Reputation Review 2012

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FOREWORD

We see a significant demand from clients for innovative reputation risk solutions as brand challenges and opportunities continue to emerge. While the concept of innovation is commonly associated with some form of technology, just as often, innovation comes from taking a fresh approach to an old challenge. A new way of thinking can lead to distinctive solutions.

Organisations strive to understand and manage risk in an efficient and effective manner. Often this will lead to a focus on known or expected events. Unforeseen events play an important role along the journey. While organisations historically may have looked at supply chain management in a simplistic fashion, the natural disasters of 2011 served as a wake-up call.

The Japan earthquake and tsunami disaster became the second costliest insured loss event in world history (second only to Hurricane Katrina). New Zealand sustained its costliest insured loss events in history when two earthquakes struck the greater Christchurch metropolitan region in February and June. Additional $5 billion insured loss events were Cyclone Yasi's landfall in Queensland, Australia, a flooding event in Queensland, Australia, the historic flooding in Thailand, Typhoon Roke's landfall in Japan and significant flooding in southern France and northern Italy. Accordingly, supply chain discussions led to customer chain discussions as organisations worked through the aftermath of the events. Reputation risk was at the heart of these conversations. From business interruption to customer service and quality control, organisations quickly learned to appreciate the volatility that could stem from a poorly managed supply chain.

Every brand is vulnerable, whether the trigger is related to a natural disaster or an email mishap. It is vital for business leaders to revisit the issue of reputation risk on a regular basis to share experiences, open their eyes to the what-ifs and consider the tools and solutions available to help them prepare and manage this evolving challenge.

I invite you to read Oxford Metrica's 2012 Review, and look forward to the conversations and innovations it will inspire.

Randy Nornes
Executive Vice President
Aon Risk Solutions

Monitoring Reputation Performance in an Interdependent World

PREFACE

I am pleased to present Reputation Review 2012. The last year has seen a number of high profile corporate reputation events that have caused considerable value destruction for many companies and their shareholders. These stand as a stark reminder to corporate boards around the world that reputation, both its development and protection, now warrants and indeed demands an increasing proportion of their collective attention. The need for an explicit reputation policy with protocols, procedures and insurance protection is an increasingly necessary part of the board's duties.

As we go to press, events at Barclays are in the headlines as corporate reputation features on many national news broadcasts around the world. The expanding universe of communications media and technologies is providing additional challenges for corporations to monitor and develop their reputation. A deeper understanding of the relationship among reputation, communications and value is imperative.

We at Oxford Metrica have been studying the relationship between reputation and value for nearly two decades. We have developed an extensive database on reputation events and, more importantly, an analytical approach for disentangling the various effects of events on reputation and value.

In this edition, we review the major reputation events of the year extracting the lessons learnt. Specifically, we showcase the application of our Reputation Monitor instrument to the reputation incidents at Olympus and Research in Motion. We examine the issue of reputation recovery at TEPCO in the aftermath of the earthquake in Japan last March. We pursue the earthquake theme through the knock-on reputation effects as the disruption of the earthquake reverberated through the global supply chain in Japan, Korea and further afield.

Spencer Livermore at Blue Rubicon kindly accepted our invitation to contribute an article on the importance of communications in reputation entitled *The Communications Dividend.*

We gratefully acknowledge the support of Aon Corporation, global leaders in risk management services and insurance solutions, and innovators in brand restoration.

I would welcome further dialogue on your own corporate reputation issues.

Dr Rory Knight
Chairman

Dr Rory Knight is Chairman of Oxford Metrica. He was previously Dean of Templeton College, Oxford University's business College.

INTRODUCTION

When examining the dynamic between corporate reputation and financial performance, it is often helpful to study the effects of extreme events. It is the extremes of a distribution which highlight the key issues and inform the norm. The principles of reputation recovery are made more vivid by crisis but apply equally to lesser events nonetheless significant enough to damage a company's reputation.

Table 1 captures ten of the more extreme reputation events from 2011. The list covers a wide range of events, industries and countries. The companies are ranked according to their recovery of shareholder value following their particular reputation crisis.

Oxford Metrica's Value Reaction metric captures the firm-specific impact of the event, with all market-wide factors stripped out and the returns risk-adjusted. Value Reaction is provided in both percentage and dollar terms.

Table 1 Top 10 reputation events in 2011

Date	Company	Event	Value Reaction[1]	
			%	$m
March 11	TEPCO	Japanese earthquake	-89.6	-37,368
August 18	Dexia	Exposure to Greek debt	-87.3	-3,990
September 27	Diamond Foods	Accounting irregularities	-77.8	-1,406
October 14	Olympus	Accounting irregularities	-57.8	-5,062
October 10	Research In Motion	Service disruption	-49.7	-6,095
January 3	Renault	Industrial espionage	-35.9	-6,266
April 16	Sony	Computer hacking	-35.9	-10,679
July 29	Qantas	Industrial dispute	-17.0	-795
September 15	UBS	Rogue trader	-13.2	-6,294
July 4	News Corp	Phone hacking scandal	3.2	1,529

Only News Corporation had emerged in positive value territory by the end of the first-quarter 2012. Seven of the top ten lost more than a third of their value (over and above the market) by the same juncture. Two companies - Belgo-French bank Dexia and Japanese Tokyo Electric Power Company (TEPCO) - lost almost 90% of their value.

Managing the restoration and rebuilding of reputation equity is an essential part of the value recovery process following a crisis. Reputation equity is a significant source of value for many companies and a coherent reputation strategy can be the difference between recovery and failure.

The evidence suggests that the incidence of a reputation crisis may be more prevalent than generally is assumed. Figure 1 illustrates the distribution of negative reputation events (those which damage reputation equity) for the largest 1,000 companies in the world over a five-year period.[2]

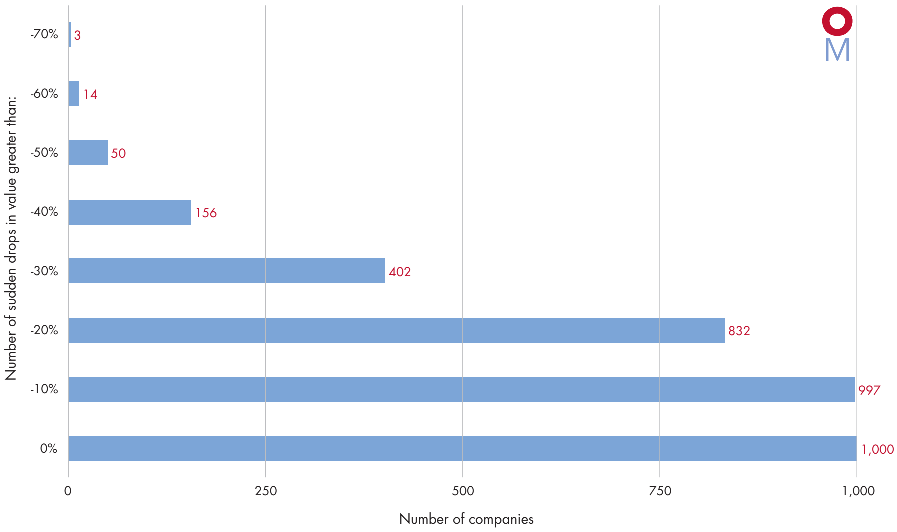
The graph captures the worst sudden drop in value for each company during the five-year period. When the triggers behind these drops in value were analysed, it was found that 72% of them were strategic in nature, defined as those risk exposures unable to be hedged away via derivative contracts or insured away through traditional commercial insurance policies.

Value Reaction™ is a proprietary metric of Oxford Metrica which measures the impact on share price performance of an event or portfolio of events. It is a modelled share price reaction, where market-wide influences have been removed and returns have been risk-adjusted. It is an excess return, adjusted for beta, and captures a firm-specific measurement of impact.

[1] Measured from event date to 31 March 2012.

[2] *Risks That Matter*, OM research commissioned by Ernst & Young.

Figure 1 Likelihood of reputation damage



The graph shows that there is an 80% chance of a company losing at least 20% of its value (over and above the market) in any single month, in a given five-year period. In each case, the value loss was sustained; transitory pricing blips were excluded.

Having a robust, evidence-based reputation strategy in place will minimise the likelihood of a critical event turning into a reputation crisis and will maximise the probability of recovery.

Essential to the guardians of reputation equity within any company are the following actions:

- **Evaluate reputation equity.** This will measure the size of the asset and facilitate benchmarking of different aspects of reputation performance both over time and against selected peer groups.

- **Analyse the drivers of reputation.** By identifying and ranking the drivers of reputation for a company, it becomes possible to allocate resources more effectively and invest in reputation activities wisely and confidently.

- **Develop a reputation recovery strategy.** Effective preparation and evidence-based remedial action planning will generate the best chance of recovery.

- **Monitor reputation equity.** Ongoing monitoring of reputation performance provides senior management with crucial and timely feedback, enabling confident decision-making and rapid responses to emerging risks.

Oxford Metrica believes that, for a reputation strategy to be successful, it should be grounded on real data and linked firmly to financial performance. In such a way, decision-making is informed and the objective of creating sustainable shareholder value is always in focus.

The next section of this review presents a measurement system for reputation performance, including a rigorous approach to reputation monitoring. Next will be introduced last year's tragic Japanese earthquake and tsunami, drawing lessons for recovery; in particular, the importance of a thoughtful communications strategy. Finally, the wide-ranging impact of the earthquake on the global supply chain will be analysed, as it pertains to reputation and value.

MEASURING AND MONITORING REPUTATION

A sudden and unexpected event can have a dramatic impact on a company's financial performance. Not only can the impact be substantial, but the effects tend to be sustained. Oxford Metrica has studied the effects of reputation events on performance for over twenty years and the results are very consistent.[3]

In Figure 2 is presented the impact on share price of a portfolio of reputation crises. The share prices are modelled such that all market-wide influences are removed and the returns are risk-adjusted. This procedure ensures a clean measurement of impact, specific to the company and unencumbered by broader market movements. The portfolio is constructed in event time; the events are aligned so that the initial date of impact for each event is Event Day zero. The Value Reaction graph shows the impact on performance for one calendar year following each event.

Figure 2 The impact of reputation crises on shareholder value

It is in the first few days following an event that the market makes its judgement on whether a company is going to emerge as a *Winner* or a *Loser*; a company whose value outperforms or underperforms pre-crisis expectations. At times of crisis, substantially more information is forthcoming on a company and, in particular, on its management, than is usually available. This new information is used by investors and other stakeholders to re-assess their expectations of future behaviour and performance.

It is this re-estimation process which drives the dramatic divergence between the *Winner* portfolio and the *Loser* portfolio.

Employing share price-based metrics carry several advantages. They are:

- Independent of accounting manipulation and reporting standards
- Entirely quantitative; not reliant on qualitative proxies or surveys
- Visible and transparent
- Responsive and granular; share prices change daily

[3] *Reputation and Value: the case of corporate catastrophes*, OM research commissioned by AIG.

- Relevant; the impact of any event affecting reputation significantly will emerge in the share price

- Comprehensive; the share price is a composite of the views and expectations of all stakeholders

It is only shareholders, in their role as residual claimant, who hold the incentive to maximise the claims of all other stakeholders in a company.

Monitoring reputation equity

Measuring the impact of prior reputation events can yield important insights and inform strategic direction. Monitoring an event as it unfolds provides critical and independent feedback (depending on the metrics used) to senior management as to the effectiveness of a chosen course of action. Ongoing monitoring when no crisis yet has struck exposes emerging risks to reputation and highlights danger. In all cases - following a crisis, during a crisis and in the absence of a crisis - diligent monitoring of corporate reputation should be an essential component of corporate strategy.

Presented next is an analysis of Olympus Corporation following its governance scandal last year. The crisis was thrust into the public domain on 14 October 2011 by the sudden dismissal of Chief Executive Michael Woodford. Woodford claimed that his dismissal was prompted by questions he had raised to the Board over seemingly irregular payments (of over US$1 billion) made to third parties relating to prior acquisitions. Olympus has since admitted to falsifying its accounts in order to cover up losses incurred through bad investments.

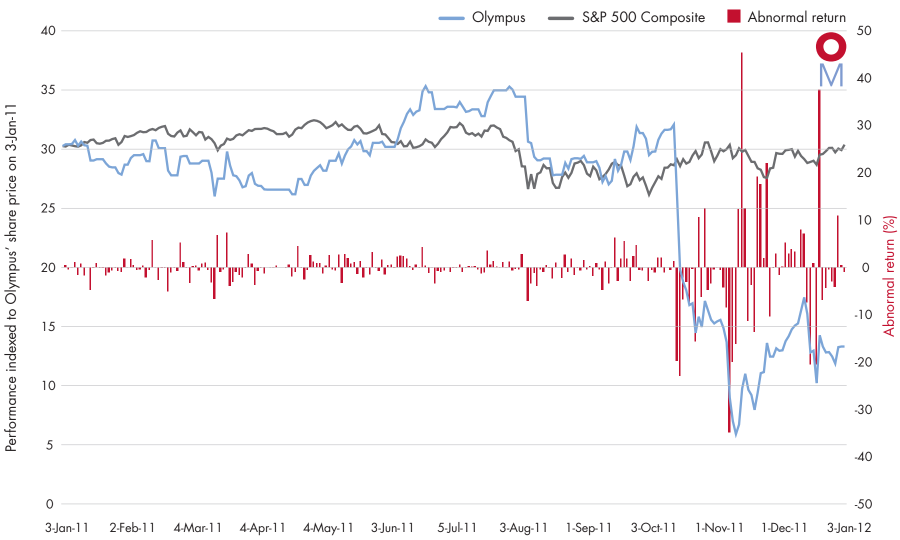
Figure 3 illustrates how reputation equity can be monitored through time from any starting point, irrespective of the incidence of any crisis. The monitoring begins at the start of 2011 and captures a 20-day cumulative impact which is reset every day. Thus a daily series of the 20-day cumulative impact is plotted on the graph.

Figure 3 Olympus breaches the alarm threshold

The warning threshold is set here to a drop of 20% but can be set to any level. It is clear immediately when the threshold is breached. The return of this rolling-impact metric to zero does not of course mean that reputation is restored but, rather, as this is an ongoing monitoring device reset every day, it implies that no new event has triggered additional damage. To assess the restoration of reputation equity, one would calculate the Value Reaction metric from the start of the crisis and continue until value was restored.

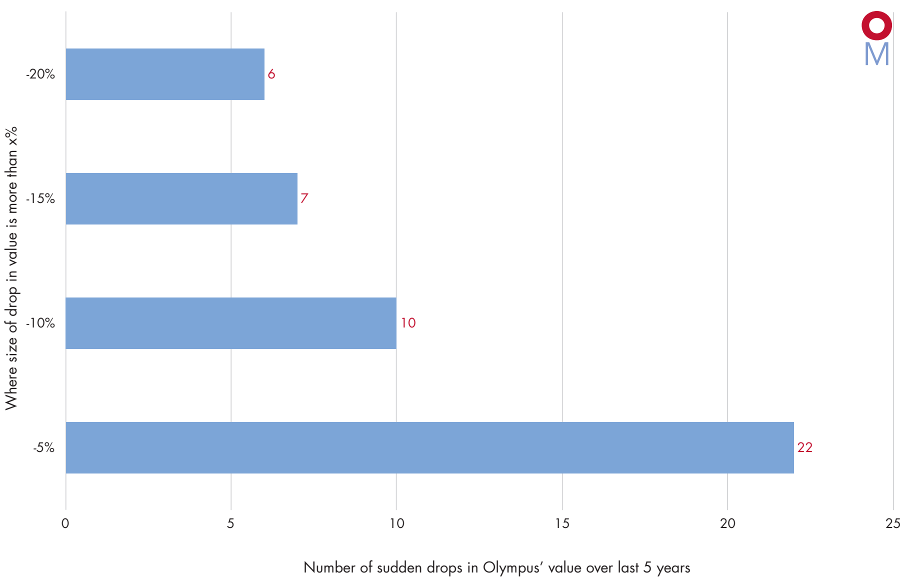
Figure 4 shows the underlying share price, market index and daily modelled abnormal returns which are cumulated to produce the rolling 20-day impact captured in the previous graph.

Figure 4 Olympus' raw performance



Consistent with the global results summarised in Figure 1, Olympus has suffered sudden and unexpected drops in value, over and above the market, more than once in the last five years; Figure 5.

Figure 5 Olympus had 6 reputation crises over last 5 years



By the end of the first-quarter 2012, Olympus had lost almost 60% in reputation equity since the scandal broke, equating to over US$5 billion.

Rather than a single event which dominated the year, Research In Motion (RIM) suffered a series of damaging reputation events in 2011. Beyond disappointments relating to operational and financial performance, was a four-day outage which disrupted service to millions of the company's

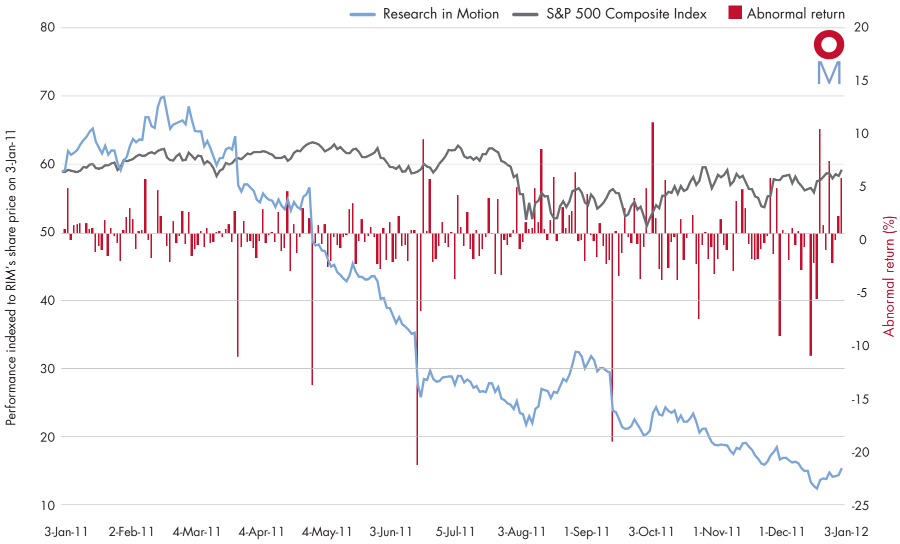
BlackBerry customers. The system-wide failure which began on 10 October was thought to have left approximately half the company's 70 million subscriber base without access to email, instant messaging or browsing.

Figure 6 reveals for RIM in 2011 five distinct breaches of the threshold for alarm, currently set to a sudden drop of 20% in reputation equity.

Figure 6 RIM breaches the alarm threshold

Figure 7 depicts the underlying raw data where the downward spikes in performance are visible clearly. The accumulation of this continuing succession of sudden drops in value has resulted in the company now losing 87% of its value in the eighteen months since the start of 2011.

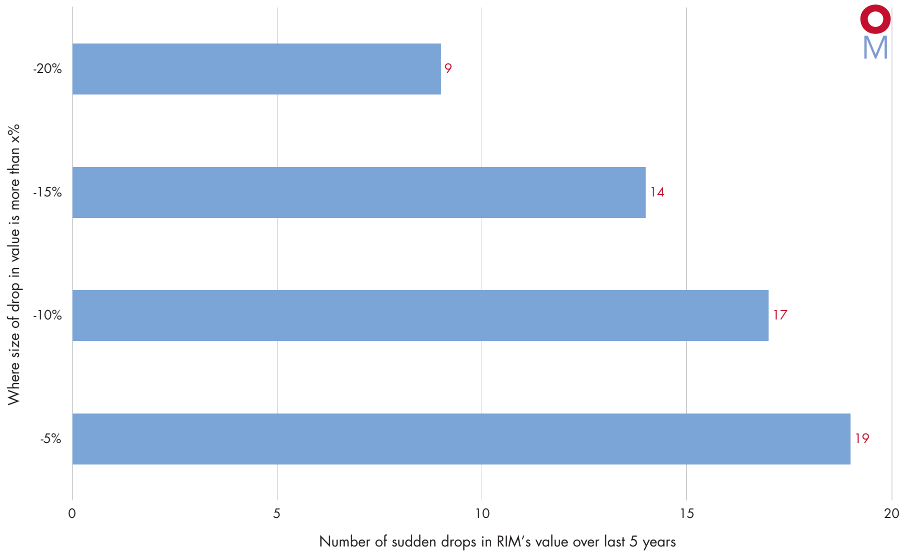
Figure 7 RIM's raw performance



Providing context for what was undoubtedly a bad year for RIM is Figure 8 which illustrates the distribution of negative reputation events for the company over the last five years.

An effective reputation monitoring system provides independent and evidence-based feedback for senior managers wishing to protect their company's reputation equity and remain vigilant towards emerging risks.

Figure 8 RIM had 9 reputation crises over last 5 years

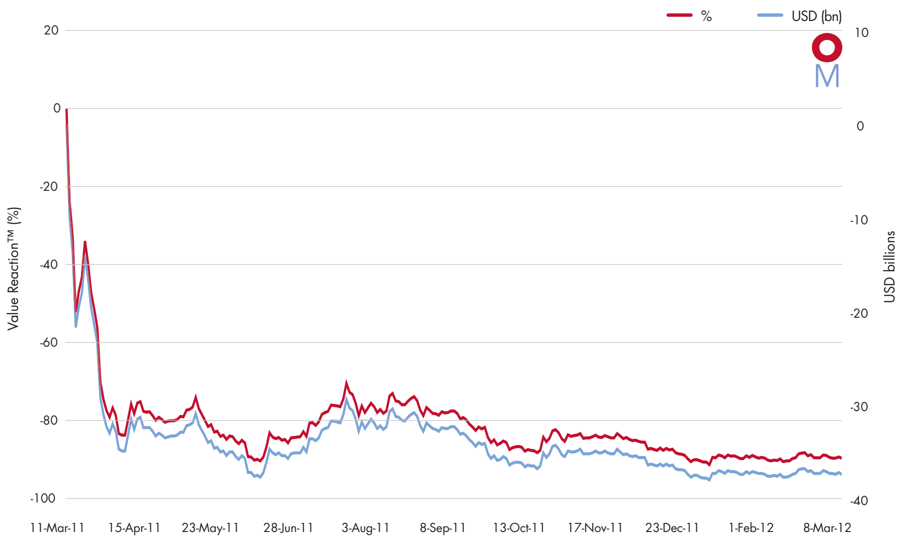


LESSONS FOR REPUTATION RECOVERY

On 11 March 2011, an earthquake of the most devastating proportions rocked the east coast of Japan. The Great East Japan Earthquake registered a magnitude of 9.0 (the biggest in Japan's recorded history) and triggered a tsunami ending in widespread tragedy. It is estimated that 19,184 people lost their lives in the disaster.[4]

The horror continued as the tsunami caused a meltdown at three reactors of the Fukushima Dai-ichi Nuclear Power Plant complex, operated by Tokyo Electric Power Company (TEPCO), forcing over 100,000 people from their homes. The analysis in this section of the review will focus on the performance of TEPCO and will draw lessons for recovering from crisis.

Figure 9 The reaction to TEPCO's risk management



The dominant problem at the nuclear plant was the failure of the cooling systems and in all attempts to supply power to get those systems working again. TEPCO has been criticised severely for its response to the crisis. Figure 9 depicts the investor reaction to management performance.

[4] *Source:* Swiss Re sigma no. 2/2012. Includes dead and missing.

The reaction to the failures by TEPCO are swift and sustained. By the end of the first-quarter 2012, approximately 90% of the company's value was destroyed, equating to over US$37 billion. Once considered a cornerstone of corporate Japan, public trust in the company has vanished. In March 2012, shareholders of TEPCO sued current and former directors of the company for US$67 billion in damages, alleging failure to heed multiple warnings and to prepare adequately for a severe accident. Beyond the apparent failures in engineering, risk control and operating management, there is profound anger towards the company's management over how they are perceived to have handled the disaster. In particular, there prevail accusations to senior management of arrogance, belittling the crisis in its early stages and delaying compensation to the many evacuated from their homes.

Oxford Metrica research demonstrates that, on average, events associated with mass fatalities have double the impact on shareholder value than do reputation crises in general.[5] It therefore becomes even more critical to manage these events well. Beyond the obvious moral rationale for good behaviour by management, it is clear that the markets respond positively to firms which demonstrate essential human qualities; sensitivity, compassion, honesty and courage. The managerial awareness of what is required, and the courage to act accordingly, sends a strong signal of skill to investors.

As with non-fatal reputation crises, the key determinant of value recovery relates to the ability of senior management to demonstrate strong leadership and to communicate at all times with honesty and transparency. For mass fatality events particularly, the sensitivity and compassion with which the Chief Executive responds to victims' families, and the logistical care and efficiency with which response teams carry out their work, become paramount. Irrespective of the cause of a mass fatality event, a sensitive managerial response is critical to the maintenance and creation of shareholder value.

Listed below are the key drivers of reputation recovery following crisis:

- Preparation - Effective loss prevention and control techniques always should be the first port of call to minimise risk and mitigate potential loss.
- Leadership - Strong leadership is essential to navigate a crisis well and inspire confidence in stakeholders.
- Action - Rapid, decisive and efficient action demonstrates managerial credibility and puts a company on the path to recovery.
- Communication - Communication must be accurate, frequent, well-coordinated and two-way. It should recognise the need to regain trust.
- Sensitivity - An honest, sensitive and compassionate response signals awareness of the severity of the situation and an understanding of the right priorities.

A crisis places tremendous pressure on a management team and all those charged with restoring the company's reputation and value. A frequent casualty is the Chief Executive at whose door responsibility rests. In a little over two months since the tsunami, TEPCO's President resigned. Nobody expects a crisis to occur on their watch but the evidence suggests that such an occurrence is more likely than not, and it is better to be prepared and remain alert to emerging risks.

In the next section, we invite Spencer Livermore - Director of Strategy at reputation consultancy Blue Rubicon - to present his views on the value of communications in managing reputation equity.

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[5] *Protecting Value in the Face of Mass Fatality Events*, OM research commissioned by Kenyon International.

THE COMMUNICATIONS DIVIDEND

by Spencer Livermore, Director of Strategy, Blue Rubicon

"Great companies are very clear about what they are and what they stand for. They are strongly differentiated. And, typically, they enjoy high levels of trust.

Well-differentiated companies are also worth more. Oxford Metrica's analysis shows that companies which open up more following a crisis and tell a richer, deeper story are valued more highly, increasing share price by 10 per cent on average over a year.

That is the dividend that investing in communications can create. The market believes that these businesses will deliver higher future earnings. That is why there is a direct correlation between brand strength, differentiation and company valuations.

In short, reputation is part of competitive advantage. Strong reputation enhances sales, customer satisfaction and retention. It attracts talent which, in turn, drives innovation and effectiveness. It improves access to scarce resources and reduces operating costs.

For those with weaker reputations, the reverse is true. These companies are less understood and less trusted. As a result, their leadership is more vulnerable to the impact of crisis. That is why one of the most effective forms of risk management is building a strong reputation.

That requires campaigning, disruption, and investment – because we live in a world where reputational threats emerge faster than ever. In this climate, to shape sentiment rather than continually chase it, you need to invest more time and money in strategy, not less.

Reputation growth is built on the foundations of strong strategy. Here we can learn lessons from election strategy, where they routinely face the same – if not greater – pressure, contending with the demand for daily approval.

Election strategists have long had to contend with an exceptional combination of extreme factors. Nowhere is the consumer less willing to listen than in politics, and the media is more routinely brutal.

Politics is also far more focused on beating the opposition. In politics, your reputation is only ever relative to that of your opponents. That creates an environment unrivalled in its ferocity.

And, elections raise the stakes. They represent a single, definitive moment of judgement rarely experienced elsewhere. It's win or lose and the winner takes all.

To survive in this harsh environment, the most successful election strategists have perfected a process that delivers extraordinary strategic clarity and discipline.

First, they hone in on audience insight. They drill down until there is a deep understanding of target audience behaviour and what might change it. That creates a continual focus on those that really matter. It prevents campaigns from being knocked off course by the constant buffeting of critics.

Second, they establish their strategic positioning. The ground from which you can win. Traditional issues management tends to place you on opposition ground. That allows critics to define the terms of the debate. In contrast, strategic positioning is all about defining your territory. Where your attributes – brands, organisation or people – can be strengths rather than weaknesses.

Spencer Livermore is Director of Strategy at Blue Rubicon and was formerly senior new Labour election strategist and Director of Strategy in 10 Downing Street. Blue Rubicon is a leading reputation consultancy which creates campaigns to protect and grow the reputation of clients and mobilise stakeholder sentiment. The agency uses proven, evidence-based research techniques to make strategic decisions about the fundamental positioning of companies and brands.

Third, is the formation of a compelling narrative. A narrative that drives and unites all communications. This matters because, in essence, a campaign is a battle for dominance between two competing narratives – every day dominated by your narrative is a day won. Every day spent on your opponents' is a day lost.

Finally, successful political campaigns ensure continual message discipline. They have a much clearer and more granular understanding of which words will work and which to avoid. There is no point in having a clear positioning and narrative if it is articulated in words that do not resonate, or worse – words that turn people against you.

There is no doubt we can learn from election strategy. Insights can help us to operate differently in the corporate space. And, by taking these lessons, we can grow reputation faster.

And just like in politics, our leaders – what they do and say – are a very important part of what separates winners from losers.

High levels of communications expertise really is now a foundation skill for the modern CEO. It is no longer enough to be a great businessman or woman. You have to be able to project a clear and simple narrative with consistency and power.

Nowhere is this more apparent than in a crisis. Good strategy, compelling narrative and using words that work increase your chances of being the leader of a business that recovers.

Communications that strengthen reputation are far more valuable than is recognised. We can make companies worth hundreds of millions more simply by making them better understood. And in these troubled times, that is a pretty good return on investment".

REPUTATION RISK IN THE SUPPLY CHAIN

Almost as important as monitoring the performance of one's own company's reputation equity, is monitoring the performance of one's key suppliers or customers. Disruption at a key supplier or loss of a key customer can cause significant reputation challenges at one's own company. Risk in the supply chain was exposed powerfully in the aftermath of the Great East Japan Earthquake. In addition we demonstrate that a firm's competitive position is equally at risk.

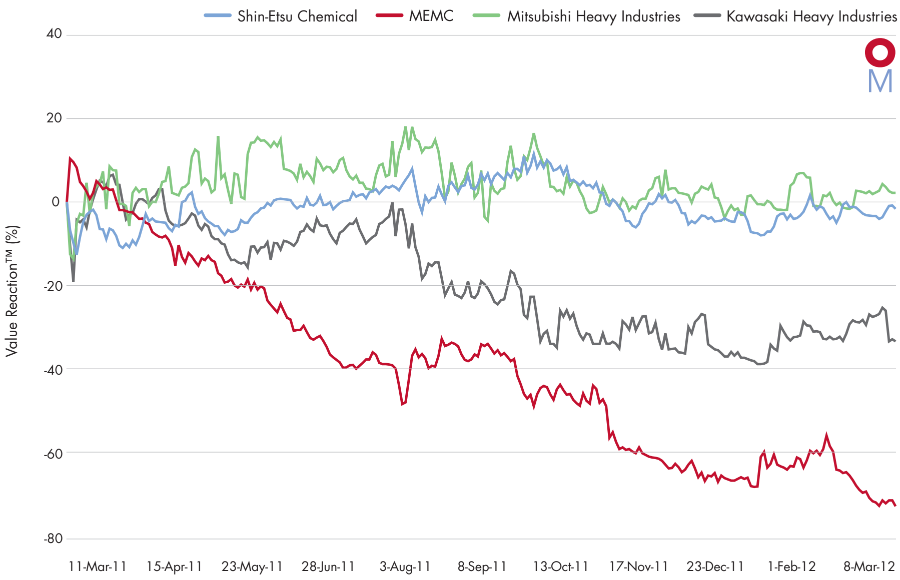
This section of the review will examine the effects of the disaster on vital Japanese industries forced into shutdown and then consider the broader impact on the global supply chain.

Figure 10 illustrates the performance of two prominent companies affected from each of the chemicals and aerospace sectors. All four of these are Japanese companies and therefore most immediately affected.

Japanese company Shin-Etsu Chemical is the world's leading producer of silicon wafers. American electronics materials company MEMC is a rival producer of silicon wafers and has a large facility in Utsunomiya, Japan, also directly affected by the disaster.

Mitsubishi Heavy Industries and Kawasaki Heavy Industries are both significant contributors to the production of Boeing's 787 Dreamliner and rely, in turn, on many local subcontractors to supply them. Neither company suffered substantial physical damage to their facilities but were both affected by disruption to the supply of power from TEPCO.

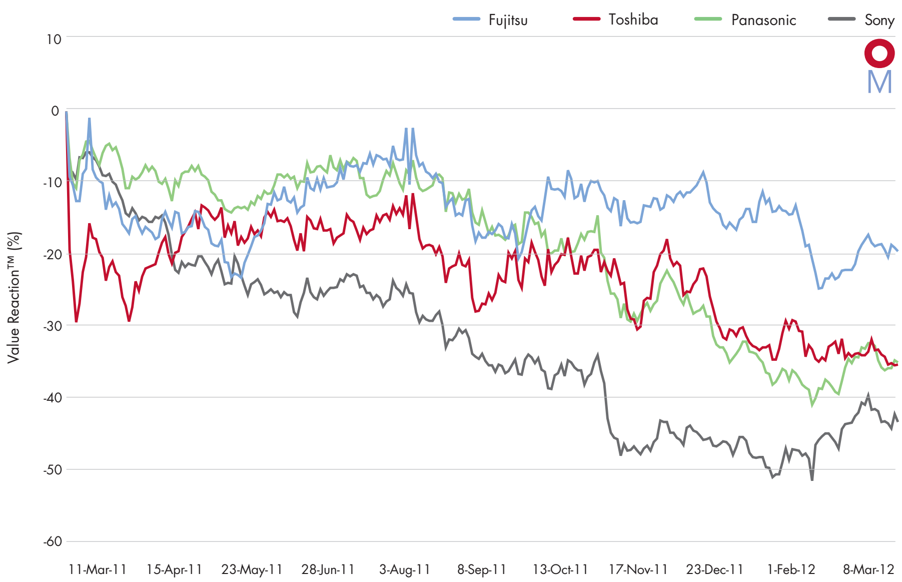
Figure 10 Contrasting performance among rivals



Shin-Etsu Chemical and Mitsubishi Heavy Industries emerged with their reputation equity relatively unscathed whereas the performances of MEMC and Kawasaki Heavy Industries were damaged significantly over the subsequent year. Whole industries were affected either directly or indirectly through production delays at suppliers, power shortages or by the breakdown in infrastructure making operations very challenging.

Figures 11 and 12 depict the performance of dominant Japanese companies in the consumer electronics and auto sectors.

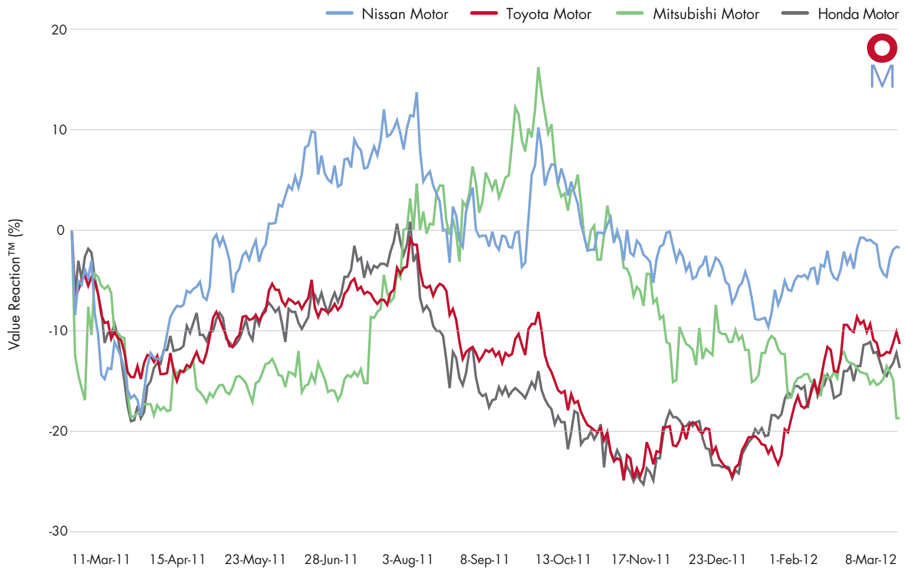
Figure 11 Impact on Japanese electronics companies



All four electronics companies featured in Figure 11 suffered badly in the aftermath of the disaster, with Sony Corporation suffering the worst drop in value.

The contrasting recovery paths of Nissan and Toyota are interesting. Nissan's Iwaki plant was battered by the earthquake but returned to full operation within a week.

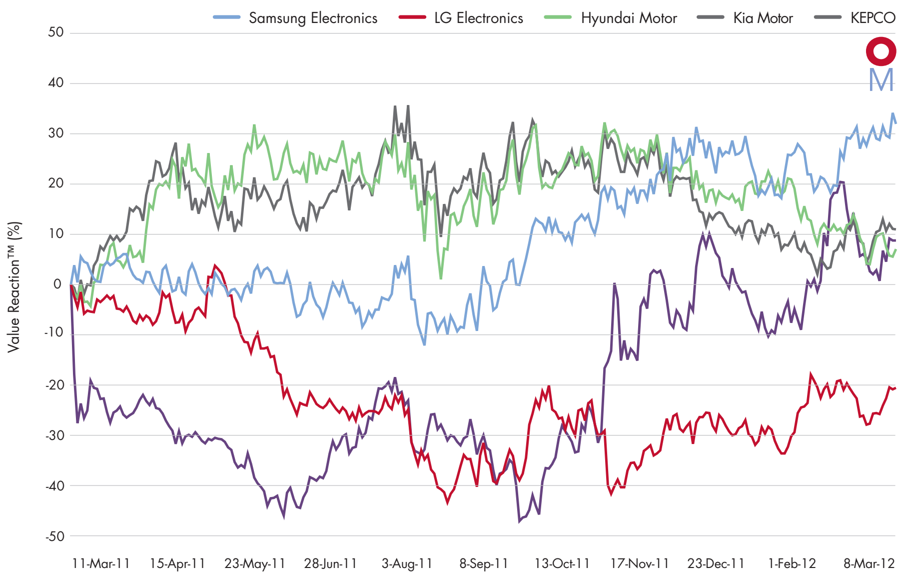
Figure 12 Impact on Japanese auto companies



Toyota's plants escaped relatively unscathed but the company faced critical shortages in components. In assembly lines, one missing component is all it takes to halt production. Nissan held more inventory and its supply chain is considerably more global than that of Toyota. Nissan makes only 25% of its cars in Japan (compared with a stated aim of 45% for Toyota) and it encourages more competition among its suppliers, rather than relying on long-term relationships. The reputation risks inherent in concentrated supply chains are highlighted vividly.

The impact on Korean companies is complex as they are both competitors to, and consumers of, Japanese components and products. Figure 13 illustrates the postcrisis performance of five leading Korean companies.

Figure 13 Impact on Korean companies



Korean auto companies, Hyundai Motor and Kia Motor, were able to reap advantage from their Japanese competitors' hardships. In April 2011, sales to the US were up by 40% and 57% for Hyundai and Kia, respectively, from a year earlier. Electronics companies Samsung and LG Electronics experienced contrasting fortunes. Both make display panels and faced acute shortages from Japanese component suppliers due to blackouts and transport problems. The strong demand for Samsung's products undoubtedly has helped its recovery. Meanwhile, Korea Electric Power Corporation (KEPCO) suffered as TEPCO's meltdown disaster at Fukushima stoked opposition to nuclear energy.

Disruption to the supply chain was not limited to Asia. The effects of damage to production facilities, transport infrastructure and power supplies were felt worldwide. Highlighted in Table 2 are ten companies selected to illustrate the wide range of impact across industry sectors in Europe and the United States. The Value Reaction metric is calculated for one year from the date of the earthquake.

Table 2 Far-reaching impact on the global supply chain

Company	Issue	Value Reaction[6] %	$m
Apple IT USA	Disruption to supply of iPad components but strong demand for products drove shares higher	50.0	159,617
GSK Pharmaceutical UK	Minor damage to Imaichi factory, suspended operations but strong sales growth	18.3	18,071
Novo Nordisk Chemical Denmark	The world's biggest producer of insulin suffers disruption at its Koriyama plant	9.1	6,889
Nestlé Food Switzerland	Sales office in Sendai damaged and production suspended at Kasumigaura factory	3.2	6,100
Boeing Industrial USA	Potential delay to Dreamliner 787 production due to damaged infrastructure in Japan	-1.2	-609
General Electric Industrial USA	Mixed impact as the supplier of both nuclear reactors and (replacement) gas turbines	-8.0	-17,010
Volvo Motor Sweden	Main facility in Japan forced to halt production, dealership at Sendai severely damaged	-17.5	-6,191
Lufthansa Airline Germany	Forced to cancel some flights carrying electronics & pharmaceuticals out of Japan	-38.4	-3,645
Nokia Telecom Finland	Disruption to supply of components and raw materials sourced from Japan	-40.2	-12,643
PSA Peugeot Citroen Motor France	Halts production on its electric cars due to supply chain disruption	-55.1	-5,009

Monitoring risk in the supply chain is an essential element of a successful reputation strategy. The Japanese earthquake and tsunami disaster, with consequent nuclear alert and power shortages, has raised questions over inventory levels, concentration in the supply (and demand) chain, and adequate contingency planning. Reputation monitoring across the whole manufacturing chain is necessary to detect new risks as they emerge.

[6] Measured from 11 March 2011 to 11 March 2012.

SUMMARY

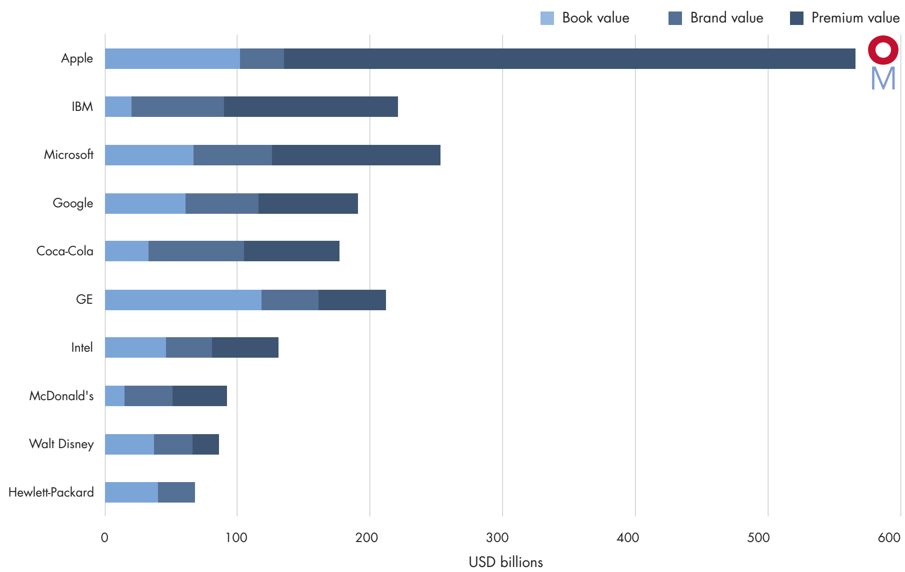
The last year has seen another host of significant events damage the reputation and shareholder value performance of eminent companies around the world. The evidence demonstrates that a reputation crisis, where a company might lose more than one-fifth of its value suddenly and unexpectedly, carries an 80% likelihood in a five-year period. In an age of instant and global communications, it is more important than ever to have in place a reputation monitoring system to identify emerging threats and provide senior management useful intelligence.

Presented in this review is a measurement and monitoring system for companies seeking to protect and evaluate the ongoing performance of their reputation equity. The metrics used are share price-based and, thereby, offer feedback that is independent, quantitative, transparent, responsive and comprehensive. Summary profiles of Olympus and Research In Motion are provided to illustrate.

The Great East Japan Earthquake was a tragedy of unimaginable dimensions. The scale of the horror as earthquake turned to tsunami turned to nuclear disaster will haunt many for always. As with any crisis, there are opportunities to learn and reminders for all. The impact of the disaster in Japan on the global supply chain was substantial and widespread. The need for vigilance in managing reputation risk across the entire manufacturing chain was brought into sharp focus as customer contracts were threatened by disrupted supply.

Reputation equity can be a significant asset and source of shareholder value. Figure 14 illustrates the market values[7] of the ten companies with the most valuable brands[8]; by book value, brand value and premium value. Premium value is that element of market capitalisation in excess of book value which is not represented by the brand, including additional reputation assets such as leadership, innovation, intellectual property, and global reach. These assets are a source of sustainable competitive advantage and enhance shareholder value. Hewlett-Packard is currently trading at less than its book value.

Figure 14 Top 10 global brands in 2011



Reputation equity is an asset which demands priority attention from senior management seeking to protect and maximise value. As part of a successful reputation strategy, a robust monitoring system delivers critical, evidence-based intelligence for prudent decision-making.

[7] Market values at 5 July 2012.
[8] *Source:* Interbrand Best Global Brands 2011.

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Reputation Review is published annually by Oxford Metrica Press.