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Face the Future with Confidence

Board Perspectives:
Risk Oversight

Overseeing the Organization's Branding

A strong brand has a significant impact when it comes to driving shareholder value. What role should the board play in overseeing management's stewardship of the company's brand and/or brand portfolio?

Branding is the process by which a company establishes a significant and differentiated presence in the marketplace that attracts and retains loyal, long-term customers. A brand is a non-generic name, logo, messaging and/or packaging used by a company to identify, source and differentiate its product and service offerings from competitors' offerings. A strong, well-known brand is revealing, as it embodies the experience the market expects or perceives with respect to the company itself and its offerings.

Key Considerations

The market capitalization of just about any company operating as a going concern almost always exceeds the net book value associated with financial and physical assets on its balance sheet and the value of disclosed off-balance sheet contractual commitments.

This gap represents the intrinsic value that the market attributes to the company's prospects for future cash flow and intangible enterprise assets. These intangibles can have a significant effect on the value of the company. They include the company's customer and supplier relationships, talent pool, and other enterprise assets such as its reputation, winning strategies, sustainable business models, differentiating brands, innovative processes and proprietary systems.

Speaking specifically of brands, they can impact shareholder value in a variety of ways. For example, they can increase cash flow by preserving pricing power, driving higher volumes and reducing marketing costs through sustained customer loyalty and retention. Particularly strong brands not only deliver greater returns to shareholders versus the general market, they do so with less risk through stabilizing cash flow. In this way, strong quality brands can be an important component of the intangible assets accounting for the intrinsic market value discussed above. As the estimated future cash flows associated with the brand increase, based on expected future financial performance, a corresponding increase in shareholder value can be expected. This positive correlation means that unanticipated changes in brand quality can also erode shareholder value.[1]

Given the stakes, there is clearly a role for the board in positioning the brand to drive and protect shareholder value. Following are some thoughts on the board's governance and oversight regarding the company's branding and brand management based on our experience and a roundtable we have facilitated involving active directors and marketing executives:

Understand the brand and brand portfolio – While the board's governance role is rarely involved in the intricacies of managing or communicating the brand, directors should understand the company's positioning and related brand promise. This baseline understanding is the price of entry into any conversation about a company's branding. For example, what expectations does the brand inspire in current and prospective customers that differentiate the company's offerings from competitors' offerings? And does the company deliver on that brand promise in every customer interaction? How does management know this vital alignment exists?

Companies that consistently keep their brand promise in every aspect of the business – from customer interactions to employee relations to supplier interactions to quality processes to research and development to advertising – are powerful competitors because the culture they inculcate across the organization to drive and support what they do is not easy to replicate. When consumers are confident that a brand will meet their expectations, they become loyalists and advocates. This drives repeat business and compelling word-of-mouth that, in turn, increases market awareness of the brand and creates new customers. This cycle sustains itself.

Ask management where and when they would value input – What kind of interaction does management seek from the board with respect to brand management? How would management like to involve the board in the branding process? Executives and directors should have a mutual objective: engage in dialogue in the right way and at the right time and focus on the appropriate issues at the appropriate level.

Think strategically about branding and brand management – Brand discussions are tied inextricably to business discussions about strategy and markets. Therefore, the board's focus should be directed to strategic oversight rather than to the tactical, day-to-day nuances of managing the brand or brand portfolio. A strategic context makes sense, as brands help achieve the strategy. For example, one company conducts a two-day strategy retreat where directors and senior management focus on important questions about what the future looks like, the pain points that present opportunities, what the company is doing to face the future confidently and the adjustments necessary to the strategy. Debates and dialogue about strategic direction incorporate discussions about the company's markets, key differentiators and brands.

Measure the contribution of branding to shareholder value – The level of investment in the company's brands, the return on those investments and the process for monitoring each brand's performance are worthwhile topics on the board's agenda. How is the company measuring the return on investment (ROI)? How is management sustaining and increasing the contribution of branding to shareholder value? ROI can be difficult to measure because customer loyalty, which helps to promote stable cash flow over time, is an integral component. That said, the math underlying the cost of winning new customers versus that of retaining

[1] "Brands Matter: An Empirical Demonstration of the Creation of Shareholder Value Through Branding," Thomas J. Madden, Frank Fehle and Susan Fournier, *Journal of the Academy of Marketing Science*, March 2006, available at http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.521.8577&rep=rep1&type=pdf.

existing customers is not difficult to understand. Effective brand management not only drives shareholder value, but also can reduce the volatility associated with future growth expectations and economic downturns.

Be involved in discussions about new branding opportunities and building value from acquired brands – Does the company build or acquire brands, or both, to diversify the brand portfolio? How does management decide whether to build or buy a brand? The conversation can evolve into a mergers and acquisitions (M&A)-type dialogue that, if the transaction is significant, should involve the board and take on all characteristics of board M&A oversight spanning the pre-acquisition, acquisition and post-acquisition integration phases of the process.

If the company is acquisitive, the board should understand the possible strategic contribution of acquired brands when approving the company's strategic plan and how proposed acquisitions are evaluated in the context of that plan and the related strategic fit. To that end, the board may want to engage management on the M&A pipeline to become familiar with potential targets. If brand acquisitions are an integral part of the strategy, the board needs to ensure that the management team includes individuals with the requisite skills to execute transactions and integrate acquired brands into the company's portfolio.

Oversee the management of how risks impact branding – There are many risks to consider with respect to brand image. Risk management is an important skill from a branding standpoint because severe unmitigated risks can erode the value of a brand if there are persistent headlines about a high-profile crisis. Examples of such risks include data breaches, warranty recalls, pervasive quality failures, corruption violations, litigation, egregious financial restatements, violations of laws and regulations, and reputation-damaging practices disclosed upstream in the supply chain. The risk of these and other damaging events warrant attention because they can have lasting effects on the brand if they occur.

In addition, it is important to secure, monitor and enforce the related intellectual property (IP) rights underlying the brand. For example, when there is a re-branding with a new "look and feel" to the brand, a thorough search related to the proposed brand name, word marks, logos, tag lines and other IP should be conducted to ensure the new brand is unique and does not infringe on another company's rights. The initial years of using a new brand are a period in which opposition can be raised. Accordingly, an effective search process is a prudent investment to undertake before the company spends heavily on the roll out and advertising campaigns. Once a branding architecture is established and protected by trademark, there is a need to monitor and protect the brand from other users to avoid dilution.

Periodically evaluate the board's experience and diversity – Directors with a background in marketing and/or experience with brand-driven organizations are more likely to be comfortable asking questions and raising issues about what management is doing with respect to branding. Other directors may struggle when it comes to taking the dialogue to the appropriate level. Even though industry experience helps, this is an area where perspectives outside the industry may contribute even more value. As in other areas, the more diverse the board members' experience and backgrounds, the healthier the debate leading to a more robust branding strategy.

Don't bite off too much – How much change in the brand portfolio can a company swallow? How far does management reach with respect to a new brand (e.g., is it a reflection of the organization's identity)? Is there organizational buy-in to an aspirational brand? The board can help temper the propensity of an aggressive management team to take on too much in terms of developing and/or acquiring new additions to the brand portfolio. Management must have the capacity to manage new and acquired brands to deliver to ROI expectations. The board can help management frame a realistic portfolio diversification strategy. Then, it's up to management to execute.

Questions for Boards

Following are some suggested questions that boards of directors should consider:

- Does the board think strategically about branding and brand management? How is the contribution of branding to shareholder value measured?
- From the standpoint of managing a diversified brand portfolio, does the board engage management in build versus buy decisions? Is the board involved with the acquisition of brands on a timely basis?
- Does the board provide sufficient oversight of the risks that could impair the company's brand image significantly?

How Protiviti Can Help

Protiviti assists boards and executive management with assessing the enterprise's risks, either across the entity or at various operating units, and the capabilities for managing those risks. We help organizations identify and prioritize the risks that can impair reputation and erode brand image. Our objective is to help companies enhance the robustness of their business strategy through better anticipation and management of risk in executing the strategy.

Protiviti partners with the National Association of Corporate Directors (NACD) to publish articles of interest to boardroom executives related to effective or emerging practices on the many aspects of risk oversight. As of January 2013, NACD has been publishing online contributed articles from Protiviti, with the content featured on www.nacdonline.org/Magazine/author.cfm?ItemNumber=9721. Twice per year, the six most recent issues of *Board Perspectives: Risk Oversight* are consolidated into a printed booklet that is co-branded with NACD. Protiviti also posts these articles at protiviti.com.

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