



# *Avoiding the rocks*

THE ROLE OF THE BOARD IN  
MANAGING CORPORATE REPUTATION

*Interviews with FTSE 100 chairmen and corporate affairs directors*

SpencerStuart

BRUNSWICK

#### About Spencer Stuart

Spencer Stuart is one of the world's leading executive search consulting firms. Privately held since 1956, Spencer Stuart applies its extensive knowledge of industries, functions and talent to advise select clients — ranging from major multinationals to emerging companies to nonprofit organizations — and address their leadership requirements. Through 51 offices in 27 countries and a broad range of practice groups, Spencer Stuart consultants focus on senior-level executive search, board director appointments, succession planning and in-depth senior executive management assessments. For more information on Spencer Stuart, please visit [www.spencerstuart.com](http://www.spencerstuart.com).

#### About Brunswick

Brunswick is a corporate relations and communications consultancy. They provide informed advice at a senior level to businesses and other organisations around the world, helping them to address critical communications challenges that may affect their valuation, reputation or ability to achieve their ambitions.

For more information on Brunswick, please visit [www.brunswickgroup.com](http://www.brunswickgroup.com).

As the economic crisis deepened towards the end of 2008, Spencer Stuart and Brunswick joined forces on a research project to explore the impact of the economic downturn on attitudes to corporate reputation. We were interested in discovering whether there has been increased interaction between boards and the corporate affairs function, and how that interaction has been affected by the downturn. Are boards treating corporate reputation as a serious governance issue and are they factoring reputational issues into risk management?

Over a three-month period we interviewed 20 board chairmen and corporate affairs directors of leading FTSE companies to gain a variety of board and executive-level perspectives on these and other questions relating to reputation management and the evolving role of corporate affairs.



## FOREWORD BY SIR PHILIP HAMPTON

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This report is a timely reminder that during a period of economic uncertainty and retrenchment, when the government, the media and the public are scrutinising the behaviour of the business community more closely than ever, the importance of corporate reputation has probably never been greater.

Boards are increasingly challenged by the multi-dimensional aspect of corporate reputation and the need to understand how different issues affect different stakeholders. They are acutely conscious that risk and reputation are intertwined and that corporate reputation has to be nurtured as carefully as other key business assets. After all, few tasks are more challenging than to rebuild a reputation that has suffered significant damage.

As this study shows, corporate reputation affects a business in many ways, not least its ability to attract and retain top-performing executive and non-executive talent. It is the role of the board and top management to safeguard the business's reputation through behaviours that are consistent with the values of the business, both from themselves and in the organisation as a whole.

Boards are increasingly reliant on expert advice from their corporate affairs directors and professional advisers who have a vital role to play, not only externally but internally, in reinforcing brand values and ensuring that senior management is well equipped to address the concerns and motivational needs of employees, as well as investors and other key stakeholders. Today's corporate affairs director must be able to demonstrate a rare combination of intellectual, commercial, influencing and communications skills to be fully effective at the top table.

I welcome this joint initiative from Spencer Stuart and Brunswick and hope that their study will stimulate further debate on the role that boards can play in defending and enhancing corporate reputation.

Sir Philip Hampton

CHAIRMAN — J SAINSBURY PLC, ROYAL BANK OF SCOTLAND PLC

## CORPORATE REPUTATION AND THE RECESSION

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All those we interviewed acknowledged the critical nature of corporate reputation and the fact that business success can be seriously jeopardised by reputational damage. As one chairman pointed out: “Corporate reputation is always with you — it doesn’t just surface during an economic crisis. A business with strong financial control, sound governance and good corporate citizenship and other reputational assets such as goodwill and a powerful brand will deploy these characteristics to get them through the tough times.”

However, when asked whether corporate reputation becomes more or less central to business success during a period of economic turmoil, our interviewees divided into two opposing schools of thought: those who believe that reputation has become more important in light of recent events (a slight majority), and those who believe that its perennial significance is unaffected by the downturn.

“There is a huge protective shield in having a quality reputation.”

Inevitably, those in the eye of the storm are most likely to assign increased importance to matters of reputation. There is a clear view that financial services institutions are most severely affected, with poor performance, lack of confidence and impaired trust all contributing to reputational damage.

Participants feel that few issues are causing more damage to corporate reputation than remuneration. While the negative reaction to pay in the banking sector is felt to be sometimes justified, the effect on talent retention of changing remuneration models in response to the much-criticised bonus culture is a real concern for the industry. While it is possible that this kind of reputational damage may spread to other sectors over time, the reputation of companies in other industries, consumer goods for example, remains less affected by the recession.

Opinions were not split entirely down sector lines, however. As one representative of a consumer business remarked: “When times are good, the difference between a good, bad or indifferent reputation is less obvious; however, when

times are tough levels of scrutiny change and there is a huge protective shield in having a quality reputation.”

Several of those who viewed corporate reputation as more important during the downturn observed that it has evolved from being mainly linked to CSR and certain sensitive issues to being a key issue in corporate strategy and commercial planning. Addressing reputational issues thoroughly involves considerable forward planning, rather than merely reacting to events. Demonstrating good corporate behaviour is seen as even more critical in bad times, given the speed at which things can change, the greater scrutiny business is under, and the growing anti-business sentiment.

Those who see reputation as no more important today than it ever has been take the view that it is not the importance of reputation that has increased so much as the heightened general awareness of the economic crisis. Indeed, the more sceptical argue that companies do not collapse because of a decline in reputation but because of fundamental performance issues.

Supporting the notion that corporate reputation is no more critical during recession, one chairman said: “If people are not going to take corporate reputation seriously all the time, then there is something wrong with the company.”

Another chairman drew an interesting distinction between reputational damage resulting from poor performance which, if addressed and resolved, is only temporary, and damage done to the core values and integrity of the business, from which it may never recover. “In my view, the current crisis has not changed the implications of either,” he said.

“I can’t think of one company that has suffered significant reputational damage and has shrugged it off without an impact on the business.”

The multi-dimensional nature of corporate reputation means that companies must continually weigh up their areas of exposure and look carefully at where the reputation issues fall; companies have a variety of stakeholders and different relationships affect corporate reputation in different ways.

Whether or not recession has triggered a change in the way companies address the issue, corporate reputation is clearly considered central to the fortunes of a business, and this in turn has led to a central role for the corporate affairs director. ■

## ADDING VALUE IN THE DOWNTURN

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The corporate affairs directors we spoke to feel they can add most value in this climate by concentrating on the core aspects of the role — for example, ensuring processes are in place to pick up ‘distress signals’— and making everyone in the organisation aware of issues relating to corporate reputation and areas of potential risk. The nature of their role positions them well for understanding societal shifts, the changing expectations of stakeholders and the direction of government thinking. This is particularly important at a time when governments everywhere are taking a more interventionist role in business, making a deep understanding of regulation and public policy essential.

“These days, people at the top of a corporate affairs function take a more conceptual approach. They come from a variety of different backgrounds but they must be able to express ideas clearly and simply.”

In this climate, boards are acutely aware how quickly reputations can be lost, the corporate affairs team has a unique opportunity to make an impact and raise expectations of what it can achieve. Corporate affairs directors are getting involved at an earlier stage in decision making and playing a broader role in the business: “Those who manage us or work alongside us have come to realise the very significant benefit that actively managing a corporation’s reputation can bring.”

Internal communications is seen as the area which needs the most focus and attention in the present climate. Corporate affairs directors have a major role to play in keeping staff engaged and motivated while making sure that they understand what lies behind tough decisions.

“We are passionate about corporate responsibility. This has been an important message to send down through the organisation — that the business stands for things, as well as being a business.”

Finally, the value of presenting a company’s positive contributions to society should not be overlooked during an economic downturn when the focus is primarily on crisis management. This is felt to be even more important at a time when the wider role of business is being debated and sectors such as financial services are facing tough questions about their duties and responsibilities to society. ■

## THE BOARD AND CORPORATE REPUTATION

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So how does the recession affect the way boards view reputation and the corporate affairs function?

Many boards are talking more about corporate reputation in the current environment and as a consequence board members are increasingly aware of the impact that reputation and communications can have on the business, examining the implications for investor confidence, customer reactions and media sentiment.

Corporate affairs directors might normally expect to submit a report to the board twice a year on social responsibility and reputational matters. Today, however, many are finding themselves attending board meetings more regularly as the issue of corporate reputation rises higher up the board agenda. Board directors who have taken a great deal on trust during good times appear to be asking tougher questions and paying closer attention to risk and compliance, conscious of the fragility of their own individual reputations as well as that of their company.

“The board increasingly sees corporate reputation as important in gaining commercial advantage and driving business value”

Boards have become more sensitive to the different dimensions of corporate reputation. External issues affecting shareholders, the media and other stakeholders are vital, but so is the need to reinforce the values of the company through effective internal communications. Both chairmen and corporate affairs directors pointed out that enhancing corporate reputation has a knock-on effect on workforce morale and the employer brand. It is the board's responsibility to ensure that the CEO and executive team cascade brand values and clear, consistent messages throughout the organisation, something that the corporate affairs director will almost certainly have a strong hand in delivering. One chairman was particularly forceful about the need for executives to be visible and the importance of top-down example setting.

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As we heard in the interviews, the health of a company's reputation can be a major issue for individuals considering joining a directorship. The ability to attract directors and talented executives depends on it, and is an important reason for boards to make it a priority.

Those who did not report a heightened interest in reputation from the boardroom cited a preoccupation of boards with the financial and operational aspects of the business, such as managing the balance sheet, maximising cash flow and taking decisions about capital expenditure. Their emphasis, in other words, is on financial rather than reputational risk.

“I think the chief executive needs to be more visible internally during difficult times than when the business is going well.”

While many chairmen agreed that reputation should be treated as a core governance issue, most felt that it is difficult to distinguish reputation from all the things that influence it; reputation per se flows from, rather than drives, strategy, behaviour and performance. In the words of one chairman: “We say our company is well governed. We have a clear set of values and a sensible, well articulated strategy. If we are consistent and successful in these things we protect our reputation.”

“Among chairmen, there was clear consensus that boards must pay close attention to matters of corporate reputation and that reputation and risk are intertwined at every level.”

When asked about their personal role in managing a company's reputation, the chairmen we spoke to unanimously insisted it was their duty to take a back seat (except in times of extreme crisis) to the chief executive.

One corporate affairs director remarked that the CEO should be the chief reputation officer, although CEOs' appetite for communications can vary greatly. In certain sectors the chief executive may assume a higher-than-normal profile. This is particularly true in those sectors with a strong consumer connection and large workforce, where a charismatic personality is a common trait of the CEO who needs to communicate effectively and motivate a large and diffuse workforce. Such a dynamic figurehead can be a huge asset, although one chairman voiced a note of caution: "If the CEO becomes the brand that is extremely dangerous, because the reputation of the company is linked to the fortunes of an individual. The CEO should manage the business in a way that strengthens and underpins the corporate brand, rather than his or her own."

"In a fragile, brittle market, having a solid reputation based on a belief that the company is doing the right thing is an important underpinning for the business."

As a steward of the company's brand and reputation, the corporate affairs director needs to be strong enough to stand up to the CEO and the board if he or she judges that what they are doing is dangerous to the brand. ■



## THINKING ABOUT GOVERNANCE AND RISK

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There was consensus among the chairmen and corporate affairs directors we spoke to that reputation is an important governance issue and should be factored into risk management. There were, however, differing views as to how best to do this in practice. Should corporate reputation be included on the risk register, for example?

Some felt that reputation will take care of itself provided the basics of the business are strong. Existing risk management controls should pick up on specific issues that relate to the corporate affairs aspects of reputation. One person remarked that his company's risk matrix does not have reputational risk as one of its 18 risk headings, on the grounds that "reputation is a casualty or consequence of management failure in other areas."

Others — particularly those from specific sectors such as food and beverages, retail and financial services — felt that reputation needs more active risk management. Chairmen in highly regulated sectors believe that reputation has to be embedded in governance thinking, as do those presiding over highly visible consumer brands where the risks of negative coverage and a consumer backlash are potentially devastating.

“Reputational risk comes in the top five risks after things like financial, markets and management risks. Only relatively recently has it been treated as a separate risk item.”

One chairman of an industrial group makes health & safety the number one boardroom agenda item at every meeting. He was not alone in emphasising how important it is for the board to pay attention to those areas where the company's reputation is most exposed. Nevertheless, the risks can be mitigated by good tracking and sound administration: “If risk management is embedded in your business, the chances are that your reputation will come through most crises in a sound way.” One corporate affairs director who is actively engaged in risk management was clear that the responsibility for carrying out effective risk control should lie with the executive: “The board needs to feel comfortable that there is a framework in place but not to monitor day and night what the risks and issues and might be.”

In today's climate, not all chairmen would agree. In some industries such as financial services, risk and audit are the responsibility of separate committees, and some boards now even have a reputational risk committee. There is clear evidence that boards are increasingly involved in risk supervision (no great surprise in the light of recent events in financial markets) and that reputation is coming under particular scrutiny. ■

## INTERACTING WITH THE CHAIRMAN AND THE BOARD

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In the interviews with both chairmen and corporate affairs directors, we explored the nature of their interactions and what 'best practice' should be in terms of the relationship between corporate affairs and the board.

Both parties agreed that a good corporate affairs director will be in regular, if not constant, touch with the board chairman and will be invited to submit regular reports for the board's consumption, attending occasional board meetings when required (e.g. in the midst of a crisis) or when reputational issues appear on the agenda for discussion.

However, there was a strong view — expressed by both corporate affairs directors and chairmen — that there was no need for the corporate affairs director to be on the board. He or she should have access to the board, but not a formal place at the boardroom table. Boards are already often too big and other important executive roles, such as HR, marketing and information technology, are not represented. However, there was almost universal agreement that the corporate affairs director should sit on the group management board or executive committee. ■

## THE CHANGING CORPORATE AFFAIRS FUNCTION

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The impact of the recession on the corporate affairs function should be seen against broader changes in the function over the past five years. The recession has arguably served to raise the profile and importance of corporate affairs, but changes were already underway.

The level of professionalism was already growing as the role had broadened in scope, taking in far more than media relations. A number of the corporate affairs directors we spoke to talked about the tendency to involve communications directors and heads of corporate affairs in the merits of a decision, rather than merely how it is presented internally or to the outside world. Today's corporate affairs director is more likely to be actively involved in change management, forming a partnership with the CEO alongside other functional heads such as HR, finance and communications.

“Today's corporate affairs director needs to have commercial insight, be financially literate, sensitive to how large organisations work, understand the political dimension and be supremely articulate — verbally and in print.”

Some commented that the function itself is not without reputational issues of its own, for example the perception that corporate affairs is mainly about 'spin' rather than more substantive matters like policy development. Corporate affairs professionals can counter these by building trust and influence over time, strengthening internal relationships and careful management of the function and its place in the organisation. ■

## CONCERNS FOR THE FUTURE AND ISSUES TO MONITOR

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There appears to be a growing recognition by boards that corporate reputation is critical to the health of a company, that it must be monitored more closely than ever and that it is a key component of risk management. Contact between boards and the corporate affairs function is on the increase and as the demands on corporate affairs directors change, they have a unique opportunity to make a lasting impact.

Our research interviews raised a number of interesting issues that corporate affairs functions will need to address over the medium to long-term future.

**IS REPUTATION DEFINED TOO NARROWLY?** It is easy to be defensive and dwell on the threats to reputation, at the expense of building support for positive stories, such as social responsibility, sustainability initiatives and other investments that reinforce the brand.

**WILL THE BUSINESS MEDIA BECOME EVEN MORE SCEPTICAL** as the recession deepens? Will the experience of the downturn make journalists more mistrustful of corporate messages and communications?

**WHAT SKILLS AND CAPABILITIES ARE NEEDED** within corporate affairs functions to meet the challenges of the downturn and enable companies to emerge from it stronger than before?

**HOW CAN CORPORATE AFFAIRS PROFESSIONALS** help guide their CEOs and boards through a more complex political and regulatory environment, including the government's increasingly interventionist business and industrial policy and the prospect of greater political volatility.

**HOW CAN REMUNERATION COMMITTEES ENSURE** that they are not contributing to the weakening of corporate reputations by approving remuneration packages that are structured in a way that may encourage destructive or unethical behaviour?

**WHAT IMAGINATIVE NEW WAYS CAN BE FOUND** to enhance internal communications as a means of motivating and retaining staff?

**HOW DO CORPORATE AFFAIRS PROFESSIONALS** deal with the emerging anti-business sentiment, particularly in highly sensitive sectors such as financial services? ■

Spencer Stuart and Brunswick are grateful to the following for participating in this survey and for their many insights on the topic of corporate reputation.

#### CHAIRMEN

Sir Roger Carr — Cadbury plc, Centrica plc  
Sir Philip Hampton — J Sainsbury plc,  
Royal Bank of Scotland plc  
Sir John Parker — National Grid plc, Mondi plc (co-chairman)  
John Peace — Experian plc, Burberry plc  
Sir Nigel Rudd — Invensys plc, BAA plc, Pendragon plc  
Oliver Stocken — Home Retail Group plc,  
Stanhope plc, Oval Limited  
David Webster — Intercontinental Hotels Group plc,  
Makinson Cowell

#### CORPORATE AFFAIRS DIRECTORS

Edward Bickham, Anglo American plc  
Sue Clarke, SABMiller plc  
Andrea Dawson Shepherd, Reckitt Benckiser Group plc  
Bjorn Edlund, Royal Dutch Shell plc  
Duncan Learmouth, GlaxoSmithKline plc  
Simon Lewis, Vodafone plc  
Mark Lidiard, Lloyds TSB Bank plc  
Catherine May, Centrica plc  
Peter Morgan, BT Group plc  
Lucy Neville-Rolfe, Tesco plc  
Stephen Whitehead, Prudential plc  
Ian Wright, Diageo plc

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## About the authors

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Jonathan leads the UK Corporate Communications Practice and is co-head of the firm's global practice. He focuses on the recruitment of senior corporate communications executives across all industry sectors. He has particular expertise in financial PR, issues and crisis management, public affairs, corporate and social responsibility, and internal communications.

Prior to joining Spencer Stuart, Jonathan was a partner at a leading search firm where he was responsible for setting up the corporate communications practice. He has spent the majority of his career in search after starting out as a management trainee at Rothmans of Pall Mall.

Jonathan is a graduate of the University of Surrey, where he earned a Bachelor of Science in French, German and European Studies. He has lived and worked in France, Central and Eastern Europe and Central Asia. He speaks English, French and German.

### SUSAN GILCHRIST | Senior Partner, Brunswick

Susan Gilchrist is the Senior Partner of the London office and head of the firm's Consumer Industries practice.

Susan advises clients on corporate reputation and communications strategy. She has also has significant transactions experience having worked on a bid for Safeway; Abbey's takeover by Santander; the Guinness/GrandMet merger; and the defence of Forte from Granada. Her clients include Asda, Kingfisher, Mothercare, Reckitt Benckiser, and Reed Elsevier.

Prior to joining Brunswick, Susan was retail correspondent at The Times and has also worked as a management consultant at Bain & Company. She graduated from King's College, London with a first in English.

Susan is a Governor of the Southbank Centre.

