REPUTATION:
THE NEW STRATEGIC GLUE FOR BOARDS?

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"Reputation" isn't usually the first word we think of when we talk about business strategy. But a focus – especially at the Board – on reputation can be an excellent way to structure and shape" business strategy in the twenty first century.

Reputation plays a vital role in business, for consumers evaluating products or services, firms considering the counterparties for a deal or investors looking for opportunities. With online review sites and social media, people increasingly trust the crowd rather than the experts.

It's an interesting paradox that social media has taken us back to a more traditional world with reputation at its heart. At one time, people lived in small communities. They knew almost all the people they came across in daily life, in for example the traders. They knew not only who sold good products, but probably also which ones treated their employees well, which political or other groups they were aligned with and so on. So they had a complex of information on which to base our decisions. Then, as industrialisation and development took hold, towns became larger and more anonymous. We didn't any longer know the traders personally and it was hard to find out much information about them. We came to judge businesses less on deep reputational information and more on what they and their advertising and marketing agencies chose to tell us, ie their brands. Only when something went really wrong would we have to accept that the brand and reality had become too far detached for comfort.

Now, connectivity and social media are taking us back to a world in which our reputations follow us around, just like the old days – only more so. Now, the global village we talk about today really is a village with all the gossip, good or bad of the traditional village.

We can immediately see the risks. But often reputation only enters into the discussion when something goes wrong - and that's far too late. Some crises are more serious than others: as a rule of thumb, if the crisis touches on the essence of your business (the safety of food, for example) then it's likely to be much more serious than a peripheral failure (a billing problem, for example).

In a recent PWC study, 58% of CEOs believed that a lack of trust in business could harm their company's growth.

To put the question of trust the other way around, if your business has built up strong reputation credit in the bank, you will have plenty to draw on when you need it. For example, the Tata group's nearly 150-year reputation for "leadership with trust" has stood the test of time. And in Europe, VW has undoubtedly been through a damaging crisis starting in 2015, but it had substantial reserves of credit as a reliable manufacturer to draw on and remains very much in business.

This is a crucial point for two reasons. First, because it shows the importance of being proactive about reputation. But it also demonstrates that effective reputation management isn't just about crises and risk mitigation. Reputation is also about opportunity, in particular the opportunity for effective differentiation and competitive advantage. This, after all, is what strategy is all about.

To talk about *reputation* rather than *values* is not to diminish the importance of a strong value set effectively inculcated from top to bottom. But using values as a strategic tool has its limitations. Values are often quite broad and general. You need to have a deep understanding of them if they are effectively to guide behaviour, and people's understanding can vary hugely. Sometimes talking about values can seem preachy, which risks detaching values from the activity of the "real business".

Instead, we start with the thesis that a business's reputation is made up of the views of its stakeholders based on perceptions of the business's behaviour and relationships. As I suggested earlier, reputation isn't the same as brand.

Brand is what you carefully craft and say about yourself, whereas reputation is what others say about you on the basis of what you do. You own your brand, you don't own your reputation.

But today it's more complex than that. In the words of one expert they are "increasingly two sides of the same coin", because you can't today manage your brand in any real sense effectively without taking proper care of your reputation too, quite simply because with social media you and your brand risk being able to command only a small part of the information space compared to others' views about your reputation.

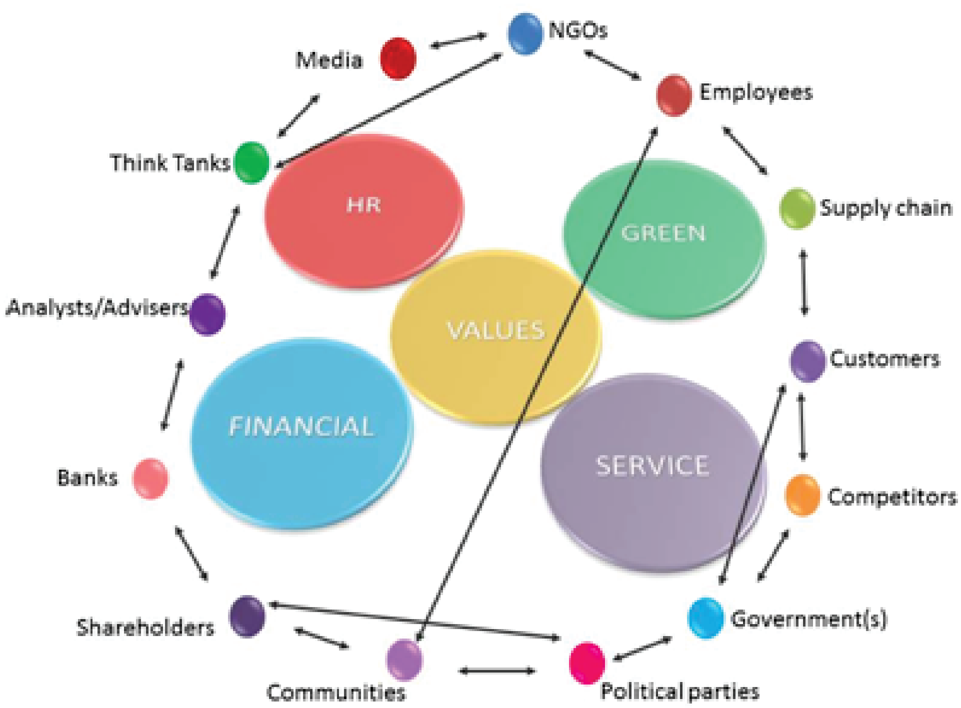
If someone has a problem with your product, their friends – and quite possibly the rest of the world too – will hear about it long before you can put your side of the story. That I guess is why a Boston Consulting Group study found that 69% of CEOs said that it's harder for businesses to sustain trust in the digital age.

The asymmetry of communication can be a real risk: imagine someone sitting at home watching your expensive and carefully-crafted TV advertisement with one eye, while the other eye is on their mobile phone taking in an emerging crisis to do with your business on social media. And it's not just customers' views which can get out quickly. It doesn't take much for internal documents to get into the public domain, so all your stakeholders have the potential to access almost all the available information.

We can all think of social media generated business crises. One or two airlines have had some difficulty recently. Or the Subway sandwich brand, when a teenager measured his “foot-long” sandwich and found it was short and posted a picture of the sandwich lined up against a tape measure. The picture went viral, forcing the company into some awkward responses and an undertaking to lengthen the sandwich.

Investing in the brand is still as important as ever: if you do not fill the space around your brand with your presentation of it, you leave the space open to your competitors. But, at the same time, we have to care about our reputation.

And the way to use this to our advantage is to ground our strategy on reputation. I call the model a 360 degree view (see image). Your business is in the middle with values at the core and an outer ring of recognisable characteristics, some more prominent than others. Beyond all of those are the stakeholders circling your business, like satellites. These satellites don't stay still but move around and interact both with the business and with each other, creating a dynamic interrelationship between you and the people who shape your reputation.



Let's take a business which makes processed foods. It's a listed company. It sells across the UK and Europe, buys raw materials from a number of countries both in Europe and beyond.

What are the key drivers of its reputation?

- For a start, investors and potential investors will care about its reputation for financial performance, and will be wanting more.
- Customers will care about the quality of the product and the cost - and will doubtless be keen to stretch the trade-off, more and better for less.
- Employees will want decent – probably better – terms and conditions, though these may vary from one geography to another.
- Suppliers may be concerned about security of business and terms. The prices which company pays them may well impact on what they can pay their employees.
- NGOs and interest groups will focus on a range of issues and may seek to influence customers or investors as well as applying direct pressure.
- And any stakeholder may become interested in broader corporate governance from environmental sustainability to how much tax the company pays.
- The media may be interested in all of these, particularly any which are going wrong.

A focus on reputation can enable the Board to set the direction and monitor performance not just across specific functions but to understand better the interdependencies.

For example, reputation can guide financial reporting, while bearing in mind that investors may care about a number of other issues too. It might sound obvious to say that sales and marketing should also be interested in reputation. But the consumer may be interested not just in the product and the price but also the company's approach to employees, supply chain and the environment. These can help or harm the company's reputation.

Exactly the same applies to HR and supply chain management. Not all your employees will also be customers (or voters in your home country), some certainly will be. And increasingly how you treat people in one part of the world can very quickly impact on your success in another.

In this strategic model, reputation – good or bad – is created in the 360 degree interaction of all of the organisation's stakeholders, many of whom will impact on others in multiple ways. In this model, NGOs and the media – not to mention governments and other regulators – are not just nuisances on the edge of the value chain which have to be managed out of the way as effectively as possible, but as important as other stakeholders in helping to frame the reputation of the business. And if they help create your reputation, they become important for your strategy too, not just mitigating risks but creating and exploiting opportunities.

Just as communication moves increasingly quickly, so do attitudes and indeed politics. So when we talk about, for example, environmental sustainability or diversity, the bar gets moved – almost always upwards –more and more quickly. What might have been acceptable behaviour for a business five years ago, or even last year, may now have a seriously negative impact on your reputation.

These changes may appear first in one geography and cultural differences may lead to different outcomes, but it's worth monitoring the media and NGO space closely and looking out for news moving quickly from one continent to another.

One intriguing – but challenging – way of taking a proactive approach to reputation which is increasingly being seen, certainly in the US and the UK and a few other countries, is pressure for business leaders to intervene in political and social issues. Most would probably still take a cautious view, reckoning that the reputational risks usually outweigh the benefits. But this view is certainly being challenged. My own view is that we could consider speaking out on matters in which the business either has deep expertise or a strong interest, but should avoid becoming what could be perceived as a "wholly-owned subsidiary" of a political party or movement.

Even with a less forward approach than this, it's clear that simply satisfying shareholders on financial performance and customers on product and price in the narrowest sense is no longer enough.

That means the Board needs to ensure that it has good 360 degree vision of the stakeholders which can influence its vision. This will only be possible if the Board is sufficiently diverse. There are many types of diversity: gender most obviously, nationality and ethnicity certainly. But think also of age: if your customers are Millennials, shouldn't some of your Board be Millennials too? And, particularly when we're talking about reputation, diversity isn't only about these obvious identity markers, but we should consider how to increase the diversity of background and outlook too in order to reduce the risk of groupthink.

If you accept this strategic model, then reputation could be a good framework for much of the Board agenda. The key question to ask is how will the decisions we take impact stakeholders, both individually – and in the 360 degree approach – cumulatively? Are the benefits worth the downsides?

A Board which takes a 360 degree approach to reputation should also reflect on how it will draw on the expertise of the different executive functions. There will obviously be a role for audit and for legal, but we shouldn't leave it to them exclusively, as this could lead to a focus exclusively on compliance. Very often our values – and increasingly public opinion – require us to go beyond compliance. And we shouldn't leave it to risk either, because reputation should be as much about opportunity as risk. So we should give a voice to audit, risk, legal, as well as marketing, HR and so on, but it's for the whole business, not just one function.

One function which is certainly necessary in some form is corporate affairs, or whatever you care to call it. In fact corporate affairs is arguably best placed to own the 360 degree process provided we understand that it's not just about corporate communications on broadcast mode, or hoping that a bit of clever PR will get you out of a difficult situation. The value which this function can bring is to look at the business from the outside, to bring the perspectives of all the stakeholders together and to follow the broader political, economic and societal trends to enable the business to keep several steps ahead. Looking from the outside in is often a bigger challenge than we give it credit for, so there is also an argument for some external advice too, especially if the business is operating in unfamiliar geographies.

Think back a moment to the global village we described earlier. To live successfully in a village, you need to know your neighbours. Today's village is rather too big to do that without a clear strategy. And a 360 degree approach to reputation can provide just that.

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