Managing reputation risk

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Executive summary

What is your company's reputation worth?

According to a study by the World Economic Forum performed in 2012, on average more than 25 percent of a company's market value is directly attributable to its reputation.
And in a highly connected world were customers, operations, supply chains, and internal and external stakeholders are scattered across the planet – and where reputations can be globally attacked with just a few keystrokes – that number is likely to be even higher today. Due to this, a company's reputation should be managed like a priceless asset and protected as if it is a matter of life and death, because from business and career perspective, that's exactly what it is.

Here are examples of ways in which reputations can be tarnished

- Executives in financial services firms are forced to resign after their employees were caught manipulating markets or making reckless trades.
- Leading retailers take big reputation hits and sales plummet after losing large amounts of customers and credit card data to cyber attacks.

- Leading technology firms are blasted by the public and media for poor working conditions at their suppliers' factories.
- New websites have readers redirected to fake news, damaging their credibility – and the credibility of online news in general.

In many cases, problems such as these can be prevented or contained if the organization actively manages reputation risk. But how?

What is the reputation risk?

" We don't see reputation risk management as having a start date and end date"

(Vivek Karve, Chief Financial Officer, Marico)

What	• **Reputation risk is a top strategic business risk, being a key business challenge**. A reputation risk that is not properly managed can quickly escalate into a major strategic crisis.
Who	• **Responsibility for reputation risk resides with the highest levels of the organization – board and C-Suite.**
How	• **Reputation risk is driven by a wide range of other business that must all be actively managed.** Toping the list are risks related to ethics and integrity, such as fraud, bribery, and corruption. Next come security risks, including both physical and cyber breaches – followed closely by product and service risks (product safety or service issue), such as those related to safety, health, and the environment. Third-party relationships are another rapidly emerging area, with companies increasingly being held accountable for the actions of their suppliers and vendors. • **Customers are most important stakeholders for managing reputation risk**. Other key stakeholders includes regulators, senior executives, employees and investors. But in a world increasingly influenced by social media and instant global communications, managing customer expectations and perceptions is critical to success.

What is the reputation risk? – continues

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(Vivek Karve, Chief Financial Officer, Marico)

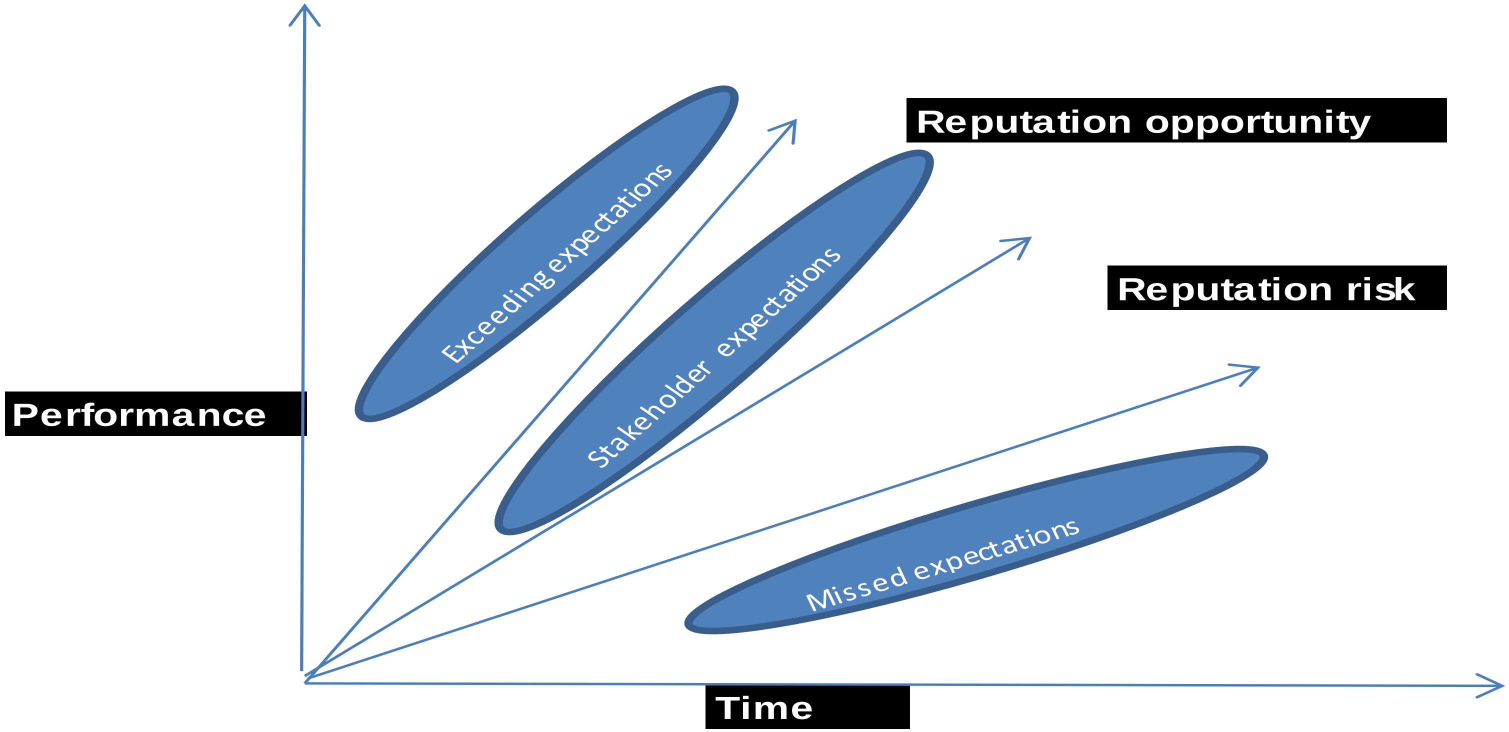
How	• **Companies are least confident when is comes to risks that are beyond their direct control.** Such risks include third-party ethics, competitive attacks, and hazard or other catastrophes. Companies are most confident about managing reputation risk drivers for which they have direct control, such as risks related to regulatory compliance, employees and executive misconduct. • **Reputation problems have the biggest impact on revenue and brand value.** The biggest impacted areas for the companies who had previously experienced with negative reputation event were revenue and loss of brand value, followed by the regulatory investigations. • **Companies should start investing to improve their capabilities for managing reputation risk :** in technology, such as analytical and brand monitoring tools, in developing or improving their crisis management and scenario planning areas. • **Companies should be fully aware of their exposure to reputation risk.**

Reputation risk is a top strategic business risk
Expectation versus performance

Reputation risk is created when performance does not match expectations. Ultimately, how a company manages the expectations and performance related to its reputation determines whether value is created or destroyed.

Reputation risk or opportunity?

Here are key elements that shape reputation risk.



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Setting expectations.
Stakeholder expectations are established based on:

1.Company history
- Backward – looking
- Company track record and performance

2. Company strategy
- Forward-looking
- Established by the company
- Communicated to the public

Measuring performance.
Perceived performance in driven by:

1. **Actual performance:** Reputation is mostly determined by what a company does, not what it says.
2. **Communication:** Effective communication with stakeholders and the media can help shape opinions and reputation.

Reputation impact.
An event's effect on reputation can be positive or negative:

1. **Reputation opportunity:** the company exceeds expectations and its reputation is enhanced.
2. **Reputation risk:** The company falls short of expectations and his reputation is damaged.

Reputation risk is a top strategic business risk

Ethics and Integrity, Security, Product and Services

A company's reputation is affected by its business decisions and performance across a wide range of areas.

Financial performance – shareholders, investors, lenders consider financial performance when assessing firm's reputation

Quality – an organization's willingness to adhere to quality standards goes long way to enhancing its reputations. Product defects and recalls have an adverse impact.

Corporate social responsibility - Actively promoting sound environmental management and social responsibility programs helps create a reputation "safety net" that reduces risk.

Reputation risk

Security - Strong infrastructure to defend against physical and cybersecurity threats helps avoid security breaches that could damage a company's reputation.

Innovation – firms that have differentiate themselves from their competitors through innovative processes and unique products tend to have strong name recognition and high reputation value.

Ethics and Integrity – Firms with strong ethical policies are more trustworthy in the eyes of stakeholders.

Crisis response – Stakeholders keep a close eye on how a company responds to difficult situations. Any action during a crisis can ultimately affect the company's reputation.

Safety – Strong safety policies affirm that safety and risk management are the top strategic priorities for the company, building trust, and value creation.

Managing reputation risk

In order to manage reputational risk effectively, it is essential to systematically track evolving stakeholder expectations.

Here are three steps to consider:

Where to look?

Identify stakeholders and data sources for stakeholder information:

- consider both internal and external stakeholders – including regulators, employees, and customers
- tap into varied data sources for a more complete perspective
- use independent and objective data to track stakeholders perceptions
- look at all level of the organization
- look at your crisis management and business continuity management framework, process and teams so to immediately and effectively react in the event of a crisis.

What to analyse?

Identify factors that indicate changes in stakeholders expectations and potential reputation risk:

- identify elements of your strategy and operating environment that could affect reputation
- design an analytical framework around the identified elements and develop automated tracking
- implement reputation risk monitoring
- design key risk indicators to monitor potential reputation impact

How to move forward?

Use insights from identifying reputation risks to inform ongoing risk management decision:

- apply the analysis of key risk indicators to ongoing decision making
- take early action on evolving stakeholders expectations and unmet expectations to allow time for recalibration as needed
- develop an organizational culture where the strategy for managing reputation risk is constantly recalibrated in response to emerging information

Five lessons about crisis management

From an accident that disrupts a supply chain to a social media controversy, companies manage minor crisis all the time. It's part of doing business. But dealing with a major crisis is different. A single big event — or a combination of small events — can trigger a major crisis that threatens the very survival of the business. These critical situations expose an organization's readiness and responsiveness — testing its values, leadership, and character at a time when there is no room for error. Some things to consider in your approach to crisis management:

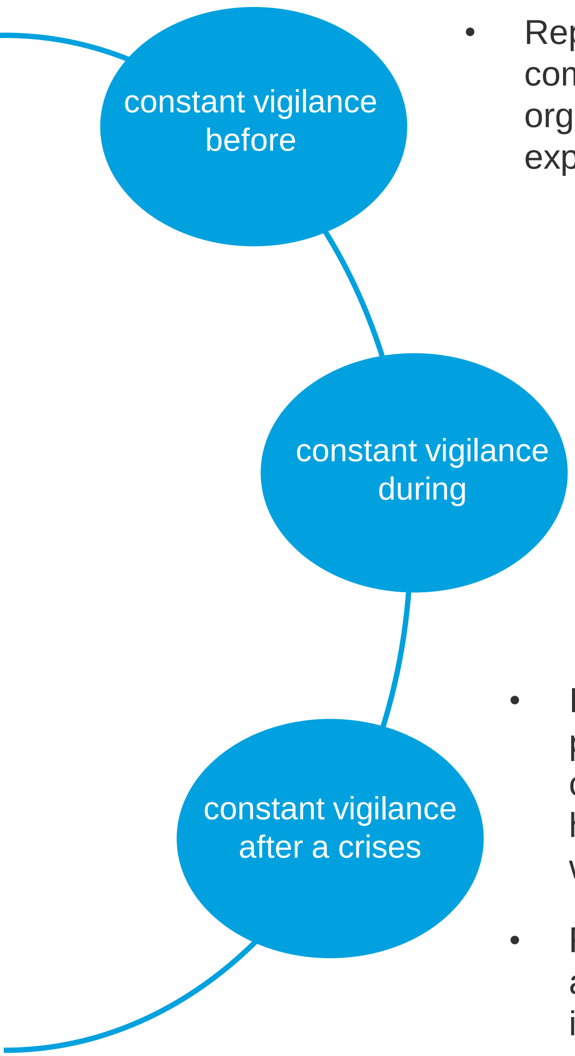
Don't wait until a crisis hits to get ready	**Every decision during a major crisis can affect stakeholder value**	**Response time should be in minutes not hours/days**	**You can emerge stronger**	**When a crisis seems like it's over, it's not.**
Monitoring, preparation, and rehearsal are the most effective ways to get ready for a crisis event. Organization that can plan and rehearse potential crisis scenario should be better positioned to respond effectively when a crisis actually hits.	Reputation risks destroy more value quickly than operational risk.	Teams on the ground need to take control, lead with flexibility, make decisions with less than perfect information, communicate well internally and externally and inspire confidence. This often requires outside-of-the-box thinking and innovation.	Almost every crisis creates opportunities for companies to rebound. However, those opportunities will surface only if you are looking for them.	The works goes on long after you breathe a sigh of relief. The way you capture and manage data, log decisions, manage finances, handle insurance claims and meet legal requirements on the road back to normality can determine how strongly you recover.

Risk sensing:
A solution for getting in front of reputation risk

Risk sensing provides executive-level decision makers with real-time market awareness on issues that are likely to affect a company's reputation. "We've embarked on a number of initiatives to allow us to better identify emerging risks that could impact our business. We also assess how key stakeholders perceive us in the marketplace," says Deloitte U.S.'s CRO, Chuck Saia. "We employ what we call risk sensing technology and have embedded it in our governing structure so we can understand how brand impacting events affect organizations like ours, allowing us to adjust our strategies."

Real time	Text analytics	Big data	Forward-looking	Early warning and triggers	Actionable insight.
Efficiently processing and synthesizing real time intelligence (e.g., pattern detection and recognition) for real time reporting.	Uses natural language processing, sentiment analysis, and computational linguistics to identify and extract subjective information from structured and unstructured data sources.	Cost-effectively monitoring internal and external "Big Data."	Taking an outside-in view to supplement findings and assessing strategic, operational, and tactical business drivers in the future.	Increasing signal-to-noise ratio to detect weak and early warning signals and avoid surprises.	Operational insights that can be easily integrated and can have direct positive effect on the business.

Moving forward



- Reputation risk will likely be increasingly critical in the years to come, which means companies should continue to improve their capabilities in this area. Leading organizations already treat reputation risk as a strategic issue — a trend that we expect will accelerate.
    - These days, even issues that seem insignificant can become headline news. And global reputations can be boosted or blasted with a few keystrokes. What's more, the growing reliance on third-party supply partners and vendors means that a company's reputation often hinges on actions far beyond its direct control. In this complex and rapidly changing business environment, what can a company do to protect its reputation and maximize the value of its brand?
    - Crisis management is a critical capability for handling major reputation problems — and an area that more and more companies are investing in. An effective crisis management approach helps you stay ahead of growing threats that have the potential to undermine your business.
- It begins with identifying and preparing for strategic risks and includes a broad portfolio of capabilities such as simulation, monitoring, risk sensing, response, and communications. However, 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.
- Protecting your company's reputation and brand is a major challenge — but it's also a manageable one. By factoring reputation risk into your business strategy and investing in the right capabilities, you can dramatically reduce your downside risk.

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