Why Implementing a Reputation KPI Should Be Your Next Management Move

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Most businesses use key performance indicators (also referred to as KPIs) to help them define goals and measure success and in some cases, compensate employees. Sales, return-on-investment, customer satisfaction, and even employee engagement are all used as benchmarks by which corporations can measure their progress. A scorecard approach such as this works well on the whole. However, many companies overlook what has emerged as one of the most important performance factor of all: corporation reputation.

In today's economy, reputation is a key driver of business value. Simply said, stakeholders' perception influences consumers' support or decisions about the companies whose products and services they will buy; creditors and investors' decisions about the companies to which they will invest and lend money; and job-seekers' decisions about the companies for which they are prepared to work. Without question, reputation plays a key role in creating or destroying corporate value.

Although Reputation Institute (RI) found in a recent study that approximately 83% of executives surveyed agreed that we are living in a "Reputation Economy"— an economy where who you are matters more than what you sell—only 32% believe their company is ready to compete in it.

Among major companies surveyed, RI's research revealed roughly 48% of companies use reputation as a key indicator. However, of that number, only 26% have developed a customized reputation KPI, which is crucial to develop a long-term competitive advantage and compete in today's Reputation Economy.

The risk is high for any company that mismanages or opts to not proactively manage its organization's reputation. A study by Aon, a UK-based insurance company, estimates that in any given five-year period, 80% of companies lose 20% of their value due to a reputation disaster. In fact, Aon estimates that the top ten corporate reputation disasters in 2011, including TEPCO's nuclear meltdown and Research in Motion's BlackBerry service outage, wiped away nearly $70 billion in market value.

But reputation is not just a source of risk. Companies that manage their reputations well are rewarded for it. A recent RI financial analysis suggests that a 1% improvement in reputation typically translates into a 1% increase in support and thus 1.3% in financial returns. It's a virtuous cycle: the more people trust you, the more likely they are to purchase your company's products and services, and the more likely they are to recommend you to a new prospect.

There are additional dividends when you make corporate reputation a core KPI. Deeply diving into stakeholder perceptions informs leaders to understand more about the nature of the company's franchise. Such in-depth understanding makes it easier for management to invest in projects that will not only generate financial gains, but that will produce a positive return on its reputation as well. Perhaps, even more importantly, having a reputation KPI and a supporting management program has demonstrated that the executive suite will make better decisions.

If a reputation KPI has such clear advantages, why don't more corporations adopt it?

The first reason is probably historical. The scorecard movement began first with traditional numbers that were already being gathered, chiefly in accounting and logistics. Second, reputation was considered the sort of 'soft' quality that CEOs might pay lip service to but couldn't actually use in an actionable way.

Finally, reputation is not easy to measure with any degree of precision. Unlike ROI, EBITDA or inventory turns, when it comes to reputation, one size does not fit all. Reputation encompasses a variety of factors, including emotional appeal, financial performance, products and services, social performance, vision and leadership, and workplace environment, and the relative importance of each factor can vary enormously between companies.

What goes in to a KPI varies, but its qualities are easy to define: the measures chosen must be easily understandable, scalable, and reliable. Determining the right mix demands a combination of research and reflection. Research is essential because the qualities stakeholders prize tend to vary by industry and by region, while reflection is also key because understanding your reputation means, in the end, understanding how others see you.

Opportunity size varies

The size of the opportunity varies widely, depending on the industry. In some industries, (particularly large, public-facing conglomerates or highly regulated sectors performing critical public functions) reputation awareness is relatively high. Nearly 67% of conglomerates, for instance, say they are concerned about reputation. The majority of utility and energy companies

follow their reputation closely as well (59%), as do many health and pharmaceutical companies (54%).

In other industries, the chance to shine by adopting a customized reputation KPI may be greater. Few service companies (31%) use reputation as a KPI, a trait they share with chemical and beverage companies (33%) and TMT (technology, media & telecommunications) companies (39%).

Regionally, there are also differences in the use of reputation-focused KPIs. A total of 37% U.S. respondents say they have a customized approach for measuring and understanding corporate reputation, compared to 28% in Europe and 20% in the UK. Other statistics also suggest that the reputation opportunity may be especially high in Europe at the moment.

In this list, which statements best describe how your company treats the topic of "corporate reputation management"?

	U.S.	UK	Europe	LatAm
Corporate reputation management is a new concept/discipline that is just starting to be explored	25.6%	33.3%	31.5%	38.1%
Corporate reputation is primarily tracked by looking at published or syndicated studies	13.3%	3.8%	16.9%	11.9%
There is a company customized approach for measuring and understanding corporate reputation	36.7%	20.5%	28.1%	27.4%
Reputation management is seen primarily as being a function-specific (e.g. communications or marketing) priority with little interest from the rest of the company	15.6%	30.8%	33.7%	31.0%
Corporate reputation is understood to have specific business impact (e.g. creating competitive advantage or providing resiliency to mitigate business risks)	71.1%	59.0%	50.6%	44.0%
Corporate reputation is analyzed across stakeholders and markets	51.1%	30.8%	41.6%	47.6%
Corporate reputation is an enterprise-wide focus with reputation priorities built into annual business plans	34.4%	29.5%	25.8%	31.0%
There is an internal "council" or similar type of steering committee dedicated to championing (e.g. understanding, managing, and creating alignment around) corporate reputation priorities	34.4%	14.1%	19.1%	29.8%
Senior Executives are accountable for corporate reputation KPIs	32.2%	21.8%	25.8%	26.2%
Corporate reputation is fully integrated into long-term enterprise vision, goals, and investments	42.2%	43.6%	32.6%	42.9%
Other, please specify	4.4%		2.2%	0.0%
None of the above	1.1%	1.3%	2.2%	1.2%

Making it work

Difficult as the process of designing a KPI can be, developing the right reputation KPI is only a first step. Five ongoing tasks must also be undertaken to assure its continued relevance and success:

1. **Set goals and monitor progress regularly.** In RI's latest survey of corporate reputation officers, 93% of chief reputation officers in companies that RI has categorized as having an advanced capacity to manage reputation say that building their reputation is fully integrated into the enterprise's long-term vision, goals, and investments.
2. **Align C-Suite incentives in a way that will drive improvement.** In that same survey, 69% of executives in companies that have an advanced capacity for managing their reputation hold senior executives accountable for their corporate reputation KPI compared to 20% of early phase companies. For guidance, UK companies may be a model: RI's survey found that 45% of executives are concerned about breaking down silos and creating more alignment across the business—significantly higher than Continental Europe (30%) or the U.S. (24%).
3. **Keep testing the accuracy of your model.** All models can be improved, and over time, this one can be revised as well.
4. **Watch for sudden shifts.** If some element in your reputation KPI is improving quickly, you may want to dig deeper and find out what is going right. It could be a sign either that the company is making some important inroads or that the reputational requirements of the whole market are changing.
5. **Set modest expectations.** Building a good reputation takes years, not a quarter or two. Reputations can be improved with hard work and an integrated strategy, but is seldom cultivated within a short time period.

The pull of reputation

By definition, corporate reputations are the sum total of the beliefs held by individuals about companies' past actions and future potential. Ultimately, it is stakeholders' collective actions and sentiments–whether to purchase a product, buy shares of the company's stock, or recommend the company to others–that determine every company's ability to stay in business.

Reputation is an intangible asset, but its effects are very real. Indeed, reputation is acting on companies all the time—an invisible yet powerful influence that can either help or hinder a company as it tries to meet its objectives. From credit terms to employee retention, reputation can have a serious impact on every company's bottom line. Like gravitational pull, reputation makes it easier or more difficult for your company to get where it needs to go. A reputation KPI is the best way to monitor and then shape that unseen force.