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The GlobalEthicist

Turn a crisis to your advantage

Companies that test their readiness for reputational risk can unlock hidden benefits, says Andrea Bonime-Blanc

If you're a shirt manufacturer outsourcing much of your sewing to subcontractors (or their unknown third parties) with small factories in remote locations that are visited rarely, if ever, with poor or non-existent environmental, health and safety protections, what is your potential reputational risk? Ask Wal-Mart.

If you're a technology company that invents new consumer devices to sell to the world and you enter into a contract with the one of the largest suppliers of labour and manufacturing facilities and some of those facilities have a high rate of worker discontent, suicides and aberrant labour conditions, what is your potential reputational risk? Ask Apple.

If you're a financial institution that accepts deposits from and processes transactions for millions of customers around the world without institutionalising and policing proper checks and balances in compliance with anti-money-laundering laws, what is your potential reputational risk? Ask HSBC.

And if you're an international infrastructure company that manufactures, supplies, acquires, builds, owns and/or operates large-scale utilities (such as electrical power plants) requiring a host of governmental authorisations, licences, permits and other benefits – many of them from "non-transparent" regimes – what is your potential reputational risk? Ask Siemens.

These are but four illustrations of the reputational risks confronting global actors today – whether they are corporations, non-profits, universities or even governments. Not paying attention to, purposefully ignoring, or not being prepared for the possible reputational damage that may hit your organisation is poor risk management.

It isn't good capitalism either. A good capitalist will find the opportunity lurking within the challenge and the advantage lying within the risk. And global actors who deliberately use certain tools not only to understand and prepare for their risks but also to develop new growth opportunities by understanding those risks properly will develop longer-lasting, more sustainable enterprises.

While each of the illustrative cases also show quantifiable legal, liability or compliance risks because such situations can lead to lawsuits, fines, regulatory action and similar consequences, at the core of each is the risk to reputation – something hard to manage and even harder to measure. Reputational hits can be more or less severe depending on the circumstances of the situation and on the intangible goodwill that an organisation accumulates over time but can lose overnight.

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Be prepared

Why should entities deal with risks that have never erupted before, with chances of their happening not particularly high or the likelihood of severe consequences relatively remote? Why should organisations deal with these potential reputational disasters before they actually happen?

While some companies are too big to fail (witness the world's largest financial institutions) and others are small enough to disappear overnight if a major risk hits them, many sizeable companies that do not undertake risk management can disappear off the face of the earth. What's worse is that they take with them many livelihoods, life savings, shareholdings and quality of life. Just ask the ex-employees and ex-shareholders and ex-investors of Enron, WorldCom, Adelphia, Parmalat, Lehman Brothers and Madoff. The list goes on.

An important tool companies and other transnational actors can deploy to understand their risks, gain an upper hand on how to deal with a crisis and even turn a risk into an opportunity is an ethical crisis scenario exercise.

So, what is an ethical crisis scenario exercise, who is involved and why is it powerful?

Crisis simulation

An ethical crisis scenario exercise should involve the top organisational decision-makers who would be involved with an actual crisis. Depending on the company, that probably means the CEO, COO, CFO, CIO, general counsel, chief ethics and compliance officer, head of human resources, business unit head, communications head and potentially others depending on the nature, location and scope of the crisis. Such an ethical crisis scenario exercise would presuppose the existence of a crisis management team and plan.

The exercise itself consists of a tabletop simulation of a full-blown crisis involving hypothetical facts that are made up to closely resemble a serious potential reputational hit for a company.

So, for companies in the retail clothing, consumer gadget, banking and infrastructure sectors, using any one of the four examples of supply chain, human rights, money-laundering and bribery risk for a hypothetical tabletop exercise would be relevant.

Indeed, the four risks depicted at the top of this article are fairly common to many types of transnational actors, even those in the non-profit, governmental and academic sectors.

For a truly effective ethical crisis scenario exercise to be conducted, an organisation must create one or more realistic ethical crisis scenarios that contain two or more risks to their business to create a diverse, thought-provoking and memorable challenge to all those involved in the exercise. There's nothing like learning through experience.

The crisis exercise helps the actors rehearse for a potential crisis that is probable in their particular line of business or activity. But it is the outcome of such an exercise that may offer the greatest benefits to the organisation both in terms of the lessons learned that can be applied to future actual crises and the opportunities for potential competitive advantage.

It is critical that an organisation records what happened and keeps track of the lessons learned. Senior managers should be able to extrapolate them to other risks typically encountered but not subject of the exercise.

Lessons learned will include who should be involved in an actual crisis, how best to communicate when a crisis occurs, what mechanisms should be used for ongoing crisis management and decision-making, what outside advisers should be deployed and when, what inside advisers should be deployed and when, how to engage with affected employees and how to deal with all stakeholders.

The other critical part of this exercise rarely dealt with is deliberately finding an opportunity that may be embedded in the hypothetical crisis or disaster.

It involves a purposeful look for the business angle or organisational advantage that may be lurking within the risk or threat being tackled. For example, a technology company that is subject to cyber-security risks may find an opportunity to build a better cyber-security product.

Thus, a properly facilitated ethical crisis scenario exercise will achieve three critically important objectives for an organisation:

- Learning how to deal with an actual crisis through rehearsal.
- Applying lessons and improvements to future crisis management situations.
- Gleaning possible opportunities and competitive advantages within a risk.

Reputational hits do not only have short-term implications, they also have a way of eroding stakeholder trust and enterprise value. While certain companies may feel that fielding an army of advisers and consultants after a hit has occurred is good enough to manage a crisis, there is nothing like being prepared for a crisis in advance. It saves money, time, resources and pain.

The real cost

And the model that says risk is "a cost of doing business" never properly accounts for the real cost of such hits. While more aggressive leaders and business people may feel that they have priced in the risk of violating a law, incurring the wrath of a regulator, enduring a little bad publicity or paying for related legal bills, the cost of lost opportunity, lost high-calibre employees, lost consumer trust and lost business is nearly impossible to gauge but most certainly not included in that model.

More importantly, evidence is beginning to roll in that shows that companies with long-term sustainability and integrity programmes have more sustained profits and better growth over the long term. Embedding periodic ethical crisis scenario planning into such programmes that targets not only better risk management but the unlocking of associated opportunities has the potential to add even more value to that chain. ■

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