Understanding Reputation Risk: PART I

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"A good reputation is more valuable than money".

Publilius Syrus - 1st Century BC

Introduction

The concept of "Reputation Risk" is relatively new - it has been around for about a decade and only more seriously examined in the last 2-3 years.

Prescient as always, the Economist called reputation risk the "risk of risks" in 2007.

But it was not until around 2013, that several major surveys found that executives and boards not only ranked reputation risk as one of their top concerns but also considered it to be a strategic risk -- one that could have a dramatic or material effect on their business, prospects and overall organizational wellbeing. This was a clear reflection of significant events in the financial sector (involving many leading banks and investment banks), the tech sector (Google v. China), the automotive sector (Toyota's faulty brakes), and the oil and gas sector (BP's record oil spill), just to name a few.

We have approached this topic from various different angles – Len focuses on reputation and a more quantitative and metrics-based approach while Andrea explores the topic from a more qualitative, risk and crisis management perspective. Both of us have been developing tools and resources on issues of risk and reputation, now we are focusing on what that means to the combined concept and reality of reputation risk.

This work is presented in two parts. In Part I, we provide some perspective on what reputation risk means. In Part II, we will tackle the issue of why reputation risk management needs to be part and parcel of any organization's strategic agenda, the critical importance of knowing who your principal stakeholders are and why they are important and the need for the coming together of a qualitative and quantitative perspective and expertise on this most challenging of strategic risks.

Reputation Risk: What Is It & What Isn't It?

We start our discussion by noting some of the more popular Reputation Risk definitions. We then make the claim that reputation risk management is risk management and lastly, we draw the distinction between reputation risk and crisis management.

What It Is – Below are several popular definitions that illustrate cross-functional efforts to operationalize the concept:

> *"Reputational risk is the risk of damaging the institution's trustworthiness in the marketplace".* Measuring Operational and Reputational Risk: A Practitioner's Approach
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> *Reputational risk is "the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation or revenue reductions."* The Federal Reserve System Commercial Bank Examination Manual.
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> *"Reputational risk is the possible loss of the organisation's reputational capital. Imagine that the company has an account similar to a bank account that they are either filling up or depleting. Every time the company does something good, its reputational capital account goes up; every time the company does something bad, or*

> *is accused of doing something bad, the account goes down."* The Financial Times Lexicon.
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> *Reputational risk is the "risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding."* The Basel Committee on Banking Supervision.

The authors propose that reputation risk describes the threats to a company's financial health. We believe that reputation management is a system aimed at managing the possibility of reputation failures and that reputation risk management done right is a system that mitigates reputation risk and builds long-term organizational resilience.

What It Is Not - Reputation risk and its management is NOT crisis management

Reputation risk management is definitely not and should not be considered to be crisis management. Reputation risk becomes subject to crisis management when and if a crisis emerges with reputational implications in which having a well-developed and ready to deploy crisis management plan and team is essential to successful reputation risk management.

REPUTATION RISK MANAGEMENT	CRISIS MANAGEMENT
Long term planning	Short term execution
Assess & predict which issues will hurt the company reputation the most (likelihood & impact) before they happen	Unclear how the issues will affect organizational reputation unless good reputation risk management has been deployed in advance
Identify which reputation attributes should be addressed to mitigate the risk issue	Lack of control over the issue unless good reputation risk management has been deployed in advance
Ability to manage the issue through a robust enterprise risk management approach	Driven by the media and other uncontrollable events and reactions unless good reputation risk management has been deployed in advance

Unlike reputation risk management, crisis management is something that happens suddenly and in the short term. Although to be successful, crisis management requires advance planning, the creation of a crisis management plan and team and plenty of training and scenario planning at different levels of management and even the board.

Taking it Forward

Reputation risk management is becoming a central aspect of developing reputation strategy. With that said, developing a reputation strategy requires set competencies for success, namely:

1. The understanding that reputation strategy is a long-term vision
2. The ability to assess and predict what issues will hurt company reputation most
3. The capability to identify of reputation attributes that will mitigate the issue
4. The ability to manage the issue through proper internal resources and budget
5. The authority to identify and empower risk owners and other management in charge
6. The skills to influence the company culture
7. The experience to map company processes to understand causation, occurrence, consequences and remedies
8. A keen understanding and prioritization of key stakeholders

About the Authors and Their Firms

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