



## **Years to build – seconds to lose**

*Presentation by Jane Ridley - Jane Ridley Consulting Ltd*

(nb – these notes should best be read in conjunction with Jane's Powerpoint presentation slides)

This is a massive subject, and certainly too large to be adequately covered in 45 minutes: Jane acknowledged that many areas would receive only superficial cover, but did undertake to try to

- clarify what reputational risk is,
- discuss how reputation is lost,
- build a picture of an unfolding crisis,
- consider how to avoid problems through a reputational risk strategy.

### **What is Reputational Risk?**

We tend to focus on catastrophic events: however, whilst most crises don't result in catastrophe, they almost always result in damage to the brand. Organisations are good at understanding physical assets, but are not always so good at understanding the intangible assets such as reputation, even though this is where most damage is often done. Reputation is all about perception, which may not always match the reality!

AON's survey of Risk managers, Insurance managers and FDs in the top 100 European companies showed loss of reputation as the second greatest business concern, after business interruption. However, whilst this does keep people awake, this is less so where the organisation has a Reputational Risk Protection Strategy. Unfortunately very few professional firms are effective in Rep. Risk management. Firms often see this as a subject to be managed by PR: however, this should NOT be delegated – PR is not the answer, although it is likely to play some part in the solution, and you are unlikely to be able to spin your way out!

Reputation is usually the most valuable commodity owned by an organisation, but it is the least well understood, it is rarely owned by the most appropriate stakeholders and is therefore badly managed, and as a result damage is commonplace.

### **How reputations are lost**

Reputations are usually lost by a process of erosion, not a single event (although remember Perrier, Andersen). Grumbles from disenfranchised employees, unhappy clients, rumours of poor HR practices, or bullying, things which are swept under the carpet to protect reputation but which may achieve the opposite, a tendency for denial rather than confronting issues, a poorly managed crisis: all of these things and many more can eat away at reputation. The strength of your brand and reputation determines how tolerant your stakeholders will be of your misdemeanours –

Reputational Capital – but this can create a false confidence, and the capital can be rapidly eroded – each “forgiven event” rapidly increases your vulnerability.

There are usually early warning indicators that things are going wrong, such as loss of partners/personnel, loss of clients, rumours circulating (“soft”) audit reports, analysis of escalating complaints, exit interviews, staff survey findings, level of claims (“hard”). Alert businesses should be tuned in to these signals.

### **How a crisis unfolds**

Often a crisis is compounded because the people fail to spot it early enough, or fail to spot it’s significance, they respond too late, assume someone else has spotted it , spot it but fail to share it with the wider organisation. Instead of then following an established plan, firms often then try to buy time the wrong way, by guessing as to the causes, by refusing to comment, or by issuing an instant denial. Early decisions are made often with scant information and under great pressure, which trigger off the Denial Curve: common sense goes out of the window we act on the information we know but fail to recognise what we don’t know and give ourselves space to deal with that as those facts emerge. Rather than deny, or respond robustly, it is usually best to be non-committal at the outset - a holding response pending investigation and clarification, rather than a definitive answer. If the denial curve is triggered, this often leads to critical delays, ill-founded denials, incorrect actions, and a perception of arrogance, uncaring, evasiveness, incompetence, self-protection.

Often, an organisation will pull together a group to deal with a crisis. The danger is that such groups often reach decisions without weighing all the facts, or the tendency for group consensus outweighs the reservations of individuals. To be effective in a crisis the group must comprise robust, independently-minded individuals who will think outside the box. They must not be “Yes-Men”, and they must be prepared to consider all the facts. A good chairman is essential.

### **Creating a strategy**

A Reputational Risk Strategy must be built on a clear understanding of the reputation which is to be protected: the strategy must be one which sets standards and influences corporate behaviour and the behaviours of individuals (avoiding problems), it must have an early-warning system, eg KPIs, client surveys etc (detecting problems), and it should have mechanisms/plans for how to proceed when things go wrong (dealing with problems). The strategy should identify the key aspects of the organisation’s reputation, who are the key stakeholders, what issues are sensitive, and what is the manner in which they should best be addressed. The strategy should be clearly organised, should identify with whom responsibilities lie for particular actions or outcomes, and should incorporate appropriate reporting mechanisms.

This presentation could only really be expected to give us a taste of this massive and complex subject. It was clear to all, however, that it is a matter of the utmost significance, and one which firms will ignore at their peril.

**“Reputation, reputation, reputation! O! I have lost my reputation. I have lost the immortal part of myself, and what remains is bestial” - OTHELLO**

William Arthur – Director, Fremont Consulting Limited  
[wga@fremontconsulting.co.uk](mailto:wga@fremontconsulting.co.uk) , [www.fremontconsulting.co.uk](http://www.fremontconsulting.co.uk)