

Reputational Capital

By Theo Coggin

As published in 2001: The encyclopaedia of brands and branding in South Africa

Today's society makes judgements on reputation in both a subjective and objective manner. Measuring reputation is now being refined to a point where it can be applied to the bottom line, making the imperative ever greater to promote, protect and preserve the reputation of an organisation as if it were your own – for it is.

Never before has building reputation been so crucial to a company's success as it is in the Information Age. Ensuring a sound identity and good image has become increasingly important – more so by the day – in an ever-shrinking world in which reputations can be detonated by the simple pressing of a computer key. The chief executive of yesteryear could be reasonably certain that he could keep mishaps behind closed doors. Transparency had not yet become a buzzword; neither was the pressure on in terms of the demands of corporate governance to report openly.

More significantly, the influence of the World Wide Web had not yet started to bite. The contemporary world is far different to what even the most innovative thinkers thought it would be. There is an abundance of chat rooms on the web in which investors and activists alike can exchange views and influence share prices and, not least, reputations. What is more, search engines ensure that anything on the web stays there. There is no control over what anyone can put on the Web. And, with the highly sophisticated and ever-improving technology that gives us all access to the Web, that information – good or bad – stays there for a long, long time. The potential to do instantaneous damage has never been greater, nor has the ability of those who want to attack a company or industry, ever been more tempting. The likelihood is that it will become still more so, as the Internet becomes even more accessible in developing and even under-developed countries.

In South Africa the first report of the King Commission on Corporate Governance concentrated the mind of corporate boardrooms on the need to report more fully and transparently. The second report, due out within days of this article being penned was widely touted in the media as broadly addressing precisely the issues germane to this article.

Now, more than ever, a company's reputation should be seen as a strategic issue that influences the bottom line in a direct and measurable way. Commercial success and respect depends on a sound reputation, as much as it does on good corporate governance.

Indeed, it has been illustrated that reputational capital is directly attributable to the perception, on a number of fronts, of a company's image. Professor Charles J Fombrun of New York University has done seminal work in this respect. Those involved in issues such as

brand building, brand equity, public relations, advertising and the like would do well to pay heed to the development of Fombrun's measurements – what is termed the Reputational Quotient (RQ)ⁱ and developed with Weber Shandwick Worldwide – that determine reputational capital. In a remarkable exercise, which has enjoyed scant (if any) publicity in South Africa, empirical studies have been conducted since 1999 to benchmark the reputations of some key companies. Indeed, the Reputation Institute, which Fombrun heads, and Harris Interactive have studied the reputations of more than 200 companies based on interviews with over 100 000 people using the RQ techniqueⁱⁱ.

The Reputation Institute lists 20 attributes, or “drivers”, that can be grouped into six dimensions. It is of more than passing interest that all of these are consistent with the King Reports on Corporate Governance.

- Emotional appeal – how much a company is liked, admired and respected;
- Products and services – perceptions of the quality, innovation, value and reliability of a company's products and services;
- Financial performance – perceptions of the company's profitability, prospects and risk;
- Vision and leadership – how much the company demonstrates a clear vision and strong leadership;
- Workplace environment – perceptions of how well the company is managed, what it is like to work for, and the quality of its employees; and
- Social responsibility – perceptions of the company as a good citizen in its dealings with communities, employees and the environment.

Briefly described, the process involves asking respondents, from the person in the street to opinion makers such as investor analysts, to complete a scorecard. Through this, corporates are measured on a simple scale, using the reputation drivers as the reference point. This creates a reputation scorecard for each organisation – one that can be used for comparative purposes and to set aims and objectives. Scores for each driver are then averaged, producing the RQ for that companyⁱⁱⁱ.

So what, one might ask, have all these issues to do with measurement? In a country in which our newly acquired freedom has spawned a multiplicity of organisations, some statutory, some not, that are there to keep an eye on the performance of organisations, reputation is anything other than what was once derisively referred to as “soft”. Human Rights and Gender Commissions, Freedom of Expression Institutes and a fistful of similar bodies, not forgetting the influential NGO sector and the environmental lobby, now have a collective power to coerce organisations to be transparent. A good reputation removes pressure.

If this sounds unconvincing, think of some recent cases of damaged reputations that spring to mind. Consider them against some of the drivers mentioned above. Taken at face value the following top-of-the-mind illustrations from 2001 alone for just three categories will almost certainly elicit a negative measurement in your own mind; put the acid test of empirical interrogation and the results might well be alarming for the organisations concerned.

In respect of emotional appeal, for instance, consider how much the national carrier is liked, admired and respected after SAA made a massive pay-out to its former chief executive. In so far as perceptions of equality, innovation, value and reliability (the Products and Services driver of the RQ) are concerned, take a measure of the damage caused to the major banking institutions in this country in mid-year 2001. Few could have been impressed when they had to be brought to heel by the Governor of the Reserve Bank to get them to reduce their interest rates in line with cuts implemented by the central bank. Banks are institutions people love to hate – their reputations will never be enhanced in taking steps that are out of line with a central bank and impact, at the same time, negatively on the investor and person in the street. As for financial performance, does one have to look any further than Didata as an example that everyone could measure – and which newspaper headlines gleefully did in mid-2001 – as they watched the wunderkind of the South African IT industry almost tripping over its FTSE 100 rating? This followed a delayed trade statement which, when it eventually came, was widely interpreted as a profit warning.

Of course it is perhaps always easier to pluck the negatives out of the air – human nature means that it is the negatives that we remember most clearly. Negative perceptions can be undone – but it is always tougher to do that than to have a strategy whereby the organisation's reputation will be steadily promoted, protected and preserved.

The strategic importance of corporate reputations cannot be gainsaid. And closely linked with this is the value of your brand. For building brands has much to do with protecting and enhancing the reputation of something even bigger – the very reputation of your organisation. It is about making strategic decisions that will make a fundamental change to your bottom line – and therefore this must be positive. Very often the brand is the organisation and, in fact, even the individual – such as today's Bill Gates of Microsoft or yesterday's Walt Disney, who had (and still does) even a stronger "personality" brand value.

It is with this general view in mind that the RQ of Fombrun should be taken seriously and, more importantly, rigorously applied by those companies and organisations that understand the importance of reputation building. Most marketers who would recognise the resonance that comes in the statement that many boards and their chief executives would pooh-pooh any suggestion that something like reputation could possibly be accurately measured, and measured in terms of effect on the bottom line. Yet this is what reputational capital is all

about. To quote Fombrun's definition: "A company's reputational capital is the excess market value of its shares – the amount by which the company's market value exceeds the liquidation value of its assets."^{iv}

To be sure reputational capital will at times be buffeted by "acts of God" over which the organisation has no influence. In this country the devastating mining accidents that so often tragically claim lives are an apt example, but it is the manner in which South Africa's large mining houses, like the New York-listed AngloGold, have developed swift proactive and sensitive responses that have protected their reputation. Indeed, I would argue that the sight of their chairman and their then-chief executive, Bobby Godsell, in the midst of grieving and disenchanted trade union members after such an accident does wonders for stability in the workplace and the market. Thus it is the strategic manner in which one acts that, in the long run, will dictate whether the reputation can be sustained, or whether it will plummet.

So often it is the little things that, if not carefully thought through and well managed (either by the organisation or a senior person in the corporation) dent the image. When Daimler Chrysler in South Africa came under the spotlight following revelations regarding the acquisition of a Mercedes Benz 4x4 by the chief whip of the governing African National Congress, Tony Yengeni, their spokeswoman reacted with apparent bemusement when contacted on a Friday afternoon. She told the country's biggest circulation newspaper when approached for comment: "You are not getting anything from me. You can't call me at five on a Friday afternoon. I'm in my bathroom and you can print that in your Sunday Times." So they did, together with the damaging story which they were doubtlessly phoning her about.

This is a telling example of a comment almost designed to damage credibility in the face of a crisis, bordering on hostility to boot, by the spokesperson of a company which already had its back to the wall in dealing with allegations surrounding the multi-billion rands arms deal concluded by the South African government. It certainly did nothing for the company's reputation as a manufacturer of reliable motor vehicles.

The increasingly demanding world in which we work incessantly places the spotlight on reputation and all the elements which go to make it up. The future of brands depends on it. Reputation capital can suffer from many crises – not least the fact that the volatility of a stock market can impact on both listed and unlisted companies, organisations in general and even governments, when they least expect it. But, with clever strategy and careful prior planning – both prerequisites in any corporate marketing communications plan – it can be promoted, protected and preserved.

Bibliography

Fombrun, Charles J: Reputation – Realizing Value from the Corporate Image, Harvard Business School Press, Boston, 1996

Jolly, Adam (Consultant Editor): Managing Corporate Reputations, Kogan Page Ltd, London 2001

Footnotes:

ⁱ For a detailed explanation and the role of Weber Schandwick Worldwide see Managing Corporate Relations, edited by Adam Jolly, page 30.

ⁱⁱ See article by Charles J Fombrun in AmericanBanker.com, May 23, 2001, Reputations: Measurable, Valuable and Manageable.

ⁱⁱⁱ Managing Corporate Relations, page 30.

^{iv} Fombrun, Charles J, Reputation, page 72.