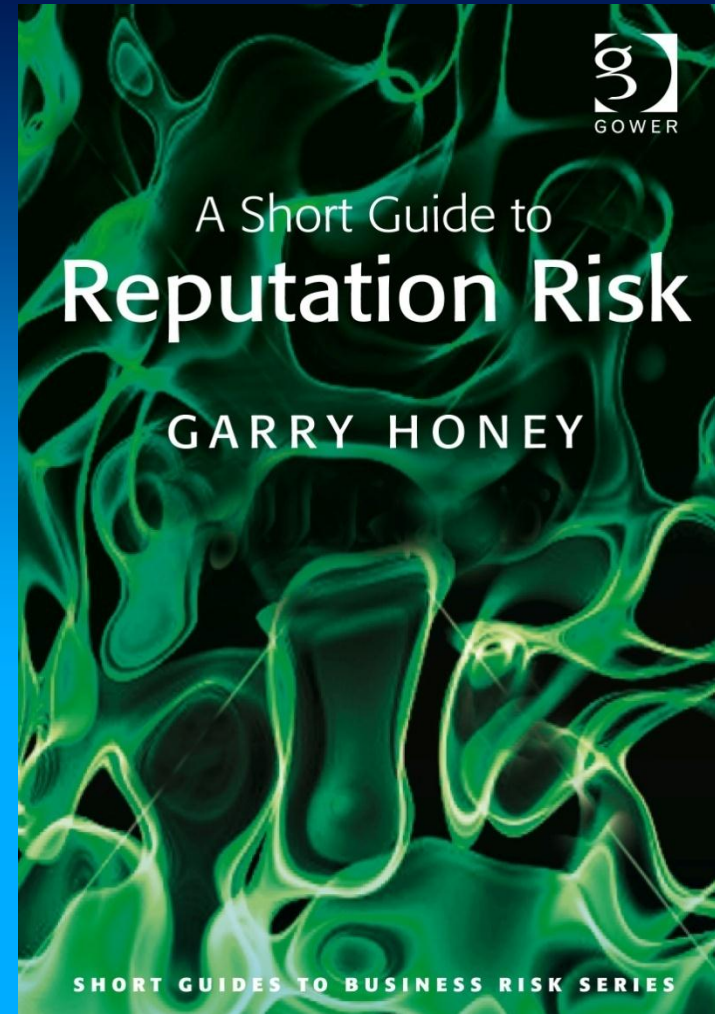
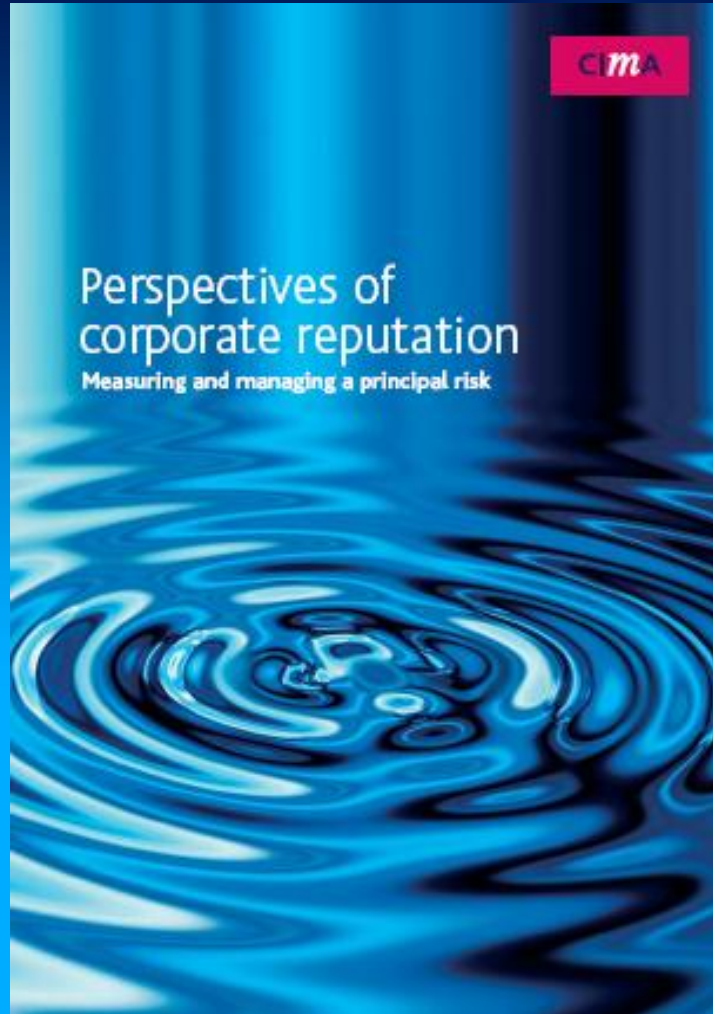


Integrating Reputation Risk within an ERM framework

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Chiron consultants
January 2012

publications



agenda

1. what exactly is Reputation Risk?
2. Can it be measured? Metrics
3. Can it be managed? Ownership
4. Can it be reported? Audiences
5. Reputation on risk radars and registers

reputation



Reputation is a perception of character and the basis for trust.

reputation is.....

Relational and relative – relationships with someone for something

Exception attributed – notoriety, specific events will be generalised

Perception comparison – knowledge, experience, belief not objective truth

Unintended consequences – damage is never intentional: cause and effect

Track record – the past is a guide to the future: behaviour not words

Emotional appeal – perception of character, indicator of trust

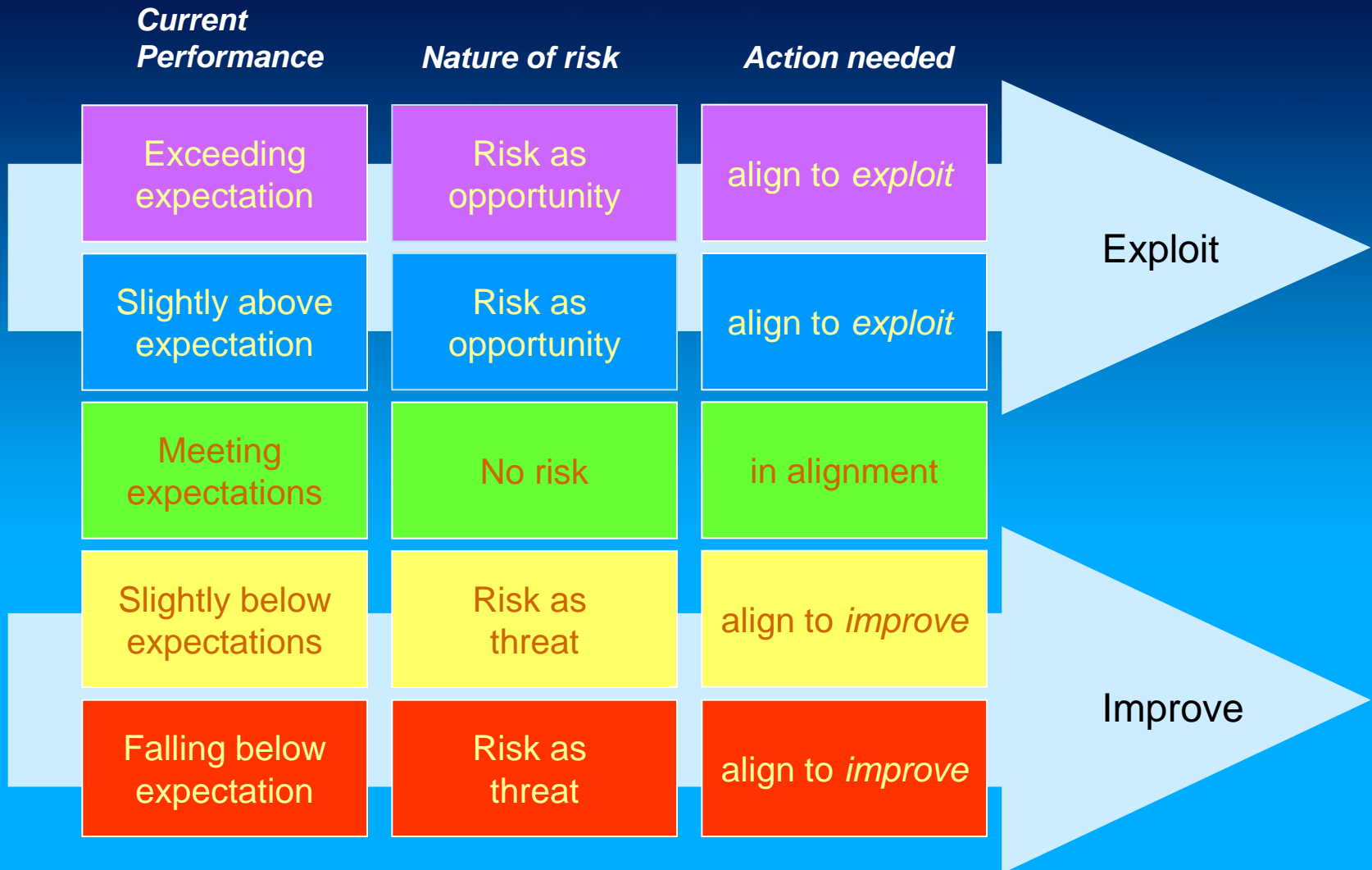
**.....a perception held by others about your
anticipated future behaviour**

reputation risk is....

1. The **value at risk** from misalignment with expectations of any key stakeholder group –

NB this can be a threat or opportunity and a valuable aid to strategy development.

expectation alignment



reputation risk is also....

2. The consequential impact of failing to meet stakeholder expectations; loss of confidence, reluctance to do business, and **erosion of trust**.

Q *'what would stakeholder reaction look like?'*

trust erosion

Level	Stakeholder reaction	Trust damage	Characteristics
5	Outrage	Trust completely lost – not recoverable	Fraud, embezzlement, illegal or criminal activity
4	Disgust	Trust severely damaged – never fully recoverable	Incompetence, poor management decision making
3	Concern	Trust diminished – recoverable at considerable cost	Accident or safety issue eg product recall
2	Surprise	Trust dented – recoverable with time & good PR	Poor judgement/lack of control eg supply chain problems
1	Disappointment	Trust questioned – but recoverable speedily	Inconsistent behaviour eg gap between policy and reality

reputation risk is also....

3. Also a function of the speed of **recovery of trust** as much about the degree of damage and loss.

Q 'How much time and effort is needed to regain trust?'

trust recovery

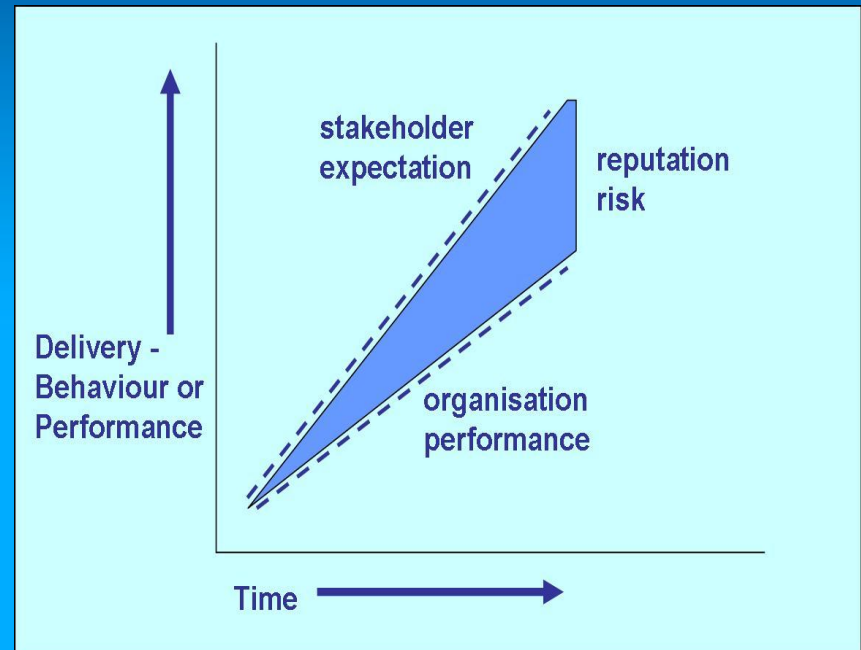
key factors	aspects	qualification
1. Existing goodwill Prior state of trust	<ul style="list-style-type: none">- Quantity & Quality- Dependent conditions	<i>Goodwill in the bank – ‘forgiveness factor’</i>
2. Nature of threat Impact event or crisis itself	<ul style="list-style-type: none">- Cause & Culpability- Contain-ability	Whose fault? Blame and culpability for the event
3. Response to threat Reaction & crisis handling	<ul style="list-style-type: none">- Efficient, Sensitive- Contrition or apology	Immediate response eg product recall

the CRO challenge

- How much trust would be lost & with whom specifically?
- How would this damage to trust impact our business?
- How quickly could this damaged trust be recovered?
- Critical factors:
 - a) Loss of goodwill (or market cap) during the trust ‘outage’?
 - b) The cost of regaining this lost trust (crisis recovery)
 - c) the opportunity cost of damage limitation (diverted resources)
 - d) High or low severity? How or low probability?

summary

- Reputation is a *business continuity* risk
- It is a *strategic* not operational risk
- It is a *behavioural* risk
- It is an *intangible* risk
- It is a *significant* risk



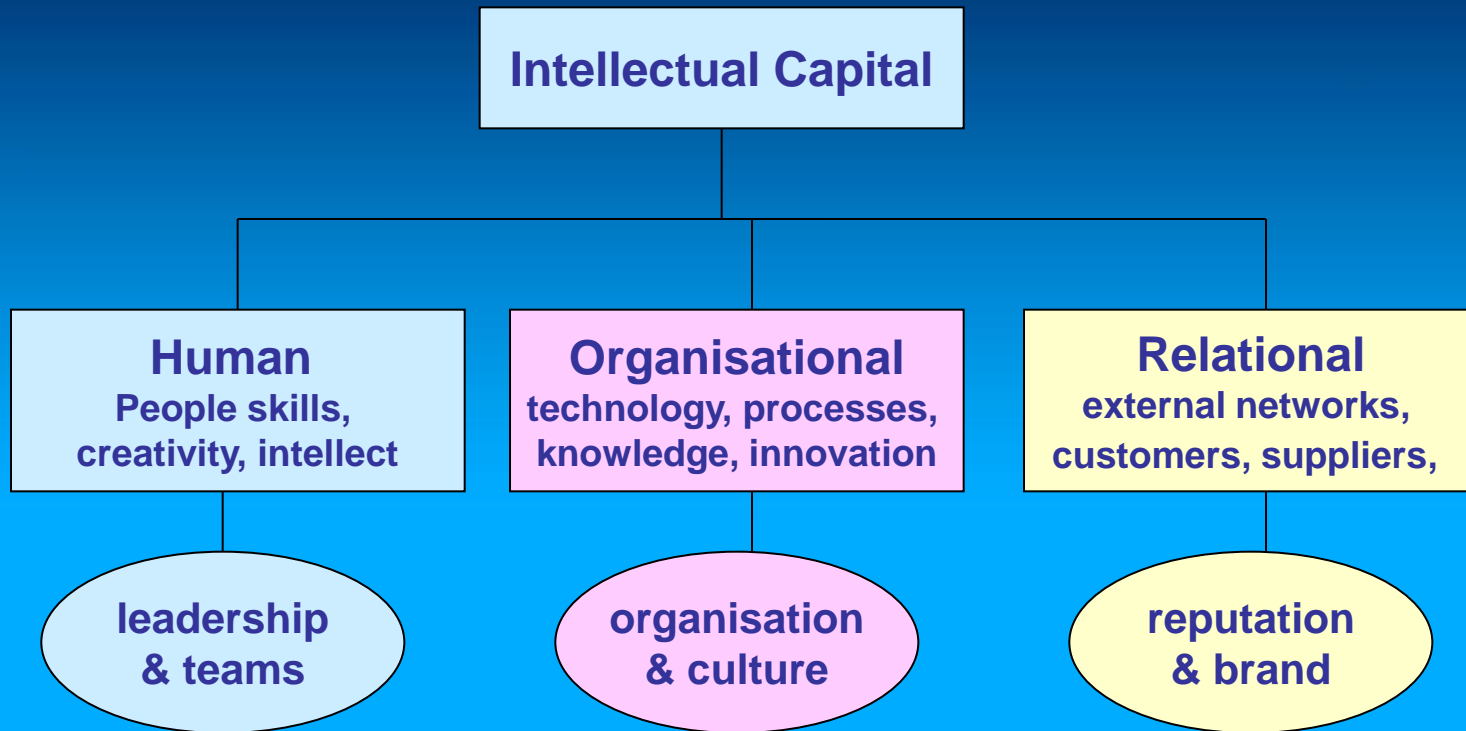
2. Can it be measured?

reputation metrics

- Absolute: as an *intangible asset* - estimated monetary value
- Relative: as a *cultural asset* - intellectual capital – (Skandia Navigator)

Measurement type	Advantage	Disadvantage
Monetary valuation (Market Cap or ROA model)	CEO & FD attention	Superficial & contentious with too many assumptions
Relative valuation (Direct IC or score card)	Detail & internal analysis	Complexity, data intense, volume of information

intellectual capital

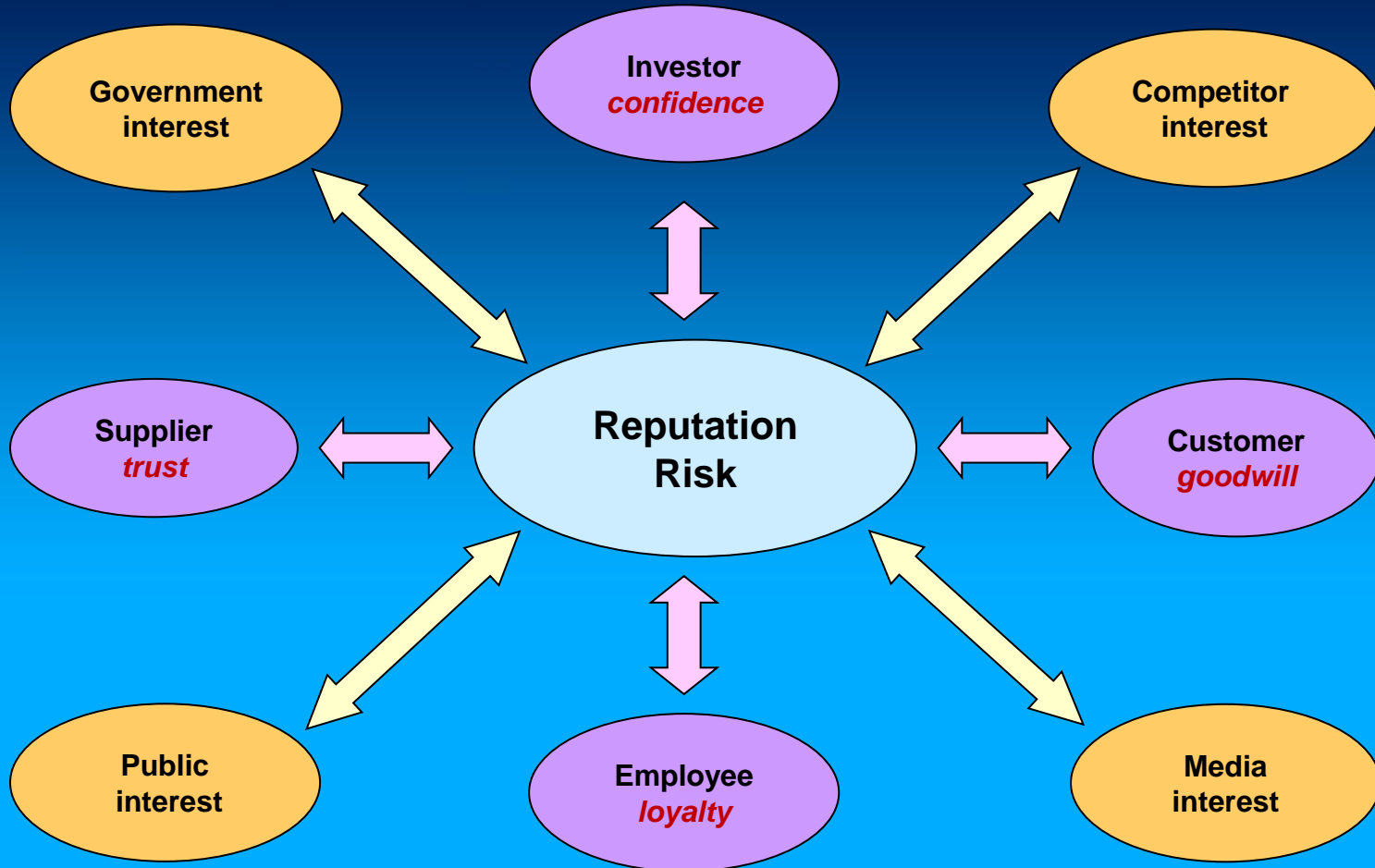


measurement metrics

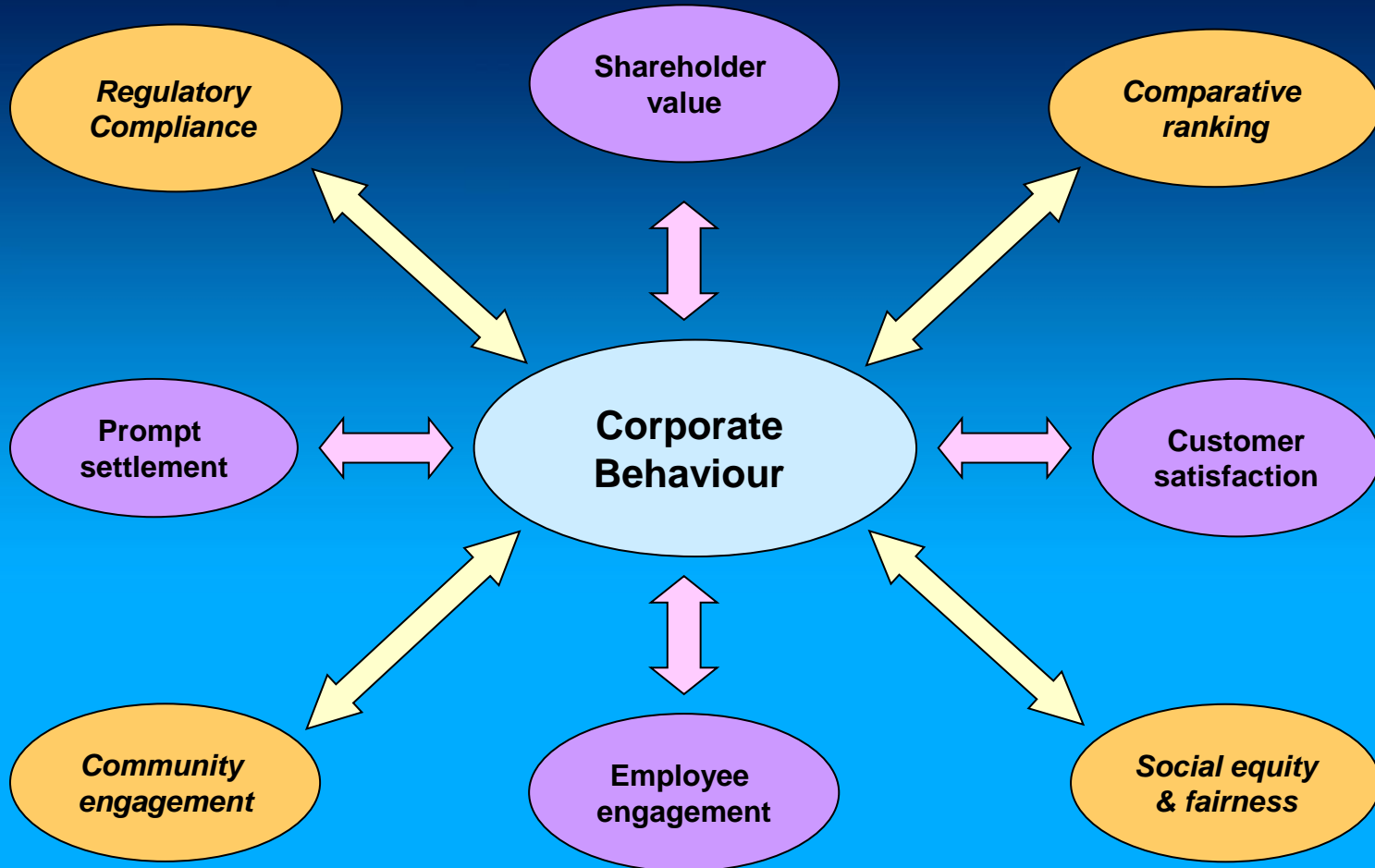
- How do you measure a relationship value? – quality
- How do you measure an expectation gap? – distance
- Probability cannot be forecast - it is always unexpected (!)
- Severity cannot be forecast due to ‘moral hazard’
- Reputation is future expectation – impossible to control

3. Can it be managed?

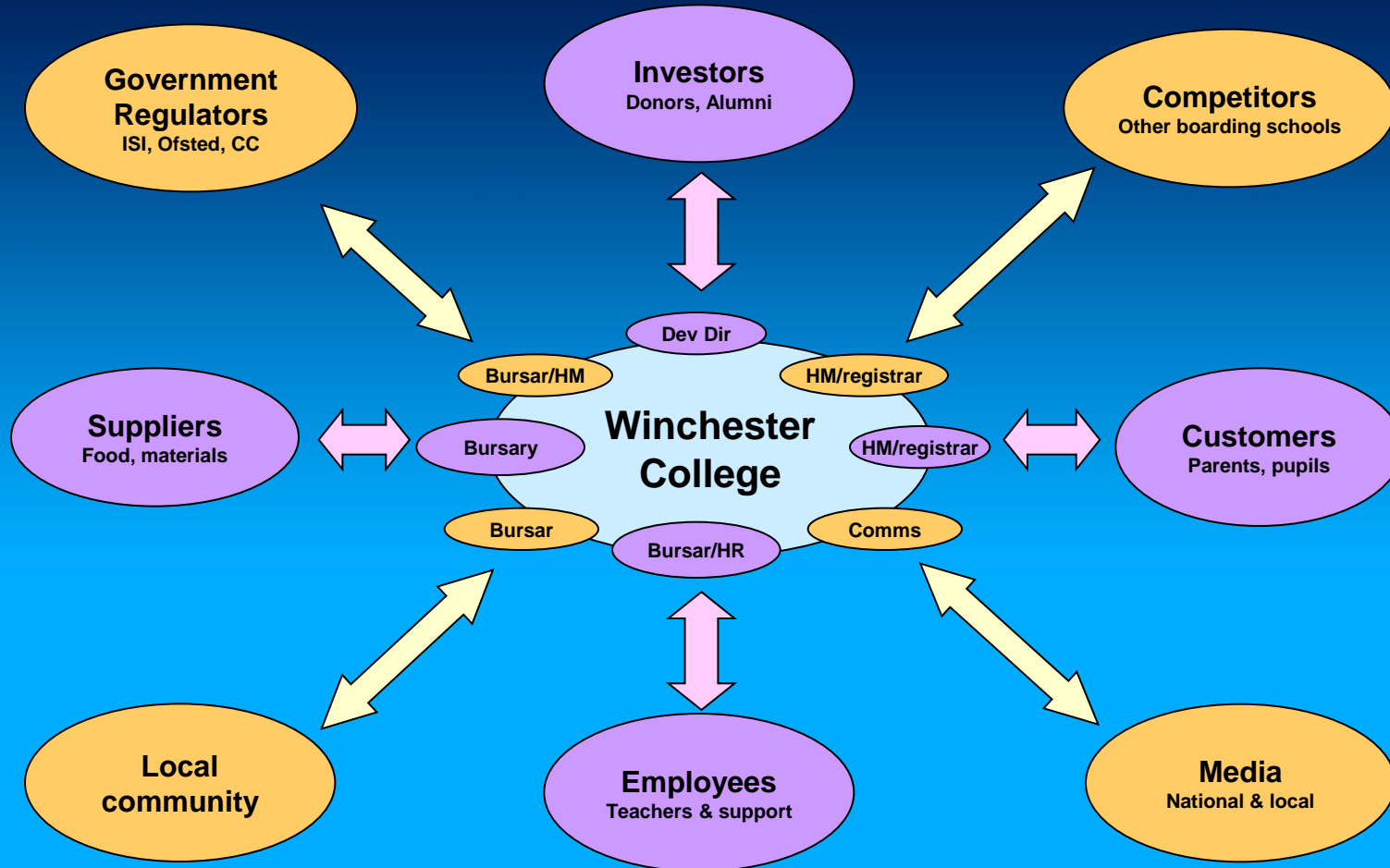
stakeholder sentiment



stakeholder expectations



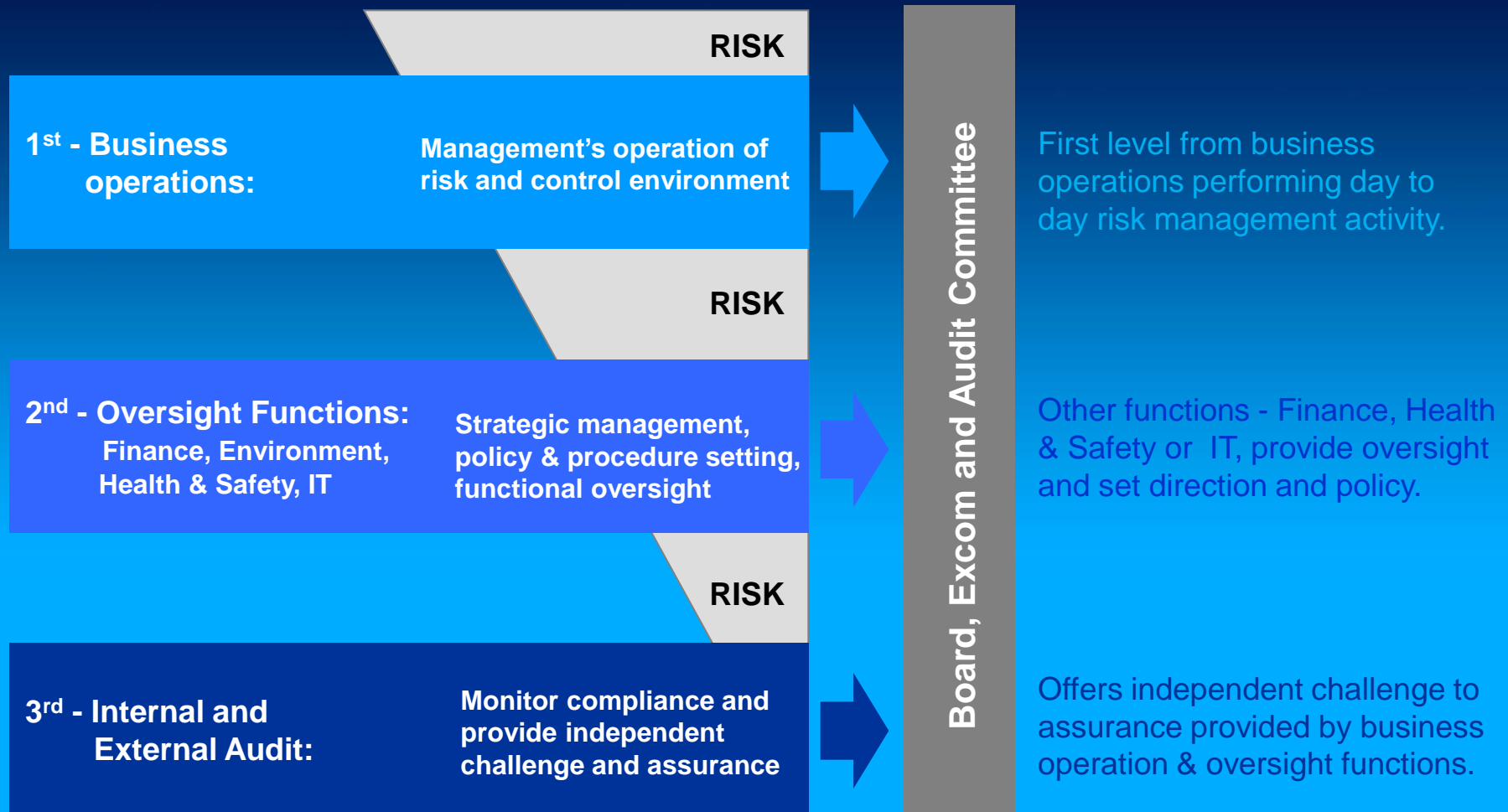
Stakeholder relationship owners



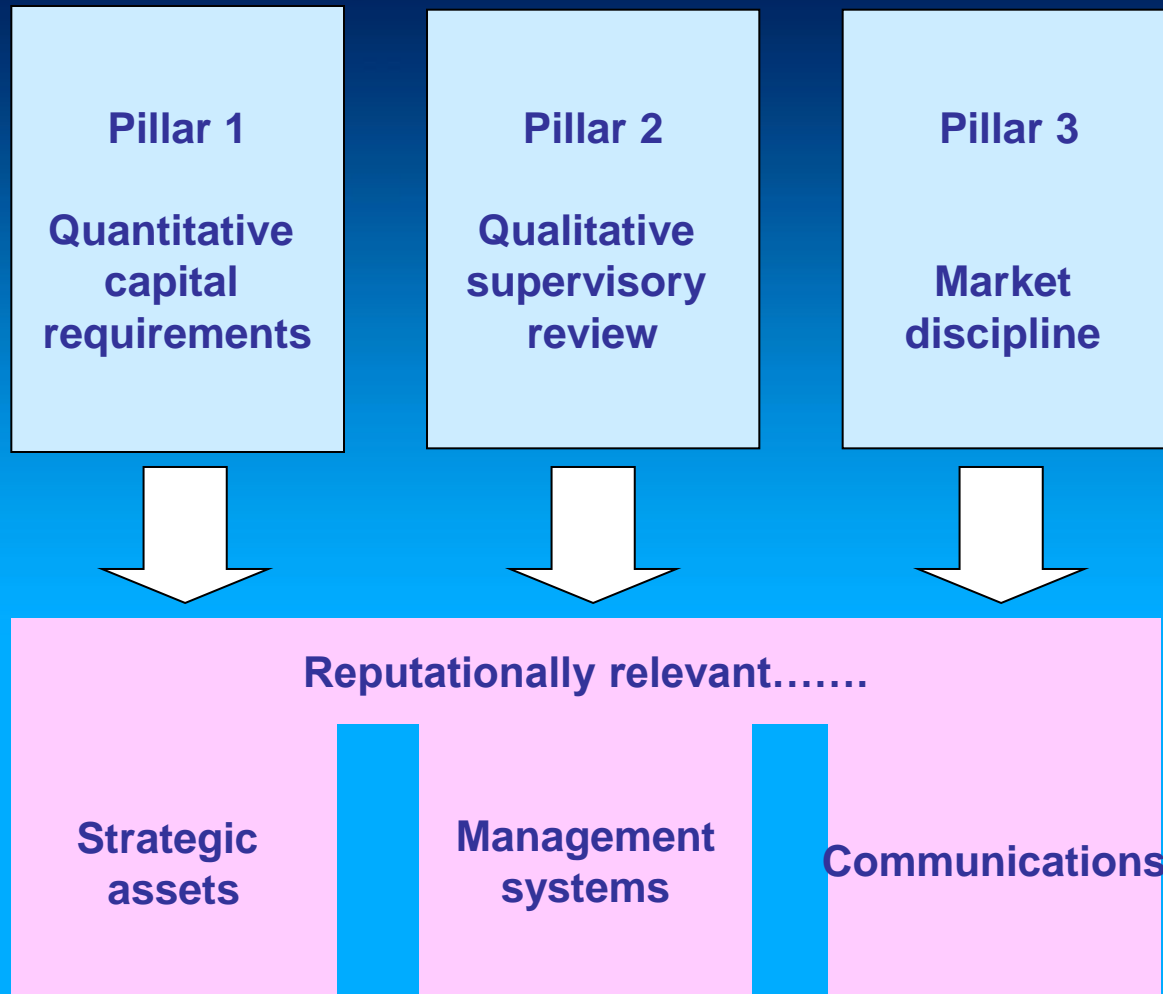
managing reputation risk

- This is a shared responsibility
- It falls to each stakeholder relationship owner
- This needs co-ordination by central communications
- The risk lies in inconsistency or contradiction
- Stakeholder groups are not homogenous – customers & investors

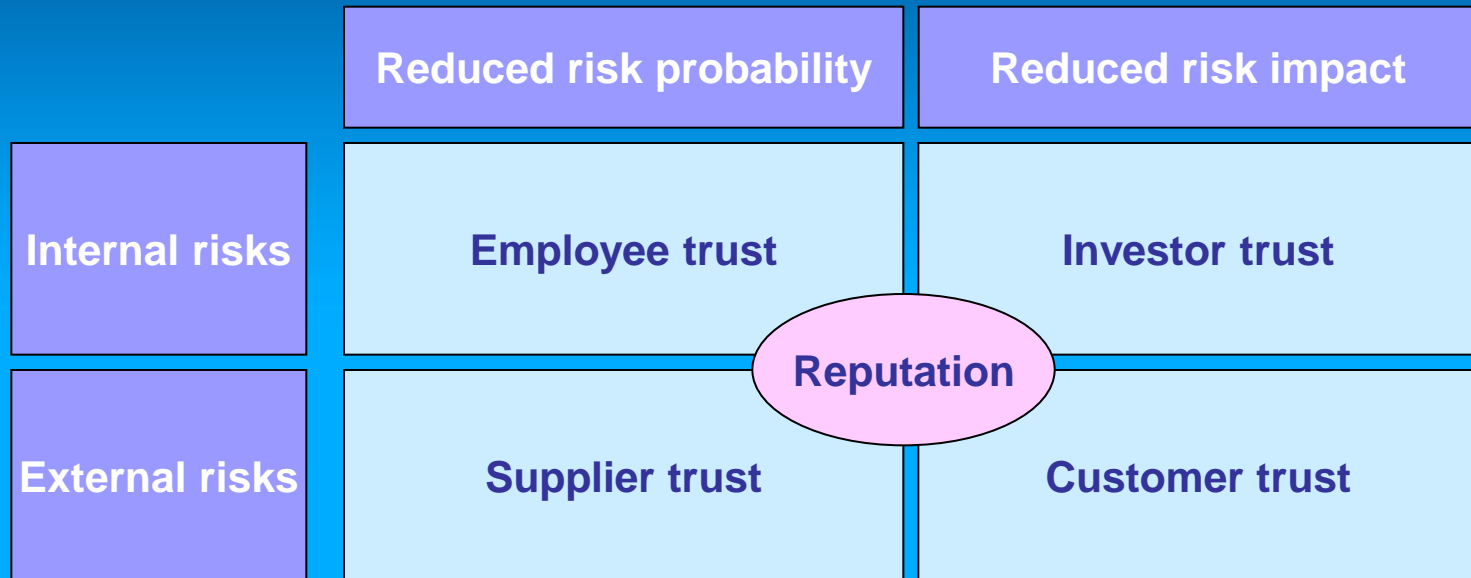
belt and braces



Reputation Risk – Solvency II



Reputation risk: as viewed by KPMG for Solvency II



4. Can it be reported?

Compliance

Nov 2008 - Companies Act, Enhanced Business Review

‘...a description of *principal* risks’

March 2010 - Corporate Governance code update

‘...the board should be responsible for determining the nature and extent of the *significant* risks it is willing to take.’

Sept 2011 - FRC Report ‘Boards & Risk’

17 key findings about board approaches to risk reporting with recommendations for improvement

Sept 2011 - FRRP Annual Report

Inadequate *principal* risk reporting – panel listed 5 issues

reporting reputation risk

- Reporting risk is compliance driven – governance code
- The aim is to reassure stakeholders of management capability
- All risk is future uncertainty so.....
- Risk reporting tends to be about control of uncertainty
- Content tends to cover systems and procedures, not issues
- Risks tend to be identified only if they can be evidently managed, avoided, mitigated or transferred

internal perspectives

Management	Focus	Specifics	Motivation
CEO/ Chairman	The City	performance v peers share price	
Financial Director	Business Review	principal risk asset value description	Compliance
Chief Legal Officer	D&O liability	duty to protect liability for damage	
Risk Director	Governance	control – procedures inclusion within register	Control
Human Resources	Reporting structure	control – people ownership attribution	
Company Secretary	Regulator codes	business community reporting standards	Community
CSR Director	SRI fund managers	stakeholder activism sustainability agenda	
Investor Relations	Investor confidence	analysts briefings shareholdings profile	Choice
Communications	External opinion	public relations media interest	

internal friction

FUNCTION

Corporate Communications
Investor Relations
Customer Services

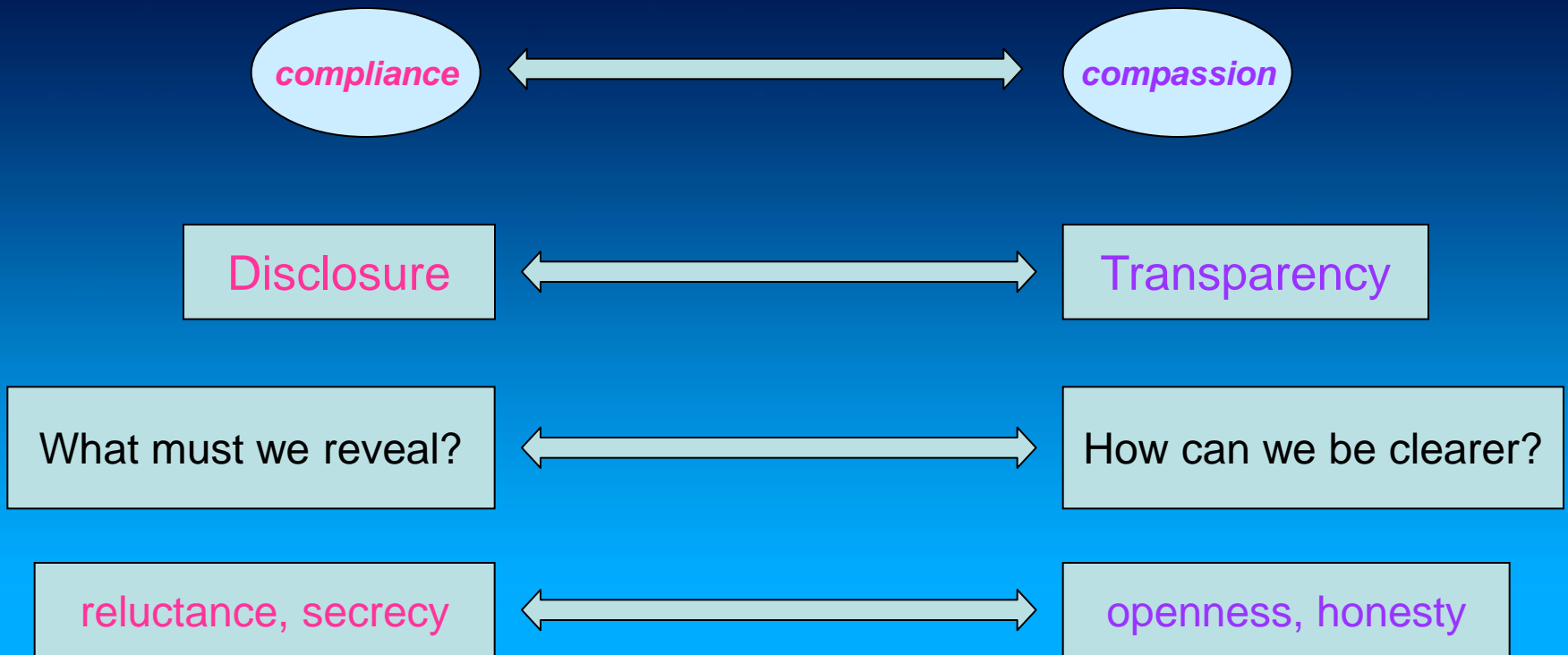
Chief Legal Officer
Chief Financial Officer
Company Secretary

DRIVER

Differentiation
Distinction

Compliance
Conformity











reporting dilemma



Key issue: To whom are we accountable?

5. Risk radars & registers

reputation elements – risk register

The 7 key drivers of reputation	Investors	Customers	Suppliers	Employees
Financial Performance				
Delivery of Products & Services				
Vision & Leadership				
Corporate Responsibility				
Workplace Environment				
Knowledge & Skills				
Emotional Appeal				

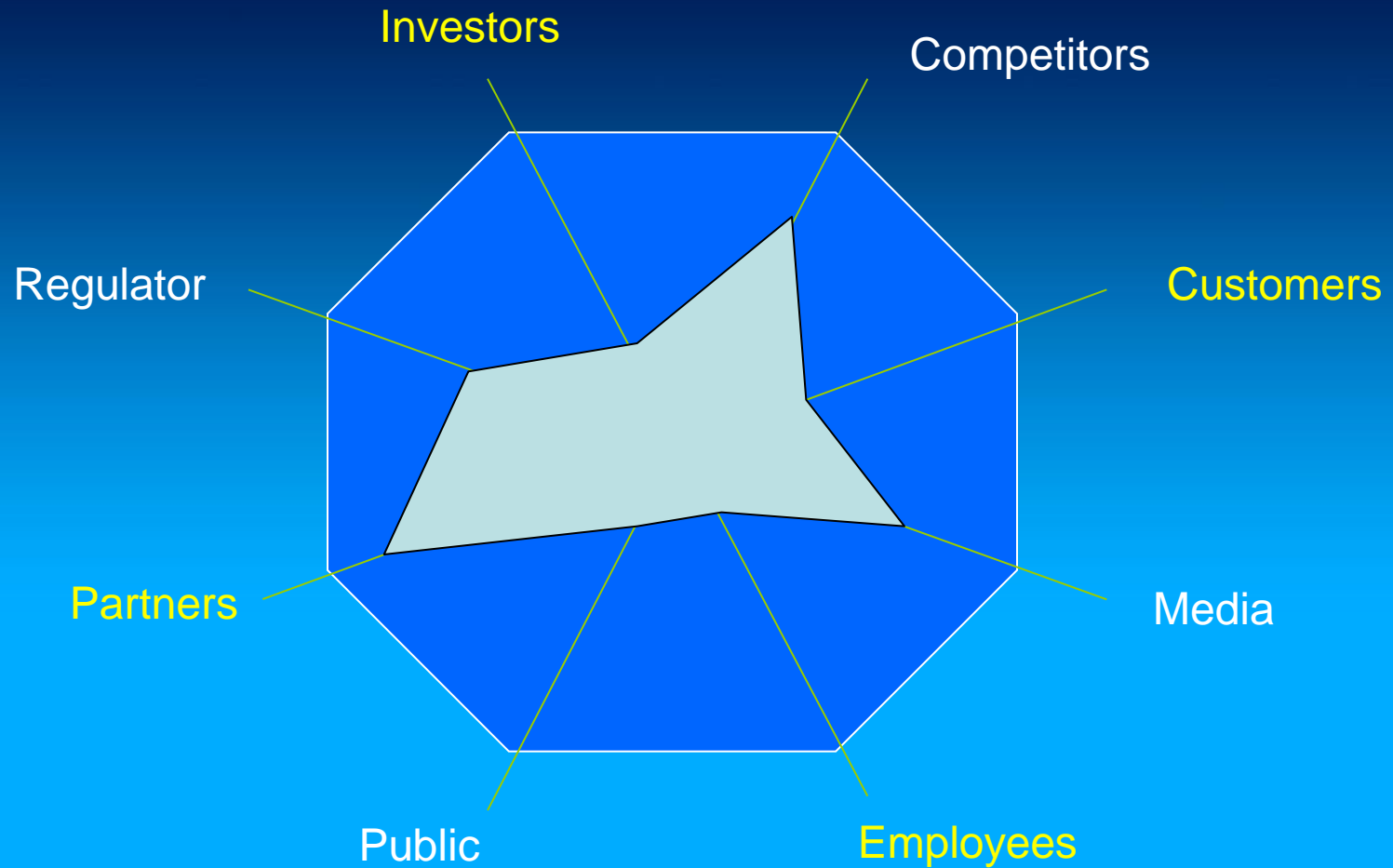
register analysis by stakeholder

Registered risks	S'holder A	S'holder B	S'holder C	S'holder D	S'holder E
Risk A	★				
Risk B	★				
Risk C	★	★	★	★	★
Risk D	★				
Risk E	★				
Risk F					
Risk G					

dashboard tool – investor example

INVESTORS	Stakeholder Research		Internal measures	
Reputation category	Sub category	stakeholder rating	Key risk indicators	Company rating
Financial Performance	Profitability Cash flow	Yellow	Actuals	Yellow
Products & Services	Portfolio Services	Red	Actuals	Green
Vision & Leadership	Strategy Management	Yellow	Actuals	Red
Corporate Responsibility	Governance Ethics	Green	Actuals	Green
Workplace Environment	Culture	Red	Actuals	Yellow
Knowledge & Skills	Expertise R&D	Green	Actuals	Red
Emotional Appeal	Inspiration	Yellow	Actuals	Green

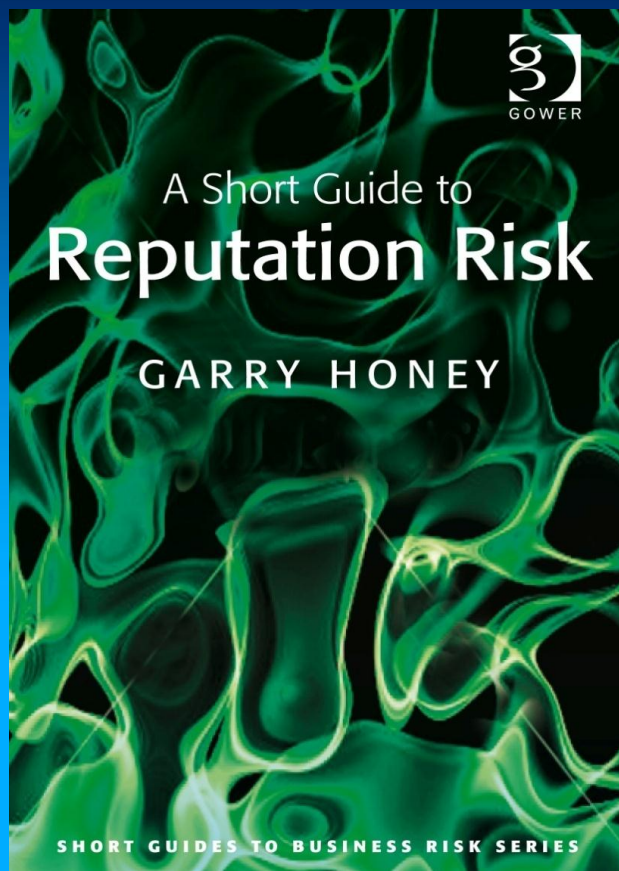
risk radar



summary

- ERM framework should include reputation risk
- It cannot be classified on a 'probability-severity' matrix
- The risk is strategic/board-level and often beyond CRO scrutiny
- The risk can be mitigated through stakeholder sentiment tracking
- The risk can be reported as significant but managed
- Stakeholders will appreciate the risk as opportunity not just threat

Reputation risk – a short guide



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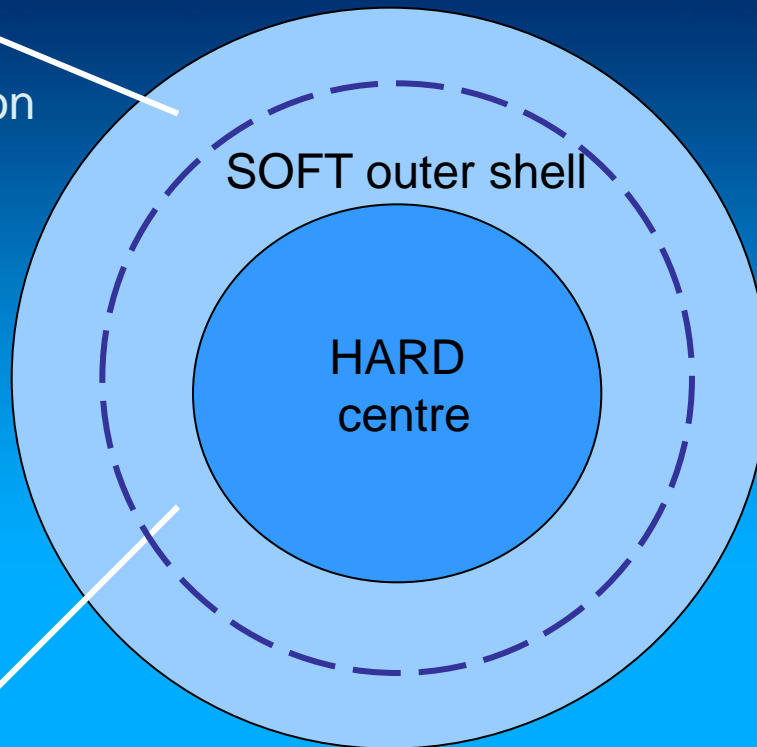
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IP Fraud

Outward facing values

Goodwill
Brand
Reputation



Accountants – estimated value
Intangible asset

OB analysts – ‘soft’ values
Intellectual capital

Lawyers – ownership boundary
Intellectual Property

Inward facing values

Culture
Ethos
Knowledge