

LIPPINCOTT

The Board's Role in Protecting the Corporate Brand

by Ken Roberts

These are tough times for companies in the public eye. News coverage of corporate America is increasingly negative, and the scope of activities being scrutinized is widening, ranging from executive compensation and sweetheart deals to the relative lack of independent oversight. While it will take time for the dust to settle, several outcomes seem certain. Financial reporting procedures will most likely be tightened. Corporate governance rules and practices will be debated and even reformed. And a

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number of major companies will see their reputations and images—their corporate brands, if you will—subjected to unrelenting scrutiny.

In recent years, our research has shown that 10 percent of Fortune 1,000 companies have experienced a "shareholder value decrease" by as much as 25 percent in as brief a period of time as one month. (We define shareholder value as the price of the share times the number of shares outstanding.) Missteps on strategic corporate brand issues were cited as one of the main reasons for these sudden declines. Boards are rightly concerned with addressing the issues of financial reporting and oversight. What should their involvement be concerning issues of corporate reputation? And what steps should they take to assess the risks their corporate brands face in a preemptive and proactive manner?

First, what is a corporate brand? We define it as the sum total of all the perceptions held about an organization by all constituencies (or in media talk, audiences). Those perceptions are a result of both direct experience and/or indirect knowledge of the company. The corporate brand is defined by perceptions that matter to the audiences that matter.

Companies usually focus on four key constituencies: customers and prospective customers, employees, the financial community (lenders and equity markets), and an audience often described loosely as "all others," which can better be defined to include the political establishment, regulatory authorities, and the populace at large. In particular, the perceptions of a corporate brand held by this last group may have a profound impact on not only its reputation, but by extension on the license that is granted to the corporation to conduct its business, or its "license to operate."

What is the license to operate? It is the ability to operate a business—a concept easier to understand when it is taken away. An example would be the construction of nuclear power plants. Years of public pressure—which in turn had real economic and regulatory repercussions—removed that industry's license to operate. Currently, the license to operate for Arthur Andersen is in the process of being taken away. The firm will no longer audit public companies after August 2002.

Many top corporate executives are uncomfortable dealing with the "soft" data and information that surrounds reputation in general, and license to operate in particular. Most companies we've dealt with have very limited data when it comes to monitoring or tracking their reputations, linking business investments with business results, or correlating specific

actions with specific behavioral responses. Protecting a company's license to operate is not often seen as a top priority of upper management until the license is under duress.

In an ideal world, management of corporate reputation for all of the constituencies mentioned above is centralized and managed in one area that reports to the CEO and the CEO takes an active personal role. The board also has a significant oversight role to play. At a minimum, board members should be demanding a thorough assessment of the risks posed to their organization's license to operate. The action steps to protect this key brand asset should also be clearly articulated.

Board members are uniquely positioned to play the role of corporate brand advocates. They command a wide vantage point of the business landscape and come to their task as independents not mired in political issues. Seasoned executives and professionals in their own right, most board members enjoy the confidence of their CEOs.

While boards take their responsibility to protect the asset value of the corporation quite seriously, until recently most did not think much about brand as an asset. Brands should be treated as such, and afforded the same consideration as more traditional hard assets. A tarnished or diminished corporate reputation can swiftly erode the growth in shareholder value boards spend years trying to build.

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