

# Strategy and Risk: New Relationships among Governance, Brand and Leadership

Corporate Responsibility and Global Business Conference: Implications for Corporate and Marketing Strategy

London Business School

July 13, 2006

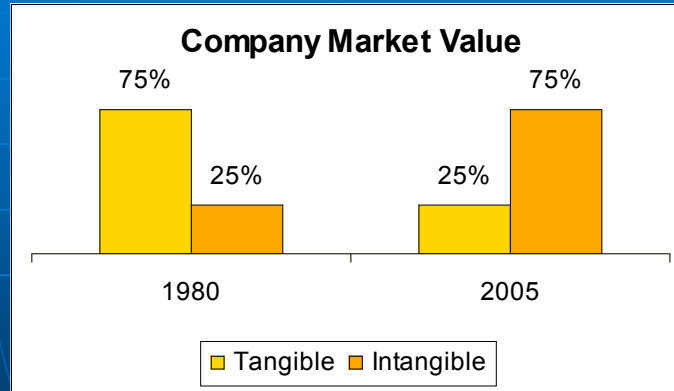
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A competitive product or a competitive strategy is not the same thing as a competitive organization.

# THE RISE OF INTANGIBLE ASSETS



Kenton, Christopher, "Value Beyond the Balance Sheet,"  
Businessweek, February 1, 2005

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# Financial Statement Reporting Brand Value

## Microsoft

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>■ Goodwill reported</li> <li>■ Brand not reported<sup>1</sup></li> </ul> | <ul style="list-style-type: none"> <li>■ Current Market Cap: \$260B<sup>2</sup></li> <li>■ Current Brand Value: \$60B<sup>3</sup></li> </ul> |
|---|--|

## PepsiCo

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>■ Goodwill reported</li> <li>■ Brand reported<sup>4</sup></li> </ul> | <ul style="list-style-type: none"> <li>■ Current Market Cap: \$95B<sup>5</sup></li> <li>■ Current Brand Value: \$12B<sup>3,6</sup></li> </ul> |
|---|---|

1. Microsoft 2005 Annual Report

2. Yahoo Finance: <http://finance.yahoo.com/q?s=MSFT&d=t>

3. Berner, Robert & David Kiley, Global Brands, Business Week, July 2005

4. PepsiCo 2004 Annual Report

5. Yahoo Finance: <http://finance.yahoo.com/q?s=PEP&d=t>

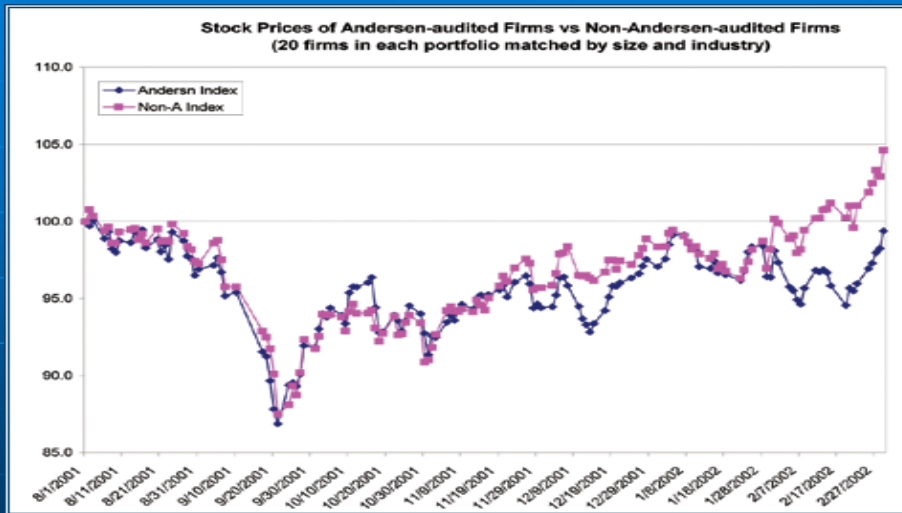
6. Pepsi Brand

Adapted from "Brand and the Non-market," Rachel Kolenda, Steve Lindheim and George DeVries, MBA Program, USF, 2005.

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# Why Companies Left <sup>(1)</sup>

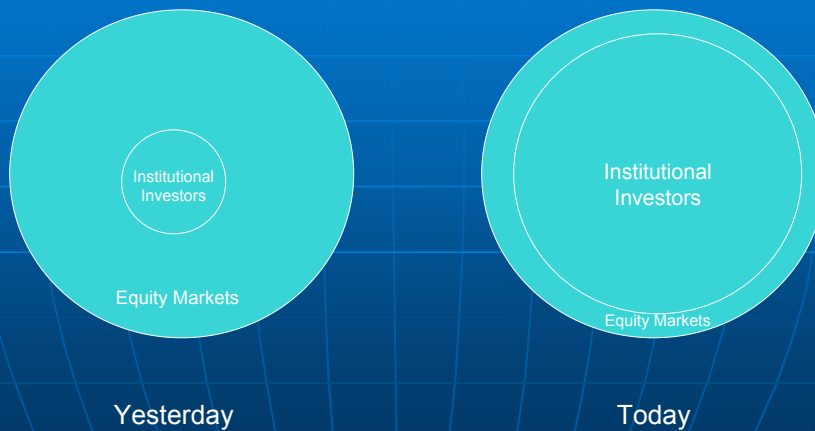


(1) Thies, Clifford S. "The Demise of Arthur Anderson" [http://www.gold-eagle.com/editorials\\_02/thies041502.html](http://www.gold-eagle.com/editorials_02/thies041502.html)

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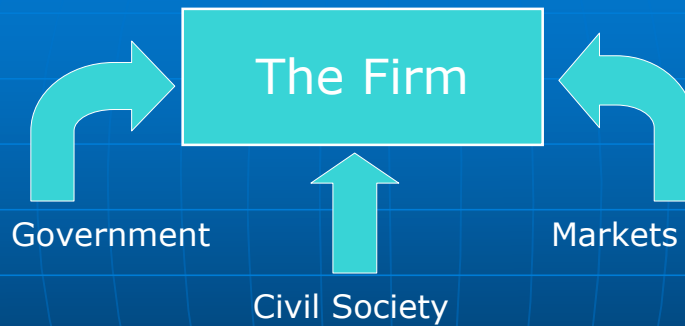
# Capital Markets



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## Corporate Discipline



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## Cost of Security Breaches

- Nearly 20% of victims terminated their relationships with the company immediately
- 40% were considering terminating
- 5% hired lawyers to seek legal recourse

Ponemon Institute Survey of 51,000 victims, sponsored by White & Case LLS 2005

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## Highlights of Program and Current Study Methodology

- Phase 1: In-depth interviews with prominent CEOs, thought leaders (principal investigator)
- Phase 2: 300 interviews by experienced brand valuation firm (CoreBrand)
- Corporate Branding Index®, Unique database of 1200 companies across 47 industries, 12,000 interviews per year
- Proprietary algorithm measuring brand equity, incorporating economic and financial performance data as well as image surveys
- 15 years of data

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## Highlights of Program and Current Study Methodology (cont.)

- Brand strength reflects perceptions of reputation, management and investment potential (Corporate Branding Index®)
- 40 sample firms, 3 sectors: Finance (21), Retail (8) and Healthcare (19)
- Subject of interest: relationships among true believers/strong endorsers
- Phases 3-4: Further interviews and survey samples with new protocols, data analyses

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## Industry/Sector Analyses: True Believers/Strong Endorsers

### Brand Strength (Image)

Aggregate	35.2
Finance	26.2
Retail	70.3
Healthcare	26.9

## Industry/Sector Analyses: True Believers/Strong Endorsers

### Protecting customer information

Aggregate	50.9
Finance	54.9
Retail	52.2
Healthcare	42.5

## Industry/Sector Analyses: True Believers/Strong Endorsers

Align privacy and IT with business objectives

Aggregate	40.1
Finance	43.0
Retail	32.8
Healthcare	38.7

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## Relationship Between Brand Strength and Customer Privacy

True Believers/Strong Endorser relationships between protection of customer information and each of the image components of brand strength (aggregate sample):

Overall reputation	.72
Quality of management	.80
Investment potential	.71

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## True Believers/Strong Endorsers Relationships

Perception that the firm does a good job in balancing the needs of various stakeholders correlates with each image component of brand strength:

Overall reputation	.50
Quality of management	.50
Investment potential	.63

## Profit

$$\text{ROE} = \frac{\text{Net Income}}{\text{Assets}} \times \text{Leverage}$$



## Self Perpetuating Cycle of Innovation and Investment



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## Governance and Leadership: Data Governance Illustration

- Adopt new security technologies, quicker
- Defend assumption of corporate liability
- Advocate tax policy for security investment
- Accommodate competing interests
- Advance international cooperation

(and always, walk the talk, as in security policy versus social engineering)

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History punishes those who come late.

Russian Proverb

Thank you!

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