



## The Bruce Column — Focusing on the factors which bring you a reputation dividend

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**In a world where intangible assets have become the largest part of a company's market value attitudes to risk and reputation need to change. Our regular, resident columnist, Robert Bruce, explains why and how.**

Intangible assets and reputation have been making increasingly larger contributions to company value. US corporate reputations, across the S&P 500, amounted to USD\$3,329bn, some 17% of total market capitalization, in 2015. Some £790bn of UK shareholder value was attributable to a 'reputation dividend' at the start of 2016, amounting to some 36% of market capitalization in the FTSE 350, all according to recent research.

This is a relatively new world. And explaining the value of a company or organisation now has to be a subtler exercise. It is all about how a company presents itself to the public. It is no longer just about the financials and what, after careful analysis, they may show. It is about how a company reacts to something going wrong, for example. It is about the more general drivers of growth. In the US Apple topped the tables with a 49.5% reputation contribution, some \$320,317m in January 2015. The Walt Disney Company had a reputation contribution of 49.4%, some \$78,758m, while Nike had a reputation contribution of 40.7% representing \$33,256m. In the UK Unilever chalked up a reputation contribution of 57.8%, some £48,356m at the start of 2016. Shell came in at 53.8%, some £62,061m. And AstraZeneca posted a 47.4% reputation dividend, amounting to some £25,198m.

However you look at these figures, all from recent reports, they point in one direction. Shareholders and the markets are no longer looking at just the financials. They look at how companies have dealt with or are anticipating risk, and where and how companies are adding value. It is not all about financial success. And reports are starting to appear which also measure the disasters when everything goes belly up and a company's reputation, share price, and ability to operate, plummets. Finding themselves listed in the top ten Most Controversial Companies 2015 are Volkswagen, Sony, General Motors, Honda, and HSBC Private Bank (Suisse). The state of a company's reputation and either the added value or its suddenly shredded value are increasingly what investors focus on. People, in short, want to know what is driving value.

We live in different times. Manufacturing companies are very different from technology driven companies. Now, if reputations drop, it is probably as much to do with a technology company simply running out of ideas and hence losing its ability to dominate its market, as it is with a manufacturing company having, for example, to recall defective cars. The difference between

good news and bad news can be as much a factor of perception as a factor of failings on the production line or in the testing process.

The ratio of intangible to tangible assets in the US is probably the most telling. In the report from consultants Ocean Tomo it shows 1975 values relying heavily on tangible assets, some 83%. These were the days of heavy industry, when investors wanted to see the heft of the engineering, the production lines, the range of extractive possibilities. In 2015 all that had fallen to just 16% of market value. The service sector in the UK, for example, now provides almost 80% of the UK economy. The revolution may have been slow but it is with us.

Now, say the reports from consultants Reputation Dividend, in both the US and the UK, the important components that influence corporate value are very different. 'Perceptions of people management', comes out on top in the US, followed by 'quality of management', and 'long-term investment potential'. In the UK you are looking for 'financial soundness', followed by the ability 'to attract, develop and retain talent', followed by 'quality of leadership'.

The other side of the coin comes in the Most Controversial Companies 2015 report from RepRisk AG. As its CEO puts it in the report's Foreword: 'The aim of this report is to outline the sequence of events that can lead a corporation to an unforeseen crisis, causing it to suffer a major fall in stock prices, face substantial product recalls and record fines, and in some cases, even result in the removal of the company's senior officials'.

What now often brings manufacturing companies to their knees are not the tangible building-blocks of yesteryear going awry but the intangible, the least-expected factors, which suddenly rear out of an empty road ahead. It can be as much about the speed of change as about the change itself. The report shows that sometimes it can be the tangible effect of economics, as the failings of a dam in Peru impacted on a Grupo Mexico gold mining project. And the report also shows clearly how problems in the supply chain, for example, and the linkage which spreads across particular sectors can bring about serious reputational damage. The failures in air bags at their manufacturer, Takata, didn't just harm the Takata reputation but also impacted manufacturers like General Motors, Honda and Volkswagen which suffered accordingly. All the examples show how easy it is to damage or lose a well-built reputation. Reputation failure is not just an in-house risk. It can spread from suppliers like a contagion. As examples of integrated reporting show, you need to understand the risks at your suppliers as much as where any home grown problems may lie.

All this matters. Companies need to burnish their reputations and manage them but at the same time they need to also tell the world what they are doing. There is a strong link between corporate reporting and the building and protecting of reputation.

It is worth sitting up and taking notice. After all, as the 2014 reputation dividend report showed, on average in cash terms, a 1% improvement of reputation at a FTSE100 company delivered around £266m of additional value.