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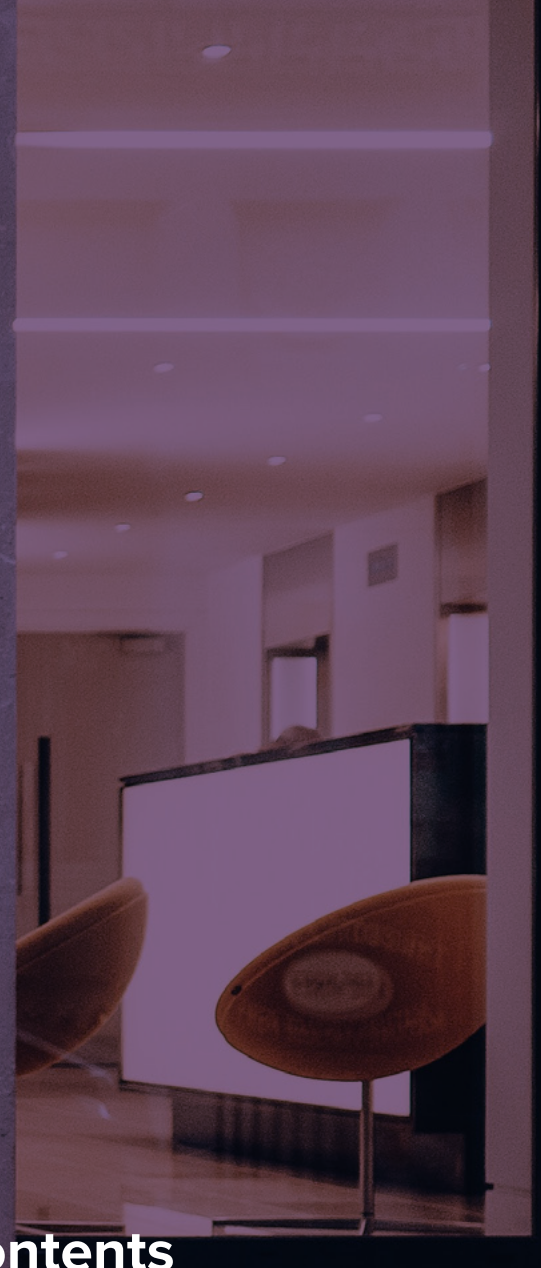
THE
INDEPENDENT
VOICE

CORPORATE REPUTATION
AND THE ROLE OF
THE NON-EXECUTIVE DIRECTOR

NEDA


NON-EXECUTIVE
DIRECTORS' ASSOCIATION
Developing Trusted Professionals





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A man in a dark suit is seen from behind, standing on a curved staircase. The staircase has a metal handrail. The background is a curved wall made of light-colored bricks. The lighting is warm and golden, creating a dramatic atmosphere. A large, semi-transparent purple circle is overlaid on the image, containing text.

“The NED’s role is
to communicate an objective
outside view into an organisation”

— NED in the Support Services sector

Introduction

It is no secret that reputational damage remains one of the key risks facing contemporary organisations and that reputation management is, rightly, commanding increasing attention among corporate stakeholder groups.


According to Aon's 2017 global risk management survey, reputation and brand damage emerged as the top ranked risk for businesses for the second year in a row, with boards encouraged to work ever more closely with risk professionals.

Yet despite this, surprisingly little research to date has explored the remit of Non-Executive board members as the crucial "independent" voice within the reputation management mix at board level.

To begin plugging this gap, international communications firm Infinite Global and the Non-Executive Directors' Association ('NEDA'), the UK's leading NED membership body, have collaborated to explore corporate reputation and, for the first time, the role of Non-Executive Directors ('NEDs') in its protection and enhancement.

An in-depth survey of NEDs was undertaken to better understand their perspectives on the role they play in corporate reputation management. The summary findings contained in this report are intended to shine an important light on these issues, including the extent to which NEDs feel reputation management is a critical part of their role and how far they feel empowered and trained to deal with reputational issues affecting their organisations.

These insights represent the beginning of a debate which could help realise the full potential of the NED role in helping to manage reputational issues that define modern, fast-moving organisations.

An aerial photograph of a wet, reflective surface, possibly a road or pavement, with a dark circular overlay in the center. The overlay contains white text. The background shows a mix of dark and light patches, likely from water reflecting the sky and surrounding environment.

“Non-Executives are there
to scrutinise executive
management. They have a
particularly vital role in challenging
risk management and strategy and
should act as a bulwark against
reckless executives”

— House of Commons Committee Report
(re. Carillion), May 2018

Foreword

Corporate Reputation and the NED

When things go wrong the focus of attention falls on the corporate board. The roles and responsibilities of board members have been increasingly in the spotlight in recent years and since the 2007-8 Banking Crisis more attention has been given to the role of the Non-Executive Director ('NED'). NEDs are in post to hold the Executive Team to account. As part of a broader remit the NED has also been held up to be the guardian of good corporate governance.

Shareholders and other key stakeholders have increased expectations and seek confidence in how basic governance activities are undertaken – managing business risk is one of the main components – and boards are trusted to be on top of strategic and operational risk areas. In reality there is often a disconnect between the board's top-down approach and operational management's bottom-up view. At times, there can be a black hole between the two.

Boards gravitate towards the concept of 'reputational risk' – these are the headline big risk areas that can lead to a crisis if they are not well managed or monitored regularly. A company's reputation or brand can be weakened or even destroyed very quickly. The rise of 24/7 social media has led to a third factor – 'velocity', the speed by which risks can get out of control – being included alongside 'likelihood' and 'impact' in risk assessment methodology.

Resilient organisations are looking to strengthen their crisis management capabilities so that they can respond quickly and directly to any major crisis – roles are defined, procedures are communicated, and scenarios rehearsed.

Against this backdrop, NEDs can play a pivotal role in bringing their skills, experience and independent voice to the table. In particular, they should make sure strategic reputational risks are on the radar, whilst also ensuring there is line of sight over operational risks that could come back to haunt the company. BP and VW being examples where operational and environmental risk areas hit a glass ceiling. NEDs need to probe these areas from day one, if not before, as part of their own due diligence and interview process.

This report is timely, with more high-profile examples of companies having to deal with major crises. The results provide good insight into board-level trends and overall indicate that the the role of the NED in reputation management requires more regular and focused attention. Though the CEO and Executive Team have day-to-day responsibility for managing reputational risks, the NED needs to advise, support and challenge them to help protect and enhance corporate reputation, using their broader business experience.



Louis Cooper
CEO, Non-Executive Directors' Association

Executive Summary

Out of eight options, **corporate reputation ranked as only the sixth most important business issue** overall for NEDs, behind HR and Governance

Non-Executive Directors responding to the survey were almost unanimous (90%) in the view that **media, public and stakeholder scrutiny had increased in the last 5-10 years**

30% of **NEDs admitted they felt only partially prepared to address reputational issues**, and only half of respondents discussed reputational issues during their NED interviews

Over half (56%) of NEDs feel that **advising on corporate reputation management is a key part of a NED's role**, and a similar proportion feel that their **"outsider" perspective provides them with a particular ability to advise on such issues**

90% of respondents said they expected **corporate reputation will be discussed more at board meetings** in the next 5-10 years

A quarter (25%) of respondents said that **corporate reputation was rarely on the agenda** at board meetings

The vast majority of respondents (82%) see **corporate reputation as something that can be addressed strategically**, and two-thirds (66%) believe **companies could do more to actively manage and protect their reputation**

More than half of NEDs (57%) think that **key corporate reputation metrics should be assessed and reported to the board** on a monthly basis

PR advisers are the first port of call for NEDs considering independent reputational advice, but non-competing peers, industry/trade bodies and other professional advisers were also trusted sources of counsel

Why Reputation Matters

“A good reputation is like the cypress;
once cut, it never puts forth leaf again.”

— Francesco Guicciardini

The importance of reputation and its role in the market economy has been debated for some time. Today, in an era of 24/7 news coverage, instant social media sharing and increasing brand/customer interaction, the curation and protection of reputation is even more critical to corporate success.

Problematically, it is also often considered the most intangible of assets. Unlike property, goods, staff, customer and client base, reputation has always been notoriously difficult to quantify (although many continue to try). Abraham Lincoln observed that reputation was akin to “a shadow” - and that shadow is a long one. Reputation is both an asset that can be leveraged to generate competitive advantage and build brand and shareholder value, as well as a source of positive damage limitation collateral to be deployed in times of crisis.

However, monitoring and measuring reputation is at long last becoming easier, as the possibilities of the internet and the dawn of ‘Big Data’ create ideal conditions to track and quantify previously intangible issues. In the past, businesses might have dismissed corporate reputation as an arcane cousin of marketing, to be dealt with in darkened rooms and over power lunches with journalists and spin doctors. However, globalisation and increased connectivity has been a ‘game-changer’. It has simultaneously increased the need for transparency and armed businesses with vast quantities of data capable of demonstrating with increasing accuracy the impact of reputation on financial performance and corporate ‘health’.

Generally speaking, the calculation most often used to calculate the contribution of reputation to corporate value is conducted as an accounting mechanism during a takeover or sale of a business. This essentially entails subtracting the value of a company’s tangible assets (property, machinery, goods etc.) from the company’s total market value.


The remainder is known as ‘goodwill’, of which reputation is arguably the most important constituent part. More scientifically, organisations such as BrandFinance have developed methodologies for valuing the total contribution of so-called ‘intangible assets’ to the corporate bottom line. Globally, and despite a dip during the financial crisis, intangible value continues to soar¹, rising from around £15 trillion in 2001 to £36.27 trillion in 2016.

The value of reputation is not lost on corporate leaders, with research from the Quoted Companies Alliance² revealing that UK growth companies estimate that almost a third of their market value is accounted for by reputation. Meanwhile, according to Deloitte³, 87% of business executives rate reputation risk as more important or much more important than other strategic risks their companies are facing.

Clearly, as it becomes more closely linked with company performance in an ever-evolving risk landscape, reputation is increasingly an issue to be dealt with by boards both explicitly and as part of the development and implementation of business strategy.

To a large extent responsibility for reputation will, and should, lie with the CEO and the C-Suite. However, based on the findings in this report the Non-Executive Director has a clear and vital – and not yet fully realised – role to play in the active management of the reputation of modern business organisations.

With their independent voice, clear focus on governance and connection with stakeholders both internally and - critically - externally, reputation management has never before been more clearly within the remit of the NED. NEDs should therefore be empowered to advise on reputational issues and use their role within the companies they serve to ensure corporate reputation is considered explicitly and regularly on the board agenda.




“Corporate reputation is a topic which NEDs acknowledge is ‘important’... but because it’s less tangible, there is a danger of paying lip service to the issue”

— Company Chairman and NED
in Financial Services

1. http://brandfinance.com/images/upload/gift_report_2017_bf_version_high_res_version.pdf

2. <http://www.theqca.com/news/press-releases/132196/corporate-reputation-gaining-value-as-key-asset-say-growth-companies.shtml>

3. https://www2.deloitte.com/content/dam/Deloitte/za/Documents/risk/NEWReputationRiskSurveyReport_25FEB.pdf



“Meetings tend to be very focused on risk management so there is not always a great deal of headroom to bring reputation issues to the table”

– NED in the Financial Services sector

Reputation on the Board Agenda

Non-Executive Directors were asked how far media, stakeholder and public scrutiny of their sectors had shifted in the last five to ten years, and the overwhelming response was that the landscape today is more intense than ever before.

Little wonder that corporate reputation, or reputational/brand damage, has been cited as the number one risk factor facing most commercial organisations.⁴

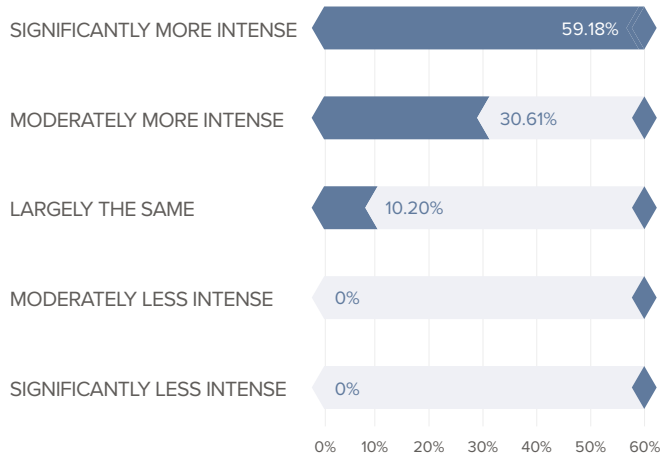
Reputation management is clearly moving up the strategic food chain, a fact which has been documented by scores of other research – both practitioner and academic – for many years. However, there is still a widespread feeling among the NEDs surveyed, and by extension the boards they work with, that reputation is an output (i.e. a consequence of business strategy and operations) rather than an integral part of strategy and operations that can be managed in-and-of-itself.

This is borne out by how NEDs report that boards manage reputation. The survey respondents were divided on how frequently reputation was discussed at board level as an ‘agenda item’.

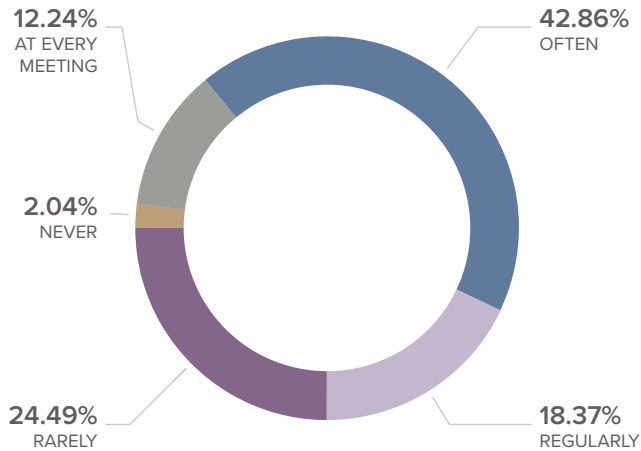
The majority of respondents reported that it was discussed to some extent, but a quarter stated that it was only rarely an explicit topic of discussion (see table opposite).

Indeed, for NEDs, the overall importance of corporate reputation ranks below issues such as HR & Talent, Governance and broader Risk Management and only above CSR and stakeholder management. It was, however, the fourth most selected ‘number one’ issue (see table over page).

HOW HAS MEDIA, PUBLIC AND STAKEHOLDER SCRUTINY OF COMPANIES SHIFTED IN LAST FIVE - 10 YEARS?



HOW OFTEN IS CORPORATE REPUTATION AN EXPLICIT ITEM ON THE BOARD AGENDA?



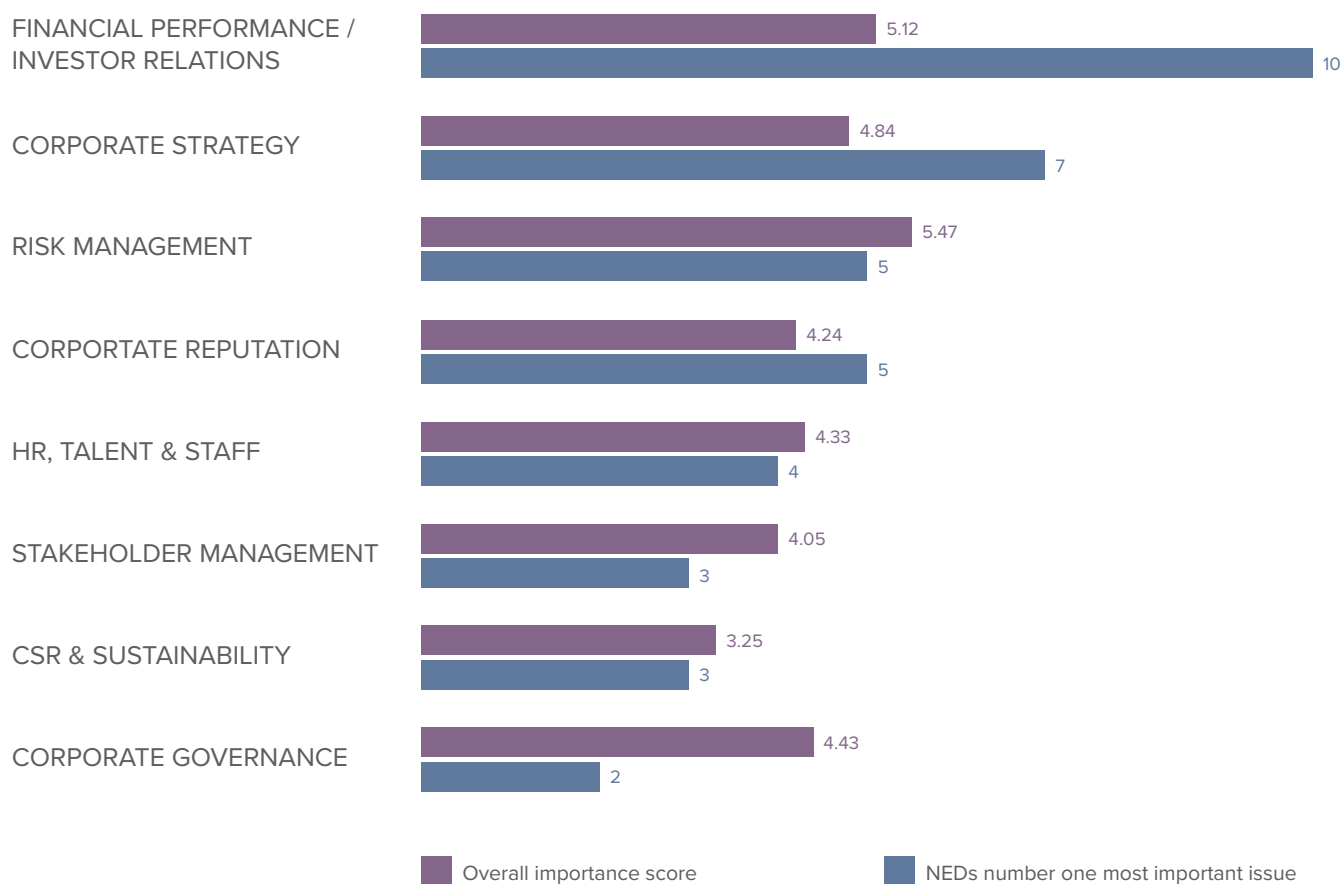
⁴ Aon Risk Management Survey 2017

Reputation on the Board Agenda (cont.)

But things are changing. NEDs do see that corporate reputation is something that can be addressed overtly and strategically, with 82% believing corporate reputation is a business-critical asset that should be managed as such.

Further, according to survey respondents, corporate reputation or reputation risk is now discussed more than it was five years ago and, looking ahead, Non-Executive Directors believe its prominence on the agenda of board meetings will increase over the next five to ten years. Well over half (57%) believe it should be reported and assessed at least monthly (see table below).

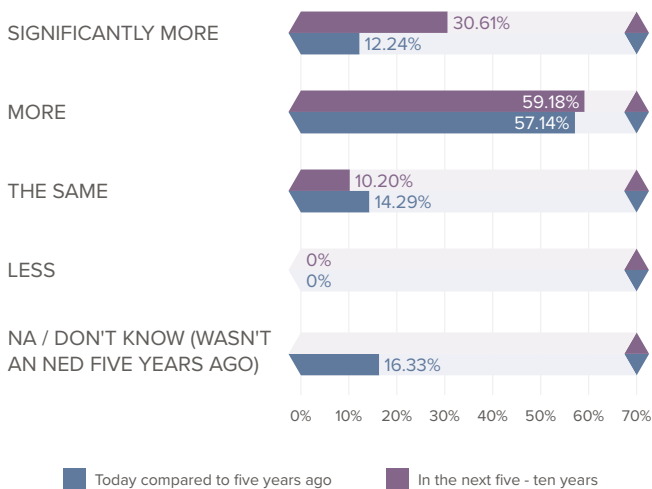
WHAT DO NEDS THINK ARE THE MOST IMPORTANT BUSINESS ISSUES FACING THEIR ORGANISATIONS?



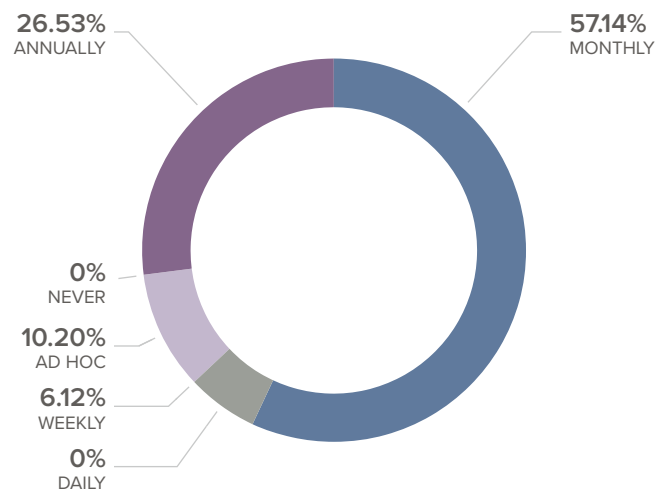
“In reality, reputation is not best managed as a standalone issue. The question of reputation needs to be addressed by managing what is important to the organisation’s purpose and sustainability”

- NED in the Health, Social Care and Education sector

ARE BOARDS DISCUSSING REPUTATION AND REPUTATION RISK MORE FREQUENTLY?



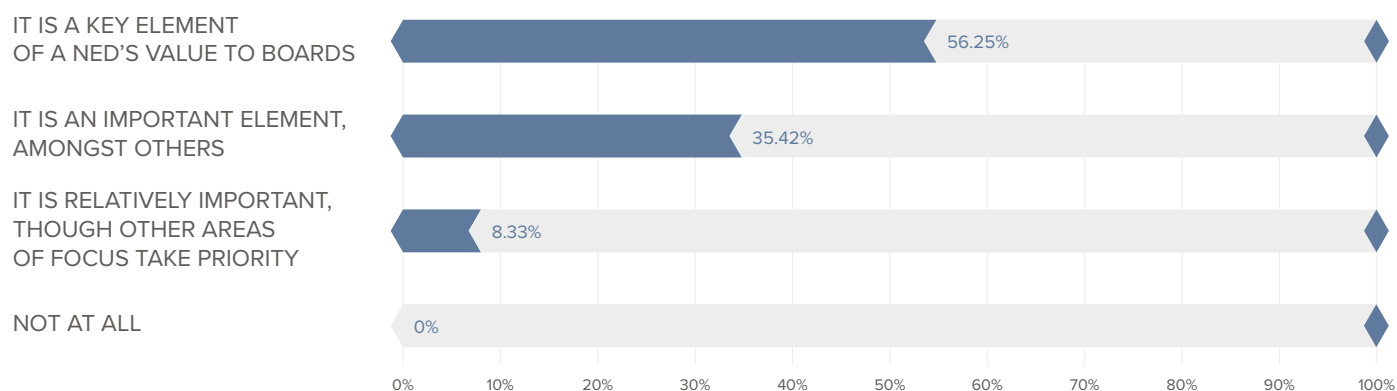
HOW OFTEN DO NEDS WANT CORPORATE REPUTATION REPORTING TO BOARDS?



The Role of the NED

The importance and frequency of corporate reputation issues being included overtly on board meeting agendas is increasing and the role of the Non-Executive Director in helping manage them should not be underestimated by the companies they serve.

HOW IMPORTANT DO NEDS THINK THEIR EXTERNAL PERSPECTIVE IS FOR ADVISING ON CORPORATE REPUTATION?



The majority of survey respondents (56%) agreed that the external or 'outsider' perspective that NEDs bring gives them a particular ability to advise boards on corporate reputation issues.

NEDs clearly feel that advising on corporate reputation is a key part of their remit, with more than half of respondents stating that it is either a significant part of, or central to, their role. Virtually all NEDs (98%) are either comfortable or very comfortable in actioning this expertise and voicing concerns or recommendations regarding corporate reputation at board meetings.

Further, NEDs feel well placed to seek independent resources and advice, where appropriate, on issues regarding corporate reputation. A specialist PR adviser or agency was the most popular choice (39%) among

respondents as the first port of call (see table below), and was the most selected option in respondents' top three choices (73%).

Every NED surveyed feels prepared to some extent to address issues relating to corporate reputation. However, 30% admitted that this was only partial. This is reflected by the fact that, surprisingly, there is division between NEDs over the extent to which corporate reputation management was referenced as a key part of their remit during their recruitment into their current NED roles.

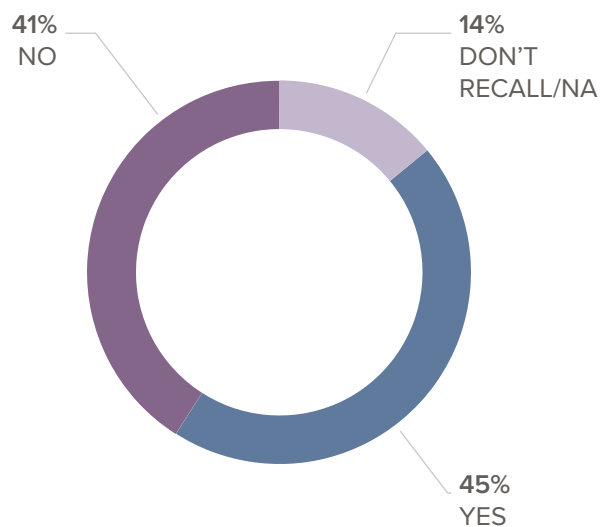
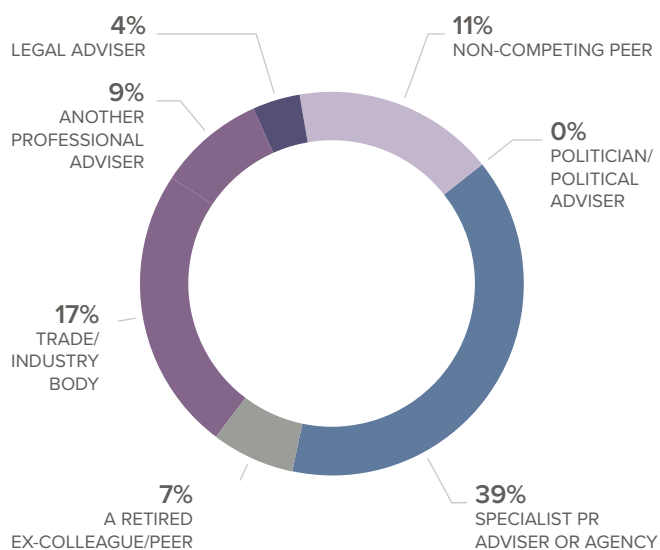
As previously outlined, the reputational risk landscape is changing and this will require NEDs to continue upskilling themselves to deal with new and emerging factors impacting corporate reputation.

“The major change in recent years is the impact of social media which means that a relatively small number of people can have a major impact on the perception of an organisation”

– NED in the Financial Services sector

WHO WOULD NEDS APPROACH FOR INDEPENDENT CORPORATE REPUTATION ADVICE?

WAS CORPORATE REPUTATION DISCUSSED IN THE NED RECRUITMENT PROCESS?



This includes ensuring that emerging NEDs, on the journey toward their first role, have this on the agenda too.

Digitalisation and new media are giving voices to new individuals, groups and activists who, as social media’s pervasiveness increases, hold a whole new type of influence which all companies should deal with proactively. At the same time, online media and globalisation mean that companies are required to be more transparent than ever before.

Reputation management cannot be considered as a combination of carefully crafted press statements and

Corporate Social Responsibility box-ticking. From cyber breaches to supply chain responsibility and sustainability, reputation must be considered a valuable asset to be enhanced and defended in each dealing a company has with its stakeholders and broader ‘ecosystem’.

This casts into sharp relief the value that NEDs can bring, given their ability to see beyond internal and external corporate siloes. But it also means that NEDs have a responsibility to continually assess their own professional development to ensure they are cognisant of the disruptive forces impacting on reputation now and into the future.



Looking Ahead

Although by no means exhaustive, the snapshot which has emerged from the research points toward a number of potential next steps and future pathways to explore for both NEDs and PR practitioners alike.

Putting reputation in the boardroom

In recent years, numerous organisations, associations, thought leaders and academics across the communications and public relations community have called for reputation management to be given a more prominent role in boardroom discussion.

Key recommendations made have included calling for the appointing of a Chief Communications Officer to the C-Suite, the regular inclusion of reputational risk as a distinct item on board agendas, or the adoption of integrated reporting (IR) to force leadership teams to embrace a more comprehensive and stakeholder-centric view of organisational performance.

Further calls have been made to broaden board diversity, not only in terms of race and gender, but also to incorporate skills and competencies such as reputation management, to help fight against the tendency for chairpersons to fashion boards ‘in their own image’.

This report echoes those calls and credits the efforts of those organisations seeking to build reputation management more overtly into the fabric of organisational leadership.

The role of the NED

This report calls for the role of the NED to be considered an essential element in efforts to instil ‘reputation management thinking’ into boardrooms. To this end, this report makes three recommendations:

1. Reputation management, public relations and external affairs experience – or at least an awareness and understanding of these areas – should be included as a key criteria in Board’s efforts to identify, evaluate, appoint and develop new NEDs
2. Professional bodies in the NED, board and risk arena (NEDA, IRM, CBI, etc) and the PR and communications industry (PRCA, CIPR) should collaborate more closely to raise awareness of and share knowledge around the role of NEDs in reputation management
3. The PR and communications industry (CIPR, PRCA) should do more to encourage and train communication professionals to become NEDs, via awareness raising campaigns and provision of professional training

In addition, a broader, more comprehensive research exercise on these issues – preferably on a global/ international basis – should be pursued, and involve a wider range of stakeholders, to build upon this initial snapshot and establish a true benchmark against which progress can be measured.

Ideas about additional ways to move forward this debate are welcomed. Please visit <http://go.infiniteglobal.com/the-independent-voice>, or email neda@infiniteglobal.com.

As PRs aim for the boardroom, could NEDs be the secret weapon?

Year after year, one seemingly evergreen debate in the PR industry is almost guaranteed to rear its head at least once: when, oh when, will senior communicators finally get their well-earned place at the boardroom table?

Scott Addison is a Board Director and Tal Donahue is a Senior Account Manager in the London office of international communications firm Infinite Global.

It has long been predicted given just how much reputational issues have risen up the corporate agenda, as documented by rafts of research by just about every influential business organisation there is.

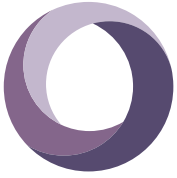
By and large, it still hasn't happened, and there may be a very good reason why. If the insights from the latest CIPR 'State of the Profession' report are anything to go by, it's because we – as an industry – are simply stuck only in a siloed world of communications rather than embedded within broader commercial and business issues. Case in point: two-thirds of recruiters responding to the CIPR survey said they are looking for “business acumen” – perhaps the ultimate currency for corporate leaders – in senior hires, but fewer than a third of PR pros rated their own abilities and knowledge in that particular area.

How to close this gap is a question that needs an urgent answer. Perhaps the solution has, though, quietly been in front of us all along: tapping into the knowledge and experience of the Non-Executive Director community.

With expertise squarely in other areas of business – such as finance, risk and governance – there is potentially a vast amount to be learned from these proven business leaders and their independent voices at board level.

Much of this report is focused on bridging the gap between NEDs and PRs when it comes to corporate reputation, but there is also an opportunity to bridge the gap when it comes to commercial nous for corporate communications pros. There are many potential routes to explore, including popping along to events aimed at the NED community, getting connected to your firm's own NEDs, or even considering the path toward an NED or charity trustee role yourself (including the up-skilling required to do so effectively).

Fundamentally, the message that tomorrow's communications executive must be as much a commercial advisor as one skilled in the art of storytelling and media relations is truer than ever. For that to happen, PRs and NEDs should find new ways to connect and learn from each other, with the final result being of benefit for everyone.



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Infinite Global is an award-winning international communications firm providing PR, Branding and Content services.

Led by seasoned media professionals and top creative directors, we help complex businesses demonstrate their expertise to sophisticated audiences.

Formed by the 2014 merger of US-based Infinite PR and UK-based Spada, Infinite Global has offices in London, New York, Philadelphia, Chicago and San Francisco.

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**NON-EXECUTIVE
DIRECTORS' ASSOCIATION**
Developing Trusted Professionals

NEDA seeks to support NEDs by providing a range of training, education, mentoring and advisory services to both individuals and organisations, across all sectors - corporate, not-for-profit and public.

The Non-Executive Directors Association ('NEDA') was established in 2007 to "represent Non-Executive Directors and ensure they are properly trained and developed."

The demands of the role have increased. NEDs are seeking a greater understanding of the business and are expected to provide a healthy level of independent challenge to the status quo. Consequently, NEDs need to know the right questions to ask and when to ask them.

Understanding where the non-executive director fits into the corporate governance framework of a company is important on a number of levels, especially for:

- **anyone thinking about becoming a NED**
- **the newly appointed NED**
- **the established NED with a portfolio of roles**
- **the board looking at NED succession planning and**
- **individuals, such as company secretaries, whose tasks include assisting NEDs to fulfill their roles effectively.**



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