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Risk Mitigation or Value Creation? Trends in Reputation Management

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Is reputation management a function of risk mitigation or a firm's best opportunity to create measurable value? Both are essential, but the pendulum appears to be swinging to the latter — a valuable asset. This paper explores some trends in reputation management, and the opportunities for communications professionals to participate in this burgeoning space.

Reputation is any organization's most important asset. Financially speaking, it is valued on a company's balance sheet as a series of intangible assets (goodwill, equity value, customer loyalty, etc.). We submit that the communicators in any organization have a responsibility to own and proactively engage in successful reputation management activities. Reputation management is moving toward the understanding that this value, like other assets, can be measured and increased. At the same time, the role of reputation management as risk mitigation remains.

Reputation includes a company's brands, and much more — encompassing everything from its treatment of employees to how it is perceived for its actions over time. The saying goes that reputations are built over decades but can be lost in a day. That said, developing and maintaining a positive and unique business reputation is a business function like many others. It can and must be treated as a business process — and as such, it's essential we understand and embrace measurement of communications on the company's reputation.

Internal and External Reputation Drivers

Business reputation is based on dozens of factors, including the following:

- Ethics (Does the business do the right thing? Does it positively contribute to a just and fair society?)
- Executive behaviors (including professional standards in connection with the performance of their function, and personal alignment with expected behaviors and values)
- Employee behaviors (particularly when highlighted in the negative, whether they are representative of a wider cultural issue in the business)

- Environmental, Social and Governance (ESG) initiatives
- Social responses, particularly during crises
- Cybersecurity and protection of customer/supplier data (especially when the firm may be entrusted with sensitive personal data, such as health or financial information of customers)
- Workplace culture
- Workplace action and reaction to culture issues
- Governance (including honesty and transparency of reporting, and cooperation with investigators if/when allegations are made against the company)
- Innovation (including investments in R&D)
- Intellectual property protection and respect for the intellectual property rights (IPR) of others
- Commitment to a long-term sustainability for all stakeholders

Many of the aspects of business reputation are internal factors that can be managed with a high degree of predictability. (e.g., When employee relations are positively managed, there can be a positive effect on reputation.) Other reputation determinants include the quality of products and services, the way a company does business and its relationships with its stakeholders, communities, regulators, vendors, etc., through its delivery versus their commitments.

External factors that influence reputation, while not under management's control, can be anticipated, mapped and understood in terms of their potential impact on the organization. In the realm of risk management, we can plan for and mitigate the negative impact of these drivers and specific events. Current examples include changes in community or cultural expectations, geo-political changes, wider changes in the economy, environmental factors and either sharp or slower shifts in public opinion.

One of the most interesting and recent developments affecting reputation management is a growing expectation that company CEOs take a stand on social issues.

The following is from the Edelman 2022 Trust Barometer, released January 18, 2022, an annual survey with 33,000 respondents around the globe:

“The 2022 Edelman Trust Barometer reveals that business holds onto its position as the most trusted institution, with even greater expectations due to government's failure to lead during the pandemic. By an average of five-to-one margin, respondents in the 28 countries surveyed want business to play a larger role on climate change, economic inequality, workforce reskilling and addressing racial injustice. All stakeholders want business to fill the void, with nearly 60% of

consumers buying brands based on their values and beliefs, almost 6 in 10 employees choose a workplace based on shared values and expect their CEO to take a stand on societal issues.”

This expectation to take a social position may come as a shock to CEOs not prepared for this role and not sure it has anything to do with its measurement by standard profit/loss and return to shareholder expectations. Besides, C-suite executives, who have an average of 4.9 years on the job, might not be there for the long haul on a social initiative. Many would question their ability to make important changes in such a short time.

[A 2019 article in *Just Capital*](#) suggests the benefits can outweigh the risks. The article cites six companies that exemplify the point including at No. 1 — Walmart’s risky move to take handguns and ammunition for military-style weapons off its shelves.

Upskill Strategic, Business and Advisory Skills

Executives need strategic communicators who can help translate the expectation of stakeholders which include, among other things, demands for transparency. Transparency does not mean giving away information before you even know the facts or considering the implications. Transparent communications *does* mean that ducking behind a “no comment” to media, employees and others is simply no longer an option. Communicators must go beyond well-crafted and cautious standby or holding statements. They need to do everything possible to ensure the integrity of every spokesperson. Integrity means that facts are accurate, that information is substantive in relation to the issue’s weight and, most importantly, that the company’s actions are aligned with its communications.

Business acumen is increasingly valued in reputation management.

For those in roles where reputation management is a daily responsibility (PR, issues/crisis communicators) it is vital to have a strong working knowledge of key business operations to truly understand how reputation matters reverberate throughout the organization. Understanding the financial, legal, safety, risk, supply chain and ESG operations, as well as a deep understanding of the business strategy, are essential to earning and using the seat at the table.

The Rising Value of the CRO

Lisa Christen, who leads a firm specializing in crisis management, says every firm should have a chief risk officer (CRO). “WeWork. Enron. Volkswagen. Wells Fargo. Uber. What comes to mind when you read this list of (in)famous company

names? Scandal. The reasons these highly successful brands went from best-in-class to tabloid headline may seem varied, but ultimately, they had the same root cause: These companies didn't place a priority on proactive reputation management."

Says Christen: "Many leaders don't yet know how to take a systemic approach to managing reputation effectively. A chief reputation officer can solve those challenges."

Business reputation demands the same high level of attention and demonstrated expertise as financial management, brand marketing or cybersecurity. Ideally, the function encompasses both value creation and risk mitigation with a manager who understands when and how to pull each lever.