

# **GUARD AGAINST**

# REPUTATIONAL **DAMAGE**

How to handle risks that can  
jeopardize the brand

**BUSINESS INSURANCE**  
WHITE PAPER

INTRODUCTION

**A** company’s reputation is one of the most — if not the most — important assets it possesses. Consequently, reputational damage can have a dramatic effect on a company’s value, perhaps threatening its very survival, which makes the proper response to reputation-threatening events critical.

At the same time, the risks to reputation are bigger than ever, with social media and Web-based communications allowing reputation-threatening information to spread worldwide at the speed of a tweet before a response can be launched.

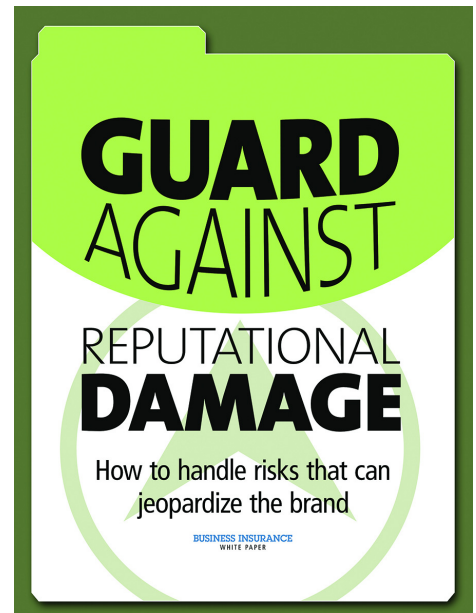
Companies’ reputations and brands always have faced threats, but the stakes have been raised in recent years. They were ratcheted up first in the 1980s with the advent of cable news and the 24-hour news cycle. The risks were ramped up further in the 1990s with the World Wide Web, and more recently with the rise of Twitter, YouTube, Facebook and other social media networks.

In today’s environment, reputation damage can be particularly severe when the source of the crisis, or the organization’s response to it, runs counter to the public image it cultivated beforehand.

Since serious reputational damage can jeopardize the viability of a business, it’s not surprising the exposure is moving up among executives’ top risk concerns — and that organizations that recognize the effect reputational damage can have are looking for ways to address that exposure.

Worth considering, too, is that the flip side of risk is opportunity, and organizations that do the right things in addressing reputation-threatening events actually might enhance their reputations.

This *Business Insurance* white paper examines the nature of reputational risks, steps organizations can take to mitigate them and effective responses to reputation-threatening events.



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CHAPTER 2

# The effect of social media

BEWARE THE DOUBLE-EDGED SWORD OF ONLINE COMMUNICATIONS

**S**ocial media can be a valuable tool in companies' brand and marketing strategies. And given its effect on the speed and delivery of news and information, engagement in social media has become a necessary element of corporate risk management strategies.

Reputational crises are increasingly born on social networking platforms, and their scope can grow rapidly if they're not adequately and consistently addressed. Organizations that ignore social media or use the platforms inappropriately do so at their peril.

What's more, companies that fail to actively engage social media users in conversations regarding a particular crisis event or general discussions of their business practices rob themselves of the chance to add context and clarity to those discussions. Social media is a vehicle through which an organization can tell its side of the story, presenting facts quickly to a large audience.

A constant reputational danger to companies in the social media era is the speed with which messages — either mistaken or deliberately fraudulent — can spread.

To address such an exposure, companies need to engage with social media, monitor the media for troublesome messages and, when trouble does arise, respond swiftly and deliberately via the same social media channels.

Some experts suggest that social media should even enter organizations' business continuity thinking in much the same fashion as natural catastrophes, with crisis management plans in place so they can move instantly in the face of a reputation threat, knowing the steps they'll take and who will be responsible for taking them.

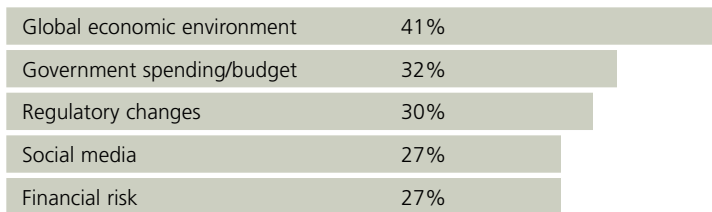
## RESPONDING IN KIND

Companies such as insurer FM Global, Domino's Pizza Inc. and FedEx Corp. all have had to address reputational threats of various sorts that emerged on social media in recent years.

In October 2011, FM Global grew concerned about the risk of a reputation threat over possible

## TOP 5 SOURCES OF RISK

Which of the following risk sources will be the most important over the next three years?



Note: Respondents could select more than one answer.

Source: Deloitte L.L.P. and Forbes Insights

name confusion during derivatives brokerage MF Global Holdings Ltd.'s financial collapse.

When MF Global announced its bankruptcy, the company's public relations team began to notice that the more stories that were written about MF Global, the more innocent mistakes were being made in transposing the M and F.

The reputation risk accelerated in December of that year when, during a U.S. House Agriculture Committee hearing on the MF Global collapse, Rep. Frank Lucas, R-Okla., the committee chairman, mistakenly — and repeatedly — referred to the failed company as FM Global.

Before long, FM Global was one of the top 10 trending topics on Twitter. To combat the threat, the insurer's public relations team responded to the errors on Twitter or in blogs or other social media, reaching out to anyone mistakenly associating their company's name with that of the failed financial firm. They made a point of approaching those communications with a sense of humanness, acknowledging awareness that the mistake was an innocent one.

Ann Arbor, Mich.-based Domino's Pizza faced a social media reputation threat with a less innocent origin in April 2009 when two employees of a Conover, N.C., Domino's created a video of one of them engaging in various unsanitary acts with food items they claimed were being sent out to customers. They posted the video on YouTube, the video went viral, and Domino's suddenly faced a serious reputational risk threat.

CHAPTER 5

# Measuring corporate reputation

VARIED METHODS ATTEMPT TO TAKE THE PULSE OF PUBLIC PERCEPTION

There are a variety of approaches used in measuring reputation. The most common ones used by media outlets establish reputation by ranking attributes.

One example is Fortune’s annual World’s Most Admired Companies ranking.

Fortune 500 and Fortune 1000 reputation measures are probably the best-known rankings of reputation. In its annual survey of CEOs and analysts, Fortune asks respondents to rate a company based on eight reputational attributes: financial soundness, long-term investment value, use of corporate assets, innovativeness, quality of company’s management, quality of products and services, ability to develop and keep talent and acknowledgement of social responsibility.

Another example is the Financial Times World’s Most Respected Companies. This ranking asks CEOs

about their perception of peer companies using eight different attributes: strong and well-thought-out strategy, maximizing customer satisfaction and loyalty, business leadership, quality of products and services, strong and consistent profit performance, robust and human corporate culture, successful change management and globalization of business.

The most common criticism of such ranking measures is that they only survey CEOs — or CEOs and financial analysts — and that these types of stakeholders tend to focus evaluations on financial performance and little else. In addition, these measures do not include other important stakeholders such as employees, suppliers, clients, business associates/business partners and others.

## BRAND EQUITY MEASUREMENTS

Brand equity scales were developed by marketing

## MORE INFORMATION, LESS INTELLIGENCE?

How the news media and Web-based information affect the public’s perception of companies

	Strongly agree	Somewhat agree	Neither	Somewhat disagree	Strongly disagree
1. With hundreds of news outlets available worldwide, I feel like I have more access to information about corporations than ever before.	17%	46%	23%	11%	4%
2. It is much easier to learn about a company’s actions today, even if major news organizations aren’t reporting about them.	10%	44%	28%	12%	6%
3. Corporations are required to act more responsibly today because the public has increased access to information about their actions.	12%	36%	25%	19%	7%
4. The amount of information available about corporations is so overwhelming and confusing, I don’t feel any more knowledgeable about them than I have in the past.	9%	28%	34%	22%	8%

Source: Hill+Knowlton Strategies national public opinion poll of 1,012 registered voters, Jan. 25-30, 2012