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MANAGING REPUTATION RISK – OUR 'PUREST TREASURE'

In the opening scene of Shakespeare's *Richard II*, Thomas Mowbray declares: 'The purest treasure mortal times afford / Is spotless reputation: that away / Men are but gilded loam or painted clay.' As ever, the Bard was right. In a survey of CEOs by PricewaterhouseCooper a few years ago, reputation risk was seen as the key threat to success and in a more recent survey by Aon, reputation risk was the most frequently noted concern across all industries and amongst the most serious concerns, in terms of its impact, by financial services firms.

What is reputation risk?

Unlike other risks, reputation is about perception – not necessarily what you have done, but what you are perceived to have done, or not done. If the credibility gap gets too wide between what a firm does and what those who deal with it expect, its reputation will suffer and its business will inevitably decline. Reputation risk management is about recognizing the size of the gap.

The problem is that there is no single perception. The people who continually assess your reputation are many and various. Customers are the most obvious category, through their experience of your service, but other perceptions will be held by staff, suppliers, investors and business partners. Then there are those who effectively hold your licence to operate: regulators, journalists, politicians, lobbyists and activists.

Unfortunately, each stakeholder has a different expectation. What your reputation is worth depends on whether stakeholders see and experience your business as rising above or falling short of expectations.

It's down to everybody, not just the CEO

In thinking about reputation, firms often concentrate on the CEO. And it is true that the CEO can single-handedly destroy a firm's reputation, either by their conduct, or by what they say. Gerald Ratner was a salutary example. In an after-dinner speech he famously said that a cut-glass sherry decanter and glasses he was selling were 'crap'. That led to the destruction of the company which bore his name and which he'd spent 30 years of his life building. If the gap between reality and perception is that great, the result can be devastating.

But the CEO isn't the only person who can ruin a firm's reputation. A derogatory or injudicious comment by a junior on Facebook can be seen by thousands within seconds and with equally damaging consequences. What's your policy about staff and social media?

Reputation risk is the responsibility of everybody in the firm and all the people who act as the firm's agents. To that extent it is like operational risk. More to the point, it is a second order risk which is usually triggered by an operational risk event. In order to understand where reputation risk may lie, go through the risk register and identify which of those risks might lead to damage to the firm's reputation in the mind of each of the firm's stakeholders.

Managing reputation risk better

Having identified where reputational damage may lie, what can you do to manage it better? Perhaps the first thing is to recognize that managing the firm's reputation is not just a job for Press and Public Relations, important though they may be. If reputation is in the minds of many stakeholders, its management should be in the hands of those who deal with those stakeholders. Here are some suggestions:

Stakeholder	**Reputational risk relationship managers**
Customers	Business line
Customer interface	Support functions, e.g. IT
Employees	HR
Suppliers	Procurement
Third party agents	Appropriate business line
Investors	Investor relations
Regulators	Compliance
Press	Press and public relations
Politicians	Public affairs or CEO
Trade unions	HR

The advantage of ascribing responsibilities for reputation across the firm is that everybody takes the issue seriously. The danger is that each part of the firm then operates independently. There needs to be co-ordination. Given the number of areas which are directly involved in protecting a firm's reputation, it is probable that the CEO's role – or better that of the board – is one of co-ordination.

Once you have identified who might be affected, you can assess the likely scale of reputation risk. Since that represents the gap between expectation and reality, you first need to have a thorough understanding of the awareness of your firm by all its various stakeholders. How well known are you? How much do they trust you? How do they rate the quality of what you offer? What expectations do they have of you?

It won't happen to me. What do you do if it does?

That kind of analysis, including identifying risk owners, will also help you if you encounter a reputational problem. Of course, it won't happen to you, but what do you do if it does? The first thing is to understand that publicity and the news media are 24/7, not daily, activities. The reason for the problem may be operational, and that can be fixed, but reputational damage is a separate effect, with potentially far more expensive consequences, which must be treated separately – and fast.

Rolling news schedules mean that journalists have to file stories instantly, leaving less time than ever to challenge a version of events. Nor do they have the time to check a given version of the 'facts'. They are not specialists, yet they shape the agenda, often by framing the charge in the court of public opinion.

Unfortunately, in that court, lawyers are of little use. The lawyer's advice to 'admit nothing' is at best irrelevant and at worst can significantly harm your business value. Firms that keep silent often become the subject of rumours and speculation. What are they trying to hide? The longer it takes to deal fully and openly with a problem, the greater the impression of foot-dragging, while a series of forced disclosures keeps the issue in the media longer.

Take the Perrier contaminated water case of 1990. Contamination was the worst possible crisis to afflict a brand associated with natural purity. Yet initially, little information was made available to consumers; then communication was handled by local companies, so that the message was not consistent. On occasions the media were given incorrect information.

It was a similar story with the recent Sony Playstation data hacking case. Silence – and the fact that data security is a critical attribute of an on-line business – led to a devastating drop in Sony's share price and its reputation amongst the vast blogosphere community of its customers.

So what do you say, when you're in the eye of the storm? Be transparent. Be truthful. Tell it all, tell it quickly and follow the three Cs:

- Concern: acknowledge something has gone wrong; accept responsibility; express regret and concern and offer remedies for those affected.
- Commitment: commit to fixing the problem and explain in detail what you're going to do.
- Control: show that the leading figures in the company are in control of the situation and are working to make sure it won't happen again.

BP got quite a few of those right in the TransOcean catastrophe, but they had form in the USA with the Texas City disaster in 2005 and the Alaska Pipeline leak in 2006 (and again in Alaska earlier this year).

As to who does the communicating, you should ideally provide one spokesperson who knows what they're talking about. For some purposes, a line manager *will* be a better communicator than the chairman, although the chairman should be seen to be involved. One spokesperson will also reduce the danger of mixed messages, especially in dealings with the media.

Finally, remember your own employees. They are key stakeholders and crucial advocates in defining your reputation. So make sure they're involved in the communications exercise from the start.

In the court of public opinion, it's unfortunately true that you must answer the charges as presented, however unreasonable. In that court, you are guilty until you can prove you are innocent. Sentencing and punishment can start immediately. But if you move quickly, transparently and decisively, you may even leave without a stain on your character.

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