The 2013 – 2014 UK Reputation Dividend Study
Headlines and Highlights

Corporate reputations delivering more shareholder value to UK companies than at any time since 2007

Combined value of reputations across FTSE350 standing at £911bn at start of 2014

Unilever, Diageo and Royal Dutch Shell lead UK listed companies with over 54% of their market caps contributed by reputation

FTSE250s lag behind more international FTSE100s, but are poised for growth

Greatest reputation value gains to be made by companies aligning their reputations to investor interests which are increasingly looking to growth characteristics

Introduction

This paper summarises the state of corporate reputation in the UK’s leading public companies. It is our seventh annual report and covers nearly 160 of the largest companies in the country.

The annual Reputation Dividend study offers a unique perspective on how well, or not in some cases, those intangible assets that are corporate reputations are working. It takes simple measures of reputation strength from survey research and explains the economic consequence for the company’s shareholders. This is expressed as the Reputation Contribution – the proportion of a company’s market capitalisation attributable to its reputation asset. It is important insight into the bottom line of reputation management and a source of answers to many of the reputational challenges facing business leaders seeking a more strategic approach to securing and growing the economic value their companies’ reputations return to shareholders.

The 2013-14 UK study ran in parallel with our US study and was based on data reported from late 2013 through to the start of 2014.
Overview

Corporate reputations are now delivering more shareholder value than at any time since 2007

Optimism for the upturn, large volumes of yield seeking cash from the government’s quantitative easing programme allied with improved corporate reputations produced a steady uplift in market capitalisations across the FTSE350. Regardless of the fact that earnings struggled to make much headway the combined value of the index was up by 11% at the end of 2013. Investors may not necessarily have seen the corporate profits growth they were hoping for but confidence, fuelled by stronger, more compelling corporate stories, continued to build and the recovery held steady.

Value Growth to 2014
FTSE350

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All of which pushed the combined value of reputation across the index to close to £911bn, £108bn or 13% more than a year earlier. By contrast, the non-reputational component of market capitalisation was up 4% points less increasing by 9% underlining disproportionate impact of company reputations.

In a year marked by continued banking fraud, PPI mis-selling, supply chain issues such as the horsemeat scandal and sweatshops in the fashion industry, there is a growing need and appetite for corporates to be held to accountable for their reputation above and beyond delivery of financial performance and in a way that assures investors and stakeholders that sound management is in place.

And the evidence is clear. Corporate reputations are contributing more to shareholder value than at any time in the last seven years which, while gratifying in part underlines the importance of strategically directed communications and corporate behaviour to secure assets that otherwise represent a considerable level of risk.

**Unilever and Diageo jump to number 1 and 2 spots with the most potent corporate reputations in the UK**

<table>
<thead>
<tr>
<th>Rank Position 2012</th>
<th>Change vs 2012</th>
<th>Reputation Value</th>
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<tbody>
<tr>
<td>1</td>
<td>-5.1%</td>
<td>£73,256m</td>
</tr>
<tr>
<td>2</td>
<td>8.8%</td>
<td>£42,238m</td>
</tr>
<tr>
<td>3</td>
<td>1.9%</td>
<td>£28,281m</td>
</tr>
<tr>
<td>4</td>
<td>0.0%</td>
<td>£40,583m</td>
</tr>
<tr>
<td>5</td>
<td>6.1%</td>
<td>£26,286m</td>
</tr>
<tr>
<td>6</td>
<td>0.0%</td>
<td>£11,199m</td>
</tr>
<tr>
<td>7</td>
<td>1.0%</td>
<td>£9,585m</td>
</tr>
<tr>
<td>8</td>
<td>-6.8%</td>
<td>£21,793m</td>
</tr>
<tr>
<td>9</td>
<td>2.0%</td>
<td>£3,100m</td>
</tr>
<tr>
<td>10</td>
<td>5.2%</td>
<td>£6,177m</td>
</tr>
</tbody>
</table>
Unilever moved up three places in the overall reputation value rankings to take the top spot from Royal Dutch Shell and now boasts the UK’s most potent corporate reputation. Buoyed by its strong position on ethical performance the company’s Reputation Contribution increased to 58% putting its value at the beginning of January at close to £42bn. That was nearly 9% ahead of where it had been a year earlier and indicated that the improvements to the company’s reputation were responsible for nearly £7bn of incremental value or 88% of the increase in its market capitalisation.

Diageo took second place (up from third) with a 2% gain in its Reputation Contribution. Unlike Unilever however, the rise followed improvements in perceptions of specific value generating components rather than an increase in the overall strength which was largely unchanged. Similarly, a better structured but marginally weaker Rolls Royce’s reputation asset (down 1% point in strength) delivered the same Reputation Contribution as in 2012.

By contrast, the 8% increase in the strength of SABMiller’s reputation only managed to push the Reputation Contribution up by 6% because the gains were proportionately more in the non-value generating components.

Further down the table other companies, for example AstraZeneca, suffered a marked loss of reputation value. Issues relating to marketing practices in China, revenue and earnings pressures, an ‘ageing’ product portfolio etc combined to chip away at the confidence of investors and lead to halving of the Reputation Contribution to nearly 17%.

Reputation management is far from a blunt instrument and the scale of value returned on the investment depends on driving evidence-based messaging on the aspects that drive market appreciation and support.

**Confidence grew across the board but conviction for the UK economy remained a limiting factor**

One of the consequences of the economic crisis has been a divergence in Reputation Contribution between FTSE100 and FTSE250 companies.

As the downturn took hold reputations in the smaller index struggled to deliver anywhere near the levels of confidence they were creating in the FTSE100. Sentiment improved across the board but investors remained less assured about the prospects of many FTSE250 companies i.e. those with a more UK centred outlook than they were with those that are more global.
Reputation Contribution, amongst other things an indicator of ‘confidence’, went up in 2013 but FTSE250s continued to lag their peers in the FTSE100. UK-centric companies are still seen as behind the curve with growth prospects that lag their more multi-national competitors.

Looking ahead, we expect the Reputation Contribution trends to converge as and when the upturn takes firmer hold. The average across the FTSE100 is likely to decline as harder evidence in the shape of improved financial performances delivered becomes more commonplace. At the same time, the average in the FTSE250 is likely to grow as it aligns with FTSE100s and confidence in the domestic economy starts to catch up. The evidence of this year’s analysis and wider macro-economic reporting suggests that we may be at a tipping point and entering a period where companies will increasingly win by deploying reputation assets to the value potential they represent.

The power of reputation to create shareholder value went up markedly in 2013 in response to growing optimism

Not only did the average Reputation Contribution across the FTSE350 rise in 2013 (+1% point in the 12 months to November) the potential of reputation to create new shareholder value also went up. Whereas a 1% rise in reputation strength would have produced an average market capitalisation increase of 1.7% in 2012 the same improvement would deliver nearly 2% at the end of 2013. In absolute terms that equates to £4bn more shareholder value. The gain is larger because market capitalisations are higher but more importantly, because the proportionate impact is greater.
The growing potential to generate value was evident in both the FTSE100 and FTSE250 though to a lesser degree in the smaller, more UK-centric index, which remains ‘behind’ in terms of growth expectations.

**Reputation Leverage**

![Graph showing the increase in Reputation Leverage from 2012-13 to 2013-14 for All, FTSE100, and FTSE250.]

The increase in Reputation Leverage – the extent to which growth in reputation strength is likely to build market capitalisation – reflects rising investor confidence in the potential for economic returns; the merit of investing in reputation has increased. In that, it reveals important communications opportunities for companies seeking to use their reputations as strategic assets and structure them for value growth through appropriately focussed messaging.

**Comms and IR professionals must look to the evolving interests of the investment community in order to optimise reputation value**

2013 saw a distinct shift in the messages that matter to investors. ‘Recovery’ characteristics have become significantly more important as the upturn gathered momentum and perceptions of companies’ ‘ability to attract talent’ and ‘use of corporate assets’ are now the two most impactful characteristics; ‘attracting talent’ in anticipation of a growing competition for staff and ‘use of assets’ in recognition that earnings growth will continue to be difficult given revenue growth is expected to remain constrained.

Separately, messages relating to companies’ ‘ethical, community and environmental’ credentials have started to find traction for the first time in three years. This is a consequence of the growing criticism of, for example, ‘exotic’ tax planning practices more often than not described by the media as means to avoid payments. Investors may well recognise
such activities as effective tax management but, when not handled carefully or without “compensatory” actions such as demonstrations of good citizenship, something that could have a deleterious effect on consumer attitudes and ultimately, revenues.

Overall the signs are clear. Investors are, on the whole, looking ahead to the next phase of the economic cycle with growing optimism. They recognise that recovery remains fragile and vulnerable to shocks but, that apart, are increasingly responsive to evidence and messages relating to companies’ superior ability to succeed in more benign trading environments.
How Reputation Dividend Can Help

Our analytics are applied on two levels.

**Level 1: Individual company reports**

A dedicated analysis of your company’s reputation based on data and analysis from our 2013-14 study of nearly 160 of the UK’s largest public companies.

A report includes:

- Your company’s Reputation Contribution – the value of your company’s corporate reputation – and historical trend data (where they exist).
- Comparisons to defined competitors and peer group companies.
- A breakdown of the sources of your company’s reputation value and their individual contribution to market capitalization - your company’s ‘Reputation Risk Profile’.
- The incremental value potential of each reputational driver and likely ROI – ‘what if’ analysis exploring different messaging possibilities.
- Pointers on reputational messaging priorities as they relate to securing and growing shareholder value.

An individual company report includes a meeting to present the findings and opportunity to discuss their implications.

**Level 2: Ad-hoc research and consulting**

For any company wishing to make 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 impact of corporate reputation in more detail and against company-specific reputational drivers or against a particular timeframe (for example in the run up to financial results).

Level 2 reports take account of reputational and financial data from a mix of your own internal and external sources. We can also undertake additional custom research as required. We use our own research resources but can complement these with any additional sources of your choice.
These engagements often involve interviews with senior management, investment and industry analysts and communications specialists to ensure that existing strategies are factored into our analysis.

In addition to everything in a Level 1 report, a Level 2 report will provide:

- The information necessary to inform executive management teams how to allocate resources and budget more effectively.
- A framework to align and adjust communications, messaging channels and budgets.
- Guidelines for revising the internal strategies to support the reputation opportunities.
- A basis to improve the coordination of 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 to and discussion with your senior leadership team.

For further information about the 2013-14 study and how reputation value analytics can help your company please contact either;

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“...studies like this should focus the minds of all those in positions of corporate power”

Sunday Telegraph - Rainmaker