Managing Risks to reputation – From theory to practice

Jean-Paul Louisot, Jenny Rayner

Risks to reputation are not anymore part of the emerging risks; in fact, they have been on the risk management radar for over a decade now. However, the last year of this first decade of the 21st century seems to have seen a burst of incidents all over the economic spectrum that tainted the reputation of even well established companies. BP suffered their third blow of the decade with the oil spill in the Gulf of Mexico, Toyota product recall was a warning to the automobile giant that blog can be damaging, not to speak of the SEC suit against Goldman Sachs. If these may be PR disasters to some extent, it would be very casual to not investigate all those event in depths as the root causes are probably not in faulty communication, but rather in faulty operations, faulty governance, etc.

Warren Buffett (Chairman and CEO, Berkshire Hathaway) warned long ago: “It takes 20 years to build a reputation and five minutes to ruin it. If you think about that you’ll do things differently.” The teachings to draw from this quote are manifold. Firstly, it demonstrates that risk is a social construct [Douglas, Wildawsky, 1982]. Secondly, it shows that people tend to perceive it only as a threat and totally miss the dual aspect of risk. Thirdly, it implies that people should react and learn from past errors and improve their behaviour.

Therefore, it is not surprising that managing reputational risk has now become a major preoccupation for businesses in the private, public and not-for-profit sectors.

In the aftermath of the Enron, WorldCom, the credit crunch and other corporate catastrophes, more stringent corporate governance and regulatory compliance requirements, strengthened regulator powers, the growing influence of pressure groups and rising stakeholder expectations have sharpened the focus on business reputation. Added to this, the advent of real-time global telecommunications and 24/7 media scrutiny can result in an apparently minor incident in a far-flung part of a company’s operations hitting the international headlines and provoking a major crisis.

Enjoying a good reputation yields many rewards: not least the continuing trust and confidence of customers, investors, suppliers, regulators, employees and other stakeholders, the ability to differentiate the business and create competitive advantage. A bad reputation, conversely, can result in a loss of customers, unmotivated employees, shareholder dissatisfaction and ultimately the demise of the business itself.

The challenge of managing reputation and its associated risks is well illustrated by the Warren Buffett quote at the start of this chapter. Hard-earned reputations can be surprisingly fragile and can be tarnished or irrevocably damaged as a result of a moment’s lapse of judgement or an inadvertent remark. That is why it is so vital to manage risks to reputation as rigorously as more tangible and quantifiable risks to the business.

What is reputation?

The question is worth asking as there is still some confusion between brand and reputation. Here we reserve the word reputation to cover all aspects of the stakeholders’ perception of an organization whereas the name “brand” applies more to a specific product or service. Therefore, a company’s reputation may incorporate several brands and be influenced by them. It is therefore of interest to the “reputation scholar” to study brand building and maintenance. A recent study² shed an interesting light on a five stage process stressing for brands attributes similar to those described here for reputation:

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Differentiation: how to stand out from competition?
Positioning: Why do consumers and employees need this new product in their lives?
Personality: How is the message communicated to employees and consumers? Are they involved in a dialogue through a consultation process,
Vision: How do we convince consumers and employees of the high-minded values imbedded in the brand?
Added value: What do the consumers and the employees get that they could not with another product (competition/substitution),

According to the Compact Oxford English Dictionary, reputation is “the beliefs or opinions that are generally held about someone or something”. Depending on the field studied, reputation may have different meanings [Gaultier-Gaillard, Louisot, 2006] but always constitutes an intangible asset. The main question should then be to determine what makes a good reputation. The theory is simple: an organisation enjoys a good reputation when it consistently meets or exceeds the expectations of its stakeholders. A bad reputation results when the organisation’s words or deeds fall short of stakeholder expectations. This concept is expressed in the reputation equation in Figure 1 below.

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\text{Reputation = experience - expectations}
\]

Exhibit 1 – The Reputation Equation

Stakeholder expectations are shaped by their beliefs about what a business is and what it does. These beliefs are influenced by what the business says about itself and by what others say about it. Stakeholders then measure their actual experience of how the business acts against their expectations. A good reputation is achieved when there is congruence between a business’s purpose, its goals and values (what it professes to be), its conduct and actions (what it does it practice) and the experience and expectations of its stakeholders.

Maintaining a good reputation therefore requires continuing identification and management of emerging gaps between experience and expectations and between claims and reality using a risk-oriented approach.

1 Why is reputation valuable?

A business’s reputation is valuable on two counts: first, its intrinsic current value as an intangible asset and secondly, its ability to create – or destroy – future value.

Reputation will not appear as a separate item on a business’s balance sheet but generally represents a significant proportion of the difference between market value and book value (minus any quantifiable intangibles such as trademarks and licences). As total intangibles now often account for some 75% or more of market value, reputation is, for many businesses, their single greatest asset.

A good reputation not only underpins a business’s continuing licence to operate, but provides it with a licence to expand and generate new partnerships and income streams e.g. by helping to secure preferred partner status on future projects or by enabling premium pricing for products and services. Reputation is often not only a business’s single greatest current asset but also a potential source of competitive advantage and a key determinant of future business success (see exhibit 1 below).

Reputation is also a critical business differentiator. As Alan Greenspan, former US Federal Reserve Chairman, has observed: “In today’s world, where ideas are increasingly displacing the physical in the production of economic value, competition for reputation becomes a significant driving force propelling our economy forward. Manufactured goods often can be evaluated before the completion of a transaction. Service

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providers, on the other hand, usually can offer only their reputations.” This is particularly true of service industries where the end product is invisible. Insurers, for example, are in the business of promising to pay out on a claim at an unspecified date in the future. The policyholder cannot assess the insurer’s willingness and ability to fulfil the promise at the time of purchase and may have insufficient grasp of the fine detail of a complex policy. Their purchase decision can therefore only be made based on the business’s reputation and the level of trust and confidence it engenders. If the business’s reputation is eroded, and stakeholder trust and confidence diminish as a result, the insurer may find that policyholders rush to surrender their policies.

The queues of customers desperate to withdraw savings outside UK bank Northern Rock’s branches in August 2007, jammed telephone lines and a website crash are a graphic example of how quickly stakeholder trust can evaporate and a corporate reputation can crumble amidst rumours of financial difficulties. British Government assurances did little to restore public confidence and this first run on a British bank since Victorian times led ultimately to the temporary nationalisation of Northern Rock and attacks on the reputations of the Bank of England and the Financial Services Authority, the company’s regulator.

Perhaps the greatest benefit of a ‘good’ reputation is its capacity to provide a reserve of goodwill (often called ‘reputational capital’ or ‘reputational equity’) that can help the business withstand future shocks and crises. Such reputational capital, which underpins stakeholder trust and confidence, can act as a buffer at times of crisis and persuade stakeholders to give a business the benefit of the doubt and a second chance. In the case of Northern Rock, the shock was too severe, should have been predicted and had too immediate an effect on customers for the bank to weather the storm.

Reputation may impact:

- Stockholders’ decisions to hold onto their shares
- Customers’ desire to buy products and services
- Suppliers’ desire to establish partnerships
- Competitors’ eagerness to enter the market
- Media coverage
- Pressure groups/NGO activity
- Control and regulatory authority attitudes
- Cost of capital
- Recruitment of high potential individuals
- Motivation of current workforce
- Inclination of stakeholders to grant the benefit of the doubt when a crisis emerges.

Exhibit 2 Reputation impact on stakeholders behaviour

1.1 The stakeholder perspective: who counts?

As the key to a good reputation is meeting stakeholder expectations, it is vital to establish who your most significant stakeholders are, what expectations they have of you and how they currently perceive you. Only then can you pinpoint any gaps and start to correct them. You might start by listing and then prioritising your business’s stakeholders – both internal (employees) and external (shareholders, investors, suppliers, customers, regulators, analysts, insurers, regulators, government etc). The relative importance of stakeholders will vary between sectors. For example, in heavily regulated sectors such as financial services the regulator is likely to be a key stakeholder. It also is vital to consider a sufficiently broad range of stakeholders to ensure that no major interest group is neglected, as the sole omission may prove to be the source of an unidentified killer risk. Their expectations depend on the sum of their perceptions and their representations?? Do you mean beliefs?). As reputational risk is a social construct, their expectations on reputational risk are also a social construct.
Once you have identified the main characteristics of the context where your stakeholders are, your prime focus should be on key players: those critical stakeholders with whom it is vital to maintain an active two-way dialogue so you can continuously track what they are thinking and saying about your business and what they expect of you, both now and in the future. Only in this way can a business truly identify not only its vulnerabilities but also opportunities to create competitive advantage.

1.2 Reputational risk: Risk or impact? Threat or opportunity?

There is no such thing as reputational risk – only risks to reputation. The term ‘reputational risk’ is a convenient catch-all for all those risks, from whichever source, that can impact reputation. The source could be legal non-compliance, a data security lapse, an unexpected profit warning or unethical behaviour in the boardroom.

This broad interpretation of reputational risk has a growing following compared with the school of thought that classifies reputational risk as a discrete class of risk in itself that should be isolated and managed. It requires a business to assess all risks for potential reputational impact and ensures that risks to reputation are fully integrated into the core business risk management framework, are reported alongside other business risks and receive attention from the right person at the right level.

Reputational risks are not simply parcelled up and handed to the public relations department for action, although PR can play an important supporting role.

When discussing reputational risk, many organisations consider only the downside threats that could damage corporate reputation. However, uncertainty can also have positive outcomes and can present business opportunities which, if exploited, can enhance reputation, create competitive advantage and add value for a business. Climate change is a potential business threat but many firms have spotted and exploited the flip-side opportunity to create a competitive edge by developing green technologies and promoting themselves as environmental leaders in their sector.

Risk to reputation risk can be defined as:

Any action, event or situation that could adversely or beneficially impact an organisation’s reputation

1.3 Key sources of risk to reputation

The most crucial step in managing reputational risk is the initial identification of those factors that could impact reputation, either positively or negatively. But there remains the question of finding a starting point. You may wish to consider the key drivers of reputation as defined by several well-
respected reputation surveys around the world as they are likely to be the most fertile sources of reputational risk. These are distilled into seven drivers of reputation and sources of reputational risk in Exhibit 4 below.

Exhibit 4 Reputation drivers and source of risk

A useful question to tease out risks to reputation is: what newspaper headline would you least – or most - like to see about your business? And what event or situation could trigger it?

With increasingly complex supply chains and partnership arrangements and a wide range of customers in different sectors and territories, today’s businesses need to consider all risks within the extended enterprise. Risks to reputation cannot be outsourced and should be borne and managed actively by the business itself. If a supplier’s sub-contractor is found to be using child labour or a toll manufacturer slips a cheap toxic ingredient into a supposedly ‘green’ product formulation the reputation of the company marketing the product will be tarnished, as companies including Nike and Mattel have learned to their cost.

A good starting point is to consider each of the seven drivers of reputation in the light of the stakeholder group(s) which have an interest in it. This can be mapped on a reputation risk driver/stakeholder matrix (illustrated by Exhibit 5 below) to produce a ‘heat map’ highlighting potential reputational hot spots which warrant further attention.

<table>
<thead>
<tr>
<th>Employees</th>
<th>Financial Performance &amp; long-term investment value</th>
<th>Corporate Governance &amp; leadership</th>
<th>Corporate Social responsibility</th>
<th>Workplace</th>
<th>Delivering customer promise</th>
<th>Legal &amp; Regulatory Compliance</th>
<th>Communication &amp; crisis management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Financial Performance &amp; long-term investment value</td>
<td>Corporate Governance &amp; leadership</td>
<td>Corporate Social responsibility</td>
<td>Workplace</td>
<td>Delivering customer promise</td>
<td>Legal &amp; Regulatory Compliance</td>
<td>Communication &amp; crisis management</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Financial Performance &amp; long-term investment value</td>
<td>Corporate Governance &amp; leadership</td>
<td>Corporate Social responsibility</td>
<td>Workplace</td>
<td>Delivering customer promise</td>
<td>Legal &amp; Regulatory Compliance</td>
<td>Communication &amp; crisis management</td>
</tr>
<tr>
<td>Community</td>
<td>Financial Performance &amp; long-term investment value</td>
<td>Corporate Governance &amp; leadership</td>
<td>Corporate Social responsibility</td>
<td>Workplace</td>
<td>Delivering customer promise</td>
<td>Legal &amp; Regulatory Compliance</td>
<td>Communication &amp; crisis management</td>
</tr>
<tr>
<td>Investors</td>
<td>Financial Performance &amp; long-term investment value</td>
<td>Corporate Governance &amp; leadership</td>
<td>Corporate Social responsibility</td>
<td>Workplace</td>
<td>Delivering customer promise</td>
<td>Legal &amp; Regulatory Compliance</td>
<td>Communication &amp; crisis management</td>
</tr>
<tr>
<td>Supervisory bodies</td>
<td>Financial Performance &amp; long-term investment value</td>
<td>Corporate Governance &amp; leadership</td>
<td>Corporate Social responsibility</td>
<td>Workplace</td>
<td>Delivering customer promise</td>
<td>Legal &amp; Regulatory Compliance</td>
<td>Communication &amp; crisis management</td>
</tr>
<tr>
<td>Pressure Groups/NGOs</td>
<td>Financial Performance &amp; long-term investment value</td>
<td>Corporate Governance &amp; leadership</td>
<td>Corporate Social responsibility</td>
<td>Workplace</td>
<td>Delivering customer promise</td>
<td>Legal &amp; Regulatory Compliance</td>
<td>Communication &amp; crisis management</td>
</tr>
</tbody>
</table>

Exhibit 5 - Stakeholders/reputation drivers

Each of the seven drivers of reputation must be examined in more detail, so as to understand better the interactions between them and to identify potential dissonances (See article on a cindynic approach).

4 These include: Fortune magazine’s annual Most Admired Companies survey and the Reputation Institute’s Global Reputation Pulse study on the world’s most reputable companies. French cosmetics company L’Oréal was ranked 16th in the Global Reputation Pulse survey and 44th in Fortune’s Most Admired Companies survey. Note: the FT reference has been deleted as this annual survey is no longer done.


Implementing risk management for risks to reputation

As the cindynic framework indicates and the case studies illustrate, risk management for risks to reputation is based on a few simple principles and the trust of others is at the heart of any strategy. However, if the strategy seems relatively easy to develop, risk management for reputation is above all an art of execution and therefore some key elements to ensure success, or at least avoid abysmal failure, can be summarized here.

2.1 Evaluating and prioritising reputational risks

“While reputation is ‘intangible’, damage to an institution’s reputation (and the resulting loss of consumer trust and confidence) can have very tangible consequences – a stock price decline, a run on the bank, a ratings downgrade, an evaporation of available credit, regulatory investigations, shareholder litigation etc.”

What makes risks to reputation particularly difficult to evaluate is the random nature of a strike. Often, an issue deemed minor by a business can cause severe reputational damage, whereas an apparently major issue can pass without comment. Geography can also play a part. A minor event at a distant manufacturing site in a developing country may attract little or no media or stakeholder interest, whereas that same event in the business’s heartland can provoke a reputational storm.

An assessment of reputational impact also needs to take into account the resilience of corporate reputation. This will depend on the amount of ‘reputational capital’ built with stakeholders and the nature and extent of the issue or risk. Was this a predictable and preventable incident, such as anti-competitive activity, bribery condoned by senior management or an accident resulting from blatant disregard for human safety? If so, stakeholders are unlikely to be forgiving. Or was it an unforeseeable occurrence which could not have been avoided, such as 9/11 or natural disaster where stakeholders will be sympathetic?

Even after such catastrophic events stakeholders expect businesses to learn and adapt. So, post 9/11 and Hurricane Katrina, investors, regulators and customers now require businesses to have risk management systems and business continuity plans in place to counter the effect of such risks.

Another challenge in assessing impacts on reputation is that the initial impact of a risk crystallising may be relatively small, perhaps a fine resulting from a minor breach or regulations. However, this may chip away insidiously at stakeholder trust. A series of minor bad news stories can have a cumulative effect whereby a ‘tipping point’ is reached, after which stakeholders suddenly lose confidence, the business’s share price plummets and current and all past misdemeanours are raked over in the ensuing media frenzy making it very difficult to recover.

Oil and gas company BP enjoyed a formidable reputation with investors and other stakeholders under the leadership of its much-admired former CEO Lord John Browne. Its hard-won reputation allowed it to withstand a number of crises in the early 2000s. However, the death of 15 workers and injury of 500 others when overfilled storage tanks exploded at BP’s Texas City refinery in the US in 2005 resulted in a massive loss of confidence in the company, a top-management shake-out and a new strategic approach. 2010 saw the departure of the new CEO, Tony Hayward and another massive fall in share price, following an explosion at BP’s Deepwater Horizon rig which killed eleven people, seriously injured another 17 and led to the biggest offshore spill in history when 5m gallons of oil poured into the Gulf of Mexico causing extensive environmental pollution. It remains to be seen whether, under new leadership, BP can avoid charges of ‘gross negligence’ and share the blame – and potentially more than $30bn of damages – with its major contractors on the well,

Sophie Gaultier Gaillard, Jean-Paul Louisot, Jenny Rayner Managing Reputational Risk – A cindynic approach,

Alex Hindson, Jean-Paul Louisot, Managing Reputational Risk – Case Studies

Halliburton and Transocean. Whatever the outcome, BP will face a major challenge in building its reputation as a safe operator and a safe investment with shareholders, regulators and the general public; actually, some analyst even question the long term survival of BP that might be taken over.

Understanding precisely how stakeholders perceive your business at any point in time can help you judge whether you are approaching your reputational tipping point, where just one more bad news story could push you over the brink, and to evaluate reputational impact and respond accordingly.

It may be possible to place a monetary value on reputational risk e.g. via loss of future contracts/income; cost of loss of licence to operate; impact on Net Present Value (NPV); impact on share price; impact on brand value. However, these cannot be applied to all reputational risks. Many businesses therefore use a qualitative approach to initially assess reputational impact (see exhibit 6 below which uses a four level scale), alongside financial and other relevant impact criteria. Both the short-term and longer-term impacts of a risk on the business’s reputation should be considered, including the effect on stakeholder behaviour and hence on the future value of the business.

<table>
<thead>
<tr>
<th>Low</th>
<th>Moderate</th>
<th>High</th>
<th>Very High</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Local complaint/recognition</td>
<td>• Local media coverage</td>
<td>• National media coverage</td>
<td>• International media coverage</td>
</tr>
<tr>
<td>• Minimal change in stakeholders’ confidence</td>
<td>• Moderate change in stakeholder confidence</td>
<td>• Significant change in stakeholder confidence</td>
<td>• Dramatic change in stakeholder confidence</td>
</tr>
<tr>
<td>• Impact lasting less than one month</td>
<td>• Impact lasting between one and three months</td>
<td>• Impact lasting more than three months</td>
<td>• Impact lasting more than 12 months/irrecoverable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Attracts regulators’ attention /comment</td>
<td>• Pubic censure / accolade by regulators</td>
</tr>
</tbody>
</table>

Exhibit 6 Assessing impact on reputation

2.2 Developing risk responses

The appropriate response to a risk impacting reputation will depend on its source (safety, project management, acquisition, IT security, and supply chain labour practices), whether it is a threat or an opportunity, its expected impact, the exposure relative to the business’s risk appetite, whether the risk is treatable and the cost of treatment. The right response may be a zero tolerance accident regime, recruitment of a professional project manager, more rigorous due diligence covering ethical standards and commercial practices, enhanced security standards or independent third party audits of suppliers and sub-contractors. Suppliers and contractors themselves are now often required to abide by a business’s code of conduct and core standards as part of their contractual relationship so they do not bring it into disrepute.

Risk responses should be designed to bridge gaps between reality and perception, between experience and expectations. They may therefore also include improving communications to certain stakeholder groups or helping to shape stakeholder expectations so they are more closely aligned with what the business can realistically deliver.

However good a business’s risk management systems, there will always be an unforeseen crisis or risk that cannot be mitigated. Having an ‘off the shelf’ generic crisis plan which is proven, well rehearsed and can be quickly adapted and invoked to suit specific circumstances is an essential contingency measure to minimise reputational damage. The nature of the risk event needs to be carefully considered when mounting a response; a huge damage-limitation exercise in the case of a self-inflicted wound such as loss of data due to poor internal security will be ineffective.

2.3 Monitoring and reporting

Once risks to reputation have been identified and responses designed and implemented, the risk should be regularly monitored by management to ensure they are having the desired effect. The
trick with risks to reputation is to build in early warning indicators that will provide advance warning of an impending crisis while there is still time to take corrective action. Systematic review of complaint trends may point to a product performance weakness which can be dealt with long before disgruntled customers resort to litigation. Data on safety near misses, if collected and analysed with the right mindset, may provide vital insights into an impending fatal accident.

In so many reputational disasters the early signs were missed, sidelined or ignored. If spotted early enough and dealt with promptly by involving relevant specialist personnel (legal department, safety advisers or public relations) at an early stage, a crisis can be averted or even turned to reputational advantage.

Risk information needs to reach the right people (both internally and externally) at the right time if it is to have the desired effect. Timely and accurate reporting of reputational risks is an important, and often neglected, aspect of the reputation risk management process.

2.4 Roles and responsibilities

Who should be the custodian of a business’s reputation? Ultimately the CEO supported by the board of directors, but everyone working for an organisation bears some responsibility for safeguarding and enhancing the business’s reputation. This includes suppliers, contractors and other partners.

All need to be made aware of the value of the business’s reputation – and of the risks facing it - so each can play their part as reputational ambassadors.

The CEO and Board should set an appropriate tone through a corporate vision, values and clearly articulated risk appetite which inform decision making and prescribe behaviours throughout the business and its supply chain. If awareness of reputational and other risks can be raised sufficiently the warning signs are more likely to be spotted and corrective action taken before a crisis strikes.

External non-executive and independent directors can play a particularly crucial role by using their broad experience to constructively challenge the business’s risk profile. Have the right risks been identified? Have key stakeholders been consulted? Is anything missing? Has reputational impact been correctly assessed or is the business deluding itself?

Management’s role is to continuously scan their area of operation for threats and opportunities that could impact business reputation; record and assess them; design, put in place and operate appropriate responses; monitor their effectiveness and hence the changing status of risks; and report to senior management and the board on risks to inform their decision-making.

Risk management personnel can ensure that the risk management system is functioning well and that the data within it is updated regularly so timely and accurate reports can be generated to inform decision making.

An internal audit function can assist by providing independent assurance to the Board and management on the effectiveness of the risk management system, on whether risks to reputation are integrated into the overall system and on whether individual key risks to reputation are being managed appropriately within the risk appetite set by the Board.

Public relations and communication staff can also play a critical role by monitoring and evaluating stakeholder perceptions and expectations to inform the risk management process, particularly in the evaluation of reputational impact and design of appropriate responses to mitigate threats and leverage opportunities. PR can help to design stakeholder engagement processes that not only help the business to keep in tune with the changing stakeholder mood, but also provide the opportunity to shape stakeholder opinion and minimise any perception/expectation gaps. The PR department should be involved sufficiently early in the process to make a difference; summoning PR at the 11th hour when a crisis is about to erupt is not good risk management!
As suppliers and logistics personnel are often in the front line interacting daily with customers and communities, they too, if properly harnessed can become effective ambassadors for the business by working to enhance its reputation.

2.5 Overcoming the barriers to effective reputation risk management

So why, when risk to reputation is rated the number one risk to business today, do so many organisations struggle to manage it effectively? A full 62% of companies in the Economist Intelligence Unit Risk of Risks survey maintain that reputational risk is harder to manage than other type of risk.

There are several reasons for this:

- Low awareness of the true value of reputation as a key intangible asset and driver of business success and the need to safeguard and enhance it;
- Lack of awareness of potential sources of a reputational risks so they can be identified and managed actively;
- Lack of clarity on ownership and consequently regarding reputational risk as a category of risk in itself which is the preserve of the PR department. Defining reputational risks as anything that could impact reputation, either positively or negatively can help to ensure that risks affecting reputation are mainstreamed managed at source and attract attention at the right level.
- Underestimating the impact of risks to reputation by focusing exclusively on short-term financial impact. Thinking that if you can’t quantify the impact precisely it’s not worth managing. A guesstimate of reputational impact, involving the right people and based on sound management judgement can get you a long way.
- Having a defensive, downside focus on threats; neglecting the positive upsides of reputational risk and failing to capture and exploit opportunities to boost reputation.

2.6 Building resilience through sustainable reputation: the way forward

“You can't build a reputation on what you’re going to do”

Henry Ford

Reputations are ever-shifting and potentially transient; they need to be painstakingly built and carefully nurtured. Businesses must be constantly vigilant; not only thinking about reputation when things go wrong, but managing risks to reputation actively all the time. Reputation risk management is both an ‘inside out’ and an ‘outside in’ challenge.

The starting point is setting out your stall ‘inside out’ by defining a clear vision and values, backed up by policies and procedures which will guide behaviours and inform decision-making throughout the business and its supply chain. This will also enable your stakeholders to know what you stand for, what your goals are and how you plan to achieve them so they know what to expect.

The second part of the challenge is ‘outside in’: keeping in close touch with major stakeholders and systematically tracking their evolving perceptions and expectations so gaps are minimised, emerging trends are spotted early and opportunities to offer new products and services in new ways in new markets are exploited.

Stakeholder expectations of businesses and their reputations have never been so high; being authentic, being the real thing has never been so important. The concept is far from new, but the way it’s handled by businesses is quite new. The corporate responsibility (CR) and sustainable development (SD) agendas have clearly modified the traditional economic role of firms and added aims to their strategies. Nowadays businesses must integrate all their stakeholders, not only shareholders. In this way, they try to create competitive advantage and improve their reputation by

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10 Ibid.
the addition of an ethics element. Reputation must always be adapted to the context if it is to be resilient and sustainable. It is all the more crucial that perceived reputation is taken into account, for perception is reality in the minds of stakeholders. It is not enough to be sure of one’s actions but the organisation must also monitor carefully the image perceived by its stakeholders, even if it is subjective. This bias may be the source of many dissonances between the value assigned to reputation and the perceived value, which is the only « real » value at the end of the day.

3 Reputational Risk Management - A vital element of an ERM program

The International experts gathered in Davos in early 2009 for the World Economic Forum seem to have come with a new concept, if they are to be believed. “The Financial Crisis has demonstrated that risk management is not enough; it is imperative now to develop risk governance.” And John Drzik, the C.E.O. of le Oliver Wyman even adds: “For Risk Management to be efficient it must be approached in a strategic prospective, not a mere compliance exercise.” The need for such a stance clearly shows the damages caused by the rush to compliance, be it called Sarbanes Oxley, Coso 2 or by any other name. Any time brainstorming is replaced by box ticking there is a minefield ahead!

These high personalities, and no doubt many of them serves in several boards worldwide, and may be even risk and audit committees, have even produced the solution: “Risk governance is about asking the right questions to the right persons so that it can be assured that the risk taken are within the boundaries of the organisation’s risk appetite.” Sounds familiar, well the Davos delegates had to take the measure of the economic turmoil of the world to reinvent in 2009 the global and integrated management of risks that the professional have developed for over a decade and ERM (Enterprise-wide Risk Management); no doubt they will need another year at least to reinvent Business Intelligence Systems to provide the “reasonable assurance” that the information received, transformed and released to all parties are of the highest quality.

It is very important news as it is likely that non-executive board members will feel the need to gain the competencies to do a good job at monitoring risk management activities in their organisations all the more with the transposition of the European directive 3, 7 and 8 in national laws as it was done in France in 2008, the responsibility for managing risks really rests on the board and the executives. At their level the issue is long term sustainable growth and the key asset is reputation.

To be successful and sustainable, i.e., to achieve a sound level of resilience, any business needs to enjoy the trust and confidence of all its stakeholders and that can be achieved only when its actions are in harmony with its words. In practice, that requires integrating into the overall strategy the key elements of trust building: corporate governance, risk management, corporate social responsibility and reputation management. At a time when all practitioners, directors and officers have become aware of the need for a global corporate risk management strategy, there seems to be a mushrooming of new “silos” in risk management such as sustainable development risk management, procurement risk management, marketing risk management, etc.

Therefore, Reputation Risk Management may well prove to be the cornerstone to the desired integration provided executives and board members keep in mind that a Reputation must be built both “inside out” and “outside in.” Furthermore, a corporate reputation serves as a reservoir of goodwill to draw upon when challenges and difficulties arise. More than ever in this time of crisis, triggered by a justified drop of confidence in the financial sector, executives must strive to build an authentic business: “A defining feature of an authentic business is that its profound and positive purpose shines through every aspect of what it does, whether paying invoices (claims), parting with a member of staff, or presenting at a conference” (Crofts, 2005)

Ethical conduct is the core ingredient of trust, hence of reputation. As the financial industry has experienced since the summer of 2007, individual lapses are always possible, but they may uncover systematic risks. Therefore, we must stress how important it is for any organisation to
prepare for a disaster, should it strike. In a recently published book on corporate integrity the authors stress that: “As we found with hurricane Katrina, being unprepared can cause a disaster that is far greater than the damage caused by the underlying event. The ethical disaster risks facing organisations today are significant and the reputational damage caused can be far greater for those companies that find themselves unprepared...Although we can’t predict an ethical disaster, we can and must prepare for one.”

Implementing ISO 31000:2009 will help in managing risk to reputation as it insists on communication and consultation with all stakeholders as this circular rendering of the RM process illustrates well.

![Exhibit 7 the ERM Risk-Management Process](image)

The final word we borrow from Madeleine Albright, former Secretary of States of the U.S. While addressing the subject of risks of war, terrorism and deadly pandemics and reflecting on her work during the Clinton administration at a Marsh breakfast during the RIMS convention in Honolulu on April 25, 2006, she gave this essential piece of advice to risk management and business leaders: “Decisions are only as good as the information you have...Although the crisis for which you prepare may never happen, one will happen...Being prepared for a crisis is never a waste of time.”

**REFERENCES**

Fischoff & all, 78

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11 Lynn Brewer, Robert Chandler, O.C. Ferrell, Managing Risks for Corporate Integrity: How to survive an Ethical Misconduct Disaster, p.3
12 Source ERM Course © CARM_Institute 2010