



The board room: the 21st Century chamber of horrors?

By **Sandra Macleod**, Chief Executive, Echo Research

On both sides of the Atlantic, the twin concerns of Governance and Reputation Risk have been pushed unceremoniously and uncomfortably on to Boardroom tables. Tougher legislation and directives from the Sarbanes-Oxley act in the US and, in the UK, the Financial Services Authority, along with the Higgs' Review on boardroom reforms are focusing Directors' minds.

While here – as elsewhere – there is “deep water” between the US and UK approaches, there is unity on the goal of protecting the interests of all stakeholders in companies, including investors, the prime responsibility of a company's board of directors.

We have entered into the Age of Perceived Risk. Nothing is now “risk-free” – least of all, being a company director. A feature of this new age is the loss of trust and credibility in institutions – in both the corporate and public sectors. Then add consumer angst and social power, the might of the litigant, and legislative censure, and you have a cauldron of risks and challenges that organisations ignore at their peril.

With Boards traditionally accused of gathering like-minded, non-confrontalists with little opportunity for real scrutiny, companies can expect a tougher time retaining, let alone recruiting, company directors who become increasingly liable for collective mismanagement, poor decision making and exposure to risk. As in law, ignorance is simply not an acceptable excuse. The once closed if not decidedly opaque “club” of yes-men (and it is still mostly men) must transform itself into a forum for informed debate and not unoccasional challenge. Beyond tarnished personal reputations, the penalties for poor risk management and oversight can range from unlimited fines to imprisonment.

Research comes into its own in the age of perceived risk

It is of no surprise, therefore, that conscientious and/or beleaguered company directors are turning to research for a sense of the health of their world, the measure of the responsibilities they must assume, and the personal or professional risks to which they themselves may be exposed.

Objective and independent research is increasingly being

echo



Sandra Macleod

used to test internal and external “stakeholder” perceptions and expectations, and monitor the “weak signals” or “murmurs” that may yet either support them or destroy them in the years, or maybe months, ahead.

As an organisation's key audiences become more wary, Directors must be prepared to deal honestly and effectively with the complex web of risk controversies. They need to develop their skills in negotiating with activists whose perspectives and priorities may be radically different from their own.

Welcome, then, to the world of risk assessment, the world of measurement and the world of assessing and balancing the

expectations of a variety of increasingly important stakeholders. Reputational risk research has finally entered the Boardroom.

Company directors need to know:

- What is changing? And at what speed?
- What is expected of us?
- Is our employees' behaviour a reflection of our values?
- How does this affect where we want to go?

Directors need to keep themselves up-to-date – objectively and quickly. Seeing things through the prism of those who have most at stake may not be the best path to encourage full disclosure. So independence is key. So, too, is timeliness. By the time they see the results of an extensive interview-based study taking several months or more, the world may have moved on. There may be new issues and active stakeholder groups to consider, ones that were not even on the horizon when the study was started. The challenge is to identify the new issues and their champions as they emerge, before they have gathered momentum and become hard to influence. And the directors need to “own” this flow of intelligence – and not let others with perhaps vested interests control its content or direction.

We find that it takes a combination of technology, insight, imagination, and intensive analysis by consultants with many years of content evaluation experience to capture and illustrate the threats to and, importantly opportunities for,



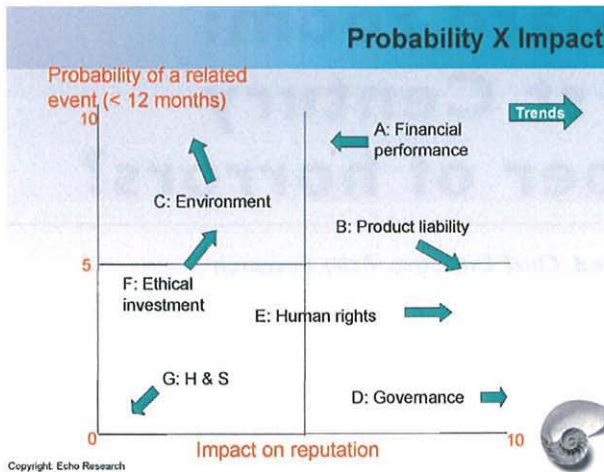
reputational value.

There is still a long way to go in developing these methods, but already we are seeing results that bring some of the emerging issues out of the shadows into the visual range of Directors and help to focus minds in the Boardroom. This kind of research has not only proven useful in anticipatory and preventative management, but also in encouraging innovation and positive change.

Priorities for management attention and action

By integrating wider measures of corporate health and success beyond the single and unreliable measure of earnings alone, Boardroom debates and decision-making can focus on priorities for action to help ensure a solid tomorrow.

In today's business environment, those company directors



intelligence about perception and image, to help clients understand the structure of their reputation and optimise their strategic decisions. With 165 analysts, Echo has offices in London, Brussels, Paris, Stockholm and New York. Echo's clients include a quarter of the FTSE and Fortune 100, government departments and NGOs.

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who are armed with reputational risk research in place of brandy and cigars will be able to contribute to their company's long term prosperity while protecting their own exposure to loss of personal reputation or litigation.

Background

Echo Research Group, international specialists in reputation analysis and communications research, provides

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Call Sandra Macleod on +44 (0)1483 413 600 or email SandraM@echoResearch.com



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