expectations." As they note, a company can have strong product brands or even a strong corporate brand, but can still have a weak or poor reputation.

The strongly researched based RQ comes up with six main dimensions of corporate reputation: emotional appeal, products and services, financial performance, vision and leadership, workplace environment and social responsibility. These dimensions were surveyed among consumers in the US, Italy, Australia, and the Netherlands.

There are different weightings to each dimension with the strongest for consumers being emotional appeal and products and services. The dimension emotional appeal provides much food for thought as it indicates a good platform from which to communicate with customers. It is interesting that Johnson & Johnson rates so highly because of its emotional association with products for babies, while in reality this company is involved in many areas of pharmaceutical products that are not visible to the average consumer.

As the authors point out, generally people think most highly of companies that have powerful consumer brands. This makes it easier for a strong consumer brand company like, for example, LG to enter industrial markets with their brand so long as they clearly communicate their product performance, reliability and after-market service to the industrial customer segments. The consumer uses quite a different set of product attributes to select a microwave compared to a plant engineer who selects a drive to control a motor in a manufacturing plant. If the microwave has a day or two of downtime in the kitchen, the household can manage but in a plant the consequences for production are potentially severe.

Among the conclusions the authors draw are that reputations matter because they are "intrinsically connected to the strategic positioning of the company as a whole". "A corporate reputation is a mirror that reflects a company's relative success at convincing upstream, downstream and diagonal stakeholders about the current and future validity of its strategic direction." The authors say that the mirror is also a "magnet in that if stakeholders like what they see and hear, they support the company - and an upward spiral results that attracts more resources to the company." The converse applies when stakeholders withdraw their support: "a downward spiral results that can lead to serious consequences for the company".

The authors found that consumers are as sophisticated as investors and interpret the corporate world in terms of multiple signals that companies broadcast about the non-financial initiatives such as how it treats its employees and how it contributes to society.

They distil five principles or key ingredients from their observations - key ingredients for building quality reputations: being visible, authentic, transparent, consistent, and distinctive.

The value benefits of reputations and how reputations affect a company's operating performance include: attracting premium product prices and lower input costs, higher profits and better prospects, excess demand for a company's shares and higher market value.

They estimate the value of reputational capital based on using licensing arrangements as royalty rates for valuing intangible assets. They point out that in large public companies, intangible assets amount to an average of some 55 to 60 per cent of market value. Almost half of the intangible value is reputation; the other is intellectual assets. The value for Coke in 2002 was, for example, worth $69.9 billion (valuators Interbrand placed the value of the Coke brand at $69.6 billion in 2002).

Although it would be somewhat more difficult, one could also consider working out the contribution of investment in communications through financial measures such as RONA (return on net assets), ROE (return on equity) or even the old standard return on investment (ROI). The last one would be fairly unreliable because ROI is calculated by taking profit and dividing by net assets - because assets are quite often rather arbitrarily valued and depreciated there could be quite big swings in return from year to year, which highlights the hazards of using traditional accounting methods for valuations.

Showing that reputations matter and why reputations matter is important, but dealing with day-to-day reputation management including assaults on reputations or tackling shortfalls in reputation is the stuff of communications practitioners and consultants. It is difficult to change reputation quickly and one therefore has to invest in corrective action over time, using an arsenal of tools such as media relations, advertising, websites, events, various forms of written communications and other communications tools to change reputation and perceptions.

Reputation research is like other forms of company or product research in that it tells you the current perceptions or situation. You, as the communications professional, need to use the correct communications mix to reposition the company. Communications professionals also need to identify reputational risks and develop appropriate crisis communications plans.

There are also other reputational models - the ones individual communications professionals have developed over years to build reputations at companies; and other researched based models such as the Walker Stakeholder model, and those used by the large international public relations and communications consultancies.

A feeling of excitement gripped me after digging into the concepts in the book: "I wish I had these tools years ago as they give a clear map to follow in changing or protecting a company's reputation." However, after some reflection I noted that reality is complex and continually changing. Whatever is measured now or even just a few years ago is strictly speaking in the past. Strategy planning authors point out that we will always have to rely to some extent on limited information in decision making as the world is too complex to be understood. The term used to describe rationality when it is impossible to take into account the complexity of real life is "bounded rationality". Another term "satisficing" was invented to reflect the fact that "decision makers collect information and defer selecting a course of action until the costs of further delay and information collection are considered to be greater than the potential benefits of searching out a better option".

The communications practitioner always needs information to make decisions on managing reputation but also needs to make assumptions and to take many things on trust, analysis and intuition - judgement - to make final decisions on managing a corporate reputation. The experience level and know-how of communications practitioners therefore play an important role in determining what to do and how to do it in terms of managing corporate reputation. To simplify, there always needs to be a balance of both the art of the practitioner and the science of academics and researchers who provide information on reputation models and perceptions of different stakeholders.

One instructive example always stands out for me and that is the case of the research done for the book "In search of excellence" by Peters and Waterman. The authors researched a sample of sixty-two companies in the United States. From this research they derived eight criteria or attributes for success (remember them?):

1. A bias for action
2. Close to the customer
3. Autonomy and entrepreneurship
4. Productivity through people
5. Hands-on, value driven
6. Stick to the knitting
7. Simple form, lean staff
8. Simultaneous loose-tight properties

There wasn't a business magazine worldwide that did not write about these findings. Many business people tried to emulate these "success" principles.

A few years later Tom Peters published a solo book called "Thriving on chaos". The title was appropriate for the times (and probably for one's professional life) but the first sentence was astonishing:

"There are no excellent companies".

He elaborated little on this verdict. He did say that the era of sustained excellence was over. As a leading Asian business website notes: "Here, in effect, was the co-creator and populariser of one of the most eagerly pursued concepts in modern business turning round to his followers and saying, without apology or admission of error, 'Forget all that; listen to this.' And people did, and they still do."

Only five years after the publication of "In search of excellence", two-thirds of the companies listed in the book were in trouble. About fourteen could be judged as examples of good corporate management.

We need to always be sceptical of business theories and models. In the real world things are too dynamic and changing to be slavishly tied to best practice models. All we can be sure of is that in the future many notions including those of excellent corporate reputations will be different to those we hold up today as models of excellence.

The cautionary issued by this author is really to say that there are no instant or perfect recipes to success when it comes to corporate reputation, which is something you probably knew already. One does not wish to take away an iota from the authors or constructors of reputation models but rather to approach all models with a healthy and vigorous scepticism. There is no doubt that they can be used to great benefit as part of the diagnostic toolbox of the communications practitioner or consultant. One, however, still needs to develop the best possible plan based on whatever information is available at the time and experienced judgement, implement it, and change course as you steer along the stormy waters of the market and public opinion. Just make sure you watch the navigational gear and steer your company or client's company in the right reputational direction.

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