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Essay

The business case for reputation risk management

By Andrea Bonime-Blanc

How to survive and thrive in the age of hyper-transparency

The case for effective reputation risk management in this age of hyper-transparency can be made in two ways – accentuating the positive and exposing the negative. There is growing quantitative and qualitative evidence that smart reputation risk management can add value to the bottom line – through liability avoidance, cleaner and leaner processes and improved products and services. Indeed, properly deployed and integrated, effective reputation risk management can be transformational, actually adding value to the financial bottom line.

The financial sector has certainly been in the eye of this storm in recent years given the massive impact of questionable, illegal and downright criminal behaviours exhibited in this sector. Indeed, there is a growing body of work that is zeroing in on linking ethical behaviours (and their absence) and the attendant culture to results and performance.[1]

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A tack some of the 'too big to fail' players have recently taken is to throw vast amounts of money (billions of dollars) and people (thousands) at their 'compliance' problem. They are, however, missing the critical point here. Theirs is not a 'compliance' problem – theirs is a systemic cultural and leadership problem in need of a more strategic solution. It's not enough to throw vast resources at a systemic problem. The real challenge begins and ends at the very top: the CEO and the board. Investors are also beginning to understand this as the still

nascent but growing activist and institutional investor movement for greater transparency has recently gathered steam.

Whether as lip service to the regulator, or because their bottom lines are starting to feel the pinch, some of the global banks may be getting it. Some are appointing high-level chief compliance officers who are part of the executive team, have a seat at the table and/or access to the board (HSBC, JP Morgan). Others have taken a different approach. For example, after its troubles in 2010, Goldman created a high-level committee and issued 39 business standard principles and started a massive reputation management effort. Yet others are creating sustainable investment, community engagement programmes and 'green' measures to demonstrate their reformist bona fides (Morgan Stanley, Goldman). Smart reputation risk management is part of a long-term strategy, not a one-time fix – while the jury is out on these recent developments they provide hope.

MARK WILSON

Goldman Sachs is attempting to regulate business practice

The quantitative case

Dr Kossovsky, a practitioner in the reputation insurance field, has concluded that a "reputational crisis will shave an average 7% from a company's market capitalisation" and that reputational value restoration can yield a net additional average of 13.5% in market capitalisation. Companies that have voluntarily embraced a sustainable business culture over many years "significantly outperform their counterparts over the long-term, both in terms of stock market and accounting performance."[2]

Reputation enhancement helps companies financially

This data is compelling and points in an important direction: reputation hits hurt companies, and reputation enhancing-work helps companies, financially and often substantially so. If companies took this fact more seriously, they would realise that deploying an effective reputation risk management strategy could unlock hidden value that otherwise lies fallow in the silos of the organisation.

The qualitative case: stakeholder trust at the core

The qualitative case for effective reputation risk management can be made in two ways – one accentuating the negatives that will be eliminated or at least tamed if there is effective reputation risk management. The other is to accentuate the positive – all the good things that will happen to an organisation if it

has effective reputation risk management in place. Table 1 provides a summary of these points, most of which revolve around one critically important theme: maintaining and improving stakeholder trust lies at the core of effective reputation risk management.

While quantitative snapshots such as stock price analysis can be helpful, the qualitative measures of how key stakeholders seize up an entity are just as important or perhaps even more so when it comes to understanding an entity's long-term resilience and ability to recover its reputational health.

KEVORK DJANSEZIAN

Stakeholder trust is key

And that is because trust is at the core. When key stakeholders lose trust in the present and future reliability, efficacy, transparency, growth, quality or other tangible value of an entity, its leaders, products or services, that's when the reputational hit has a tangible 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.[3]

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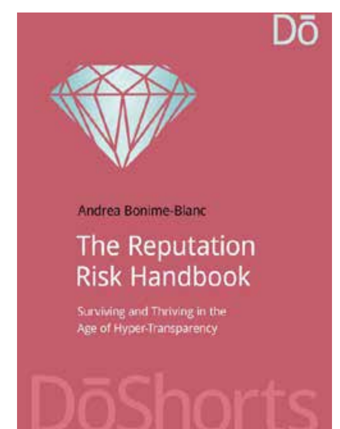
Table 1
The business case for effective reputation risk management

Factor	The negative case	The positive case
Stock or other value impact	Average 7% drop on public company stock (potentially similar financial impact on non-stock entities) (Kossovsky data)	Average 13% appreciation of public company stock when restoring reputation (potentially similar financial impact on non-stock entities) (Kossovsky data)
Investor impact	Loss of quality investors	Attract quality investors
Third-party impact	Worse third-party terms	Better third-party terms
Costs & expenses	Extra cost of liability, legal, compliance	Lower legal, liability or compliance costs
Time & resources	Loss of time, resources, creativity of workforce sucked into investigations & litigation	Time and work resources focused on developing & doing business, value creation

Investigations	One investigation will get you more, many more	Transparency will avoid or minimise investigations
Personal reputations	Reputations adversely, even irreparably damaged especially executives and board members	Reputations intact
Business/mission impact	Restructuring or demise of business or business lines	Resilience of business and business lines
Consumer impact	Consumer dissatisfaction and sales, volume, pricing losses	Consumer satisfaction, more sales, volume, premium pricing
Employee impact	Employee dissatisfaction, cultural malaise	Employee satisfaction, esprit de corps
New talent impact	Hits on recruiting new talent, loss of good talent, lost jobs	More jobs, attraction & retention of coveted talent
Regulator impact	Bad to worse relationships with regulators in multiple locations	Regulators more forgiving when/if a problem occurs
Media impact	Under the media microscope	Good media coverage, if any
Social media impact	The social media watch is on and uncontrollable, magnifies reputational damage	Social media coverage may be positive & useful to enhancing reputation

NOTES:

1. Economist Intelligence Unit. "A Crisis of Culture: Valuing Ethics and Knowledge in Financial Services". 2013.
2. Kossovsky. Reputation, Stock Price, and You.
3. Andrea Bonime-Blanc. "Risk and Opportunity: The Role of Stakeholder Trust." Ethical Corporation Magazine. May 8, 2014. http://www.ethicalcorp.com/stakeholder- engagement/globalethicist-risk-and-opportunity-role-stakeholder-trust



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