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# THE IMPLEMENTATION OF CORPORATE GOVERNANCE INTO BRAND MANAGEMENT

Theoretical article

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M31, G34

**Abstract**

*Integrating corporate governance into brand management is fundamental for protecting shareholders, considering the increasing importance of brands in firms' performance and the dissociation between shareholders and managers in most large and medium firms. This paper designs a corporate governance system model on a brand level, which takes into account preventive, simultaneous and retroactive governance. Moreover, we highlight the importance of transition management when changes to brand management come into question. Finally, we propose six corporate governance instruments for brand management: performance indicators, the brand marketing plan, periodic reports, the brand council, brand audit, and transition management.*

**Introduction**

Brands have become a key asset for a firm's profitability in an economy increasingly driven by intangible assets (Keller & Kotler, 2008). For instance, the share of intangible assets in S&P 500 increased from 17 percent in 1975 to around 80 percent nowadays (Standard & Poor's, 2011). Thus, the special emphasis managers give to brand equity development is understandable.

Return of investment is a function where brand equity has a clear role. The success of marketing strategies and tactics employed for a brand becomes an essential landmark for appraising both the current and future performance of a firm, and for determining the business and industry attractiveness.

For large and medium firms, the increasing dissociation between shareholders and managers and the requirements of stock listing raise the issue of special rules and conditions. These rules and conditions guarantee shareholders that managers act fairly and solely in owners' interest. This issue is reflected in the concept of corporate governance as a set of roles, relations and internal rules of a firm, that constrain managers to act in good faith for the prosperity of shareholders and other stakeholders categories.

The scientific approach of corporate governance has shown a clear intensification since the economic crisis emerged in 2007 (Tuan, 2014a). Moreover, corporate governance has started to get attention from more economy research fields such as management, corporate finance, accountancy, business ethics and corporate social responsibility. They show that science and management have a considerable interest to achieve progress in an insufficiently mature topic.

Empirical evidence offered by the economic crisis clearly shows how intensively companies' need efficient corporate governance systems. This is especially true where the high number of shareholders, the business model complexity and the company's dimension increase the gap between shareholders and managers in terms of informational asymmetry. Corporate governance systems need to go beyond the big picture and to develop specific mechanisms for all functional areas, proportionally to the entailed risk and informational asymmetry.

The current paper develops a model that integrates corporate governance into brand management, acknowledging the brand's importance for the overall performance and the complex brand mechanisms that a manager can use in his own interest.

**Theoretical background**

Brands are considered bridges between past and future (Kapferer, 2012, p. 13), by making future performances foreseeable based on the previous interactions between the brand and consumers. Using this feature to identify corporate governance challenges for brand management regulation implies the need for a chronological model focused on brand equity transformation under time. Thus, we consider Kapferer's (2012, pp. 13-14) distinction between brand assets, brand strength and brand power.

Brand assets are psychological drivers of brand influence on consumers and the market. Scientific literature provides several models for this approach, like Aaker's five assets or Young & Rubicam Brand Asset Valuator. For a thorough review of these models, please see Munteanu & Florea (2012). Brand strength entails the resulting market performance on brand assets, being expressed by indicators such as market share, penetration rate or loyalty rate (Kapferer, 2012, p. 14). Brand value represents the brand's capacity to obtain profit. Net present value of estimated profits results after the deduction of marketing expenditures.

The causal chain comprising of brand assets, strength and value is not an implicit one. The same brand assets can lead to a different strength and further, to a different value. Thus, high awareness and good brand esteem can still lead to a poor market share. Also a high market share does not implicitly lead to a high value, especially when marketing costs are too high.

Despite these cases, every brand asset has an acknowledged capacity to increase brand strength, while brand strength also positively influences brand value. Consequently, these three concepts can be accepted as ways of expressing brand equity, but also as states of aggregation for brand equity. As means of expressing brand equity, brand assets, brand strength and brand value represent different temporal moments that illustrate how brand equity is developed over time. Brand assets illustrate the past, as their formation implies persistent marketing activity and interactions between the brand and consumers. Brand strength represents the present, because it is influenced by the psychological measures that form its assets, but also by competition. Brand value is a financial measure that speaks about the brand's future (see Figure 1).

As states of aggregation for brand equity, brand assets, strength and value describe the current brand status-quo. As a consequence, they need to be managed in a favorable equilibrium, based on mutual potentiation. Any disproportionate or impaired growth leads to brand equity imbalance, with negative effects on brand performance and the firm's activity.

As we previously showed, brand management has to track brand equity on three levels that arouse reciprocal potentiation. For instance, good reputation and high awareness can make consumers more likely to try and adopt the brand, which leads to a higher market share. Moreover, the feeling of trust given by brand reputation reduces the perceived risk and psychological costs of purchase, which leads to an increase of the perceived value (Keller & Kotler, 2012, p. 10). Consumers will be ready to accept a premium price for the brand, thus increasing its value. The increased market share will enhance word-of-mouth, and thus, brand awareness is likely to increase even more.

The unfulfillment of this virtuous circle can be caused by diverse operational and competitive issues independent of brand management. These issues are the result of deliberate actions taken by brand managers, who prioritize fulfilling their objectives. As a result they favor obtaining subsequent bonuses, in the detriment of a balanced brand development in a continuity vision.

By continuity vision, we understand a well-balanced distribution of marketing efforts between obtaining revenue now and creating prerequisites for obtaining future revenue. In terms of brand equity, this means that brand managers must understand that their activity has two types of benefits: revenue and brand value. Actually, these two benefits are the main evaluation criteria for brand manager's performance.

We will further present some cases when a manager's deliberate action harms brand equity. All these cases are the expression of some perverse incentives (Kresowik, 2013; Eckermann & Coelli, 2013) that, despite trying to reward productive brand management, come to promote temporary and unhealthy development. This eventually decreases brand equity or even determines negative equity.

Probably the most common case is the increase of current revenue streams at the expense of brand value. This often comes in the context of a high pressure from top management on revenue margins, leading to short term revenue prevalence. Actually, this prevalence is an emergent feature of contemporary economy under the action of economic instability and innovation speed. These encourage brand managers to use favorable brand assets for a short-term revenue boost. Such a reaction leads to a decrease of vital production costs, which determines a reduction of the value offered to customers and a hindered value proposition. The appeal to such a damaging solution is potentially reasoned by managerial incompetence, unrealistically established profitability goals, or perverse incentives.

The opposite case is equally damaging, despite not being equally encountered. Sometimes top management excessively postpones obtaining revenue in order to create more favorable conditions for future revenue. This situation appears when shareholders establish corporate governance rules that allow the management to renounce to current profitability for brand assets improvement. In some cases, such as the introduction of a new brand or brand extension, the management wittingly accepts some losses by approving high marketing costs. In other cases, such a decision drives an uneconomic use of resources, considering the decreasing marginal returns of marketing expenditures, or even unacceptable and insuperable losses which eventually lead to bankruptcy. Thereby, the prerequisites of future revenue become pointless when they jeopardize the firm's chances to survive. For instance, a restaurant could repay consumer loyalty with exotic trips. This would be an attractive incentive for loyalty, market share and future revenue, but the trips' cost would surely be way too burdensome to avoid going bankrupt.

The last case that we present is related to a market share increase at the expense of extremely important brand assets. Two decisions fit to this case: the relinquishment of prestige prices to seize the available market and the acceptance of undesirable consumer segments. Prestige prices are a psychological driver of unique and exclusive associations, and an exceptional quality. Increasing market share by harming the salience of these assets will lead to a long-term revenue drop. A good example concerning the second decision is impairing the sense of belonging to a consumer community by accepting mixed types of consumers. For instance, when a luxury restaurant doesn't select its customers anymore, accepting middle class customers as well. Also making the brand undesirable can further hinder salience. For instance, this happened to Harley Davison, that in the late 80's had come had become "the bad boy" motorcycle.

**The implementation model**

The cases presented above must be understood as risks of shareholders' interests being violated by poor brand management. These are enough reasons to justify the need for special attention from corporate governance.

Scientific literature provides three factors which account for the existing differences between corporate governance systems in various countries: legislation on companies (Bris & Cabolis, 2005), the established codes of best practices in different economies, and the stock listing conditions (Goergen & Renneboog, 2008). These differences don't allow standard solutions concerning the corporate governance actions on brand management or on any other area. As a consequence, this leaves open the chance to indicate directions for corporate governance in problematic situations.

Because poor brand management fundamentally affects shareholders, we will adopt in our model development a bonding hypothesis (Goergen &

Renneboog, 2008) that emphasizes the value that any managerial action has for shareholders. In the absence of any conclusive indication, we will consider that all shareholders are equally affected, and thus, equally interested on brand management performance.

A first remark from previous cases is the need for a complex system of brand management performance indicators, comprising measures of all three states of aggregation. Furthermore, it is essential to positively evaluate only the situations when indicators for all three states of aggregation reach the standard. Thus, the first instrument of corporate governance that we propose is the system of performance indicators. It is a typical instrument, commonly used in any company. This instrument is typically needed for a viable corporate governance system applied on brand management. Our proposition brings new insights regarding how these performance indicators are established and act as a benchmark for future results.

In a strategic planning succession, performance indicators are established by partitioning the objectives from corporate level on strategic business units and types of functional activities. These become objectives for the brand marketing plan, drawn up and submitted for top management approval by the brand manager. This approval means that the top management endorses all its activities, contributing to the prevention of brand equity undermining. In this context, the marketing plan must be considered as an instrument of corporate governance. These two instruments constitute the instrumental kit of preventive or anticipatory governance, as their creation precedes the period of corporate governance control.

For an efficient insurance of shareholders' interests, we must add instruments of simultaneous, retroactive or ascertaining corporate governance (see Figure 2).

Corporate governance in brand management must early identify any action likely to impair brand equity by irrationally exploiting a component with the purpose of increasing another. Employing this type of governance means admitting the almost complete irreversibility of some malicious marketing actions, because a simple post-factum ascertainment is useless. Periodic reports are the widely used instruments for this type of governance. Besides tracking marketing program accomplishments, they must also contain an evaluation regarding the brand's state. Empirical evidence has shown that these reports are maliciously altered sometimes, cancelling their efficiency just when trouble is about to come. Obviously, brand managers are interested to manipulate these reports only if their brand is going through a bad state for which they would be held responsible. This drawback illustrates informational asymmetry (Pompian, 2006) between managers and shareholders, but also between brand managers and top management.

We propose the employment of a brand council as a new instrument, in order to mitigate this drawback. A brand council is a quasi-informal structure, comprised of brand managers and one or more shareholders' representatives. For the continental European type of companies that include a supervisory board or a board of directors hierarchically above the executive managers, the shareholders' representatives should be members of this board with role of rapporteur. By actively participating in marketing activities for every owned brand, shareholders reduce the informational asymmetry in relation to brand management, and thus lessen the agency cost of brand management.

Retroactive corporate governance can be done using a brand audit. Despite being properly developed in the scientific literature (Keller, 2008; Pratoomsuwan, 2012), this instrument is still absent in many companies. Although it essentially has an ascertaining nature, brand audit provides the chance for many prompt interventions, by providing a useful snapshot covering a manifold of marketing actions. The integration of brand audit into the corporate governance system for brand management can be made by following Abrahams' (2008) methodology, who adds the concept of risk to brand analysis. Using a chronological model of brand equity (Munteanu&Florea, 2011) facilitates this integration.

The three levels of corporate governance – preventive, simultaneous, and retroactive – must be completed by the brand's transition governance, which regulates the decisional power of the brand manager. Every level is encumbered by additional risks, as any motivational and coercive leverages are lacking, which reduces the efficiency of all previous instruments.

## Conclusion

The current paper should be a turning point in the research regarding the integration of corporate governance into brand management. Probably, the most important achievement is the solid arguments for how meaningful the association between the two research fields is. This aspect is a solid argument for the study of corporate governance, branding, and strategic management links. Future research can focus on formalizing the theoretical relationship between corporate governance and brand management. Another possible research direction can focus on the integration of corporate governance into other functional areas, like the managerial use of marketing research completed in good faith.

For corporate governance, our study is the proof that different functional areas require special approaches from corporate governance. The attention received by every area represents its assigned importance for the overall wealth.

For brand management, our model questions the action and interest unity inside corporations between brands and brand managers, brands and consumers, or brand managers and shareholders. Although such a questioning is absent in brand management, we believe that researchers have the duty to question any apparently settled issue.

Strategic management can probably benefit the most as this topic progresses. For management, our proposed model can have a major impact, as the lack of an efficient governance system has proven a major cause for the recent economic crisis.

Without pretending to be the first joint approach of brand management and corporate governance, this paper is the first that goes beyond a simple empirical observation of the link between the two, previously done by Tuan (2014b) and Kambara (2012), by trying to provide managerial solutions for more efficient corporate governance. Moreover, the theoretical substantiation of our approach is done by describing for the first time some cases of malicious actions taken by brand managers.

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*Appendices*

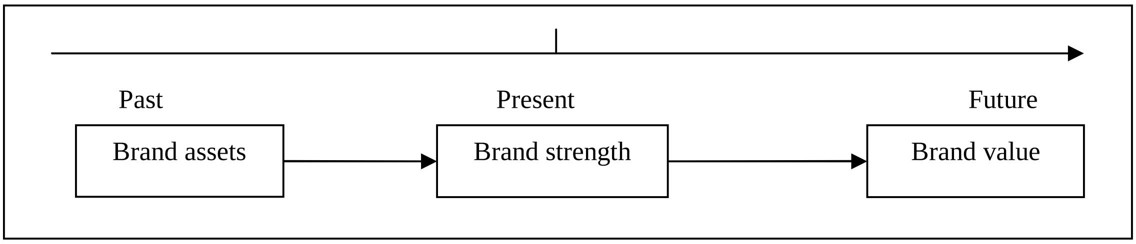


**Figure 1. The chronological model of brand equity**

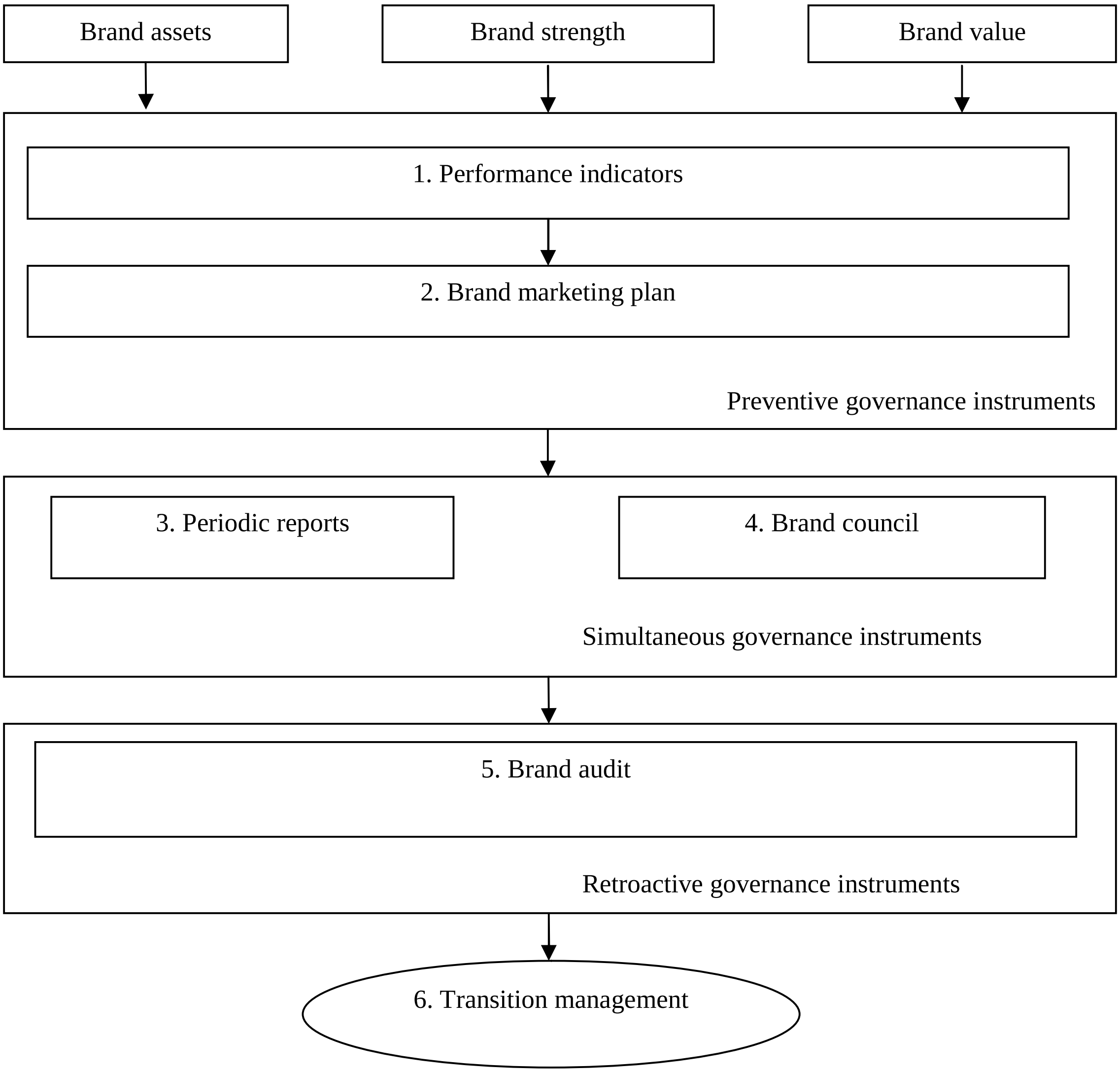


**Figure 2. The implementation model of corporate governance into brand management**