

THOUGHT LEADERSHIP SERIES

Providing insights on business issues that influence how you manage your brand

January 2011

brandlogic

Integrated Reporting: Managing corporate reputation to thrive in the new economy

“Financial results are the product of other things done right,” said Bob Lane, former John Deere CEO. How true. Unfortunately, this simple notion is difficult to execute inside companies and even harder to demonstrate to those outside the organization. This is especially true in today’s business environment, where corporate reputations – and hence consumer trust – have been severely damaged by the misdeeds of certain companies.

A new and equally simple idea is going to make orchestrating and communicating these “things done right” much easier. That idea is Integrated Reporting. For organizations that embrace it, the rewards may be significant. Early evidence suggests that leaders of corporations that have integrated financial, environmental, social and governance performance measures into their business strategies and management practices are gaining important competitive advantages and market differentiation.

What is most exciting about Integrated Reporting is its potential to not only change perceptions, but actually reverse poor corporate behavior by properly aligning values and everyday actions with tangible financial and non-financial performance measures. Opening up the organization to scrutiny and directly linking environmental, social and governance (ESG) compliance to financial performance creates a powerful incentive to do the right things. Public exposure of those actions to customers and investors gives corporations a motive to not only engage in good behavior – thus restoring trust and influencing purchase decisions – but to do so in a way that improves the bottom line.

The importance of reputation

Companies have historically focused on brand management without directly addressing reputation management. But as recent events in the corporate world have demonstrated, reputation is vital.

To help understand how Integrated Reporting intersects with branding and corporate reputation management, the definitions put forward by Richard Ettenson and Jonathan Knowles provide useful context. “Simply put, brand is a ‘customer-centric’ concept that focuses on what a product, service or company has promised to its customers and what that commitment means to them. Reputation is a ‘company-centric’ concept that focuses on the credibility and respect that an organization has among a broad set of constituencies, including employees, investors, regulators, journalists and local communities – as well as customers.”

Out of 10 factors measured by the 2010 Edelman Trust Barometer, 83 percent of respondents chose “transparent and honest business practices” and a “company I can trust” as the two most important components of corporate reputation.

If a brand is about a promise to customers and a reputation is about credibility and stakeholder respect, it is fairly easy to see how these two elements work to support each other. Recent research shows that the interdependence between corporate reputation and corporate brand is growing stronger as economies around the world reset. In the post-recession economy, it is becoming clear that business-to-business relationships and consumers are increasingly influenced by corporate reputation and a set of new factors – specifically, the company’s performance on ESG issues. These trends are causing a shakeup in how executives build and manage both brand and reputation for long-term viability.

Current attitudes towards companies are strikingly illustrative of this shift. Out of 10 factors measured by the 2010 Edelman Trust Barometer, 83 percent of respondents chose “transparent and honest business practices” and a “company I can trust” as the two most important components of corporate reputation. What is most surprising in this study is that “top leadership” and “financial returns” were ranked at the bottom, at 47 and 45 percent, respectively.

It’s not only attitudes that are changing. Enabled by instant access to information and influence through social media, people are experiencing a newfound desire to drive change in corporate behavior. Consumers are becoming less passive and are acting on their beliefs: 66 percent of Americans feel they and their friends can change corporate and institutional behavior by supporting those that “do the right thing.”

A changed world, a changed role

Today, it is important for executives to see the depth and ramifications of the individual and societal relationships associated with the corporations that they run. Leaders need to understand that mutual support from many constituencies is required to achieve sustainable profit and value creation.

With \$30 trillion in sales, the Forbes Global 2000 represent roughly half of all Gross World Product, giving leading corporations an increasingly important role in society. Making mistakes can exact a high price, putting great numbers of people at risk. Avoiding these mistakes is the primary purpose of ESG compliance.

In a fundamental sense, corporate misdeeds have created the need for both ESG compliance and Integrated Reporting. Unethical banking and finance practices (Lehman), short-changing required investments in safety in energy production (BP), taking shortcuts in design and quality control (Toyota) and the embezzlement of corporate assets (Enron) are just a few examples of events that have destroyed corporate value, damaged people and the environment, and shaken the confidence of consumers to the core. Dramatic events like these are reshaping how consumers view corporations and are forcing leaders to reexamine the role of the corporation in society.

The tension among pursuit of profit, use of resources and contribution to society is growing every day. More than ever before, people are looking closely at the activities of companies. And investors are beginning to turn a critical eye to ESG factors that are likely to enhance value and mitigate risk. This is the key value of Integrated Reporting. By linking ESG to financial performance, it shows both of these critical stakeholder groups what the corporation is doing to address their concerns in a way that satisfies all constituencies.

The role of Integrated Reporting in reputation management

One of the central questions being posed to executives is how the corporation is managed for sustainability, not just quarterly returns. Unlike developments over the past few decades that have shaped business management practices, the intersection of complex global factors are forcing companies to demonstrate that their organizations are meeting an entirely new set of requirements and embracing a wide array of innovative management strategies.

Showing that a corporation is aware of and attending to these factors through its business strategy and performance is vital to its success and reputation. More important, a way to integrate these practices into business strategy is essential. The Integrated Reporting process can provide the means to do both.

To start the journey towards rebuilding trust, executives have to come to terms with four new reputational realities:

- Which performance KPIs link to corporate reputation
- How performance will be measured by many different stakeholders
- How reputations are likely to be formed across stakeholder groups
- How to embed ESG factors into the corporate brand.

One of the central questions being posed to executives is how the corporation is managed for sustainability, not just quarterly returns.

The beauty of Integrated Reporting is that it is the most powerful framework yet devised to meet the new realities of – and need for – reputation management. For example, it can help overcome the “soft side” of reputation management by providing much needed proof points grounded in concrete performance measures.

If treated as a management framework, Integrated Reporting both embeds and reports on key performance indicators to all stakeholders. Its elegance and simplicity as a performance system provides business leaders a robust platform to build great companies, fortify corporate reputations and deliver value through sustainable brands.



HAMPTON BRIDWELL
CEO and Managing Partner

Hampton is CEO and managing partner of Brandlogic and oversees client engagements in all practice areas, with a special focus on brand and identity strategy and consultation. He has over 15 years of experience in corporate brand identity, marketing communications and interactive media.

Because of his background in Web, marketing, communications and brand strategy, he has the unique ability to guide the implementation of strategy across media, a skill clients value to help maximize their potential. His particular emphasis is on advising companies how to leverage their identity program to achieve business objectives. Hampton has provided the strategic direction for the development and implementation of identity systems, brand management, and corporate communications for clients such as Avon, BD, Chevron, IBM, John Deere, Lincoln Financial, Merck, Texaco, The Hartford, Travelers, UPMC, Wyeth and Xerox.

A recognized thought leader on environmental, social and governance (ESG) factors and their effect on brand and reputation, Hampton is continuously exploring ways that corporations can utilize Integrated Reporting principles to build business value.

brandlogic

©2011 Brandlogic Corporation

Brandlogic is a registered trademark of Brandlogic Corporation. Other company, product, or service names shown in the case study or client samples may be trademarks, registered trademarks or service marks of others. Inclusion of examples does not imply recommendations or endorsements by client companies.

IDEAS THAT DRIVE PERFORMANCE

15 River Road, Suite 310
Wilton, CT 06897
877 565 2255 x 319
brandlogic.com