A manufacturer’s sales representatives are accused of bribing foreign officials to gain business. A credit card breach at a retailer threatens consumers’ personal data. A corporate headquarters relocation is characterized in the media as a tax avoidance move. Each of these risk scenarios poses a reputation risk for the company involved. And in each case, the reputation risk is a byproduct of another business risk — ethics, security, tax. Understanding the interconnectivity of reputation risk is essential to staying ahead of this critical issue.

Henry Ristuccia, global leader, Governance, Risk and Compliance Services, Deloitte Touche Tohmatsu Limited (DTTL), discusses the growing threat of reputation risk and the steps leading companies are taking to address it.

The challenge

**Q:** Why is reputation risk a top strategic concern?

**A:** Reputation risk is evolving. It’s a strategic concern because it is connected to and magnified by other business risks. According to a recent DTTL survey, Reputation@Risk, the most prevalent drivers of reputation risk are risks related to ethics and integrity, physical and cyber security, and products and services. Third-party relationship risk is also rapidly emerging, as companies are increasingly being held accountable for the actions of vendors, brokers, and similar associates. So as those risks proliferate, reputation risk heightens as well.

Reputation risk keeps business leaders up at night because it’s a meta risk. It can originate and spread from inside and outside the organization, at an alarming speed. The executives interviewed in the global survey expressed the inherent challenges in this situation. For example, perceptions can vary from geography to geography, so an issue or event may not pose a threat in one locale, but may trigger a worldwide media frenzy in another with very real consequence to reputation.

Adding to the concern is that some of these risks are beyond the company’s direct control. Respondents to the survey were less confident about managing risks from third-party/extended enterprise issues, competitive attacks, and hazards or other catastrophes than about managing risks they can control internally, such as those related to regulatory compliance or employee misconduct.

The impact

**Q:** How is this concern over reputation risk being reflected in organizations?

**A:** Certainly the potential for damage from a negative reputation event is real and can take many forms, from loss of brand confidence to impact on revenue/earnings to closer scrutiny from regulators. But there is also opportunity to benefit from how a reputation event is handled, both to mitigate its immediate effect and to gain long-term insight to better respond to — or better yet, prevent — future events. For the survey participants, crisis management is a key area for investment.
True crises — catastrophic mega events or a series of escalating events that threaten an organization’s strategic objectives, reputation, or viability — are an ever-present danger. They test a company’s values, leadership, and character at a time when there is no room for error. Crisis management involves identifying and preparing for these risks so companies can hit the ground running, using tools and techniques such as crisis simulations, monitoring, risk sensing, and rapid response and communications teams.

Developing processes and investing in tools to monitor the landscape is also a way companies can get ahead of reputation risk. Another area of opportunity is scenario planning — more than one-third of the surveyed companies don’t do “what if” scenarios, which can be extremely helpful in addressing risk strategically.

**The strategy**

**Q:** What are some other ways companies are managing reputation risk?

**A:** Companies at the leading edge of managing reputational risk are finding ways to link strategy and innovation with their risk management programs and identify where the next disruption could arise. They’re using data analytics to gather and help interpret market intelligence to identify threats to their reputation. And they’re readying their leaders and the organization to respond and recover in the event of a crisis.

Monitoring and managing stakeholder expectations is an ongoing effort. Reputation risk occurs when performance does not match expectations, so you have to understand what stakeholders (customers, regulators, shareholders, employees) expect — and realize that those expectations tend to evolve over time. Companies are using external analysts and data sources to supplement their internal observations from, say, marketing and HR.

Learn more about understanding and mitigating reputation risk by contacting:

- Henry Ristuccia  
  hristuccia@deloitte.com
- Marc Duchevet  
  mduchevet@deloitte.fr
- Hervé Phaure  
  hphaure@deloitte.fr

For example, if a negative event occurs around a particular product, what is the risk that customers could boycott the product and turn to a competitor’s product instead (i.e., do customers have the capacity to act on a negative issue)? And second, how likely are they to take that action (i.e., are they sensitive enough to reputation issues to be willing to boycott or switch)? If the product has no real competitors or is seen as a necessity by customers, customers may have neither the capacity nor willingness to take action, in which case an image problem does not pose significant reputational risk.

Understanding the sensitivities of key stakeholders also helps guide crisis management. One of the questions that arises when dealing with a reputation-related issue is what kind of communication to deploy, in what media, with what objective, and with what frequency. If you know that a certain stakeholder is not that sensitive to the negative event, or that there is no potential contagion from one stakeholder to another or one product to another, you can conclude that there is no real value in spending a lot of money communicating to these people when a reputational issue occurs.

Reputation risk and other types of strategic risk that might significantly affect an organization’s business model are often addressed in agency rating analyses under the scope of “business risks.” Knowledge of credit methodologies as well as operational risk can be a key to developing an effective modeling approach.

---

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte’s more than 200,000 professionals are committed to becoming the standard of excellence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte network”) is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2014. For information, contact Deloitte Touche Tohmatsu Limited.