

**Manchester Metropolitan University Business School Working Paper Series
(Online)**

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**Assessing a Financial Value for a Corporate Entity's Reputation;
A Proposed Formula**

WP02/01

ISSN 1471-8209

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Abstract:

*“The single most important issue for the public relations industry...” getting
“reputation on the books”*

James Thellusson. European Managing Director, Cohn & Wolfe (Bowd, R. 2001: Appendixes)

Public Relations like many service related, consultative, management professions is continually being called upon to quantify its value, the value of its activities and the value of investing in those intangible assets that it advocates add value to organizations, assets such as brands, reputation and organizational identity.

This paper is an attempt to provide a new and vital examination for public relations both as a profession and an area of academic study. First the document examines whether both the academic and public relations communities view reputation as making up part of a corporate entity’s financial value? It accomplishes this through a review of the literature and qualitative interview process. The foundation research also examines what exactly is corporate reputation, what kind of values reputation can have, are these values recognised, how is reputation currently valued, and in any future valuation what attributes of reputation, financial elements and parameters would a measurement formula need to account for.

This examination found that reputation does make up part of a corporate entity’s financial value. Based on this finding the study develops a proposed formula for accounting for reputation. The formula is then tested using quantitative data collected during the research process. The formula is found to be effective and would be applicable for use in annual reports or as a snapshot monitoring of reputation. With acceptance of the financial, accounting and public relations communities this formula could provide an exciting launch pad for proving the value of reputation management to corporate entities and their CEO’s and CFO’s.

Keywords:

- ? Public Relations
- ? Corporate Reputation
- ? Valuation
- ? Intangible Assets

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Introduction

Corporations “have reputations, and a positive one is highly valued for many reasons. It is easier to attract and keep more talented people. Customers are more willing to purchase the firm’s existing products and services and accept new offerings from it. Raising capital and borrowing funds are easier if investors and bankers perceive the firm favorably.” (Qoronfleh, M. et al: Feb. 1999:19)

Reputation can add many valuable intangible benefits to a corporate entity. However, does reputation affect or contribute to the financial value of an organization? Is reputation part of a corporate entity’s financial/ equity value?

The intangible value of a good reputation is a view professed and researched by both public relations practitioners and academics. (Harrison, 1995, Stone, 1995 and Grunig & Hunt, 1994) However, few, if any, models or theories relate accrued financial value to the reputation of an organization. This motivated this research into asking whether any professional or academic studies had advanced the view that reputation makes up part of the financial value of an organization. Furthermore, if there was a consensus that reputation has a financial value, how could one account for it?

Financial performance and economic value added [EVA] drive current corporate climates. Being able to clearly establish reputation, as part of an organization's value would demonstrate the value of P.R. professional services to organizations . Further, it would help organizations to assess the value of their corporation or increase value through effective reputation management.

This study will make a contribution both to the academic and professional aspects of public relations, specifically to the concept of “Theory in Practice”. James Thellusson, the European Managing Director of Cohn & Wolfe in November 2000, said that proving the link between reputation and the financial value of an organization was “ the most

important challenge yet to be undertaken by the public relations profession.” (Bowd, R. 2001: Appendixes) He said such measurements would confirm the impact of reputation management services on the value of a client’s company and reinforce the academic rationale for the existence of public relations as a profession.

The research was undertaken with the aim to; to determine whether reputation is seen to make up part of a corporate entity’s financial value (aim 1.1) and, if it was found to be true, to propose a conceptual formula from which to ascertain such a value. (Aim 1.2)

In order to examine “Aim 1.1” of the study a literature review examined whether there was an academic view that reputation should be valued financially and expressed in the financial statements of an organization. Secondly, it determined if reputation is currently valued and how other intangibles are valued.

What is corporate reputation?

The Oxford Dictionary defines reputation as

“What is generally said or believed about a person or thing’s character or standing.” (Readers Digest. 1996:1280)

Although this definition fails to deal with intricacies believed to exist in reputation, It does establish that beliefs, or more appropriately perceptions, form reputations. Shirley Harrison, and Charles Fombrun both offered definitions supporting this view (Harrison, S. 1995:68)(Fombrun, C. 1996:57) However, they lacked a comparative or differentiating element that would have been necessary to achieve “Aim 1.2”. Therefore, the underpinning definition for reputation utilized for the purpose of the study was Fombrun’s more complex definition;

“A corporate reputation is a perceptual representation of a company’s past actions and future prospects that describes the firm’s overall appeal to all its key constituents when compared with other leading rivals.” (Fombrun, C. 1996:72)

Why is Reputation Important?

If reputation is about perceptions, which are intangible and exist only as “a mental concept”, why in corporate organizations, where success is measured by “financial measures” and quantification, is reputation so important? (Readers Digest. 1996:1107)(Desmond, P. 2000:168) Prema Nekra states “a company’s reputation affects its ability to sell products and services, to attract investors, to hire talented staff, and to exert influence in government circles.” (Nekra, P. 2000) This statement reflected the importance of reputation, but failed to bring out directly what other academics such as Charles Fombrun perceive to be the most significant value of the corporate reputation. That is, “Corporate Reputations have bottom line effects. A good reputation enhances profitability.” (Fombrun, C. 1996:81)

A good reputation, one that sees an organization “perceived by its constituents to be credible, reliable, trustworthy and responsible, enables an organization to;

- 1) Command premium prices for their products
 - 2) Pay lower prices for purchases
 - 3) Entice top recruits to apply for positions
 - 4) Experience greater loyalty from consumers and employees
 - 5) Have more stable revenues
 - 6) Have fewer risks of crisis, and
 - 7) Given greater latitude to act by their consequences”
- (Fombrun, C.1996: 72-73)

Therefore, a good reputation turns intangible perceptions into tangible benefits, which are extremely valuable to organizations. This implies that reputation has a value that can be highly positive. Conversely Nekra states that a reputation can have a negative value as well as a positive one, for an organization. “PR professionals agree that reputation is a mighty thing, worthy of nurture, deserving praise. And once lost – or even tarnished – incredibly difficult to regain.”(Nekra, P. 2000:35) Davis Young describes this negative value for reputation being exemplified by the following symptoms;

- 1) “Employees don’t make suggestions
- 2) High employee turnover
- 3) Poor vendor responsiveness
- 4) Major customers disappear

- 5) Precipitous drop in stock value
 - 6) Poor government relations
 - 7) Reporters seldom call for opinions
 - 8) Infrequent business referrals”
- (Young, D. 1995-96)

Should Reputation be Valued Financially?

From the academic literature, cited above, it was evident that reputation, due to its ability to have such positive and negative impacts on the operations and status of an organization, could have a negative or positive value for the organization. However, it was necessary to ask whether this value should be expressed as a financial value?

Although Desmond does not go so far as to state that organizations should give a financial value to their reputation in their reporting, he does advocate that in the future companies should include in their annual report information on “all their stakeholder relationships, and a broader range of measures in the way they think and talk about their purpose and performance.”(Desmond, P. 2000:168) This statement could clearly encompass reputation and its measurement.

The argument is further supported by the fact that intangible assets are now being valued in general accounting practice. The Accounting Standards Board document “Financial Reporting Standard Ten: Goodwill and Intangible Assets” set out in 1997 that intangibles should be accounted for, and gives guidelines on where to account for them, in the financial reporting of an organization. (Accounting Standards Board. 1997)

Although the regulations for financial valuation of intangibles focus on goodwill and brands, it adds support to the academic argument that reputation be financially valued.

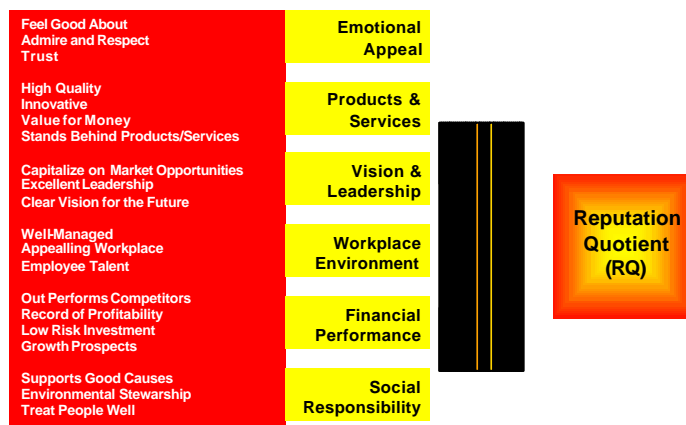
How is Reputation Currently Valued?

Fombrun provided the only financial valuation of reputation found. He suggested that reputation could be financially valued by what he calls ascertaining the “reputational capital” of an organization. (Fombrun, C. 1996) “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”. (Fombrun, C. 1996: 92) Fombrun states that averaged over a long time this method “has some merit” and that it can also account for the costs to reputation from “unexpected incidents that damage a company’s reputation”. (Fombrun, C. 1996:93) He illustrates this with a the case study assessing the reputation value effects to Exxon in 1989, when their supertanker the Exxon Valdez struck Bligh Reef in Alaska’s Prince William Sound. (Fombrun, C. 1996:93)

Fombrun and Naomi Gardberg provided the most comprehensive quantifiable non-financial valuation of reputation with their “Reputation Quotient”. (Fombrun & Gardberg. 2000) The measurement borrows from the basic methodology of political polling but adds “many layers of complexity.”(Fombrun & Gardberg. 2000:13) Their quotient seeks to “uncover a company’s popularity rating, but also why it is popular.” (Fombrun & Gardberg. 2000:14) It does this by “examining how a representative group of stakeholders perceives companies on 20 underlying attributes that consist of what they have defined as “the six pillars of reputation”. (Fombrun & Gardberg. 2000:14) (Figure 1.)

Figure 1
Fombrun & Gardberg’s Reputation Quotient; Pillars & Attributes

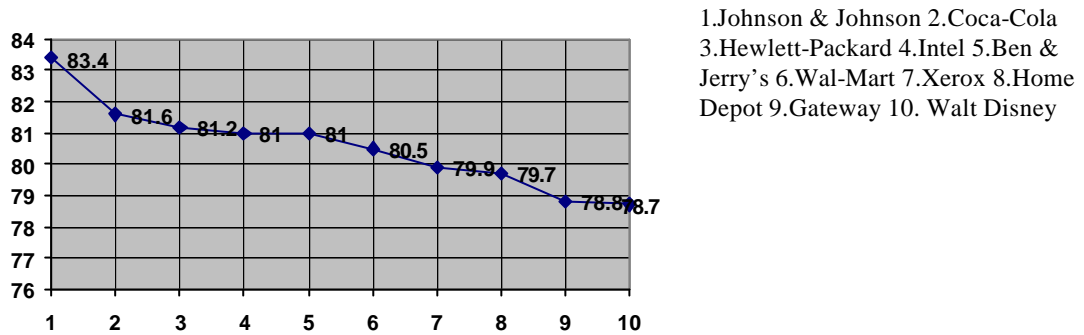


The attributes are scored on seven point scales that describe how the company is perceived. The scores are then totaled and turned into a percentage rating. This has

produced valuable comparative materials for evaluation such as the RQ gold list, which is a representation of the best-regarded companies in America. (Figure 2)

Figure 2

RQ Gold List: The Top 10 Regarded Companies in America



A long standing, highly regarded, annual valuation of organization reputation is the “Fortune” magazine survey “America’s Most Admired Corporations”. (Qoronfleh et al. Feb 1999:19) “Fortune asks 13,000 senior executives, outside directors and financial analysts to rate the ten largest corporations in their own industries on eight attributes of reputation, using a scale of zero (poor) to ten (excellent)” and averaging them to come up with a scoring. (Qoronfleh et al. 1999:19) The eight attributes in the Fortune model of valuation consist of;

- 1) “Quality of management
 - 2) Quality of products or services
 - 3) Innovativeness
 - 4) Long-term investment value
 - 5) Financial soundness
 - 6) Ability to attract, develop and keep talented people
 - 7) Responsibility to the community and the environment; and
 - 8) Wise use of corporate assets
- (Qoronfleh et al. 1999:19)

These three approaches were the most common academically recognized methods. However, the valuation models for other types of intangibles, provided important insights to the research.

How other Intangibles are Currently Valued Financially?

As previously mentioned the Accounting Standards Board in 1997 developed a set of standards/guidelines for valuing such intangibles such as brands and goodwill. Raymond Perrier believes this occurred in response to the fact that individual companies, originating in 1988 with food and drink giant Grand Metropolitan, started listing brand value in their balance sheets. (Perrier, R. 1997) Grand Metropolitan valued brands by listing the purchase price of the brands bought from other organizations in the balance sheet, and maintaining it in the balance sheet as an asset year after year.

Christopher Glover, an independent company valuation specialist, suggests many models for brand valuation, the most notable of which is the “premium pricing technique”. (Glover, C. 1997:19-24) The premium pricing technique involves ascertaining the price premium of a branded product “as a percentage of sales”, then applying it to the “actual and prospective sales over the estimated life of the brand. The annual benefits are discounted at a suitable rate of return in order to obtain the brand’s present value.” (Glover, C. 1997:22) This method develops the intangible value based on its differentiation power; “given that most producers are in one sense or another branded, the strength of a particular brand reflects the extent to which consumers prefer it to some alternative.”(Glover, C. 1997:22)

David Haigh’s “Market Based Valuations” method (Haigh, D. 1997:27-28) is a comparative approach is based “on the assumption that there are either comparable market transactions (specific brand sales), or comparable company transactions (the sale of a specific brand), or stock market quotations (providing valuation ratios against which a comparable branded entity can be valued). (Haigh, D. 1997:27) Valuation may therefore be made, based on;

- ? “Disposal of comparable brands
 - ? Specific brand divisions
 - ? Whole companies where adequate information is made publicly available.”
- (Haigh, D. 1997:27)

Haigh gives as an example, “it is possible to determine brand value by calculating the total business value, then deducting known tangible asset values from that implied stock market value, leaving a residual value representing the intangible assets, including the brand. It may then be possible to estimate of the total intangible asset value, a value represented by the brand.”(Haigh, D. 1997:27)

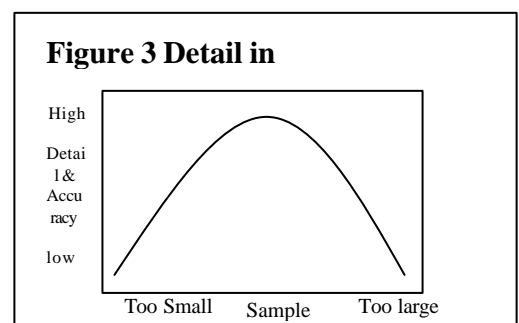
Methodology

The research relied upon a combination of qualitative research and the analysis and interpretation of academic materials. Desk research, a literature review and face-to-face qualitative interviews were used.

Face to Face Interviews

“Face to face interviews of opinion formers, using an interview guide approach, was the selected method of primary data collection. (Hughes, M. in Greenfield, T. 1996: 169-172) This method did have its weaknesses such as the subjectivity, personal bias and openness of the respondents. Also, it depended on the “ability of the researcher to be resourceful, systematic, and honest: to control bias.” (Hughes, M. in Greenfield, T. 1996: 170) However, as the research required respondents to have high knowledge levels, have experience and to be viewed as authoritative in their field in order to give credibility to the data and achieve the research objectives, no other research method was perceived to be as effective.

A group of five opinion formers were interviewed in the research process. They were all senior public relations executives from major international consultancies (one of which specialized in financial PR) and a transnational corporate entity. (Virgin Group) This sample size was chosen over a larger one, in conjunction with Peter Lynn’s view that “concentration of effort on a sample can increase the quality of the research”. (Lynn, P. in Greenfield, T. 1996: 128) Conversely too few (one or two) respondents would not have provided a complete image. This view is illustrated in figure 3



Qualitative Research Findings

The following results emerged from a detailed examination of the interview transcripts, materials provided by the interviewees and professional body sources. These findings identify there was a view amongst PR practitioners that reputation makes up part of the financial value of an organisation, what elements might account for a value of reputation, and under what circumstances would it be relevant.

The Public Relations profession does understand reputation and its intangible value

“Reputation is a corporation’s most important competitive asset.” It can enable a “stronger ability to attract and retain good employees, better margins, more attractive partners for mergers and acquisitions and more customers”.

(Fleishman Hillard. 2000) * Fleishman Hillard is an International Public Relations Consultancy

“Corporate Reputation is a combination of both perception and reality.”
(Council of Public Relations Firms.2000)

These statements show that there was some understanding in the professional body of public relations of what reputation is and the value it can have to a company. This was reinforced by the fact that all opinion formers interviewed demonstrated an understanding of reputation and its value, both positive and negative to an organization.

Mark Way of Bell Pottinger Financial best expressed this in his statement “we are in the business of perceptions”, a view also shown to be held by his agency’s parent company Chime Communications through their 1999 annual report slogan “perceptions are everything”. As to the value of reputation for a business being both positive and negative, Chris Grayling of Burson Marsteller and James Thelluson of Cohn & Wolfe both pointed to the negative effects of poor reputation on the “.dot com” companies.

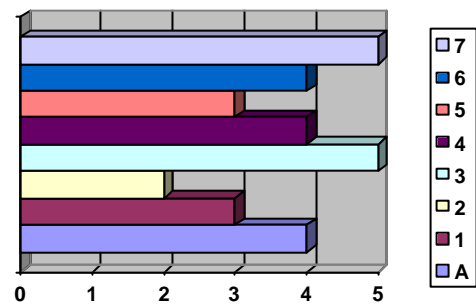
“Look at what happened to technology stocks. Nothing’s radically changed at most of these companies in the last six months. If you look at Amazon.com six months ago compared with today, there is no real difference in the business but the market perception of the value of the companies has changed massively. That’s entirely down to reputational factors.” (Chris Grayling of Burson Marsteller) “The primary reason for their failure is a failure to communicate clearly what the proposition was, and a failure to integrate their sales and marketing effort.”(James Thelluson of Cohn & Wolfe in Bowd, R. 2001: Appendixes)

Figure 4 identifies quantitatively how many of the five opinion formers specifically referred to “perceptions” as the underpinning factor for reputation and referred to intangible values in respect to the seven outlined by Fombrun.

Figure 4
Results Comparison with “Perception” & Fombrun’s
Seven Intangible Values of a Good Reputation

- A. Perceptions
- 1. Command premium prices for their products
- 2. Pay lower prices for purchases
- 3. Entice top recruits to apply for positions
- 4. Experience greater loyalty from consumers and employees
- 5. Have more stable revenues
- 6. Have fewer risks of crisis, and
- 7. Given greater latitude to act by their consequences

(Fombrun, C.1996: 72-73)



The above figure shows that on average 75% of the time the opinion formers shared the academic view of reputation and its positive values.

The corporate world also understands the value of reputation.

This finding is supported by the fact the key opinion formers, who interact with corporate decision-makers and leaders on a regular basis, said this was the case. When asked;

“How do you sell management reputation services to chief executives, what do you say?” (Bowd, R. 2001: Appendixes)

Answers Included

“I don’t feel we need to sell that reputation will enhance sales of a product or service. CEO’s/Clients already acknowledge this fact, and this is why they come to us.”(Marc Moninski of Fishburn Hedges in Bowd, R. 2001: Appendixes)

And;

“Well I think increasingly you don’t have to sell it. I think the weight of opinion over the last ten years has got to the point where most switched on CEO’s are very clear that the reputation of the business, in a broader sense, very often means the reputation of the CEO and the management team is absolutely and inextricably linked to the confidence and trust in the business as a whole.”
(James Thelluson of Cohn & Wolfe in Bowd, R. 2001: Appendixes)

This view was reinforced by Will Whitehorn, Virgin Group, the one key opinion former interviewed from the corporate world. When asked;

“There is a view arising that reputation makes up part of an organisation’s long-term equity... What’s your opinion on this view, and is this a view you have adopted building value to Virgin?” (Ryan Bowd in Bowd, R. 2001: Appendixes)

He answered firmly “Well, we believe that is true.”

Mr. Whitehorn then linked his answer to the first part of the next finding by using Virgin as a case study.

Reputation does make up part of the Financial Equity of an Organisation, and this valuation is important

Figure 5

Virgin Case Study for Equity Value of Reputation

“We believe the brand itself can increase your equity valuation both in the stock market sense and the private equity sense. Because clearly, there are a number of factors that are important to our brand. Some of which are unique and some of which are common to all brands. Let’s start with the unique first. One of the things Virgin has going for it, is that we are now Britain’s fifth biggest advertiser. Two years ago we were about at number 20, but because of the nature of the types of businesses we are expanding in and the nature of what we are doing. For instance Virgin Mobile has a huge advertising spend budget, Virgin Direct has a huge advertising spend. Bigger than Airline or the Megastores would have in their market place. Because we are all advertising one brand generally, then marginally you are having to spend less on each new business. Because the brand is well recognised and there is a set of ideas that go with it that attract the customer base we are looking for. So that clearly must have an equity value itself. That if you are part of that family of brands and you decide to quote yourself, there must be value given to the fact there is always advertising noise of the brand around it. However, the other equity value is just being a Virgin company itself, if you have to spend less to attract customers, which is what in effect I am saying. That must in effect feed through to the bottom line.” (Bowd, R. 2001: Appendixes)

The second half of this finding was supported by James Thullesson of Cohn & Wolfe, when asked whether he agreed with the view that reputation makes up-part of the long-

term equity value of an organizations. Mr. Thellusson said that “Yeah it is, I am sure! And, I think that, but I also think it is the single most important issue for the public relations industry. Because you can then actively monitor and manage and prove to a reasonable degree of accuracy how the public relations function is actually critical in managing or advising companies in how to manage reputation, corporate reputation particularly... There are two deal-makers for PR, for jumping it from the bottom of the 1st division to the top. One is, but they inter-link, is this valuation ... If you can get the reputation on the books, then the value of public relations changes, particularly in the eyes of the CFO. (Chief Financial Officer) Cause suddenly the cost on the balance sheet sits beside the value.”(James Thelluson of Cohn & Wolfe in Bowd, R. 2001: Appendixes)

Although professionals, both corporate and consultancy, support the view that reputation valuation is important, their application is not consistent with the “Theory in Practice” as shown below.

We don't value reputation financially

All opinion formers interviewed did not value reputation in the financial statements of their clients or organization. However, it did find that reputation was valued in other manners by the consultancy opinion formers for their clients. Marc Moninski of Fishburn Hedges said they valued their client's reputations by conducting or participating “in surveys of perception of our clients amongst the range of target audiences that matter to those clients. And, we will measure how that organisations is perceived. Well first of all we will understand what do we believe are the main drivers of reputation as for as those audiences are concerned... We will then prioritise those drivers of reputation, we will then measure our clients reputation against two things. Firstly, against peers within the industry and secondly against other organisations. But there is a problem with measuring outside the industry which we call category effect.” (Marc Moninski of Fishburn Hedges in Bowd, R. 2001: Appendixes) This method is not dissimilar to the Reputation Quotient Measurement and Fortune method of reputation analysis but appears to be conducted in a simpler manner.

Valuations of Reputation Belong in the Reporting Statements of a Company

There was a professional view that reputation statements should be included in the reporting statements of companies. Not all the opinion formers said that these statements need necessarily be financial. For example, Chris Grayling of Burson-Marsteller felt this way. Mr. Grayling did however feel he “could see a situation where a company needed to include reputational information in their annual report.” He “could quite see a situation where a company would want to say we track perceptions of ourselves in a variety of ways amongst key stakeholder groups. And, we publish those findings in our annual report.”(Chris Grayling of Burson-Marsteller in Bowd, R. 2001: Appendixes)

Mark Way of Bell Pottinger Financial did feel that this statement of reputation could be included in the balance sheets of a company’s annual report. He “would suggest, it might not be in fixed assets, but could be listed as a current asset, because perceptions can change.”

Overall Financial Measurement of Reputation should be a Stock Market Based, Industry Comparison Incorporating Measurement of the Intangible Attributes of Reputation and Tangible Assets

All opinion formers thought that any financial valuation of reputation should be an equity market based valuation that was comparative within an industry and accounted for the intangible attributes of reputation.

Will Whitehorn who that the only way Virgin would ever be able to evaluate a Virgin Company’s reputation financially was “if they took one of” them “public on the stock market”. (Will Whitehorn of Virgin Management in Bowd, R. 2001: Appendixes) Because, “people have always put a value on reputation. That is the price premium buyers pay for an organisation over and above its capital assets.” (Marc Moninski of Fishburn Hedges in Bowd, R. 2001: Appendixes) Marc Moninski’s statement describes what equity markets are representative of, supporting Mr. Whitehorn’s view.

Mr. Moninski, as previously quoted, supports the view that an industry based comparison approach to evaluation would prevent what he described as category effect, as market value to asset ratios could vary from industry to industry. This was a view held congruently by Mark Way of Bell Pottinger Financial. However, he felt any valuation would have to express a value for the intangible attributes of reputation.

“If you were to take Chime and Tavistock and they were both of identical size. The fixed and variable assets are the same, the value that the market values them at would presumably be the same, unless one has a better reputation than the other. Which would be how you are valuing reputation. But, you must factor in one other thing, which is the management ability...that is also factored into the value of companies.”(Mark Way of Bell Pottinger Financial in Bowd, R. 2001: Appendixes)

All remaining opinion formers either supported the view that intangible attributes would need to be included in any valuation. Attributes suggested included customers service, financial performance, ability to attract and retain employees and social responsibility of the company.

James Thellusson suggested that these be expressed in some form of “quality indexes”. However, comparing the attributes suggested by opinion formers, it can be seen that an index such as Fombrun’s “Reputation Quotient” would likely achieve this. As figure 6 shows it encompass the attributes that they list or that could be inferred for all five-opinion formers.

Figure 6
Reputation Quotient Attributes to Results Comparison

RQ Pillar	Mark Way Bell Pottinger	James Thulleson Cohn & Wolfe	Marc Moninski Fishburn Hedges	Chris Grayling B & M	Will Whitehorn Virgin
<i>Emotional Appeal</i>	Feel Good About	Yes	Yes	Yes	Yes
	Admire & Respect	Yes	Yes	Yes	Yes
	Trust	Yes	Yes	Yes	Yes
<i>Products & Services</i>	High Quality	Yes	Yes	Yes	Yes
	Innovative		Yes	Yes	Yes
	Value for Money		Yes	Yes	Yes
	Stands Behind		Yes		Yes
<i>Vision & Leadership</i>	Capitalise on Market Opps.	Yes	Yes	Yes	Yes
	Excellent Leadership	Yes	Yes	Yes	Yes
	Clear Vision for Future	Yes	Yes	Yes	Yes
<i>Workplace Environment</i>	Well-Managed		Yes	Yes	
	Appealing Workplace		Yes	Yes	
	Employee Talent		Yes	Yes	Yes
	Out-performs Competitors	Yes	Yes	Yes	Yes
<i>Financial Performance</i>	Record of Profitability	Yes	Yes	Yes	Yes
	Low Risk Investment	Yes	Yes	Yes	Yes
	Growth Prospects	Yes	Yes	Yes	Yes
<i>Social Resp</i>	Supports Good Causes			Yes	
	Environmental Stewardship			Yes	
	Treats People Well			Yes	Yes

Conclusions drawn from the Literature and Interviews and their impact on the development of a Reputation Valuing Formula

The initial aim of this study was to determine whether reputation contributes to a corporate entity’s value. The results from the research show clearly that it does.

Academics such as Nekra, Davis and Fombrun established reputation does have inherent value that makes it important to organizations. Furthermore, they established that this value could be positive and negative. This view was agreed by the industry opinion formers interviewed, who also felt that this value was “already acknowledged by most CEO’s”, showing a wider acceptance of the value of reputation than the academics and

professionals in public relations, but also in the corporate world as a whole. (Marc Moninski of Fishburn Hedges in Bowd, R. 2001: Appendixes)

Academics and opinion formers also felt that it would be possible to report this value in the reporting statements of an organization. Not all necessarily felt that these statements would be financial (such as Desmond in the literature review and Chris Grayling of Burson-Marsteller). Both felt that more than likely reputations would be reported through statements on the perceptions of an organization held by its stakeholders.

However, Fombrun and Mark Way of Bell Pottinger Financial support and advocate a financial valuation of reputation in the reporting statements. Way said that valuation would be appropriately placed in the balance sheet amongst the “current assets” and not “fixed assets” due to the variability of reputation and its reflective elements, such as market value.

Many varied methods of accounting for reputation and other intangibles exist. Methods such as “reputational capital” and “reputation quotient” analysis provided quantifiable representations of the value of reputation. The “premium pricing technique” and market based valuations were two suggested models for brand valuation. However, use of these methods was not believed to be occurring by the industry leaders in their day-to-day practice of public relations. Instead, they opted for consultancy derived, simpler, forms of perceptual analysis surveys, using criteria for evaluation like the Fortune or “Reputation Quotient” survey’s structures, although with less detail. This lack of the use of a more complex valuation may be a result of the associated costs in time and resources or practitioner’s latent fears of having their work quantifiably, rather than qualitatively, assessed by clients or employers. Even so, financial quantification of a value for reputation was viewed by the opinion formers as “the single most important issue in public relations”. (James Thelluson of Cohn & Wolfe in Bowd, R. 2001: Appendixes)

Nonetheless all the industry opinion formers stated that they would be open to the adoption of a formula that was acceptable to the public relations industry and accepted by the accounting standards institutions. Further, they felt that once one or two corporate ‘trail blazers’ adopted the use of such a formula in their reporting practices, it would quickly gain wide acceptance and become standard business practice.

With such positive findings surrounding the testing of Aim 1.1, it was logical to proceed with Aim 1.2 of the study. “To propose a conceptual formula to ascertain such a value”.

Rationale for the Formula

Formula development was supported by the fact a financial representation model of reputation already existed. Fombrun’s “Reputational Capital” model proposes that one valuation of reputation could be an organization’s market value (MV) minus its tangible assets (A).

MV – A = Financial Value for Reputation

This approach was perceived, by academics such as Haigh and professionals such as Marc Moninski of Fishburn Hedges, to be overly simple and not accounting for the value of other intangibles such as brands. It did however identify market value and tangible assets as two key elements for the formula to incorporate. This was confirmed by academic models incorporating market value, and the fact that all opinion formers indicated that these would need to be the basis for any comparison.

More importantly the difference between the market value and assets (MV-A) will be key in the formula for reputation. This was inferred from the models of Fombrun and Haigh on the valuation of intangibles, more specifically reputation.

In order to determine a financial value for reputation a method for determining the percentage of MV-A that was reputation clearly needed to be devised. Professionals such as James Thulleson of Cohn & Wolfe, indicated that a formula would need some form of “quality indexes” that gauged the opinion of representative groups of

stakeholders and other professionals referred to this as an analyst quotient. Fortunately for testing purposes, such a quotient already existed in Fombrun's and Gardberg's "Reputation Quotient", (Figure 6) incorporates all the intangible attributes of reputation that the opinion formers stated would need to account for. However, Thellusson did not know "how the hell you translate that in to a quantifiable value". (James Thellusson of Cohn & Wolfe in Bowd, R. 2001: Appendixes) Fortunately the RQ was a quantifiable value and therefore a comparative method of valuation could be used in the formula. At issue is, on what basis is the comparison made?

A comparison within the industry was determined to be the most appropriate type to draw out the percentage of MV-A of an organization because theoretically the ratio of MV to assets should be comparable even though the actual values may be different. This industry comparative method is consistent with the underpinning definition of reputation used in this study that places emphasis on evaluation "when compared with other leading rivals".

From this, using percentage values of $(MV-A)/MV$ [i.e. $\%(MV-A)/MV$] and the Reputation Quotient (RQ) as well as industry averages for both (RQ^{ind} & $\%(MV-A)/MV^{ind}$) a percentage value of reputation could be derived in relation to MV. This was based on the professional assumption that "essentially reputation is what differentiates you from your competitors", an assumption viewed as "absolutely right" by prominent opinion formers like Mark Way of Bell Pottinger Financial.

Therefore from the above rationale the following formula was derived.

Formula

Formula Components

MV = Market Value

RQ = Reputation Quotient for the Organization (Fombrun & Gardberg)

RQ^{ind} = Average Reputation Quotient for the Organization's Industry/Sector

MV-A = Difference Between the Market Value and Assets of the Organization (negative values are dropped and become X)

$\%(MV-A)/MV$ = % Difference Between the Market Value and Assets of the Organization

$$\%(MV-A)/MV = ((MV-A)/MV)*100$$

$\%(MV-A)/MV^{ind}$ = Average % Difference Between the Market Value and Assets of the Industry/Sector

X = the ?1 value for MV-A

Figure 7
Proposed Formula

$$\text{Reputation} = \left[\frac{(RQ - RQ^{\text{ind}}) + ((\%MV-A)/MV - \% (MV-A)/MV^{\text{ind}})}{100} * MV-A \right] * X$$

The above formula is tested below using the RQ values derived by Fombrun and Gardberg for U.S. digital companies.

Figure 8
Formula Testing

Case Study #?	Formula Test Case Figures				
Test Case of U.S. Digital Companies	Assets (A)	Market Value (MV)	Reputation Quotient (RQ)	Difference between MV & A (MV - A)	% Diff. (MV - A)/MV
	in \$Mil	in \$Mil	in %	in \$Mil	in %
Microsoft	37071	262284	82.27	225213	85.87
Hewlett Packard	34910	62535	77.2	27625	44.18
Dell Computers	11107	51415	79.62	40308	78.40
Xerox	28480	4627	77.17	-23853	-515.52
Sun Microsystems	8592	98008	76.58	89416	91.23
Gateway	3891	6144	78.28	2253	36.67
Cisco Systems	14971	346700	77.23	331729	95.68
SCOM	4489	4267	74.89	-222	-5.20
Intel	43024	218304	81.5	175280	80.29
Texas Instruments	15644	64547	77.57	48903	75.76
Industry Average (*ind)	19299.89	123800.44	78.35	104500.56	64.76
Source	*	** & ***	****	*****	*****

Xerox has been left out of calculation due extreme variance of %MV/A in comparison to other orgs.

Financial Value for Reputation

	Financial Value For Reputation	Percentage of MV
	\$Mil	%
Microsoft	56355	21.49
Hewlett Packard	-6005	-9.60
Dell Computers	6008	11.68
Xerox		
	150052	153.10
Gateway	-635	-10.33
Cisco Systems	98852	28.51
SCOM	-163	-3.82
Intel	32740	15.00
Texas Instruments	4998	7.74
Source	***	***

Sources for figures include
 * Fortune Magazine. April 17, 2000
 ** Forbes Global. January 8, 2001
 *** Business Week. January 1, 2001
 ****Fonbrum & Gardberg. 2000
 ***** Self-Generated

The Formula can be seen to be valid due to its logical rationale, but also due to the fact it reflects not only positive but also negative values for reputation, as foretold in the literature review. It also is able to reflect a negative value for those companies whose differentiating values were below the industry averages, or those whose market value was below the value of their assets, such as 3COM.

Surprisingly the formula illustrated in the case of Sun Microsystems that its reputation was undervalued with stakeholders as a whole, but not reflected in its market value. Therefore, because the company is showing a loss in potential value, one could probably associate this with poor reputation management.

Critique of Formula

The above formula provides an excellent tool for the measurement of reputation, accounting for both tangible and intangible aspects of financial values and reputation. However, this formula only provides a figure that is true at the time of data calculation.

It could be useful for reporting reputation in the balance sheets of annual reports, or as a “snap shot” measurement device. However, as the stock market changes daily and perceptions change constantly the value could quickly become outdated. This is true, however, in the case of most forms of financial measurement for listed companies. Therefore, the formula could be seen to be as relevant as any other device used for reporting financial values.

The formula proposed has been structured around the assumption that reputation is holistic to a company. In this case all reputation attributes and pillars play an equal role. Some opinion formers differed with this view, such as Chris Grayling of Burson-Marsteller, who felt CEO reputation was more important than any other attribute, or James Thellusson who favoured customer service. However, the majority of academics and opinion formers did not place one attribute above others. This diversity of opinion is reflective of public relations and reputation as a whole, where certain attributes will be of greater importance to certain publics. Therefore, it is reasonable to argue that the valuation of a corporate entity’s reputation should be done holistically and not be based on individual attributes.

Research Critique

This study examined whether reputation is viewed to make up part of a corporate entity’s financial value, and determined that it was. It also identified that it is possible to propose a conceptual formula for how to ascertain such a value. This formula, upon testing, was found to work and revealed that not only could it provide a useful financial quantification, but also serve to indicate other relevant reputational information. In doing so this research accomplished its aims and added a new dimension and model to the evaluation methods of reputation available to the public relations practitioners, bringing “Theory into Practice”.

Although the study followed a well planned and rationalised research method, there are areas where the study could have been improved.

First, the majority of the relevant literature referenced was from American academics and professionals, such as Charles Fombrun. In contrast, all the interviews conducted were with key opinion formers in the United Kingdom's public relations industry. This could be the source of the discrepancies between the academic methods for evaluation of reputation and those uncovered in the interviews. However, this is unlikely due to the international nature of the consultancies and the rapid distribution of information within these consultancies.

The study could also have benefited from a more extensive interview population that was more evenly weighted between consultancy based opinion formers and in-house public relations practitioners. These additional interviews would have required a greater amount of time and resources to be invested into the research. Furthermore, the level of experience, knowledge and professional credibility required of respondents was exceptionally high, severely limiting the number of practitioners in the United Kingdom who could be involved. However, a more even distribution of interviews would have been of great benefit to the research in terms of its relevance and applicability to the in-house public relations practitioners. However, due to the extensive knowledge and varied contacts, in-house and consultancy, of the key opinion formers interviewed, their opinions on the subject can legitimately be extrapolated to public relations as a whole.

The formula proposed and tested in the conclusion of this study provides a useful theoretical framework for the industry and practitioners to draw upon. It could not, however, be used in the financial reporting of companies. It would first require bodies such as the Accounting Standards Board to ratify its use. Such ratification may be possible with time and a concerted push by the industry and corporate bodies, as happened with brand valuation. However, it is uncertain whether the perceptual based elements of the formula would be accepted by an accounting industry concerned mainly with tangible assets/elements.

The subject of reputation and its valuation features a broad range of academic perspectives. . It is entirely possible that in the exploration of this subject not all views were uncovered. Nonetheless, as the bibliography and references show, a vast body of material was consulted, and within that context the research results withstand examination and critique.

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