

# SIFA<sup>N</sup> STRATEGY

## WHO IS RESPONSIBLE FOR OUR REPUTATION?

An examination of the complexity of managing reputation for value creation within current corporate structures

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The realisation that corporate reputation can be managed for value creation for all stakeholders has raised a structural question. Who is responsible? The short and simple answer is the Chairman and CEO or the Board, who have ultimate responsibility to drive value and to determine how an organisation acts and behaves. However, this is a simplistic response and fails to take account of how corporates operate on a daily basis to deliver value or how reputation is becoming ever more complex thanks to the increasing integration of multi-stakeholder communication and influence. As in nature, corporate evolution is different for each organisation so no single system or structure can be correct. Is there an answer to where responsibility should sit?

We have previously highlighted the growing importance given to reputation by organisations. Our research in 2015 demonstrated the strong correlation between reputation and enterprise and commercial value. We also examined the negative impact that reputation can have on organisations by undertaking a review of five cases in the UK that faced a reputation event during last year.

In summary the key findings were;

- 97% of organisations agreed that without a proactive reputation strategy they were risking shareholder value
- 41% of their enterprise/equity valuation was represented by reputation
- 69% said reputation enabled products and services to be priced at a premium
- 66% believed that reputation improved commercial terms

Yet our research also showed that

- 63% believed reputation had not changed in importance within their organisation
- Only 34% were using reputation as a key business driver
- Just 16% made any effort to measure reputation and link it to business outcomes
- The average equity value decline of our five case studies was 39% throughout 2015

So why is reputation not universally being addressed as a core management discipline on the basis that it can have such significant valuation and commercial impact?

Our view is that historically there has not been sufficiently robust data available to address what is essentially an intangible concept when placed against other management disciplines. This is no longer the case as argued in our report of June 2015 [\[here\]](#) which demonstrates the availability of data and metrics. We believe it is also because within current corporate structures there has been no single management area that has put its hand up

to take responsibility for owning and championing reputation, as a commercial asset, not just as a risk. Yes, it must be a Board responsibility, but who is responsible for actively managing it on a day-to-day basis?

There are two clear corporate evolutionary events that are driving demand for change. Firstly, the expected role of organisations has changed dramatically. Corporates are now expected to be significantly more transparent and behave in the best of social interests – from a global environmental level down to the local community. The second is the acceleration of technology change which has transformed how stakeholders inform themselves, interact and communicate. This is creating an explosion of stakeholder activism and a demand on organisations to transform how they interact with multiple stakeholders. Reputation and the correlated expectation of corporate behaviour will be of ever increasing importance.

The challenge for corporations is that historically they have been structured along stakeholder silos. Human Resources for employees; Investor Relations for shareholders; Commercial departments for product/service sales; Marketing for brand and product positioning; Legal for law and regulation; Risk for risk mitigation; Corporate Communications for corporate positioning and responsibility etc. In different organisations we have seen the responsibility for reputation sit in each of these departments, depending on their corporate evolution, their sector and stakeholder framework. The clear point to make is that as the relevance of reputation grows, such silo structures do not necessarily facilitate the effective

management of all stakeholders and issues from a single platform. This is particularly important as it becomes increasingly clear that corporate behaviour, rather than corporate content and message, defines how stakeholders perceive and rate an organisation. There are many recent examples of what corporates have done, rather than what they have said or marketed, that has determined how stakeholders viewed them. We know the demand and requirement for transparency now, but just think in a decade how technology advances will have increased the ability for stakeholders to examine and interact around unsatisfactory delivery of expectations. So responsibility for reputation must also be able to influence at both a strategic and operational level how a company performs and behaves. This will mean having the ability to feed into the corporate system an operational understanding of the expectations of stakeholders and the required actions to meet these expectations.

The recent report from The Arthur W. Page Society on “The New CCO: transforming enterprises in a changing world” is an excellent insight into the demands of change within organisations addressing many of the areas which affect reputation. Not surprisingly, considering its origination, the report places the Chief Communications Officer (CCO) firmly at the centre of the strategic and operational structure to understand and influence corporate character. It also highlights the changing demands that the CCO will need to face. We would recommend anyone with a role or responsibility for communications to read it. We completely agree with its views on the changing role for communications officers, the need for their inclusion at a strategic

level, the demand for strong data to aid decision-making and the requirement for additional skills. What is clear is that where the responsibility for reputation sits and how best to manage and influence it are questions which each organisation should have on their 'to do' list as a priority.

There is an old joke about a lost tourist asking a local for directions and receiving the response "ahh, I wouldn't start from here!". Our point is that every organisation will be addressing its stakeholder demands from a different starting point and with a different direction of travel. Due to the complexity of operational management, combined with the increasing complexity that digital communications transformation is going to have on stakeholder engagement, we don't believe that a single map will lead every organisation to its required destination. There are a few who started such an evolution a while ago, but we believe that the vast majority of organisations are not currently set up to put this responsibility into a single department or function.

This means for now, the responsibility for corporate behaviour and reputation must be shared. Each organisation needs to review its stakeholder map of influence; its current forms and levels of interaction with each stakeholder group; how they understand the expectations of each stakeholder; and how close they are to meeting them. When this is complete, the organisation can understand what actions need to be taken to deliver the necessary corporate behaviour aligned to its strategic goals. This information will then enable the necessary management departments and representatives who should be part of the reputation team to deliver change. It is the

Board's responsibility to put this process and structure in place with a clear reporting line to a Board representative.

This will require operational change and a need for team dynamics within each corporation. Again, each organisation will need to devise its own approach that suits its culture etc. As a starting point, the work undertaken by John Katzenbach in *Wisdom of Teams* which is also referred to in the Arthur W. Page Society report rings true with our work. Namely that there are six basics for a reputation team structure;

1. Small number
2. Complementary skills
3. Common purpose
4. Common set of specific performance goals
5. Commonly agreed working approach
6. Mutual accountability

This does require a new way of working and point 4 is key as in most cases it means a new source of data. In some organisations the data is already available, in others it can be pulled together from previous siloed data sources. Often organisations find it easier and more effective to create a new level of data and analysis, together with metrics and KPIs to enable the most effective decision-making processes. Whichever route is chosen, the data sources must be robust enough to meet Boardroom examination and uniform enough to enable comparisons across different stakeholders.

The composition of this team is going to be different for each organisation. We do believe however that there should be two common denominators. The responsibility for corporate positioning, narrative and interaction sits with Corporate

Communications, so they should always be part of the team. Also, in the event that this position does not have a seat at the top table, a member of the Executive Committee or even better the Board, joins the team. Reputation has to be completely aligned and influenced by strategy and the future direction of the organisation. Each organisation will need to determine the inclusion of areas such as marketing, HR, risk, regulation, commercial, legal, IT & IR to ensure they are meeting their own commercial objectives, as well as satisfying the demands and expectations of their stakeholders.

SIFA'S initial departure point is often to advise and assist organisations on how best to establish the most appropriate reputation framework – ie the most suitable team structure and data sources to meet their multi-stakeholder demands and expectations.

We understand the reticence that is often faced when an organisation is asked to create another committee or reporting line. However, in the last two decades, organisations have successfully managed to embed corporate responsibility and risk within the management framework. It is corporate evolution. There are many companies that are already very advanced in their approach to reputation and corporate behaviour... It is firmly our belief that evolution will demand that all organisations embed reputation in the same way.

#### REFERENCES:

*The Arthur W. Page Society "The New CCO: Transforming enterprises in a changing world"*

*John Katzenbach: Wisdom of Teams*

#### FOR FURTHER INFORMATION:

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