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Ethics Corner

Saving Reputations in Turbulent Times

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We live in the age of hyper-transparency and super-connectivity. Technology-enabled social media has given way to an unprecedented time of global communication, information access and the ability of just about anyone — from the private citizen in a war zone to the president of the United States — to disseminate the good, the bad, the ugly, the fake and the real, with unprecedented speed, at any time of day or night, to anyone and everyone, anywhere.

Given this reality, companies have some new things to deal with. One of them is the increased and confusing organizational reputation risk, as distinguished from personal reputation risk — though the two can also be interrelated. It's the dawn of a new era and businesses would be smart to prepare for turbulent times where traditional risk and crisis management need to adapt quickly to this novel form of reputation risk.

Reputation risk management is not the same as reputation management, which is all about image, brand and external relations with stakeholders. Reputation risk management requires effective enterprise risk management at the management level and effective strategic risk governance at the board level. Indeed, reputation risk is one of the key strategic risks all boards should be overseeing but few do. Therein lies some of the disconnect and trouble when a crisis hits.

Reputation risk is defined as an amplifier risk that layers on or attaches to other risks — especially environment, social and governance risks — adding negative or positive implications to the materiality, duration or expansion of the other risks on the affected organization, person, product or service.

Reputation risk can affect any underlying risk — amplifying and accelerating it — and it will do so negatively when the organization is not prepared to deal with a risk gone wrong or associated crisis. However, the organization that understands its underlying risks and is prepared to deal with them when the inevitable crisis comes, may actually be able to pull off a reputation opportunity event — where the deft handling of the crisis will reinforce the positive expectations of stakeholders.

A short list of some of the reputation risk cases seen over the past few years and their underlying amplified risks would include: Anthem, Target, the U.S. Office of Personnel Management and Sony Entertainment in the cyber-risk realm; BP in the environment for health and safety; corruption at Brazilian oil giant Petrobras; airbag manufacturer Takata's product safety issues; and Volkswagen for misrepresenting fuel statistics.

Smart risk and reputation management requires the creation of a triangular risk governance relationship between the board, the CEO and cross-functional and operational risk and reputation management. It involves a strategic focus not only on the downside of risk but the upside and opportunity of risk. An effective program creates an early warning system to prevent serious reputation damage. It will also prepare an organization for the crisis that will inevitably happen. It will build and embed better processes into the system that will curb or thwart bad behavior.

Smart risk and reputation management also adds value to the bottom line — through liability avoidance, cleaner and leaner processes and improved products and services. Indeed, properly deployed and integrated, strategic risk and reputation management will have a direct and positive impact on the financial bottom line.

There is a way to do this called "the magic triangle," which involves the CEO, an empowered risk executive and a risk-savvy board. This may also involve the creation of a new strategic executive — perhaps an empowered chief risk and reputation officer — sitting on the executive team, reporting to the CEO and the board.

Boards need to own risk oversight. CEOs need to be held accountable. They may want to consider a board risk, ethics and compliance committee with at least one independent director, savvy and experienced in these issues, not just tangentially but directly, proactively demanding a strategic approach.

This is the magic triangle. Together the CEO, the chief risk and reputation officer and the board will be able to triangulate risk and reputation management for the enterprise. And it's possible that such a strategic approach may uncover hidden business value that otherwise lies fallow and unexploited.

The real obstacle to avoiding scandal and to creating better risk and reputation management isn't that there's no solution. Boards and executives have a choice — take a strategic, instead of a haphazard, approach to risk and reputation management and unlock new value. This will make for not only a better and more resilient corporate citizen — it may also create a more sustainable and profitable bottom line.

Having good public relations is not enough to deal with the new, instantaneous and multifaceted phenomenon of asymmetric social media power. Companies need to marry effective PR to reputation risk management. Reputation risk management is not PR, but is grounded instead on several key building blocks such as knowing the company's key vulnerabilities and risks through effective enterprise risk management.

Having an interdisciplinary issues team comprising risk, PR, legal, business, outside experts, well-honed and rehearsed on the company's risks and potential crises and ready to go when things go wrong.

They should know the key stakeholders and their expectation, have a strong crisis management plan and team — including solid PR and media/social media tracking — and an engaged and prepared CEO and investor relations team, along with appropriate reporting to the board.

Knowing your risks and vulnerabilities and having the right people ready to go when the crisis erupts is the key to preserving long-term value in today's turbo-charged risk environment — no matter where the risk is coming from.

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