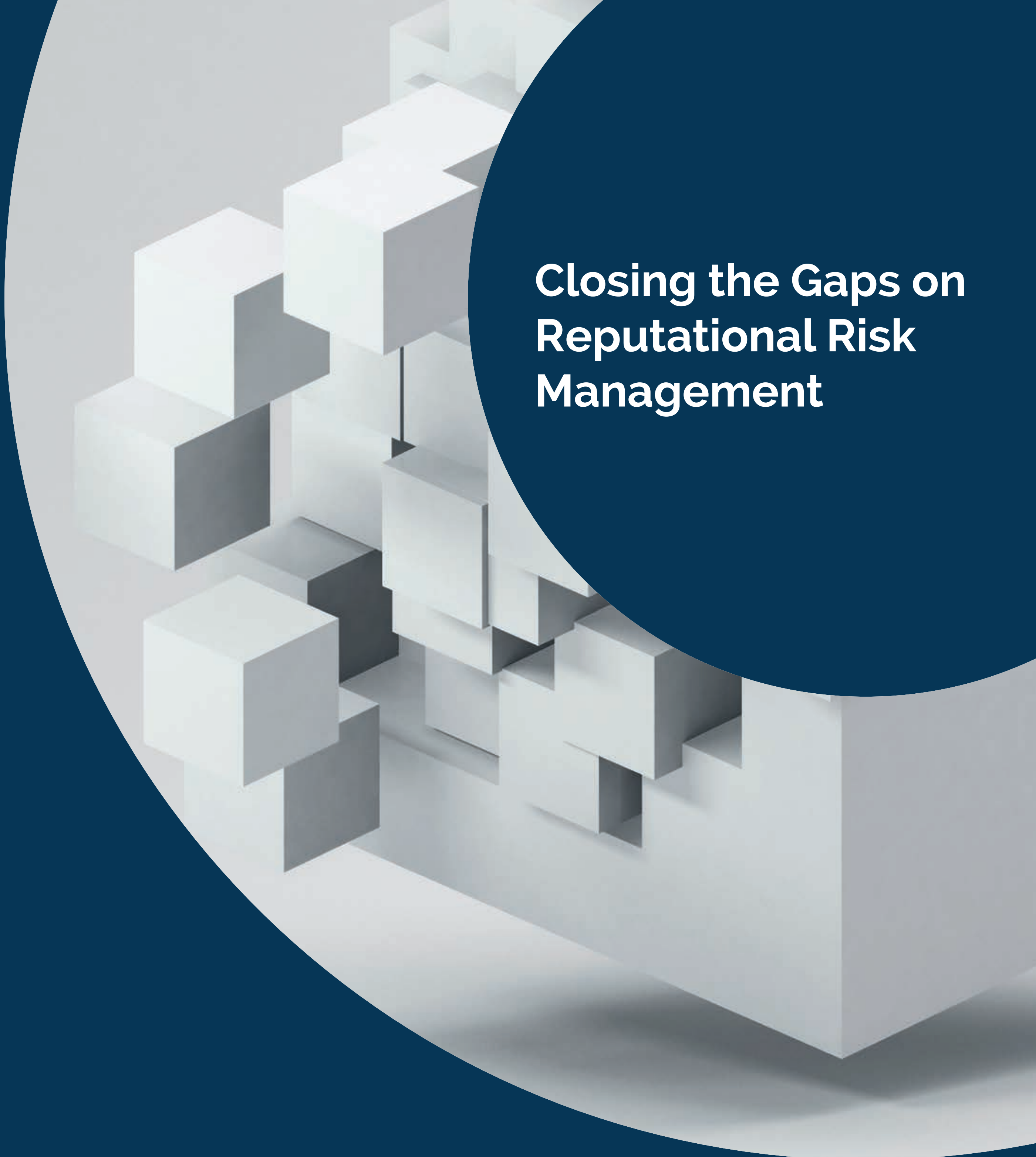


Closing the Gaps on Reputational Risk Management

airmic

RepTrak™

RIMS®
the risk management society

Contents

Foreword

RIMS, Airmic and The RepTrak Company launched a joint effort in 2019 to answer the question: Why are risk professionals struggling with reputational risk management, and what are the missing elements they need? Over the past year, we interviewed more than 40 risk managers from across the United States and Europe. We had dialogues with subject-matter experts, professors and thought leaders. We held working group meetings to discuss good practices and challenges, and conducted follow-up interviews to understand what is working inside organizations today and where improvements are needed. We also conducted research to define the impact of specific risks on reputation and organization performance, and what drives the corporate reputation of leading global brands and how they are perceived across the largest economies.

We would like to thank all the interview and focus group participants for their contributions.

The leading UK association for everyone who has a responsibility for risk management and insurance for their organisation, Airmic has over 450 corporate members and more than 1,300 individual members. Individual members include company secretaries, finance directors, internal auditors, as well as risk and insurance professionals from all sectors. Airmic supports members through training and research; sharing information; a diverse programme of events; encouraging good practice; and lobbying on subjects that directly affect our members. Above all, we provide a platform for professionals to stay in touch, to communicate with each other and to share ideas and information.

www.airmic.com

As the preeminent organization dedicated to promoting the profession of risk management, RIMS, the risk management society®, is a global not-for-profit organization representing more than 3,500 industrial, service, nonprofit, charitable and government entities throughout the world. Founded in 1950, RIMS is committed to advancing risk management capabilities for organizational success, bringing networking, professional development and education opportunities to its membership of more than 10,000 risk management professionals who are located in more than 60 countries.

www.rims.org

The RepTrak Company™ is the world leading reputation data and insights company.

We provide the only global platform for data-driven insights on Reputation, Brand, and ESG. Our proprietary RepTrak® model is the global standard for measuring and analyzing the sentiment of the world using proven data science models and machine learning techniques across industries and geographies.

Subscribers to the RepTrak® Program use our predictive insights to protect business value, improve return on investment, and increase their positive impact on society.

Established in 2004, The RepTrak Company owns the world's largest reputation benchmarking database of over 1 million company ratings per year used by CEOs, boards, and executives in more than 60 countries worldwide.

www.reptrak.com

“Reputation is an increasingly important intangible asset. Even though intangible assets are progressively more valuable and critical as drivers of competitive strength, they tend to be overlooked.”

Introduction

In this digital age, organizations operate at a faster pace when making decisions, building a culture of experimentation, fast adoption and openness, and in attracting, motivating and retaining relevant talent. Reputation—like data, knowledge and intellectual property—is an increasingly important intangible asset. Even though intangible assets are progressively more valuable and critical as drivers of competitive strength, they tend to be overlooked by an organization's executives. To complicate matters, boundaries and reputation issues are more complex, uncertain and ambiguous. Past experience shows that organizations are most resilient when leadership works closely with risk professionals to find optimal ways of creating and protecting value that is tied to tangible and intangible assets, particularly when risks associated with intangible assets are at times "hidden" or "emerging."

The COVID-19 Effect

In addition to the immeasurable suffering and loss of life, the coronavirus is impacting the world economy, damaging stock prices, changing daily and business life, and restricting travel. It is impacting the daily ritual of going to the office and quarantining millions. Businesses worldwide are feeling the effect of these changes and economists are predicting the virus will result in an economic loss of hundreds of billions of dollars. But while the grave human toll cannot be measured, if the history of pandemics is a guide, this virus, like all others, will spark a wave of innovation, proportional to how it alters the shape of society.

In the post COVID-19 world, reputation matters more than ever. Any trust-related challenges should be addressed swiftly, with detailed and causal explanations, rather than by issuing delayed statements to refute claims when it is already too late. This means that their operational resilience will become paramount.

Until now, operational resilience was arguably seen by many firms as a theoretical planning exercise in response to the requirements set out by regulators. In a matter of weeks, COVID-19 demonstrated the intrinsic link between operational resilience in theory and crisis management in real-time.

While the most obvious battle has been the maintenance of operational continuity, over the course of this pandemic, an increasing amount of pressure has been placed on firms to finely balance how they prioritize this against supporting and protecting their employees. Now more than ever, the journey to and the outcomes of this prioritization have come under an unprecedented level of public scrutiny.

Maintaining a positive reputation in a post COVID-19 world not only depends on a firm's ability to effectively manage risk from an operational perspective, but to do so in a way that demonstrates social purpose.

Whether public trust is won or lost by how organizations protect staff on the front line, it is clear that the future of businesses will be determined not only by whether they maintained operational resilience during this crisis, but whether their achievements were made with social responsibility in mind.

The acceleration of digital business models, amplified by COVID-19, could lead to intangible assets like reputation becoming a major blind spot for organizations that are not factoring them into their enterprise risk management systems.

INTRODUCTION

Reputation Drives Business Value

To succeed, organizations need customers to buy products, regulators to allow them to operate, financial analysts to recommend investments, media to report on success stories, and employees to deliver on purpose and strategy. The big question is: Why do all these groups want to take these supportive actions? The answer is simple—they want to trust organizations that will deliver on the promises they make to them. That is what reputation is all about. People support organizations with strong reputations; the organization's purpose is fulfilled, sales go up and market share increases. The best talent is drawn to and remains loyal to firms with great reputations, and employees tend to be more productive and innovative. The financial market rewards great reputations with more investments and recommendations. And regulators are inclined to give organizations the benefit of the doubt and allow them to operate. Reputation drives all these key performance indicators and so should be managed and protected with rigor, supported by data-driven analysis.

In today's world, organization value is measured by intangible assets, much more so than by the hard assets of the past. In a 2015 Ocean Tomo study, intangible assets represented more than 80% of the value of S&P 500 companies. Perceptions of corporate brand, reputation and intangible assets directly tie to the financial valuation of an organization, and recent and anticipated changes in global accounting rules and securities reporting will further drive the recognition of their value and importance. Corporate winners offer more potential for stability in uncertain times, thereby intensifying the value of intangible asset risk management in today's climate of increased uncertainty and volatility.

Concurrently, social media can turn minor issues—whether true or not—in remote parts of the world into major crises at the corporate level. Issues that previously would have remained local are now broadcast to a much broader and interconnected stakeholder audience in real time. Given that the success or failure of organizations can sometimes pivot on a single online post, organizations are more aware than ever that merely reacting is not enough. Organizations need to horizon scan, scenario model, develop time-sensitive triggers and exercise leadership with the agility and authority required to achieve an effective rapid response to emerging reputational risks.

As organizations manage issues arising from the COVID-19 pandemic, they face increasingly interconnected and complex risks. Reputational risk takes on even greater importance. On one hand, leaders might believe they will be forgiven by customers and other stakeholders who understand how the crisis has impacted just about every person and organization around the world. On the other hand, leaders can be caught between following government guidelines assiduously (where not doing so would pose a human and ethical risk) and delivering on their core mission. How do leaders and risk professionals balance these multifaceted considerations in such a prolonged crisis?

Previous studies from RIMS and Airmic suggest that the risk community continues to struggle with reputational risk and with reputation as an intangible asset. There is a clear gap between what senior executives and risk professionals know is important to manage and the work that is being done.

This paper puts forward frameworks for risk professionals to work strategically with others within their organizations to measure and tackle reputational risks today—especially with corporate communications, with whom they currently have little to no interaction.

The Challenges

Risk professionals today face six challenges when it comes to understanding and addressing risks to reputation:

1. **Unclear definition of reputation.** What is reputation and how does it relate to brand and trust?

2. **Confusion on the categorization of reputational risk.** Is it a risk in its own right, or a causal factor of other risks?

3. **No commonly agreed upon, consistent measurement of the business impact from specific risks to reputation.** How do organizations measure and quantify the impact of issues on reputation? How do organizations account for the potential business impact in the financial assessment of an issue, to make sure they focus on the right issues?

4. **No framework for linking the strategic, operational and tactical aspects of reputational risk management.** How do organizations get data to support all three levels?

5. **An absence of integrated ownership and accountability across organizations.** Do reputational risks sit with corporate communications, risk management or the issue owners?

6. **Slow development of solutions for risk transfer.** Can reputation be insured?

In the following sections, we will provide our assessment of each challenge, and as well as some answers to solve them.

1

What Is Reputation?

Reputation is the emotional connection between people and organizations. It can be measured by the level of trust, admiration, respect, and good feeling people have towards an organization. Reputation can also be understood in terms of a "realized value" that is built or eroded over time. Reputation can take years to build, and be damaged in seconds with the impact of that damage lingering for years.

Just as risk professionals use various maturity models to assess how well their risk management programs are working against agreed targets and to provide data points for benchmarking and action, a number of reputation models exist to help organizations tap into individual perceptions, aggregate perceptions of stakeholders, and evaluate how the various stakeholder perceptions compare to each other. These models can be supplemented by independent market surveys used to compare organizations within specific industries and in different countries at a point in time.

The RepTrak® reputation model, for example, was developed to measure and assess an organization's reputation according to the expectations of customers and stakeholders that are responsible for forming that emotional connection. The model in **FIGURE 1** classifies these expectations into the seven drivers of reputation:

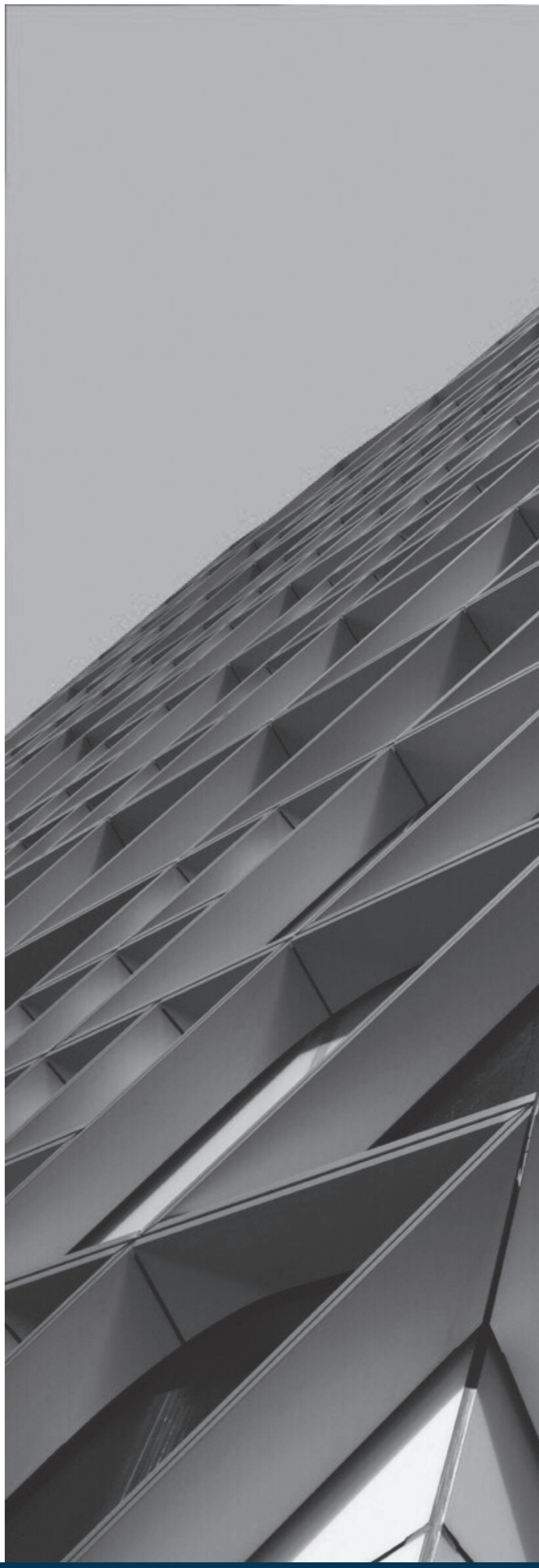
Seven drivers of reputation:

1. **Products and services**: deliver high-quality products and services at a good value
2. **Innovation:** be innovative and bring new products to market
3. **Workplace:** treat their employees well
4. **Governance:** be open and honest in the way they do business
5. **Citizenship:** be a good corporate citizen and take responsibility for their actions
6. **Leadership:** have a clear vision for the future of the organization as well as their industry
7. **Performance:** deliver strong financial results that will ensure that the organization will be around for years to come

FIGURE 1: The RepTrak® Reputation Model

These seven drivers in **FIGURE 1** are what build trust in an organization among the public, customers and other stakeholders. If an organization scores well on these drivers, people will give the organization the benefit of the doubt—even in times of crisis. This is what makes an organization resilient to reputational risks. However, all drivers are not equal. Corporate Responsibility pillars (Governance, Workplace, Citizenship) account for 41% of an organization's Reputation Score using this model. On average, organizations that have significantly improved their score have done so by enhancing perceptions of their social impact, their ethics, and the way they treat employees.

Exceptional organizations cultivate an organization-wide skill to collect information on people's perceptions about their business and leverage that information to keep the organization on top, protected from challengers and resilient to damage or decline. The spread of COVID-19 has wreaked havoc on countries around the world at unprecedented velocity, but it has also given many organizations the chance to "walk the walk" when it comes to corporate responsibility: They have been able to back up their lofty statements with action, earning goodwill and good feeling that will last for much longer than the COVID-19 crisis will.



If an organization scores well on the seven drivers of reputation, people will give the organization the benefit of the doubt—even in times of crisis. This is what makes an organization resilient to reputational risks.

2

Is Reputation a Risk?

Within the risk community, there are two perspectives on reputational risk—one is that reputation is a risk and should be managed directly; the other is that reputation is a form of intangible asset that is an outcome and consequence of decisions, actions and other risks.

This is not a theoretical debate because it determines how an organization measures and manages reputation. If the organization regards reputation as an independent risk, reputation will then show up as a specific risk issue in the organization's enterprise risk management process. The organization would need to quantify the likelihood of damage to reputation occurring as an event, and what the financial impact of that would be. If the organization regards reputation as a consequential issue, it will need a measurement of the impact of reputation on all other issues throughout the organization. This means that reputation is not a single risk, but a function of all risks. It is an asset that needs to be measured and managed.

We view reputational risk as a consequential impact—the loss of reputation is a consequence of a negative event on an asset. With that in mind an organization can assess which issue has the highest reputational damage potential by measuring the change to its reputation with people if the issue were to occur. This can be done by conducting a reputational impact simulation on each of the issues.

Reputational risk can also be seen as uncertainty related to an organization's objectives, whether strategic or operational. Unlocking reputational value is as important as closing reputational gaps (**FIGURE 2**).

In both cases, data about each of the various drivers informs and supports decision-making about the reputational effects whether a new initiative is being undertaken or a division is being closed. In either case, data is key to understanding how those decisions affect people's emotional connections with the organization and its decisions. When investing huge sums in a new initiative or affecting a community by closing a plant, guessing the impact on reputation is not the best option.

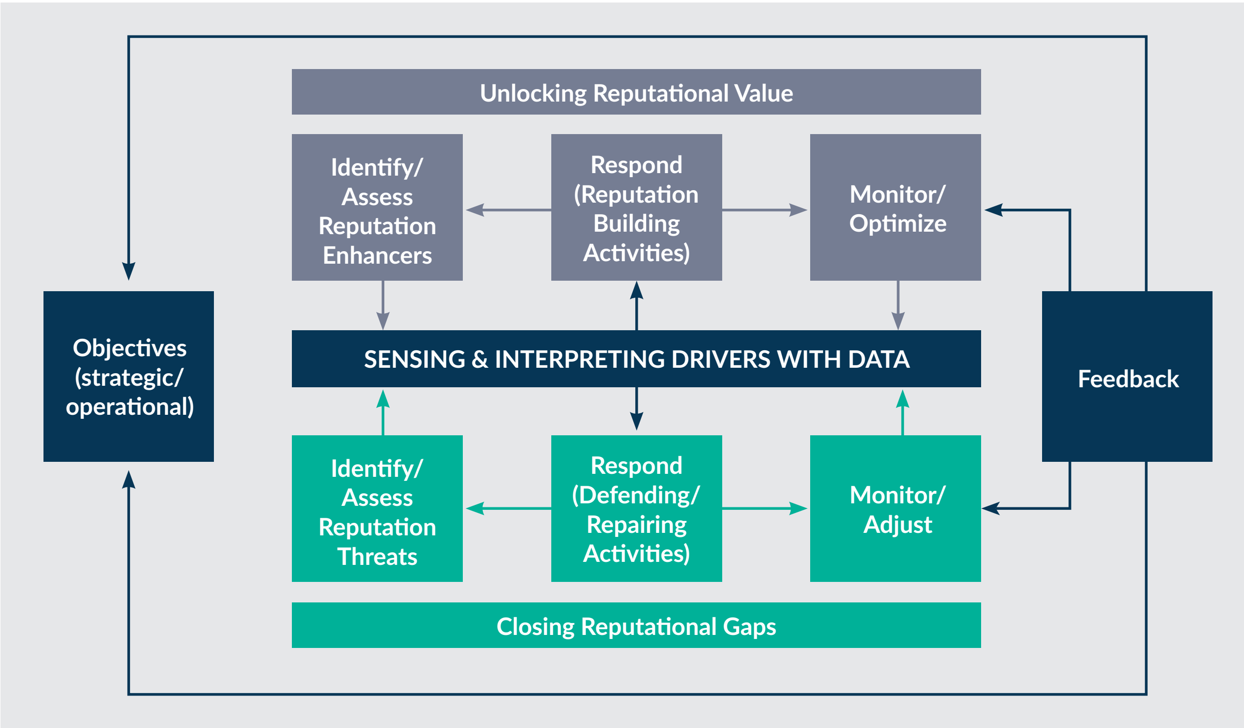


FIGURE 2: A Framework for Managing Reputational Risk

Source: RIMS Executive Report: Understanding Reputational Risk, 2013. Adapted from work by M. Merrifield

3

Measuring the Impact of Reputational Risks

Organizations often make the mistake of using media coverage as their primary consideration when assessing reputational risk on a specific issue. This approach is ineffective because it only gauges the extent, volume and sentiment of media coverage. Media coverage does not measure impact, specifically in identifying any change in stakeholder behavior from negative comments or publicity. It is not predictive as to whether customers actually stop buying products, regulators take action to suspend the organization's operations, or investors' remain willing to retain their holdings.

It is one thing to be concerned about negative media coverage, and another to calculate the loss in customers' willingness to buy because of a negative event. Reputation is about how people perceive an organization, based on a range of factors, of which media is only one. Sentiments expressed in the media may not reflect those of the organization's stakeholders.

Organizations need a differentiated understanding of how an issue will impact the way they are perceived by specific groups of stakeholders. However, organizations typically lack the tools and techniques to comprehensively gauge the negative impact from a loss in reputation. To close the capability gap, organizations can apply reputational impact scenario-testing, measuring the organization's reputation before and after a negative event—whether perceived or actual.

For example, consider Facebook and the impact of the Cambridge Analytica scandal and continued negative coverage around its unethical business behavior. From 2018 to 2019, Facebook's reputation with the public in the United States soured as demonstrated by a massive decline across all the seven of RepTrak's reputation drivers (**FIGURE 3**). The RepTrak reputation score for Facebook fell from 55.5 in 2018 to 45.2 in 2019 (on a 100-point scale). The biggest drop was in the field of Governance where the perception of Facebook as being an open, trustworthy, honest and ethical organization suffered, followed by perceptions around Citizenship and Workplace. The willingness of U.S. consumers to recommend Facebook to others fell from 32.1% in 2018 to 24.3% in 2019. The willingness of people to work for Facebook took a similar hit, dropping from 30.2% in 2018 to 23.1% in 2019.

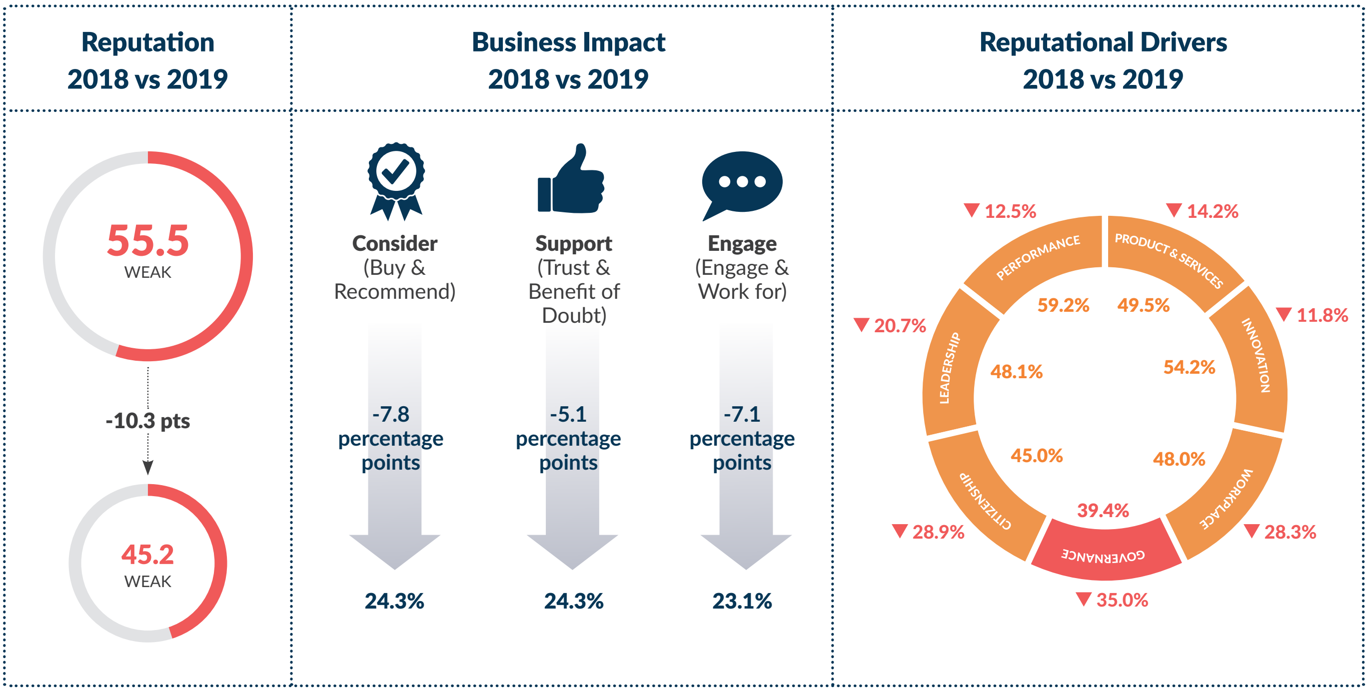


FIGURE 3: Facebook's Reputational Decline

Source: The RepTrak Company 2019

These figures correlated with a general decline in the willingness of the public to buy, to give benefit of the doubt in a crisis, and to work for Facebook. In late 2018, Facebook's stock price fell by about 20% and the company lost $120 billion in value. In addition, almost half of its users aged 18 to 29 deleted Facebook accounts from their mobile phones.

Even as Facebook's stock bounced back, the differential between what it could have been had the Cambridge Analytica event not occurred, and what it recovered to in 2020 still represents a lost opportunity to increase its valuation over this period.

This example demonstrates how conversations in traditional and social media can influence people to change their perception about an organization and erode stakeholder willingness to support it. When viewed through RepTrak's magnifier lens—using actual stakeholder data—organizations that are seeking to defend and repair their reputations may be able to achieve a greater impact by taking more strategic actions to target specific reputational drivers. (See Appendix B for a more detailed discussion on RepTrak's methodology.)

There is also an upside to risk—uncertainty and volatility in the business environment also means the outcome could sometimes result in better performance than was expected.

Therefore, what reputational impact scenario-testing also does is to provide a better understanding of what is driving an organization's reputation. This not only produces better insights but does so preemptively.

What this calls for is a reputation magnifier, which factors the long-term consequences of a highly publicized failure on each driver or an aggregation of drivers, such as loss of sales from damaged reputation, beyond an initial negative event.

This magnifier also provides a basis for ongoing discussion and collaboration between risk management and corporate communications before an event occurs.

As organizations and risk professionals try to understand the impact of reputational risk, they should ask themselves the following questions:

1. Which areas of concern should you worry about most?

2. Are there differences in reputational loss in different cities, states or countries?

3. How does your industry impact the potential loss in reputation? If a negative event occurs, which of the drivers of reputation would be most damaged and therefore form a core part of your crisis communication and response efforts?

> **What reputational impact scenario-testing also does is to provide a better understanding of what is driving an organization's reputation.**

BUILDING A REPUTATIONAL RISK BENCHMARK DATABASE

To build a foundation benchmark database, The RepTrak Company tested the specific impact on 350 organizations from more than 20 different industries across 25 markets and collected more than 850,000 ratings with the general public.

The research identified seven issues of reputational concern that occur most often for organizations:

1. Product recalls
2. Massive layoffs of employees
3. Lack of transparency
4. Data privacy issues
5. Issues with local community
6. Fraud by top management
7. Missing financial targets

The RepTrak Company assessed the specific impact from each issues on four factors:

1. The reputation damage of each risk
2. The negative business impacts
3. The specific loss in reputation within each of the seven drivers
4. Reputation connectivity across risks

They tested the impact from each risk on reputation by running a reputational risk audit using the RepTrak Reputational Risk framework. The framework uses a scenario approach where each person is asked to rate the reputation of the organization first, then exposed to a specific issue, and then asked to rate the organization again using the RepTrak Reputation model.

This approach allows RepTrak to define the specific loss in reputation from each issue, the loss in willingness to buy the products or give the organization the benefit of doubt in a crisis, as well as to define which of the seven drivers of reputation might take a hit because of the specific issue.

LINKING STRATEGY, TACTICS AND OPERATIONS

4

Linking Strategy, Tactics and Operations

A key challenge faced by organizations is how to address the gaps between managing day-to-day issues and the longer-term strategic reputational risks.

As reported by RIMS,[1] organizations that successfully integrate the ERM process into both their strategic activities and everyday practices display superior ability in uncovering risk dependencies and correlations across the entire enterprise and, consequently, hold enhanced value. This is not easy as organizations can get caught up in the speed and impact of change. The external world changes faster than what goes on inside organizations. Risk professionals and executives can be pushed into an operational crisis management mode, even if they correctly see reputational risk as a strategic risk.

One way to address this challenge is to develop an integrated framework to guide the linkage of all three levels: strategic, tactical and operational. Organizations that synchronize strategic, tactical and operational risks can avoid lags in information sharing and in separation of responsibility. The job of the risk professional is to challenge the organization to recognize and help fix these gaps (**FIGURE 4**).

1. Strategic
Organizations that take a strategic approach to managing their reputation over time will have a competitive advantage. They do this by identifying the action they want from each stakeholder or customer group, measure how they perceive the organization today and what they expect from the organization, identify reputational weaknesses and strengths, and develop specific strategies to build a strong reputation within the drivers that matter most.

2. Tactical
Organizations that manage their reputation tactically know where the weaknesses lie, and they tackle points of vulnerability to maintain resilience. They act before issues emerge and make changes to the way the organization operates to modify the risks before they occur.

3. Operational
Organizations that manage their reputation operationally react effectively when something goes wrong. They have a crisis management playbook that is linked to the tactical and strategic levels. They know what to say and do in any given crisis and have the operational agility to deal with issues in real time.

Risk professionals must focus on strategic ambitions and commercial priorities, master new technologies, understand business and technology dynamics, and partner the business as "time-keepers" helping to synchronize business reactions with external realities.

FIGURE 4: Synchronizing Strategic, Tactical and Operational risks

Source: Roads to Revolution: Airmic 2018

[1] RIMS, "Why a Mature ERM Effort is Worth the Investment," 2015.

Most organizations deal with reputational risk at the operational level only. This is not out of choice, but because they lack the data and framework to bring the operational and the strategic together. Frameworks such as the RepTrak® reputational risk framework with its use of the seven drivers of reputation, provides a basis for measurement, monitoring and collaboration between different functions within an organization.

The RepTrak Risk framework combines the deep knowledge from reputation measurement and management with the best practices from risk management. Having this process allows for organizations to link the strategic, operational, and tactical level using robust data (**FIGURE 5**).

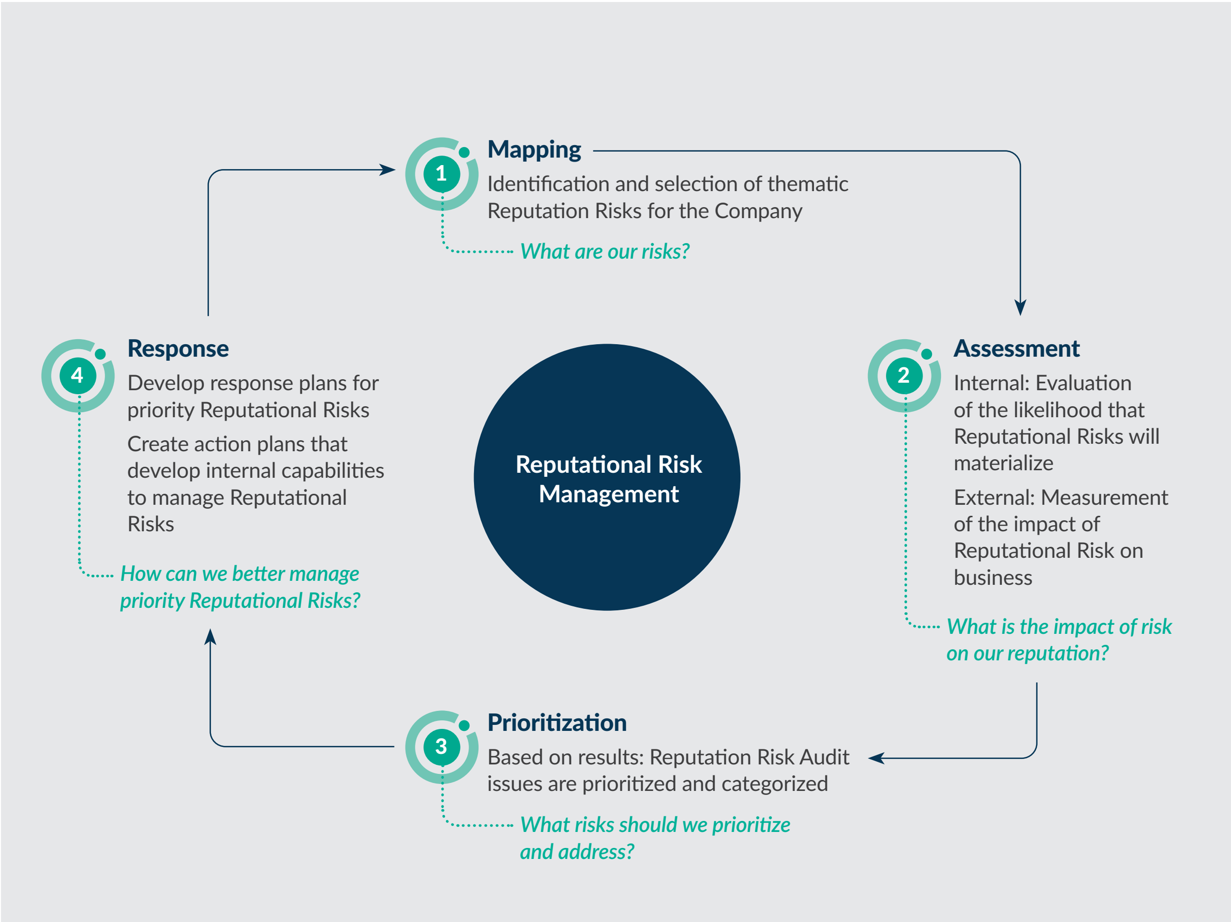


FIGURE 5: RepTrak Risk Framework

Source: The RepTrak Company

“Most organizations deal with reputational risk at the operational level only. This is not out of choice, but because they lack the data and framework to bring the operational and the strategic together.”

5

Developing a Framework for Ownership and Accountability

The core question often asked is, with whom does the responsibility for the corporate reputation lie? Some organizations would say it rests with the CEO, since corporate reputation is the sum of everything organizations do and stand for. Others would say it lies with corporate communications, since it owns the organization's public relations function. Yet others say it lies with marketing, since it owns the organization's brand, or even the chief financial officer, since reputation is part of intangible asset value.

This confusion exists because reputation is multidimensional and intangible. When one adds the risk management aspect to the mix, it is easy to understand why many organizations have reported that defused ownership and accountability for reputational risk is their main challenge.

Reputation is not a responsibility that can be positioned within a single department. Reputational issues need a common framework, reinforced by data and collaboration, to guide decision-making. Ownership and accountability for corporate reputation should not lie with any single group but rather with the three groups within an ownership and accountability framework: the strategic owner, the tactical owner and the operational owner (**FIGURE 6**).

The strategic owner is the CEO and the C-suite. They make the business decisions as to where the organization will play and how it will win. They make the decisions that can hurt or help reputation as perceived among all stakeholders. The most effective way to manage the reputational risk associated with these decisions is by having a working group chaired by the CEO. This working group should have access to all the necessary data and set out the strategy for building and protecting the reputation of the organization. Within the executive team, the head of corporate communications could be the person best equipped to lead on this as they generally have a good understanding of the many different stakeholders the organization needs support from, and can work across all the internal stakeholders that need to be aligned.

The tactical owner is the head of corporate communications. They are responsible for directing and facilitating the process of building and protecting the reputation of the organization. This can be compared to the role of the conductor of an orchestra. Part of the tactical ownership is involving the leaders from the other key functions through a working group including risk, strategy, sales, finance, legal, human resources and operations. They need to collaborate under the same framework for managing reputation, using a single lens for data and to understand the interconnectivity across stakeholders, markets and issues. Risk professionals play an important tactical role given their responsibility for identifying, assessing, prioritizing and evaluating enterprise risks for the organization, including those affecting reputation.

Reputational issues need a common framework, reinforced by data and collaboration, to guide decision-making.

FIGURE 6: Reputation Ownership Framework

Source: RIMS, 2020

The operational owners are the business leaders. They are responsible for building trust, respect and support from their specific stakeholders. For example, human resource leaders are responsible for building the reputation of their organization with employees and potential employees. Marketing and sales are responsible for customers and prospects. Finance and shareholder relations are responsible for reputation among investors and analysts. Local market leaders are responsible for the reputation with their local stakeholders, including community relations.

Decisions regarding the actions identified to modify risks that affect reputation must also be connected and collaborative, although ultimate accountability for reputation remains with the strategic owners.

Risk and corporate communications collectively can identify and evaluate scenarios to help make, inform and support reputational decisions and actions at all levels. While risk and corporate communications both operate at a tactical level with data and interpretation, they also work concurrently with the strategic and operational owners in fulfilling their respective areas of accountability.

"Risk and corporate communications collectively can identify and evaluate scenarios to help make, inform and support reputational decisions and actions at all levels."

6

Reputational Risk Financing

Organizations should determine which risks are insurmountable or better managed through sharing or transfer, and evaluate the availability of financial or other solutions to fill these gaps. When identified risk control activities are insufficient for reputational issues, some organizations turn to insurance.

Existing reputation insurance coverage primarily focuses on compensating direct expenses related to mitigating the harm after a reputational event but might not always cover the full cost of the event itself. More recently, several innovative insurance products have emerged, promising a pay-out based on various reputation-related indices. These products are still maturing and are expected to continue evolving in the years to come.

Insurers and organizations often struggle to precisely quantify what reputation is worth and by how much its value has declined following an adverse event. Two aspects of protecting reputation are therefore particularly challenging from an underwriting perspective.

1. Measuring the loss

Identifying an objective proxy of reputation value to provide precise information about fluctuations in corporate reputation is quite difficult. Even if the fact of an adverse reputational event is established, there is no single obvious way to measure the actual loss. For example, a share price can drop for a few days and then rebound. Customers can express negative sentiment on social media but then be forgiving a week later. Furthermore, reputational events never happen in isolation, and the sentiment of customers and other stakeholders as well as the perception of investors (that will influence the share price) will always be impacted by a range of factors. Therefore, share price is a poor single proxy for measurement, and does not address those organizations who are not publicly traded.

The solution is to focus on a measure on reputation with the specific stakeholders. With a specific measure on reputation–like RepTrak®–the organization can now identify the current state of its reputation using the RepTrak reputation score from 0 to 100, and use that as the baseline for an insurance. When monitoring its reputation with the public on a daily basis, the organization and the insurance company will now be able to track when there is a significant loss in reputation and how much this will impact people's willingness to buy and recommend the organization. The specific reputation, score and the drop is the trigger for the insurance. This allows the organization, to insure against a loss in reputation, which will negatively impact the behavior of stakeholders and hence the business performance. This allows the organization to define the risk appetite for a a certain percentage, such as for a loss, and then insure for a loss greater than 15% or 30%, depending on the appetite.

2. Addressing the full economic impact of a reputational event

Reputational loss can be significant and can include the direct lost revenue, litigation expenses, marketing costs to rebuild reputation, and market value loss. At times, reputational events have especially significant impact on one stakeholder group (e.g., employees) but not on another (e.g., customers). However, there can be a second-level impact later as front-line staff members start transmitting their sentiment to customers. Such impacts cannot always be captured by immediate reputational harm analysis after an event.

Several innovative insurance products have emerged, promising a pay-out based on various reputation-related indices.

Current solutions include those to mitigate potential harm after a reputational event, such as mounting a public relations campaign as part of a cyber policy, indemnity for lost profit due to an adverse media event and coverage for damage done by social media influencers. The insurance industry is addressing these challenges by establishing a link between the reputational event and financial consequences (e.g., revenue loss); considering the treatment of known historical issues as well as ethical challenges on what types of reputational events should be insured; and attempting to sell reputational products that organizations dismiss due to low levels of cover and high pricing.

Insurance companies may also offer risk management bursaries to help their client organizations develop reputational risk management frameworks. A number of organizations are exploring whether similar funds might be made available from the reserves of their own captive insurance companies. While no single reputation insurance product can currently fulfill every organization's needs, the markets are being responsive and innovative in trying to find solutions to the need for reputational risk financing.

Risk professionals can lead the conversation by demonstrating an integrated common reputational risk framework and by using data models to gain clarity on measuring the economic value of reputation and potential loss drivers.

"Vodafone already uses RepTrak as a tool to help focus its strategy on managing reputation. Progress has been made over the last couple of years to focus on reputation, through a dedicated management level committee that brings together a number of relevant stakeholders from across several functions. However, the output from the conceptual work undertaken by The RepTrak Company provided really interesting intelligence into how Vodafone's reputational score changed after exposure to some key risk events.

"Evaluating reputation through the risk lens is not an optic that we have previously used to focus strategy on reputational management. But we also see the power of linking the effects of risk and reputation to focus the more generic risk management conversations. As a risk manager, you are constantly having to evaluate the cost benefit of any decisions. Additional insight into those risks that have a more profound impact on reputation could be used to prioritise actions and efforts.

"Vodafone is looking to the insurance industry to innovate. A reputation risk management tool clearly provides invaluable information to guide our own risk management strategy. However, we'd be interested to learn what insurers could offer when it does go wrong."

Lisa Coomber, Senior Group Insurance Manager, Vodafone

Risk professionals can lead the conversation by demonstrating an integrated common reputational risk framework, and by using data models to gain clarity on measuring the economic value of reputation and potential loss drivers.

"Greater collaboration is required between risk and corporate communications and corporate affairs professionals, to build an approach to crisis management that can respond with agility and decisiveness."

Conclusion

Traditionally, risk is dealt with by risk experts, while reputation tends to be managed by the corporate affairs or corporate communications teams. When those two teams work in silos, without any meaningful collaboration, risks can develop and remain undetected until it is too late, and an organization can find itself as headline news. Greater collaboration is required between risk and corporate communications and corporate affairs professionals. These professionals collectively need to restructure their thinking and to build early-warning systems, using the most up-to-date data, that detect reputational risk and an approach to crisis management that can respond with agility and decisiveness.

Reputation drives business value, and reputational risks can potentially be catastrophic for any organization. This puts risk professionals at a crossroads, where they can follow one of two paths: the first, where they have the responsibility but no influence and control; or the second, where they can contribute value to the organization by leading implementation of a structured, data-driven and systematic approach to reputational risk that draws the whole organization together around a common framework.

We hope this guide to reputational risk will encourage and help more risk professionals to travel the second path.

ANNEX

Annex A

Reputational Risk Management: Case Studies

Coca-Cola European Partners

When recycled plastic is still best for the environment

Organizations that are the most advanced in their reputation management, use proactive methods to influence adverse behaviours in the organization. Boards of such organizations are increasingly interested in their reputation value and want to understand how to measure it. They are also "horizon-scanning" regularly so that no significant social movements outside the business are missed.

Coca-Cola European Partners (CCEP) is the largest Coca-Cola bottler in the world by revenue. The Coca-Cola beverage is bottled by companies that obtain exclusive manufacturing and/or distribution rights for specific regions of the world from the US-based Coca-Cola Company, under a franchising model. As a public limited company, reputation is of paramount importance to CCEP, in how it relates to a wide range of stakeholders that include employees, shareholders, governments, suppliers, customers and consumers, and ultimately how it relates to the Coca-Cola Company as its franchisee.

One of the key issues on CCEP's radar in recent years has been the rise of activism on climate action. With images in the media of oceans littered with plastic waste, CCEP's reputation among customers and consumers had been under pressure because of its use of plastic bottles. From CCEP's perspective though, the issue was not that straightforward, because of complex supply chain issues.

Using metal cans as a packaging container for its drinks requires aluminum. However, the originating base material is sourced from the mining of bauxite, which arguably presents a worse environmental carbon footprint impact than from the use of plastic bottles. Another alternative packaging container was the use of glass bottles. But because the comparable heavy nature of glass bottles when stacked together in massive quantities, that created issues of additional weight capacity during transportation–namely that it would result in the increase in emissions and overall carbon footprint, another environmental bugbear.

In its life cycle analysis, CCEP found that recycled polyethylene terephthalate (rPET), through the use of closed-loop recycling, was most eco-friendly material for bottling operations on a sustainable basis. Yet plastic use in general had been demonized in the media and in the popular consciousness.

Using data from The RepTrak Company in combination with CCEP's own proprietary modelling, risk management professionals collaborated closely with their colleagues in corporate communications at CCEP. Collectively, this enabled them to gauge its reputation more accurately among consumers and other stakeholders, across different geographies. Risk management bursaries contributed towards supporting this venture.

This culminated in the launch of a campaign in Sweden, which in 2020 became the first country in the world for Coca-Cola brands to completely use recycled plastic (100 % rPET) produced locally, including the Coca-Cola, Fanta, Sprite and Bonaqua brands. Projections indicate that this will support the manufacturing in excess of 200 million rPET bottles a year. On 7 September 2020, CCEP announced the transitions to 100% rPET bottles in two more markets – the Netherlands and Norway. This move supports CCEP's ambition in Western Europe to accelerate towards the use of 100% rPET, and the elimination of new virgin oil-based PET in all of its bottles within the next decade.

The reputation measurement indicator for CCEP has showed a positive increase of 4.4 percentage points between the fourth quarter of 2019 and the first quarter of 2020 in Sweden. This was the period of the launch of the new rPET bottles, supported by a media campaign during the launch phase where all Coca-Cola products bore a white label that clearly communicated the message *"Panta mig igen*" ("Recycle me again" in Swedish), in a radical departure from its signature colors on its label design. There have been significant improvements across all of CCEP's packaging attributes compared to the fourth quarter of 2019, a trend likely bolstered by the *Panta mig igen* campaign. This move marks the kick-off of a broad sustainability initiative to encourage consumers to recycle, supporting its efforts to create a circular economy for its plastic packaging.

Landsec

From strategic conversations to a metric assessment of reputational risks

For Landsec, a commercial property company which buys, develops, manages and sells high-quality office, retail and leisure space, high on its list of nightmare scenarios would be a major incident like the 2017 Grenfell Tower fire in London, which was the UK's worst residential fire since World War II. Other nightmare scenarios include a major incident at a large shopping center or within a prestige office. Their concern is for high-quality safety and security procedures to be in place, with processes to ensure that apparently minor issues are escalated, so that what appears to be a minor event such as inadequate cleaning of kitchen extract ducting, will not contribute towards a major fire.

Major incidents, such as fires, impact a fundamental proposition that a commercial property company brings to its stakeholders, which is to ensure the safety and comfort of people in its buildings. Increasingly important for Landsec is to maintain their reputation for being able to do so, or they risk losing the trust of a range of stakeholders.

At Landsec, conversations between corporate communications and risk management have been ongoing at strategic level to anticipate both downside and upside risk of incidents which impact upon the company risk register. There is clear recognition that dealing with disasters only after they happen–through effective crisis management, business resilience and public relations campaigns–is one way to manage risk but represents a mainly reactive approach that could put the organization on the back foot.

As risks become increasingly interconnected today, Landsec is stepping up on its reputational risk management techniques.

The corporate treasury function within Landsec, for instance, monitors the financial impact of major incidents. Risk thresholds are laid down, as would be expected from a standard textbook on risk management. Risk thresholds on reputational risks, however, are less obvious and more difficult to pin down.

To combat this risk, Landsec is building up a metric assessment of its reputational impact, as a basis for greater engagement and collaboration between corporate communications, risk management and the board, as part of their integrated approach to enterprise risk management.

ANNEX

Annex B

The RepTrak Company™

A data-driven approach to reputational risk management

Most organizations have an enterprise risk management process where issues are reported, and the business impact are calculated. But the fact that organizations are not able to accurately calculate the impact from issues on reputation today has major implications, because this means that current risk reporting could be wrong. When the issues are scored on likelihood and direct financial costs, reputational risk is not factored in. And with the knowledge we have about the impact of a reputation crisis on sales, stock price and credit scores, an issue that may be lower on the risk register should actually be in the top three when it comes to financial impact because of the negative reputation consequences. Identifying these risks means defining the reputation factor on each issue, and this should be done by applying solid and robust data.

To create a foundational database to assess the reputational risk factor, we have conducted research on specific risks to assess three things:

1. The reputational damage of each risk

2. The negative business impacts

3. The specific loss in reputation within each of the seven drivers

From our research across different markets, we have seen seven issues that occur most often for organizations:

1. Product recall

2. Massive layoff of employees

3. Lack of transparency

4. Data privacy issues

5. Issues with local community

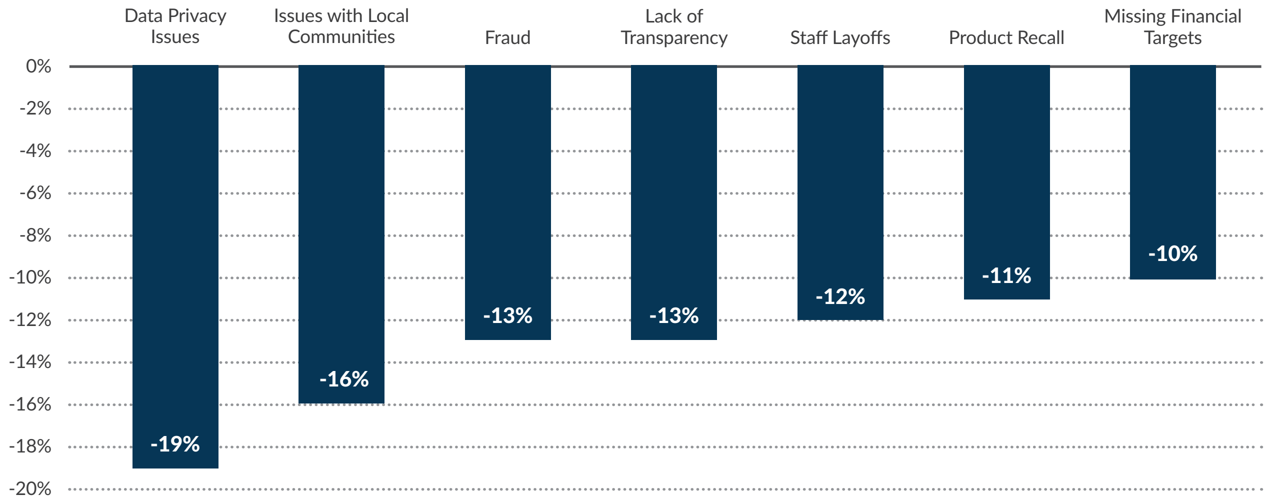
6. Fraud by top management

7. Missing financial targets

Each of these issues is negative. They will damage the reputation of your organization. But there are some key questions–which three should you worry about the most? Are there differences in reputation loss in the different regions of the world? How does your industry impact the potential loss in reputation. And finally, if they happened, which of seven drivers of reputation would be damaged the most and should be a core part of your crisis communication strategy?

Think about these seven drivers for your organization. Which one should you worry about the most, and put in more resources in mitigating? And if they happened, what would be the right crisis communication? It is difficult to assess. And ensuring you get this right across multiple issues, over time, and across international markets is impossible.
You need quantitative data to build a systematic approach.

To build a foundational benchmark database, we tested the specific impact on 350 organizations from more than 20 different industries across 25 markets and collected more than 850,000 ratings with the general public. We tested the impact from each risk on reputation by running a reputational risk audit



using the RepTrak: Reputational Risk framework. The framework uses a scenario approach where each person is asked to rate the reputation of the organization first, then exposed to a specific issue, and then asked to rate the organization again using the RepTrak: Reputation model.

This approach allows us to define the specific loss in reputation from each issue, the loss in willingness to buy the products or give the organization the benefit of doubt in a crisis, as well as define which of the seven drivers of reputation will take a hit because of the specific issue.

The first question was: Which of these issues will have the biggest impact on reputation?

The results show that Data Privacy issues have the biggest negative impact on reputation. On average your organization will lose 19% of its reputation score if they had this issue. Issues with Local Communities presents the second largest reputational risk with a loss potential of 16%, followed by Fraud and Lack of Transparency, each costing up to 13% of your reputation score. While missing financial targets is never very good, this is not the biggest concern from a reputation perspective, nor are product recalls. Here you only lose about 10% of your reputation score.

The reputational impact is different around the world—what matters to people in the United States is somewhat different to people in Asia and Europe.

For Data Privacy issues, the negative impact is a loss of 26% in reputation score in South America, but only a loss 15% in Asia-Pacific countries. If you have Issues with Local Communities, this will hurt your reputation score by 16% in North America and 23% in South America. This underlines the importance to have local data to define the reputational risk, especially if you are an international organization.

	Europe	North America	South America	APAC
Lack of transparency	-13%	-13%	-14%	-11%
Data Privacy Issues	-18%	-20%	-26%	-15%
Issues with Local Communities	-16%	-16%	-23%	-12%
Fraud	-13%	-13%	-12%	-12%
Missing Financial Targets	-10%	-11%	-10%	-9%
Product Recall	-11%	-12%	-11%	-10%
Staff Layoff	-13%	-11%	-14%	-10%

If we look closer at the Data Privacy risk, we can now identify the specific impact this will have on reputation, business support, and the seven drivers of reputation.

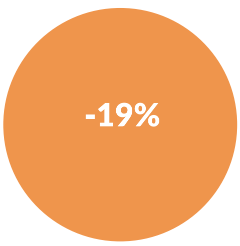
Having a Data Privacy issue will result in a 19% loss in reputation score. It will hurt perception the most within Governance, Leadership and Citizenship. From a business impact perspective, it will hurt sales–there will be a 7 percentage point drop in the number of people who definitely buy your products ("ambassadors"), and there will be a 7.3 percentage point increase in the number of people who would not buy your products ("detractors"). It will also impact the willingness of people to give the organization the benefit of doubt in a crisis, where there will be a 6.8 percentage point increase in the number of people who would definitely not do that now.

With this data, the organization can now calculate what this would mean financially to them using their own sales-related data points. Looking across multiple issues, the organization will not be able to make a data-driven decision on which issues to focus time and money on, based on the risk impact they pose.

For a company like Samsung, an issue with Data Privacy will have the following impact:

- Reputation would drop 25.4% (or 19.6 percentage points)
- The willingness of consumers to buy products would drop by 19.2 percentage points, from 63.6% to 44.4%

Reputation Impact



Drivers Impact

Business Impact

I would buy the product of the company

Detractors	Ambassadors
+7.3pp	-7.0p

I would give the benefit of the doubt

Detractors	Ambassadors
+6.8pp	-1.8pp

- The willingness of consumers to give Samsung the benefit of doubt in a crisis would drop from 39.7% to 30.6%

With this information, Samsung can now calculate what the business impact would be from a reputational issue within the field of Data Privacy.

For every organization the reputational risk impact is different. It also depends on the industry you are in and what your stakeholders care about.

For a company like Santander, an issue with Missing Financial Targets will have the following impact:

- Reputation would drop 24.1% (or 15.8 points)
- Willingness to buy products would drop by 17.3% points from 54.6% to 37.4%
- Willingness to give Santander the benefit of doubt in a crisis would drop from 40.8% to 37.8%

Knowing the potential impact on the business from an issue will allow for better risk mapping and reporting. It will also allow for the organizations to focus their attention on the issues that have the largest reputation magnifier impact.

Company	Risk Event	Reputation impact			Business impact	
					Buy Products	*Benefit of Doubt*
Samsung	Data Privacy	77.3 STRONG	**-19.6 pts** (-25.4%)	57.7 WEAK	**63.9%** → 44.4%	**39.7%** → 30.6%
Santander	Missing Financial Target	65.5 AVERAGE	**-15.8 pts** (-24.1%)	49.7 WEAK	**54.6%** → 37.4%	**40.8%** → 37.8%

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