
Safeguarding reputation

Are you prepared to protect
your reputation?

25 November 2020



Foreword

Protecting reputation in the time of uncertainty

As the second wave of COVID-19 unravels, many organisations find themselves living William Shakespeare's quote from Othello – "Reputation, reputation, reputation! O, I ha' lost my reputation, I ha' lost the immortal part of myself, and what remains is bestial!". Many businesses have gone dark, being afraid to say the wrong thing to the media, many others have communicated the 'right thing' but have not followed up with the 'right actions'. As activism movements become more widespread, this means that customers and other stakeholders are becoming less forgiving of any corporate missteps.

Reputation is a risk of risks. That means that any major adverse events impacting an organisation can lead to potential reputational damage. Considering global corporate reputational value is estimated to be trillions of US dollars, a colossal amount of corporate value is at stake. The good news is that not every accident will necessarily lead to actual damage – it will often depend on how the organisation acts in the aftermath of the crisis.

In this report, we explore how organisations can keep their reputation safe throughout the reputation lifecycle – from proactively enhancing brands and preventing adverse events as part of business as usual activities, to building a 'bank' of positive sentiment, through to limiting the damage after an incident, and finally rebuilding a reputation in the aftermath of the incident.

We have identified five key actions that risk owners in organisations need to think about to advance their preparedness to safeguard their reputation. These include:

- **Proactive signal sensing** to identify changing social norms or changing narratives among your stakeholders
- **Building resilience** across the whole organisation to prevent the occurrence of the consequential risk of reputation
- **Creating a culture of responsibility** throughout the organisation (reputation can't be effectively managed in a single risk management team)
- **Training at all levels**, including senior executives
- **Minding your business model** to make sure you understand how each stakeholder group influences your business success

An interesting part of these safeguarding efforts is insurance. There are multiple existing reputational risk transfer solutions already available, and the insurance market is pursuing a range of activities to continuously increase its relevance. There could be fascinating growth opportunities for insurers and brokers in helping organisations transform their reputation management.

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Executive summary

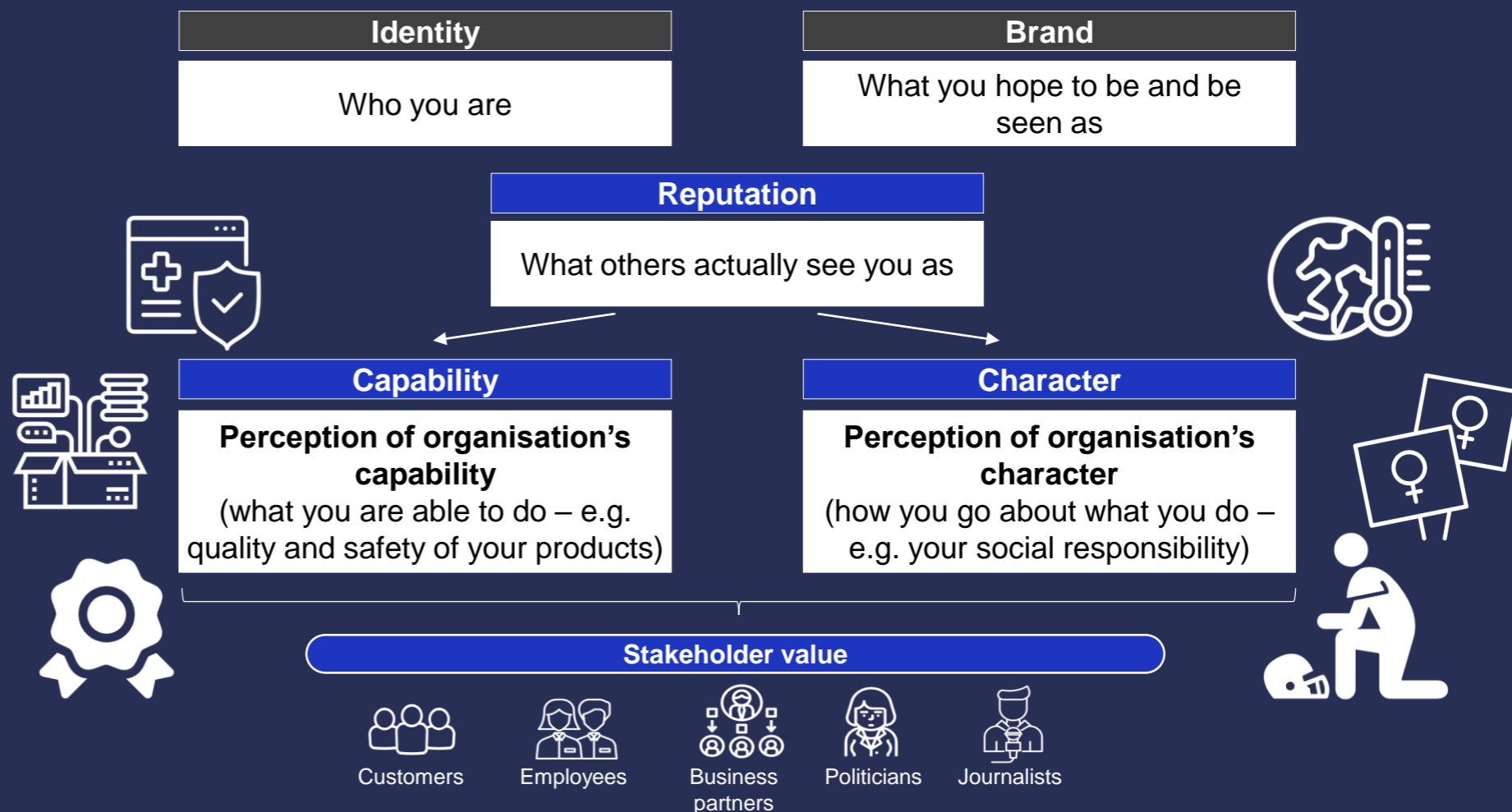


Reputation is about what others see the organisation as, instead of what it is or aspires to become

Reputation is not the same as 'identity' or 'brand'. Rather than looking at "who your organisation is", reputation looks at "what others actually see you as".

There are two types of reputation. The first one is the perception of an organisation's capability or its products and services – this type of reputation tends to sustain for a long period of time and is especially important for customers. The second type is the perception of an organisation's character or the way it acts – this type of reputation is typically more volatile, changing frequently, and is especially important for counterparties who work with the organisation.

Traditional shareholder value (physical assets, cash flow, etc.) is increasingly being replaced by broader stakeholder value which means that organisations are required to manage broader critical trade-offs and key risks, which makes the reputation risk landscape increasingly complex.



Reputation can be extremely valuable – 35% of the market capitalisation of leading equity market indices

The total value of reputation is difficult to quantify. One reason is the inconsistencies in defining it – e.g. are you supposed to measure reputation only or the sum total of reputation and brand? Another reason is the fact that reputation is often hidden from the management accounts and, therefore, only visible through other proxy indicators – for example, an investor might be willing to overpay for organisation's shares due to its strong reputation.

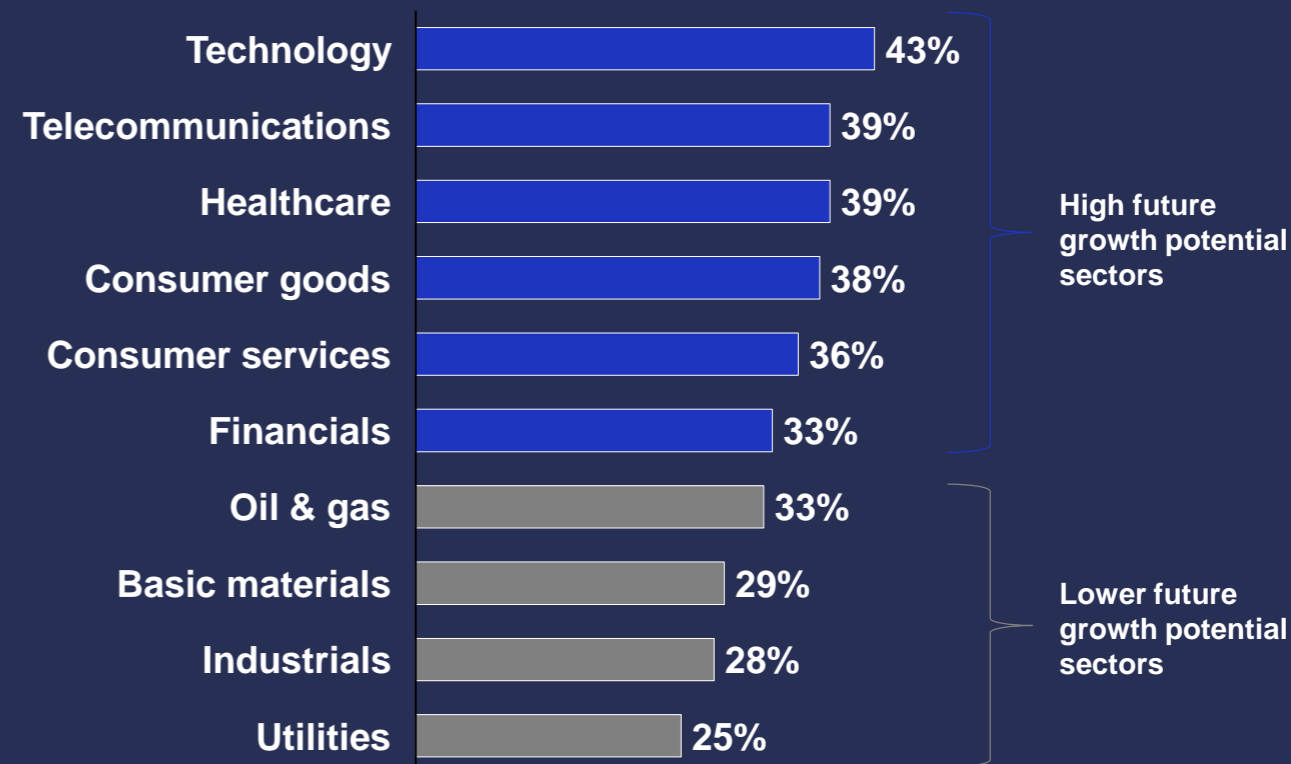
We have discussed the typical methods of determining reputation value in section 2 of this report but whichever method you use, there is strong evidence that reputation can be extremely valuable - according to some estimates, it can reach trillions of US dollars worldwide.

However, many executives overestimate their current performance when it comes to reputation management. For example, 58% of executives believe that online reputation management should be addressed, but only 15% actually do anything about it.

\$16.77 trillion

Corporate brand and reputation accounts for **35.3% of the market capitalisation** of the world's 15 leading equity market indices. That equated to \$16.77 trillion of value for shareholders in Q1 2019.

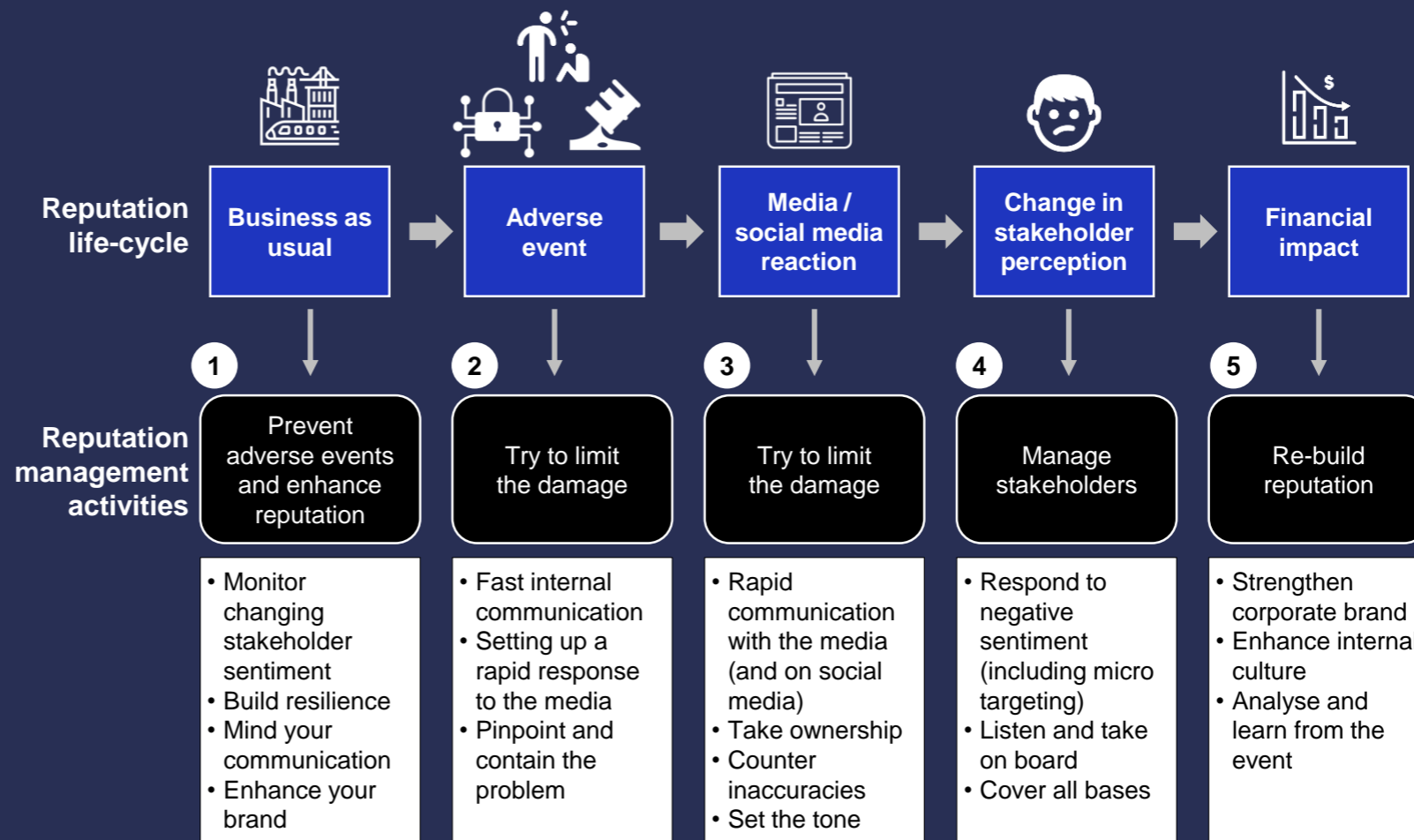
Average brand and reputation contribution (market cap weighted)



Enhancing reputational value and safeguarding it requires a concentrated effort across the life-cycle of reputation development

Proactive reputation management often decides which organisations will survive adverse events with their reputation largely intact and which ones will end up in serious financial difficulties. Organisations that work relentlessly on putting customers first and building their brand every day will fair much better when (and if) a crisis hits. There is evidence to suggest that such organisations will be forgiven more easily, and will suffer less reputational damage.

The most advanced organisations will make sure their reputation is properly safeguarded throughout the reputation lifecycle – starting from building resilience and performing active signal sensing during ‘business as usual’ and being effective at limiting potential damage and managing stakeholders after an event. Effective reputation management during a crisis will also act as a trampoline for rebuilding reputation after the crisis.

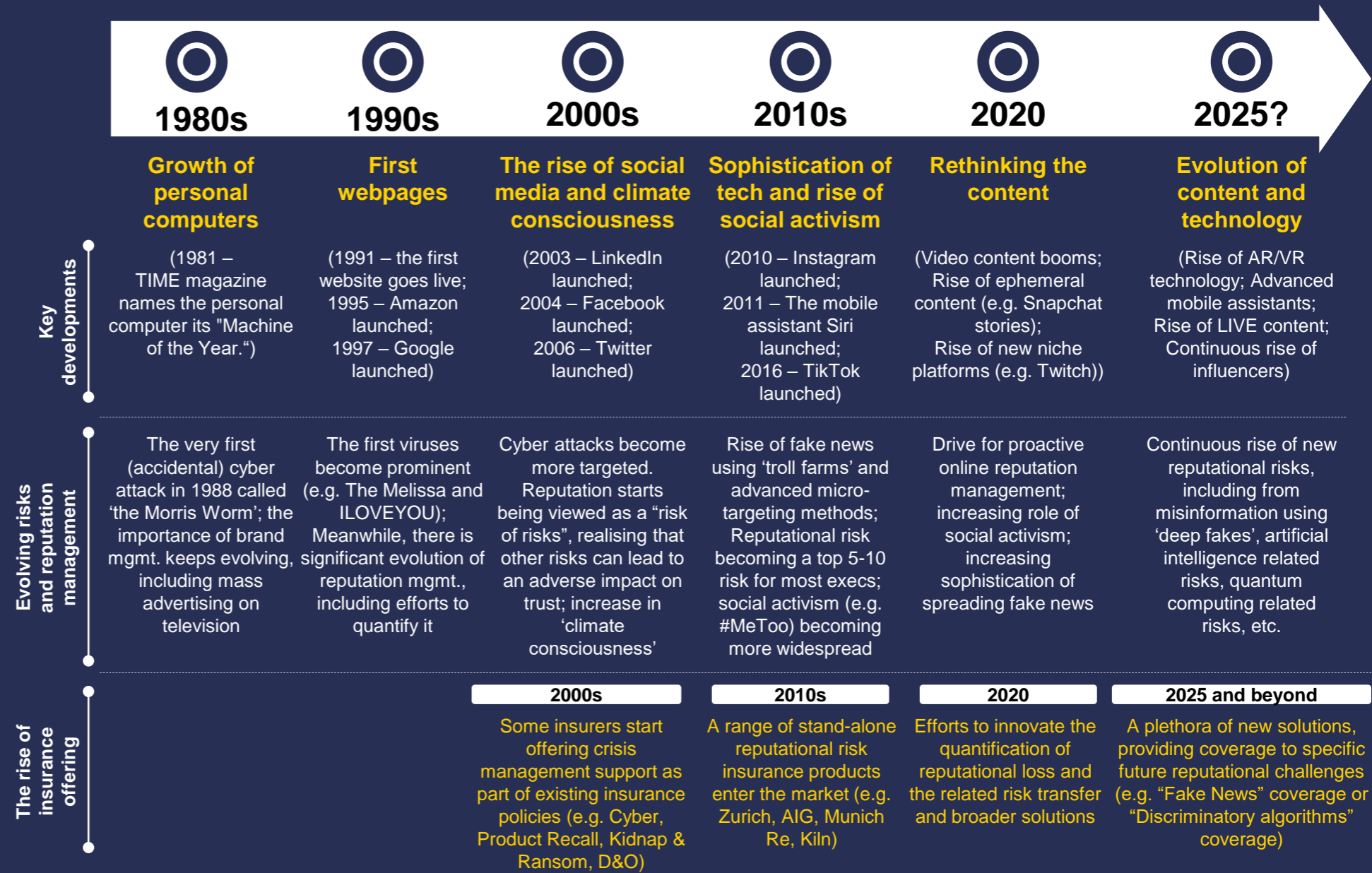


Insurance as an ever evolving tool to support reputation management

The reputation landscape has changed significantly over the last few decades. As organisations have increasingly switched towards digitising their operations and customer engagement, more and more adverse reputational events have been caused by digital risks and have been amplified through digital channels (e.g. social media).

This landscape will continue evolving in the future as the digital channels continue to change (e.g. the rise of VR / AR technology) and as the source of reputational risk continues to advance (e.g. 'deep fakes', unethical AI, quantum computing).

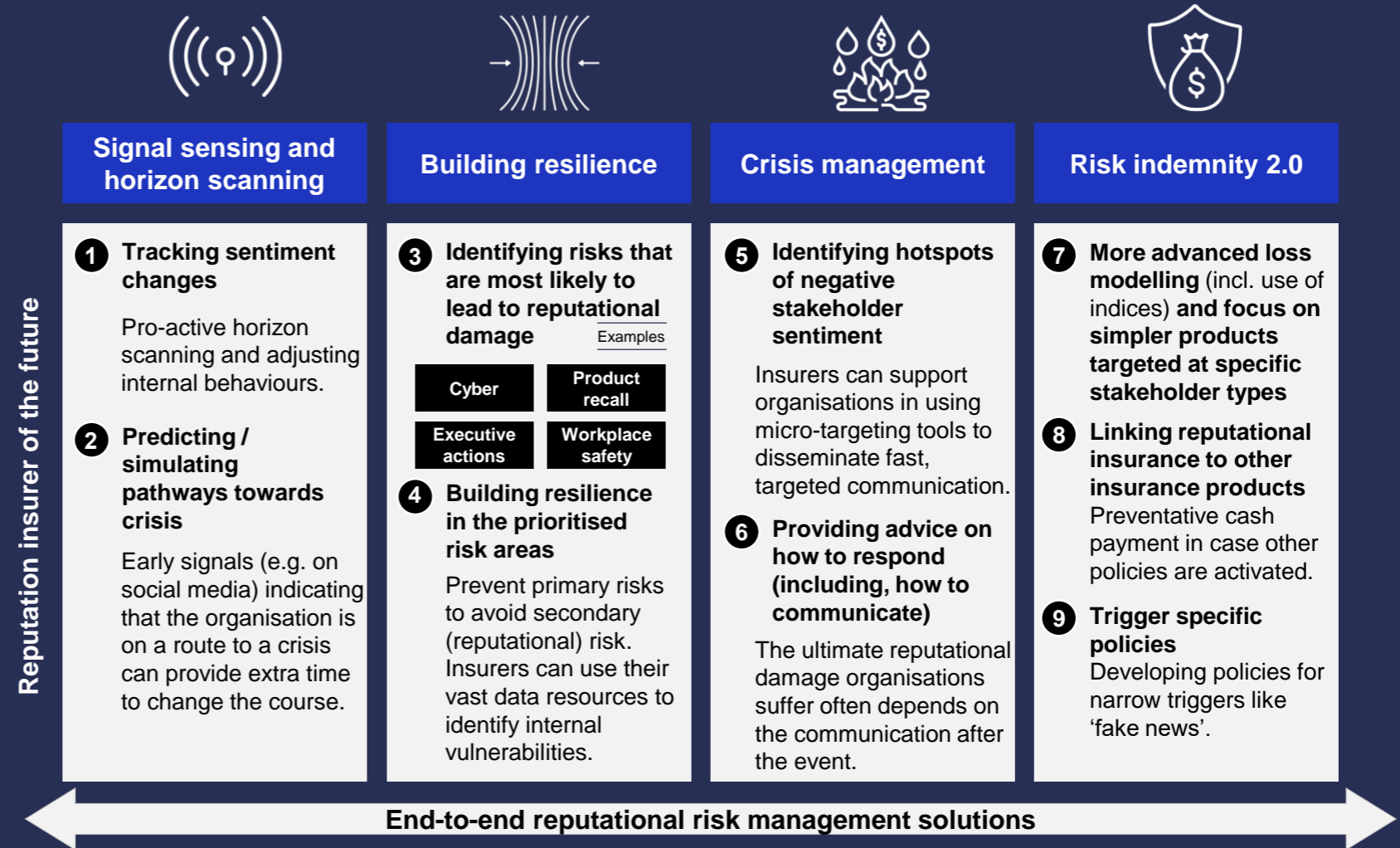
The insurance market will continue evolving as well, from offering simple crisis management add-ons in the 2000s, to more sophisticated stand-alone policies in the 2010s, and eventually to much better risk modelling and highly targeted coverages to organisations across industries in the years to come.



Going forward, insurers have an opportunity to become true end-to-end risk management partners

Insurers have an opportunity to become true end-to-end reputational risk management partners, moving well beyond traditional risk indemnity and the usual crisis management support. Such proposition would have to include:

- 1) **Signal sensing and horizon scanning**, including tracking sentiment changes (to adjust internal behaviours) and predicting pathways towards crises
- 2) **Building resilience**, including identifying specific risk areas that are most likely to lead to reputational damage (these areas will differ across industries and based on the individual circumstances) and then supporting the building of resilience in these areas
- 3) **Crisis management support**, including better use of data to identify the most critical hotspots of sentiment changes and advice on how to respond
- 4) **Risk indemnity 2.0**, including simpler, stakeholder group specific products (e.g. index based), preventative cash payments linked to existing products and 'umbrella' policies



It is important to note, however, that not all of these solutions will be fit for purpose with all organisations. What insurers and brokers will need to do instead is to build an internal E2E capability that can be used to create tailored solution offerings for specific industries and organisations within these industries. For example, a consumer goods business that is heavily reliant on consumer reputation will need to be approached differently from a major oil & gas company that focuses on supply chain reputation.

Moving forward – five actions risk owners can take

**1**

Proactive signal sensing

Reputational damage often occurs when businesses fail to 'update' their behaviours, following changing social norms and beliefs or when they fail to spot a changing narrative among their stakeholders. Proactive horizon scanning and willingness to adapt quickly will often be key.

2

Build resilience

Reputational risk is a 'risk of risks'. In most cases reputational damage occurs due to insufficient resilience in another areas (e.g. major fire incident or a cyber breach). Building resilience across the whole organisation, involving CROs, COOs, HR, and other functions will be crucial to prevent reputational risks.

3

Create a culture of responsibility

Addressing reputational risk purely through your Risk Management function will be almost impossible, considering that reputational damage can arise from any vulnerabilities across the whole business. Having 'reputational risk champions' across various functional areas with clearly defined responsibilities in building resilience could significantly reduce the exposure to risk.

4

Train at all levels

Reputational damage can be caused by a single employee saying or doing the wrong thing in the wrong moment. Regular training through 'real life scenarios' at all levels (including senior executives) can significantly minimise the likelihood of such events. This is particularly critical considering the ever changing risk landscape (e.g. prominence of fakes news recently).

5

Mind your business model

Various stakeholders will usually have different views of your organisation and depending on your business model (e.g. being a budget airline vs being an ethical fashion brand), your reputation with a particular stakeholder group will be a more (or less) important driver of your corporate success. Make sure you understand how each stakeholder group influences your business success.

1 The growing importance of reputation



What is reputation?

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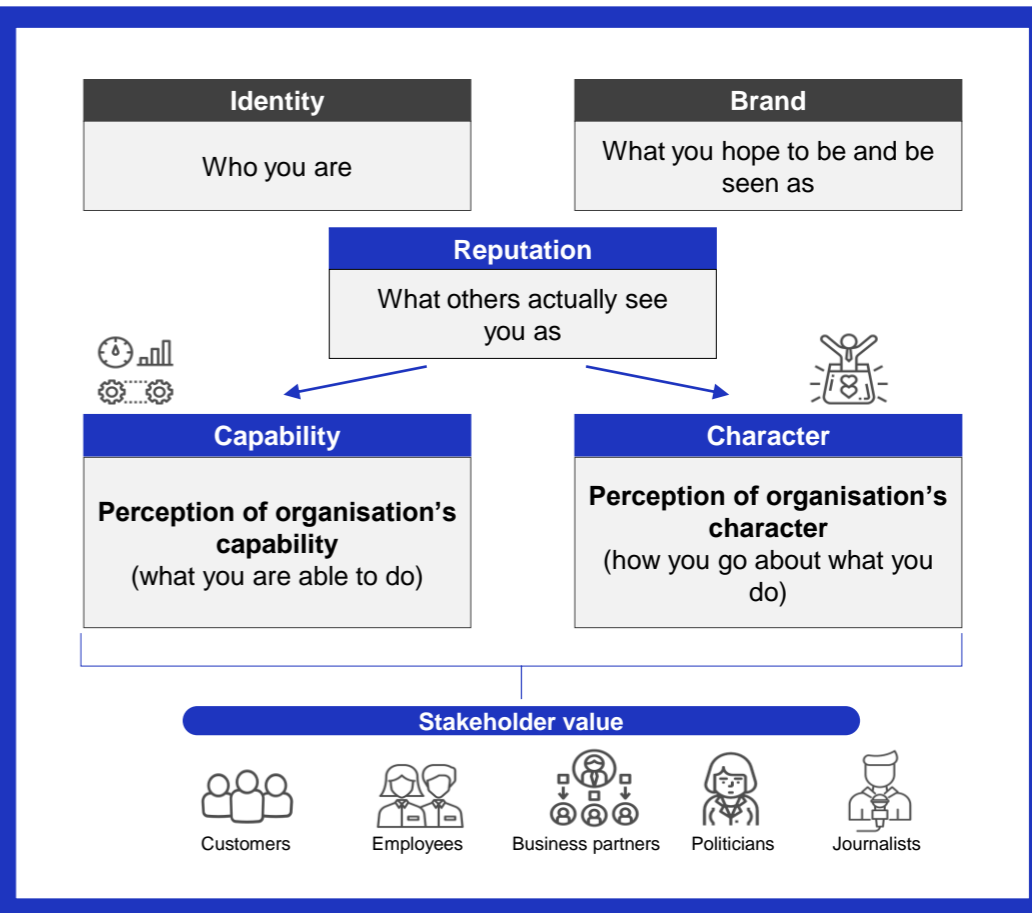
Defining Reputation

Reputation consists of two main categories – (1) **Perception of organisation's capability** (e.g. what I perceive the company is able to offer in the form of products and services) and (2) **Perception of organisation's character** (the way organisation engages with various stakeholders)¹.

Across these two categories, strong reputation is often driven by whether stakeholders trust, respect, and admire the specific organisation².

Reputation management is critically important across all sectors but is particularly visible in sectors like:

- Technology
- Telecommunications
- Health Care
- Consumer Goods
- Financials



Capability reputation

Capability reputation depends on customer perception on whether an organisation's products and services are what the customer expected

The capability reputation is driven by customers' perception of what they think the organisation is able to do. When the perceived capability is high, the resulting reputational value represents that. Similarly, when the perceived capability is low, the resulting negative reputational value can significantly diminish the overall corporate value.

The related risks are numerous but primarily focus around whether the organisation's actual capabilities meet (or exceed) the standards communicated through its brand. If they don't, a 'reputation-reality' gap is created, paving the way for significant reputational damage due to the mismatch between the buzz and the reality.

Capability reputation is often very stable – it does not change quickly but when it does, the impact can be dramatic. In one case of a jewellery retailer, the damage related to capability reputation reached 80% of the corporate value. In another case, a smartphone producer lost \$17bn in revenue due to its inability to deliver smartphones at the quality level expected.

Example reputational events impacting capability reputation

Smartphone producer



In 2016, a leading electronics producer announced a recall of their smartphone after reports of battery overheating that can result in fires. After replacing the affected phones, reports of overheating continued, resulting in another recall and ceasing production. The total lost revenue was estimated at c.\$17bn¹.

Airplane manufacturer



In March 2019, aviation authorities around the world decided to ground a number of leading airplane manufacturers' planes after several hundred people died in two plane crashes. As the crisis unfolded, the company was blamed for a lacklustre crisis response and inadequate safety culture, ultimately losing a sixth of its value³.

Steel manufacturer



In 2017, a global steel manufacturer revealed that it had falsified data about the quality of its aluminium, steel and copper products and has misled more than 500 companies, including several major car makers. The scandal resulted in company's share price declining by 30%².

Retailer of jewellery



A leading jewellery retailer lost 80% of share value in 1980s-1990s and closed hundreds of stores after its CEO made disparaging comments about their own products. The company had to rebrand itself and change its name⁴.

Character reputation – are you doing what you said you will?

Character reputation depends on customer perception on whether an organisation is doing what it said it will do

The character reputation is driven by customers' and other stakeholders' perception about the way the organisation acts – this type of reputation is typically very volatile and is especially important for counterparties who work with the organisation. It is, however, less relevant for customers who tend to primarily care about the capability (the mix of price and quality of products or services).

The risks associated with this type of reputation focus around the stakeholders perceiving the organisation to be “on the wrong side” of a particular issue or potentially key employees of the business acting in an illegal or unethical way. It is no coincidence, therefore, that a lot of reputational damage cases are related to the so called activist events which can change some aspects of the moral compass in the society.

It means that when expectations of stakeholders shift and the company's character stays the same, the reputation-reality gap widens and the organisation can suffer reputational damage. The ability to keep evolving your character is vital.

Categorising socio-economic activism and public issues risks¹

	Employment Practices	Diversity / Inclusiveness	Health and safety	Compensation	
	Social Issues	Civil rights (e.g. BLM)	Gender equality	LGBTQ rights	Gun ownership
	Corporate Conduct	Business ethics	Corporate governance	Data privacy	Ethical sourcing
	Civic Responsibility	Child welfare	Community outreach	Education	Political accountability
	Charity / Philanthropy	Arts & culture support	Disaster and humanitarian relief	Donations	
	Environmental Stewardship	Energy efficiency	Carbon footprint	Recycling	Water use

Source: (1) Marketing Scenario Analytics, (2) The Perilous "Blind Side" to Socio-Economic Activism (July 17, 2019)

Activist events across industries

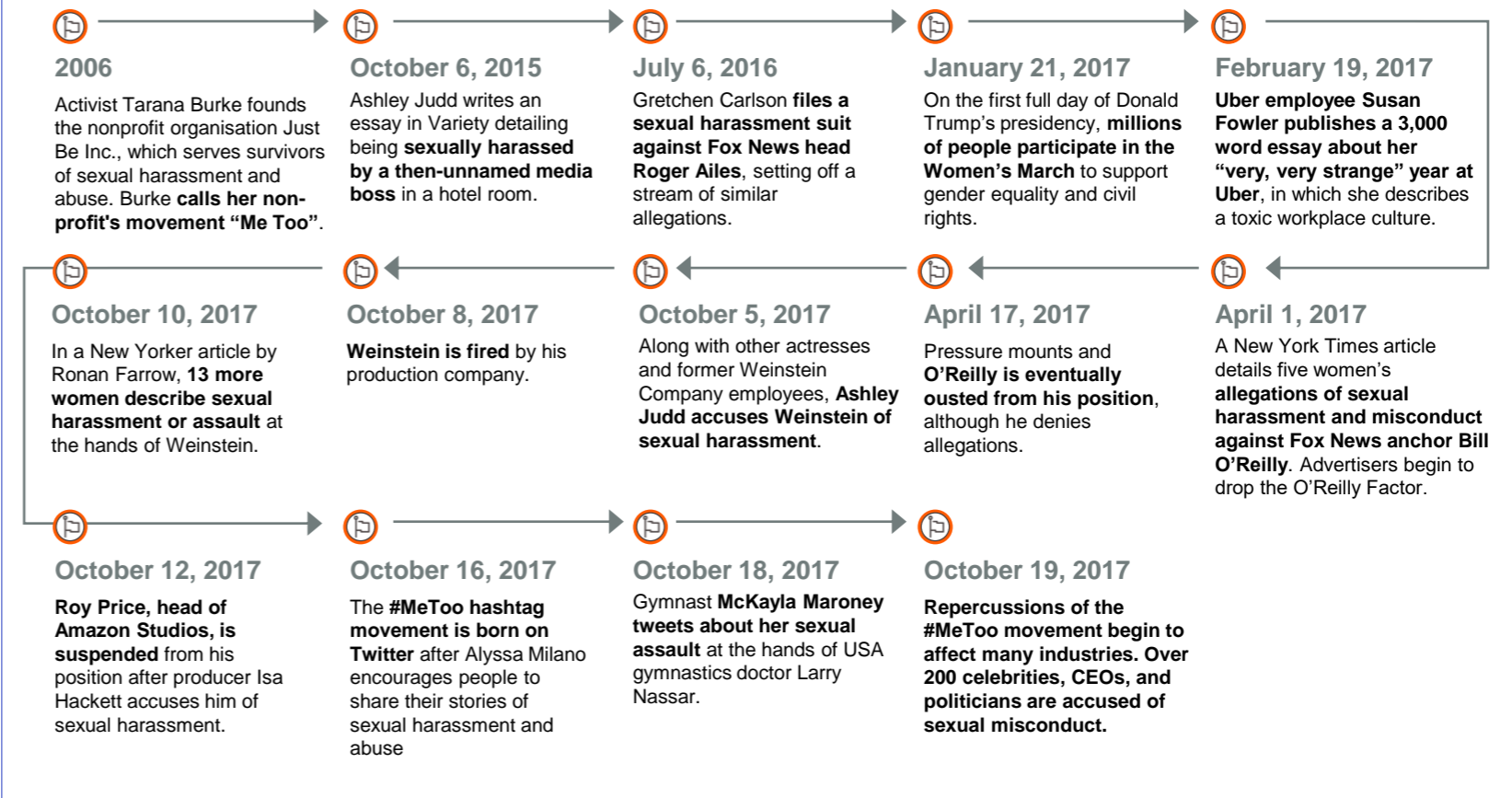
Over the past few years, character reputation has become particularly important due to highly visible activist events across industries

Different sectors tend to be impacted by different types of activism events – e.g. Technology is often impacted by Data Privacy related activism while businesses in the Financial Services industry often experience events related to business ethics.

There are some activist events that are equally relevant in all industries – one of such events is #MeToo. Activist events are often difficult to predict as minor isolated instances of a particular type of event can have a snowball effect across industries. This is exactly what happened with #MeToo, with the movement starting in 2006, without having major visibility, but then sweeping across the world in the beginning of 2017.

As activist events have become more prevalent, the importance of character reputation has also increased.

Example of the rise of the #MeToo movement



The growing importance of reputation

The total global value of reputation is uncertain due to a range of difficulties in precise measurement; however, according to some estimates it could reach hundreds of billions or even trillions of \$US

The total value of reputation is difficult to quantify. One reason is the inconsistencies in defining it – for example, are you supposed to measure reputation only or the sum total of reputation and brand? Another reason is the fact that reputation is traditionally hidden from the management accounts and, therefore, only visible through other proxy indicators – for example, an investor might be willing to overpay for organisation’s shares due to its strong reputation.

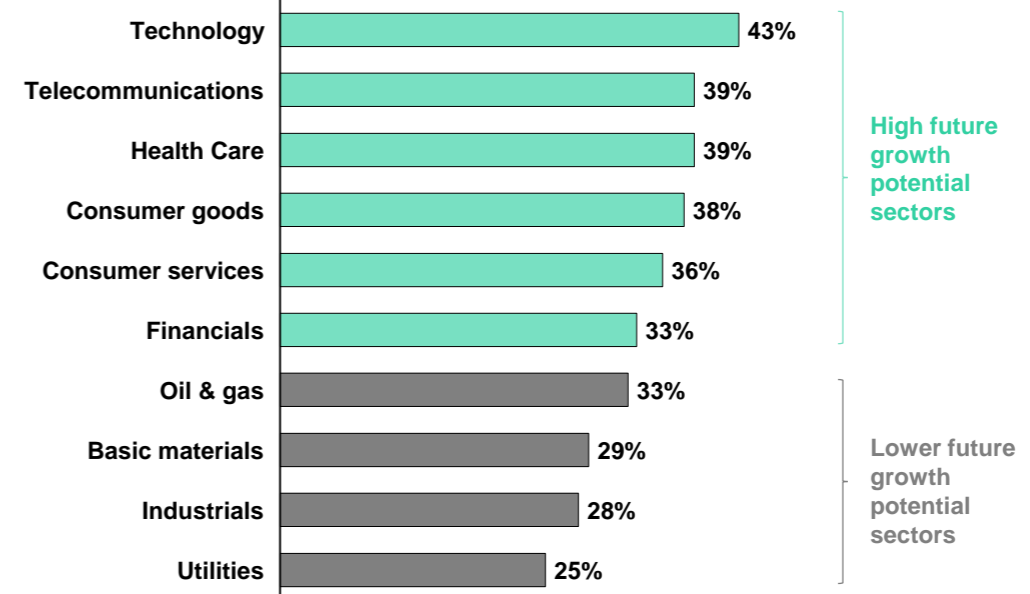
We have discussed the typical methods of determining reputation value in section 2 of this report but whichever method you use, there is strong evidence that reputation can be extremely valuable - according to some estimates, it can reach trillions of \$US worldwide.

Reputation seems to be particularly important in high-growth industries like Technology where it can constitute more than 40% of business value. However, even in more matured, more predictable sectors like utilities, reputation can constitute 25% of the corporate value.

Average brand and reputation contribution
(market cap weighted)

\$16.77
trillion

Corporate brand and reputation accounts for **35.3% of the market capitalisation** of the world’s 15 leading equity market indices. That equated to \$16.77 trillion of value for shareholders in Q1 2019.



The study by AMO shows that **the corporate brand and reputation is contributing more value to companies in “high future-potential” sectors such as technology, telecoms and healthcare**, compared to more immediately predictable sectors like oil & gas, basic materials, industrials or utilities.

Reputation in numbers

One of the obvious ways to see the value of reputation, particularly capability reputation, is the impact of customer reviews and ratings

Reputation can be a major driver or destroyer of corporate value. One of the most obvious measures of reputation, certainly the one that applies to the capability of the organisation, is its ratings and reviews. Ratings became particularly important with the introduction of online businesses and the exponential growth in internet usage. One of the first consumer review sites Epinions.com was launched in 1999 and since then reading reviews has quickly become an integral part of most purchasing decisions.

It turns out that 86% of people would pay more for services from a company with higher ratings and reviews (in other words – better capability reputation) and every star increase in online reviews leads to 5-9% increase in revenue. Meanwhile, an organisation's poor character reputation can lead to challenges in the job market with 69% of jobseekers allegedly turning down offers from companies with reputation problems.

Many businesses are overly positive about their reputation and are seemingly not doing enough to mitigate reputational risks.



Reputation is a key driver (or a destroyer) of value

- According to a study by the World Economic Forum, on average, more than **25% of a company's market value is directly attributable to its reputation**. It can be even higher according to other studies.
- **86% of people would pay more** for services from a company with higher ratings and reviews.
- Every star increase in an online review leads to **5-9% increase in revenue**.
- **41% of companies** that experienced a negative reputation event reported **loss of brand value and revenue**. 21% of companies have reputations that are so poor as to be actively destroying market capitalisation.
- **69% of jobseekers would turn down an offer** from a company with reputation problems. A bad reputation costs a company at least 10% more per hire.



Most businesses are, however, not doing enough to mitigate the risks, partially due to overconfidence

- 58% of executives believe that online reputation management should be addressed, **but only 15% actually do anything about it**.
- **76% of companies believe their reputation is better than average** – a stat that just might illustrate many companies are overly optimistic about the state of affairs regarding their online presence.

The new normal of interconnected world

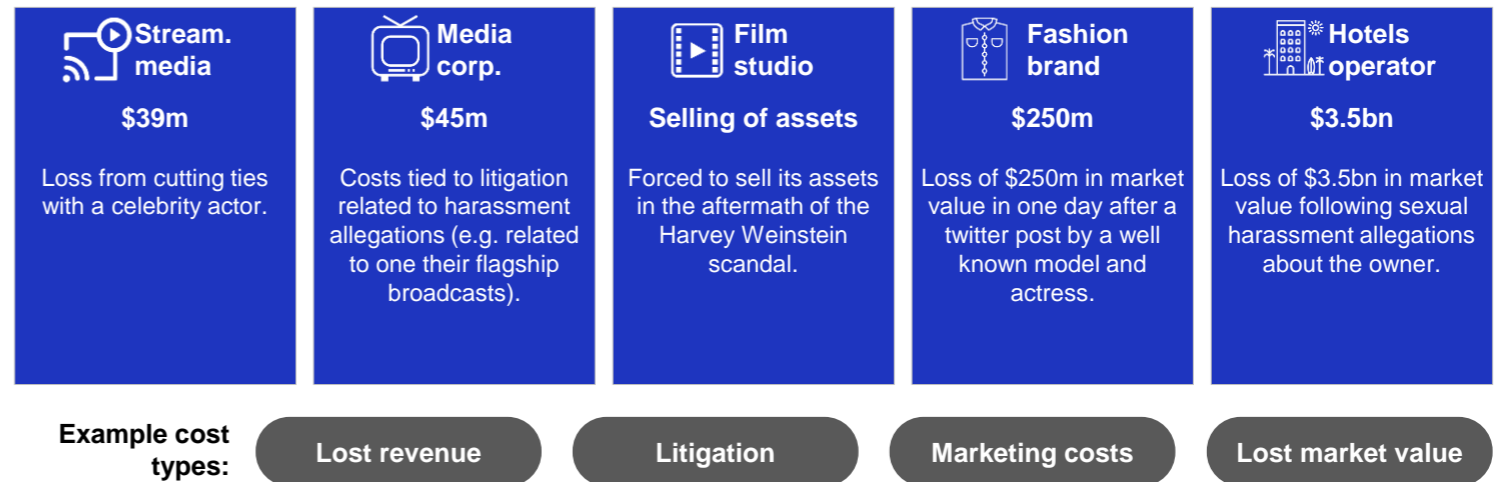
Due to the interconnectedness of global supply chains, reputational events now often span across geographies and different industries

One of the key developments over the last few decades has been the increasing interconnectedness of countries and industries. This has been particularly visible in the ever increasing complexity of supply chains and broader business ecosystems that now often involve a large number of counterparties across various sectors and geographies.

What this also means is that external reputational events are now rarely isolated in a particular industry or geography. Illegal activities by your overseas supplier can sometimes harm your organisation's reputation as much as internal actions within your business. Similarly, activist events, such as MeToo, can start in one industry but then spread across all sectors. It means that executives and middle-managers who are looking after reputation, now suddenly have to be much more alive to significant changes in customer thinking and general societal attitudes outside their direct business environment.

For the first time in the WEF survey's 10-year outlook², the top five global risks in terms of likelihood are all environmental. ESG is, therefore, becoming an increasingly important issue under significant scrutiny, and needs to be managed throughout the supply chain of most organisations.

Example financial costs related to the #MeToo movement¹



TheBoardlist, a curated marketplace for the discovery of highly-endorsed women for private and public company boards, published a survey looking at the actions and attitudes of Board of Directors across various industries in the U.S. The survey found that 77% of boards had not discussed accusations of sexually inappropriate behaviour and/or sexism in the workplace; 88% had not implemented a plan of action as a result of recent revelations in the media; and 83% had not re-evaluated the company's risks regarding sexual harassment or sexist behaviour at the workplace. This is a strong indication of insufficiencies in the preparedness for #MeToo related impact.

2 Determining the value of your reputation



Understanding the value of your reputation

There are a number of different approaches which can be used to attribute a value to an organisation's reputation, although currently no one method is used consistently across the market

Reputation value can be determined in a number of different ways and a range factors are likely to influence the method chosen to calculate the value of a company's reputation.

There are three key categories into which reputation valuation methods can generally be grouped.

1. Customer opinion – these methods use customer research to understand reputation through the eyes of the consumer. This approach highlights the importance of customer awareness of a company in the context of its reputation, as if customers have not heard of a company, they will be unable to provide useful insights
2. Reputation indices – these can be built to include a range of different measures which are generally a combination of qualitative and quantitative factors. They tend to return a score or relative ranking of a company's reputation
3. Financial metrics – these measures focus on determining a monetary value for a company's reputation and use key financial metrics such as revenue, profit and market capitalisation in order to do this

1

Customer opinion



Consumer surveys, polls and customer reviews can be used to measure both public awareness of organisations, and gauge the general public's perception of a company and its actions. Measuring customer opinion can help companies to understand how customer perceptions will impact future interactions, which is an important consideration when quantifying overall reputation.

Examples:

- Net Promoter Score
- The Axios Harris Poll
- Reviews and ratings

2

Reputation indices



Indices can be created to define and quantify various quantitative and qualitative factors seen to influence overall reputation. These indices can then be used to measure and produce relative reputation scores for industries or companies.

Examples:

- RepTrak 7 Drivers of Reputation
- Steel City Re Reputational Value Metrics
- The alva Reputation Index

3

Financial metrics



In certain cases **financial metrics can be used to directly attribute a financial value to a company's reputation**. For example, metrics such as revenue or profit could be directly correlated to reputation value, or a company's market capitalisation could be compared to its balance sheet valuation in order to obtain an estimate for its reputation premium.

Examples:

- Reputation Dividend
- Revenue royalty rate
- Regression analysis

Customer opinion

Customer opinion is a useful direct indicator of how effectively a company is appealing to its target audience and how customers perceive its offering and actions in the context of the wider market

Net Promoter Score

Customers are asked **“How likely are you to recommend company / brand / product X to a friend/ colleague/ relative?”** and score their response from 0 to 10.

Promoters are those who give a score of 9 or 10, whilst detractors give a score between 0-6, and those scoring 7 or 8 are considered to be “passives”.

The overall NPS score for an organisation is measured as the percentage of promoters less the percentage of detractors, and ranges from -100 to +100¹.

The Axios Harris Poll

The US-based Axios Harris Poll measures reputation through a **national survey of 34,026 Americans**.

The two-step process is repeated annually and first involves surveying the public's **top-of-mind awareness of companies** that either excel or falter in society.

These 100 “most visible companies” are then ranked by a second group of respondents across the **seven key dimensions of reputation**, to arrive at the overall ranking. If a company is not on the list, it did not reach a critical level of visibility to be measured².

Reviews and ratings

A company's online reviews and ratings can act as a measure of **customer sentiment** and therefore company reputation.

Reviews contribute to the online persona of the company which can in turn **influence customers' future purchasing decisions**, therefore, maintaining a strong online reputation is key.

Companies such as ReviewTrackers consider reviews an as important means of viewing a business through the eyes of the customers and a key component of reputation. ReviewTrackers offer services enabling companies to aggregate and manage their reviews from over 100 review sites.

Customer research provides insight into how the general public perceive a company, and is therefore a good indicator of future customer buying habits and potentially how forgiving customers may be in the case of an adverse event. Customer opinion should be a key consideration when quantifying reputation, as customers can directly influence the success or failure of a company through their buying habits.



Pros

- Reflects qualitative aspects of reputation which may not be covered by financial metrics alone
- May provide more clarity into relative perception of capability and character reputation, which could help influence safeguarding actions



Cons

- Companies that may not be highly visible to the general public may struggle to obtain a meaningful value of reputation in this way
- These methods do not allocate a tangible monetary value to reputation
- It can be difficult to quantify customer reviews and validate how these translate into customer actions

Reputation indices

Reputation indices can be built to quantify reputation by measuring a range of key influencing factors and scoring or ranking companies

RepTrak 7 Drivers of Reputation

RepTrak defines reputation as the **emotional connection that stakeholders have with a given company**.

RepTrak has identified 7 drivers of reputation which can be measured to quantify reputation in a way that identifies company strengths, weaknesses, and immediate opportunities¹.

The drivers are:

- 1.Products and Services
- 2.Innovation
- 3.Workplace
- 4.Governance
- 5.Citizenship
- 6.Leadership
- 7.Performance

Steel City Re Reputational Value Metrics

Steel City Re defines the value of an organisation's reputation as the **accumulated revenue and cost-savings** arising from **stakeholders' expectations** of experiential or remunerative benefits from an association, product, or service.

Steel City Re has created a forward looking index which is utilised to provide Reputational Value Metrics on thousands of public companies.

The index is generated by applying algorithms to stable data from publicly accessible predictions markets, which provide an indication of expected stakeholder behaviours. The key inputs into the index reflect the **expected economic impact of the behaviours** of customers, equity investors, creditors, suppliers and market analysts².

alva Reputation Index

The alva Reputation Index is a reputation tracking tool which is updated in real time based on new information, ranking thousands of companies across different sectors.

The index is a **technology-led** solution which uses proprietary blended AI and NPL technologies to analyse data drawn from over 80,000 news sources in more than 200 countries to **measure sentiment** amongst stakeholders. A sentiment algorithm is then used to calculate a reputation score of between -100 to +100.

alva uses an amplification weighting to rank content in terms of reliability, size of audience and reader recall to create an accurate measurement of reputation³.

A number of indices have been designed specifically to measure company reputations. These indices combine and quantify a number of factors which contribute to overall reputation, and enable a relative score or positioning to be given to companies across each element.



Pros

- Indices can include a measurement of qualitative factors which impact reputation
- Indices enable companies to benchmark their performance against competitors and the wider market through a comparison of relative scores or positionings



Cons

- There can be significant variation between different indices in terms of which factors are considered to influence reputation and how they are weighted
- Companies in niche or specialist sectors may not be easily included in index rankings

Financial metrics

Financial metrics aim to attach a monetary value to reputation through analysis of company accounts and key financial indicators

Reputation dividend

Reputation dividend calculates reputation value as the **extent to which a company's corporate reputation builds, or diminishes, its share price beyond what might reasonably be expected from financial performance.**

Actual stock market capitalisation is compared to the company's value implied by standard financial metrics, such as earnings multiples, discounted cash flows or free cash flow yields¹.

Revenue royalty rate

Revenue can be viewed as a proxy measure for **customer reach**. Multiplying a company's revenue by a specified royalty rate can generate an estimate of its reputation value.

This method considers reputation value as the premium that a licensee would hypothetically be willing to pay to use the company's name and branding, which act as a proxy measure for its reputation in the market. The company's revenue multiplied by its royalty rate could then be discounted to arrive at a present value estimate for its reputation.

However, finding an accurate estimate for royalty rate can be difficult, particularly if there are not many directly comparable companies engaged in licencing agreements to benchmark against.

Regression analysis

Regression analysis can be performed to determine correlations between previous adverse events and changes in a company's reputation and hence its financial performance.

Regression analysis can be performed to determine how adverse events have impacted key financial measures such as share price, revenues or profits in the past. It is then possible to forecast how future trigger events might impact a company's reputation and financial metrics.

The correlations that are calculated will be specific to a company or industry and may require significant time and effort to generate.

Certain financial metrics can be used to indicate the value of a company's reputation to an extent. For example, generally if a company is considered reputable and trustworthy in the eyes of the consumer, you would expect this to be reflected in strong sales revenues and profits as customers buy products or services from that company.

However, this is not always the case and financial metrics cannot reflect the full extent of customer sentiment relating to a company.



Pros

- Provides a monetary value which is attributable to reputation



Cons

- In many industries where companies have a monopoly or are seen to provide a unique and vital product or service, customers may have no alternative but to continue buying products from a company that they do not perceive to be reputable
- Financial metrics generally exclude useful qualitative information regarding a company's reputation

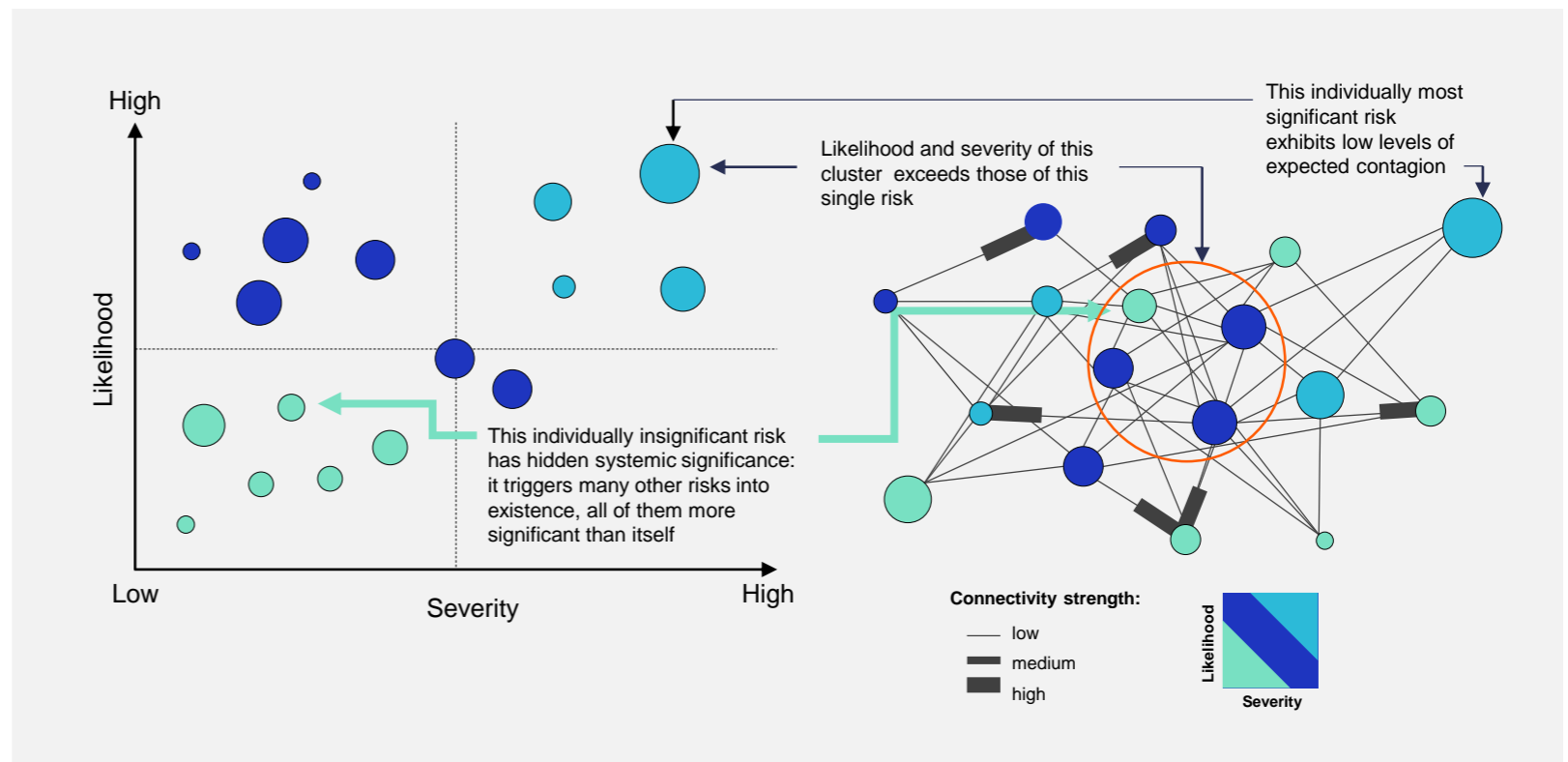
Dynamic landscape assessment

Reputational damage sometimes occurs as a result of multiple seemingly unrelated events – assessment of these events requires a different approach that explores the interconnectedness of these thematic issues and the potential contagion level of individual issues

Reputational damage often occurs as a result of multiple seemingly unrelated events that amplify each other. These situations have to be assessed by looking at the potential future interactions between different risk factors, instead of assessing persistent past statistical relationships as with traditional modelling approaches. One such method is the dynamic landscape assessment framework that provides insight on:

- The combinations of thematic issues most expected to occur
- Combinations of thematic issues that are weakly connected to each other but, in combination, can cause significant impact, akin to black swans
- The most vulnerable risks that, in aggregate, could pose existential crises
- The velocity with which the thematic issues are expected to occur individually and in combination

This approach helps organisations to devise more effective strategies and to deploy resources efficiently by identifying the most significant risks that could impact corporate reputation.



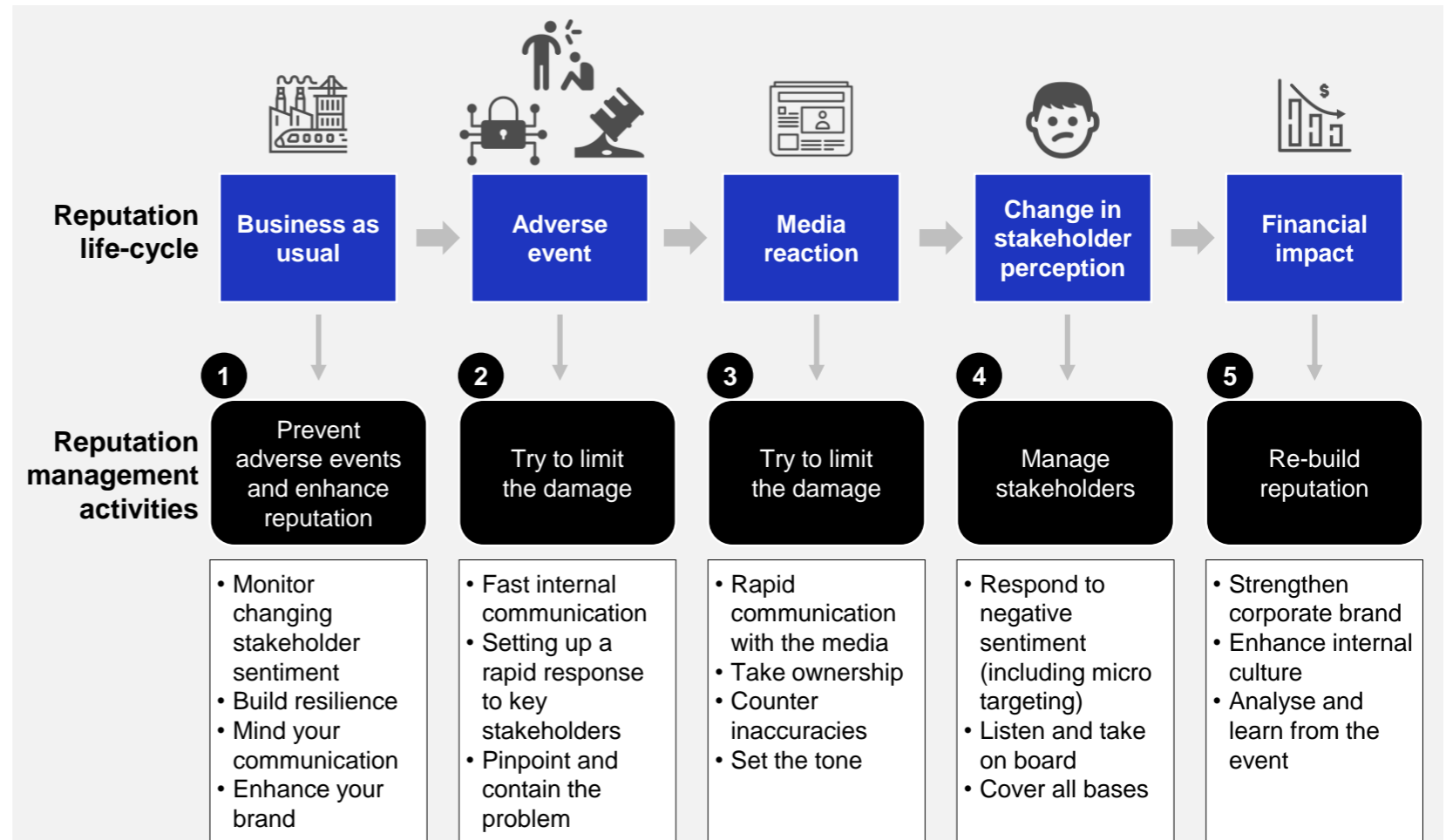
The Dynamic Landscape Assessment methodology uses expert input to construct networks of thematic issues (i.e. future risks) expected to occur due to emerging trends and “known unknowns”. This methodology can be applied to reputational damage assessment by looking at individual events (e.g. recall of faulty products, major cyber breach, business ethics, executive compensation etc.) and assessing the potential impact on corporate reputation across different stakeholder groups.

3 Safeguarding reputation



Managing reputation through its life-cycle

Enhancing reputational value and safeguarding it requires a concentrated effort across the life-cycle of reputation development



Source: KPMG analysis, expert interviews

Proactive reputation management often decides which organisations will survive adverse events with their reputation largely intact and which ones will end up in serious financial difficulties. Organisations that work relentlessly on putting customers first and building their brand every day will fair much better when (and if) a crisis hits. There is evidence to suggest that such organisations will be forgiven more easily, and will suffer less reputational damage.

The most advanced organisations will make sure their reputation is properly safeguarded throughout the reputation lifecycle – starting from building resilience and performing active signal sensing during ‘business as usual’ and being effective at limiting potential damage and managing stakeholders after an event. Effective reputation management during a crisis will also act as a trampoline for rebuilding reputation after the crisis.

1 Managing 'business as usual'

The best strategy to reduce potential reputational damage is to proactively assess changing stakeholder sentiment to predict and then prevent potential adverse events

A major part of reputation management happens as part of usual business operations, outside any specific 'crisis' events. This is the time when organisations build their brand and work on activities to enhance corporate reputation. This is also the time to do signal sensing and horizon scanning to identify any potential shifts in stakeholder sentiments which might change the way stakeholders perceive the existing corporate behaviours. Effective reputational risk strategies will not only be built around preventing an organisation's representatives from engaging in activities that would reduce trust, but also around helping an organisation readjust its behaviours to follow the changing public sentiments.

Reputation is effectively a risk of risks which means that reputational risk prevention is particularly complex and multi-faceted. That means that reputational risk management is not purely a marketing exercise but will instead need to be ingrained in the broader risk management activities. Organisations that are better at preventing cyber breaches will be less likely to experience reputational damage. Similarly, organisations that are better at safety, will be less likely to experience reputational damage related to workplace injuries.

What could go wrong?

- Failure to spot a changing social trend or a shift in stakeholder attitude about a specific behaviour or the organisation
- Lack of internal training or processes lead to events that impact stakeholder trust
- Lack of communication or inappropriate communication lead to negative sentiment across stakeholder groups

Best practice of protecting reputation



Monitor changing stakeholder sentiment

Adverse reputational events often occur when an organisation's real actions are perceived to be different from the image it has been trying to create. Advanced organisations will engage in active signal sensing and horizon scanning to monitor the changing stakeholder sentiment and make sure that internal behaviours are regularly adjusted accordingly. By doing that, they will try to predict what could go wrong and actively prevent it.



Build resilience

After getting better at predicting potential adverse events, businesses need to build resilience to reduce the likelihood of incidents. Advanced organisations put significant effort in to employee training and internal processes to reduce the likelihood of capability and character related issues. Better processes related to cyber insurance, for example, will reduce the

likelihood of cyber breach related reputational damage. Similarly, better processes related to safety, will reduce the likelihood of injuries and the related reputational damage.



Mind your communication

Communication can be a critical tool to enhance (or destroy) reputation. This has been very visible during COVID-19. Lack of communication by some organisations (due to reduced marketing budgets or fear of 'saying the wrong thing') will mean that these brands will come out of the crisis in a weakened state. Meanwhile, organisations that have been perceived to say 'the wrong things' have suffered significant reputational challenges.



Enhance your brand

There is evidence that stakeholders are more forgiving to organisations that have a strong brand and focus on customers. Business as usual is the best time to enhance reputation that will help withstand any potential incidents.

1 Managing 'business as usual' – examples about building resilience

As a public health emergency, COVID-19 is one of the most challenging periods we have faced. The pandemic is causing widespread disruption and impacting organisations in ways reminiscent of a financial crisis by disrupting supply chains and the labour market.

Your financial, commercial, and operational resilience will often determine the likelihood of things going wrong and causing adverse reputational events. This will be particularly true in the existing COVID-19 environment.

The specific activities organisations need to take to build resilience will differ across industries but our example for the Infrastructure sector (see schematic on the right) illustrates many practical actions that are similar to other industries.

It must also be noted that any resilience actions need to go hand in hand with more general 'brand building' activities. Relentless focus on enhancing customer experience, for example, will help organisations withstand potential reputational mis-steps.

Example of practical steps that organisations can take to maintain and protect their commercial resilience around infrastructure projects:

1: Short term	2: Medium term	3: Long term
<ul style="list-style-type: none"> • Monitor and ensure compliance with latest government and industry advice. • Establish clear lines of communications with staff and contractors. • Establish delegated authority in the case of illness for key personnel. • Baseline your projects now to accurately forecast potential COVID-19 impacts. • Prioritise the portfolio: identify which projects are business critical, which could be paused and which could be started. • Assess IT infrastructure and construction-specific remote working capabilities across the project delivery team, such as design and contract administration processes. • Reorganise your site operations and working arrangements. • Review and implement contingency plans and crisis responses. • Review cash flow and liquidity, rapidly access government funding. 	<ul style="list-style-type: none"> • Use remote communication, adapted governance and control processes to monitor and assess the evolving situation. • Regularly engage with suppliers in order to collaboratively develop least-impact options and build an implementation plan for start up. • Perform risk assessments of supply chain resilience, assessing the ability to pay contractors (government funding, reserves, loans) and the mechanism for flow down the supply chain. • Establish firm controls for cash management. • Re-plan projects and the prioritisation of deliverables and act upon this. • Resolve contractual issues with supply chain and mitigate disruption. • Clarify the contractual position and assess legal / commercial implications such as extensions of time. • Perform contingency planning for different eventualities, include a review of business cases, project viability and recovery of investment. 	<ul style="list-style-type: none"> • Assess the implications of material shifts in resource and capabilities according to the new priorities. • Review the portfolio and assess the implications of the disruption. • Implement mobilisation plan to restart the projects that have been on hold. • Assess the status of the portfolio of projects post start-up and re-baseline considering commercial implications. • Negotiate variations and claims that have resulted as an impact of COVID. • Robustly manage cash to optimise working capital as business grows. • Implement new strategy and keep under review – markets will change and pre crisis norms may not be returned. • Maintain and enhance supplier risk management protocols and develop a new approach to commercial controls, expecting a more vulnerable supply chain. • Review projections for revenue generation, and assess if projects are still viable or if future benefits can be renegotiated.

Source: (1) COVID-19: Building commercial resilience for infrastructure project owners, KPMG: <https://assets.kpmg/content/dam/kpmg/uk/pdf/2020/04/covid-19-building-commercial-resilience-for-infrastructure-project-owners.pdf>; KPMG analysis

2 Managing the direct aftermath of an adverse event

The rapid implementation of a structured crisis management plan can help limit damage caused by an adverse event

The immediate aftermath of an adverse event is a critical stage for a company to minimise the potential damage to its reputation. Organisations need to be able to respond quickly and effectively. It will be significantly easier to coordinate an efficient response if contingency measures have already been established, such as a thorough crisis management plan.

A key area to address immediately following a crisis will be to issue prompt and clear internal communications to ensure staff are briefed, so that they are aware of the situation and can act appropriately. Once information has been shared internally, the next step is establishing channels through which responses will be delivered to wider stakeholders including the media, investors and regulators. The methods of response will depend on the nature of the event and the initial reaction of key external stakeholders. Key elements of a rapid response are likely to involve engaging with PR firms, agreeing on messaging and briefing senior staff.

Damage can also be limited by pausing business activities that relate to the adverse event until further investigations have taken place.

What could go wrong?

- Failure to communicate with staff could leave them confused and distrusting of management
- If the company does not rapidly establish its intended response to the media it will be on the back foot as reports begin to emerge
- Continuing as normal with business activities that are closely connected with the event could mean further damage is done



Best practice of protecting reputation

Fast internal communication

Fast internal communication following an event will help reassure staff and prevent uncertainty and confusion. Communication to staff should be clear and transparent. It will be important to explain the nature of the event that has occurred (even if full details have not yet been established) and potentially to warn staff of the expected reaction in the market and media. If staff feel information is being withheld by management this could encourage the spread of rumours and promote a lack of trust in management's handling of the situation.



Setting up a rapid response to key stakeholders

Information travels quickly in a digital age, with content being shared in real time and often without proper fact checking. Therefore, companies can no longer take long periods of time to decide on and compose their response to key stakeholders. Fast

action is needed as information will begin circulating immediately. The company will need to quickly find out where any discussion about the event is taking place and which stakeholders are involved.

It is also important to quickly agree who will take responsibility for any stakeholder interactions, how they will be conducted and what can be disclosed.



Pinpoint and contain the problem

Once an adverse event has surfaced it will be important to pinpoint the source of the issue and potentially put a pause on directly related activities. This will help ensure that the source of the issue cannot continue to do any further damage and this principle is applicable to many situations. For example, a production line producing faulty products or advertisements that are perceived to be insensitive. In both these scenarios damage could be limited by pausing related activity until the event can be dealt with.

2 Managing the direct aftermath of an adverse event – examples

The direct aftermath of an event can be a stage of panic and confusion if it is not handled well.

Organisations who deal with the direct aftermath of adverse events well are often those who are able to quickly implement clear and actionable crisis management plans. Taking distinct and decisive action to understand the issue and limit further damage is key in safeguarding against the potential negative reputational effects associated with the immediate aftermath of an adverse event.

Depending on the nature of the crisis the immediate actions that need to be undertaken will differ. In some cases the first steps will involve suspending related activities, such as production or advertisements, or recalling products to prevent worsening the issue. In other cases it may be more important to immediately address customer concerns and provide reassurances about measures being taken to protect or compensate them.

US pharmaceutical company



Incident:

- In 1982 a pharmaceutical company faced a serious incident when potassium cyanide was found inside its bottles. It was then reported that several deaths occurred in Chicago following individuals taking the medication.

Response:

- The company immediately pulled all stock of their medication from suppliers and both production and advertising were stopped.
- Announcements were issued warning people not to take the medication and replacements were issued to anyone who had brought the product.
- The company sent over 450,000 messages to hospitals, doctor's offices and other key stakeholders to notify them of the incident and set up a dedicated phone line for consumers who had any concerns.

European toy retailer



Incident:

- In 2007 a toy maker faced an issue with its products when it found that a contractor manufacturer was using unauthorised paint containing lead.

Response:

- The company worked quickly to identify the factory responsible, halted production and launched an investigation.
- The public were notified of the issue and around 1.5m toys were recalled.
- The company also voluntarily expanded the scope of its investigation and issued additional product recalls as a precaution against other potentially harmful but unrelated issues.
- The company was praised for its swift response once the issue was identified and continues to have a strong reputation for being trustworthy.

Commercial airline



Incident:

- In 2018 a major global airline faced a data security incident in which users of its website were diverted to a fraudulent site where their personal details were stolen. It is estimated that around 380,000 transactions were impacted.

Response:

- The CEO of the airline was interviewed live on national radio and provided details of the incident as well as a sincere apology to customers.
- Staff focused on directly contacting customers that were impacted and committed to compensating all customers who had made bookings via the fraudulent site.
- Adverts were also issued in national newspapers in the days following the announcement to apologise for the incident.

3 Managing media response

Content and timing of any media response need to be carefully managed in order to convey key information in the right tone and take the opportunity to counter inaccurate reports

Media responses following a crisis need to be carefully managed to have the greatest impact. Both the content and the timing of the messages will influence how stakeholders perceive the company to be handling the situation.

The content of the media response will depend on the nature of the event that has occurred and content should be carefully tailored to the appropriate tone. The nature of the event will also determine the means of media communication that is most appropriate. For example, if the event is serious and has caused injury or loss of life, a broadcast statement by senior staff might be most appropriate. However, a newspaper advert or social media content might be more relevant if the event is less serious, for example relating to product recall.

In any case, a well considered and factual media response will help reassure customers and the general public and reduce the spread of rumours or inaccurate information in the media.

What could go wrong?

- A slow reaction can mean the company loses the ability to influence media narrative surrounding the event
- Denying any responsibility for the event can mean customers lose respect and trust in the company
- Letting inaccurate information circulate without issuing corrections can lead stakeholders to believe rumours which may be more damaging than the true story
- Inappropriate tone in media messages can damage reputation further

Best practice of protecting reputation



Rapid communication with the media

Stakeholders will expect to hear from the company following an adverse event, so lack of prompt communication may lead them to believe something more worrying is going on. Acknowledging that the situation is occurring despite not having all the answers is an important step in building trust with the public. A slow reaction can allow initial media coverage to be dominated by news reports which may not be true or correctly portray the company's side of the story.



Take ownership

Companies that tend to retain public trust following a crisis are those that act transparently and take at least some level of ownership for the event. Stakeholders will be keen to see empathy and an acknowledgement of the event as well as a commitment to put things right. Ignoring the event or denying responsibility can leave



Counter inaccuracies

Media communications present an opportunity to counter any reported claims which are inaccurate and to curb the spread of rumours. Factual media statements direct from the company involved can help ensure that false stories do not gather too much weight and that the representation of the event in the media is fair.



Set the tone

Getting the tone of media response right will be a deciding factor in how it lands with stakeholders. The messaging and the way in which it is delivered should be carefully tailored to the situation. Companies that do this well are able to ensure their crisis communications are true to their brand voice and image whilst conveying their message clearly.

3 Managing media response – examples

Some trigger events do not involve an organisation's actions directly impacting or harming individuals, but instead put revenues at risk as the event may lead customers to switch to competitor products or services.

In this instance a key element of safeguarding reputation will be ensuring that the media response is managed carefully. This will enable the organisation to convey their chosen message to wide audiences in order to reassure and convince the customer base to continue engaging with the company.

Common ways in which organisations have successfully managed their media response involve transparent communication and utilising social media to convey their message as broadly as possible.

The content of these media responses often involves organisations owning their mistakes or taking strong stances of defence where they face false allegations of wrongdoing.

Clever and witty marketing and humorous social media content are one way of continuing to generate a buzz around the product or service and can help to keep customers engaged following a crisis, in an attempt to protect future sales.

Global fast food chain



Incident:

- A global fast food chain was forced to close hundreds of stores in February 2018 after delivery delays meant that there was a shortage of chicken in stores throughout the UK and Ireland.

Response:

- The company printed a full page advert in two national newspapers which depicted an empty bucket of chicken and the caption 'We're sorry'.
- A page on their website was maintained for customers to check the status of chicken in their local store and they used Twitter to answer queries daily.
- The company were praised for their transparent and swift response.

US laundry detergent brand



Incident:

- In late 2017 a US company that produces laundry detergent pods became the centre of an internet trend which involved teenagers challenging each other to consume the pods which can be deadly if ingested.

Response:

- As well as a formal statement issued by its parent company, the company took to social media to release a number of Tweets acknowledging the situation and urging people not to consume their products.
- Their Tweets aimed to be humorous whilst conveying the serious message. The company also partnered with an American football star to film a video explaining that the pods should not be eaten.

Multinational soft drinks company



Incident:

- In 1993 it was alleged that a syringe had been found in a can of a leading soft drink brand in Washington state, subsequently more than 50 reports of tampered products emerged across the US.

Response:

- The company was confident that the reports were false, so defended itself unwaveringly.
- Rather than making vague statements asking customers to trust it, the company launched four videos throughout the crisis including one showing the canning process so as to highlight that its products could not be tampered with.
- The company's CEO also appeared on news stations alongside a FDA Commissioner to assure the public the product was safe.

4 Managing stakeholder reaction

Engagement with stakeholders through open communication channels will help manage their reactions and prevent a build up of negative sentiment

Stakeholder reactions can be difficult for companies to contain once they begin to become public in the wake of an adverse event. Social media means that messages can be spread quickly between individuals all over the globe and therefore also means that negative sentiment can quickly develop.

Responding to negative sentiment, particularly online, can help to dampen down criticism and addressing individual comments or complaints directly may help stop the spread of discontent online.

Companies also need to show they are listening to those affected by the event and not just following a tick box approach to communication. Individuals impacted by the event will want to feel valued and can quickly become discontented if they believe their comments and concerns are being ignored. It should be noted that although there are likely to be some key stakeholder groups that are of primary concern, care should be taken to consider all stakeholders and how their opinions might differ.

What could go wrong?

- Negative sentiment that is not addressed can leave long lasting damage to the brand
- Stakeholders will become frustrated if they feel the company is not listening to them or working to address their concerns
- A one size fits all approach to communication will not address varying stakeholder needs, and may leave some groups of stakeholders disillusioned



Best practice of protecting reputation

Respond to negative sentiment

Negative sentiment can build quickly in the wake of a negative event and not just in mainstream media outlets. Social media enables the general public to post updates in real time and this content has significant reach to other potential customers globally. It is important therefore for companies to address negative sentiment and attempt to win customers round to minimise reputational damage. Proactive monitoring of social media will allow companies to engage in a real time dialogue with dissatisfied individuals and respond to criticism or negative sentiment. This is a useful channel to try and reinstate positive sentiment and influence online reputation.



Listen and take on board

Managing stakeholder reaction should be a participative process that involves some opportunity for dialogue between stakeholders and

the company. Stakeholders will want to feel that they are being listened to and that the company is taking their views on board, which will be hard to achieve if communication is one way and there is no opportunity for interaction with the company.



Cover all bases

It is important to consider the reactions of a broad range of stakeholders both internally and externally. Often a significant portion of the focus following an event can be on launching a media response which is targeted at the stakeholder group directly impacted, which in many cases is customers. However, there are other equally important stakeholders both within the business and externally. The relative change in perception will vary across different stakeholder groups and this needs to be considered when planning how to manage and respond to their reaction.

4 Managing stakeholder reaction – examples

Managing stakeholder reactions can be challenging especially given that stakeholder perceptions will differ depending on the nature of the crisis and the relationship the stakeholder has with the company.

Organisations that manage stakeholder reactions well ensure they think carefully about those individuals who are affected by the crisis and tailor their responses both to those directly impacted individuals and the wider stakeholder group.

In the case of serious trigger events such as those relating to accusations of unacceptable treatment of customers or being held responsible for situations in which customer or employee lives are endangered, the company will need to manage stakeholder reaction by taking an empathetic, genuinely apologetic and supportive course of action.

The case studies covered here show examples of situations in which organisations have needed to provide support or evidence of meaningful change to individuals directly negatively impacted by an event that occurred during the organisation's course of operation. By doing so they were able to demonstrate humility and empathy and the visibility of these actions helped to manage broader stakeholder reaction as well.

Global chain of coffee shops



Incident:

- In April 2018 two black men were arrested at a Philadelphia coffee shop after a staff member called the police whilst they were waiting for a friend, accusing them of trespassing.
- Social media users responded to the incident and protestors called for a boycott of the company.

Response:

- The CEO made a statement personally apologising for the incident and promising to investigate and fix the underlying issue.
- In May 2018, 8,000 of the company's coffee shops in the US were closed for staff to undertake racial bias training. It is estimated that the company lost around \$20m in sales revenue during the time the stores were shut.

Spaceflight company



Incident:

- In 2014 a multinational conglomerate faced a serious crisis when a test flight run by its spaceflight company crashed, causing the death of one pilot and serious injury of the second.

Response:

- The conglomerate founder Tweeted several times with updates and personal remarks. He also immediately flew to Los Angeles to be at the scene.
- The messaging in all communications remained consistent throughout "Space is hard – but worth it. We will persevere and move forward together."
- The group wanted to ensure that the pilot did not die in vain, and this was a message that resonated with the public.

Commercial airline



Incident:

- In April 2018, a flight that took off from LaGuardia airport had to make an emergency landing at Philadelphia airport after an engine failure ripped open the fuselage, killing one passenger.

Response:

- The crew managed to land the aeroplane safely without any further fatalities.
- Passengers in Philadelphia were provided with travel, accommodation, trauma counselling and other support.
- The company CEO made a heartfelt statement.
- Social media advertising was removed.
- Passengers received personal phone calls offering support, and were also sent travel vouchers and \$5,000 cash.

5 Managing financial impact and rebuilding reputation

Companies need to be able to show that they have learned lessons from the adverse event and the companies that are able to demonstrate to customers that this is the case can come out stronger

Rebuilding reputation following a crisis can be a slow process particularly if customers have lost trust in the brand. However concerted and purposeful action can help restore damage to reputation.

Strengthening the corporate brand following a crisis is a case of ensuring the brand is visible but for the right reasons. Publicity covering positive actions a company is taking can help to counter the negative image that has been created by the event. Engaging in socially responsible activities and ensuring these are visible to the general public is one way of contributing to a positive brand image.

Enhancing internal culture is a sensible place to start to ensure the company has strong foundations. Not only are companies under increasing scrutiny to be good places for employees to work, but also a stronger internal culture is more conducive to an environment in which adverse events can be mitigated or managed effectively if they do occur.

By analysing the event and how the response was managed, companies can learn important lessons and take action to implement better safeguarding measures for the future.

What could go wrong?

- The company is written off by customers following the adverse event and its reputation is irreversibly damaged
- Employees are unhappy and disengaged which is reflected through poor performance and customer service
- Attempts to rebuild reputation do not fully address the weaknesses that led to the previous crisis, leaving the company at risk of the same issues occurring again

Best practice of protecting reputation



Strengthen corporate brand

Adverse events can have a significant impact on corporate brand, taking action to strengthen brand will help ensure the damage is not permanent. Engaging in positive social and environmental activities such as supporting charitable causes or leading environmental initiatives can help rebuild a positive public image. Raising awareness of positive activities being undertaken can counter existing negative brand perceptions. In the longer term, a stronger corporate brand often means customers' are more forgiving in case an adverse event does arise.



Enhance internal culture

A company's reputation amongst its workforce is crucial and closely related to its public perception. Low morale amongst staff can directly impact the levels of service offered and customer satisfaction. Further to this, companies are under increasing scrutiny in terms of employee



Analyse and learn from the event

Reflecting on the actions leading up to the event and how it was handled can help to build more robust processes for the future and avoid further reputation crises. It can also help companies to understand exactly what went wrong and focus reputation building efforts. It is important to consider the changes that could be made to business as usual processes to strengthen risk management and prevention defences. The easiest way to manage reputation crises is to prevent them from occurring in the first place.

5 Managing financial impact and rebuilding reputation – examples

Rebuilding reputation and restoring any financial damage following an adverse event can be difficult, as stakeholders may need convincing that the organisation has suitably addressed the issues that caused the initial crisis.

Significant effort may be required to rebuild reputation if the organisation did not handle the aftermath of the event effectively, leading to increased reputational damage and a lack of public trust.

Organisations that do this well are able to demonstrate a commitment to making changes and learning lessons from the incident. Efforts to rebuild reputation will need to be consistent and potentially long term, as organisations risk losing stakeholder trust if they are seen to be only offering short term fixes.

Global confectionary manufacturer



Incident:

- In 2003 two bars of a well known brand of chocolate that were purchased in Mumbai were found to be infested with worms.

Response:

- The company did not initially handle the direct aftermath of this crisis well. The initial response to the media was to deny that the contamination was possible and take no responsibility for the event.
- The company soon realised the scale of the issue and its poor initial response and stepped up its efforts to rebuild its reputation.
- All advertising was removed and instead the company ran an educational PR project for the media.
- Although initially sales did fall significantly after the event, they returned to pre-crisis levels roughly 8 weeks later, following the campaigns.

American beverage company



Incident:

- In 1996 an American beverage company produced a batch of apple juice which was contaminated with E. coli bacteria. The incident resulted in one death and more than 60 people becoming ill.

Response:

- Products potentially containing harmful bacteria were recalled, however the incident was already significant and more than 20 lawsuits were filed against the company.
- The CEO offered to pay all medical costs for those impacted and the company spent several months focussing on rebuilding public relations, for example by taking out full page adverts in newspapers to explain the situation.
- The company was fined by the FDA and lost significant market share however, it did eventually regain its reputation.

International sandwich shop franchise



Incident:

- In 2016 a UK headquartered international chain of food outlets faced a reputational crisis following the death of a customer as a result of an allergic reaction to food products which were not adequately labelled with allergen information.

Response:

- Spot checks following the event continued to highlight issues with labelling and the company faced continuing backlash.
- The company did apologise for the event and has begun rolling out labels containing a full list of ingredients on products across its stores as a result of the event.
- Although there is possibly still more work for this company to do to fully regain trust, from a financial perspective it appeared to recover from the event and continued with its planned growth.

4 The role of insurance

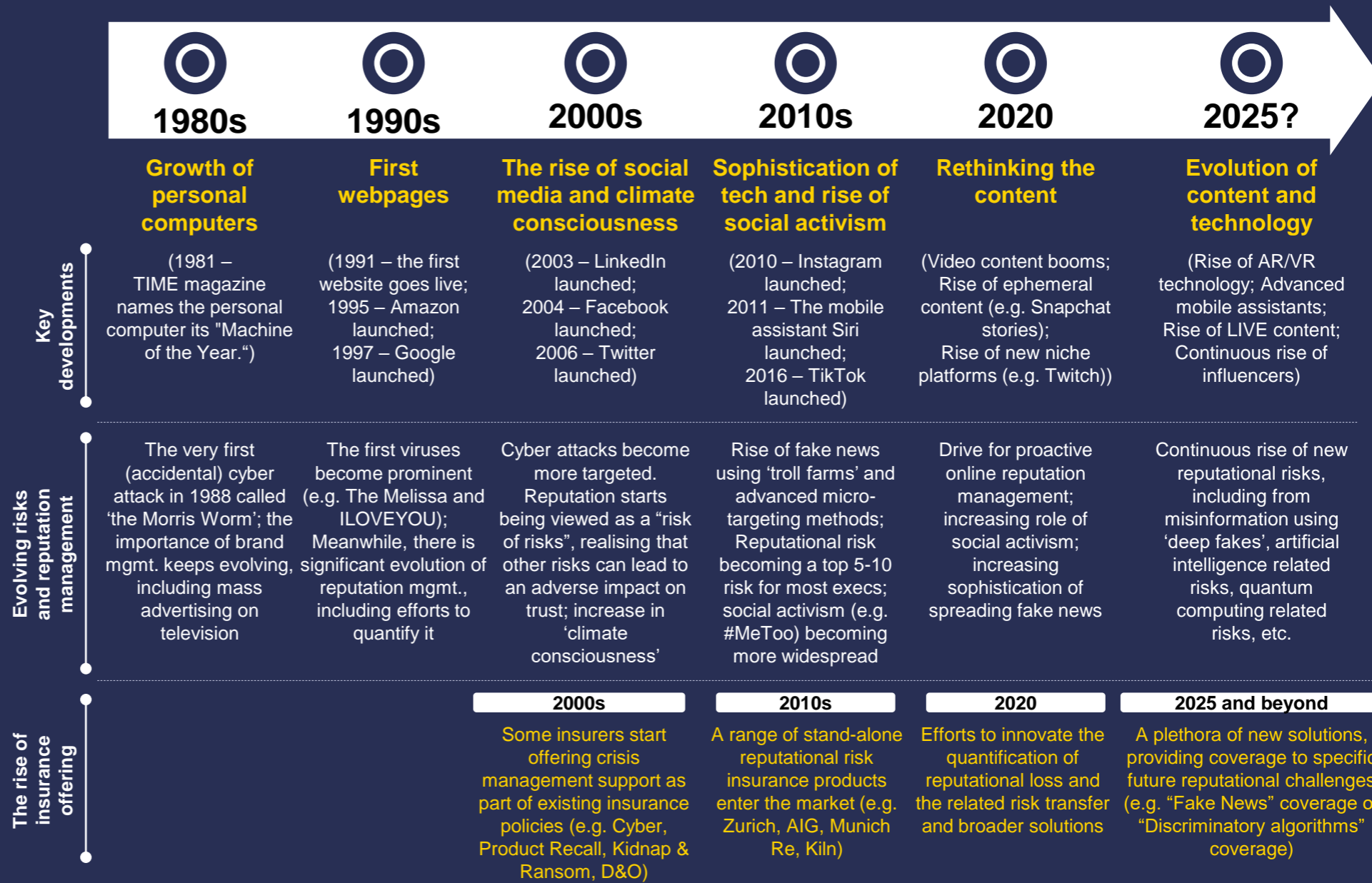


Insurance as an ever evolving tool to support reputation management

The reputation landscape has changed significantly over the last few decades. As organisations have increasingly switched towards digitising their operations and customer engagement, more and more adverse reputational events have been caused by digital risks and have been amplified through digital channels (e.g. social media).

This landscape will continue evolving in the future as the digital channels continue to change (e.g. the rise of VR / AR technology) and as the source of reputational risk continues to advance (e.g. 'deep fakes', unethical AI, quantum computing).

The insurance market will continue evolving as well, from offering simple crisis management add-ons in the 2000s, to more sophisticated stand-alone policies in the 2010s, and eventually to much better risk modelling and highly targeted coverages to organisations across industries in the years to come.



Insurers are already undertaking a key role in safeguarding reputation

Insurance solutions can offer extra protection in case of an unexpected turn of events related to internal reputation management

There are currently a range of reputational risk insurance solutions on the market which focus on providing assistance and protection in different ways. The existing solutions can broadly be grouped into solutions which focus on covering the cost of crisis responses or lost revenues / profits, and those which also offer an element of support and assistance during a crisis.

Reputational risk insurance solutions are still relatively new in the market but a range of market players have recently made significant strides in enhancing the existing offering.

Existing risk transfer solutions



Products covering financial losses resulting from a reputation crisis, such as lost revenue or profit and costs associated with crisis management

- **Liberty Specialty Markets Strategic Asset - Reputational Harm:** Provides income protection following an adverse media report and covers crisis management expenses
- **MunichRe Reputational Risk Cover:** Provides indemnification for financial loss due to reputational risk event. The product triggers and scope can be tailored to each company's needs
- **Tokio Marine Kiln Reputational Harm Insurance:** Provides an indemnity for lost profit attributable to an adverse media event



Existing crisis management support solutions



Products offering crisis management support and access to expertise to assist during a crisis, as well as coverage for any associated financial losses

- **AIG ReputationGuard:** Assists with management of reputation threats through access to a panel of experts. Covers crisis communication costs with optional coverage for income loss
- **Allianz Reputation Protection Plus:** Provides support from crisis communications consultants and monitoring of the developing crisis, as well as covering loss of operating profits where reputation damage cannot be recovered
- **AXA XL Reputational Crisis Event Protection:** Provides prevention, response and recovery service through access to crisis response partners, as well as covering the cost of expert crisis response and support services
- **Beazley Reputational Risk Solution:** Offers up to \$250,000 in crisis management expertise and coverage for loss of profits
- **Hiscox Security Incident Response (SIR) product:** Pays for the support of expert crisis responders to engage in the mitigation/resolution of security and integrity issues at the earliest possible stage. Reimburses PR fees incurred in managing a crisis

The reputational risk landscape is very complex, and 'one size fits all' approaches won't work

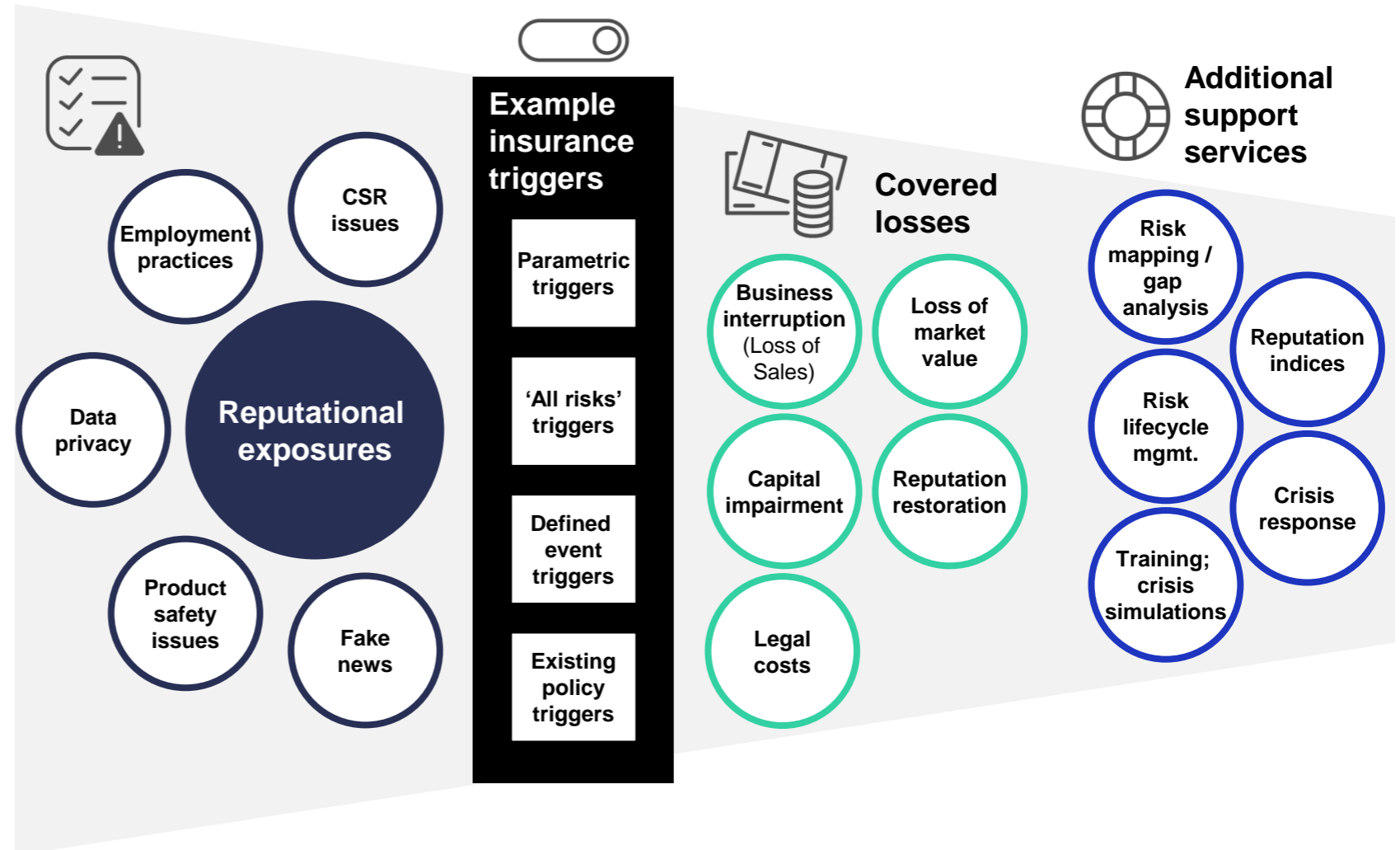
Reputational risk insurance is unlikely to follow a 'one size fits all' approach; instead, multiple different solutions could arise, some broader, some narrower, catering for different exposures, different triggers, and different business needs

As discussed earlier in this document, being a 'risk of risks', reputational risk can arise from a range of different events. Furthermore, considering that risk profiles of businesses keep evolving at an ever faster pace across all industries, the reputational risk landscape is expected to become increasingly complex.

The insurance market players have recognised this and have tried to introduce a range of different insurance triggers that would support multiple different covered losses from something as simple as legal costs to something as sophisticated and broad as the loss or market value.

Risk indemnity has increasingly been supported by additional support services, including helping organisations assess their risks, build resilience, and supporting them after a crisis.

Going forward, reputational risk insurance is unlikely to follow a 'one size fits all' approach. For example, we will likely see a plethora of solutions without any risk indemnity element, as well as pure risk transfer solutions catering for very niche exposures (e.g. fake news). Either way, will see the insurance market evolving towards becoming true end-to-end reputational risk management partners.



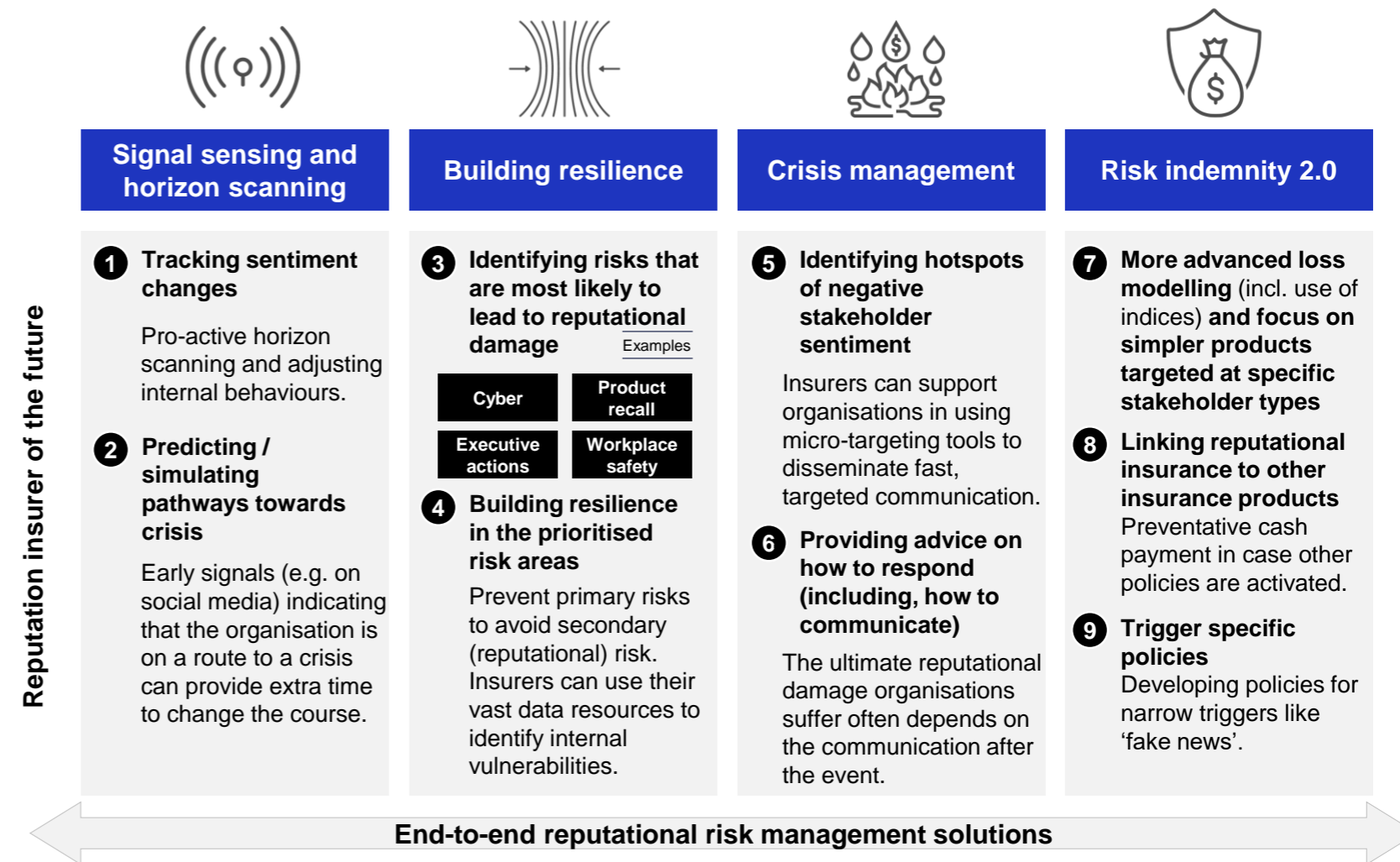
Going forward, insurers have an opportunity to become true end-to-end risk management partners

Insurance carriers and brokers are working towards becoming true risk partners of businesses in safeguarding reputation across the whole life-cycle

Insurers are working towards becoming true end-to-end reputational risk management partners, moving well beyond traditional risk indemnity and the usual crisis management support.

Potential future propositions could include:

- 1) **Signal sensing and horizon scanning**, including tracking sentiment changes (to adjust internal behaviours) and predicting pathways towards crises (e.g. real life sentiment feeds from stakeholders indicating potential discontent)
- 2) **Building resilience**, including identifying specific risk areas that are most likely to lead to reputational damage (these areas will differ across industries and based on the individual circumstances) and then supporting the building of resilience in these areas
- 3) **Crisis management support**, including better use of data to identify the most critical hotspots of sentiment changes and advice on how to respond
- 4) **Risk indemnity 2.0**, including simpler, stakeholder group specific products (e.g. index based), preventative cash payments linked to existing products and 'trigger specific' policies (e.g. Fake News coverage)



Unlocking reputational risk management: future evolution of insurance offerings

- | | | | |
|---|--|--|---|
| <p>1 Tracking sentiment changes</p> | <p>Reputational damage often occurs when businesses fail to 'update' their behaviours, following changing social norms and beliefs. Proactive horizon scanning and willingness to adapt quickly will often differentiate winners from losers.</p> | <p>6 Providing advice on how to respond (including, how to communicate)</p> | <p>The ultimate reputational damage organisations suffer often depends on the communication after the event rather than the event itself. Insurers can support organisations in orchestrating the right communication activities to the right stakeholders.</p> |
| <p>2 Predicting / simulating pathways towards crisis</p> | <p>Early signals (e.g. on social media) indicating that the organisation is on a route to a crisis can provide extra time to change the course and / or prepare an adequate response / mitigation plan. Organisations that fail to adjust often suffer reputational damage.</p> | <p>7 More advanced loss modelling (incl. use of indices)</p> | <p>Reputational damage can rarely be isolated when looking at fluctuations in financial metrics. This can be partially solved by using index based reputation valuation which could also allow simplification of insurance products and allow separation of different stakeholder groups.</p> |
| <p>3 Identifying risks that are most likely to lead to reputational damage</p> | <p>Every industry and every organisation will have a unique set of circumstances that will make specific risks more likely to cause reputational damage. Many of these risks (e.g. cyber breach, product recall, etc.) will have existing insurance products covering the direct financial loss.</p> | <p>8 Linking reputational insurance to other insurance products</p> | <p>The concept of 'Reputational add-on' could be expanded beyond the traditional 'crisis management style' products like Cyber or Product Recall to other risk classes (e.g. reputational damage in Marine insurance due to rogue behaviour of an autonomous ship).</p> |
| <p>4 Building resilience in the prioritised risk areas</p> | <p>Reputation is a risk of risks. That means that effective prevention of reputational damage will by definition involve preventing other risks from happening. Insurers can use their vast data resources to identify internal vulnerabilities or risk areas across the supply chain.</p> | <p>9 Trigger specific policies</p> | <p>Next decade will bring a plethora of triggers that could cause direct reputational damage beyond any specific risk classes (see opportunity #8) – there is an opportunity to develop specific coverages for triggers like 'fake news' or 'discriminatory algorithms'.</p> |
| <p>5 Identifying hotspots of negative stakeholder sentiment</p> | <p>Once a crisis hits, organisations need to become more targeted at communicating with specific stakeholder groups that cause the highest negative impact. Insurers can support organisations in using micro-targeting tools to disseminate fast, targeted communication.</p> | <p>It is important to note, however, that not all of these solutions will be fit for purpose for all organisations. We are expecting insurers and brokers to build an E2E capability across all (or most) of these solutions and then use it to create tailored solution offerings for specific industries and organisations within these industries. For example, a consumer goods business that is heavily reliant on consumer reputation will be approached differently from a major oil & gas company that focuses on supply chain reputation.</p> | |

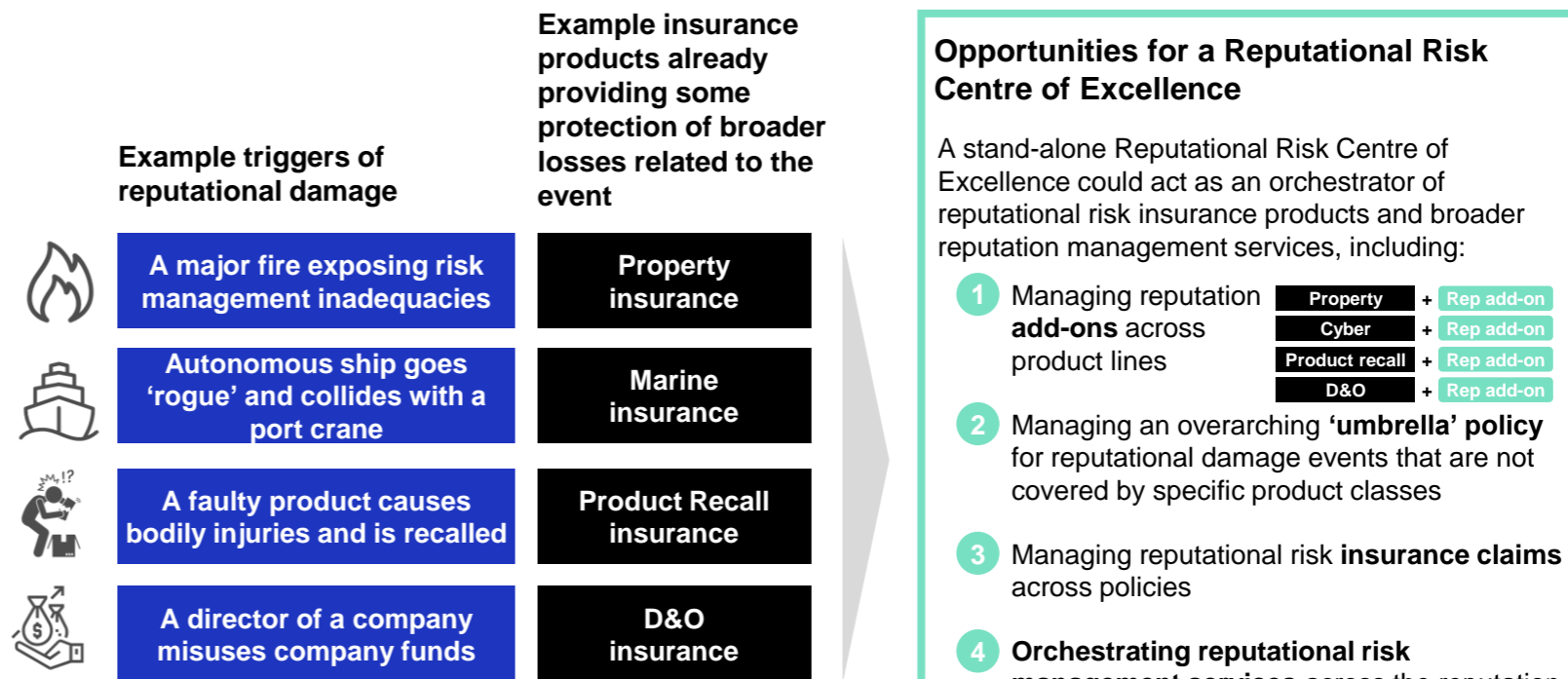
Becoming an effective reputational risk solution provider

Becoming an effective provider of end-to-end reputational risk management solutions will require a significant organisational change in many insurance companies

Becoming effective end-to-end reputational risk management service providers will require a significant change in insurance companies (both carriers and brokers). Recognising that reputational risk is a 'risk of risks' and can impact trillions of dollars worth of corporate value, insurers will need to rethink the role reputation management services need to play in their own corporate structures.

We expect that insurers and brokers will be increasingly setting up a Reputational Risk Centre of Excellence that could act as an orchestrator and collaborator across the existing stand-alone underwriting or broking teams. Such a centre of excellence would have four key functions:

- 1) Managing reputation add-ons across products
- 2) Managing an overarching 'umbrella' policy for reputational damage events that are not covered by specific product classes
- 3) Managing reputational risk insurance claims across policies
- 4) Orchestrating reputational risk management services



The setting up of a successful Reputational Risk Centre of Excellence could consider the following design principles:

- **Independence** from individual underwriting / broking teams
- **Access to data** from individual underwriting / broking and claims teams
- **Ownership of dynamic landscape assessment tools** to model interconnected risks outside any specific product area
- Strong **risk prevention and response** service capability
- Advanced **data analytics capability**

5 The way forward



Moving forward – five actions risk owners can take

**1**

Proactive signal sensing

Reputational damage often occurs when businesses fail to 'update' their behaviours, following changing social norms and beliefs or when they fail to spot a changing narrative among their stakeholders. Proactive horizon scanning and willingness to adapt quickly will often be key.

2

Build resilience

Reputational risk is a 'risk of risks'. In most cases reputational damage occurs due to insufficient resilience in another areas (e.g. major fire incident or a cyber breach). Building resilience across the whole organisation, involving CROs, COOs, HR, and other functions will be crucial to prevent reputational risks.

3

Create a culture of responsibility

Addressing reputational risk purely through your Risk Management function will be almost impossible, considering that reputational damage can arise from any vulnerabilities across the whole business. Having 'reputational risk champions' across various functional areas with clearly defined responsibilities in building resilience could significantly reduce the exposure to risk.

4

Train at all levels

Reputational damage can be caused by a single employee saying or doing the wrong thing in the wrong moment. Regular training through 'real life scenarios' at all levels (including senior executives) can significantly minimise the likelihood of such events. This is particularly critical considering the ever changing risk landscape (e.g. prominence of fakes news recently).

5

Mind your business model

Various stakeholders will usually have different views of your organisation and depending on your business model (e.g. being a budget airline vs being an ethical fashion brand), your reputation with a particular stakeholder group will be a more (or less) important driver of your corporate success. Make sure you understand how each stakeholder group influences you business success.

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