Risk sensing
A tool to address reputation risks

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Reputation risks are driven by a host of other business risks—particularly those in the areas of ethics and integrity; security; and products and services—with third-party relationships rapidly emerging as a critical risk area, according to the 2014 Reputation@Risk survey conducted by Forbes Insights on behalf of Deloitte Touche Tohmatsu Limited (DTTL).

The survey, which reflects the views of more than 300 executives from companies representing every major industry and geographic region, found that companies are investing to improve their capabilities for managing reputation risk. More than half (57 percent) of the companies surveyed plan to address reputation risk by investing in technology, such as analytical and brand monitoring tools, to help strengthen their risk-sensing capabilities. They also plan to invest in data, including traditional media/negative-mention monitoring, social media data, surveying, and other data sources.

Henry Ristuccia

Risk sensing provides executive-level decision-makers with real-time market awareness on issues that are likely to affect a company's reputation. *"Risk sensing is especially important because it can help the organization to identify emerging problems while there is still time to head them off,"* says Henry Ristuccia, a partner with Deloitte & Touche LLP. *"This is what a truly effective approach to managing reputation risk requires: constant vigilance—before, during and after a crisis."*

Integrating risk-sensing capabilities and technologies into a company's day-to-day business processes can provide decision-makers with the deep and timely insights they need to address potential problems before they turn into crises.

These capabilities may include:

Real time: Efficiently processing and synthesizing real-time intelligence, such as pattern detection and recognition, for real-time reporting

Text analytics: Using natural language processing, sentiment analysis, and computational linguistics to identify and extract subjective information from structured and unstructured data sources

Big data: Cost-effectively monitoring internal and external data

Forward-looking: Taking an outside-in view to supplement findings and assessing strategic, operational, and tactical business drivers in the future

Early warning and triggers: Increasing signal-to-noise ratio to detect weak and early warning signals and avoid surprises

Actionable insight: Operational insights that can be easily integrated and can have a direct positive effect on the business

Chuck Saia

"While risk sensing can help identify emerging problems, all of the capabilities need to be in place before a crisis hits—because the absolute worst time to develop a crisis management strategy is when your back is against the wall and you're running out of options," says Chuck Saia, Chief Risk, Reputation and Regulatory Affairs Officer for Deloitte LLP in the United States, who also serves as Reputation and Crisis Leader.

"At Deloitte, we have embedded risk-sensing technology in our governing structure so we can understand how brand-impacting events affect organizations like ours, allowing us to adjust our strategies," he adds.

Reputation@Risk Survey highlights

The top underlying drivers of reputation risk were found to be related to ethics and integrity (55 percent), such as fraud, bribery, and corruption; followed by security risks (45 percent), both physical and cyber; and product and service risks (43 percent). These three drivers are expected to remain the leading factors for at least the next three years. Third-party relationships are another rapidly emerging risk area, as companies are increasingly being held accountable for the actions of their suppliers and vendors.

The top three drivers of reputation risk today are the same as the top drivers identified by companies that experienced a major reputation risk event in the past, according to the survey. Furthermore, these same drivers are expected to remain at the top of the list for at least the next three years.

Other findings

- Reputation problems have the biggest impact on revenue and brand value. Respondents who had previously experienced a negative reputation event indicated that the biggest impact areas were revenue (41 percent) and loss of brand value (41 percent), followed by regulatory investigations (37 percent)
- Reputation risk is still a strategic business issue. 87 percent of the executives surveyed rate reputation risk as "more important" or "much more important," and 88 percent say they are explicitly focusing on reputation risk as a key business challenge. A reputation risk that is not properly managed can quickly escalate into a major strategic crisis
- Responsibility for reputation risk resides with the board and the senior executives. Companies participating in the survey indicated that responsibility for reputation risk resides at the highest levels of the organization, with the CEO (36 percent), Chief Risk Officer (21 percent), board of directors (14 percent), or CFO (11 percent)
- Customers are the most important stakeholders for managing reputation risk. Other key stakeholders include regulators, senior executives, employees, and investors
- Companies are least confident when it comes to risks that are beyond their direct control. Such risks include third-party ethics, competitive attacks, and hazards or other catastrophes. Companies are most confident about managing reputation risk drivers for which they have direct control, such as risks related to regulatory compliance, employee, and executive misconduct

These days, even issues that seem insignificant can become headline news and global reputations can be boosted or blasted with a few keystrokes. *"Leading organizations already treat reputation risk as a strategic issue—a trend that we expect will accelerate,"* says Mr. Ristuccia. *"The survey found, however, that many companies are underprepared to manage reputation risk. As reputation risk will likely be increasingly critical in the coming years, companies should continue to improve their capabilities in this area,"* he adds.

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* The findings in this report are based on a global survey of more than 300 respondents from the Americas (34 percent), Europe/Middle East/Africa (EMEA) (33 percent), and Asia Pacific (33 percent). Nearly all respondents were senior executives (126), board members (13), or specialized risk executives (169). The companies surveyed came from all five major industry sectors. For more information, visit www.deloitte.com/reputationrisksurvey.

Related Resources:

- Companies Underprepared to Manage Reputation Risk: Global Survey
- Using Social Media Governance to Protect Reputation
- Security Attacks: A Lead Driver of Reputation Risk
- Crisis Management: Preparing for the Next Big Event
- Creating Value from Risk: Owen Ryan, CEO, Deloitte Risk Advisory Services