

ESOP UPDATE

Information about your Employee Stock Ownership Plan (ESOP)

Company reputation and ESOP value

Reputation is an important part of a company's long-term success. But how does this feeling-based concept get into the financial number crunching that determines our annual ESOP stock value?

No gauge or 'reputation meter' exists to inform the appraiser of a company's reputation. Instead the appraiser must rely on a company's track record and plans for the future. If your company has hit certain business targets in the past, the appraiser will have more confidence that the company will be able to do it in the future.



Perceptions of the future affect stock value. Most of the time great reputations are built over many years. Unfortunately it doesn't take much time at all for a company's good reputation to erode. We hear these stories all the time. Businesses that looked bulletproof can falter if excellence is compromised, processes are not followed, or scandal damages confidence. The 2015 emissions scandal at Volkswagen cost that business more than \$20 billion. More than a year after a bacterial contamination scare at Chipotle restaurants, the company's stock value was down 42 percent from the levels before the contamination. Individual actions had significant consequences in these cases.

Most ESOPs are private companies that won't have the dramatic perception-based swings in value like these public companies. However, a change in a company's reputation can undermine the believability of your company's plan for the future. That's how it will show up in your stock value. A key component of most stock appraisals is related to the potential future cash that the business is likely to generate. When reputation impacts customer behavior and sales — positively or negatively — that's when it can impact the ESOP valuation.

All employees are the stewards of company reputation. While it is impossible to completely insulate a company from the business challenges that may affect reputation, employees certainly can influence it. If your job touches the delivery of your product or service, you influence reputation. If your job impacts customer perceptions, you influence reputation. If your job involves following processes that ensure quality, you influence reputation. When each employee recognizes that he or she is a caretaker or "steward" of company reputation, it can make a big difference.

Employee commitment to everyday excellence and living a company's values act like a robust insurance policy — reducing the risk of actions that damage reputation. Moreover, when employees embrace their important role in sustaining a great company reputation, they can positively impact this important ingredient in building ESOP value.