

•Dott Risk

Managing Your Risk Guide



Reputation Risk

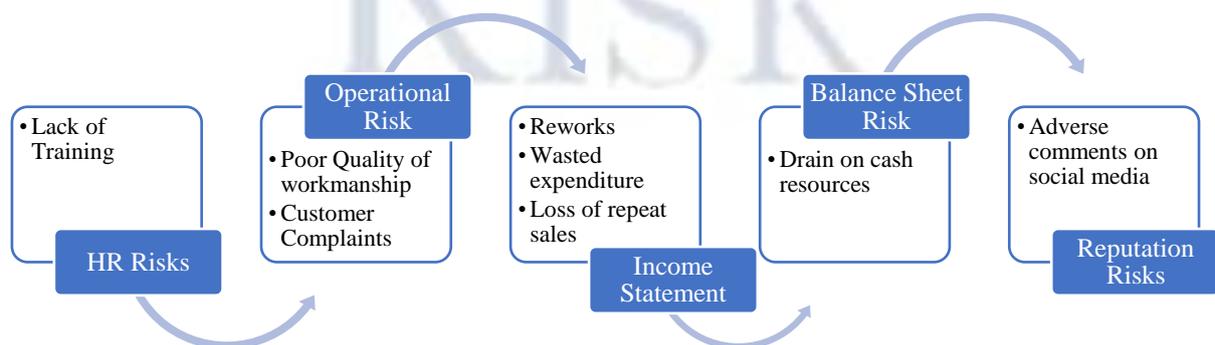
What is this risk area?

Reputation risks are those that can have a material impact on the operations and financial position of an organisation as a result of a loss or break down in, confidence, trust, integrity, ethics, governance, controls, conduct, non-compliance, failure to act and association.

Where does this risk area emanate from?

This risk arises from negative or adverse publicity triggered by certain operational events and HR/People actions e.g. employee behaviour, labour disruption, poor quality of products or service delivery, poor handling of complaints

Example of Reputation risk interconnectedness to other risk areas:



Where does this risk area manifest itself?

The impact of a negative reputation can harm the level of operational and business activity and ultimately result in financial loss. This can be significant and have a material impact on an organisation's balance sheet.

Why is it important to manage these risks?

Reputation risk issues can have a major impact on the operations and financial performance of an organisation. These impacts can be immediate and significant or happen over a period of time but will have a lasting effect on the organisation.

Where to start in managing this risk area?

Reputation risk management starts with a review of the level of governance in the organisation, its code of conduct, ethics and values, the robustness of procedures and controls throughout the organisation.

What is the benefit of actively managing this risk area?

The management of reputation risk will ensure that the organisation is better equipped to deal with reputational incidents or situations in a structured and managed way.

DottRisk has the following detailed risk guides covering what we believe are the critical areas of reputation management.



Introduction to Reputation Risk

Why Reputation Is Important

Reputation can be viewed as the most important intangible asset possessed by an organisation as it represents the extent to which the firm is meeting the expectations of its stakeholders (owners, suppliers, employees, customers and the community). A good and strong brand can add significant value to the sale price of an organisation on exit or sale.

On the one extreme reputation is of no consequence and can have very little bearing and be of no importance. On the other extreme, it can be of critical importance to the success and sustainability of an organisation.

The reputation of individuals is as important to that of an organisation. The ever-increasing number of highly publicised personal transgressions by company executives, celebrities and politicians has all but destroyed the “brand” of many individuals. Apart from dismissals and firings, the cancellation of contracts, work, endorsements and the forced resignation from boards and charities, criminal charges have been brought against many parties.

In a number of industries, professional association and registration with oversight bodies is a regulatory essential requirement to be able to practice or trade. Most of these bodies or associations require exemplary ethical conduct and behavior by members of the professions e.g. medical practitioners, engineers, accountants, auditors, lawyers, architects and financial advisers. Where the organisation comprises multiple individual professionals, the unethical or inappropriate actions or conduct by one party can have a major impact on the reputation of the organisation as a whole.

Reputation has a different level of importance and value for each organisation. Every organisation has to evaluate the degree and extent of the impact which reputational damage can have on their brand, performance and sustainability of the organisation.

What Can Hurt Your Reputation

A "reputation risk" can materialise when negative or adverse publicity is triggered by certain business events, whether accurate or not, compromise the organisation's reputation and result in a loss of value for the organisation. Reputation damage can be caused by the organisation itself due to specific actions or inactions of the directors/partners, key personnel or staff or the actions or lack thereof by outsourced or third-party service providers. Operational incidents can quickly give rise to a negative reputation and perception of an organisation. Defective products, regulatory non-compliance, loss of confidential data, product health scares, poor employment practices, alleged corruption, disregard for the environment, cybercrime and social media incidents have now become major focus points of reputation management.

Each industry has a reputation that it is accorded based largely on the general experience of customers. Some industries get a bad name and then all players or operators in that industry in turn get tarnished. The actions of all players in an industry give rise to its reputation, hence it is important that industries try and regulate themselves by insisting on accreditation or membership to improve and enhance the image of participants.

Operational Risks to Reputation Management

Maintaining your brand, image and reputation at an acceptable level requires on-going investment in time and money. This can be particularly onerous where, as a member of or part of a group, franchise, distribution or other arrangement, you are required to maintain specific standards in terms of quality, standards, corporate identity, branding, service levels and support. This element requires formal budgeting, resourcing and management.

The quality of products and service delivery forms a key element of reputation management. It is important that you understand your organisation's vulnerability in respect of sales and profitability and the associated drop in your reputation, due to a drop in the standards of your products/ services (e.g. if quality and/or service falls below the required standard expected by customers).

You need to have a quality measurement and assurance process as part of your operational and service delivery processes. These need to be measurable and be deployed at key stages of your manufacturing, assembly, order, sales, shipping, payment, installation or delivery processes. Customer satisfaction measures and feedback need to form an integral part of this.

Ensuring the physical safety and well-being of your employees, guests and customers is a critical component of your reputation. A good safety and accident record can form a key factor that differentiates you from your competitors in your industry. There should be no compromise in this area with safety controls and procedures being strictly enforced.

The prolonged failure or unavailability of systems including telephone systems, call centres, e-commerce platforms and websites can quickly have a major impact on the reputation of an organisation. The inability of customers to be able to undertake transactions, access information or contact an organisation can materially impact customer relations and reputation.

A specific area of reputation risk management involves third party risk management. The majority of these risks arise from involvement and participation in complex supply chain/cold chain structures or as a result of outsourcing arrangements and/or where agents or distributors or service agents are relied on.

Customers demand reliability and continuity of supply from their suppliers as their reputations are totally dependent on this. This is in respect of both the quality and timing of supplies.

You need to ensure that your product/service delivery, administration, customer back-up, maintenance and support, credit standing and payment/refund track record post sales, are all at a level and standard so as to ensure that your reputation is not adversely affected by any of them. Consistency in attitude and culture across all areas of your organisation are critical.

You need to focus on ensuring that the impact of your environmental footprint (e.g. use of scarce natural resources, emissions, carbon footprint, water usage, waste disposal, deforestation, use of animals in testing, use of non-biodegradable materials or renewable resources, damage to environmentally sensitive areas etc.) is being minimised, and that your organisation's reputation as a result of this is being pro-actively managed. Being an environmentally sensitive organisation is becoming essential.

Association Risk

Association “risk” has really come to the fore following the rapid and widespread fall out of companies and individuals associated directly and indirectly with corruption, bribery, fraud, poor handling and treatment of customer complaints, regulatory and environmental breaches, sexual harassment, hate speech, bullying and racism incidents which are instantly spread globally via social media.

Association risk has a significant impact on reputation, and as such an adverse reputation of a controlling company, shareholder, director, partner, customer or supplier can have a material impact on the reputation of an organisation itself.

The association with undesirable parties, customers or politically connected persons, the acceptance of favours, gifts or entertainment from dubious parties can all have association and reputation risk implications.

Protecting your Brand and Crisis Management

The primary objective of a brand protection strategy is to keep consumers safe and to protect the brands name.

Driven by advances in the internet and the proliferation of social media, a barrage of dangers from phishing, fraud and piracy to counterfeiting and impersonation are impacting consumer trust, market reputation and bottom line. With brands having a presence across many different channels, the need for protection is even greater. The bigger the brand presence is, the larger the threat to the brand. These threats include fake news, manipulation of information, brand impersonation websites, malware distribution, business email compromise scams, SMS text (smishing) and phone impersonation (vishing). Implementing a protection strategy requires buy-in and support from top management along with involvement from the entire organisation. Crisis management is the formalised process that is engaged in order to minimise the impact of a reputation breach. You need to have a comprehensive plan on how to respond to a reputational crisis. The amount of executive time and energy diverted away from the running of the core business due to adverse publicity, legal action and reputational issues can never be underestimated.

A crisis that is not managed well can wipe out decades of hard work and company value and reputation in a matter of hours. A well-managed crisis confirms that your company has the processes and procedures in place to address almost any issue that may develop.

People and Reputation, Conflicts, Actions of Executives, Managing Social Media

A conflict of interests is one of the biggest factors influencing the behavior of employees and executives thereby impacting the reputation of an organisation.

Once an organisation is tainted with corruption, in addition to making it vulnerable to fines, penalties and blacklisting as a supplier, it undermines its ability to be party to future contracts, supply agreements and funding.

You need to undertake on-going lifestyle checks on employees and obtain declarations of interests from all employees and executives on a regular basis.

Reputation risk is not confined to just organisations but extends to the directors, employees of these bodies and to other individuals closely associated with them. The reputation of an

organisation can be harmed if a senior staff member were to be found guilty of a criminal event or inappropriate behaviour such as fraud or corruption.

You need to pro-actively manage the actions, behaviour and comments of your shareholders, executives, managers and staff and their use of your web-site, conventional press and media, social media (facebook, blog, tweets, viber, instagram) and e-mails emanating or originating from your organisation or on its behalf or in its name.

You need to have a policy governing media statements and social media commentary and manage the actions of your staff and the use of social media in your organisation. This is to ensure that you do not attract adverse publicity which could irreparably damage your reputation.

Reputation Governance and Ethical Standards, Brand Champion, Policies and Practices, Regulatory Compliance and Reputation, Cybercrime and Confidentiality

Organisations often spend vast amounts of money employing either internal or external agents to build and manage their reputation only to see this destroyed in an instance. The tarnishing or destruction of a brand can have a material impact and catastrophic consequences which are not easily reversed.

Management of brand and reputation require continuous focus and effort. It is important that in an organisation reputation and brand is “owned” by a champion.

Where reputation is an important component, you need to put in place a reputation policy and formulate a plan for your brand, the role it will play, the building of the brand and the protection of it going forward. A brand and reputation require on-going investment. All strategic decisions should be made in the light of the value of the brand and retention of your image and reputation.

Having the appropriate regulatory approvals (e.g. the required licences and/or registrations to operate) and the use of compliant contractual terms and conditions depend on the level of governance and/or compliance in an organisation and the reputation it wishes to enjoy (i.e. as being seen as a good corporate citizen and treating customers fairly).

Non-compliance with laws, regulations, registration and licensing requirements, taxation laws, the rule of law, by-laws and local legislation can have a significant impact on the reputation of an organisation.

Cyber security threats affect all organisations, regardless of size or industry and this threat to organisations is increasing at a rapid rate. Cybercrime and social media have become major focus points of reputation management, given the massive and rapid impact they can have on an organisation. This has become all the more critical in an age of “fake” news, data theft, information leaks, phishing, hacking and scamming.

Your reputation, brand or image can be materially impacted if your data, including that of your clients, were to be compromised whether through internal or external theft. This can extend from confidential information to personal and banking details.

Should your organisation suffer a cyber-attack which results in a loss of data or sensitive/confidential customer details/information, network/system/website downtime, lost revenue, misuse of hacked data and/or ransom demands, these need to be disclosed and made public as soon as possible. Delaying these disclosures can result in even greater reputational damage once these come out.