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The GlobalEthicist

Risk and opportunity – the role of stakeholder trust

By Andrea Bonime-Blanc

Whether the impact is one you can measure, or something less quantifiable, loss of trust has a lasting effect

Contemplating the varieties of reputation challenge, risk and, yes, opportunity that exist for all types of organisation can be overwhelming.

There are plenty of questions. What do we mean by "reputation"? Whose reputation are we talking about? What is "reputation risk"? What is "reputation crisis"? What is "reputation opportunity"?

Reputation risk and opportunity are events that can hurt or enhance an entity, person, product or service, from the largest entities in the world – the biggest governments, for example – to the tiniest of entities: small businesses and, of course, people and specific products (if you're old enough, you'll remember Tylenol).

Let's start with the biggest. The US government's reputation, for example, has suffered a variety of blows over the past decade and a half. First, there were the two wars – Iraq and Afghanistan. One of these (Iraq) was more broadly questioned around the world and more negatively affected the reputation of the US and the US government.

Then there was the Edward Snowden incident in 2013 when a young contractor revealed many national security secrets of the US government exposing its hidden and often dark underside even affecting US citizens and friendly governments. This has resulted in specific reputational damage to the Obama administration.

As an administration more closely associated with progressive, liberal and pro-constitutional causes, it probably experienced a more severe reputational hit than if it had been a more conservative administration more deeply focused on national defence and security issues. The trust of stakeholders (or its erosion) is at the core of this reputational hit.

Risk can be contagious

And the reputational reach of the Snowden affair hasn't stopped with the US government. By association, the US technology sector (even companies not directly involved in creating, developing, implementing or supporting the technologies used in national security work) has been very concerned about the reputational fallout affecting its competitiveness in the global marketplace.

Companies operating in the cloud, for example, are especially concerned about this issue as their global customers question the confidentiality and security of data held within US company cloud locations (whether in the US or elsewhere physically) and consider instead going with non-US companies. Once again, the trust of stakeholders – customers and others – is at the centre of this concern.

Let's drill down further to the company level. We have all heard about companies with major toxic waste or health and safety events that cost them dearly in fines and settlements – and reputational damage. The grand-daddy of these cases is probably the Exxon-Valdez oil spill in Alaska exactly 25 years ago that caused all manner of short-term and long-term environmental damage to a pristine habitat, and reputational and trust consequences for Exxon.

Then, of course, there is the recent BP Deepwater

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COLUMNIST: ANDREA BONIME-BLANC

Horizon oil spill of 2010, which continues to unfold and is probably the biggest of its kind in terms of collective fines, settlements, civil and criminal investigations and reputational damage. And no one who followed this story will forget the additional reputational damage that BP's then CEO, Tony Hayward, caused when he seemed to put his own personal comfort ahead of the terrible crisis that had occurred (claiming 11 lives) when he complained about not having enough time off.

The multi-billion-dollar financial crisis of the past half-decade has had its share of reputational consequences as well – negative for certain institutions (the companies that were most fined) and positive for others (those that weren't).

Just recently we have the new case of GM and its defective ignition switches. For many years struggling to be financially viable, generally thought of as a company with an immutable leadership style and culture that did not allow for much change or the questioning of strategy, financial or product decisions, GM went bankrupt and got a massive government bailout. This was a company that was already suffering from reputational degradation.

Suddenly in January we hear that 13 GM car accident deaths (and many more accidents) over the past decade may have been caused by a defective ignition switch that could have been fixed for $1 per car. GM decided not to make that correction. While the facts of this case are yet to be fully understood, this is what the media and GM itself are currently reporting. The reputational hit is yet to unfold but is unlikely to be modest. The way the new CEO handles this crisis and what she calls the "new GM culture" will have much to do with whether the consequences are dire or manageable. (See p28 for more on GM.)

What is reputational damage?

Does a reputational hit today mean long-term reputational damage? Perhaps these are mainly momentary blips that can certainly affect investors temporarily but, depending on the response and heft of the organisation, may not lead to long-term negative consequences.

Reputational damage assessment is where the rubber actually meets the road. This is the issue that is not easy to scientifically or quantitatively settle, at least not yet.

The impact on a share price of a specific event is often used but is useful in a limited way: to show a dramatic change in reputational stature of a publicly traded entity at a given moment or over short period. Of course, this does not help with assessing the hit on a privately held company or other type of entity (such as universities, governments, NGOs and people). They cannot be measured quantitatively.

So, for example, Wal-Mart stock declined by almost 5% the day after the New York Times published its in-depth report on Wal-Mart's alleged corruption and bribery of Mexican officials on 20 April 2012.

Similarly, observers were able to chart a decline of $7bn over four days of trading in the market capitalisation of NewsCorp when allegations of widespread phone-hacking by journalists from the News of the World were reported in the summer of 2011.

However, both companies have more or less recovered since these hits and it would be very difficult to isolate what specifically has affected their stock price since their respective reputational blows, given the myriad factors that go into a stock performance.

Taking the hits

Can one look at these incidents through a purely quantitative or cost-of-doing-business lens or are there other important considerations? In the case of the US government and the Snowden affair, BP, NewsCorp, Wal-Mart and the global financial institutions, what is the long-term reputational damage, if any? How do you measure and quantify it? Is measuring it quantitatively useless or helpful and/or do we need other measurements, qualitative ones to really understand what is happening?

The following are some of the more qualitative hits an organisation can suffer:

- Loss of quality investors
- Loss of time, resources, creativity of workforce sucked into investigations
- Executive reputations irreparably damaged
- Restructuring and even demise of business/ business lines
- Consumer dissatisfaction and loss
- Hits on recruiting new talent, and departure of talent
- Bad relationships with regulators
- Close media scrutiny
- Widespread criticism via social media

While quantitative snapshots such as stock price can be helpful, the qualitative measures of how key stakeholders size up an entity are as important or more so when it comes to understanding an entity's ability to recover its long-term reputational health. This of course goes without saying when financial measures of an entity's health are hard or impossible to get.

And that is because trust is at the centre of this concern. When key stakeholders lose trust in the reliability, efficacy, transparency, growth, quality or other tangible value of an entity, its product or services, that's when the reputational hit has an impact, whether or not it is easy to measure. Reputations will remain damaged for as long as actions are not taken to regain that trust. ■

Reputational damage assessment is where the rubber actually meets the road

This column is adapted from a chapter in the author's forthcoming book, The Reputation Risk Handbook: A Guide for Managers and Directors, to be published by Dō Sustainability later this year.

Dr Andrea Bonime-Blanc is chief executive of GEC Risk Advisory, a global governance, risk and reputation consultancy to boards and the C-suite. She is chair emeritus of the Ethics and Compliance Officer Association, a member of Ethical Corporation's editorial advisory board, a programme director at the Conference Board and a life member of the Council on Foreign Relations. @GlobalEthicist