The 2016 UK Reputation Dividend Report
The sheer size of these numbers is beginning to shape communications and investment strategies

Anthony Hilton, London Evening Standard

Reputation has traditionally been hard to describe and until recently, hard to enumerate. This has been extremely helpful from my point of view to start having the debate about what reputation is and the value of approaching it properly.

Chris Fox, GKN

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

Questor, The Daily Telegraph
UK Corporate Reputations Stand Fast in the Face of Uncertainty

- Reputations contributing £790bn of shareholder value at the start of 2016 – 36% of market capitalisation in the FTSE 350
- Unilever has the most economically impactful reputation, with important gains seen at Shell and RB, in second and third places. Shire joins top ten for first time.
- The single most valuable component of corporate reputation lies in impressions of ‘financial soundness’, followed by ability to ‘attract, develop and retain talent’ and ‘quality of leadership’.
- The economic impact of ‘corporate responsibility’ grew more than for any of the factors tracked with positive perceptions boosting investor confidence and contributing £53bn of shareholder value.
- Looking ahead, with greater uncertainty dominated by the forthcoming EU referendum, the winners over the next twelve months will be those who focus on the operational and messaging priorities that support continued confidence through the turbulent times.

Introduction

The 2016 UK Reputation Dividend Report summarises the state of corporate reputation and its impact on shareholder value. It is the ninth annual study and is based on analysis of more than 200 of the country’s largest public companies.

The Reputation Dividend Report provides fresh perspective on how well, or not, corporate reputations are working to the advantage of companies and the people who invest in them. It combines measures of reputation strength with financial metrics to explain the economic impact and thereby the financial worth of each company’s reputation asset.

This is the Reputation Contribution – the proportion of the company’s market capitalisation that is directly attributable to the confidence instilled by its reputation - and is critical insight for reputation stewards. It not only provides an explanation as to how much financial value reputation is delivering but also, by spelling out the foundations and drivers, it offers guidance into the communications and messaging priorities to secure and grow it further.
Overview

Corporate Reputations Helping UK Plcs Weather the Storm as Uncertainty Comes Back to Stalk the Corridors

Investor confidence in 2015 was, on the whole, increasingly buoyed by companies’ reputations as the financial promise evident in the Spring failed to materialise and the macroeconomic headwinds from Europe and China stoked up by the turmoil in commodity markets became even more disruptive. Having received a boost from the surprising – for some at least – emergence of a majority conservative government in May, the locus for confidence shifted a little from the harder evidence of financial performance and tangible results to the softer factors embodied in companies’ reputations.

By the start of 2016 corporate reputations were supporting investor confidence to the extent that they were accounting for close to £790bn of shareholder value across the two main indices - 38% of market capitalisation in the FTSE 100 and 25% in the FTSE 250. Up from 30% and 16% over the year respectively. All signs point to the fact that reputation played a substantial part in mitigating downward pressure on share prices and stemmed otherwise larger falls in the indices in the latter half of the year.

Fig 1: Reputation Value Development in UK Plcs
Without the up-ticks in reputation impact, we calculate that the lead index could have ended the year as much as 10% lower and the secondary index down by nearly 7%.

Unilever Continues to Command the Most Economically Impactful Reputation With Gains and Losses Evident Across the Top Ten

Unilever held on to its position at the top of the table for the second year in a row. This time however, doing so with growth in its Reputation Contribution coming from improved perceptions of both financial and operational qualities. The company benefitted from stronger assessments of its financial foundation along with enhanced regard for its product qualities, marketing prowess and increasingly motivating community and environmental credentials.

<table>
<thead>
<tr>
<th>Company</th>
<th>Reputation Contribution</th>
<th>Reputation Contribution change (% points)</th>
<th>2015 Rank</th>
<th>Reputation Value (Jan 2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unilever</td>
<td>57.8%</td>
<td>8.1%</td>
<td>1</td>
<td>£48,356m</td>
</tr>
<tr>
<td>Shell</td>
<td>53.8%</td>
<td>8.5%</td>
<td>8</td>
<td>£62,061m</td>
</tr>
<tr>
<td>Tesco</td>
<td>48.3%</td>
<td>2.3%</td>
<td>7</td>
<td>£20,302m</td>
</tr>
<tr>
<td>Johnson Matthey</td>
<td>47.5%</td>
<td>0.1%</td>
<td>5</td>
<td>£2,181m</td>
</tr>
<tr>
<td>AstraZeneca</td>
<td>47.4%</td>
<td>7.1%</td>
<td>13</td>
<td>£25,198m</td>
</tr>
<tr>
<td>easyJet</td>
<td>46.2%</td>
<td>-0.1%</td>
<td>6</td>
<td>£2,855m</td>
</tr>
<tr>
<td>Sky</td>
<td>46.2%</td>
<td>1.3%</td>
<td>10</td>
<td>£8,056m</td>
</tr>
<tr>
<td>bhpbilliton</td>
<td>44.7%</td>
<td>28.7%</td>
<td>119</td>
<td>£14,897m</td>
</tr>
<tr>
<td>Shire</td>
<td>44.3%</td>
<td>8.1%</td>
<td>23</td>
<td>£10,845m</td>
</tr>
<tr>
<td>National Grid</td>
<td>44.1%</td>
<td>9.3%</td>
<td>30</td>
<td>£15,450m</td>
</tr>
</tbody>
</table>

Fig 2: The Most Economically Impactful Reputations in the UK 2016
The two extractive companies in the Top Ten were notable for registering substantial gains in their Reputation Contributions, albeit for somewhat different reasons. Regardless that Shell has maintained a powerful reputation for a number of years, the company recorded further gains in perceptions of its ability to attract talent, its capacity to innovate (two key recovery characteristics) and crucially, in how it is regarded more widely as a corporate citizen. By contrast, BHP Billiton’s ‘gains’ were to a large extent a recovery from declines in 2014 when concern for falling commodity prices and the knock-on effect on closures and expansion kicked in with dramatic effect. Clearly, that particular market disruption may still have some way to run and so the extent to which the company will hold on to its reputational recovery remains to be seen.

Elsewhere, gains were registered by RB (Reckitt Benckiser as was), the two high profile pharmaceuticals, AstraZeneca and Shire, and National Grid. RB consolidated the position it started to build with the installation of Rakesh Kapoor as CEO a little over four years ago. In particular, with regard to how the company is viewed in terms of the general quality of its products, its success at innovating and to a lesser but certainly significant degree, its attractiveness to top talent. By contrast, the Reputation Contributions of AstraZeneca and Shire both improved to the extent that they are now firmly within the Top Ten, the latter, Shire, being there for the first time. In AstraZeneca’s case the rise was getting back to ‘business as normal’ following a torrid 2013, the successful defence of Pfizer’s take-over bid in 2014 and subsequent series of portfolio enhancing deals. Shire, on the other hand, put the unsuccessful 2014 merger with AbbVie behind it and continued to make well-regarded steps culminating in the proposed merger with US company Baxalta announced at the start of 2016.

Reputations are Poised to Deliver Shareholder Value with Strategic Effort from Their Managers

Overall, the heightened impact of company reputations in 2015 reversed the trend seen in the previous two years. As described above, this was due to a combination of the optimism uplift coming from an unexpected election result and corporate financials ‘failing’ to deliver as expected. Individual company reputations gained on the election result which was felt by many to presage a benign environment for business. On average, the headline strength of individual
company reputations was some 4% ahead of where they were 12 months before, something not seen since 2010 when the similarly business-friendly conservative led coalition, came to power. Against that however, financial results in 2015 were on average behind the curve. Reported earnings for the nearly 200 companies tracked were down year on year by 3% and, while forecasts were up (+4% on average), reported results were on average some 8% below what was being forecast at the start of the year.

Looking ahead, the only thing that can be predicted with any confidence about the commercial outlook in straightened economic times and a political environment dominated by the forthcoming EU referendum, is greater uncertainty and increased volatility. It’s clear however, that the importance of effective reputation management is only going to rise. Corporate reputations are without doubt helping to guide and secure shareholder value by tending to the all-important confidence and the winners over the next twelve months will be those companies that make those assets strategically work as hard for them as possible.
Step 1: Securing the Value Already Banked

Reputation value is created when recognised strengths and qualities of individual companies coincide with investor interest. While the latter tends towards a degree of uniformity from sector to sector, the former varies from company to company according to circumstances. How these compare determines each company’s unique Reputation Risk Profile and provides the first check for reputation managers looking to ensure their messaging programmes are playing to the existing value and help to secure the asset.

Put simply, reputation value is not a zero-sum game where a pumped up asset is automatically more valuable than a deflated one. Different characteristics resonate with the investment community to different degrees at different times and have to be supported accordingly if their contributions are to be maintained.

Reputation Dividend’s latest analysis of UK company performance shows that in aggregate terms, the single most valuable component of corporate reputations across the FTSE 350, is – not surprisingly given the headwinds, the impression of ‘financial soundness’. Strengths there are building confidence and thus share prices of individual companies across the index to the extent that they’re adding £167bn of value, 21% of the combined reputation value of £792bn.

Importantly, the second and third most significant factors are the ability to ‘attract, develop and retain talent’ and ‘quality of leadership’. Investors recognise the disproportionate impact positive impressions these are having and are rewarding prowess to the extent that they are currently accounting for 14% and 13% of reputation value across the index respectively.

While both of these characteristics are delivering for substantially more value than the year before, the increases were proportionately less than seen in the growth of ‘community & environmental responsibility’. Although this remains one of the ‘lesser’ components of corporate reputation, the economic impact of corporate responsibility grew more than for any of the other headline factors tracked and positive perceptions are now boosting investor confidence to the tune of £53bn of shareholder value. It would appear that the investment community finally has started to appreciate the commercial opportunities and reputation risk mitigation
inherent in strategically attending to matters sustainability and community & environmental responsibility, and in that showing the way to tangible returns on that particular investment.

Fig 4: The Location of Reputation Value Across the FTSE 350

**Step 2: Leveraging the Reputation Asset for Value Growth**

Having secured existing reputation value, the challenge for corporate communicators and investor relations professionals is to structure messaging in a way that best delivers value growth. Essentially, seek to drive share prices by elevating investor confidence with messaging strategies designed to play to specific investor interests.

Different messages resonate more or less at different times and thus produce different returns on any investment in driving them forward.
The most notable developments in investor attention moving into 2016 was in their changing interest in leadership qualities, underlying financial soundness, innovation and matters sustainability and CSR. Uncertainty about the world economy and the pace of recovery at home has refocussed attention on corporate leadership and financial robustness. It has also led to a reduction in the importance attached to demonstrable innovation a traditional ‘recovery’ characteristic. Most significantly perhaps, the on-going rise of interest in social responsibility points to increasing endorsement of its important to commercial success.

Reputation managers should aim to balance their communications and messaging in order to secure and build at the same time. They need to view the circumstances of their own companies’ reputation assets through the lens of driver potential and value profile in order to establish the messaging priorities that will deliver the greatest value impact on their market capitalisations. With that, reputation value management can be deployed in an increasingly effective and economically impactful fashion.
Looking ahead…

The implications for reputation managers are clear and the challenges are demanding that crucial questions be answered if the assets in their charge are to be managed to best effect:

▶ Get back to the business of proactively managing corporate reputation: Do you know how much shareholder value is equated to your reputation and how much is at risk?

▶ Pay attention to how stakeholders view your competition: How are your competitors perceived – what are seen to be your relative strengths and vulnerabilities, how can you address these through improved operational performance and messaging?

▶ Understand what matters most to your stakeholders: Can you identify which drivers have the greatest impact on reputation value…and what messaging moves the needle?
Reputation value analysis focuses on the economic impact of corporate reputations with a view to helping companies manage their reputation assets more effectively. It quantifies the financial worth of corporate reputation - making the direct link to market cap and share price performance. Trending data on more than 700 S&P and FTSE listed companies now go back up to nine years.

Analysis is a two-stage process. To start with, the main factors that influence the investment community, and thus the market capitalisations, of individual listed companies as a whole are identified. This is achieved by means of statistical regression analysis of hard financial metrics, including, for example, shareholder equity, return on assets, forecast and reported dividend, earnings, liquidity and company betas as derived from Bloomberg or Factset, and reputation measures as taken from Management Today’s ‘Britain’s Most Admired Companies’ and Fortune’s ‘World’s Most Admired Companies’ reports.

From there, a combination of metrics are calculated, including the gross economic benefit shareholders are deriving from the reputation asset, the location of value across the individual components of the company’s reputation, the extent to which investment in reputation building will produce returns in value growth, and the relative value potential of individual messaging opportunities.

In addition to determining the financial value of a company’s reputation relative to its peers and competitors, the contribution of the individual drivers of reputation value such as perceptions of companies’ ability to innovate, the quality of its management, its credential with regard to corporate and social responsibility and so on are also calculated.

Given that the values of individual company reputations can often be significant, Reputation Dividend’s work can be particularly useful to help both unite and align the focus of senior management. Clients span all sectors, many tabling their Reputation Dividend report annually to their Boards.
How Reputation Dividend Can Help

Analytics are applied on two levels.

Level 1: Dedicated Company Reports

A study will draw on key elements of our analysis, to provide insights including:

- Your company’s Reputation Contribution – the value of your company’s corporate reputation – along with historical trend data.
- Comparisons to defined competitors and peer group companies.
- A comprehensive explanation of the sources of your company’s reputation value and their individual contribution to market capitalisation - 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.

Individual company reports also include an executive level briefing and meeting with key team members to discuss their implications.

Level 2: Customised 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 time frame (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 and 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 insights 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 program.

Level 2 engagements provide regular client liaison and findings review throughout the process and culminate in a presentation to and discussion with your senior leadership team.
Reputation Dividend is proud to have worked with the following companies

For further information about the 2016 UK study and how reputation value analytics can help your company please contact either;

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Or visit our website: www.reputationdividend.com
Valuing Corporate Reputation to Secure and Build Shareholder Value