What Price Reputation? Post-Crisis Insights
Intellectual Capital for Communities
in the Knowledge Economy
Nations, Regions, Cities and Emerging Communities

Jonathan Low
Predictiv

UNIVERSITÉ
PARIS-SUD 11

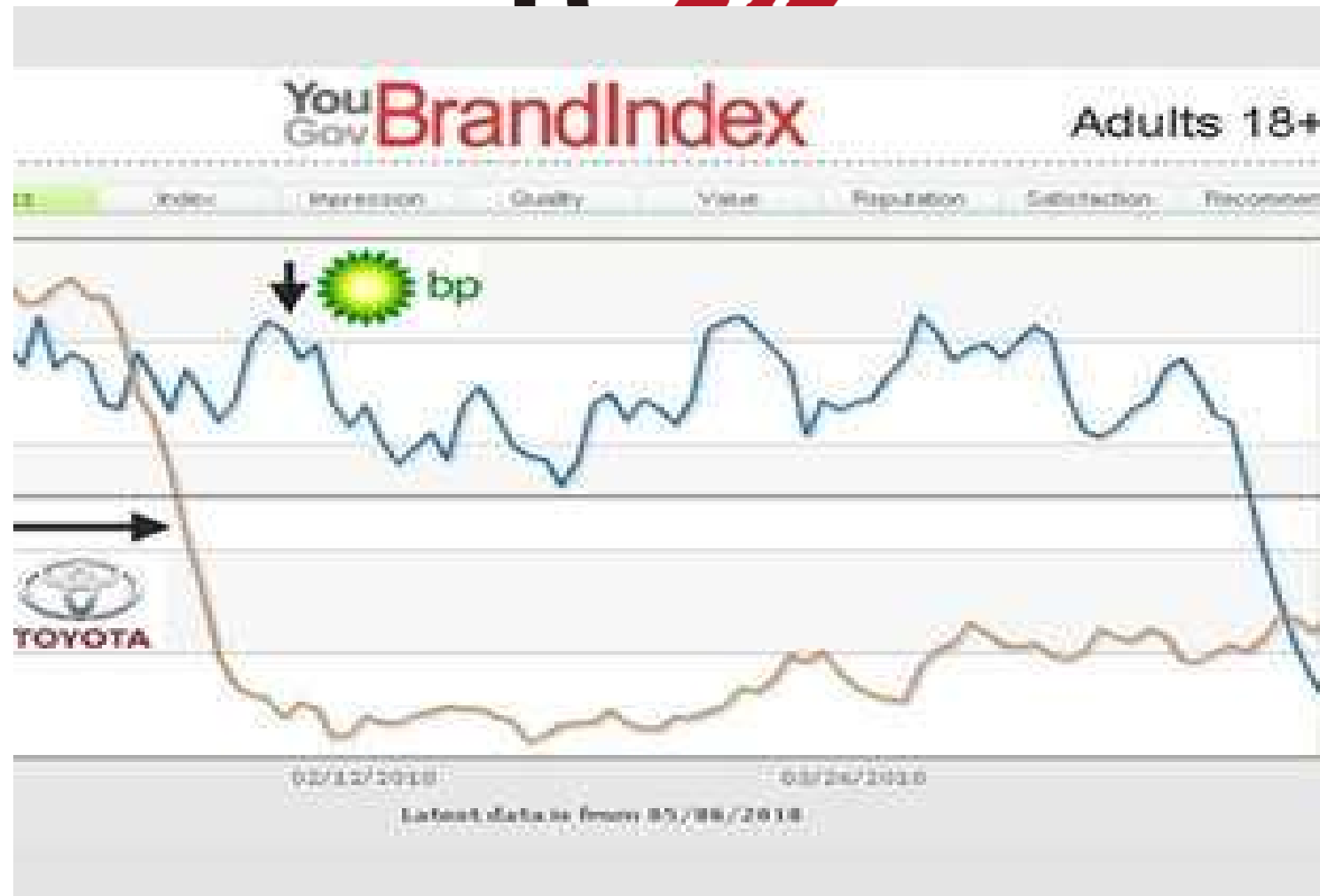**European Chair** on **Intellectual Capital Management**

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World Conference on Intellectual Capital for Communities
- Sixth Edition -

This has been an instructive year for presentations on reputation: Toyota and bp

And What Would a Presentation on Reputation be without Goldman Sachs...

Sell Side Optimism McKinsey

Overoptimistic

Earnings growth for S&P 500 companies, 5-year rolling average, %

Long-term average, %
- - - - Forecast[1]
- - - - Actual[2]
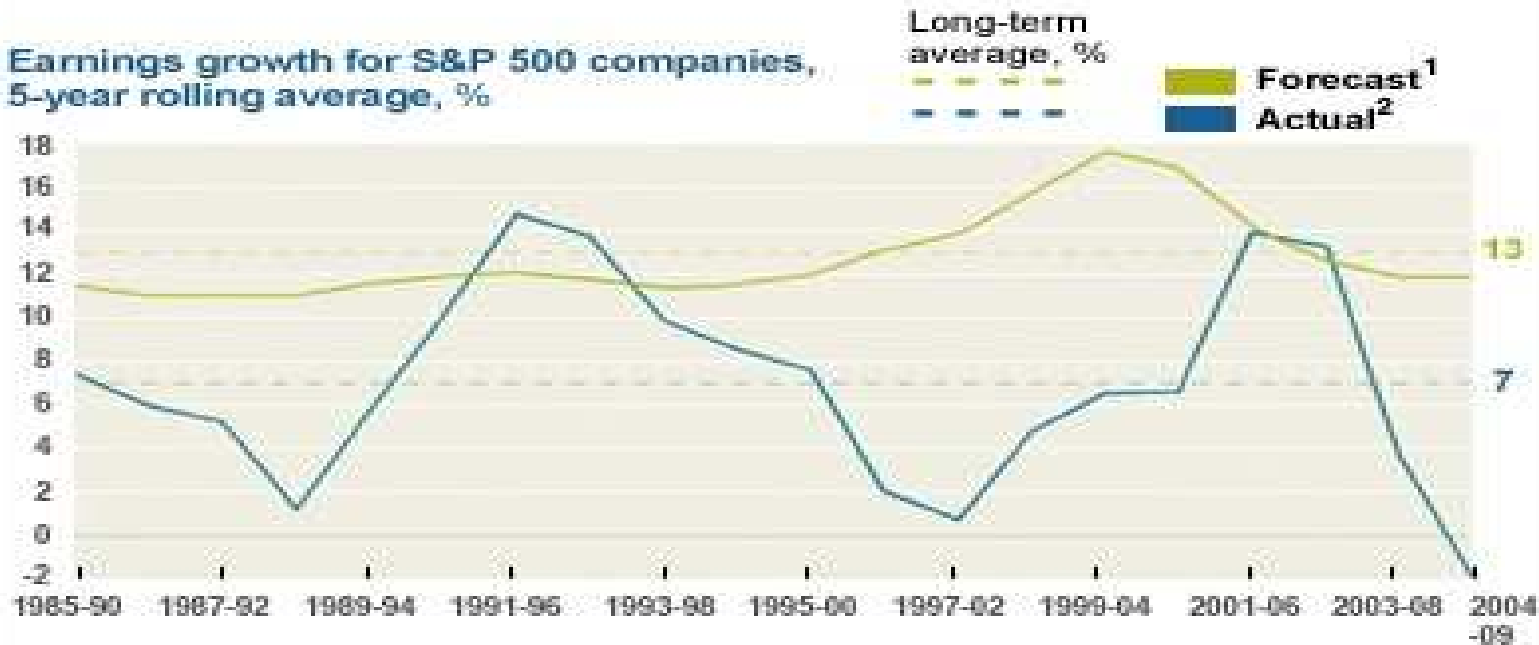
[1] Analysts' 5-year forecasts for long-term consensus earnings-per-share (EPS) growth rate. Our conclusions are same for growth based on year-over-year earnings estimates for 3 years.

[2] Actual compound annual growth rate (CAGR) of EPS; 2009 data are not yet available, figures represent consensus estimate as of Nov 2009.

Deregulation's 'Benefits' Concentrated Info Ownership _{US Govt}

Acctg Office

Percent

Year

SEC staff years

SEC workload
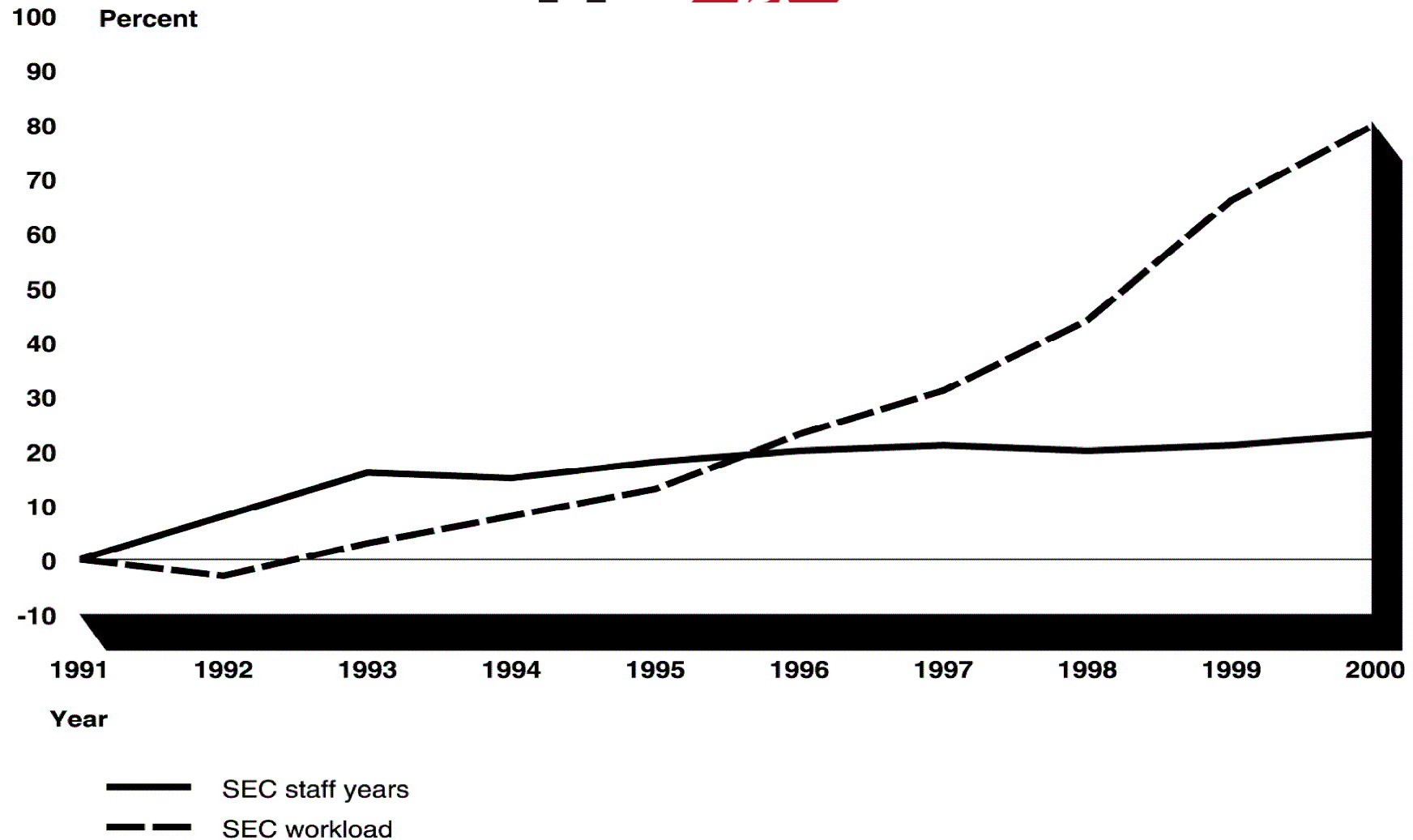
Which Was Belied by the Results of "The Lost Decade" for Investors

THE LOST DECADE?
OR JUST ANOTHER RANDOM OUTCOME?
10-year annualized total return % through 11/30/09

Indices: Citigroup ESBI-C, MSCI EM, Wilshire REIT, Barclays TIPS, DJ-UBS Commodity, Citigroup WGBI ex-US, Barclays US Aggregate, iBoxx High Yield, 3-mo. T-bill, MSCI EAFE, Russell 3000

Source: Beta Investment Report (Betainvestment.com)
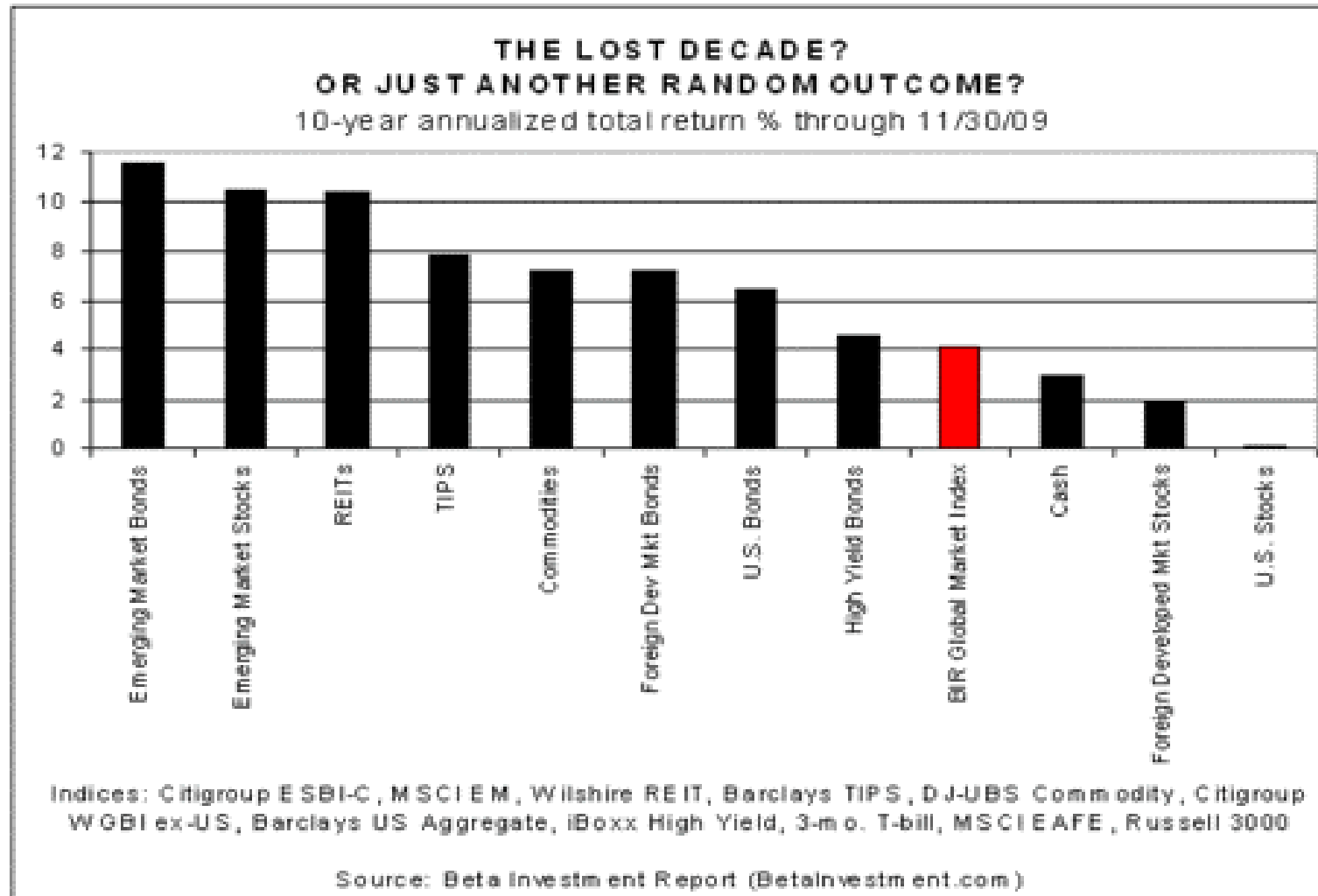
National Debt Relative to GDP

Capitalism in crisis: Global debt levels compared
Country sizes proportional to each country's total debt

National debt / GDP ratio

< 30%

30-60%

> 60%

2010 estimates derived from Worldbank and CIA

Map created by Benjamin Hennig. (c) 2010 Sasi Research Group, University of Sheffield
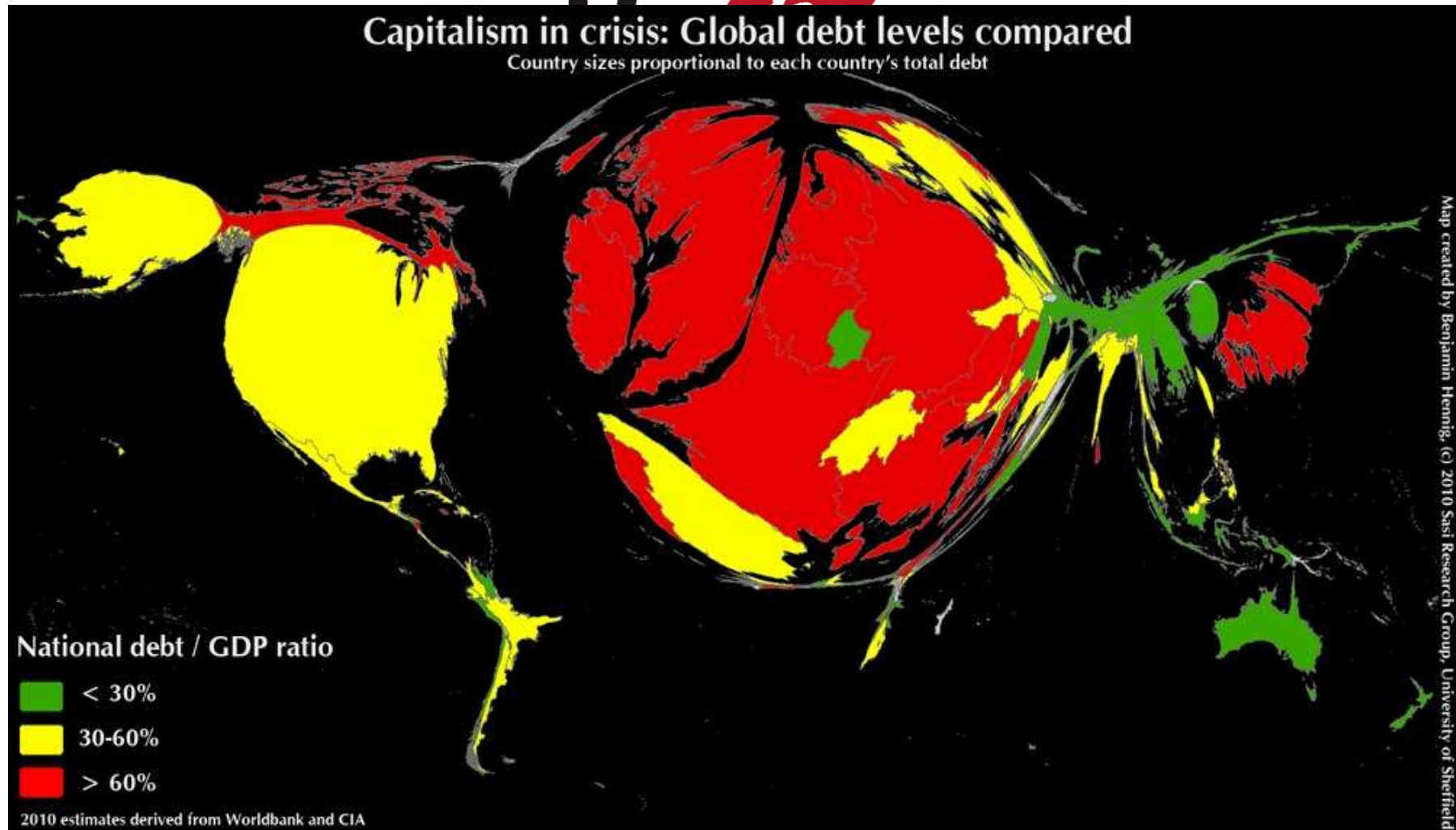
Trust in Business is Recovering but Concerns Remain^{Edelman}

Trust Barometer 2010

Top 10 Countries by GDP

	U.S.	Germany	France	U.K.	Italy	China	India	Brazil	Japan	Russia
2009	36%	34%	30%	46%	33%	62%	71%	67%	63%	52%
2010	54%	40%	36%	49%	59%	62%	67%	62%	57%	42%

+18 (U.S.) +26 (Italy) -10 (Russia)
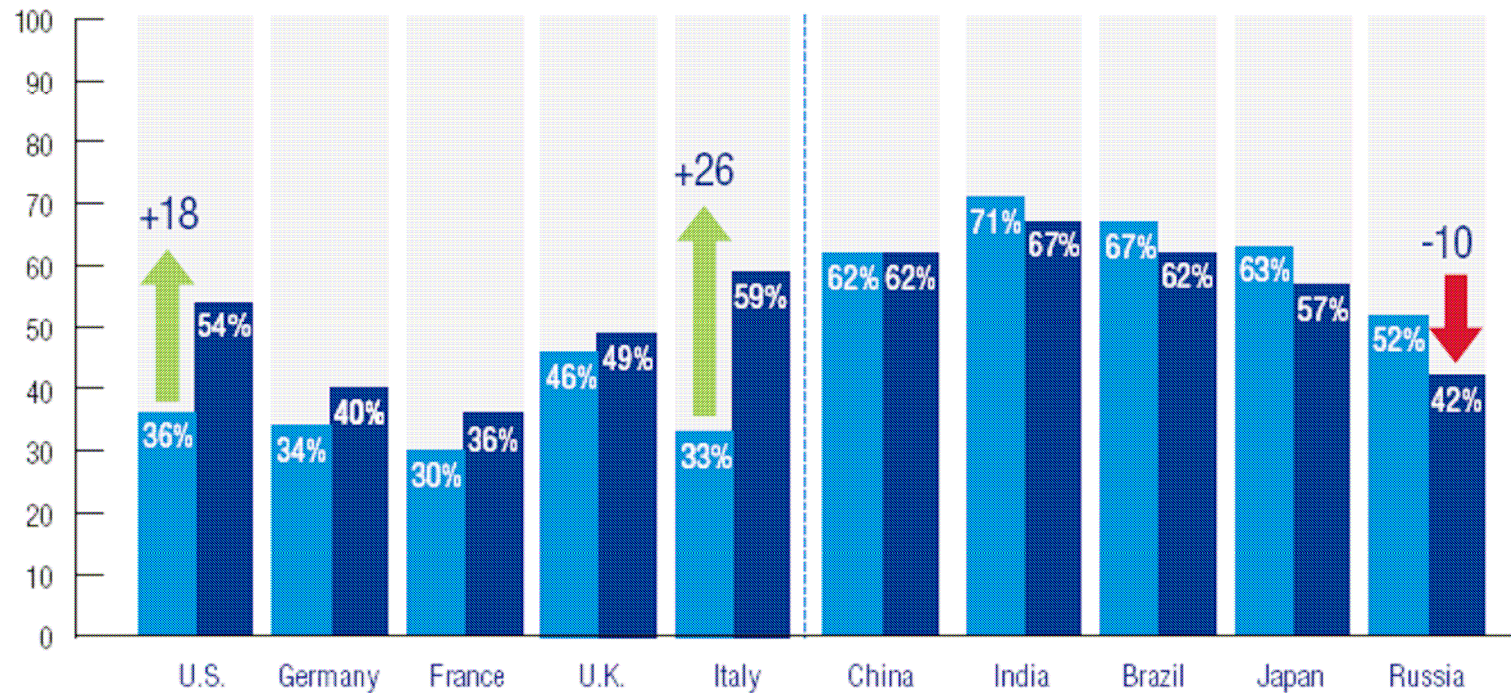
Responses 6-9 only on 1-9 scale; 9=highest
Informed publics ages 25 to 64 in 20 countries

■ 2009   ■ 2010

Perceptions of reputation and value contribution are changing

Figure 9: In 2010, financial performance least important to corporate reputation

What shapes your trust in a company?

U.S. 2006

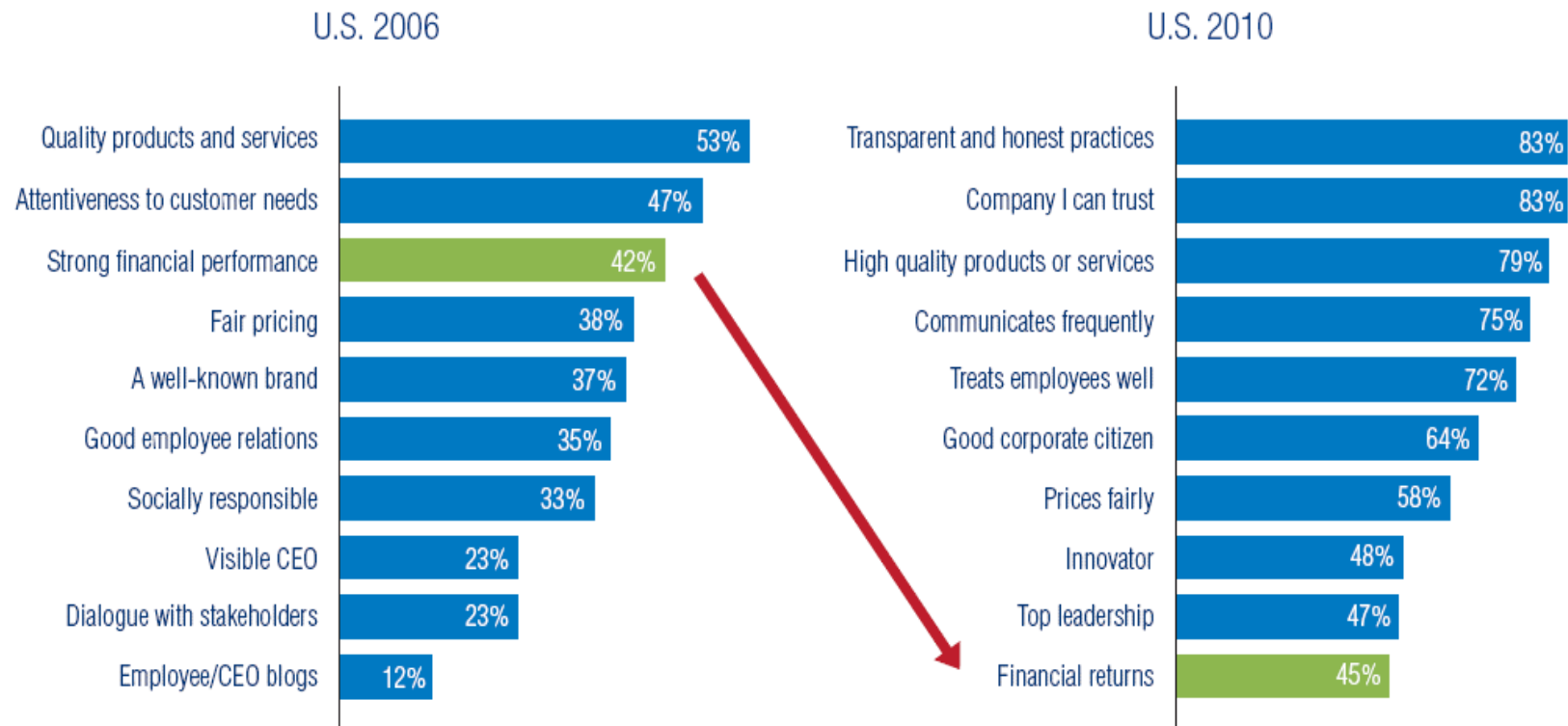| Factor	%
Quality products and services	53%
Attentiveness to customer needs	47%
Strong financial performance	42%
Fair pricing	38%
A well-known brand	37%
Good employee relations	35%
Socially responsible	33%
Visible CEO	23%
Dialogue with stakeholders	23%
Employee/CEO blogs	12%

How important are these factors to corporate reputation?

U.S. 2010

Factor	%
Transparent and honest practices	83%
Company I can trust	83%
High quality products or services	79%
Communicates frequently	75%
Treats employees well	72%
Good corporate citizen	64%
Prices fairly	58%
Innovator	48%
Top leadership	47%
Financial returns	45%

Sustainability Is Growing as an Economic Force

Percentage of Respondents Willing to Pay a Premium for a Product Marked as Environmentally Friendly

Source: Accenture 2010

BRICs Are Above Average in Ratings of Public Policy Environmental Support$_{GRI}$

Figure 1. Restricted CDI environment component with BRICs, 2007
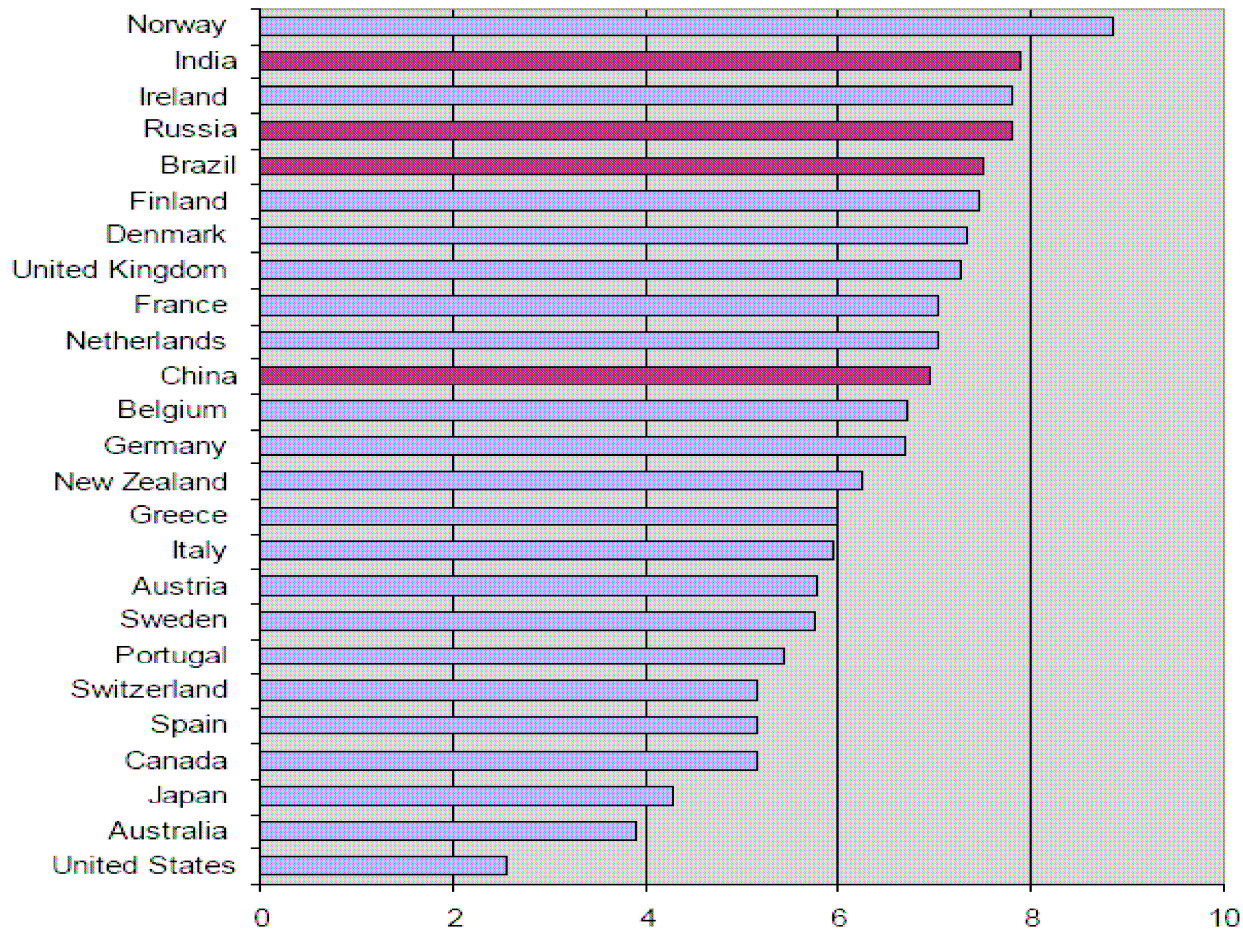
Perceptions of Ownership Have Shifted

Figure 10: A stakeholder, not a shareholder, world

Investors/Shareholders
14%

Customers
13%

All stakeholders
are equally
important
52%

Society at large
11%

Government
3%

Employees
7%
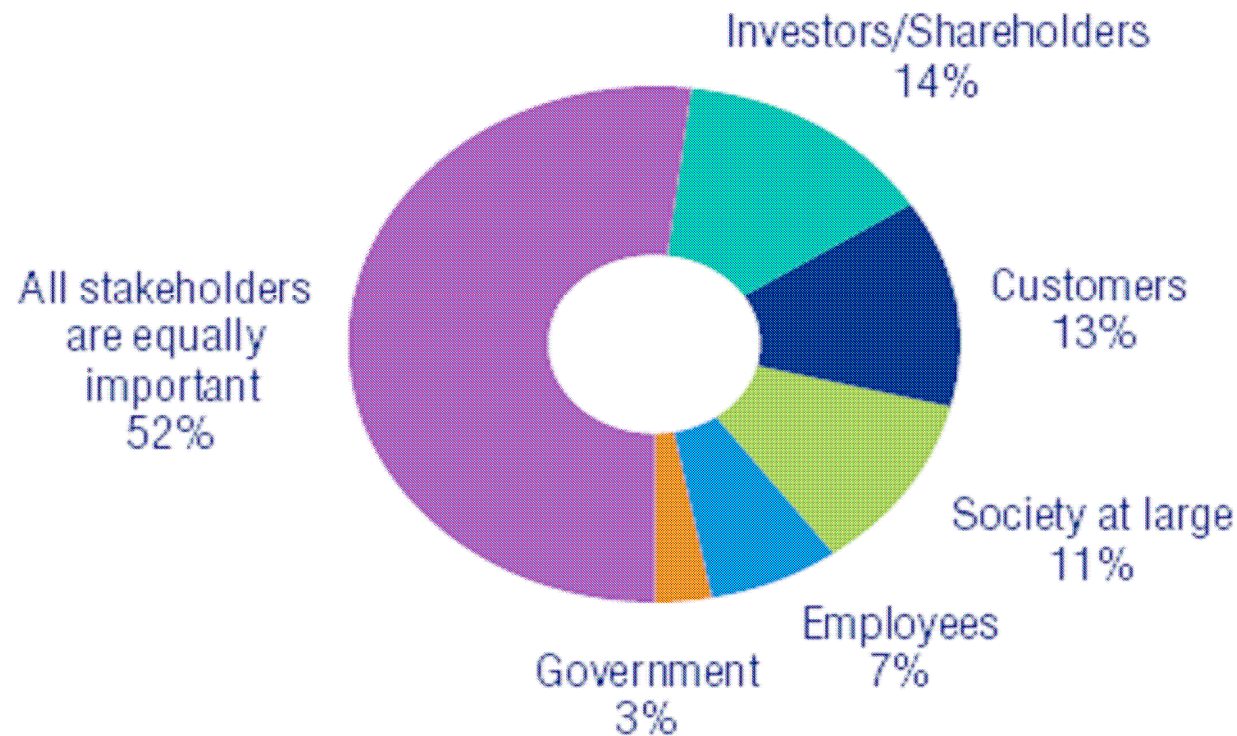
Strong Relationship Between Reputation and Performance
Harris Interactive 2010 RQ Survey

Vision & Leadership		
1.	Berkshire Hathaway	88.74
2.	Google	83.56
3.	Microsoft	83.12
4.	Apple	82.64
5.	Coca-Cola	81.92

Financial Performance		
1.	Berkshire Hathaway	86.19
2.	Google	83.38
3.	Microsoft	83.10
4.	Disney	82.57
5.	Coca-Cola	82.51

Information & Reptutation convey value financially and competitively

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The Apple iPod = 299$ of Chinese exports to US

Distribution of the value added

- 299 US$
  - 75$ profit to US (Apple)
  - 73$ whls/retail US (Apple)
  - 75$ to Japan (Toshiba)
  - 60$ 400 parts from Asia
  - 15$ 16 parts from the US
  - 2$ assembly by China

- iTunes Music Store
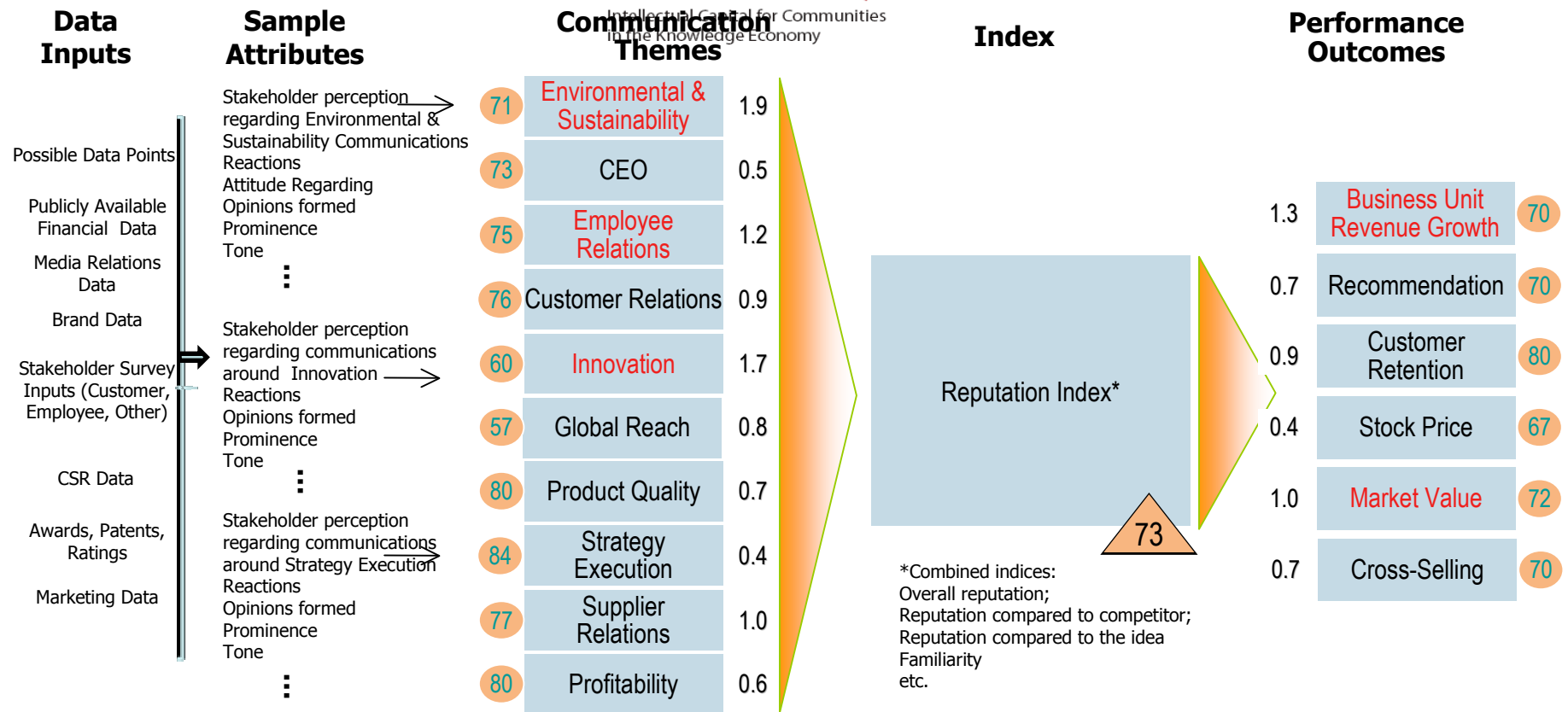 - 70% digital market share
  - Big 5 recording companies

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http://blogs.computerworld.com/node/5724

Apple's Revenues Bigger than Coke, McDonalds, Disney or Google

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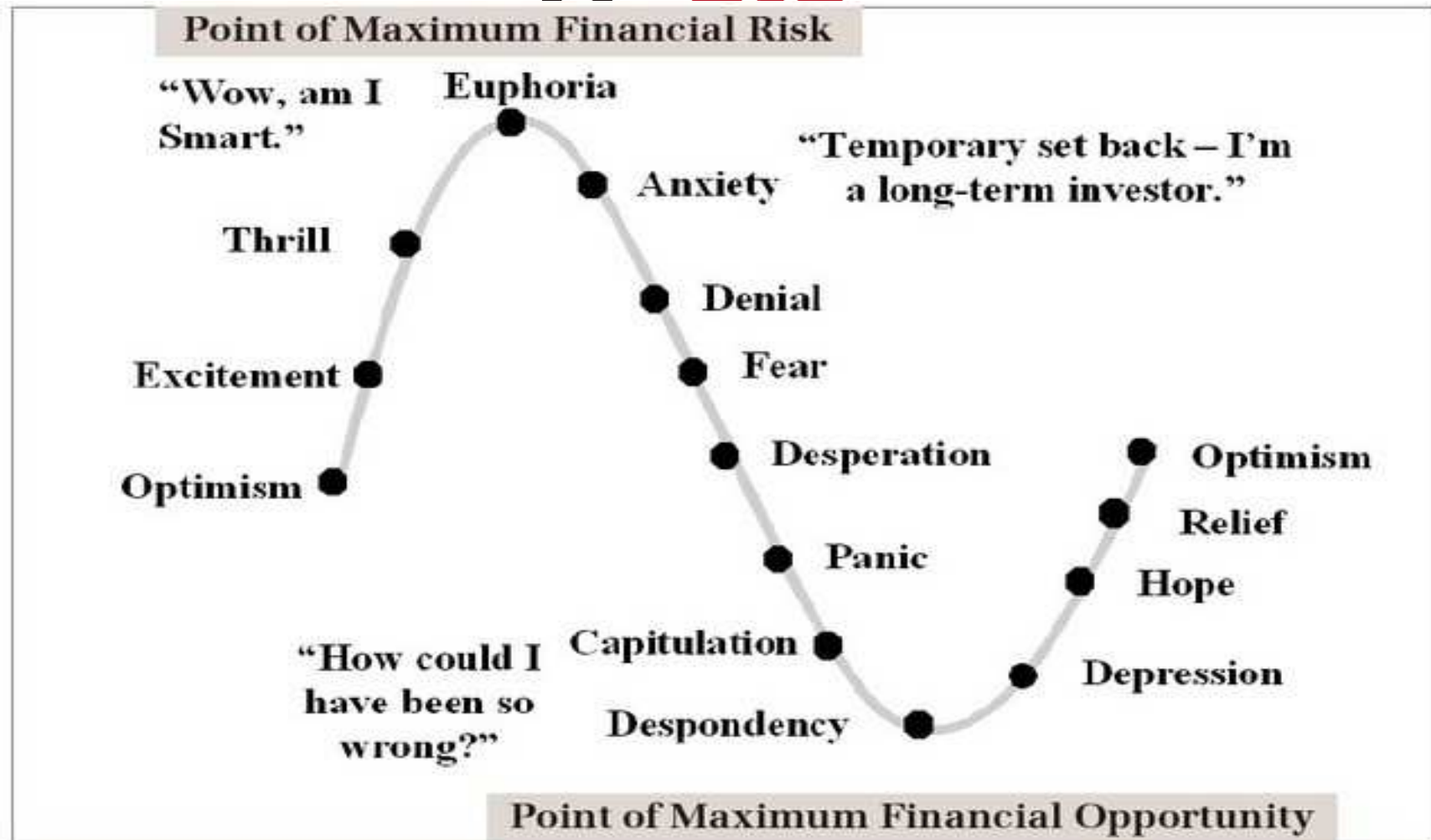
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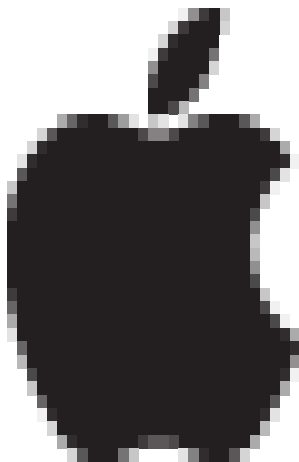
Reputation Value Model Illustrates Statistical Causality

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Intellectual Capital for Communities
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Data Inputs	Sample Attributes	Communication Themes		Index	Performance Outcomes	
Possible Data Points	Stakeholder perception regarding Environmental & Sustainability Communications Reactions Attitude Regarding Opinions formed Prominence Tone ⋮	71 Environmental & Sustainability	1.9		1.3 Business Unit Revenue Growth	70
Publicly Available Financial Data		73 CEO	0.5		0.7 Recommendation	70
Media Relations Data		75 Employee Relations	1.2		0.9 Customer Retention	80
Brand Data		76 Customer Relations	0.9	Reputation Index*	0.4 Stock Price	67
Stakeholder Survey Inputs (Customer, Employee, Other)	Stakeholder perception regarding communications around Innovation Reactions Opinions formed Prominence Tone ⋮	60 Innovation	1.7		1.0 Market Value	72
		57 Global Reach	0.8		0.7 Cross-Selling	70
CSR Data		80 Product Quality	0.7	73		
Awards, Patents, Ratings	Stakeholder perception regarding communications around Strategy Execution Reactions Opinions formed Prominence Tone ⋮	84 Strategy Execution	0.4	*Combined indices: Overall reputation; Reputation compared to competitor; Reputation compared to the idea Familiarity etc.		
Marketing Data		77 Supplier Relations	1.0			
		80 Profitability	0.6			

Understanding the Relationship Between Pscyhology, Communication and Opportunity

Point of Maximum Financial Risk

"Wow, am I Smart."

Euphoria

"Temporary set back – I'm a long-term investor."

Anxiety

Thrill

Denial

Fear

Excitement

Desperation

Optimism

Optimism

Relief

Panic

Hope

"How could I have been so wrong?"

Capitulation

Despondency

Depression

Point of Maximum Financial Opportunity

Reputation Messages Have a Persistent Impact on Stock Trading

Positive revenue stories have a life of about two months. The maximum occurs at cumulative 17 days stories with stock at 22 days

Fare Stories

Legend:
- Total Positive
- Prior Day
- Prior 2 Days
- Prior 3
- Prior 4
- Prior 5
- Prior 6
- Prior 7
- Prior 8
- Prior 10
- Prior 11
- Prior 12
- Prior 13
- Prior 14
- Prior 15
- Prior 16
- Prior 17
- Prior 18
- Prior 19

Y-axis: Correlation with Adjusted Stock