

Governing Energy

Full Faith and Credit

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A child hands over a one-dollar bill and receives a small amount of candy at the local convenience store. Likewise, foreign currency trading volumes exceeded \$126 billion in February of this year.ⁱ Fundamentally, the processes are the same.

An individual with fiat currency exchanges it for goods and services. A piece of paper (one-dollar bill) or a few electrons (online trading) are accepted by both buyers and sellers even though neither has any intrinsic value.

Today, governments stand behind their monetary vehicles and the strength of their currency is a function of the perception of their long standing reputation. To be sure, the strength of a country's economy is important, but their currency is only backed by their *full faith and credit* ...

In our current global economic model, only sovereign entities can issue currency. However, there are a number of financial vehicles issued and traded everyday by private organizations that also have no intrinsic value—stocks, bonds, and the list goes on.

The seemingly endless global fiscal and monetary crisis continues along with a loss of faith in societal institutions. As the reputations of specific countries, organizations, and even individual executives have plummeted, so have their fiat currencies.

Empirical studies have shown that organizations with strong governance and transparency are held in higher regard than others in their peer group.ⁱⁱ A typical metric is the price of the firm's common stock as traded on public exchanges.

Quarterly earnings aside, the long term sustained value creation is a function of the firm's reputation. Even if the goal is to position the organization for acquisition, this intangible metric is paramount. Where this is disregarded by the acquirer, value is dissipated and often quickly. This is the primary reason most acquisitions are dilutive—and often outright failures.

Book value represents the value of a firm's tangible assets. Any additional value is extrinsic.

How do you stakeholders perceive your organization's *Full Faith and Credit*?

ⁱ <http://online.wsj.com/article/BT-CO-20120307-704620.html>

ⁱⁱ Shemwell, Scott M. (2011, October) Asset/Equipment Integrity Governance: Operations–Enterprise Alignment—A Case for Board Oversight. Author.