Are you managing reputation risks strategically?

Reputation: a strategic asset

Reputation risk is an increasingly relevant strategic issue for organizations because there is so much at stake. A tarnished image can severely impact an organization’s ability to sell products, recruit staff and attract investors. Unfortunately, reputation damage may emerge from seemingly minor issues which can deteriorate very quickly with little notice or recourse. So while reputation risk deserves to be managed like other strategic risks, it is not often addressed adequately.

Your organization works hard to maintain a good reputation through high-quality products and excellent customer service, dependably delivered. You make decisions for your organization based on how it will affect your image. Over time, this will build brand loyalty. Consumers are 350 percent more likely to purchase products of highly regarded companies, according to the US Reputation Pulse. It’s easy to recognize that a strong reputation is a cornerstone of a successful business. But it is far more challenging to understand and address potential threats to your group’s reputation.

The reality is that when it comes to managing reputation risk, many organizations tend to practice ‘damage control.’ While this addresses issues that have already occurred, a more proactive approach can address issues that are likely to emerge. Understanding your potential for reputation risk can be challenging because it is very difficult to measure. However, any organization can benefit from developing an early warning process to help identify reputation risk and get out ahead of a threat before it can cause damage. The purpose of this article is to raise awareness of the reputation risk your organization faces and identify tools available to defend against it through strategic reputation management.

Reputation risk: the accelerating factors

Surprisingly, social media is not a consideration for 33 percent of C-suite-level respondents, according to a 2010 survey by the Economist Intelligence Unit. This is alarming, as the social media space continues to clearly demonstrate the power of its influence. Various social media sites and blogs have recently acted as incubators for activist movements around the world, fostering social uprisings and enabling communities to organize incredibly quickly to advance their agendas. These sites are highly accessible thanks to the proliferation of mobile devices across the majority of the global population. Similarly, organizations increasingly leverage technology in every aspect of their operations, such as utilizing a variety of e-commerce tools. This may increase efficiency, but it also makes the organization susceptible to IT security breaches that can destroy customers’ confidence and trust. For these reasons, technology is a reputation risk factor that cannot be ignored.
Other accelerating forces include 24-hour news channels and sensationalist media outlets. They can quickly cause a negative news story to spiral out of control, and possibly bring your company down with it. In order to manage this risk, you must truly understand how these new media sources can affect reputational issues. For example, journalists work in a small community, relying on each other to discover newsworthy stories. They often follow the leader to bring the story to their respective audiences. By identifying the influential opinion leaders, an organization can begin to manage the stream of information. Proactively managing your organization’s reputation may seem like a daunting task, but it can be achieved through practical steps.

Techniques to manage reputation risk

Early detection of a reputation risk is vital to your company, so the tools and tactics your organization uses should help identify issues as early as possible. Only then can proactive steps be taken before a crisis occurs. “If your organization addresses an issue early on, you can monitor the results of your own response and set strategy accordingly,” said Linda Conrad, Director of Strategic Business Risk at Zurich. This can provide a more timely indication of whether the issue is likely to dissipate or continue to grow, allowing for the appropriate amount of effort to resolve it.

Understanding stakeholder groups

- Who are they? (demographics, psychographics, geographical dispersion, etc.)
- How big is their group?
- What are their tendencies?
- Are they loosely organized or strongly led?
- Does the group consist of sub-groups?
- To what media sources do they subscribe?

Identify and analyze stakeholder groups

It is key to recognize your organization’s various stakeholder groups and balance the differing interests. For instance, internal stakeholders (i.e. – employees and investors) will have interests different from external ones (i.e. - customers, regulators, media, analysts and counterparties). Also, consider the wider public, which may have no stake at all under normal circumstances.

Once the salient internal and external groups are identified, it is necessary to analyze these groups to understand how they may react to various types of developments and scenarios. The questions in the box to the lower left can assist you in starting to develop a stakeholder profile.

Incorporate stakeholder analysis into operational strategy and tactics

By understanding the profile of each of the groups that has a stake in your organization, you may begin to align internal strategy. It is crucial to identify the departments within your organization that communicate with each group, and whether these departments should interact with each other.

For example, you may achieve certain objectives if your Marketing and Corporate Social Responsibility departments communicate consistently to their respective stakeholder groups on certain issues. Failing to do so could cause unintended damage to the organization’s reputation.

Measure and monitor threats to reputation

One approach to the measurement of reputational risk is the establishment of Key Risk Indicators (KRI’s). This can facilitate identification of negative trends as early as possible. KRI’s are data points used to monitor specific risk issues. Surveys that capture information from current employees and exit interviews from departing ones offer valuable information.

Third parties can be contracted to solicit feedback from customers and other external stakeholders. These surveys can establish Key Reputation Risk Indicator trends to help an organization understand its perception with each stakeholder group. While this information is valuable, it still might not provide an early enough warning for many of today’s rapidly developing risks. To stay ahead, an organization must monitor information in real time. Techniques to track reputation in real time include internet monitoring, media monitoring and strategic media intelligence.

- Internet monitoring

Internet monitoring is an effective way to stay abreast of your organization’s reputation and position. Some sites enable you to monitor search terms for free by subscribing to a specific query (i.e. – “Acme Corp.”), alerting you whenever it appears. This can help build a basic understanding of the reputation and is a common place to start before engaging in more sophisticated practices.
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- Media monitoring
  Media monitoring (often called ‘clipping’) services offer a more advanced option to understand the evolving image of your organization. Many firms offer customized monitoring services, with simple services starting at reasonable rates. These services troll the internet for any mention of the client, and can include mainstream electronic news sources, social media outlets, blogs and forums. Also, multiple search terms can be used to include key products, executives, competitors, etc. Each hit is ‘tagged’ by the search engine, so that it can be compiled into a dashboard report for the client. Clipping services rely almost exclusively on sophisticated software programs, so important information is often missed. Even the most sophisticated algorithms used by clipping services are susceptible to linguistics errors. For instance, a software tool can misinterpret a message completely when it fails to identify sarcasm used by the source. Also, paraphrased quotations are difficult to identify and likely will not appear in the results. Or, if a source cites both positive and negative points, the software may be unable to determine the overall tone. For these reasons, clipping services may not be sufficient for large organizations that need more detailed information on public perception in order to act strategically.

- Strategic media intelligence
  Strategic media intelligence builds a true understanding of what makes up an organization’s reputation, and what steps should be taken to proactively manage it. Highly specialized firms analyze the media by filtering out irrelevant information, determining influential sources and predicting outcomes. This approach helps the organization leverage media to target its distinct stakeholder groups, enhancing effectiveness of media relations activities and integrating brand management into strategic decision-making. These media intelligence firms advise clients on how to effectively dilute negative stories, thus enabling the organization to overcome them. This is possible by maintaining a consistent media presence above a quantified target, called the “awareness threshold.” Roland Schatz, CEO of Media Tenor, helps clients understand where the awareness threshold is and how to align it with the corporate goals and objectives. In practice, this could be setting goals for Board members and executives to each provide a certain number of interviews annually, and then linking the media relations team’s compensation to the performance of this goal.

Integration with the Enterprise Risk Management program

To realize maximum benefit to the organization, the ultimate objective should be to incorporate strategic reputation management within an overarching Enterprise Risk Management (ERM) program. Although it may take years to fully implement, you can begin or increase effectiveness by following a pragmatic plan. The main components to focus on are the risk policies, the approach to risk analysis, and the response plan.

A critical piece of your organization’s strategy should be a clearly articulated policy toward managing reputation risk through open and honest communication. A company is generally better situated when it immediately addresses an issue, as it helps to shape public opinion. Also, the downside exposure is limited since there will be fewer surprises to come. A company culture that embraces this philosophy can help develop and maintain a strong reputation. To embed this risk awareness within your organization, a training program should be developed to provide all employees with a minimum understanding necessary to allow them to effectively identify sources and behaviors that imperil the reputation of their company.

It is also important to identify and assess reputation risks from a top-down perspective. Risk assessments can be conducted for each business area, from the shop floor to the Board room, and compiled to build an understanding of the related exposures across the enterprise. By identifying and quantifying reputation risks through a structured and repeatable methodology, you can better understand the elusive indirect costs an event can have.
These risk assessments can be used to review current operational risks, as well as to identify emerging issues in proposed future activities. This work can be used to develop heat map reports that inform the Board and senior management, thus supporting strategic decision-making. The information could even be leveraged to develop a stronger, more regular media presence, thus potentially capitalizing on the additional advertising.

As part of an overall enterprise resilience and continuity effort, a crisis response plan should be developed that includes proactive communication and public relations measures. Today's fast-paced environment will leave little time to formulate a response, so the plan must be rehearsed and updated regularly. When an issue arises, you must understand which stakeholders are affected and in what way. Major reputation problems may need to be addressed directly by senior leadership to assure the public that the organization is taking the situation seriously.

It is also important to consult legal representation far in advance of, and frequently during, any event. Your organization must balance exposure to litigation with the need to swiftly salvage its reputation. Discuss scenarios with your legal counsel to determine if they can support both business needs and legal responsibility.

To paraphrase one well-known, independent investor, a reputation takes years to build, but can be destroyed very quickly. By treating your reputation as a strategic asset, you can help reduce your exposure to brand damage and build a competitive advantage. Start by understanding each stakeholder group and your organization's perception, to identify vulnerabilities. Then determine how you wish to change or maintain this perception, and develop a plan. The tools and techniques to achieve this are within your grasp, but are most effective only if put in place before an event occurs.

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1. Economist Intelligence Unit
   http://www.managementthinking.eiu.com/redefining-customer-value.html
2. US Reputation Pulse
   http://www.reputationinstitute.com/global-reptrak-pulse

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