FEATURE

THE REPUTATION AND COMPLIANCE DYNAMIC

BY FRASER TENNANT

"It takes 20 years to build a reputation and 5 minutes to ruin it" Warren Buffett once said, succinctly alluding to the notion that although intangible, a good reputation is an extremely valuable asset, requiring careful cultivation and maintenance.

In a corporate world still recovering from the fallout from the global financial crisis, companies that have retained a solid reputation can continue to operate with largely unquestioned integrity, while others less fortunate in this regard must work hard to repair damaged relationships, build bridges and re-establish confidence. Moreover, when setting out to build, or rebuild, reputation, companies should not underestimate the increasing role that compliance standards have to play, especially since compliance departments generally report directly to the upper echelons.

Underscoring this contention is a December 2016 report by the Aite Group – “Trade Surveillance and Compliance Culture: Moving on Up” – which found that 68 percent of compliance professionals at financial firms worldwide believe that upholding the firm’s reputation is the primary objective of the compliance function. "While a regulatory fine is one of the most tangible and quantifiable results of a failure in the compliance process, firms overwhelmingly agree that protecting reputation is the actual core function of the compliance
department," says Danielle Tierney, a senior analyst at the Aite Group. Clearly then, reputational damage, whether caused by a compliance failure or otherwise, carries with it considerable costs. A loss of public trust is often only the beginning of a company's troubles. "Lawsuits, public hearings and investigations soon follow," attests Daniel Diermeier, provost of the University of Chicago. "In some cases public officials may sense an opportunity to pursue policy agendas or occupy the role of heroes taking on corporate villains. In other cases, regulators and politicians may feel the pressure of the public to take decisive action changing competitive environments."

With matters pertaining to reputation having the potential to impact, auspiciously or adversely, almost every facet of a company's operations, companies need to do their utmost to not neglect the reputation and compliance dynamic.

**Reputation as a corporate priority**

Residing fairly high on the corporate priorities list, reputation and compliance issues act as a magnet to stakeholders such as customers, investors and employees, as well as those parties responsible for the likes of regulatory or legal compliance and brand image – all playing a significant role and all wishing to have their voice heard. "Reputation should be driven by and from people at the highest level..."
- the chairman, board, CEO – and must permeate throughout the business,” says Joanna Biddolph, reputation and crisis management consultant at Amethyst Communications. “It is direction from the top that will provide the ethos that attracts staff, customers, suppliers and investors – anyone who enables success.”

Certainly, there is a consensus that reputation risk has emerged as a top issue for boards and C-suites over the past five years or so. Now, it is considered a strategic risk due to the material effect it can have on business plans, long-term strategy and even the viability of a business. “The reason this has only surfaced visibly in the past half decade is because of the fundamental, even tectonic, changes that are occurring in the marketplace – what I call the age of hyper-transparency and super-connectivity – where anything can be said anytime, from anywhere, by anyone, whether it is true, false or somewhere in-between,” explains Dr Andrea Bonime-Blanc, chief executive of GEC Risk Advisory. “Many leaders and organisations are acknowledging that this issue is important but are struggling with how to deal with it.”

Much of the difficulty, as one might expect, stems from the array of organisational needs, business goals, commercial and regulatory requirements, and risk and crisis mitigation plans that companies address on a day-to-day basis, all of which influence the decisionmaking process. The decisions taken, in
turn, directly and indirectly affect reputation, investor and consumer confidence and brand management.

“There is a variety of institutional policies and postures, whether focused on compliance or otherwise, which can trigger unintended consequences and destabilise, rather than securitise, reputation,” says Dr Alexander Stein, founder of Dolus Advisors. “For example, merely asserting that compliance is a corporate priority does not by itself translate into being an actual compliance measure or a viable anti-crisis strategy. Organisations that maintain compulsory compliance standards primarily to avoid regulatory scrutiny and sanction, rather than as an integrated feature of principled governance and ethical commercial practices, are only courting eventual disaster no matter how conservative their policies and operations may appear."

Despite this potential for ‘eventual disaster’, there is still a large number of companies that consider the building of a strong reputation to be easy, requiring only the application of common sense – a natural consequence of doing right by customers, employees and business partners. “This approach is flawed,” states Mr Diermeier. “Good business practices are important, even necessary, but they are not sufficient for successful reputation management. A company’s reputation needs to be actively managed as any other core business asset. It requires a high level of strategic sophistication and mental agility that sometimes runs counter to day-to-day business decisions.”

Roles and responsibilities

While the ultimate responsibility for a company’s reputation and compliance responsibilities rests within its upper echelons, many companies hand this aspect of their operations over to a specific individual or team, often a chief reputation officer (CRO) within a compliance department. “The individuals tasked with the protection of an organisation’s reputation should be sufficiently senior within the business to be able to advise, and be heard by, CEOs, chair and board members and staff at all levels,” says Sue Stapely, reputation management consultant at Sue Stapely Consulting. “Training is, of course, essential but rigorous monitoring and review of protocols and procedures is also vital.”

Appointing a person or persons to look after reputational issues of course makes sense in larger businesses, but no matter the size of the entity, there must be continual support and interest shown by the board and CEO, as well as an ongoing commitment to ensuring reputation and compliance does not drop off the agenda or out of people’s minds. “The importance of reputation must not be left to a one-off course for new joiners,” declares Ms Biddolph. “It must be promoted repeatedly, directly or indirectly, in every communication, action, contract, presentation and discussion – both internally and externally.”
Protocols and pitfalls

Despite the emergence of reputation and compliance as a corporate priority, along with the implementation of bespoke solutions such as the appointment of a CRO, many feel that companies should be doing more in terms of making themselves more responsible and accountable. However, in attempting to do so, many fail to pre-empt common pitfalls. “Many people carry reputation in mind but fail to pass it on,” says Ms Biddolph. “It must be actively promulgated with everyone required to follow it. On social media, every business needs a strategy. It is not enough just to be there. For example, a client asks a member of staff who is active on social media to set up Twitter and Facebook accounts. Tweets and posts go out thick and fast, with many Retweets and Shares. The upshot of this is that there has been an error to consider reputation and, just as importantly, what the recipient needs. If Tweets or posts seem irrelevant, followers will learn to skim past them and your work will be pointless. There must be a strategy that supports your business reputation, a strategy which is then stuck to.”

For Ms Stapely, avoiding common pitfalls can best be managed by investing time in recruiting the right people, with new recruits being thoroughly trained in risk analysis and reputation defence procedures. “Most of the companies which find themselves reputationally challenged have placed too much power in the hands of too few, have neglected regular risk audits, have few if any risk management protocols in place and assume if there are inadequacies they will never come to light,” she says. “If and when something does surface which can jeopardise sometimes years of carefully-built brand awareness, customer loyalty and reputation too many businesses adopt an ostrich stance and leave tackling the issue too late. Admitting that there have been errors, apologising without necessarily assuming liability, showing leadership and empathy have often resulted in an organisation recovering fast and sometimes doing better than those which have never given rise to concern.”
Another pressing concern for those tasked with overseeing a company's reputation and compliance function is the demanding nature of the current regulatory landscape – an environment that is encouraging companies to establish and embed robust ethical standards. That said, the actions of companies faced with a fraud, impropriety or other reputation-threatening crisis, if not managed properly, can potentially lead to even greater losses. "An unprincipled race to preserve face can do far more harm than good in the long term," insists Dr Stein. "Crisis mitigation and response protocols must entail management of public relations, but also immediate loss assessments and recovery strategies coupled with a willingness to bear responsibility for faulty decisionmaking and a pledge to learn from mistakes made."

**Reputation and compliance evolution**

In this post-global-financial-crisis world, lackadaisical attitudes toward reputation and compliance standards are simply no longer acceptable, exemplified by the number of firms hit with business-ending regulatory censures or with top executives facing the prospect of prison.

"Reputation risk as a corporate issue is not going away," says Dr Bonime-Blanc. "If anything, it is morphing and changing in reaction to some of the technological, risk and communications shifts we are seeing in the marketplace – witness the rise of fake news in the past year, to such a point that the reputations of political candidates and even nations have been called into question or compromised." To tackle emerging scenarios such as these, many are calling for the introduction of more sophisticated ways to manage reputation and compliance issues, both qualitatively and quantitatively, with big data analytics and artificial intelligence among the tools suggested.

"Reputational difficulties are understandable, and even predictable, challenges that should be expected in today's business environment," says Mr Diermeier. "As a result, companies should handle reputational crises like any other major business challenge – based on principled leadership and supported by sophisticated processes and capabilities that are integrated with the company's business strategy and culture."

The relationship between reputation and compliance is key. Building a reputation that meets stakeholder expectations of a company's ability to deliver long-term value, alongside a compliance function no longer pigeonholed as a mundane, administrative task, is now the benchmark and an integral part of a company's operations.