

The term “reputation risk” is heard more and more frequently and the increasing use of social media exacerbates the importance for any organization to have a deliberate stand on its reputation and ensure this is being managed. The below constitutes a description of the concept of reputation risk as well as some thoughts related to possible actions and safeguards that can be prudently taken.

First and foremost, reputational risk is not “one risk”, but rather a category of risks, which may impact your reputation. You do not wake up one morning and have a bad reputation – something happened prior to that to generate the bad reputation. The real risk emerges from “what happens”.

Furthermore, it is important to note, that the incidents invoking to reputational demise may not be of your own doing or influence, which is amongst the reasons the term gets the attention it gets at present.

As shown in this model, reputational risks may be of your own doing and hence within your own control.

| | | |
|---------------------------|---|---|
| Others | | |
| Yourself | | |
| Who What | Did something... and should not have | Did not do something ... and should have |

However, it may also be an outcome of actions made by

others, and hence outside your immediate control. Such 3rd party actions may be made to intentionally harm your brand and company – or they may be made without any consideration as to any impact it may have on your brand and company. The fact that you cannot control 3rd party actions does not mean risks cannot be mitigated.

Naturally, the company/organization itself is the prime driver of sources to reputational risk. Any diversion from the safe and prudent, well managed and honest leadership may invoke reputational risk. Much of the above is in this category.

Logically, behaving badly drives a poor reputation. The most impactful of these is being in breach of laws and defined regulations, especially if/when it is at the expense of the “little guy”, e.g. the shop floor worker. Health and safety violations create a bad reputation fast.

Unethical behaviour, e.g. exploitive child labour in Asia is also seen as bad behaviour and will have a negative impact on your reputation – even if/when this is being done with the best care and respect for the children.

If/when what you deliver is not safe in use or foreseeable misuse; your reputation will be at risk. Product safety requirements must be adhered too, to safeguard your reputation. Note here, that e.g. Smith & Wesson making guns, or Benson & Hedges making tobacco do not have a bad reputation based on their products – whereas a toy leading to the death of child is devastating, as was the case with the Magnetix toy from MEGA Brands.

Products can be used for other purposes than intended, and when this happens – the reputation of the manufacturer becomes at risk. The Danish pharmaceutical company Lundbeck manufactures a sedative, which is being used as part of the “lethal injection” process in US prisons. This was not intended, nor “approved” by Lundbeck – but as it is happening, Lundbeck, is the pharmaceutical manufacturer that kills people.

Arrogance or insensitivity in communications and/or actions also depletes a reputational risk. In example, when BP experienced the Deepwater Horizon accident, they first accepted full responsibility and promised full recovery. The attitude towards BP was not bad – given the severity

of the situation. However, when it later became clear that they lied about actual issues, and the accident was a consequence of a consistent cost cutting focus – the “hammer” of bad reputation hit. When the CEO added insult to injury by stating that “I want my life back” – the reputation of BP hit an all-time low.

In many countries, there is a positive perception of companies that “do well” and are highly profitable.

One prominent example is Apple’s Steve Jobs, who were not the ideal executive and people leader in many respects, but because it was under his reign that Apple became so enormously successful Steve Jobs was seen as a hero. If performance drops, yesterday’s hero becomes today’s “villain” – also seen in industry. Enron was highly commended in business and press and everywhere – until the day the bubble burst, and then ...

You know this from buying a car. If you buy an expensive car, and you experience some fault – you initially get angry/frustrated as this “should not happen” with an expensive quality car. However, if your claim is handled professionally, expediently and supportive – you may very well end up thinking *“I’m glad I bought this brand, because, see what service I got”*. You may at the same time own a car from a less prominent brand with which you do not experience any faults – yet, that brand is still only accepted. Reputation can be built, even on mishaps.

Reputation risks may also be forced upon you and your organization from outside the company – not directly related to what you are doing.

A case example: Originally, the French wine industry had a huge share of European wine consumption. Then the French government decided to test nuclear weapons on atolls in the Pacific – despite public outrage. This lead consumers, especially outside France, to “boycott” French wine and buying products from the US, Chile, Australia, Italy, Spain etc. French wine has never regained its market share.

In Denmark, a newspaper decided to run an article on self-censorship towards religions. To make a point they asked a series of cartoonists to make a drawing of Mohammed. Few did, and the drawings were published with the article. During the first several months, nothing happened, but then a team of people reignited the issue by contacting Muslim societies and dignitaries to create an outrage. This was quite effective, and lead to several Arab countries banning Danish branded products. These brands had nothing to do with the cartoonists drawings of Mohammed, and still experienced a severe drop in reputation and sales.

Sources may even be hostile attacks on your reputation – no more visibly seen than in a US presidential race where “negative commercials” are a significant share of the campaigns launched. In later years this has been exacerbated by use of “fake news” appearing to be third party and indirect communications, which impact the stand of the opponent.

In history, governments have survived based on limiting and controlling the information given to the people. Some few still apply this approach. Today the Internet, social media and SMS chains break down these barriers – first seen with the public upraise that eventually lead to the fall of the Berlin wall in 1989, later seen in the Arabian Spring.

Facebook fan groups are established and gain membership in millions over weeks or even days. Twitters scan the world in minutes – so if you are operating globally, an incident can lead to a global pressure between the time you recognize the issue and the time you have assembled your crisis team.

Handling speed requires preparation, and one important mitigation is knowing who will address the/any issue – and make very sure these people can team up very fast, and any time 24/7/365 if need be. This calls for explicit and well prepared reputational risk management.

Business impact may emerge suddenly and may vanish fast – but will most often be rather slowly. Dents in your reputation tend to be remembered, highly depending on your defined image/reputation and industry. The loss of credibility will often have an immediate effect on your stock value as stock brokers race to embed new insights first, and hence act on everything and anything they learn – now (even if/when what they learn have no short-term consequences). Losing stock value hampers the company's manoeuvrability and hence long-term prosperity.

Your sales may be impacted by customer actions “banning” your products. This will naturally lead to loss of profits as well. Your collaboration with vendors and partners can be hampered, and you will be met with increasing demands of documentation and other issues of “red tape” based on reduced trust on behalf of your partners. You stand to lose employees, who will not work for a company that “does this or that” – and it will be the best people who will resign the company first – leaving you with a “B” team.

Having a strong and positive reputation is a strength, but it also increases the impact of lost for some reason. Your reputation has to be safeguarded.

As mentioned, when faced with an incident that negatively impacts your reputation, you must be able to act fast, effectively and “right”. You also need to have some metric of what is “high” impact on reputational risk as you will be acting too late if you measure in the annual report. Such scaling is a core competence for experienced risk managers – and by the end of the day, a managerial choice of risk tolerance.

Having a pre-defined team, with pre-defined reference frames and full authority to act is pivotal to good handling of a reputational risk. In some instances, a response must be visible world-wide within hours. Some companies even excel at acting so fast and effectively, that hiring them is good for your reputation – and had a reputation of doing so. It is highly recommended to form task forces, and to have this conduct “fire drills” every now and then to ensure efficiency.

It is also recommended to imagine a set of risk scenarios – and discuss these prior to their potential emergence. Soldiers do this all the time, on safety. All routine tasks are rehearsed and rehearsed to the almost ridiculous – to ensure that, in the midst of a crisis – doing these routine tasks, does not occupy attention, which can then be directed towards dodging incoming fire. This approach can be applied by companies for reputation risks as well.

Finally, there are naturally the pre-emptive probability reduction efforts of behaving well, do good for the community, being open and honest and drive a stable and profitable business.

Having your reputation “at heart” and remember this when deciding on strategies and business initiatives is well worth the effort – and may even serve to safeguard your profitability more than a mere commercial focus.

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