



IRM Enterprise Risk Management SIG

Quantifying the value of reputation

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Reputation Institute is the world's leading reputation consulting firm combining academic research with fact-based advice

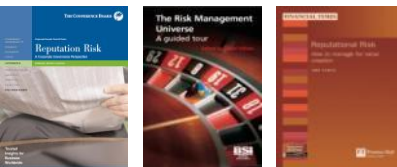
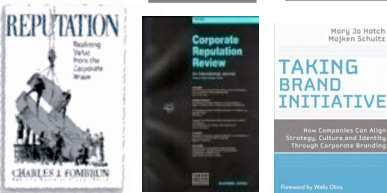


Knowledge

Advice

- Conferences
- Publications
- Networks

- Insight
- Strategy
- Alignment



15th

INTERNATIONAL CONFERENCE ON CORPORATE REPUTATION, BRAND, IDENTITY AND COMPETITIVENESS

NAVIGATING THE REPUTATION ECONOMY

NEW ORLEANS, USA • MAY 18-20, 2011



TAKING THE REPUTATION PULSE" OF UK BUSINESSES

Breakfast seminar - 6 April IOD London

http://www.reputationinstitute.com/uk_reptrak_pulse_2011

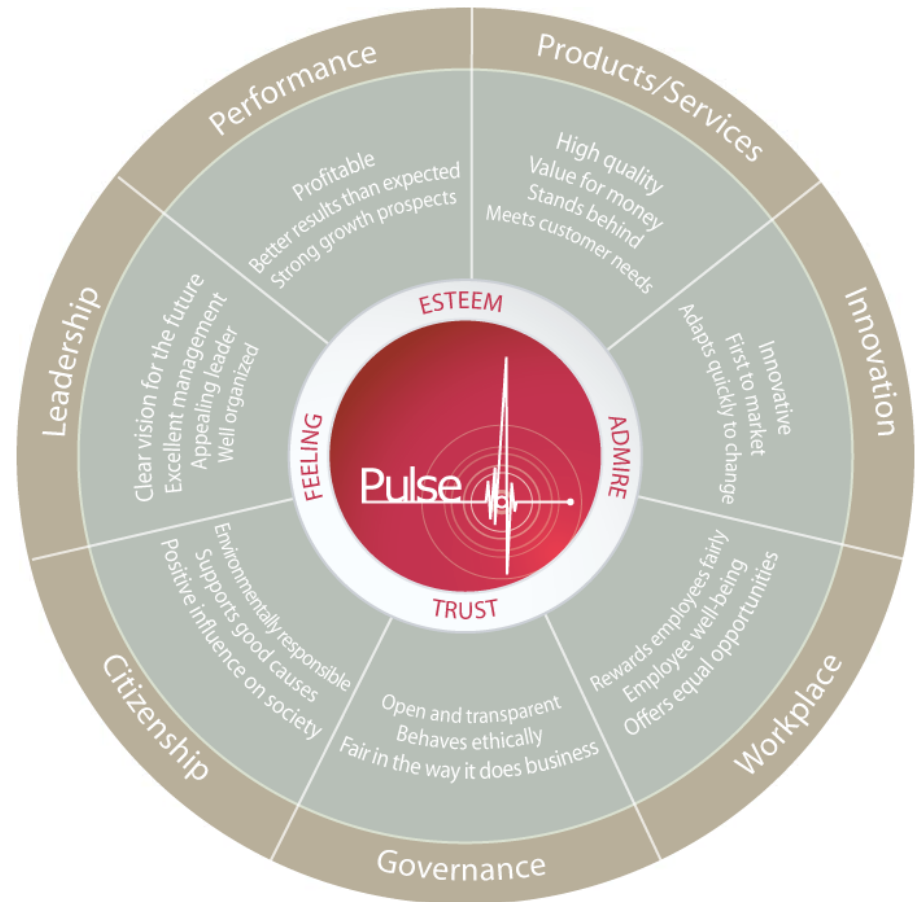
We help organisations improve relationships with their stakeholders

Key Components

1. Pulse
2. 7 Dimensions
3. 23 Attributes*

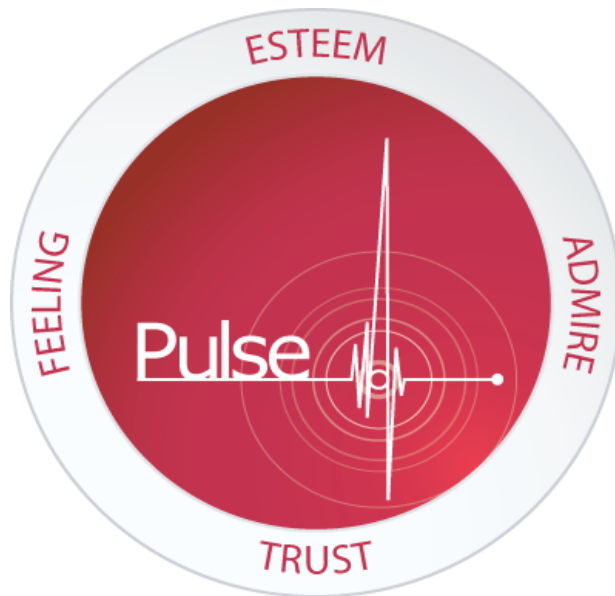
Key Benefits

1. 10+ Years Development
2. Possibility for Client-Specific Customization
3. Cross Stakeholder Application
4. 29 country benchmark database



Our research shows that a strong corporate reputation drives strong support from stakeholders

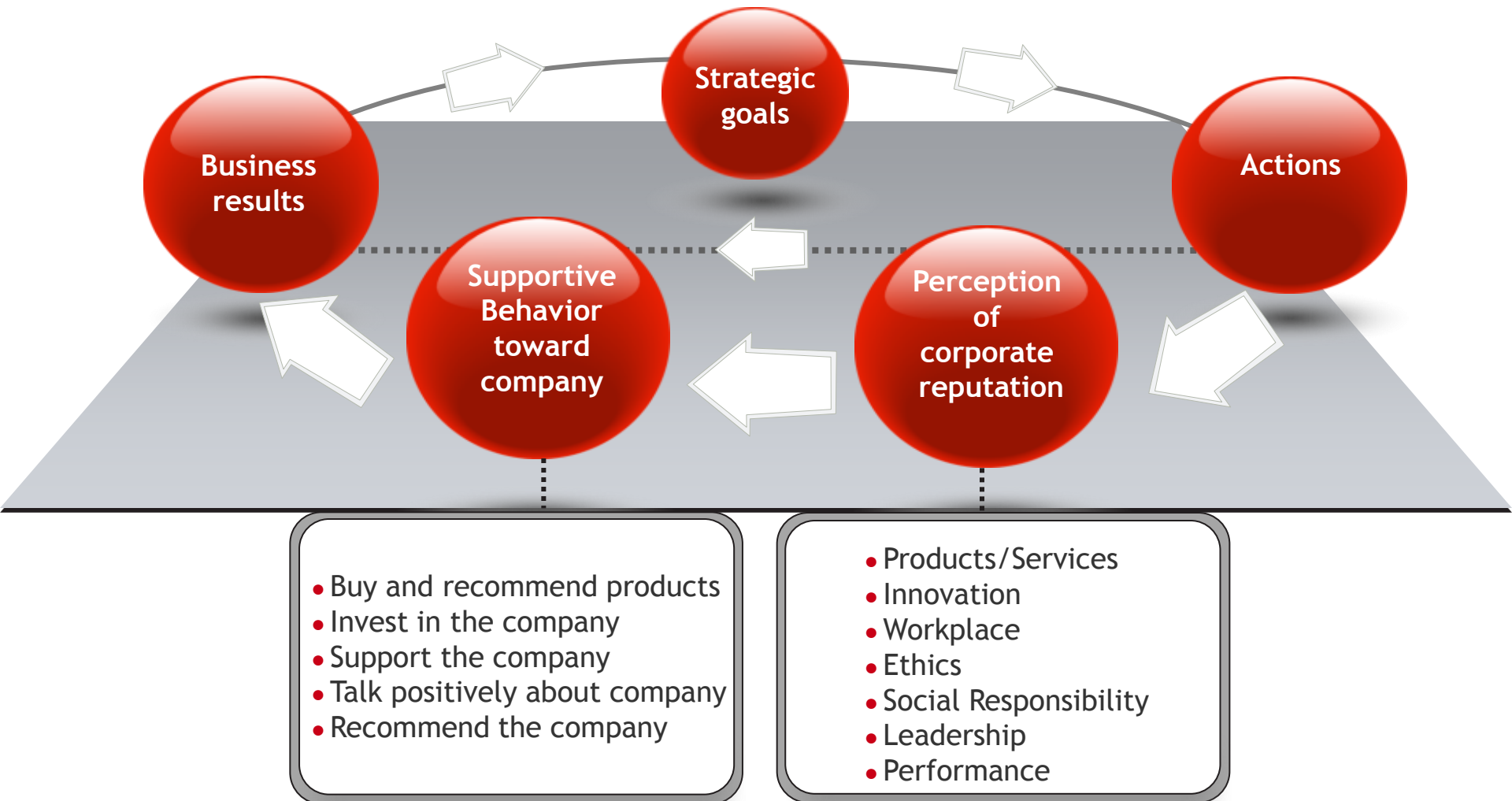
An emotional bond ...



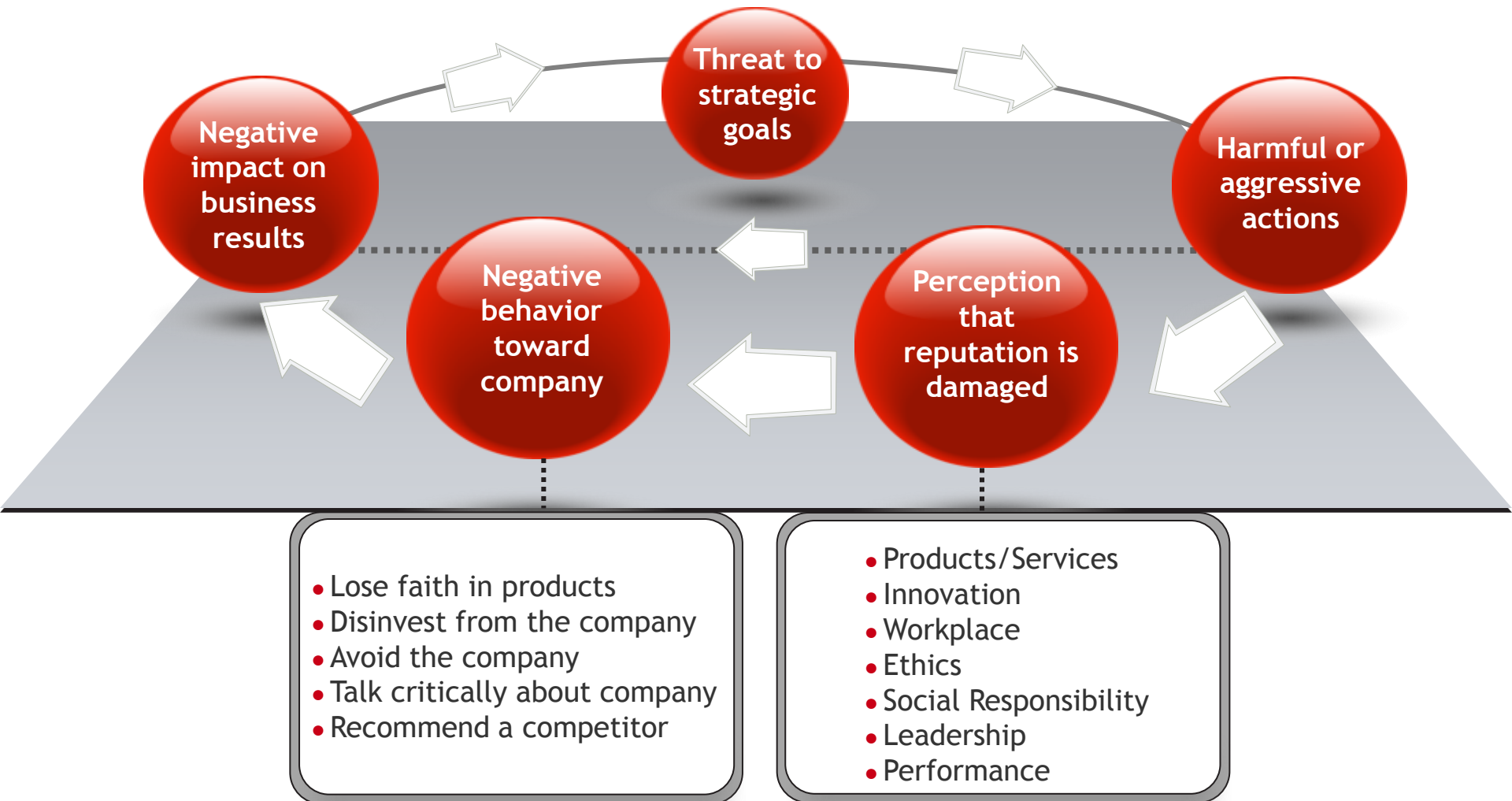
... that ensures

- Your customers are **loyal**
- Your customers **recommend you**
- Your partners **support you**
- Policy makers and regulators **give you the benefit of the doubt**
- The media looks for **your point of view**
- Your employees **are engaged and deliver on your strategy**

We identify supportive behaviours



... and address issues of reputational risk



Reputation – definitions

“A collective representation of a company’s past actions and results that describe its ability to deliver valued outcomes to its stakeholders ”

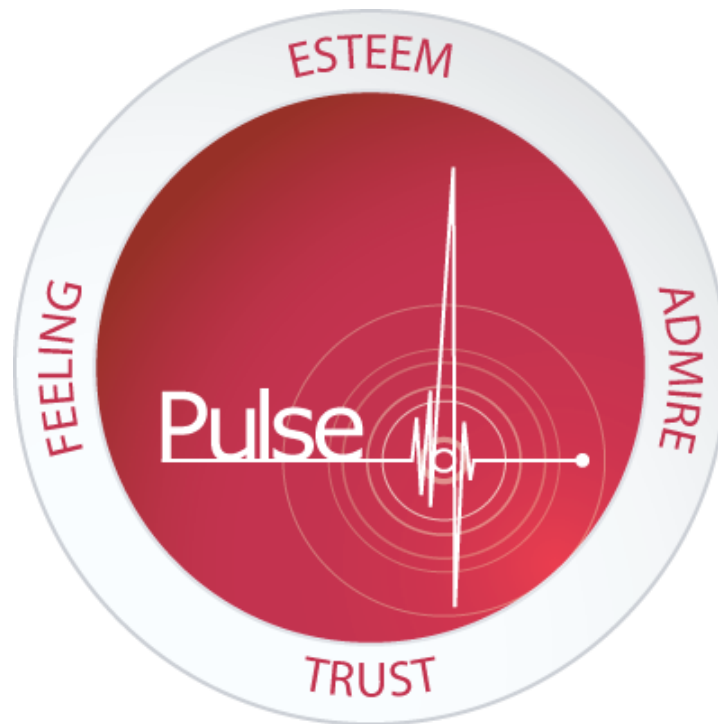
(Fombrun, 2001)

“The shared values of a company and its stakeholders that drive the trust, confidence and support an organisation can expect from those stakeholders ”

(Dowling, 2001)

What is reputational risk?

“A reputation risk is a negative event that will impact stakeholders’ perception of a company”



Reputation risk – definition

“The key element of reputational risk is the risk of damaging the institution’s trustworthiness in the marketplace – the impact of a specific event that could worsen, or affect negatively, the perception of a company’s reliability, of its services’ quality, its management fairness, or more generally its trustworthiness. This negative or worsened perception could spread from its own employees and customers, to financial markets, investors, shareholders, counterparties, governments and/or regulators . Consequently, reputational risk is arguably the worst type of risk a financial institution is exposed to.”

Soprano, Crilliard, Piacenza and Ruspantini, in ‘Measuring operational and reputational risk – A practitioner’s approach’, Wiley 2009

The holy grail – why bother?

- **Management needs to understand how intangible assets can be harnessed and grown to**
- **... determine investment priorities ...**
- **... justify risk management approaches ...**
- **... set/amend strategy ...**
- **... address regulatory requirements (Pillar 2 of Basel II)**
- **... deliver directors duties – s172 Companies Act 2006**

Quantification – a bridge too far?

- **“Value at risk is a misnomer – it is a ‘bit of the value of the bit of the risk’. It is time we moved away from detailed but incomplete quantitative models and built comprehensive if qualitative ones”.**

Chase Cooper, Operational Risk 2008

“Approaches based on over simplistic maths”

Lord Turner, Chair, Financial Services Authority, July 2009

“We now understand that risk management is not about measurement at all but rather about the quality of the decisions we make in the face of uncertainty”

Rodney Sullivan, CFA Institute FTfm 3 August 2009

The limits of quantification

Share price volatility (cf Arbitrage Pricing Theory)

- **“The unsatisfactory statistical results seem to reinforce our opinion on reputational risk modeling: we believe that a qualitative approach could produce a better fitting.”**

Scenario modelling (cf qualitative operational risk modelling)

- **“We think for process owners (...assessing indirect effects...) could be very hard”**

Scorecards

“Particularly useful – indicate the value of the multidimensional impacts of reputational type events

Soprano, Crilliard, Piacenza and Ruspantini, in ‘Measuring operational and reputational risk – A Practitioner’s Approach’, Wiley 2009

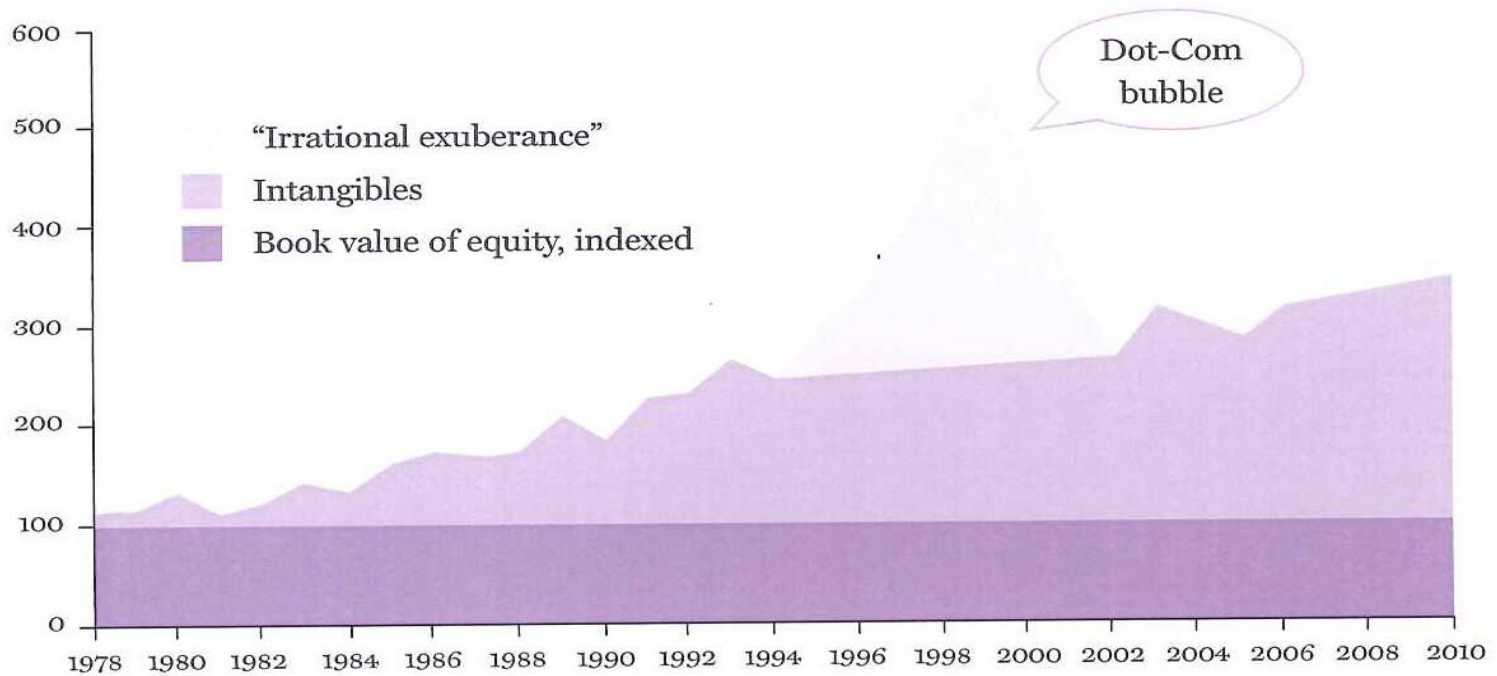
Issues for consideration

- **Is reputation the most important intangible? What about brand? Human capital? Intellectual property? Innovation? Customer service?**
- **When balance sheet values change, and fixed assets remain (broadly) the same, how do we make sense of the fluctuating value of the intangible assets?**
- **Are *ex post* rationalisation and *ex ante* calculation defensible?**
- **If reputation is the sum value of the perception of stakeholders, how do we quantify value from a stakeholder perspective?**

The growth of intangibles

Fig 1. The growth of intangibles

Market Capitalization of the S&P 500
1978-2005 – (Index 100 = book value off equity)



Sources: S&P; Bloomberg; Millward Brown Optimor analysis

The intangible revolution, IPA, 2006

Establishing some groundrules

- **Fundamentals rule – but execution matters**
- **Measurement counts**
- **Governance is key**
 - **linking stakeholder process → business process → business plan → results**
 - **appropriate metrics – based on the value chain**
 - **value analysis – at what point customer revenues will be affected**

Good governance strengthens the prospects of recovering from a crisis situation

Crisis strikes

Better governed companies

Less well governed companies



This is still the authoritative piece of research on reputation management confirming the importance of management systems

Rory F. Knight and Deborah J. Pretty, *Corporate Reputation Review*, Vol. 2, No. 4, 1999

A growing body of evidence that reputation & market value are linked (2000-2009)

**Cumulative
Abnormal
Returns**



Proxies for measuring, modeling, managing and monitoring

- **loss as a result of crystallisation of operational risk**
- **costs of re-establishing business continuity**
- **costs of increasing internal control capability due to regulatory intervention**
- **loss of customers**
- **exit or demoralisation of skilled staff → slowdown of innovation , deterioration in products and services etc ...**
- **cost of capital**
- **transaction costs of restoring damaged stakeholder relationships**
- **impairment of long-term sustainability**
- **correlation with the risk register**
- **effects on revenues, cash flow, liquidity, earnings growth**

About Reputation Institute

Reputation Institute is the world's leading reputation consulting firm. As a pioneer in the field of brand and reputation management, we help organizations unlock the power of reputation.

With a presence in more than 20 countries, we are dedicated to helping organizations improve relations with their stakeholders.

Our Global Reputation Pulse is the largest study of corporate reputations in the world, identifying what drives reputation and covering more than 1,000 companies from 30 countries annually. We provide specific reputation insight from more than 15 different stakeholder groups and 24 industries, allowing clients to create tangible value from intangible stakeholder feelings.

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Our Network

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Denmark	Ireland	Spain	United States