



Reputational Risk

– the investor's perspective

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agenda

1. background to the research
2. overall reputational risk approach
3. are markets really that efficient?
4. how do investor relationships work?
5. what is market sentiment – and how does it affect market expectations?
6. where does corporate governance stand after Enron et al?
7. what is the special role of non Executive Directors in managing reputational risk?
8. what are the pressure points for shareholder activism?
9. responsible shareholding and long term fiduciary duty
10. mainstream interest in socially responsible investment



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Reputational Risk

How to manage for value creation

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Executive Briefings

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BUILDING BLOCKS

1. Why reputation management is not enough
2. Reputation
3. Risk
4. **Reputational risk** and customers
5. ...and employees
6. **...and shareholders**
7. International relationships and responsibilities

NB Based on international research with corporates, investors and policy-makers at Henley Management College 2001-4 with a foreword by the late Professor Keith MacMillan, Founding Director, The John Madejski Centre for Reputation

Published in 2004 (price £120) and now an FT bestseller and being translated into Russian



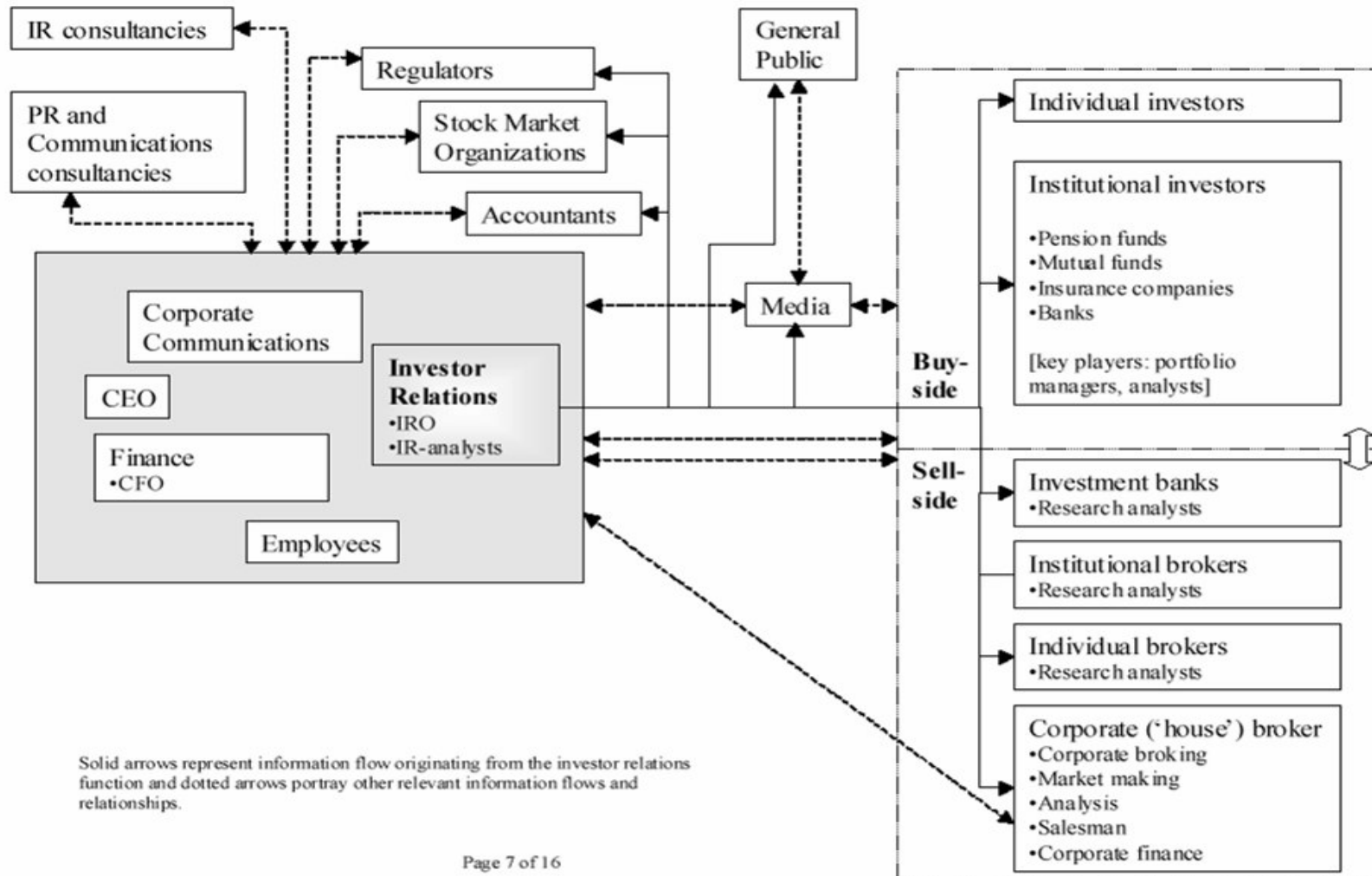
background to the research

- Supervisor: Professor Keith MacMillan
- 7 companies – British Airways, British Telecom, Barclays, Reuters, Marks & Spencer, Dell and FedEx
- Investors – CalPERS, HSBC, Henderson and Insight Investment + Japan investors (Nomura, Daiwa, Asahi Life, UFJ) + a top 10 UK pension fund
- 2 Nobel Prize Laureates for Economics (Klein, Sen)
- Action learning networks – ICAEW, Strategic Planning Society and Henley Learning Partnership
- Chatham House / Toyota
- Commonwealth Business Council
- British Airways 2004-2005

are markets really that efficient?

- Managers' financial reporting behaviour
- Overreliance on unreliable data
- Aggressive trading by less-informed investors
- Inappropriate information collection

investor relationships



Solid arrows represent information flow originating from the investor relations function and dotted arrows portray other relevant information flows and relationships.



what investors really want (sell-side analysts)

OVERALL RANK	ATTRIBUTES
1.	country / industry knowledge
2.	trustworthiness
3.	accessibility / responsiveness
4.	independence from corporate finance
5.	useful / timely calls
6.	written reports
7.	management access
8.	stock selection
9.	special services (sector-based conferences organised by broking firms where buy-siders can listen to presentations from companies and analysts)
10.	earnings estimates
11.	communication skills
12.	quality of sales force
13.	marketing pricing / execution
14.	primary market services

Source: All-Europe Research Team Survey (2002)



market sentiment

- The sun glasses or life jacket analogy
- ‘Whisper numbers’
- risk and expectations
- Management responses
- GSK in 2003
- BA in 2005?



At its core corporate governance is about creating value from the quality of decision-making

1. **value:** creation and maintenance
2. **accountability:** decisions for whom?
3. **consensus:** something that is agreed by more than one person
4. **action:** corporate governance is about deciding as well as debating and moving forward as well as reflecting on the past and present
5. **quality:** acknowledges increasing importance of softer factors



Role of the Non-Executive Director (NED)

Strategy	Non-executive directors should constructively challenge and contribute to the development of strategy
Performance	Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.
Risk	Non-executive directors should satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible.
People	Non-executive directors are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing, and where necessary removing, senior management and in succession planning.

Source:
Higgs Report
(DTI, 2003)

Shareholder activism – and life after GSK's 2003 AGM





institutional investors - one leading view

‘Unfortunately a lot of companies with more **introverted cultures** are simply unaware of the **reputational risks** they face going into an AGM with a large number of shareholders opposed to parts of their remuneration packages.’

Alistair Ross Goobey, chairman of the International Corporate Governance Network, 2003

responsible shareholding and long term fiduciary duty



Source: Robert Monks (2005)



mainstream interest in socially responsible investment

- Investor relations officers (IROs) believe that good social and environmental performance in the long-term strongly influences company's brand and reputation (69%), economic performance (46%) and market value (36%).
- For 79% of fund managers and analysts, the management of social and environmental risks has a positive impact on a company's long-term market value.
- Both fund managers/analysts (52%) and IROs (47%) believe that social and environmental considerations will become a significant aspect of mainstream investment decisions over the next two years.
- The majority (85%) of IROs are convinced that the next three years will see more legal requirements imposed on companies for social and environmental reporting.

Source: World Economic Forum (2003 and 2005)

Key questions

