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The Reputation Quotient, Part 1:
Developing a Reputation Quotient

by Charles J. Fombrun and Christopher B. Foss

Measuring corporate reputations accurately is crucial if they are to be managed. Yet measures of reputation proliferate, encouraging chaos and confusion about a company's reputational assets. Some are arbitrarily performed by private panels and so are not replicable. Some are carried out with private information and so are unverifiable. The result has been a veritable cacophony of ratings, few of which are directly comparable.

To overcome the inherent biases of different rating systems, in 1998 the Reputation Institute invited the market research firm of Harris Interactive to collaborate in creating a standardized instrument that could be used to measure perceptions of companies across industries and with multiple stakeholder segments.

We began that research by asking people to name companies they liked and respected, as well as companies they didn't like or respect. We then asked them why they felt this way. When we analyzed the data from different groups and industries, the findings demonstrated that people justify their feelings about companies on one of 20 attributes that we grouped into 6 dimensions:

- **Emotional Appeal:**
  How much the company is liked, admired, and respected.
- **Products & Services:**
  Perceptions of the quality, innovation, value, and reliability of the company's products and services.
- **Financial Performance:**
  Perceptions of the company's profitability, prospects, and risk.
- **Vision & Leadership:**
  How much the company demonstrates a clear vision and strong leadership.
- **Workplace Environment:**
  Perceptions of how well the company is managed, how it is to work for, and the quality of its employees.
- **Social Responsibility:**
  Perceptions of the company as a good citizen in its dealings with communities, employees, and the environment.

We created an index that sums up people's perceptions of companies on these 20 attributes and called it the Reputation Quotient (SM). We then conducted various empirical studies to benchmark the reputations of some key companies.

Since 1999, the Reputation Institute and Harris Interactive have studied the reputations of over 200 companies based on interviews with over 100,000 people using the RQ instrument. We've done so in the US and Australia, as well as in a dozen other countries and regions, both online and by telephone. The results indicate that the RQ is a valid instrument for measuring corporate reputations and can be used to benchmark companies across industries and countries. The RQ is therefore rapidly developing into a standardized instrument for assessing corporate reputations around the world.

What is emerging from the RQ and other studies is that there is a hidden cost that companies pay for lesser reputations. As explained in the next section (see Part 2, elsewhere in this issue), our research shows that a weakened reputation generates lower regard from investors, and hence lowers the company's market value.

PART 2

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The Reputation Institute is a network of academics and practitioners founded in 1997 to study corporate reputations. For more information about the Reputation Institute, see http://www.reputationinstitute.com

NEW IN THIS ISSUE:

The John McCain Syndrome: The Old Role Of The PR Person Is Over

The Reputation Quotient by Charles J. Fombrun and Christopher B. Foss

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Discovering The Secret Language Of Your Constituents: Monitoring Multiple Points of View In Media Performance by Craig Carroll

Letter From Europe: Corporate Reputation and National Pride: A PR Minefield by Antonio Ortolani

Case Study: Hewlett-Packard Implements A Multinational Media Analysis by Lisa Reilly

TrendWatch: Reputation Rules

Academic efforts to quantify the value of reputation confirm that there are large economic premiums associated with corporate reputations. For instance, a study conducted at the University of Texas at Austin compared ten groups of companies with similar levels of risk and return, but different average reputation scores. Results showed that a 60% difference in reputation score was associated with a 7% difference in market value. Since an average company in the study was valued at $3 billion, that means a 1-point difference in reputation score (from 6 to 7 on a 10-point scale) would be worth an additional $53 million in market value.

Another project conducted at the University of Kansas suggests that reputational capital may involve even higher returns. A team of professors examined the relationship between market value, book value, profitability, and reputation for all the firms rated in *Fortune*'s “most admired companies” survey between 1983 and 1997. They concluded that a 1-point change in reputation was associated with an average of $500 million in market value.

More recently, the Reputation Institute examined some 35 companies whose RQ scores we had measured with Harris Interactive in both 1999 and 2000. An analysis of the stock prices of these companies revealed that a strong relationship exists between a change in RQ and a change in a company's market value. Specifically, a positive 1-point increase in the RQ was associated with higher average market values of some $147 million, while a 1-point decrease was associated with market values that were lower by about $5 billion. These results suggest that a ‘value spiral’ operates through which better-regarded companies attract more investors who bid up their market value and further improve their reputations.

The good news is that research confirms that reputations are valuable assets, however intangible. The bad news is that the size of the effect is still in question. It's a safe bet to conclude from these studies, however, that reputations are worth a lot more than companies are now spending to manage them.

PART 3

So far, there are five principles we've learned from the Reputation Institute's measurement and analysis of corporate reputations (See Part 1 and Part 2 of this series elsewhere in this issue):

1. **The Principle of Distinctiveness**
   Strong reputations result when companies own a distinctive position in the minds of resource-holders. Take Intel and AMD, the two titans of microprocessors in the semiconductor industry. Both offer products of comparable quality, speed, and power. Yet Intel dominates AMD in the minds of computer buyers and other observers. Why? Because Intel owes its reputation, not to the quality of its products, but to the “Intel Inside” campaign that virtually defined those products as essential components of quality and high-tech ingenuity “powering” the better computers. The campaign assured Intel's reputation as the guarantor of excellence to the end user. In short, Intel made itself distinctive.

2. **The Principle of Focus**
   Strong reputations result when companies focus their actions and communications around a single core theme. Consider Johnson & Johnson. The company ranks tops in public trust. This is no accident: trustworthiness is a focal point of all J&J's communications. It is evident in advertisements that single-mindedly portray J&J as a nurturing and caring company, with babies and children invariably featured or mentioned (despite the fact that J&J's baby products division represents less than 7% of the company's portfolio).

3. **The Principle of Consistency**
   Strong reputations result when companies are consistent in their actions and communications to all resource-holders. Our surveys suggest that better-regarded companies are more likely to orchestrate and integrate their initiatives cross-functionally. Companies with weaker reputations suffer from maintaining compartmentalized relationships with constituents.

   Yet fragmentation of initiatives and communications remains the norm. Siloed staffs in Community Relations (and often in remote foundations) manage relationships with local community groups; in Investor Relations with analysts; in Advertising Departments (and in remote ad agencies) counsel on product and corporate positioning; and in Human Resources typically manage employee communications. Centripetal forces virtually guarantee inconsistency in what is said and done with a company's different

constituencies.

4. **The Principle of Identity**
   Strong reputations result when companies act in ways that are consistent with espoused principles of identity. Spin is anathema to reputation-building, and in time all efforts to manipulate external images that rely purely on advertising and public relations fail when they are disconnected from the company's identity.

   In 1996, Royal Dutch/Shell embarked on an ambitious effort to rebuild a corporate reputation that was torn apart by the media following the company's mishandling of two major crises in 1995. The program it developed was rooted in a soul-searching process that required identifying the company's business principles and "core purpose" — the authentic values it supports and the behaviors it is willing to endorse. Focus groups held around the world unearthed that Shell's core purpose as defined by employees and leaders was about "Helping to Make the Future a Better Place," and this has since become an anchor for many of the company's internal communications.

5. **The Principle of Transparency**
   Strong reputations result when companies are transparent in the way they conduct their affairs. Transparency requires communication —a lot of it. The Reputation Institute recently contrasted the communications of a group of high-RQ companies against direct rivals with lower RQs. The findings support the idea that companies with stronger reputations are more visible across all media. They disclose more information about themselves and are more willing to engage stakeholders in dialogue.

   The nature of the information they disclose and the exact impact of such information on corporate identity makes all the difference. Now, due to the joint efforts of the Reputation Institute and Delahaye Medialink in creating a powerful, automated survey instrument called Media Reputation Index®, the drivers of corporate reputation, as filtered by the media, can be precisely measured.

Conclusion
If competition is the motor of the market economy, reputation is the fuel that makes it run. Alan Greenspan, Chairman of the US Federal Reserve, put it this way in his commencement speech at Harvard University on June 10, 2000:

"In today's world, where ideas are increasingly displacing the physical in the production of economic value, competition for reputation becomes a significant driving force, propelling our economy forward. Manufactured goods often can be evaluated before the completion of a transaction. Service providers, on the other hand, usually can offer only their reputations."

"Reputation management" is an emerging discipline whose central tenet is that strong reputations result from initiatives and messages that are in tune with the distinctive values and personality of a company, and which are meaningful to all company constituents and stakeholder groups. It suggests that the essence of reputation-building lies, not in posturing, spin doctoring, wordsmithing, or puffery — the characteristics that gave old line corporate communications a bad name. Rather, it presents reputation management as a source of competitive advantage —and nothing less than enlightened self-interest. ###

Education is a progressive discovery of our own ignorance.
-Will Durant