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# Corporate Reputation, Ethics & the Bottom Line

Oklahoma Business Ethics Consortium  
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## From a corporate code of ethics:

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- We want to be proud of Company X and know that it enjoys a reputation for fairness and honesty and that it is respected, and to keep that reputation high.
- Ruthlessness, callousness and arrogance don't belong here.
- We are dedicated to conducting business according to all applicable local and national laws.



# Corporate Reputation – Current Trends



According to a survey conducted by Chief Executive magazine of over 600 CEOs and senior managers, the percentage of companies that measure corporate reputation has doubled over the past year.



There is a hidden cost that companies pay for lesser reputation. Research shows that a weakened reputation generates lower regard from investors, and hence lowers the company's market value.

By protecting the corporate reputation, a corporation impacts the bottom line:

- Strengthen the position to rise above a crisis (ex. Tylenol)
- Impact company sales, acquisitions, mergers (ex. Chesapeake or Devon)
- Affect stock prices (ex. Wal-Mart)

Academic efforts to quantify the value of reputation confirm that there are large economic premiums associated with corporate reputations.



# Monetary Value of Reputation

Research differs showing the value of a one point change ranging from  
\$53 million to \$500 million

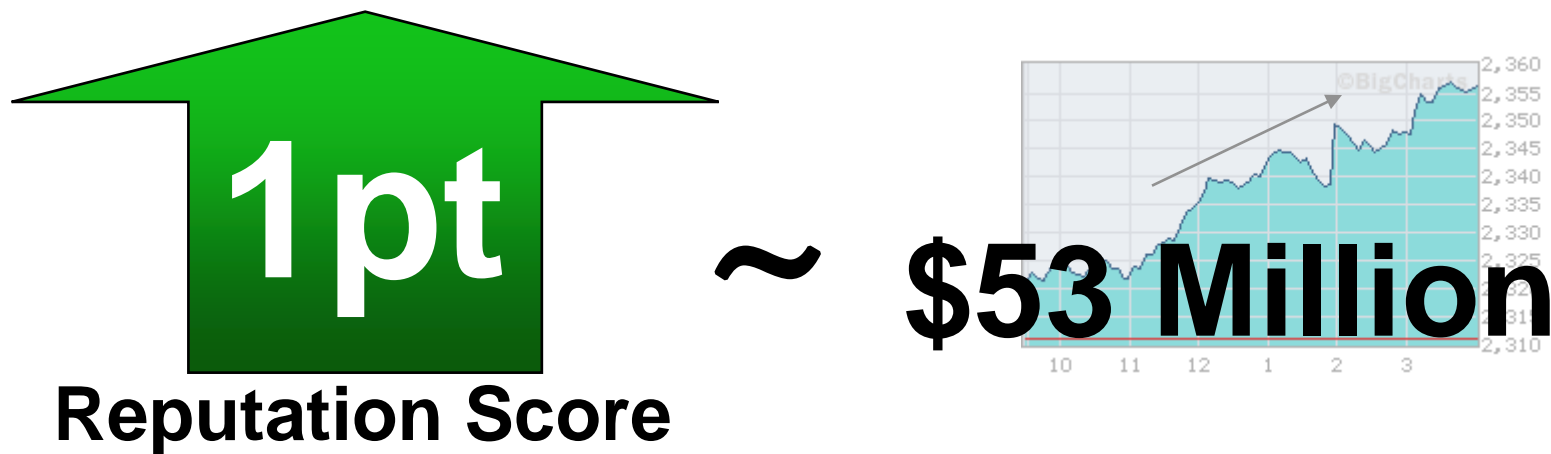


# One Point in Reputation Score Worth \$53 Million

A study conducted at the University of Texas at Austin compared ten groups of companies with similar levels of risk and return, but different average reputation scores.

Results showed:

- A 60% difference in reputation score was associated with a seven percent difference in market value.
- Since the average company in the study was valued at \$3 billion, that means a 1-point difference in reputation score (from 6 to 7 on a 10-point scale) is worth an additional \$53 million in market value.





# One Point In Reputation Score Worth \$500 Million

Another project conducted at the University of Kansas suggest that reputation capital may involve even higher returns.

A team of professors examined the relationship between market value, book value, profitability, and reputation for all the firms rated in Fortune's "most admired companies" survey between 1983 and 1997.

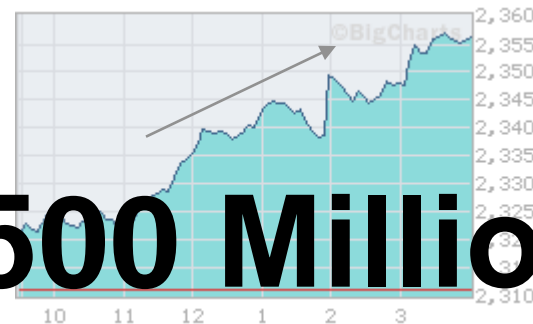
Results showed:

- A 1-point change in reputation is associated with an average of \$500 million in market value.



~

**\$500 Million**



# Corporate Reputation – What is it?



Data from different groups and industries reveal feelings about companies are driven by 20 attributes that are grouped into six dimensions:

- MANAGEMENT AND OPERATION: Perceptions of the company as a good citizen in its dealings with its employees
- CORPORATE APPEAL: How much the company is liked, admired, and respected
- SOCIAL PERFORMANCE: Perceptions of citizenship, environmental stewardship, and ethics
- ECONOMIC PERFORMANCE: Perceptions of the company's profitability, prospects, and risk
- VISION AND LEADERSHIP: How much the company demonstrates a clear vision and strong leadership
- STRATEGIC POSITIONING: Perceptions of the quality, innovation, value, and reliability of the company's products and services





# Oklahoma Reputation Index™



WRS conducted a separate but similar reputation survey for the Journal Record in early November 2005. The sample included 86 business leaders and 540 adults statewide.

Methodology is comparable to that used by WSJ for the RQ® study done annually and was designed by Dr. Charles Fombrum of the Reputation Institute.



**THE JOURNAL RECORD**

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### Oklahoma City's Most Reputable Companies

Thank you for taking the time to respond to our survey.

1) Which three companies in Oklahoma, do you believe, have the highest reputation? Please list in descending order with 1 assigned to the company with the highest reputation.

1.

2.

3.

2) Below are a series of attributes experts believe are crucial to measuring a company's reputation, in the selection of the above companies, how would you rate the impact of the following criteria in your opinion of a company's reputation? A rating of 10 means very influential, while a rating of 0 means least influential.

	0	1	2	3	4	5	6	7	8	9	10
<b>Corporate Appeal</b> which includes trustworthiness, respectability, and credibility	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Economic Performance</b> which includes the financial results, financial risk, and future prospects for a company	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

# Most Important Corporate Attributes



	OKC General Public	Oklahoma Business Insiders	Oklahoma Adults 2003	Oklahoma Adults 2005	Net Change
Management & Organization	8.0	8.9	8.3	7.9	-0.4
Corporate Appeal	8.0	9.1	8.5	7.8	-0.7
Economic Performance	7.4	8.4	8.0	7.6	-0.4
Vision & Leadership	7.6	8.7	8.1	7.5	-0.6
Strategic Positioning	7.2	8.1	7.7	7.2	-0.5
Social Performance	7.7	8.4	8.3	7.8	-0.5

**75% of the American Public ranked corporate America's reputation as either "not good" or "terrible"**



# Five Principles of Reputation

There are five principles learned from the Reputation Institute's measurement and analysis of corporate reputations:

## The Principle of Distinctiveness

- Strong reputations result when companies own a distinctive position in the minds of resource-holders

## The Principle of Focus

- When companies focus their actions and communications around a single core theme

## The Principle of Consistency

- When companies are consistent in their actions and communications to all resource-holders

## The Principle of Identity

- When companies act in ways that are consistent with espoused principles of identity

## The Principle of Transparency

- When companies are transparent in the way they conduct their affairs



# How to build a strong reputation

- Written policy
- Implementation plan
- Corporate philanthropic and social responsibility programs
- Hire a CRO (Chief Reputation Officer)
- Monitor stakeholder opinions regularly



## Corporate Ethics

- Transparency
- Integrity with Customers
- Employee Fairness
- Community Involvement
- Environment Stewardship
- Social Responsibility
- Value Driven