

Is Reputation Your Most Valuable Uninsured Asset?

By Tony Jaques

Way back in 1980, American rocker Joan Jett launched her career singing: “I don’t give a damn ’bout my reputation. You’re living in the past, it’s a new generation.” It helped her become the ‘Godmother of Punk,’ but it surely would be terrible advice for any company today.

Reputation may in fact be your most valuable uninsured asset. And nothing destroys reputation faster or deeper than a crisis mismanaged.

Indeed, more than 600 business leaders from Fortune 1000 firms told Burson-Marsteller researchers they believed it would take over four years to recover from a crisis which damaged an organization’s reputation, and three years for a crisis to fade from the memory of most stakeholders. ⁱ

While you can insure against loss events which may impact reputation – such as business interruption, cyber failure, product recalls or public liability – that’s not the same as insuring the value of reputation itself, which can be very substantial.

For example, research across the world’s top 15 equity market indices in 2019 showed corporate reputation accounted for 35.3 per cent of total capitalization, representing \$16.77 trillion in shareholder value. Out in front was the UK’s FTSE 100, which saw reputational factors contribute 47 per cent to overall market capitalization. Not surprisingly the most exposed industry sector overall was technology, closely followed by telecommunications and healthcare.

Accounting 101 teaches us that – in addition to reputation and goodwill – the classic intangible assets include contracts and permits, along with intellectual property such as patents, trademarks, copyrights, software, data, research, trade secrets and recipes, which can all be legally protected.

Less well understood is how dramatically the relative scale of intangible assets, including reputation, has shifted over 40 years.

The intellectual property specialists Ocean Tomo monitor the intangible asset value of the S&P 500 and found that in 1975 the cumulative value of all those companies showed 17 per cent of market value comprised intangible assets while 83 per cent was made up of tangible assets. ⁱⁱ

Just four decades later their ten-yearly review showed that ratio had completely reversed. The components of S&P 500 market value in 2015 showed a remarkable 84 per cent intangible assets and just 16 per cent tangible.

Over that time there have been some obvious changes in the nature and structure of modern business which help explain this – such as the rise of technology companies and growing reliance on online commerce – yet this dramatic reversal remains very significant.

While the exact value of reputation for every organisation is not easy to assess, we do know where it comes from. In essence reputation reflects the cumulative perception of stakeholders – including customers, suppliers, investors, employees, regulators, neighbouring community, the media and others – based on their experience and contact with you. It may even be based on a perception which is untrue or unfair.

Unlike brand, which is what you say about *yourself*, reputation derives from what *others* say about you, based on their opinion about what you do, what you say, and what you produce. Furthermore, we know it's built up over time by consistent performance and behaviour, not by short term initiatives or feel-good corporate advertising.

When it comes to measuring reputation, there are many indicators, such as sales; expansion and acquisition plans; trust; media presence; fundraising; investor confidence; borrowing costs; market share; recruitment and retention; morale; compliance costs and insurance premiums.

However, the commonest and most visible measure of reputation is market value, and it provides the most immediate response to real life events, like when a crisis strikes.

Moreover, we know from extensive research that listed companies which enjoy a strong reputation and respond well to a crisis suffer a less severe initial drop in market value, and their shares recover more quickly.

The restorative power of long-standing reputation was vividly demonstrated by the Toyota “unintended sudden acceleration” crisis of 2009-2011 which led to a massive share price fall and the recall of millions of vehicles. Some American

pundits predicted the company would not survive or, at the very least, would have to change its name. But within two years, record sales restored Toyota's title as the world's biggest carmaker.

Rival Volkswagen too enjoys a sterling reputation, and the dieselgate emission cheating scandal of 2015 cost it massive losses and fines and some falling sales, particularly in the United States. But Volkswagen's product reputation meant it soon achieved record sales and regained world leadership.

Or consider tech giant Apple which appeared to suffer no real damage in 2020 despite paying hundreds of millions of dollars in settlements for deliberately slowing down older iPhones.ⁱⁱⁱ

Be aware though, that such cases should not be over-interpreted. For regular companies which cannot bank on a positive global reputation, a major crisis represents a very real threat of bankruptcy or destruction. And even if the company survives a crisis, the reputational damage can persist for years or even decades – think no further than BP after the *Deepwater Horizon* disaster in the Gulf of Mexico, or Exxon (now ExxonMobil) following the *Exxon Valdez* oil spill in Alaska.

Similarly, the scale of reputation risk should never be underestimated. For example, global insurer Aon^{iv} surveyed over 1,400 risk management professionals in 60 countries and identified damage to reputation as the single biggest risk which companies face. This mirrored an earlier ground-breaking Economist Intelligence Unit project^v which found that reputation risk is nearly three times greater than the risk of terrorism or natural disasters, and far surpasses regulator, human capital, IT network and market risks.

One critical key to reputational risk is the CEO and senior management, as shown by a large international study undertaken for WeberShandwick.^{vi} About 1,700 C-suite executives surveyed in large companies across 19 countries on average attributed nearly half (45 per cent) of their own company's reputation, and 44 per cent of their market value to the reputation of their CEO. The percentage of market value attributed to the CEO's reputation varied from as high as 68 per cent in Indonesia to as little as 25 per cent in the UK, with the USA coming in at 38 per cent.

Superficially this data might seem to be encouraging, and an endorsement of strong leadership. But it also exposes just how potentially vulnerable companies are when things go wrong at the top. Indeed, a subsequent British survey of

more than 500 managers found that 40 per cent believed their own higher management was the single biggest risk of a PR crisis.^{vii} And 30 per cent specifically identified the CEO, and their reputation, as putting the organization at risk of a crisis.

The same conclusion can be seen in the annual reports of the Institute for Crisis Management in Denver, Colorado, which consistently show that around half of all organisational crises are caused by management.

Key person insurance can protect against death or disablement of essential executives. But what about the terrible reputational damage caused by individual executive misbehaviour, which increasingly now leads to high-profile dismissals? And the cost is not just personal. An American study of 219 cases of arrests, lies or extramarital affairs of CEOs and other top executives showed an average share value loss of \$226 million in the three days after the revelation.^{viii} Furthermore, the stock prices of such companies fell in total between 11 and 14 per cent in the subsequent 12 months.

When all of this is taken together it is little wonder that corporate reputation around the world remains so low.

So, apart from providing great products and service and pursuing ethical behaviour, what can you do to control some of the factors which influence how your reputation evolves?

- Develop an effective mechanism for listening to customer and other stakeholder feedback.
- Implement an agreed protocol for promptly responding to complaints or critical comments.
- Build and regularly update an appropriate social media presence.
- Monitor traditional media and social media for what people are saying.
- Make sure your employees know who to tell when they see or hear something negative.
- Survey stakeholders to find out what they think about you.
- Foster relationships with respected third-party experts who can help if needed.
- Actively support social responsibility beyond just day-to-day business.
- Designate and train spokespersons to intervene when things go wrong.

Most importantly, when budget time comes around and someone is looking to trim costs, ignore the advice of Rock Queen Joan Jett that reputation doesn't matter. Instead listen to American self-improvement guru Brian Koslow: "There is no advertisement as powerful as a positive reputation travelling fast."

About the Author

Tony Jaques PhD is a recognised expert in issue, risk and crisis management who worked for more than 20 years as Asia-Pacific issue and crisis manager for a major American multinational. He is now Managing Director of Melbourne-based Issue Outcomes P/L www.issueoutcomes.com.au. His latest book is *Crisis Counsel: Navigating Legal and Communication Conflict* (Rothstein Publishing, 2020)



ⁱ Burson Marsteller study cited in Burke, R. J. (2016). *Corporate Reputations: Managing opportunities and threats*. London: Routledge.

ⁱⁱ Strathis, K. L. (2015). Ocean Tomo Releases 2015 Annual Study of Intangible Asset Market Value. <https://www.oceantomo.com/insights/ocean-tomo-releases-2015-annual-study-of-intangible-asset-market-value/>

ⁱⁱⁱ Gillespie, T. (2020 November 19). Apple to pay \$113m settlement after admitting slowing down older iPhones. Sky News. <https://news.sky.com/story/apple-to-pay-113m-settlement-after-admitting-slowing-down-older-iphones-12136088>

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^v Economist Intelligence Unit (2005). Reputation: risk of risks. <https://fliphtml5.com/wyss/cfdx/basic>

^{vi} WeberShandwick (2015). *The CEO reputation premium: Gaining advantage in the engagement era*. <https://www.webershandwick.com/news/the-ceo-reputation-premium-a-new-era-of-engagement/>

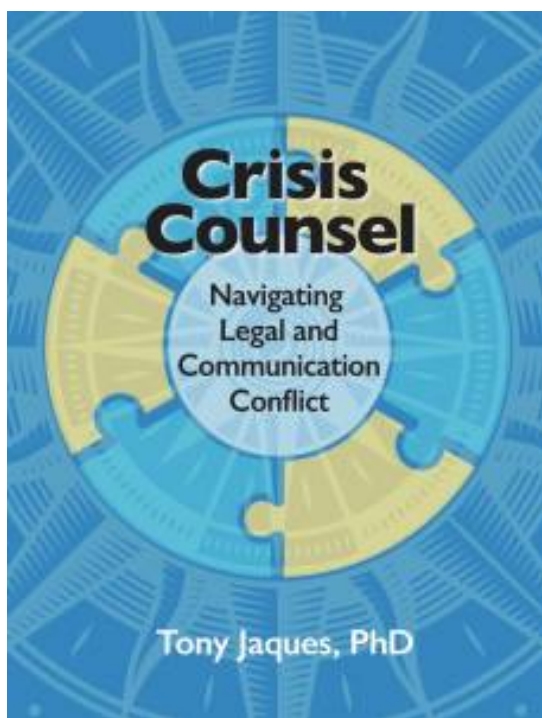
^{vii} Biggest PR crisis threat comes from higher management, say UK workers (2016). *Ignyte*. <https://www.ignyte.co.uk/blog/biggest-pr-crisis-threat-comes-from-higher-management-say-uk-workers>

^{viii} Gianakaris, N. (2015). Sex, lies and their impact on a corporate reputation. *Drexel University News Blog*. <https://newsblog.drexel.edu/2015/05/26/sex-lies-and-their-impact-on-a-corporate-reputation/>

Learn more about Reputation Management in Tony Jaques' new book, [Crisis Counsel: Navigating Legal and Communication Conflict](https://www.rothsteinpublishing.com), from Rothstein Publishing (www.rothsteinpublishing.com)

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This book is designed to provide hands-on, practical guidance for senior executives, lawyers and public relations professionals to navigate crises and to balance conflicting advice from lawyers and communication professionals while promoting open communication and protecting legal liability. It includes a wide variety of global case studies and examples while analyzing how legal and communications advice was managed and the impact on reputation. **Crisis Counsel** also includes interviews with four of the leading global experts on crisis management and the conclusions of a focused, unique global survey of senior lawyers.

The book will help you to:

- Balance reputation protection and legal obligation during a crisis.
 - Know why and how to apologize without increasing liability.
 - Weigh legal and communications advice when a crisis strikes.
 - Learn from original research which lets lawyers and communicators speak in their own words.
 - Draw practical everyday lessons from real-world examples of conflict between lawyers and communicators.
 - Navigate the legal and communication challenges of dealing with the media in a crisis.
 - Motivate lawyers and communicators to work better together.
 - Identify and avoid crucial areas of potential conflict from selected crisis case studies.
 - Understand the essential difference between corporate responsibility and legal liability.
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