Media Contact:

Teresa Settas

+27 11 894 2767

[teresa@tscommunications.co.za](mailto:teresa@tscommunications.co.za)

**Damage to Reputation cited as No.1 Business Risk**

*Aon Global Risk Management survey shows 40% of businesses are unprepared to deal with a major reputational crisis*

Nothing feeds the news cycle like a company scandal, and with social media and citizen reporting on the rise, serious blows to a company’s reputation and market value can spread in nano-seconds. The likes of BP, Goldman Sachs, Toyota, Nestle, Domino’s Pizza, and locally and more recently Eskom, Capitec, KFC, the Estate Agency Affairs Board and Lonmin are among a host of brands that have taken a reputational hammering in the court of public opinion.

While the precise impact of these reputational crises in terms of lost profit and revenue are difficult to quantify, there is no denying that these brands have all suffered varying degrees of quantifiable financial loss, and face the onerous task of rebuilding the reputations that in many instances have taken decades to establish.

In view of such headline-grabbing incidents, it is not surprising that damage to reputation /brand has emerged as the #1 risk facing companies worldwide according to [Aon Risk Solutions](http://www.aon.co.za), the global risk management business of Aon plc (NYSE: AON). Aon unveiled the top risks as identified by CEOs, CFOs and Risk Managers in its [2015 Global Risk Management Survey](http://www.aon.com/forms/2015/2015-global-risk-management-survey.jsp), providing comparative insight into different perceptions of risk.

“Reputation is the sum of many intangible parts, among them a good public image, a reputation for honesty, quality products and services, good management, and social responsibility. In recent years, with the rapid development of media technology and heightened awareness of multiculturalism, there has been a dramatic increase in the number of ways a company’s reputation can be damaged. However, the tools and levels of effort business leaders use to manage their reputations are lagging, heightening such risk,” explains Terence Williams, CEO of Aon South Africa, risk advisors and insurance brokerage.

Reputation, which is often categorised as an intangible asset, is becoming increasingly pricey, exerting a direct impact on the company’s bottom line. In 2014, a long list of well-known companies saw their reputations tarnished by unexpected incidents—product recalls, data breaches, offensive language on apparel and in customer communication, fraud investigations, money laundering charges, airline crashes, inappropriate remarks or behaviour by company executives and supply chain disruptions according to the Aon report.

**When employee opinions and behaviour impact corporate brands**

Employees sharing controversial opinions on social media channels are increasingly putting employer brands in the spotlight. But social media isn’t the only place where inappropriate remarks can wreak havoc. Company executives sharing inappropriate personal views that are damaging to brands in press interviews can also wreak havoc. Who can forget the vaseline remarks made by Macintosh Polela in the Jub Jub murder trial. The ill-conceived tweet about prison rape from the spokesperson for the police unit and subsequently poorly handled media responses caused a public outrage. It cost Polela his job and reputation and left the Hawks credibility in tatters. Opinions can quickly escalate out of control and tarnish a brand reputationally and financially. Besides the cost to repair the damage and manage the crisis, there’s the possibility of legal action from aggrieved parties too.

**Is reputation insurable?**

Recent major debacles have shown that many brands are being reactive rather than proactive in the reputational risk strategies, and this is certainly echoed in the findings of a recent Deloitte Touche Tohmatsu survey which polled 300 executives in the world. Only 19 percent would award their companies an “A” grade for their capabilities for protecting against and responding to reputation risks. About 39 percent rated the maturity of their reputation risk-management programs as either average or below average.

“It’s one of the reasons why although cover is available, insurers have become very stringent in their requirements for coverage. The bottom line is insurers expect clients to have proper plans and resources in place first and foremost. The reality is that while insurance can cover the immediate costs of resourcing the response and crisis management campaign, some even subsequent legal defence costs, can you really quantify the value, current and in the future, of lost clientele, patronage and respect from public, shareholders and the media?” asks Terence.

Mitigating the risks to reputation is a multi-layered process that involves a no-holds barred analysis of exactly where liability can lie. Clear cut policies and processes need to be in force for every aspect of the business and countless governance measures need to be considered.

Companies can also mitigate some of the risk through reputational risk insurance, a policy that typically covers the resources needed such as PR and crisis communications specialists, resourcing social media responses, legal fees, research and overall crisis campaign costs. Some policies even cover financial loss caused by a reputational crisis that harms the company bottom line - the challenge lies in quantifying that loss.

But before an insurer will consider such cover, the company needs to have a clear process and policy in place for handling reputational risk and pre-empting every conceivable scenario. Here clearly defined policies, processes and follow-up protocols to ensure that good governance reigns supreme are critical. The bottom line is, if the C-suite have not given due consideration to their reputational exposures and put plans in place to mitigate such risk, getting coverage becomes challenging.

**Who is at risk?**

In some instances, the damage may be temporary and although profits may take a hit, they eventually return to profitably with some incredibly hard and costly lessons learned. These are the lucky ones. For others, the damage may be so severe that attempts at a comeback are extremely difficult or even out of reach. Naturally, the risk to reputation and brand poses a major concern for organisations that attract greater media and public scrutiny due to their size and wider name recognition. But its impact for smaller businesses should not be underestimated. A major cyber breach at a data processing house that compromises a client’s sensitive data could have catastrophic financial and legal implications. It could be as easy as an employee copying files to memory stick for selling to unscrupulous data providers.

“A comprehensive reputation risk-control strategy is critical to an organisation’s bottom line and its ability to rebound from a hit to its reputation, but few are implementing measures to avert such a crisis. In an age of 24-hour news cycles and instant social media, crises could spread globally within hours or minutes. The response to reputational crises must be swift and on point. In addition, globalisation means that multiple culturally appropriate approaches to managing risk are needed to handle crises across an organisation’s global operations. Meticulous planning for crises, a thorough understanding of individual roles and responsibilities, and development of a road map are the keys to protecting a brand,” says Terence.

Managing reputational expectations is all about good governance, operations and risk management that is supported by operational realities. Companies need to treat damage to their reputations as understandable and even predictable challenges that one should expect in today’s business environment.

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