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Defining and managing reputation risk

A framework for risk managers

Guide 2015

REPUTATION INSTITUTE

Contents

Airmic would like to thank Reputation Institute, which has shared its approach to defining and valuing an organisation's reputation. If you would like more information on this framework please contact Kasper Ulf Nielsen (knielsen@reputationinstitute.com)

About Reputation Institute

Reputation Institute is the world's leading reputation management consultancy, enabling leaders to make more confident business decisions. Independently owned and founded in 1997, Reputation Institute is the pioneer in reputation management operating in 30 countries. Through reputation insights and advice Reputation Institute enables leaders to make business decisions that build and protect reputational capital and drive competitive advantage.

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To find your local office please visit our website: www.reputationinstitute.com/contact-us

Introduction

The objective of the guide is to enable risk managers to lead an organisation's approach to reputational risk management. The guidance sets out a framework for breaking down the elements of an organisation that govern its reputation. Risk managers can use this framework to identify the possible risk events that affect each of these dimensions, and the stakeholders that are subsequently affected. This will allow for a structured approach to managing reputational risk.

Reputation risk is an ongoing yet growing concern for companies. Airmic members report reputational risk as both their number one 'keep's me awake at night issue' and a high concern for their executive management and Board. This is no surprise in today's world where social media has made it possible for news to travel around the world within minutes and the perception of who you are as a company has a direct impact on several factors, including sales, stock price and licence to operate. High-profile incidents such as BP's Deepwater Horizon oil spill disaster in 2010 alert companies that a reputational problem can cause short-term issues to develop into long-term impacts including reduced profits, loss of customers and key employees, and eventually a slump in share price.

Despite this concern, only a third of Airmic members have a high degree of confidence in how their firms manage reputational risk and just 3% of members currently purchase insurance cover for reputational exposures. Airmic members specifically report that they face hurdles in determining how to define and value reputational risk. However, with pressure from above three-quarters of members plan to develop an approach to reputational risk management in the next 12 to 18 months. Kasper Nielsen, Executive Partner at Reputation Institute, can understand the difficulty: *"Reputation is the perception others have of you. It's a feeling, which makes it intangible. And managing something which is hard to define is difficult. To understand reputation you need to make the intangible tangible. You need to break down your reputation into specific components that you can measure and manage. Then you are able to identify the specific impact from a crisis or an issue on your reputation and manage it."*

The goal is clear–to outline a systematic process for identifying, evaluating and mitigating reputation risk. Airmic engaged with Reputation Institute, whose RepTrak® framework identifies the seven 'reputation dimensions', which govern how stakeholders perceive an organisation.

This guide describes this framework and maps out a simple and structured approach for using it to manage reputational risk. In addition, the guide considers that although the current market for dedicated reputational products is limited, the individual events that can dent an organisation's reputation often are insurable. This can place risk and insurance managers in a better position for leading the organisation's response to reputational risk. Appendices at the end of guide provide example matrices which can be used to identify the possible events and the key stakeholders that determine an organisation's reputation.

The business case for reputation

The success of an organisation is dependent upon its stakeholders supporting it. John Ludlow, SVP and Head of Global Risk Management at Intercontinental Hotels Group expands: "*Reputation is a big chunk of intangible value which maintains the confidence of stakeholders such as the company's owners, suppliers, governments and other businesses, who sit among its customers*". To gain the support of the stakeholders an organisation must deliver on the following:

Products and services that *customers* both buy and recommend

Compliance with applicable requirements to obtain a 'license to operate' from *regulators*

Financial performance which ensures *financial analysts* will recommend its stock

An appropriate marketing strategy which engages the *media*

Employees who can deliver on its strategy.

Therefore, it is critical that stakeholders, customers, regulators, financial analysts and investors, media, business partners and employees are confident in the output of the organisation and trust that it can deliver on its promises. This trust in the company underpins its reputation. In order to gain this trust, an organisation needs to deliver across seven core areas:

Products / services

Innovation

Workplace

Governance

Citizenship

Leadership

Performance

Reputation Institute defines reputation as the emotional connection between stakeholders and organisation.

This reputation can be measured by the level of trust, admiration, respect and good feeling from its stakeholders. Reputation Institute measures reputation on a scale from 0-100, where the global average for companies is 64.

- 0-40 is considered weak
- 40-60 moderate
- 60-70 average
- 70-80 strong
- 80-100 excellent.

Reputation Institute conducted a UK survey in 2015 which demonstrated clearly that companies with strong reputations see increased support from their key stakeholders. The survey specifically showed a strong correlation between a company's reputation and a consumer's willingness to recommend it to others and to buy from it. For companies with excellent reputations, 83% of consumers say they would definitely buy their products. This contrasts with only 9% of consumers who would do the same for companies with a weak reputation. The business case for companies to invest in their reputation is undeniable.

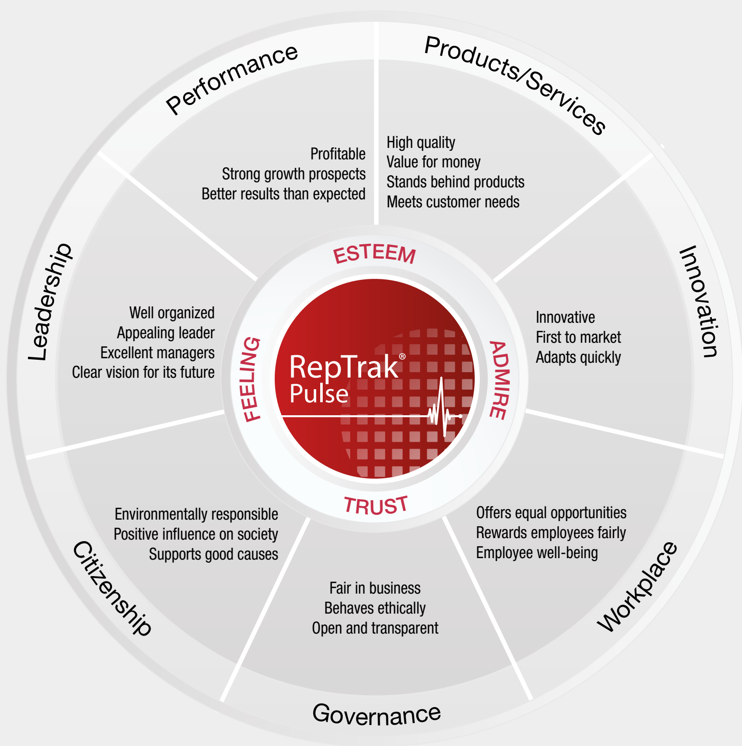
Currently, word of mouth is the number one driver of sales and competitive advantage. Investing in reputation can affect the bottom line in that it drives recommendations and improves word of mouth. Reputation Institute has proven that an organisation that can move its reputation from weak to strong, can increase the number of consumers who will definitely say something positive about it from 8% to 50%. It is worth highlighting that a good reputation will positively influence the conversation on social media, which for many organisations is where the battle for sales growth is taking place these days.

Section 1: The building blocks of reputation

Airmic members report that a key challenge in managing reputational risk is identifying the potential risk events. An organisation must be able to identify which issues and events will effectively dent its reputation and which events are unlikely to impact the opinions of its customers, employees and business partners.

Reputation Institute has been studying reputation and the impact that perception has on business success for over 15 years, and has developed the RepTrak®, which measures and assesses reputation, based upon this research. This model expands on the idea that stakeholder trust, respect and good feeling towards an organisation arises from a number of different expectations. These expectations have been classified into the seven dimensions of the RepTrak® framework.

Figure 1: The Reputation Institute RepTrak® framework



Building a strong reputation requires delivering on each dimension. If an organisation is perceived to be delivering on each of the seven dimensions by its stakeholders, the increased trust and support will build a strong reputation. In contrast, if an organisation isn't perceived to be delivering on each dimension, stakeholders will lose trust, and subsequently not buy, recommend, invest in, work for or even give the benefit of the doubt to that organisation.

Reputation Institute describes a reputational risk event as one that can affect each of the dimensions in the following ways

Products / Services: Issues that will reduce people's belief that we deliver high quality products and services that are good value for the money

Innovation: Issues that will reduce people's belief that we are an innovative company that brings new products and services to the market first

Workplace: Issues that will reduce people's belief that we have the best employees and that we treat them well

Governance: Issues that will reduce people's belief that we are open, honest, and fair in the way we do business

Citizenship: Issues that will reduce people's belief that we are a good corporate citizen who cares about local communities and the environment

Leadership: Issues that will reduce people's belief that we have a clear vision for the future and are a well-organised company

Performance: Issues that will reduce people's belief that we are a profitable company with strong growth prospects.

Kasper Nielsen, Executive Partner at Reputation Institute, "When a negative issue or crisis emerges the question is to what extend it will reduce the perception of the organization to deliver on the specific expectations within each dimension. In assessing this you can assess the reputation risk of any issue."

Understanding the reputation risk to an organisation

Organisations can assess a variety of risk events and issues against each of the dimensions laid out above, to gauge the effect on their overall reputation.

Determine the reputational consequences of potential risk event
When assessing the reputational damage caused by an event, the organisation must consider the extent to which the event will reduce people's belief that the organisation is delivering on each dimension in turn. Table 1 provides example criteria to make this assessment, and risk events that may affect the assessment. Appendix 1 expands upon the consequences and affected stakeholders for some of the most significant risk events.

Table 1: The seven dimensions driving reputation

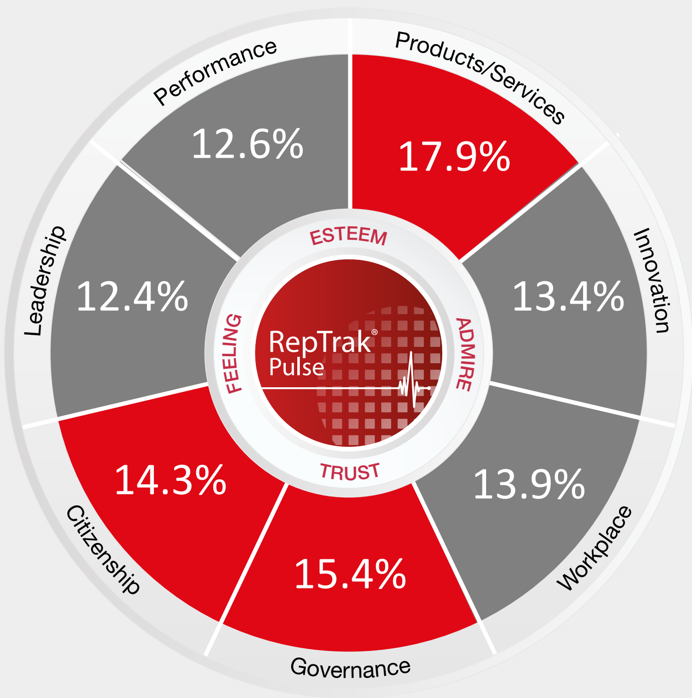
Dimension	Expectation	Assessment criteria	Potential risk events
Products / services	Organisation can deliver high-quality products and services at a good value	The organisation: • Offers products that are of high quality • Offers products and services that are of good value for money • Stands behind its products and services • Meets customers' needs	• Product recall or product liability event • Supply chain failure, including reputational damage of a supplier • Customer complaints
Innovation	Organisation is innovative and brings new products to market	The organisation: • Is an innovative company • Is generally the first company to go to market with new products and services • Adapts quickly to market trends and changes	• Lack of strategic thinking from senior management • Falling behind the market • Failed product launch • Failure to update technology platforms, e.g. on-line sales platforms
Workplace	Organisation treats its employees well	The organisation: • Offers equal opportunities in the workplace • Rewards employees fairly • Demonstrates concern for the health and well-being of its employees	• Health and safety complaints / compliance breach • Employee behaviour, e.g. fraud • Breach of ethical employment practice
Governance	Organisation is open and honest in the way it does business	The organisation: • Is fair in the way it does business • Behaves ethically • Is open and transparent in the way it does business	• Breach of regulatory / statutory compliance • Fraud
Citizenship	Organisation is a good corporate citizen and takes responsibility for its actions	The organisation: • Is environmentally responsible • Supports good social causes • Has a positive influence on society	• Environmental issue and lawsuits • Events causing major loss of life • Allegations of tax avoidance
Leadership	Organisation has a clear vision for the future of the company as well as its industry	The organisation: • Is a well-organised company • Has a strong and appealing leader • Has excellent managers • Has a clear vision for its future	• Death / disgrace of senior management • Regulatory action, including criminal prosecution • Management behaviour • IT failure • Inappropriate incentive structures
Performance	Organisation delivers strong financial results that will ensure that the company is around for years to come.	The organisation • Is a profitable company • Shows strong prospects for future growth • Shows better results than expected	• Profit warning announcement • Loss of major contract • Major uninsured loss

Determine the stakeholders affected

After having identified the individual dimensions affected by a risk event, the organisation will be in a position to identify the affected stakeholders. As not all dimensions are equally important to different stakeholders, the same event will have a different reputation risk impact depending on the stakeholder exposed to it.

This figure, extracted from Reputation Institute's 2015 survey with the Informed General Public in the UK, displays the relative importance of each of the seven dimensions for the UK general public when forming its perceptions about an organisation. The three most critical dimensions (coloured red) are Product/Services, Governance, and Citizenship. They make up 47.6% of the general public's perception of a company. Risk issues and events impacting on these three dimensions have the potential to damage an organisation significantly, and therefore should be the focus of the reputational risk management efforts.

Figure 2: Reputation Institute's assessment of the weighting of each reputation driver



Factor Adjusted Regression
n = 21,600
Adj-R^2 = 0.697

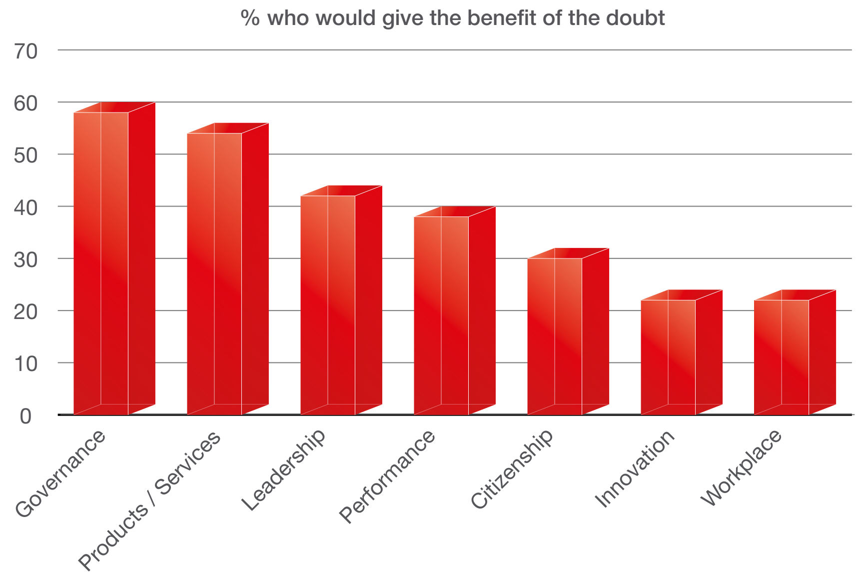
As all organisations are different, the risk manager must identify which stakeholders are most critical. Appendix 2 sets out an example framework for identifying which stakeholders are affected by each of the seven reputation dimensions identified by Reputation Institute. Risk managers are advised to work with senior management and all business units to populate this framework, and therefore determine which dimensions are of highest priority when managing reputation.

The current reputational risk landscape

In March 2015, Airmic surveyed its members about their current strategies for defining and managing reputational risk, and asked: "***Where do you see the greatest likelihood for reputational risks materialising in the future?***" Figure 3 highlights that most member organisations believe that reputation risks are likely to arise within the governance of the organisation, i.e. 60% of member organisations are concerned about the potential for events or issues to reduce the perception of them as ***open, honest and fair in the way they do business***. Additionally, 56% of member organisations believe issues may arise from the delivery of their products and services, and 44% are concerned about reputational issues arising from the leadership of the organisation.

It is interesting to note that all seven of the reputational dimensions are considered to be critically important to Airmic member organisations. Appendix 1 describes a variety of possible risk events that can impact each of the seven reputational dimensions, and the impact of these on the organisation and the perceptions of its stakeholders. Organisations can work through this appendix, identifying which events may impact on their reputation and therefore prioritising the dimensions that are of greatest significance to their reputation.

Figure 3: Area where reputation risk may materialise



It is worth highlighting–that within each risk event there is the potential for multiple reputational risks. For example a product recall will not only reduce stakeholders' perceptions within Product/Services, but additionally there could be an effect on their perceptions of Leadership and Performance. Again, a legal issue will not only have a detrimental effect on the perception of Governance, but may also reduce the trust in the leadership of the organisation and its commitment to society.

Reputation institute's summary: Defining your reputational risk

Reputation Institute defines the reputation of an organisation as the level of trust, admiration, good feeling, and overall esteem a stakeholder has for that organisation. This reputation is driven by the perception of an organisation on seven specific dimensions, where a loss of trust in any dimension will cause a reduction in reputation. Reputation Institute therefore describes a reputation risk as *"A negative event that will reduce the perception of you delivering on expectations."*

The RepTrak® framework allows an organisation to measure the potential reputational risk of each negative event. This structured approach allows an organisation to consider the impact of a risk event on each of the seven dimensions from the perspective of perception. Organisation's should both consider the magnitude (the objective quantification of the risk's size put on a scale from low to high) and the likelihood (objective quantification of the risk's probability put on a scale from low to high) when assessing the overall reputational risk of an event. This allows for prioritisation and action.

Section 2: Managing reputational risk

Having identified the areas where reputational risk can arise within an organisation the risk manager should ensure that the right structure is in place within the organisation to deal with events that threaten the organisation

Kasper Nielsen, from the Reputation Institute stresses the importance of looking at risk events through a reputational lens, and managing them accordingly, "*Leading companies constantly monitor how stakeholders such as customers, regulators, key opinion leaders, employees and financial analysts perceive the company on the key dimensions of reputation. By understanding this perception, organisations can identify the potential risks before they happen and mitigate them before they turn into full blown reputation crises.*"

The importance of managing reputational risk and responding quickly to a risk event that can affect the reputation of an organisation is highlighted in Appendix 3. This appendix compares two reputational risk events involving product recall that were initially considered within the Airmic *'Roads to Ruin'* research and highlights the importance of reputation in the ongoing success of the organisation. In the comparison, effective risk management at Coca-Cola meant that the product recall event had little impact on the reputation of the organisation and the long-term consequences were minimal. In contrast, the reputational effect of the incident at Land of Leather led to a huge decline in its reputation and brand, and subsequently the organisation went into administration.

The Reputation Risk Management Process

Reputational risk management can be approached using the following process;

Impact: *Determining the severity of the event on the reputation of the organisation.*
It is important to understand the different types of reputation risk and their 'multiplier' effect. These can vary from industry to industry. This stage requires an assessment of the impact on the key internal stakeholders, especially when it comes to identifying risks and assessing the likelihood of these crystallising.

Readiness: *Establishing the appropriate controls and procedures to respond to the event.*
This factor defines how mature a company is in its reputation risk management processes, i.e. its ability to manage a negative event if and when it happens. Interviews with key internal stakeholders need to be conducted to understand alignment and capabilities.

Monitoring: *Understanding the effect on reputation over the long term.*
The organisation should adopt a process that tracks progress towards managing and mitigating reputation risk over time.

Table 2 expands upon the steps in managing reputation risk.

Figure 4: Reputation Institute's reputational risk management pillars

Table 2: The reputation risk management process

Impact	**A reputation risk framework must begin with an assessment of the magnitude and likelihood of the specific risks, leading to prioritisation and action.**
Readiness	**Assessing the internal capability to manage the reputation risk is as important as understanding the external impact of the risk event materialising. The organisation should prepare a blueprint of its capabilities to cope with risk. To do so, the organisation should understand the levels of integration (internal alignment) and the levels of responsiveness (preparedness to react).** Impact and readiness represent the external and internal elements of reputation risk management respectively. By understanding the impact and preparing arrangements to respond to a risk event the organisation can respond to reputation risks in an effective and consistent way.
Monitoring	**Monitoring tracks progress over the long-term and can provide an early warning for potential reputational risk. Reputation Institute recommends preparing a reputational scorecard, which allows the organisation to identify the reputation dimensions that are impacted as a consequence of an event, and how these change over time. Reputation Institute's standard RepTrak® scorecard compares the seven dimensions of reputation, against 23 single statements (attributes) distributed across the reputation dimensions.**

Action	Objective	Process
Risk identification	Investigate the reputation challenges that the organisation has faced in the past, is facing currently and could potentially face in the future	• Workshops with key internal stakeholders Comparison of risk event and reputational impact • Benchmark risk events and consequences occurring within other companies, e.g. through Reputation Institute's database
Assessment of reputation risks	Evaluate the magnitude of each risk, as well as the likelihood of these becoming a reality	• Map the consequences of each event against the individual dimensions of the RepTrak® framework • Prepare risk register displaying all reputational incidents
Prioritisation of reputation risks	View the risks threatening reputation and prioritise efforts accordingly	• Consider the two variables of 'magnitude' and 'likelihood'
Review and decide	Map the risks and set specific goals	• Prepare a specific action plan for each of the reputation risks identified • Consider control measures, resources and investment
Review existing arrangement	Consider responsibility and controls	• Identify who is currently responsible for responding to reputation risks, i.e. a central response team or department heads
Benchmarking	Set up assessment and best practices benchmarks	• Compare the reputational risk control arrangements with competitor companies and those considered 'best in class' • Identify opportunities to improve
Set up risk controls and response arrangements	Amend and improve existing arrangements	• Ensure alignment with internal culture • Integrate external knowledge into the reputation risk architecture
Launch	Roll out new arrangements across organisation	• Communicate across all business units and levels • Ensure clarity over who is responsible for co-ordinating and managing reputational risk response
Risk mitigation	Identify potential risks	• Track the change in perception of an organisation across each dimension, for risks previously identified
Measure reputation performance	Implement a structured process for reputation risk measurement	• Understand stakeholders' perceptions and expectations across each dimension, for risks previously identified • Highlight where there are gaps / differences in perceptions of different dimensions, between different stakeholder groups • Compare perceptions with competitors and 'best in class' organisations • Analyse trends over time Map how a change in reputation can impact on company performance in terms of revenue, share price, etc. • Prepare KPIs which ensure the protection of reputation over the long-term

Section 3: Reputation Institute – Reputation risk case studies

Section 1 and 2 of this guide describe a structured approach for identifying the key components, or dimensions, of an organisation's reputation. This framework can be used by organisations to identify which functions of the business a risk event is likely to affect, and how stakeholder perception is likely to be altered by that event.

Reputation Institute has studied the reputation of several organisations over 15 years and has investigated occasions where an organisation has faced a reputational crisis, i.e. events that threatened the levels of trust, admiration, respect and overall esteem in the organisation by its stakeholders. In the following case studies, Reputation Institute demonstrate that the reduced reputation is linked to events taking place within the business and that this drop in reputation can have the potential to impact the company's profitability. The perception of an organisation can influence the intention to purchase from the organisation and, ultimately, its business results.

Reputation Institute scorecards

In each case study, we, Reputation Institute, outline the risk incident affecting the organisation and the consequences. This information is compared against two measures of reputation we calculate for organisations: the RepTrak® Pulse and the supportive behaviours of stakeholders.

Calculating the RepTrak Pulse

The RepTrak® Pulse score refers to the emotional connection to a company. It is an aggregated score of four RepTrak® Pulse Construct Variables; Trust, Admiration and Respect, Good Feeling and Overall Esteem. Each statement is rated on a scale from 1 to 7 where '1' is the lowest and '7' is the highest. These are converted into a 0-100 scale and adjusted for cultural differences. The seven RepTrak® dimensions are also measured on a scale from 1to 7 and converted into 0 to 100 scale. Each dimension measures a specific expectation towards the organisation:

1. 'Company X' offers high quality products and reliable services
2. 'Company X' is an innovative company in the products it offers or the way it does business
3. 'Company X' is an appealing place to work and treats its employees well
4. 'Company X' is a responsibly run company, which behaves ethically and is open and transparent in its business dealings
5. 'Company X' is a good corporate citizen, supporting good causes and protecting the environment
6. 'Company X' is a company with strong leadership with visible leaders and is managed effectively
7. 'Company X' is a high-performance company, delivering good financial results

Measuring the supportive behaviours

Reputation drives support. To link reputation to the business case it's important to also assess the specific supportive behaviour of stakeholders. How willing are stakeholders to buy, recommend, say something positive and give the benefit of the doubt in a crisis? All this can be measured on a scale from 1 to 7 and provide a score from 0 to 100.

Reputation risk case study: Workplace Agreements–VW: Not a Win-Win Negotiation in Mexico

Company details: Volkswagen de Mexico, S.A. de C.V. engages in the production, export, import, and sale of automobiles, engines, components and parts in Mexico and internationally.

The company is based in Puebla, Mexico, and the plant is Volkswagen's largest outside of Germany. The company operates as a subsidiary of Volkswagen AG and employs around 13,900 people.

Incident and consequences: 2011 was a prolific year for Volkswagen's Mexican plant. By year-end, the production had hit a historic high of 500,000 units produced, out of which 80% were destined for export. By July, the company had produced 295,000 vehicles, 25% more than in 2010.

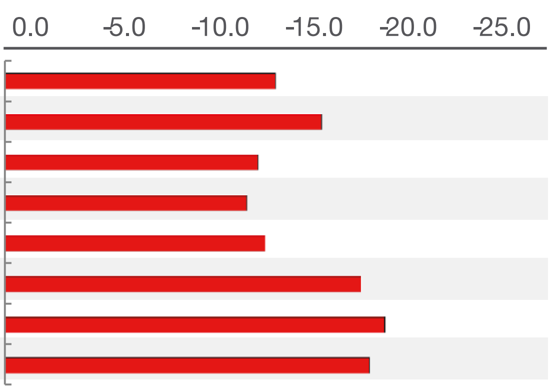
When it was time for salary negotiations with the unions during the summer of 2011, both parties could not reach an agreement. Volkswagen's union initially requested a 13% pay and benefits increase in light of the excellent results. The company countered with a 4.5% offer. As a result, 11,800 of Volkswagen employees belonging to the union agreed to stage a strike on 18th August.

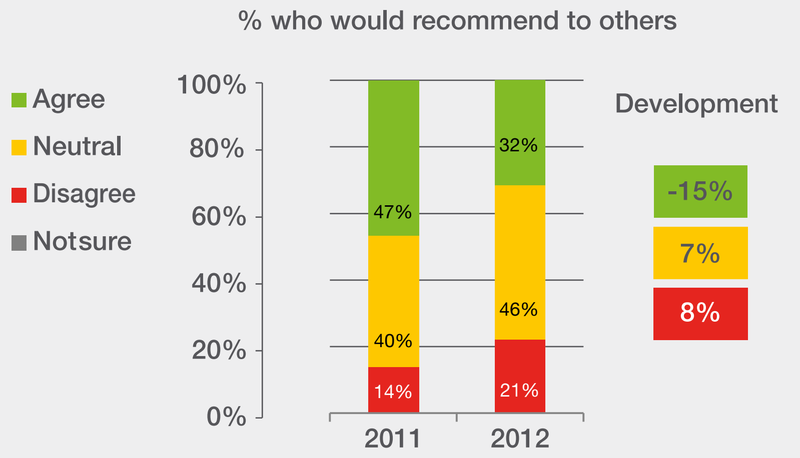
Volkswagen is considered a big patron of the state of Puebla, sponsoring a range of activities from the professional soccer team to cultural and social activities but it is given very little leeway to negotiate when the financial situation is good, without being placed in the role of a haggler. During the negotiations, union leaders were very vocal to the media about Volkswagen's counter offers, stating that with the proposed raises, workers could not regain their lost acquisitive power. Volkswagen remained silent in the public eye for the most part during the negotiations.

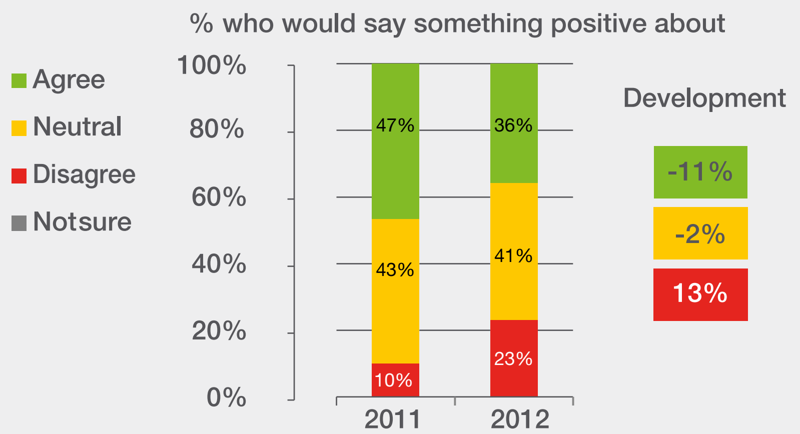
Finally, seven hours before the strike was set to begin, an agreement was reached, which included a 6% pay rise, a 661 peso one-off payment for school supplies for all union members and employment contracts for 500 temporary workers. Almost as an afterthought, the company spokespeople made a public statement saying that the company expected the raises to translate into a commitment to reach the target record production by the end of the year.

	Volkswagen Mexico		
	2011	2012	Gap
RepTrak® Pulse	**56.5**	**42.1**	-14.4
Products	56.4	39.5	-16.9
Innovation	56.0	42.5	-13.5
Workplace	54.3	41.4	-12.9
Governance	56.9	43.0	-13.9
Citizenship	56.5	37.5	-19.0
Leadership	58.8	38.5	-20.3
Performance	59.3	39.9	-19.4
	n = 101	n = 99	

Gap Chart 2011 vs. 2012 (2011 as baseline)




% who would recommend to others
Agree
Neutral
Disagree
Notsure
100%
80%
60%
40%
20%
0%
47%
40%
14%
32%
46%
21%
2011
2012
Development
-15%
7%
8%


% who would say something positive about
Agree
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43%
10%
36%
41%
23%
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Development
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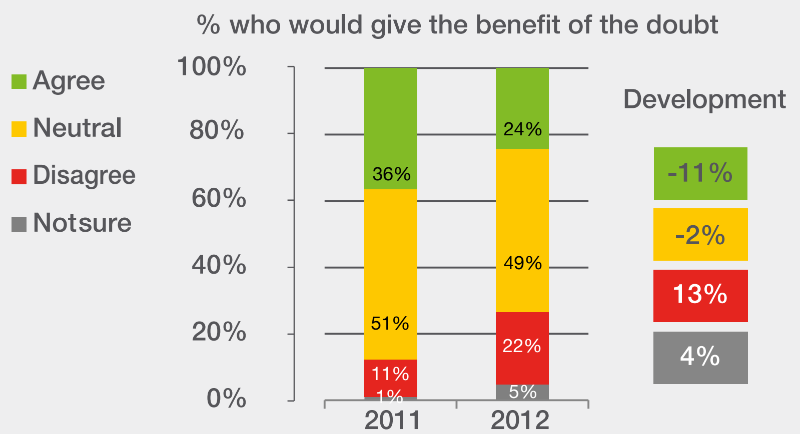
-2%
13%


% who would give the benefit of the doubt
Agree
Neutral
Disagree
Notsure
100%
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40%
20%
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36%
51%
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1%
24%
49%
22%
5%
2011
2012
Development
-11%
-2%
13%
4%

Reputational risk management lessons for Volkswagen Mexico

Being portrayed in the Mexican media as refusing to meet employees' expectations (and mishandling a possible strike) severely affected Volkswagen's reputation in the country.

VW's reputation experienced a dramatic drop in a single year in all seven dimensions, with strongest decline for Leadership, Performance and Citizenship, losing about 20 points.

The strategy of being silent did not work well for VW. This left the only voice to the trade union, which communicated to the general public the story that VW's top management did not act as a good corporate citizen, and does not care about their employees, the economy and well-being of the country.

VW suffered a steep decline in the percentage of people who would recommend the company, say something positive about it or even give it the benefit of the doubt in a crisis. What is interesting to highlight is that most of the people who previously supported VW did not become neutral about the company, but moved for the most part to open disagreement with its practices.

Reputation risk case study: Service Changes–SNCF: A ‘Big Bang’ for French Rail Timetables

Company details: Societe Nationale des Chemins de fer Francais (SNCF) is a provider of local and long-distance passenger and freight services in France.

The group provides various transportation services including railway, road and overseas transportation of goods and passengers. It is headquartered in Paris and employed about 245,090 people as of 31st December, 2011.

Incident and consequences: On 11th December, 2011, four million rail commuters woke up to a revolution at their local stations, with 85% of the timetables across France changing nearly 12,000 journeys out of the daily 15,000. The media named this change in timetables the ‘Big Bang’ being the biggest overnight rescheduling in railway timetables ever attempted.

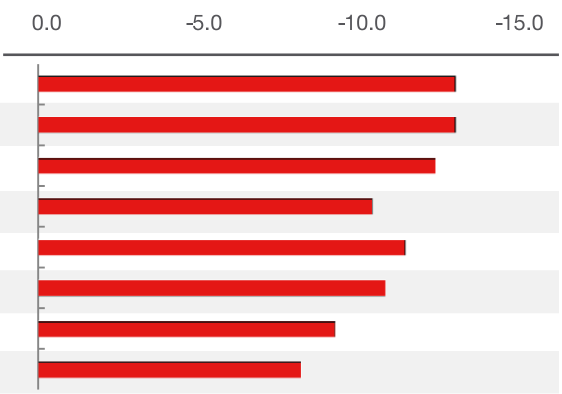
Passenger groups claimed that the SNCF had used its timetabling ‘Big Bang’ to hide bad news. Some services, such as overnight trains from Paris to Bordeaux and direct trains from Bordeaux to

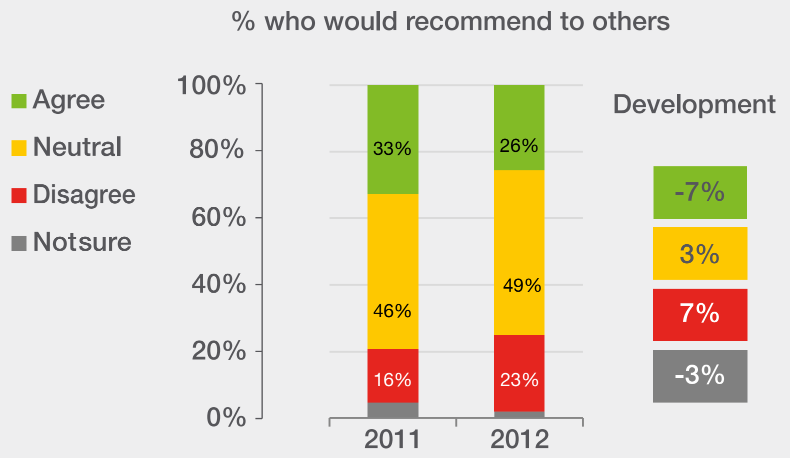
Marseille, via Toulouse, had vanished altogether. In rural areas, local services had been reduced or trains no longer called at all the stops. Thousands of signatures were collected against the timetable changes and trains were prevented from leaving on the actual day by groups of disgruntled customers.

Although the changes were necessary in order carry on modernization works on the railway network, and despite the fact that the company had spent €10 million in advertising the ‘Big Bang’, this event only seemed to worsen the decaying company’s reputation resulting from a strike earlier that year and threats of further strikes at Christmas and on New Year’s Eve.

	SNCF		
	2010	2011	Gap
RepTrak® Pulse	**61.7**	**48.4**	**-13.2**
Products	57.7	44.4	-13.2
Innovation	59.8	47.2	-12.6
Workplace	65.4	54.8	-10.6
Governance	57.6	45.9	-11.7
Citizenship	61.1	50.1	-11.0
Leadership	52.6	43.2	-9.4
Performance	61.8	53.5	-8.3
	n =105	n =156	

Gap Chart 2010 vs. 2011 (2010 as baseline)

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20%
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33%
46%
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23%
2011
2012
Development
-7%
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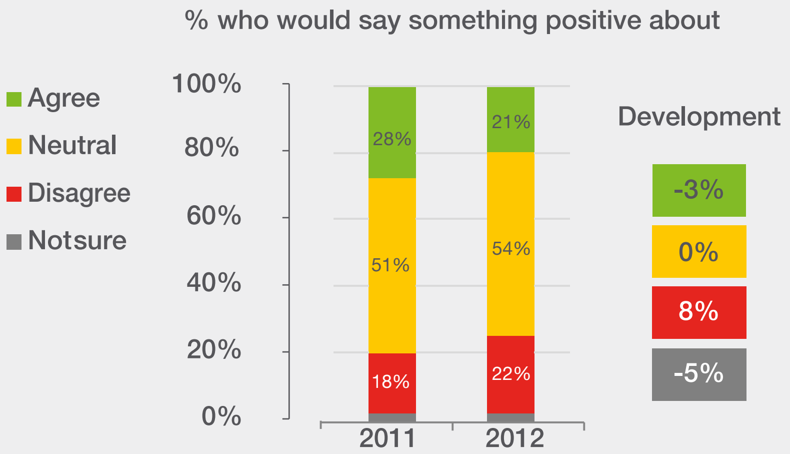
7%
-3%


% who would say something positive about
Agree
Neutral
Disagree
Notsure
100%
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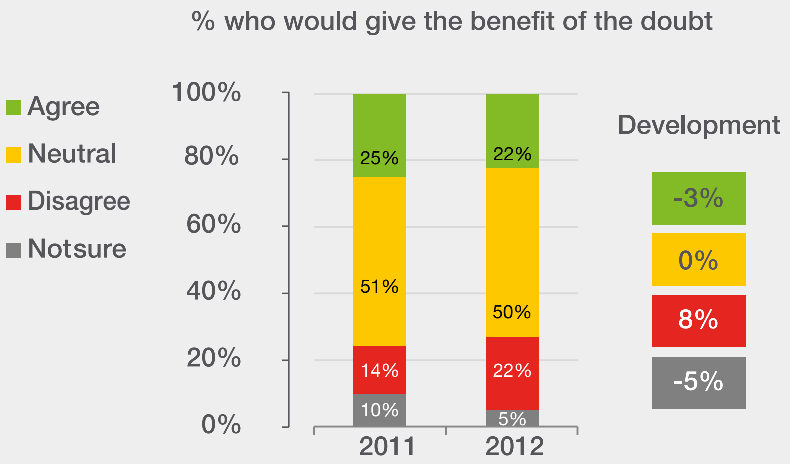
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Reputation risk management lessons for SNCF

As a result of the negative perceptions surrounding the service change, SNCF's reputation deteriorated from 2010 to 2011, with an overall drop of 13 points taking its reputation from average to weak in the eyes of the public.

The two dimensions that were affected the most were Products/Services and Innovation, with a drop of over 12 points each. The change in perception clearly shows that the public did not perceive the service change to be positive even though SNCF had spent a lot of money communicating this change.

The public also lost faith in the Governance and Citizenship aspect of SNCF where there was a drop of almost 12 points in one year. Although SNCF communicated a lot about the service change it was not perceived to be open and honest about this, and people did not fully understand or believe the message. The overall support for SNCF dropped across the board on all behaviours. Now, almost 25% of the general public would definitely NOT recommend, say something positive about or give the company the benefit of the doubt in a crisis. This loss of support was very damaging and has left the company with a steep challenge as it tries to turn around the business.

Reputation risk case study: Job Losses–Research In Motion: Job Cuts Amid Instability

Company details: RIM researches, designs, manufactures and sells wireless communications products, services and software.

Incident and consequences: With 12 million subscribers in 2007, RIM was Canada's most profitable company. However, after the launch of the iPhone in June of that year and Google's Android in 2008, the media and public attention shifted to these products, while RIM's innovation attempts such as the BlackBerry Storm and the BlackBerry Torch fell short on expectations, causing RIM to lose the lead in the smartphone market. Additionally, the late launch of its iPad-like tablet, the PlayBook, was considered by analysts to be a specific failure.

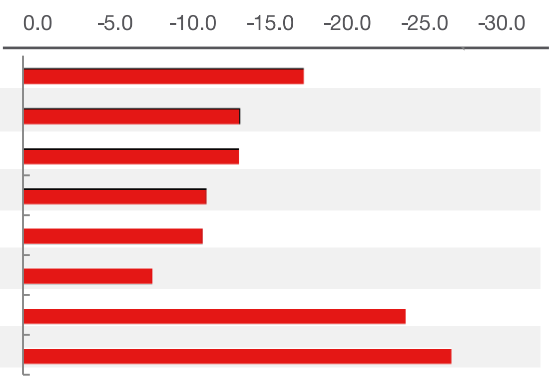
In 2011, as the company lowered its revenue forecast, it also announced a cut of about 11% of its workforce, eliminating 2,000 jobs across all functions worldwide in an effort to save money in the increasingly competitive smartphone and tablet market. However, the company lacked a strong enough technology roadmap to rely on and to assure employees that these job cuts were a solution that would provide the company with some stability.

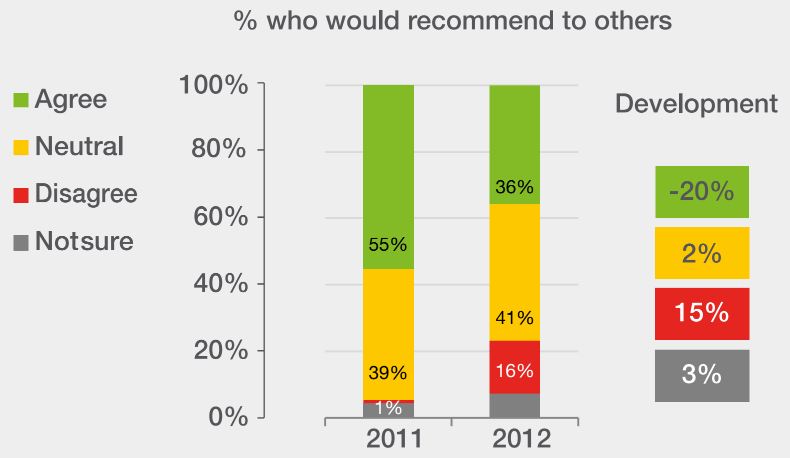
The following year didn't provide much stability for the company. In September 2011, the company's BlackBerry service suffered a massive network outage, impacting millions of customers for several days. The outage occurred as Apple prepared to launch the iPhone 4S, causing fears of mass defections from the platform. On 22nd January, 2012, the two CEOs and founders of the company resigned and, in March, the company reported its first net loss in years, resulting in an announcement in June of an additional 5,000 job cuts.

This second job cuts announcement happened at the same time as RIM announced a delay of at least six months to the launch of the much anticipated BlackBerry 10 platform. In such a scenario, both rounds of job cuts addressed an immediate need to save on costs, but did not address competition or provide any sense of stability to stakeholders inside and outside the company.

	Research in Motion		
	2011	2012	Gap
RepTrak® Pulse	**75.2**	**57.0**	**-18.2**
Products	81.1	67.1	-14.0
Innovation	82.1	68.1	-14.0
Workplace	76.5	64.6	-11.9
Governance	73.7	62.1	-11.6
Citizenship	71.0	62.6	-8.4
Leadership	79.3	54.6	-24.8
Performance	79.0	51.3	-27.7
	n = 294	n = 252	

Gap Chart 2011 vs. 2012 (2011 as baseline)

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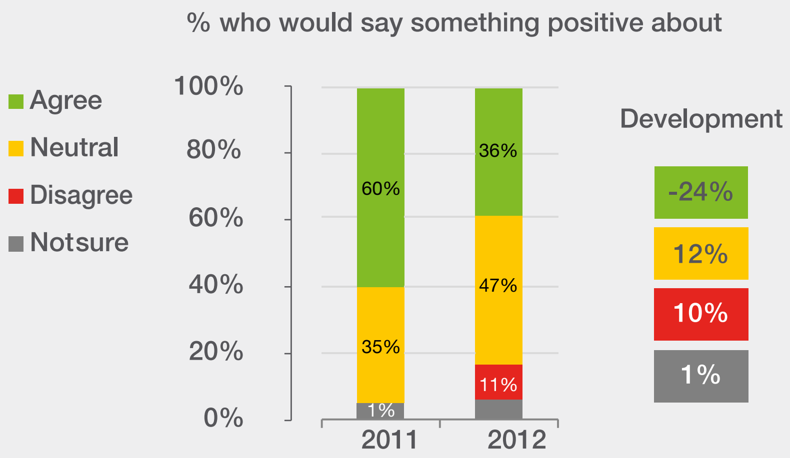
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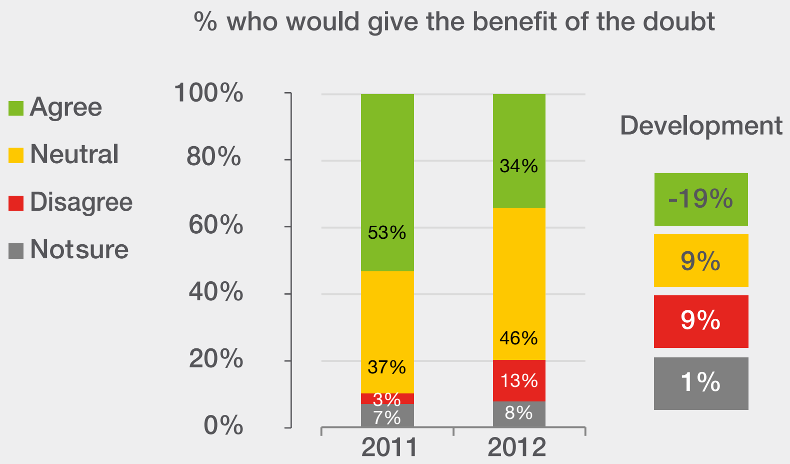
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Reputational risk management lessons for Research in Motion

Research in Motion saw a reputation free fall from 2011 to 2012 based on the perception that management was not able to guide the company out of its troubles. Large job cuts were not managed well leading to a reputation drop of 18 points in one year.

The Performance dimension was the most affected, with a decrease of almost 28 points when compared to 2011. But this was not isolated to the company's finance. as the perception of Leadership also dropped by a whopping 25 points. The lack of business results and the exit of the company founders and co-CEOs Jim Balsillie and Mike Lazaridis created an air of uncertainty about the future direction of the company.

Although the main issues was the lack of response to competitors' new products in the market, Products/Services and Innovation 'only' dropped 14 points. So people clearly saw the problem as a leadership issue rather than an R&D issue.

And the loss in reputation impacted the willingness to support the company. From having the support of 50-60% of consumers in Canada, RIM was left with the support of 34-36% of consumers. And from a situation where only 1% would say something negative about the company, a full 16% would now definitely not recommend the company to others.

Appendix 1: Reputational risk management framework

Airmic has prepared the matrix below, which maps the seven dimensions of reputation proposed by Reputation Institute and considers how these can be affected by a specific risk event. For each risk event, Airmic considers how the event is likely to impact the organisation and those stakeholders whose perception is likely to be affected. The list of risk events is not exhaustive, and Airmic members can create their own tables for those events that are most likely to affect their organisation and their stakeholders.

Finally, the matrix highlights where insurance coverage for the incident itself is available. Where insurance coverage for the event is available and can be purchased by the insurance / risk manager, Airmic members will be in a better position to engage with senior management and business units on the need for through and effective reputational risk management. The insurance market for pure reputational risk is beginning to develop, and Airmic members may wish to explore policy extensions for reputational impact for the covers detailed below. This can include a consequential drop in revenue as a result of a drop in reputation, and post-incident crisis management costs.

Reputational dimension	Expectation	Potential risk events
Products / Services	The organisation's products are high in quality, value and service, and meet the customers' needs	Product recall event
Innovation	The organisation is innovative and adaptive	Failure to update technology platforms, e.g. on-line sales platforms
Workplace	The organisation maintains good workplaces, treating and rewarding the employees fairly	Health and safety compliance breach
Governance	The organisation is ethical, fair and transparent	Breach of regulatory / statutory compliance
Citizenship	The organisation is environmentally friendly, a supporter of good causes and a positive contributor to society	Environmental breach
Leadership	The organisation's leaders are excellent and visionary managers, and strong endorsers of their companies	Management behaviour, including fraud and mismanagement
Performance	The organisation has strong overall financial performance, profitability and growth prospects	Profit warning announcement

	Impact	Key stakeholders	Is insurance for the event available?
	• Recall costs • Litigation and settlement costs • Regulatory / criminal fines and penalties • Negative image and brand impairment • Reduced sales • Competitor advantage	• Customers • Communities • Media	Product liability Product recall
	• Competitor advantage • Reduced sales • Negative image and brand impairment	• Customers • Employees • Business partners	No coverage
	• Litigation and settlement costs • Employee injury • Investigation costs • Regulatory / criminal fines and penalties	• Employees • Regulators • Communities • Unions	Employers' liability
	• Fines and penalties • Litigation and settlement costs • Reduced sales	• Regulators • Investors and financial analysts	D&O
	• Litigation and settlement costs • Investigation and remedial costs • Regulatory / criminal fines and penalties • Negative image and brand impairment • Reduced sales • Drop in share price	• Customers • Communities • Regulators • Media / press	EIL insurance
	• Fines and penalties • Settlement costs • Investigation costs • Loss of key employees • Reduced sales	• Investors and financial analysts • Media / press • Customers	D&O
	• Reduced share price • Loss of key employees • Loss of advertising / key contracts • Negative image and brand impairment	• Investors and financial analysts • Regulators • Suppliers and business partners	No coverage

Appendix 2: Reputational risk dimensions and critical stakeholders

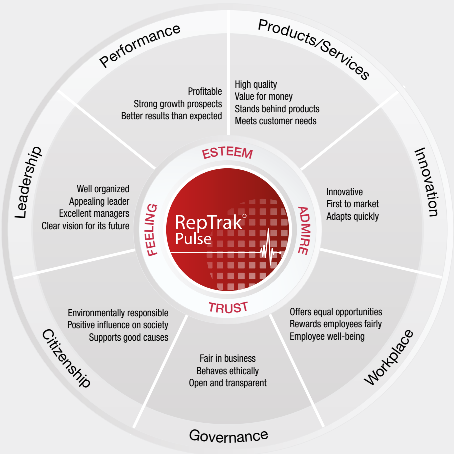
The framework below demonstrates the relationship between the seven dimensions of reputation and the different groups of stakeholders, whose perceptions govern the reputation of an organisation. As detailed in Section 2 of the guide, individual stakeholders will have specific concerns depending on the purpose and output of the organisation.

Airmic has populated the first matrix based on a generic organisation, using a red, amber and green colour-coding system to identify the type of action that should be taken for each relationship. Members can consider the relationships between the seven dimensions and their own stakeholders to populate their own version of the chart, and therefore to prioritise areas for risk management and control.

Red: Controlling the reputational risk for this dimension / stakeholder relationship should be a management priority and impact analysis should be considered. Potential for significant financial consequences if the perception of this stakeholder is significantly reduced.

Amber: Management attention is required. Controlling the reputational risk for this dimension / stakeholder relationship should focus on readiness and response to risk events.

Green: Low priority relationship. Organisation should focus on monitoring the relationship between stakeholder perception and reputation dimension over the long term.



The Reputation Institute RepTrak® framework

Building a strong reputation requires delivering on each dimension. If an organisation is perceived to be delivering on each of the seven dimensions by its stakeholders, the increased trust and support will build a strong reputation. In contrast, if an organisation isn't perceived to be delivering on each dimension, stakeholders will lose trust, and subsequently not buy, recommend, invest in, work for or even give the benefit of the doubt to that organisation.

Employees	Investors and financial analysts	Media / press	Regulators	Suppliers and business partners

Appendix 3: Reputation risk management in practice: Product Recall

A comparison between how effective reputation risk management can impact on company performance can be seen in the Coca-Cola Dasani and Land of Leather product recall incidents. The following two case studies are extracted from the Airmic publication - Roads to Ruin (2011).

Coca-Cola: Dasani Mineral Water (2004)

Risk event: After a successful launch in the USA, Dasani began to be rolled out across the world. In Europe, the plan was to launch Dasani in the UK, and then follow-up in Germany and France. The half-litre bottles were priced at 95p and labelled as 'pure' water, although no mention was made of the tap water source, i.e. mains supply at Sidcup (half a litre of tap water costs 0.031p).

Coca-Cola clearly underestimated the negative response by competitors and the UK media. There was an official complaint to the Food Standards Agency by the National Mineral Water Association over the purity claim. The press ran the story with headlines such as 'Coca-Cola sells tap water for 95p'.

The Dasani brand was seriously damaged; then a further blow was experienced in March when routine quality control analysis identified traces of bromate (a potential carcinogen) in the drink, which, though small, exceeded the legally permitted concentration. The contamination was suspected as having been introduced from a bad batch of mineral additives.

Management response: The Coca-Cola Incident Management Team (IMCR) met and announced:

- An immediate withdrawal of Dasani from the UK market
- The roll-out to Germany and France was subsequently cancelled.

The crisis team IMCR was rapidly invoked and took control. It set itself the objectives of protecting the global reputation of the Coca-Cola brand, protecting the reputation of the Dasani brand in 20 countries outside Europe and acting responsibly in the UK. It decided to immediately withdraw the product from the UK market and held 100 media interviews that day to clearly communicate the decision. The message was that it had volunteered to withdraw the product, it understood the problem and its significance, and knew how to fix it.

Consequences of risk event: The consequence of the event was the loss of the Dasani business in the UK immediately (after a £7 million high-profile publicity campaign and expected sales of £35 million in its first year) and subsequently in Germany and France. However:

- The Dasani brand was protected outside Europe.
- Damage to the Coca-Cola brand was minimised in the UK and almost unaffected elsewhere.
- Coca-Cola's standing in risk management circles was enhanced.

Land of Leather Ltd (LOLL) (2007)

Risk event: In September 2007, the company received complaints from a number of customers who had developed skin allergies from contact with the sofas that had been supplied to LOLL by Linkwise. Several thousand users who had bought these products from LOLL and other retailers were eventually affected, many of them suffering serious skin rashes. This gave rise to the biggest-ever group compensation claim brought in the UK courts.

The origin of the allergies was traced to sachets of the mould-inhibiting chemical dimethyl fumarate (DMF), which had been stapled to the frames of the sofas, inside their leather covering. Dimethyl fumarate is an allergic sensitiser at very low concentrations, producing extensive, pronounced eczema that is difficult to treat.

Management response: Once the problem became clear, LOLL withdrew the sofas from sale, but they did not contact the customers who had bought them, in contrast to Argos, which commissioned a report by a consultant dermatologist to verify the cause of the injuries, withdrew the sofas (of which they had sold some 30,000) and contacted the purchasers. Richard Langton, a senior litigator at a law firm that spearheaded a class action against LOLL, described this as a ‘crucial failure’ and stated of his clients that: “All have been upset that household goods could hurt them in their own home.”

Consequences of risk event:

- The direct effects of the ‘toxic sofa’ cases included injuries to at least 4,500 people and claims by them against the firms who sold the furniture, including LOLL, in the region of £20 million.
- Added to these were the substantial costs incurred by the companies concerned in investigating the problem and managing and paying for the recall.
- LOLL announced that it had entered into administration with Deloitte in Jan 2009
- The collapse of LOLL meant loss of employment for a significant proportion of its 850 staff.

The link to reputational risk management and company performance.

It cannot be stated, simply, that LOLL was brought down by the ‘toxic sofa’ cases, because there were many contributory causes to the demise of the company. Not least of these was the credit crunch, which made refinancing difficult and affected LOLL directly, and the economic recession born of the financial crisis, which hit retailers hard, putting many similar firms out of business.

Having said all this, the damage to the reputation of LOLL brought about by the ‘toxic sofa’ scandal certainly made a very significant contribution to its difficulties. Many other firms, including Argos, Homebase and Walmsleys, sold the sofas, but quite apart from the fact that at least some of these handled the crisis better, their reputations suffered less because they were not associated exclusively leather furniture – the one and only culprit in the crisis.

The handling of the ‘toxic sofa’ crisis reinforces the need to react quickly and positively where a product recall becomes necessary and to be open with customers, keeping them fully informed, even when the news is bad. Where LOLL failed to inform purchasers of the ‘toxic sofas’, Coca-Cola quickly realised the potential severity of the incident in terms of public trust and applied a textbook crisis management exercise, which nullified the impact to the overall business. Key points included:

- Speed – the crisis team were called in early.
- Control – it took immediate control of the crisis.
- Authority – it had the determination and authority to make major decisions or had immediate access to executives who had such authority.
- Clear priorities – it had a hierarchy of objectives and knew what it was prepared to sacrifice (Dasani UK) to achieve them.
- Good stakeholder communication – there was immediate, co-ordinated communication, giving a simple message to a large number of opinion formers.
- Transparency – it gave the full facts as it understood them at the time.

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