

Risk

“It takes twenty years to build a reputation and five minutes to ruin it”

Transforming Reputation Risk Management

Reputation risk is the potential loss to financial capital, social capital and/or market share resulting from damage to a firm's reputation. This is often measured in lost revenue, increased operating, capital or regulatory costs, or destruction of shareholder value.

When breaking news hits the wires, it can trigger immediate financial impacts for major national organizations. Billions of Naira in market capitalization can be vaporized in a single news cycle, reflecting instantaneous capital market projections of diminished sales and earnings. That is classic headline risk.

But investors are not the only people who will see those headlines. Employees will see the news, along with legislators, regulators, litigators, competitors and customers. And, their reactions can result in financial and strategic impacts ranging from Congressional hearings and costly litigation to customer attrition and C-suite firings. That is reputation risk.

While organizations actively manage reputations -- largely through brand and PR campaigns -- reputation risk tends to be managed somewhat more passively, through committee processes and crisis playbooks. That begs the question - considering the potential material financial and strategic impacts, should reputation risk be managed more proactively?

Reputation is a shared asset, a connective tissue that spans entire organisations. Organisations can transform capabilities for measuring, monitoring, and ultimately mitigating risk to reputation to defend hard-earned brand equity, and in some cases close a strategic risk-management gap.

Measure: Separate Signals from the Noise

A good first step is to assess organisation's ability to separate signals from the noise. In order to confidently separate signals from the noise -- to generate time-series data benchmarking news reach and influence with people -- there are two things we can do. One, we can make our content analysis more reliable, using directed samples, for example, to track what was published over time. Then we can overlay rigorous media metrics with crowd-sourced data -- typically cost-effective tracking surveys -- to gauge news people actually saw or heard. News cycles may be brief. Memories, though, are lasting. By factoring actual news reach and recall into the equation, we can create forward-facing data to monitor and mitigate headline.

Monitor: Identify Third Rails

A third rail is an emotionally charged issue with your stakeholders. From the customer's perspective, think civil rights, constitutional rights, basic human rights, or any issue that might prompt a protest at your next annual meeting.

Kindly contact us on Tel: 0814 241 0241 or 0802 851 6377 email: info@rimanng.org, 15 Blessing Kayode Estate, Divine Mercy Close, Off Kayode Animashaun Street (Road 15), Off Admiralty Way, Lekki Phase 1, Lagos.

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When news about your organization touches one of these live wires, you can anticipate immediate financial impacts as customers reconsider whether to do business with you.

From a risk perspective, national news is the catalyst that energizes that third rail. When a trusted news outlet reports on a product recall, or an oil spill, or a litigation settlement, or a data breach, people are essentially experiencing that event through the media. And if their reactions to the news are strong enough, reputational damage can translate into diminished purchase intent, lost sales, and lasting customer attrition.

Warning: Organizations routinely touch third rails. Investors may react positively when a company announces plans to cut costs, for example, but customers since the financial crisis have reacted quite negatively to layoffs. More recently, customers have reacted strongly to litigation and regulatory settlements that do not hold executives accountable. Risks of third-rail reactions also may become elevated as companies proactively tap into environmental, social and governance issues that matter to customers. *Organisations need data-informed governance processes that identify third-rail issues.*

Mitigate: Forecast Long Tails

Have you experienced a reputational crisis at your organisation? If so, you may have felt at some point like you were flying blind. Relying on gut reactions. Deferring to crisis consultants. Turning to a crisis playbook only to discover that it seems to be missing critical chapters on forecasting the depth and duration of the event -- the long tails -- or that are silent about making the material business decisions that need to be made to offset market share and sales declines.

Frequently, organisations can sense a storm brewing while negotiating a contentious litigation settlement, for example, or preparing a press release about a product recall or a cyber attack. Crisis playbooks tend to be somewhat reactive, contemplating steps to be taken after the press release goes out. By comparison, reputation risk management can be more proactive, with early warning indicators to identify risks ahead of the press.

Here's more good news. Not every negative news story triggers a crisis. And when it does, reputational events occur in stages, with tail risk that is highly predictable. Like corporate bonds, reputational events also can be differentiated based on the varying levels of risk to the business. It makes good business sense, then, to build an end-to-end process to manage that risk, including quantitative frameworks to track and forecast risk, and support data-informed risk governance processes. *Organisations need reputation risk frameworks in place -- before the news breaks -- to navigate a storm.*

Risk

“ Risk comes from not knowing what you are doing”

- Warren Buffet

Manage: Bridge the Gap?

In 2004, a ground breaking market mix model exposed a significant gap in reputation risk management. The multivariate model – among the first to include news coverage as an external variable impacting sales -- confirmed that news contributes to both customer acquisition and customer attrition. Perhaps not unexpectedly, the attrition is greater than the acquisition, and the net impact of news on organizations is negative.

When briefed on the results of the study, the PR executives at the company that built the model did not see a problem. They considered customer attrition a risk that should be managed by the business line. The business line, meanwhile, also was unconcerned. They relied on PR spin to manage that risk. The modelling had unexpectedly exposed a strategic gap in reputation risk management.

Should organizations bridge that gap? The company that conducted that market mix model didn't. About a decade later, that same company experienced a devastating reputational event, with double-digit sales declines that could have been mitigated had they known how to manage financial tail risk, and strategic impacts that arguably may have been avoided altogether had they identified a third-rail issue triggered by their press release.

Because it may feel somewhat disruptive, integrating reputation risk management across the enterprise understandably may encounter some level of inertia, while also surfacing compelling opportunities for your organization. Here are some benefits of integrating reputation risk management across the enterprise:

Investor relations – IR intuitively understands headline risk in terms of impacts to stock price. With the right data, companies can forecast the sales and earnings declines that are driving the capital market in a crisis.

Media relations – PR for decades has focused primarily on generating publicity to support awareness and purchase consideration. Headline risk represents the other side of that coin. Focusing on both sides of the risk-reward equation can tighten the business alignment and make communications more strategic.

Customer relations – In a crisis, customer satisfaction scores will decline along with reputation scores. Companies able to discern a customer service problem from a media problem can avoid the expense and disruption of a customer satisfaction initiative launched in the wake of a media event.

Competitive intelligence – When a competitor hits a rough patch, their sales decline. Those customers don't leave the market, though. They are in play, and up for grabs. By tracking crisis events involving competitors, companies can identify opportunities to build market share.

Finance – Reputation is an external variable influencing demand. Finance can layer this variable into pricing and risk models, improving model outputs and corresponding data-driven insights by quantifying reputation as an external variable impacting business. In a crisis, these data-driven insights are critical to adjust pricing and defend market share.

Finally, in terms of enterprise risk management, first-line risk managers can make data-informed go-to-market decisions by integrating reputation as an external variable into pricing models, a key to offsetting sales declines in a crisis. Second-line risk can eliminate false positives, generate quantitative early warning indicators, and support data-informed governance processes.

Third-line audit can test the rigor of existing media metrics, expose potential flaws in a reliance on traditional and social media metrics as a proxy for the reach and influence of news with customers, and in many cases surface cost savings at companies with expensive media monitoring processes generating unreliable data. Ultimately, internal audit can help align critical control functions to business outcomes, a gap PR has sought to bridge for decades.

In the process of bridging those gaps, risk management will surface opportunities to drive innovation. Technology enabled processes are still needed to generate tactical insights - how stakeholders perceive the company, why their perceptions are shifting, and how we should respond – at the speed of news.

Source: RIMAN, Wikipedia, NCSU

RIMAN Upcoming Programmes

Managing Risk Associated with COVID-19 Business/Events cancellation	27 th of August, 2020
Anti Money Laundering/CFT	3 rd – 4 th of September