RESILIENT REPUTATIONS

HOW TO PROTECT AND RESTORE YOUR COMPANY'S GOOD NAME

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Company reputations are in the spotlight more than ever before. Every month another major corporate mishap hits the news and sets off a complex chain of repercussions. An industrial accident. A revelation of unethical or criminal practices. A product recall. An extended service outage. Recent years have witnessed an explosion of social media commentary, strong interventions by regulators, and high profile pressure group campaigns. At the same time, changes in the global economy have arguably made the risk landscape for businesses more complex – dependent on moves into new markets, longer supply chains, higher risk operations, and increased pressure on costs.

Against this backdrop, companies need to re-examine their exposure to reputational challenges and their ability to respond to potential crises. Risks related to marketing, which often reflect reputational crises, are the most common cause of company stock price crashes, according to a landmark study conducted by our research partner, the Wharton School. (See Exhibit 1.) On average, it takes more than a year – 80 weeks – for shareholder value to recover.

However, while the importance of reputation risk is widely recognized in the boardroom, many companies' reputation risk management programs are often not robust enough to protect the company's good name. The best management frameworks are embedded long in advance of any crisis and approach reputational risk from multiple perspectives to identify both vulnerabilities and solutions. They are, moreover, led from the top of the company and driven through the business units and functions. Without a strong framework, events can quickly spiral out of control and have far-reaching consequences for companies and their leadership.

DEVELOPING RESILIENCE

Resilience requires developing capabilities through all phases of the risk management cycle and coordinating expertise and leadership from across different functions. (See Exhibit 2.) Only then can companies reduce the likelihood of highly damaging surprises and avoid the erosion of their brand over time.

In the first instance, it is critical to understand corporate vulnerabilities by reviewing the expectations that stakeholder groups have of the company against the corporate risk base. This will help identify those areas where the impact of an unwelcome turn of events might be amplified by reputational concerns. External apprehension will often be higher if

80
The average number of weeks required for shareholder value to recover from a reputational crisis

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EXHIBIT 1: SUMMARY OF SIGNIFICANT PRICE DROPS ACROSS 21 RISK FACTOR CATEGORIES

(2001 – 2011 FULL S&P 500)

RISK FACTORS	TOTAL	PERCENTAGE
Marketing	192	12.6
Operations	186	12.2
Acquisitions	150	9.9
Legal	119	7.8
Industry	108	7.1
Key personnel	102	6.7
Capital structure	100	6.6
Macro	97	6.4
Government	80	5.3
Labor	66	4.3
Competition	64	4.2
Credit risk	60	3.9
Capital expenditure	56	3.7
International	38	2.5
Investments	30	2.0
Catastrophes	19	1.3
Suppliers	14	0.9
Accounting	13	0.9
Distribution	12	0.8
Intellectual property	10	0.7
Customer concentration	4	0.3

Source: Wharton School

the incident appears to be symptomatic of a systemic failure – perhaps an unforeseen flaw in a core product, the result of chronic misbehavior, or the consequence of a key strategic initiative such as a major cost-cutting exercise. It is also important to consider the role of external influences – the likelihood of a problem going viral or being politicized, or even contagion from an incident at a competitor.

Then one must focus on corporate culture, which is the best safeguard against reputational challenges. Strong operating procedures, compliance processes, and whistle-blowing facilities are all valuable mechanisms for instilling appropriate behaviors. But they will only be

EXHIBIT 2: REPUTATION RISK MANAGEMENT PHASES

UNDERSTAND VULNERABILITY

- Assess risks and damage
- Review corporate reputation
- Integrate with enterprise risk management and oversight

BUILD RESILIENCE

- Reinforce values and brand
- Strengthen crisis preparedness
- Adjust operations (and strategy)

REGAIN TRUST*

- Review processes, governance, etc.
- Embed sustainable solutions
- Revitalize stakeholder engagement

RESOLVE CRISIS*

- Demonstrate ownership
- Communicate decisively
- Implement a swift fix for problem

Source: Oliver Wyman analysis
*Required measures will vary depending on the incident

effective if the detailed requirements are rooted in well-understood values, the tone is set from the top, and efforts are made to embed them consistently through all levels of management and other personnel. It is also important for management teams to consider the potential for reputational damage in major strategic and business planning decisions, and hone and test the reputational dimension of crisis-management plans.

Companies with well-established and effective crisis-management capabilities quash reputational threats and remove them from stakeholder radars as soon as possible. Conversely, a mishandled response to a crisis can generate more reputational damage than the event itself, and spur greater financial consequences. Firms must quickly show they are on top of the situation to avoid the vacuum being filled by other shapers of opinion, who might have less accurate information and be inherently unsympathetic toward the company. Stakeholders will demand visible leadership, a fast diagnosis of the problem, and the decisive implementation of a fix based on consideration of available options. They will also expect a robust (but fair) approach to offending parties and a pledge to develop a longer-term solution, where this might be required.

As companies seek to restore their reputation and performance, they should aim to balance three approaches in their planning: a thorough reflection on the causes of an incident and the outcome, sensitivity to stakeholder expectations, and the implementation of hard-edged commercial decisions that are right for the company over the long term.

Restoring trust can be a considerable investment for multinational corporations, and it may be quite some time before a company can confidently claim that new approaches have been properly tested

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and embedded in a way that the likelihood of a repeat offense is very significantly diminished. Any refreshment of the corporate brand, which can be a powerful way of signaling that a new chapter has begun, should wait until reputational wounds have healed and new, supportive measures have been embedded.

CLEAR RESPONSIBILITIES AND PROTOCOLS

To be effective, a reputation risk management plan also needs to specify clear roles and protocols for key functional and business unit leaders. While the risk, compliance, communications, and marketing functions must all pull together with business unit leaders, at the end of the day, reputation risk is a chief executive officer issue. He or she must promote corporate culture and exercise visible leadership in the event of a crisis. Reputational considerations should pervade the agenda of the board of directors and be a key feature of the dialogue with management.

Many companies are predisposed towards one dimension of the challenge or another – risk prevention or crisis management, mitigation efforts or communications – and tend to privilege one stakeholder group – customers, investors, or regulators – above others. But only those firms that bring together different types of expertise – risk analysis, crisis preparedness and management, brand development, operational improvement, and external relations – in a common management framework and in accordance with a clear set of corporate values can claim to be approaching the issue strategically.

THE VALUE OF VIGILANCE

Companies that build a response framework across all dimensions will be vigilant about changing risk levels, alert to evolving norms of stakeholder expectations, and appropriately flexible in their risk management and preparedness priorities. Equally important, they will be able to integrate downside risk management activities with upside reputation and brand development ambitions. Those that bring all this together are therefore not only being mindful of near-term threats but also investing in the long-term sustainability of their firm.

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