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Reputation Risk

Ignore it at your peril!



Lily—for being 'as pure as'

"Our assets are our people, capital and reputation. If any of these are ever diminished, the last is the most difficult to restore." From Goldman Sachs' *Business Principles*

UK research shows that top 2000 private and public sector organisations regard reputation as their biggest risk.

OK! It's important—but is it important to
Asset Managers?

(see inside for the answer in pictures)

- 808. Why reputation is important to you in Asset Management
- 809. How Your AM actions can put your organisation at risk
- 810. A risk like no other
- 811—814 Reputation Risk Management—in Pictures—by David Davies of Davies Business Risk Consulting, (UK)

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When You Have a Good Reputation

When you have a good reputation, people will trust that you are doing the right thing even if they don't understand it; you will be given the benefit of any doubt. With a good reputation you can ask people for advice, help, or input and they will gladly give it; money, too, is not only easier to obtain, but cheaper since you are not seen as much of a risk. Others will gladly work with you. Your achievements are applauded.

With a poor reputation, however, you find that you need to justify your actions continually, people 'take you the wrong way' and suspect that you are doing something underhanded even if you are not. It is difficult to get anyone to put the time in to assisting you or to give you advice; mostly they just don't want to be associated with you. Funds are difficult to come by, and expensive because you pay a hefty risk premium. People are not lining up to work with you. Your achievements are viewed with suspicion.

And what is true of individuals is true of organisations.

You benefit from a good organisation reputation.

This is very important for asset management because the 'right thing' is often not the most popular thing; the timing of key works has to take place before it is obvious to everyone that they are really needed; the support of your customers and other stakeholders is critical to what you can do and what co-operation you get; and when costs need to be incurred long before benefits are realised, funding relies very much on trust. Your organisation's reputation is thus critical to what you can do.

Your actions can result in a poor organisational reputation.

But, in turn, it also very much depends on what you do, how you consult and deal with others, what decisions you make and how you explain them, etc. In other words, the way in which asset managers relate to their communities and the integrity with which you carry out your tasks will have a major impact on your organisation's reputation. It is a two way street.

Understanding reputation – and how to protect against reputational risk is thus important to you.

According to David Davies, the author of our "picture story" in this issue,

"All employees bear some responsibility for the identification and management of risks to reputation. However, members of the Board play a crucial role in setting the tone.

There is no 'one size fits all' solution to managing reputation risk. Reputation can be regarded as a source of risk in its own right and/or as a consequence of other risks occurring. The critical issue is to ensure that all major risks are comprehensively identified and prioritised and that appropriate action is taken to manage them. "

Reputation Risk

A Risk Like No Other

In Risk Management a couple of assumptions are generally made:

1. That we can equate all risks to some monetary value and then determine whether it is worth living with the risk or doing something about it—and if so, how much we should pay to mitigate it.

This implies that the risk is containable.

2. That only downside risks are to be managed. We speak of the 'risk' of being overbudget (and not the risk of being under-budget!), or the risk of early failure (not the 'risk' of life extended beyond the accepted norm)

This implies that upside risks are not the subject of management

Reputation Risk is different because

1. Reputation Risk can be the difference between being in business or out of business—an 'all or nothing' risk, and **how do you put a price on that?**
2. Just as reputation can be damaged by poor action—it can be enhanced by good action—that is **managing risk is "Value Adding"**. (cf Arif Zaman in the reference list on the back page)

Key Components

Leaders in reputation risk management have put the following components at the heart of their approach:

- a clear vision: 'what we stand for and are prepared to be held responsible for';
- clear values, supported by a code of conduct, setting out expected standards of behaviour;
- policies clearly stating performance expectations and 'risk tolerance' in key areas;
- understanding of stakeholders' expectations, information requirements and perceptions of the organisation;
- an open, trusting, supportive culture;
- a robust and dynamic risk management system which provides early warning of developing issues;
- organisational learning leading to corrective action where necessary;
- reward and recognition systems which support organisational goals and values;
- extension of vision and values to major partners and suppliers;
- open and honest communications tailored to meet the needs of specific stakeholders.

Reputation Risk Management

The Story In Pictures by David Davies, Davies Business Risk Consulting, UK

Reputation, according to David Davies, (www.dbrc.co.uk) is, of all of our assets, the most valuable but the least well understood or the most taken for granted. It is the biggest threat to large/global companies. It is rarely 'owned' where it can be effective and therefore is hardly/barely managed and brand/reputation damage is commonplace. And it is equally important in the public as in the private sector. (If you doubt this, think back to the Sydney Water Scare where the CEO lost his job and immense damage was done which increased the level of scrutiny of all future asset management actions for the Authority.) The following is presented with permission of the author.

Six ways to lose your reputation

- A sudden, badly handled crisis
- The denial curve
- The revelation of the unacceptable
- Attrition - gradual loss of Reputational Capital
- A creeping issue ignored/badly handled
- A permutation of the above

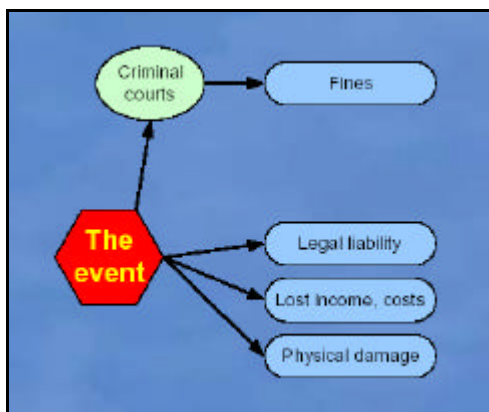
What goes wrong?

The basic problem is that Reputation is Not Understood.



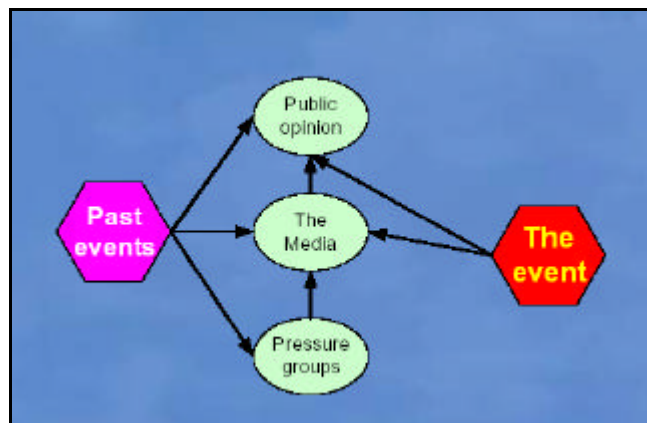
Traditional View .

The consequences are contained and financial.

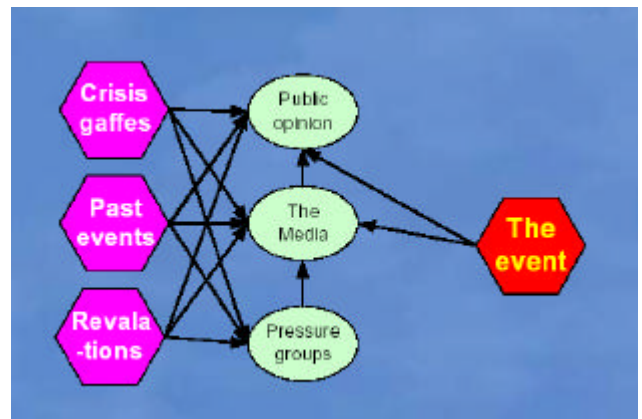


But what really happens is somewhat different

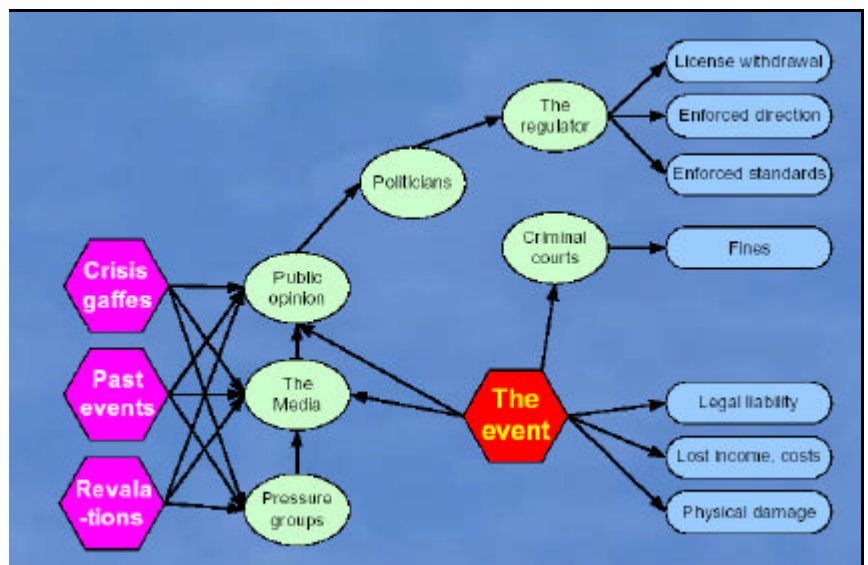
First there is the Immediate Impact (and, as you see, past events are not immune from exhumation)



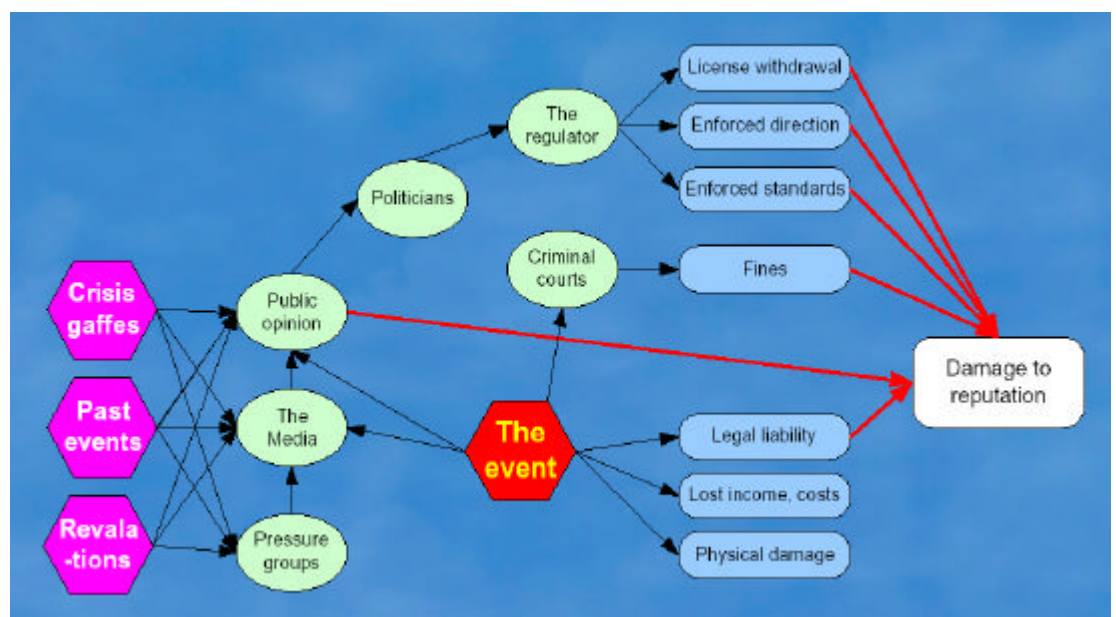
After the immediate impact, comes the Extra Influences



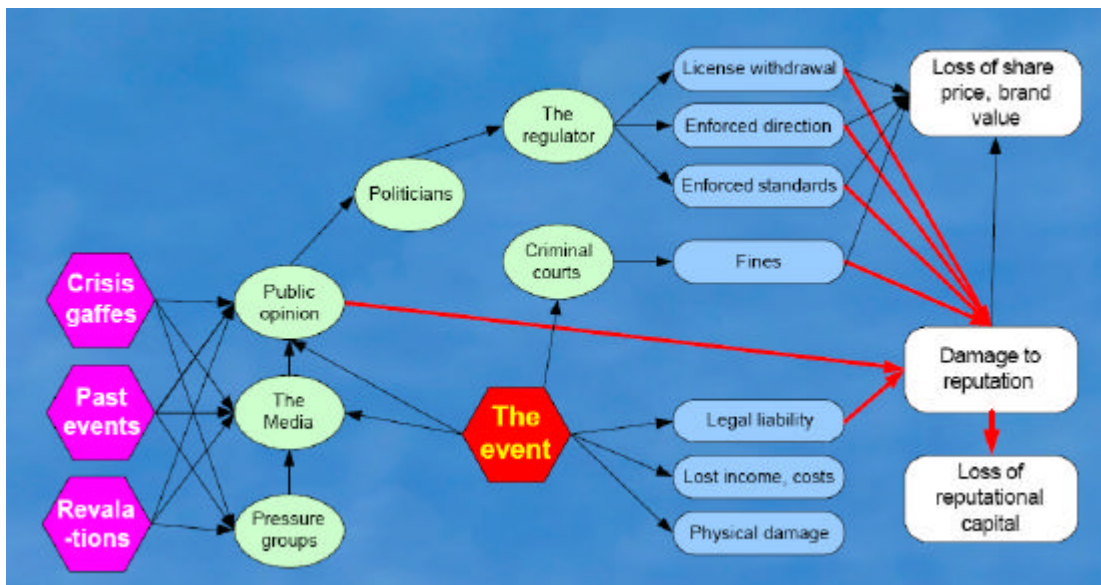
And the Problem does not stop with the Immediate Consequences



With Media Attention Today There Are Likely to Be Multiple Hits to Reputation

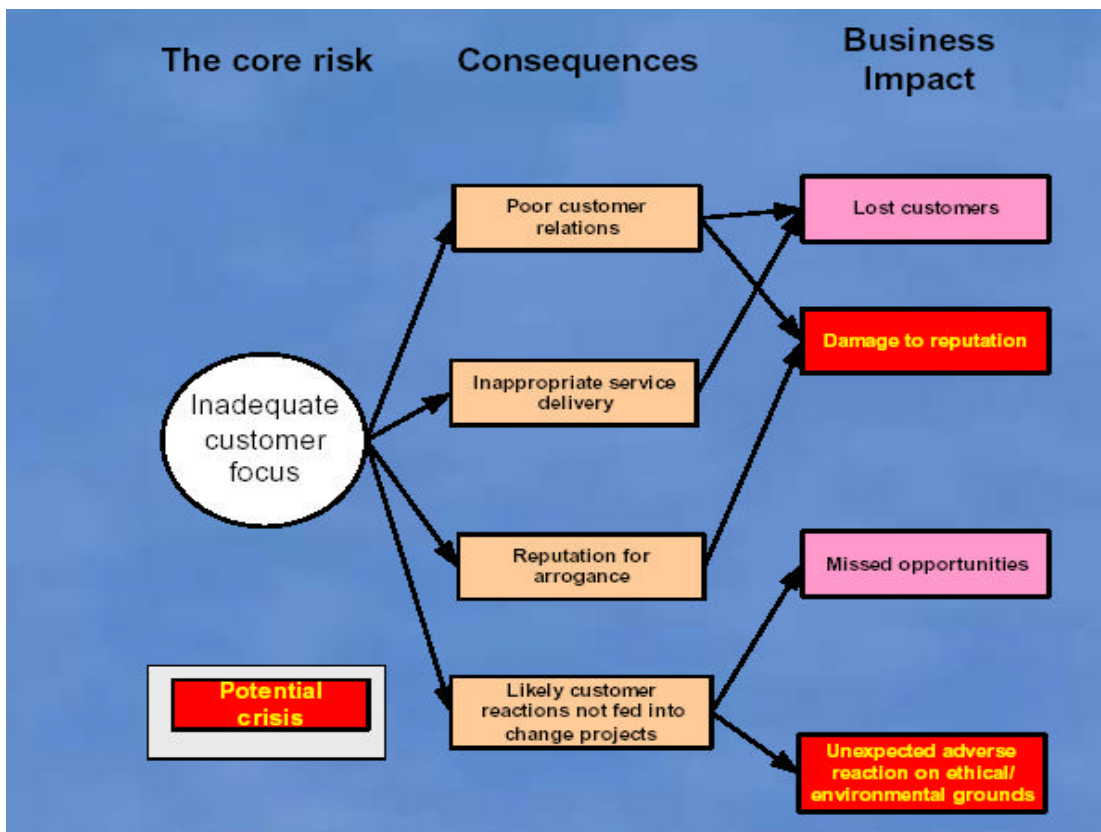


Leading to Broader Consequences



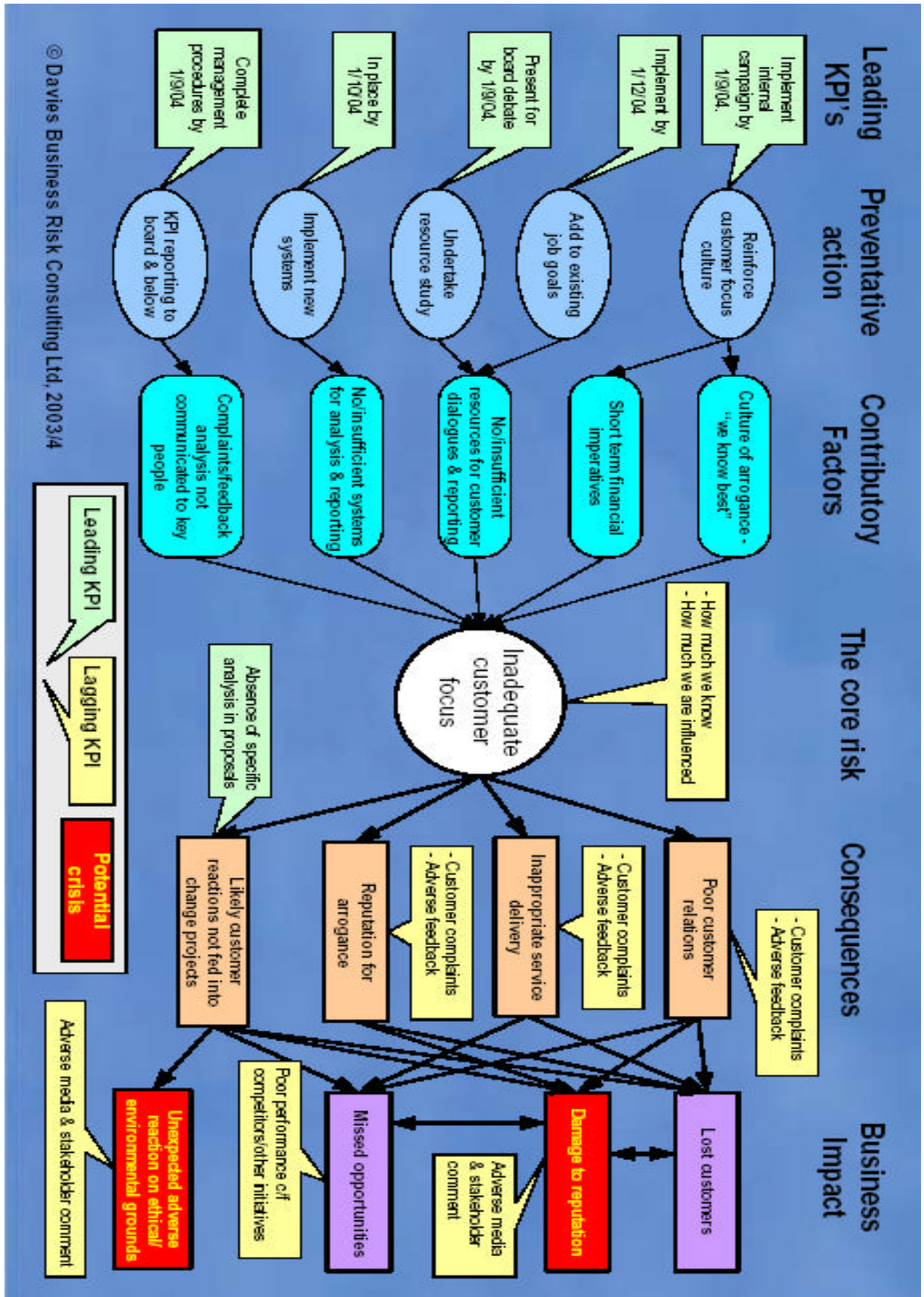
To Avoid This Sequence of Events, It is Important to Understand Reputation Risk

Here is how just one aspect of reputation risk was modelled. Models like this are unique to each company, collectively created to achieve buy-in.



Prevention is Better than Cure.

This shows the linkages between "Leading KPIs", Preventative Action and Contributory Factors and how they affect the Core Risk, Consequences and Business Actions.



Want a Blank Template to Work Out Your Own Reputation Risk Management Strategy?

(see Reference # 1.)

References

To see the full power point presentation on which this short version is based go to www.iam-uk.org Choose Publications and then David Davies "Reputation Risk".

For an excellent guide to managing Reputation Risk that is both readable and practical go to www.dbric.co.uk/Articles.htm and check "Reputation Risk Management – The Holistic Approach" (12pp) and for the author's own approach have a look at "Reputation – The Cinderella Asset"

Private companies working in PPPs or other partnership forms with the public sector may well find that the tendency of the public sector to transfer more risk than can be reasonably managed by the company raises risks for both of them. There is a short 'debate' at which, while it does not solve any issue, raises a little awareness.

There are also a few books on Reputation Risk Management.

Reputational Risk How to Manage for Value Creation Arif Zaman, Financial Times Management Briefings Executive Series, Prentice Hall, Oct 2003, 308 pages

Strategic Reputation Risk Management by Judy Larkin, Palgrave McMillan, NY, Jan 2003

Managing Reputational Risk: Curbing Threats, Leveraging Opportunities, Jenny Rayner , Jan 2004 (Institute of Internal Auditors Risk Management Series)

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