

# Managing your reputation

By David Davies MIRM

Hardly a week passes without yet another organisation's reputation being damaged by either a new crisis or by further revelations in an existing one. Again and again, it is very evident that organisations that are quite proficient in managing their day to day business affairs and business crises can get it very wrong when challenged with a crisis of a type with which they are unfamiliar, and for which they have inadequate experience.

All of this takes place against a backdrop in which reputation is of increasing importance, and now represents a significant proportion of market equity and brand value. At its highest level, reputation embodies the trust that shareholders, customers and employees have in the organisation and its management. Damage that trust and share price will suffer - as AIG discovered with a drop of \$60 billion (30%) off its share price after a series of damaging news stories about some of its accounting and business methods. In the long run, (a period of 256 days after the event was tracked) the share price of companies that handled a major crisis badly under performed against their peers by 15% whereas those who handled a crisis well outperformed their peers by 10%<sup>1</sup>. Damage the trust of your customers and brand value will suffer, as Coca Cola discovered with the majority of its \$11.3 billion drop in brand value between 1999 and 2000 attributed to its disastrous handling of product contamination allegations in France and Belgium<sup>2</sup>.

**Reputations are damaged because things about you that are unacceptable to your key stakeholders are believed by enough of the people that matter.** Those things can include:

- False allegations or inaccurate perceptions that you have been unable to convincingly rebuke - reputation is not about facts, it is about perception
- Unacceptable pre-crisis actions by you or those for whom you are responsible and that no amount of smart crisis handling and media spin can erase
- Your actions during a crisis that give the impression that you are uncaring, arrogant, incompetent or, worse of all, dishonest
- A creeping crisis - the aggregation of a series of minor news stories, internet allegations, word of mouth or even personal experiences that gradually erodes your good name.

Clearly therefore reputation is not just about crisis handling. In an analysis of a randomly selected sample of 50 damaging reputation crises undertaken by the author, 67% were triggered by revelations of unacceptable behaviour.

To manage your reputation you therefore need to:

1. Understand your reputation
2. Understand your key stakeholders and their expectations and sensitivities
3. Use this knowledge to make realistic, commercial judgements about how you will behave as an organisation, aligning those judgements with your corporate values, vision and brand values
4. Implement those decisions with a rigour that is appropriate to the sensitivity and/or commercial potential of each issue or value
5. Be alert to new and developing issues, trends and allegations and respond professionally and, if necessary, proactively
6. Have the capability of responding to hostile allegations or media questions rapidly and in the right way, regardless of where in your organisation the first contact is made

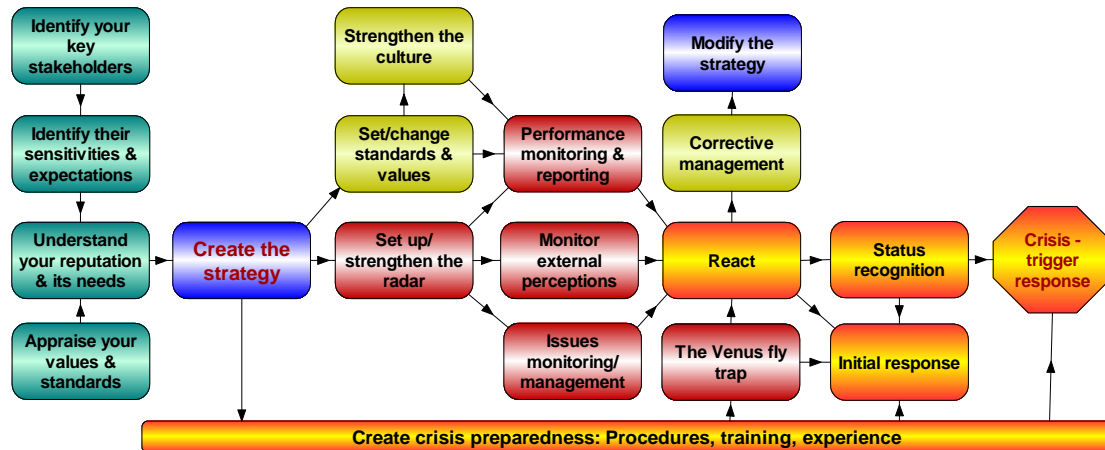
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<sup>1</sup> Research by Oxford Metrica

<sup>2</sup> Valuation figures by Interbrand: fall from \$83.8 to \$72.5 billion

7. Have the capability of escalating your response as appropriate, including to full crisis mode, when you may well be engulfed by the world's media and with very difficult and pressing decisions to be made in the absence of much of the vital information that you need.

The full process of achieving these things is:



There are many organisations that have decided, consciously or subconsciously, that all of this is too much trouble and that they will trust to luck. It is rather like the prospect of being killed in a road accident - it always happens to someone else and never to you. You are immune. Your company is immune - it never makes mistakes, will never hit the headlines. And yet despite this, damage to reputation risk is at or near the top of concerns of CEO's and risk managers alike<sup>3</sup>. Their fears are well grounded - damage your reputation and you not only damage share price and brand value - as if that was not enough. It can make you vulnerable to takeover, unattractive to the best employees, damage strategic alliances, blight the career of your CEO and even destroy you - as companies from Ratner to Arthur Andersen have discovered. Everyone from shareholders to customers expects high levels of competence from a board - and nothing causes more harm to that confidence than management blunders carried out in the full glare of the media spotlight or revealed by a whistleblower, investigative reporter or regulator.

### *Why crises are managed badly*

There is a perception that the solution is to have a good PR department. Unfortunately:

- ❖ Most PR departments are expert at getting your good news into the media, but untrained and inexperienced at defending you from a media that is hostile, accusatory and initially may be better informed about the situation than you are. In the words of the head of PR of a global financial services company: "I have no idea what I would do (to respond to hostile media attack). I have asked several times for training or procedures but they take no notice." PR can only put the best gloss on a bad situation. In the words of the head of PR of a UK bank: "My job is like putting lipstick on a gorilla".
- ❖ Corporate arrogance, denial - and sometimes the bad advice of lawyers and insurers - causes organisations to initially underplay or deny the severity of the crisis, or their own responsibility for it. This has happened in crisis after crisis, from Perrier to Potters Bar to Svengate. As a result, they appear to be at best arrogant, uncaring or out of

<sup>3</sup> The most recent survey, of 137 European risk managers, 50% of whom were from the financial sector, put loss of reputation as the greatest threat to their organisation (Economist Intelligence Unit risk barometer, 1995)

touch and at worst, if their initial denials are proved groundless, they appear to be dishonest, incompetent or untrustworthy.

- ❖ In large, particularly globally spread organisations, the mechanisms for rapidly confirming or denying the truth of allegations made against them rarely exist. As a result the opportunity to respond meaningfully to the allegation is lost. In the absence of quality information and fed by an optimistic assumptions, a denial is made, deepening the crisis tenfold if that assumption is subsequently proved wrong.
- ❖ The lack of a proper structure for handling information and making and recording decisions has resulted in time wasting, bad and undocumented decisions and decisions based on denial and group think - as was the case with the BSE and foot and mouth crises.
- ❖ The failure to plan for a crisis means that often the infrastructure, information, strategic and moral decisions or guide lines, contacts and relationships (completely different to the contents of many a crisis plan) are simply not in place.
- ❖ Neither employees nor management have the experience or training to handle a reputation crisis where time pressures are almost unbearable, the media is both demanding information and making new allegations and comments and reliable information, particularly in the initial stages, is minimal.

### *Doing it right*

Amongst other things, having crisis preparedness means that you are able to:

- ❖ Respond rapidly and appropriately to an allegation or interrogation by the media or any other interested party, regardless of which part of your organisation is contacted and when.
- ❖ Recognise, amongst the avalanche of information, reports, news and media contacts, those which require attention and of those, the occasional one or two that should trigger your crisis procedures, an issues monitoring process or just a heightened state of alert.
- ❖ Rapidly assemble a team that is capable of handling it. The composition of the team should vary according to the nature of the crisis, as should its meeting environment and support facilities.
- ❖ Make critical decisions in a timely fashion, often with insufficient information and few ground rules and precedents. This is one of the most common reasons for getting it wrong. Senior managers used to making decisions by instinct and/or on the back of copious information will have neither the experience to feed their instinct nor the quality of information that they are so used to. The result is often that they lose valuable time arguing from entrenched positions.
- ❖ Be able to obtain vitally needed information rapidly and efficiently and, when information is conflicting or of uncertain reliability, evaluate that information and rapidly change strategy if or when some of it is subsequently found to be incorrect or inaccurate. Without supporting processes, it is very difficult, in crisis conditions, for people under pressure to change direction or even to identify the actions that need to be reversed.
- ❖ Minimise the effect on decision making of the major human factors that seriously mar crisis handling - denial, group-think, trauma and sleep deprivation
- ❖ Execute logistical decisions such as recalling products rapidly, efficiently and precisely. This is where your detailed plans will be useful - but they still need flexibility.
- ❖ Communicate with your stakeholders. Some of this will require you to respond continuously and appropriately to demands made on you, but you will also have to know when to be proactive. As Johnston & Johnston discovered in the Tylenol crisis, internal stakeholders - employees - are just as critical in the communications process.

You cannot achieve all of this by just having a plan. The only way of achieving crisis preparedness is to combine training, procedures, data and real crisis experience. Such experience can be gained by simulating crises and giving those who will be involved as close an experience to the real thing as you possibly can.

### *The basics of crisis preparedness*

The first step is to ensure that you have an adequate mechanism to immediately respond to a contact by the media or anyone else no matter where in your organisation it hits. That means that everyone, from switchboard operator to the CEO, should know what they should say in response and to whom to refer the contact for a reliably swift and optimum response. That may sound simple but what if the call is at 6pm on a Friday when all the senior management have gone home? Those lost 60 hours until the offices open on Monday morning could cost you very, very dearly - particularly if, meanwhile, a damaging story has run in the Sunday papers accompanied by the dreaded words "no one at the company was available for comment" - as happened when the FT rang Perrier late on Friday afternoon after Perrier had announced a worldwide product recall. "Everyone has gone home - could you call back on Monday?"

Some fairly detailed procedures can be used to take you through from fielding the first call to having assembled your crisis team in the right environment and with the right information and communication flows. There are several stages to that, both procedural and judgmental and, for those used to project management, recording the stages as a gnat chart can be a very helpful way of tracking the key time lines and dependencies. However, to repeat: this is not just about procedures; it is also about thinking, understanding, training and experience. Beware the software or the consultant that minimises the amount of thinking that you have to do. It will save you a little effort, but it will hamper you considerably when, as is inevitable, the crisis fails to turn out exactly as you anticipated.

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