The Institute of Internal Auditors

TONE at the TOP®

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Providing senior management, boards of directors, and audit committees with concise information on governance-related topics.

REPUTATION Rx: WHAT TO DO WHEN IT'S YOU

Warren Buffett says it takes 20 years to build a reputation and five minutes to ruin it. And with reputation accounting for 60 percent of brand value, according to a global survey by Weber Shandwick, how an organization manages reputation risk can mean the difference between a short-term setback and permanent brand damage.

"When something bad happens, whether you're a victim or you're at fault, your reputation is based on two pieces: What you do, and what you say," says Charlie McDonald, corporate crisis management practice leader for Strategic Crisis Advisors.

Doing the right thing is critical. But communication also is key. Too often, an organization will do the right thing, only to compound reputation damage by failing to communicate clearly with stakeholders, investors, and the public.

Anticipate

Reputation risk management begins long before the first hint of a crisis. Many individuals struggle in the heat of battle, and when a crisis hits, the organization that fares best is the one that enters the fray with a plan in place.

Howard Bragman, vice chairman of Reputation.com and founder and chairman of Fifteen Minutes PR, says a well-prepared senior management team and board of directors should be able to answer these questions:

1. What are the scenarios that have the most potential to harm our reputation?
2. What is the organization doing to mitigate these risks now?
3. What is our early warning system to ensure management gets the information it needs when a scenario occurs?

Mitigate

A good offense can be a good defense, and an organization can take steps to reduce its exposure to reputation damage.

"If the first thing we hear from a company is its response to a crisis, it's not going to turn out well," Bragman says. "Companies need to proactively build their reputation and solidify stakeholder relationships way before a crisis hits."

Boards and internal auditors need to push management to have specific, broad, and deep monitoring and listening capabilities in place, Bragman says.

Training exercises often identify potential exposures, allowing the organization to mitigate a potential threat before it is realized. That's why vigilance is key.

"You have to have your threat antenna up," McDonald says.

Respond

Bad things are going to happen, no matter how much an organization prepares. In most cases, however, the public and the media are going to judge an organization on its actions both during and after an incident, and not necessarily on the occurrence of the incident itself.

A rapid response can mean the difference between a footnote in an annual report or a lead story on the national news. McDonald recommends a multi-step communications process in which senior management quickly acknowledges the problem, accepts responsibility for a resolution, declares that it is gathering the facts, and then follows up with regular progress reports.

That said, Bragman warns against reacting too quickly.

"Letting the short-term view outweigh the long term in your response will always tend to make the crisis bigger than it needs to be," he says. "Be responsive, but gather all the facts before answering key questions."

There can be a natural tendency to overreact in the heat of the moment. Premature actions based on incomplete information can complicate or escalate problems. The optimal path is a rapid and reasoned response.

Communicate

"When something bad happens, the first thing you have to do is take care of the problem," McDonald says. "You have to do the right thing. And then you have to communicate well. "

His three keys to communication success are:

- Tell the truth.
- Paint a vision.
- Accept responsibility.

Poor communication can damage an organization's reputation more than the crisis itself. McDonald sees it all the time: "The CEO comes in too late, with all the wrong messages. They don't tell the truth. And that's what ruins their reputation."

Plan Elements

A good reputation crisis management plan is incident-agnostic. It's crucial to establish a process by which the organization can quickly evaluate threat information, determine an appropriate response, engage response teams, and establish command and control across the entire senior executive staff.

Communication — internal and external — is key.

A crisis plan should involve three teams, McDonald says, with a small, strategic-oversight team calling the shots; a crisis action team collecting and validating the data and metrics required to make decisions; and an operational team to carry out the tasks.

The plan should address key functional elements, including:

- People – from both an incident response and well-being perspective.
- IT – security, data recovery, continuity, access.

- Business recovery – who, what, when, where, and how, continuity of supply chain.
- Communication – internal/external, continuity, chain of command, messaging, objectives.
- Facilities – safety, security, alternate location.

Each tier and functional group needs to be well-versed in its role, so that valuable time won't be lost on duplicative efforts or role clarification.

"A strong, well-developed plan and, more importantly, the annual training exercise, makes you more nimble in getting set up and establishing control," McDonald says.

Good to Know

Here are some questions McDonald says that directors and audit committees should be asking of senior management and internal auditors to ensure that the organization is watching for and preparing to respond to reputation risks:

1. Do we have a centralized threat-identification process, and do we have a strong level of awareness across the organization about how to report a threat?
2. Do we have an efficient and effective way to very quickly contact and engage senior executives 24/7/365?
3. Do all executives in the organization have a checklist of the key things they need to be doing immediately in a crisis?
4. Do we have a process to execute?

Quick Poll Question

How prepared is your organization to respond to a reputation crisis?

Visit www.theiia.org/goto/quickpoll to answer the question and see how others are responding.

Top Reputation Risks

Recently, *Risk Management* magazine developed a list of the top reputation risks for 2015. While the list includes the kinds of scenarios that can make even the most experienced executives shudder, the good news is that most of these can be managed.

Excerpted here from the magazine's January edition, *The New Reputation Risks: What You Need to Know for 2015* identifies primarily social media, human resources, and data-security issues.

1. CEO and top leadership gaffes.
2. Social media-fueled crises reflecting public opinion on those gaffes.
3. Grassroots criticism of corporate behavior will focus on issues related to diversity and sexual harassment.
4. Internet-related security.
5. Internet-related company policies.
6. Brand boycotts.

Source: rmmagazine.com

Good social media policies and training, strong human resources support, and a vigorous and vigilant cybersecurity program can help mitigate most of the risks on the list, which provides some degree of comfort.

However, organizations also must be attuned to reputation risks out of their control. Deloitte's 2014 Global Survey on Reputation Risk notes that, "The growing reliance on third-party supply partners and vendors means that a company's reputation often hinges on actions far beyond its direct control."

One way to mitigate reputation risks is to incorporate "risk sensing" processes, such as text analytics and big data monitoring, into daily operations that can provide early warnings to problems.

The Deloitte report concludes: "Although no company can ever be 100 percent safe, by factoring reputation risk into your business strategy and investing in the right capabilities, you can dramatically reduce your downside risk and clear a path for continued growth and success."

About The IIA

The Institute of Internal Auditors Inc. (IIA) is a global professional association with 180,000 members in more than 170 countries and territories. The IIA serves as the internal audit profession's chief advocate, international standard-setter, and principal researcher and educator. www.globaliia.org

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Quick Poll Results:

How strongly would you agree or disagree that tactful skepticism is practiced by your board and executive management?

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
7%	25%	19%	38%	12%

Based on 251 respondents. Source: The Institute of Internal Auditors' Tone at the Top January/February 2015 survey. Total may not equal 100% due to rounding.