Reputation and the Board

Guidance for PR Consultants and Board Directors

CIPR

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Foreword

Ask yourself the question, “What is the most important asset in my professional life?” Some will draw attention to their education. Others will point to their experience and unique skill set. However, a good reputation is more precious than any of these things. Reputation is about ability, consistent performance, and living out our personal values. It is the key factor that sets us aside from our peers.

Reputation is just as important to companies and other types of organisation. Executives and employees are acutely conscious of their organisation’s reputation. Firms with strong positive reputations attract better people. This gives rise to a virtuous circle of greater efficiency, better relationships with customers and suppliers, and enhanced legitimacy in the eyes of society as a whole. In the absence of a good reputation, the ability of a company to create value is severely impaired.

Reputation, like trust, takes time to build but it can be lost in the blink of an eye. As Benjamin Franklin said, “It takes many good deeds to build a good reputation, and only one bad one to lose it”. In my view, organisations – and particularly boards of directors - need to apply more attention to managing reputation. I am therefore delighted to support the important initiative of the CIPR on “Reputation and the Board”

Neville Bain
Chairman Institute of Directors.

About This Guidance

This short guidance document has been developed to help directors and senior PR professionals consider how reputation management can be integrated into strategic planning and decision-making and to explain why reputation is a matter for the board, not just in times of crisis, but as part of its ongoing activities.

What is Reputation?

Reputation is the beliefs or opinions that are held about an organisation or an individual. These beliefs or opinions are formed through expectations (what and how it will deliver and how it will behave), experiences (what it has actually delivered and how it has behaved, which builds trust), the messages people are exposed to and the conversations they participate in or observe. An organisation's constituencies therefore determine and 'own' its reputation.

Today, organisations are judged not simply on the quality of a product or service, but how they are led and governed, their financial performance (and prudence) and their ethical and social commitments.

Why is Reputation Important?

A positive reputation is one of the largest intangible assets an organisation has, enabling it to compete and succeed. The loss of reputation however can have a serious, negative impact on an organisation. Over the last decade, there have been many examples of organisations whose reputations have been damaged by events and their response to those events. The damage can be significant, not only in financial terms but in terms of trust between the organisation and its constituencies. For some organisations, the loss of reputation has been catastrophic.

The importance of reputation is underlined by the Economist Intelligence Unit's 2005 report *'Reputation: Risk of Risks'*[1] whereby 90% of respondents agreed that corporate reputation is one of the primary assets of their organisation and reputation risk was identified as the most significant threat to the organisation.

Reputation: A Board's Responsibility?

So, who should manage reputation? The answer is that whilst everyone within an organisation plays a part, the board must lead, with support from those with appropriate operational expertise. This is particularly true of reputational risk. If the board's task is to manage risk, then reputation is a significant one. Ernst & Young, in its Business Risk Report

[1] Reputation: Risk of Risks, The Economist Intelligence Unit, 2005

(2009)[2], identified reputation as a top 10 business risk. David Stulb, writing in the Ernst & Young report, says:

> ***"Managing reputation risk in today's business environment cannot be considered a second or third order priority. Effective reputation risk management must start with the board…. Boards should consider making reputation risk an agenda item at all meetings, and should give thought to mandating the explicit assessment of reputational risks in all business decisions they take."***

The challenge is that reputational risk tends not to be included in existing risk frameworks. This guidance addresses this point below.

The board's reputation task should not simply be concerned with risk, but should also include determining the impact on reputation – good or bad – every time a strategic decision is made. In practice, this means that senior public relations / communications professionals should take an active part in strategic planning so that reputational opportunities and risks can inform decision-making. This is a different approach to that of expecting the public relations professional to manage the impacts of strategic decisions that have already been made by the board, without considering reputation explicitly.

The Institute of Directors' guide to boardroom best practice – 'The Effective Board'[3] (Bain & Barker, 2010) – underlines this (points 1 & 2 below are taken from the IoD's guidance):

1. Board Matters: Reputation

> There are a number of matters that are reserved for the board and, according to best practice outlined by the IoD, should not be delegated to management. These include: "….*any matter that would have a material impact on the company's financial position, liabilities, future strategy or* ***reputation***."
>
> How an organisation communicates with its stakeholders, how it governs itself and how such governance is manifested (through openness and transparency for example) is key to reputation.

2. Tasks of the Board

Key tasks of the board include the following – all of which have a reputational impact and should therefore be considered within such a context:

> The review and evaluation of present and future opportunities, threats and risks in the external environment and current and future strengths, weaknesses and risks relating to the company

[2] 2009 Business Risk Report, Ernst & Young
[3] The Effective Board, Building Individual and Board Success, Bain & Barker, 2010

> Being accountable to shareholders and responsible to stakeholders to ensure that communications both to and from shareholders and relevant stakeholders are effective
>
> Ensuring relations with shareholders and relevant stakeholders are monitored effectively by gathering and evaluating appropriate information
>
> Promoting the goodwill and support of shareholders and relevant stakeholders *and* promoting the success of the organisation for the benefit of its members.

Companies Act 2006

Directors also have a legal obligation to consider reputational factors. The Companies Act 2006[4] sets out requirements for directors to consider the desirability of maintaining reputation for high standards of business conduct when making corporate decisions. Failure to consider the reputational impact of actions could constitute a breach of duties.

Ethical Considerations

In addition to the board matters outlined above, ethical considerations are also vital as they can have a tangible impact on reputation and trust as organisations today are judged on all aspects of their operations. The Institute of Business Ethics (2006)[5] outlined business ethics issues, all of which are significant in reputational terms, including:

> Corruption
> Conflicts of interest
> Executive pay
> Environmental impacts
> Dishonesty and fraud
> Whistle-blowing arrangements
> Making false claims

Such issues should form part of a reputational risk assessment (see guidance below).

Preparing the Board for Reputation Issues

Understanding the value of reputation and assessing reputational risk are requirements of the board, but the preparedness of boards for this task will vary, based on the experience of those around the table.

In the same way that directors understand what is needed to maximise growth and profit, directors should also understand strategies and activities that impact reputation based on

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[4] Great Britain (2006) The Companies Act 2006 section 172, London, HMSO. http://www.legislation.gov.uk/ukpga/2006/46/section/172

[5] Living Up To Our Values, Dando & Raven, Institute of Business Ethics, December 2006

detailed research and analysis, for example, customer service and satisfaction, addressing social responsibilities, encouraging transparency or health and safety.

The following recommendations have been developed to help directors to do this.

Recommendations

1. Boards should develop and regularly review a reputation policy that is cross-functional and reflects different geographies and stakeholders. This policy should include research and planning requirements, key responsibilities, reputation skills and training and how reputation should be factored into decision making

2. The board should ensure an integrated approach to reputation and risk assessment. It should ensure that the information it receives forms a complete overview of the organisational activities that impact reputation (e.g. information from public relations, marketing, customer service, supply chain, product development, HR, finance, legal etc)

3. Reputation should form part of every organisation's risk register so that reputational risk is identified, evaluated and planned for

4. Any discussions regarding organisation governance should include reputational impact. For example, executive pay policy or boardroom diversity (in October 2011, the FRC announced that the Corporate Governance Code would be amended to include a gender principle. This requires all companies to explain their boardroom diversity policy and to include a report on how this policy is being implemented).

5. Reputation monitoring (perception research, monitoring, feedback and analysis across all constituencies) should form part of business performance management approaches, such as the balanced scorecard

6. Reputation should be a filter when reviewing or evaluating threats and opportunities, such as when conducting PESTLE / SWOT analyses. This ensures reputation management is a proactive, positive and ongoing strategic discipline rather than a reactive, crisis-led effort

7. Any significant organisational decisions and the development of new strategies should be considered within a reputational context, as well as for example, operational and financial contexts

8. Any board skills audit should include an audit of reputation management skills and experience. The board (particularly the Chairman and CEO) should be trained to direct reputation issues, both in times of proactive planning and crisis response. They should also be able to contribute to reputation discussions (including risk management) and question and support management where appropriate

9. There should be a clear process for identifying, training and guiding spokespeople, particularly those responsible for responding to issues that are increasingly typical in today's real-time online environment. Crisis plans should be linked to the risk register and include scenarios from all areas of the organisation

10. Whilst the board of commercial organisations are right to focus on shareholders, the needs and views of all constituencies should be considered, as the interests of shareholders are linked to other groups, including customers, suppliers, employees, local communities and employees

11. Factors that impact reputation, such as organisational values and how they inform behaviours should be measured. For example, are employees assessed according to the organisation's values? It is vital that all those that can impact reputation are aware of reputation opportunities and risks and how their individual contributions can positively or negatively impact reputation. This also ensures that reputational issues are flagged quickly and decisively

12. Directors should support an investment in research and analysis to ensure that its decision making process is supported, that it understands the perceptions of the organisation, that it can measure the impact and outcomes of communications and engagement with stakeholders (including feedback from stakeholders, covering all areas of the business) and to ensure it fulfils its task of promoting the success of the organisation.

Feedback & Further Information

Feedback on this guidance is welcome, particularly examples from directors and boards of directors on how they manage reputation strategically and further suggestions for developing the guidance points. Please send feedback to: policy@cipr.co.uk

About the guidance

CIPR Past President and Board member Jay O'Connor, a Fellow of the CIPR and IoD, a Chartered Director and Chartered PR Practitioner, developed this guidance with input from a number of CIPR Fellows and Members and the Institute of Directors.

About the CIPR

The CIPR is the professional body for PR practitioners in the UK. With 9,500 members involved in all aspects of PR, it is the largest body of its type in Europe. The CIPR advances the PR profession in the UK by making its members accountable through a code of conduct, developing policies, representing its members and raising standards through education and training.

About the IoD

The IoD (Institute of Directors) was founded in 1903 and obtained a Royal Charter in 1906. Its mission is to support, represent and set standards for company directors. It is a non-party political organisation and has over 40,000 members in the United Kingdom and overseas.