A Predictive Approach to Managing Reputational Risk

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Overview

Reputation: what is it? why is it important?

Reputational landscape

Model shift

Managing reputational crisis (reactive)

Managing reputational risks (proactive)
What is Reputation

The perception of customers and other constituencies

- Perception from experience, or even misguided info and opinions
- Other constituencies include media, activist groups, etc.

Intangible asset – stemming from the core of the business

- 60% of a firm’s market value is attributable to its reputation

Built over a long period…

…but can be destroyed quickly
What is Reputation

Permeates every part of your business

What you make

How you make it

Why you make it

“Apple produces the best personal computers in the world”
Why is Reputation Important

70% of consumers report they actively avoid buying a product if they don’t like the company behind the product

Toyota’s recalls associated with accelerator pedal issues
  • Estimated total loss of $2.47B
  • Shares fell in value by 15% (Jan 25-29)
  • $1B+ class-action lawsuit in 2012
Most critical risks through 2013?

Would you rate “Reputation and Brand” as a critical risk?
Percentage of respondents who selected “high” or “very high” risk

Economic uncertainty 76%
Competition 63%
Regulations and government policies 62%
Financial market 60%
Talent and labor 57%
Data privacy and security 56%
Reputation and brand 52%
Large program risks 47%
New product introductions 46%
Disruptive technologies 41%
Mergers, acquisitions, and JVs 41%
Fraud and ethics 40%
Business continuity 39%
Government spending and taxation 39%
Energy and commodity costs/prices 39%
Geopolitical risks 31%
International trade and payments 21%
Crime and terrorism 16%
Public infrastructure 15%

PwC survey to 1,000+ executives worldwide
Up from 25% previous yr
Reputation Landscape Considerations

The possibility of events undermining the trust in a company

Customers
  • Moral outrage: Perceived norm violations
  • Fear: Not always based on objective information

Activist groups

Media
  • Speed of news / Worldwide stage

Internal
  • Most reputational challenges come from within the company
Common Myths: Reputational Risk

Good business practices = good reputation

Reputational crises can be delegated to PR or Legal department

All you need in reputation management:
  • Common sense
  • “Doing the right thing”

Reality:

1. Corporate reputations must be actively managed
2. PR, Legal, are not always in-tune with the business strategy
Model  Shift

Reputational risk management is typically approached like crisis management, based on a reactionary strategy

Typical scenario:

1. Crisis hits
2. Hurried response
3. Reputation management gap identified
4. Program developed, plans communicated
5. Program stagnates, binders collect dust
6. Budget is strained, periphery programs cut (including reputation management)

Reputational crises are decisive moments
Corporate Response (Reactive)

Typical response
• Sluggish communication
• “Experts are handling it”

Optimal response
• Empathy, commitment, transparency, expertise

Photo courtesy: ABC, Wikimedia, Carnival, Virgin
Model Shift

Increase your energy on prevention and preparation

Control
Proactive Strategy
Acceptable Risk/Control

Time
Managing the Risk (Proactive)

First task: identify the business issue

Bangladesh factory collapse (Apr 24)

- Benetton clothing labels found in the rubble
  - Benetton’s response: blamed unauthorized production
- Primark’s response: acknowledged production there, promised proper compensation

- **Business Issue**: supply chain management
Practical Steps: Internal

Build employees into stewards of the company’s reputation
Training, culture of integrity
Collect and analyze customer feedback
Regulatory compliance
Practical Steps: External

Monitor the media
- Special interest groups
- Industry news/research
- Social media and blogs

Track trends that may create new risks
- Business, economic, social and regulatory trends

Manage relationships with potentially adversarial special interest groups
Takeaway Actions

Engage your leadership
  • How are we managing our reputation?

Reputation management is your expertise area
  • Within your responsibilities, how can you prevent reputational risks, and prepare for reputational crises?

Foster a culture of awareness and ownership
  • Steward your company’s reputation
  • The day-to-day decisions are building a story to tell if (when?) a reputational crisis strikes
Questions

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