

**Deloitte.**

2014 global survey  
on reputation risk  
**Reputation@Risk**

October 2014



“We don’t see reputation risk management as having a start date and end date.”

— Vivek Karve, chief financial officer, Marico

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# 1. Executive summary

What is your company's reputation worth? According to a study by the World Economic Forum, on average more than 25 percent of a company's market value is directly attributable to its reputation<sup>1</sup>. And in a highly connected world where customers, operations, supply chains, and internal and external stakeholders are scattered across the planet — and where reputations can be globally attacked with just a few keystrokes — that number is likely even higher today. In fact, if the executives who participated in our study on reputation risk are right, a company's reputation should be managed like a priceless asset and protected as if it's a matter of life and death, because from a business and career perspective, that's exactly what it is.

Here are examples of ways in which reputations can be tarnished:

Executives in financial services firms are forced to resign after their employees were caught manipulating markets or making reckless trades...

Leading retailers take big reputation hits and sales plummet after losing large amounts of customer and credit card data to cyberattacks...

Leading technology firms are blasted by the public and media for poor working conditions at their suppliers' factories...

News websites have readers redirected to fake news, damaging their credibility — and the credibility of online news in general...

In many cases, problems such as these can be prevented or contained if the organization actively manages reputation risk. But how?

In our 2013 global executive survey on strategic risk, we found that reputation damage was the No. 1 risk concern for business executives around the world. To dig deeper into what organizations around the world are doing to get in front of this critical issue, this year's survey hones in on the *what, why, and how* of reputation risk. For 2014, Forbes Insights, on behalf of Deloitte Touche Tohmatsu Limited, conducted an in-depth, global reputation risk survey of more than 300 executives from companies representing every major industry and geographic region.

## Here's what we found:

**Reputation risk is still a strategic business issue.** Eighty-seven percent of the executives we surveyed rate reputation risk as "more important" or "much more important," and 88 percent say they are explicitly focusing on reputation risk as a key business challenge. A reputation risk that is not properly managed can quickly escalate into a major strategic crisis.

**Responsibility for reputation risk resides with the board and C-Suite.** According to the companies who participated in our survey, responsibility for reputation risk resides at the highest levels of the organization, with the chief executive officer (36 percent), chief risk officer (21 percent), board of directors (14 percent), or chief financial officer (11 percent).

**Reputation risk is driven by a wide range of other business risks that must all be actively managed.** Topping the list are risks related to ethics and integrity, such as fraud, bribery, and corruption. Next come security risks, including both physical and cyber breaches — followed closely by product and service risks, such as those related to safety, health, and the environment. Third-party relationships are another rapidly emerging risk area, with companies increasingly being held accountable for the actions of their suppliers and vendors.

<sup>1</sup> World Economic Forum, 2012.

**Customers are the most important stakeholders for managing reputation risk.** Other key stakeholders include regulators, senior executives, employees, and investors. But in a world increasingly influenced by social media and instant global communications, managing customer expectations and perceptions is critical to success.

**Companies are least confident when it comes to risks that are beyond their direct control.** Such risks include third-party ethics, competitive attacks, and hazard or other catastrophes. Companies are most confident about managing reputation risk drivers for which they have direct control, such as risks related to regulatory compliance, employee and executive misconduct.

**Reputation problems have the biggest impact on revenue and brand value.** Respondents who had previously experienced a negative reputation event say the biggest impact areas were revenue (41 percent), loss of brand value (41 percent), followed by regulatory investigations (37 percent).

**Companies are investing to improve their capabilities for managing reputation risk.** More than half of the surveyed companies say they plan to address reputation risk by investing in technology such as analytical and brand monitoring tools. Crisis management and scenario planning are two other areas with significant room for improvement.

Ironically, it appears that companies may be both overconfident and underconfident when it comes to reputation risk. On the positive side, more than 76 percent of companies believe their reputation is better than average — a statistical anomaly that suggests companies might be overly optimistic about their current situation. On the contrary, 39 percent rate the maturity of their reputation risk programs as “average” or “below average” and only 19 percent give themselves an “A” grade for their capabilities at managing reputation risk. These figures suggest many companies might not be fully aware of their exposure to reputation risk.

To shed more light on the subject, we supplemented our quantitative survey results with in-depth interviews of executives from around the world, who shared their personal experiences and provided detailed insights and leading practices for managing reputation risk. This report uses quotes from those interviews to help tell the story and bring the numeric survey data to life, offering a first-hand perspective on what organizations can do to protect and improve their reputations.

The findings in this report are based on a global survey of more than 300 respondents from the Americas (34 percent), Europe/Middle East/Africa (EMEA) (33 percent), and Asia Pacific (33 percent). Nearly all respondents were C-Level executives (126), board members (13), or specialized risk executives (169). Surveyed companies came from all five major industry sectors (financial services (FS), consumer/industrial products (C&IP), technology/media/telecommunications (TMT), life sciences/health care (LS&HC), and energy/resources (E&R)).

Additional detailed insights were obtained from personal interviews with executives from eight leading companies, with a balanced mix of representation from major industries and global regions. For more information, visit [www.deloitte.com/reputationrisksurvey](http://www.deloitte.com/reputationrisksurvey).

# 2. Reputation risk is the top strategic business risk

Eighty-seven percent of the executives we surveyed rate reputation risk as more important or much more important than other strategic risks their companies are facing.

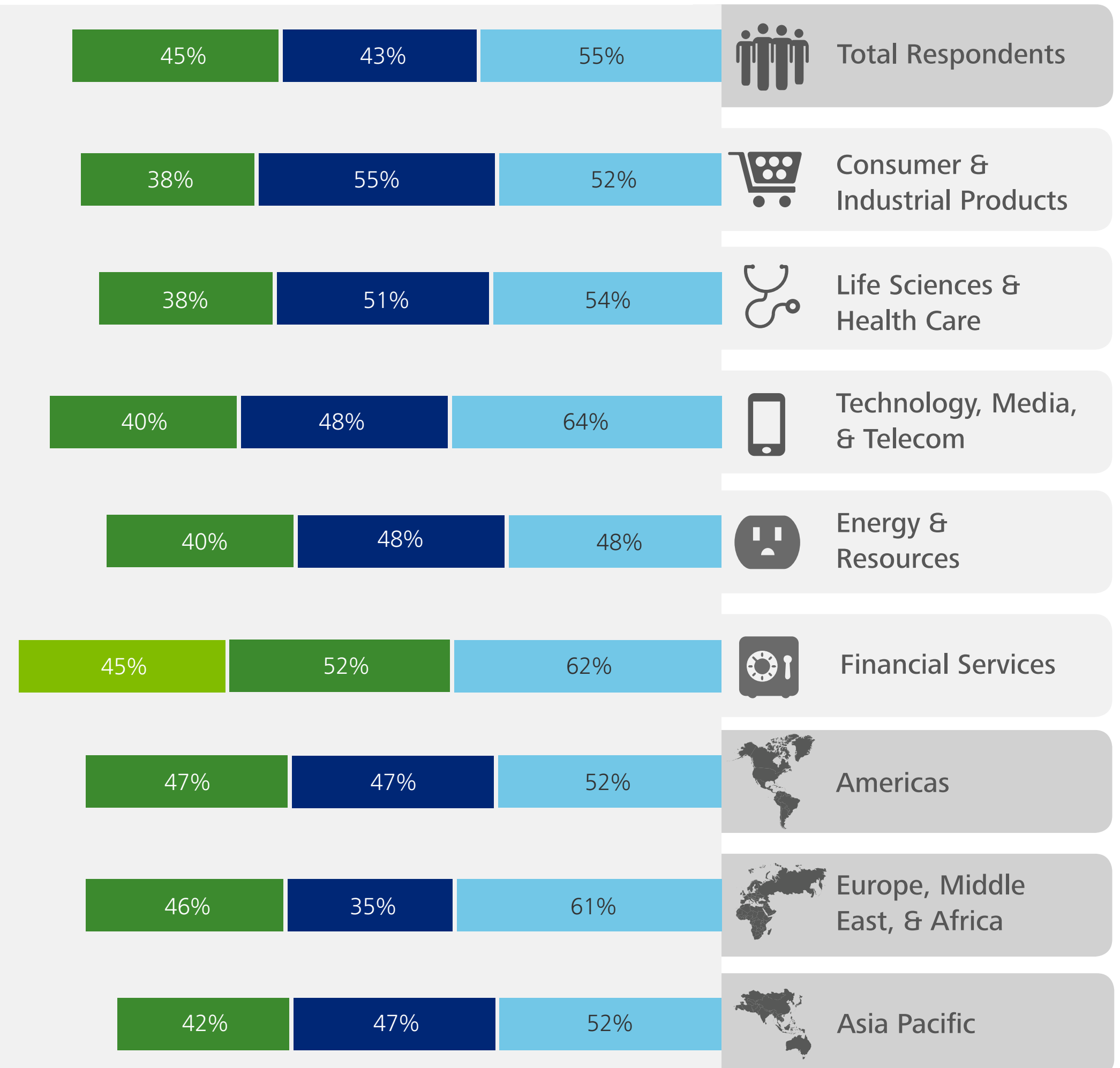
In addition, 88 percent say their companies are explicitly focusing on managing reputation risk.

**87%**  
of executives rate reputation risk as more important than other strategic risks



- Ethics/Integrity (fraud, bribery, corruption)
- Product/Services (product safety or services issue, health/environmental, controversial products)
- Security (physical and/or cyber)
- Financial (reporting/accounting issue, credit rating)

Top three reputation risk drivers of concern†

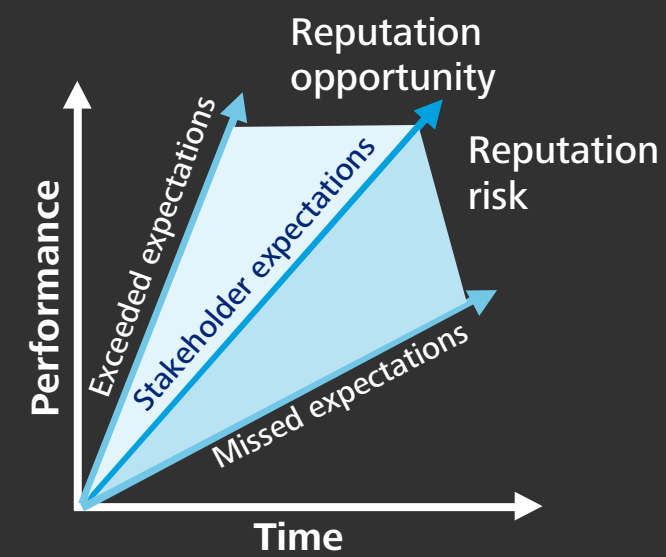


† Respondents could choose more than one answer; the top three are shown above.

## Reputation risk: Expectations vs. performance

Reputation risk is created when performance does not match expectations. Ultimately, how a company manages the expectations and performance related to its reputation determines whether value is created or destroyed.

### Reputation risk or opportunity?



### Here are key elements that shape reputation risk.

**Setting expectations.** Stakeholder expectations are established based on:

- *Company history*
  - Backward-looking
  - Company track record and performance
- *Company strategy*
  - Forward-looking
  - Established by the company
  - Communicated to the public

**Measuring performance.** Perceived performance is driven by:

- *Actual performance:* Reputation is mostly (but not entirely) determined by what a company does, not what it says.
- *Communication:* Effective communication with stakeholders and the media can help shape opinions and reputations.

**Reputation impact.** An event's effect on reputation can be positive or negative:

- *Reputation opportunity.* The company exceeds expectations and its reputation is enhanced.
- *Reputation risk.* The company falls short of expectations and its reputation is damaged.

“Who decides what your reputation is?” asks Reto J. Kohler, managing director and head of strategy for Investment Banking at Barclays, a leading global financial services firm. “When you operate in a legal environment you know what the law is, you know what your boundaries are. However, in this area of reputation risk, it’s not as clearly defined which makes it very difficult. One person’s morals are different from another’s, and one might object to something you do, whereas the other might not. So it’s much more complex to deal with — and more difficult to foresee what’s going to happen.”

“News travels very fast,” says Enrique Alanis, chief risk officer for CEMEX, a prominent building materials company in Mexico. “Bad news in Nicaragua is going to be known in the U.S. and in Mexico, as well as in Europe. And because we are a global player, we have to manage our brand.”

According to Clayton Herbert, group chief risk officer for Suncorp Limited, a top insurance and financial services firm in Australia, “There’s been a recognition that with the increasing influence of social media and social media sites, as well as activist sites, issues can escalate very quickly. This can threaten your reputation more significantly than in the past. As a result, there’s more sensitivity to reputation risk in the context of those types of social developments and technology developments over the last five years.”

For many companies, reputation risk is increasingly being factored into business strategy. “We formally set the risk appetite annually, and that’s tied into our strategic planning cycle and process,” says Suncorp’s Herbert. “It sets the boundaries within which strategies are built.”

“We always thought about scenario planning in terms of reputation,” says Barclays’ Kohler. “We also always did a transaction review but now we have enhanced the process considerably. Now our risk framework quite explicitly demands evidence that when we’re thinking about a new strategy or whatever it may be, that conduct and reputation risk be taken into account.”

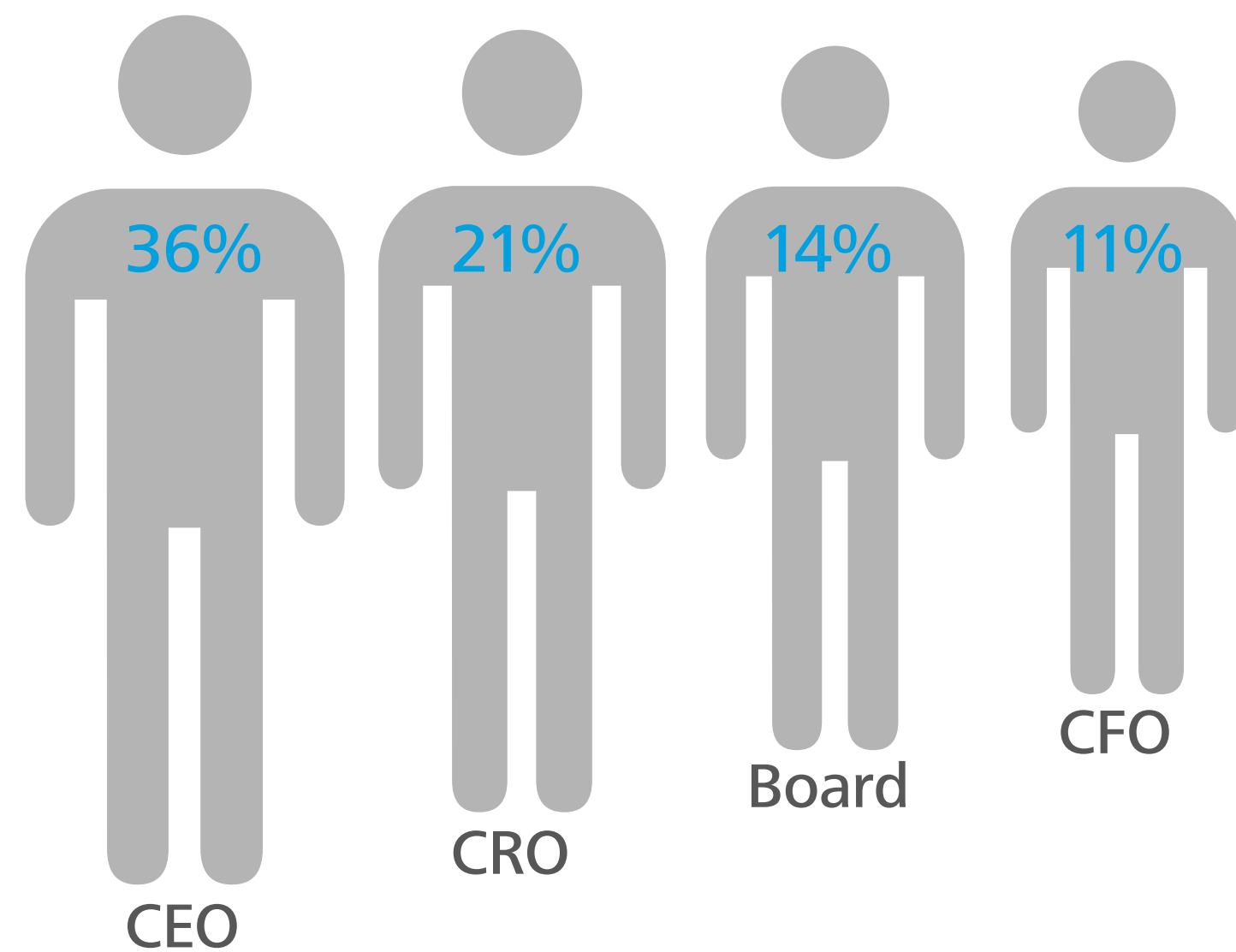
“For any company, managing reputation risk is critical,” says Vivek Karve, chief financial officer for Marico, a leading consumer products manufacturer in India. “Managing reputation risk is a journey of learning and we would want to manage this risk more proactively as we look at the future.”

From an industry perspective, financial services and technology companies are leading the way in recognizing the importance of reputation risk, which is not surprising given the amount of attention that has been focused on issues such as the financial downturn and cyberattacks in recent years. From a regional perspective, companies in EMEA and Asia Pacific seem to be more focused on managing reputation risk than companies are in the Americas.

# 3. Reputation risk is a board and C-Suite issue

According to the companies who participated in our survey, responsibility for reputation risk resides at the highest levels of the organization, with the chief executive officer (36 percent), chief risk officer (21 percent), board of directors (14 percent), or chief financial officer (11 percent).

## Primary responsibility for reputation risk



At German software company SAP, reputation risk is managed through a coordinated effort that starts at the top. According to Miriam Kraus, SAP’s senior vice president of Global Governance, Risk, and Compliance, “The global managing board together with the senior leadership team is responsible for managing reputation risks in close collaboration and with support of our Global Governance, Risk, and Compliance organization, corporate audit function, global corporate affairs, as well as investor relations and marketing.”

CEMEX uses a different governance structure. “Instead of only having a specific reputation risk committee,” says the company’s Alanis; “We present all relevant risks to the corporate practices committee, the executive committee and top management within the company.”

“One thing we always appreciate is time from the executive committee [or CEO] in discussing these issues,” adds Alanis. “They invest a fair bit of time, but with the speedy news cycle we need to react more quickly.”

At Barclays, “we call it conduct risk, which is part of reputation,” says the company’s Head of Strategy Kohler. “Traditionally, a bank monitored credit risk and market risk. But now conduct risk is key and that is [handled] at the CEO level. Even though it’s managed through the compliance department, the CEO is involved and it is a big focus.”

“We don’t have one executive responsible for managing reputation risk,” says Marico’s Karve. “Rather, the heads of each business and function undertake this responsibility. The Board and the audit committee have an effective oversight on the risk management process of the Company.”

“I’m the Chief Risk Officer (CRO) and Reputation and Crisis Leader of the Deloitte U.S. Member Firm, and I report to our CEO,” says Chuck Saia, Chief Risk Officer for Deloitte LLP in the United States. “That’s where strategic risk and brand resiliency is positioned in our firm, rightfully positioned as a best practice. A more defined and strategic CRO role was first embraced in the financial sector in light of the financial crisis. Since then, it has rapidly spread to other sectors as it continues to evolve and expand. In the past, CRO’s main focus was on traditional Enterprise Risk Management models (e.g., information security issues, business continuity, etc.). The role has now shifted to focus on the top and emerging risks that directly and strategically impact business strategies (e.g., risk/reward, how much capital to put behind products, and how much risk to take on for a particular financial instrument).” He added: “Today’s CRO’s are shifting their focus from traditional operational risk to more strategic risks, including brand and reputation risk. In some instances, organizations have sought it prudent to combine both the CRO and strategy functions for a more effective and nimble structure. This trend is likely to accelerate as more business leaders understand that while the compliance function is a routine undertaking, the risk function needs to be more strategic with an eye towards identifying and managing risk to adjust an organization’s business strategies.”

# 4. Reputation risk is driven by other business risks

**T**opping the list of underlying risks that drive reputation risk are those related to ethics and integrity, such as fraud, bribery, and corruption. Next come security risks, including both physical and cyber breaches, followed closely by product and service risks, such as risks related to safety, health, and the environment. Third-party relationships are another rapidly emerging risk area, with companies increasingly being held accountable for the actions of their suppliers and vendors.

According to the survey, the top three drivers of reputation risk today are the same as the top drivers identified by companies that experienced a major reputation risk event in the past. And those same drivers are expected to remain at the top of the list for at least the next three years.

At MTN, “We’ve identified 23 principal risks for the organization, to cover both levels: strategic and operational,” says Mohamed Basson, general manager for MTN, a mobile telecommunications company in South Africa. “We look at these 23 principal risks across the MTN footprint and any impact in terms of reputation which is of paramount importance. We’re not managing reputation risk in a silo [or as a secondary risk]. We view it as actually elevated. Reputation is key as an element of all 23 principal risks. It’s not the other way around.”

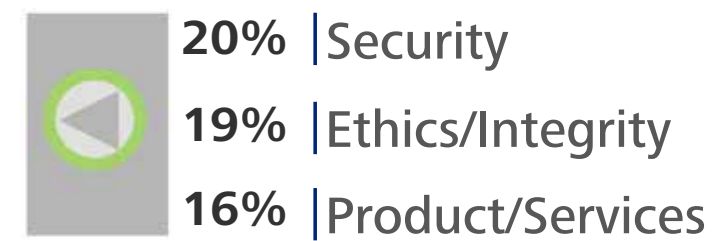
“I view reputation risk as a consequence of another tier-one risk occurring,” says Arya Yarpezeshkan, CRO for the Navigators Group, an insurance company in the United States that specializes in transportation. “For example, if we have a compliance or fraud risk event, that could lead to reputation damage and have a stock market impact. An event occurs which poses a risk to reputation. Therefore, I look at [reputation risk] as a result of other events.”

“Some aspects of how any business is conducted can be slow killers,” says Marico’s Karve. “For example, quality is central to our business. If that is compromised, then over a period of time it will negatively impact reputation. Also, over the past few years consumer activism in India has been on the rise. This has brought some previously benign risks to the fore and sharpened our sensitivity and awareness. Inability to deliver quality goods to consumers is one of our top reputation risks. Marico has invested significantly in ensuring that top quality products are delivered to its consumers. Another reputation risk is if the company faces regulatory action due to noncompliance of statutory provisions. Marico strives to attain and maintain highest compliance standards at its work places. Third risk is the inability to deliver on promise made to investors. For investors, reputation of a company is critical, and how they value a company often takes that into account. We have installed robust performance management and tracking systems to ensure that we keep growing in a consistent manner. Marico also follows highest standards of disclosures so that the investors and shareholders can clearly comprehend the operating and financial performance of Marico and its strategy.”

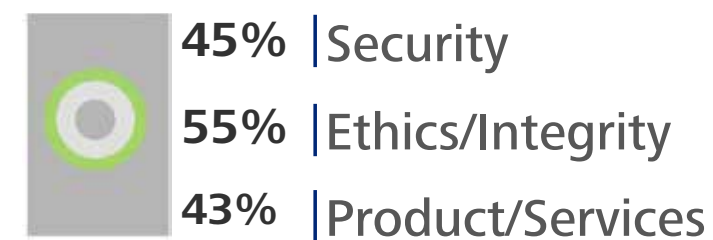
SAP’s Kraus has a similar perspective. “Usually, reputation risks result from other risks. For example, noncompliance with applicable laws and regulations, misconduct of senior management, failure to adequately meet our customer’s expectations and contractual requirements. All of these could lead to civil liabilities and fines, as well as loss of customers and damage to the reputation and brand value of SAP, to just mention a few.”

## Top three drivers of reputation risk: past, present, and future<sup>†</sup>

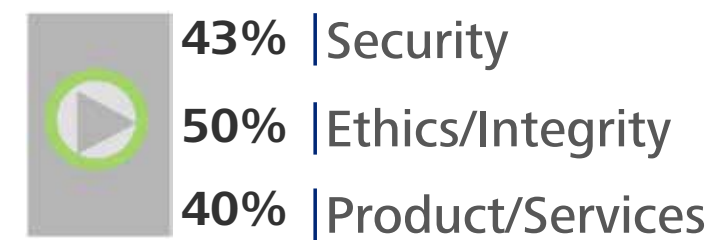
### Yesterday



### Today



### Tomorrow



<sup>†</sup>Respondents could choose more than one answer; the top three are shown above.



**A company's reputation is affected by its business decisions and performance across a wide range of areas.**

**Financial performance.** Shareholders, investors, lenders, and many other stakeholders consider financial performance when assessing a firm's reputation.

**Quality.** An organization's willingness to adhere to quality standards goes a long way to enhancing its reputation. Product defects and recalls have an adverse impact.

**Innovation.** Firms that differentiate themselves from their competitors through innovative processes and unique/niche products tend to have strong name recognition and high reputation value.

**Ethics and integrity.** Firms with strong ethical policies are more trustworthy in the eyes of stakeholders.

**Crisis response.** Stakeholders keep a close eye on how a company responds to difficult situations. Any action during a crisis can ultimately affect the company's reputation.

**Safety.** Strong safety policies affirm that safety and risk management are top strategic priorities for the company, building trust, and value creation.

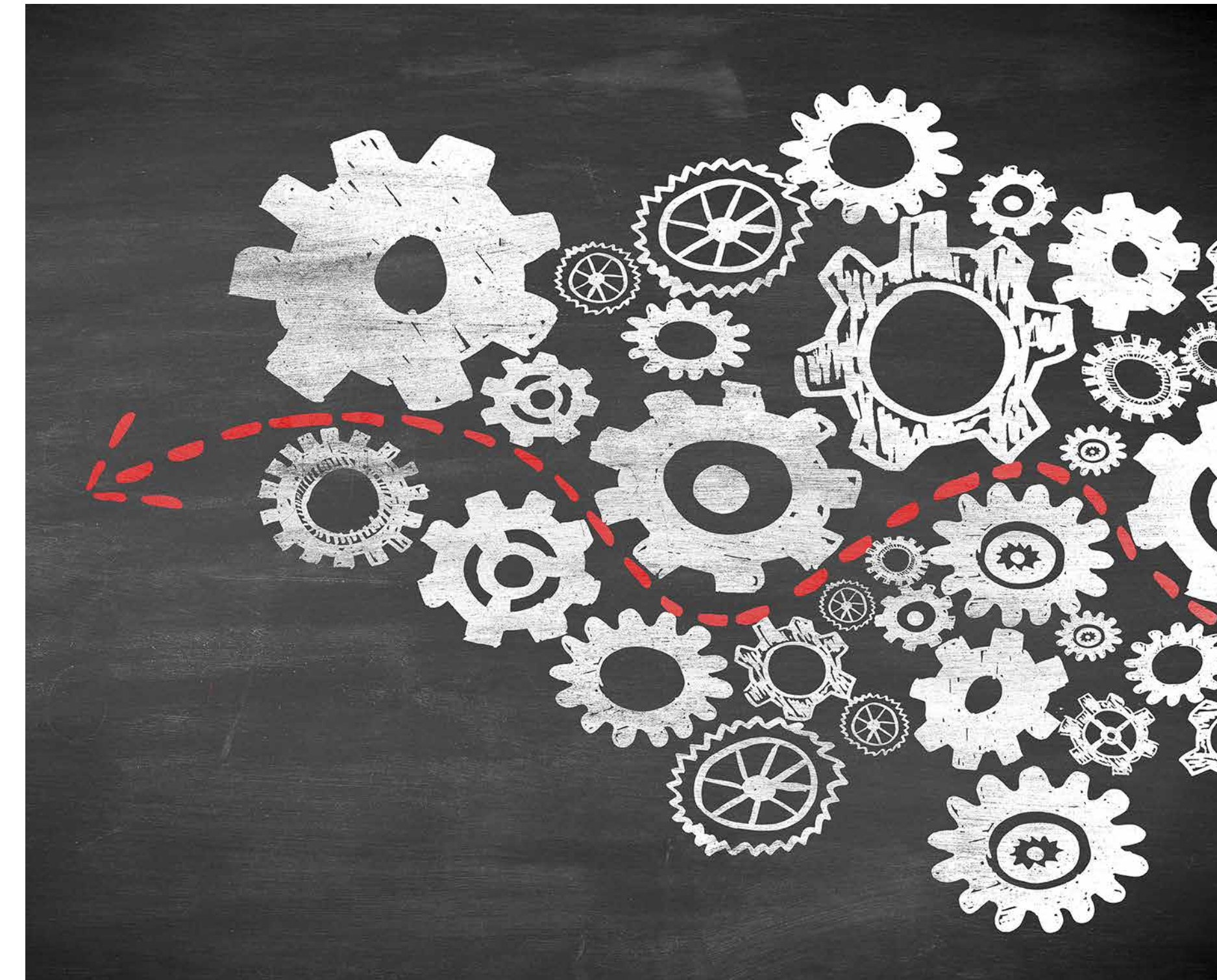
**Corporate social responsibility.** Actively promoting sound environmental management and social responsibility programs helps create a reputation "safety net" that reduces risk.

**Security.** Strong infrastructure to defend against physical and cybersecurity threats helps avoid security breaches that could damage a company's reputation.

According to Karve, "Environmental awareness is steadily growing and this could pose a reputation risk. Companies that disregard the environment in pursuit of profits may well find that this could come back to bite them. At Marico, which is a packaged consumer goods company, we have consciously shifted to ensure that more than 95 percent of our packaging is PVC-free. More than 90 percent of our fuel requirement is met through renewal fuels such as bio-mass briquettes, rice husk and bagasse. We've begun a journey to becoming a green company."

At CEMEX, "reputation risk is very important because it unfolds from many of the other risks that we have," says CRO Alanis. "I think the major problems that arise in terms of reputation for our company all unfold from other issues."

According to Alanis, "another risk we raised the flag on two years ago is cyberattacks and cyberthreats. You don't have to be a sexy company anymore to be hacked. Cyberthreats are real for everybody and for every company. It could impact any brand."



# 5. Customers are key stakeholders for reputation risk

According to our survey, customers are the most important stakeholders when it comes to managing reputation risk. Other important stakeholders include regulators, senior executives, employees, and investors. But in a world of ubiquitous social media, managing customer expectations and perceptions is key.

Companies in the Americas tend to be more customer-centric than those in other regions. Companies in EMEA and Asia Pacific place a strong emphasis on third-party suppliers.

“We’re constantly under the magnifying glass of different stakeholders,” says CEMEX’s Alanis. “From financial institutions that allow us to keep growing through debt and equity, to environmental regulators, to local communities where we operate, we have different stakeholders who are constantly focused on what we do and how we do it.”

“I think [our] biggest reputational issue will come from customer relationship management; the Telco industry is evolving at such a rapid pace in broadening its services beyond what was considered traditional services,” says Basson of MTN. “One of MTN’s key risks is that we could potentially not meet the requirements of our end users in this digital world.”

“We have several key stakeholders,” says Marico’s Karve. “Our customers, regulators, investor community and our employees. I have already spoken about the first three. We regard our employees — whom we call members — as our ambassadors. We try to ensure that they adhere to Marico’s code of conduct in its true spirit.”

“Regulators are concerned with reputation risk because it is the foundation of confidence in financial services,” says Suncorp’s Herbert. “We try not to do things just because a regulator is concerned. It’s a necessary consideration, but it’s not the

primary consideration. We focus on dealing with risk issues from a customer service perspective, and then we consider the regulatory consequences — not the other way around.”

“If the consequence to the customer is significant, our share price will move,” says Herbert. “When you start looking at things like money laundering and such, they could also have a broader reputational impact. Also, there is clearly increasing influence from corporate responsibility issues, ethical issues, and those types of things. These are all growing in importance, but I’d still rank them second behind the impact on customers. Most important is what happens with the trust the customer has in you. That is the foundation.”



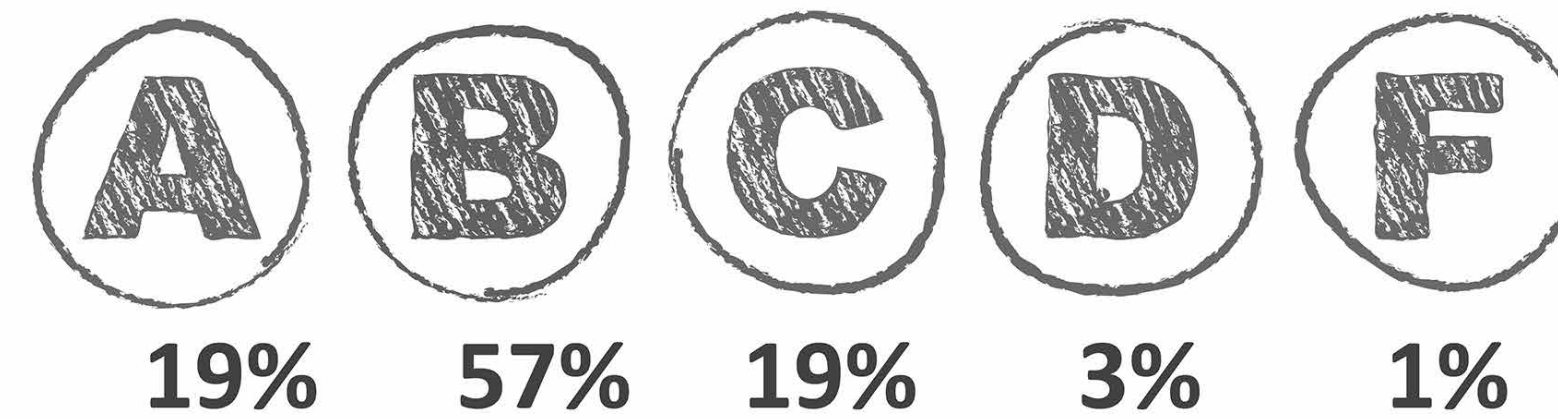
## Importance of various stakeholders<sup>†</sup>



<sup>†</sup> Respondents could choose more than one answer; the top three are shown above.

# 6. The paradox of confidence and capabilities

## Companies self-grade their reputation risk capabilities†



†Percentages may not add up to 100% due to rounding.

The survey results indicate that companies may be both overconfident and underconfident when it comes to reputation risk. On the positive side, more than 76 percent believe their reputation is better than average. Of course, it is statistically impossible for more than half of all companies to be better than average, which suggests many leaders might be overly optimistic about their current situation. On the contrary, 39 percent of the surveyed companies rate the maturity of their reputation risk programs as “average” or “below average,” and only 19 percent give themselves an “A” grade for their capabilities at managing reputation risk.

“SAP is proactively engaged across the different functions internally and externally to ensure early identification of potential events impacting our reputation,” says the company’s Kraus. “In comparison to other companies, our enterprise risk management function is at a very high maturity level with risk awareness embedded at all levels of the organization. The same applies to our crisis management and business continuity management framework, processes, and teams — all of which help us immediately and effectively react in the event of a crisis. As such, we believe that we are well prepared to effectively manage a potential crisis resulting from a negative reputation event at the local, regional, and global level.”

“CEMEX cannot afford to find out about a new risk, a reputation risk arising that day,” says the company’s Alanis. “We need to know about it beforehand. That’s why we have all of these process reviews in place. Because when you discover that something happened the same day, it will be very difficult to manage.”

### Managing reputation risk

In order to manage reputation risk effectively, it is essential to systematically track evolving stakeholder expectations. Here are three key steps to consider:

#### Where to look?

##### Identify stakeholders and data sources for stakeholder information.

- Consider both internal and external stakeholders — including regulators, shareholders, employees, and customers.
- Tap into varied data sources for a more complete perspective.

*Use independent and objective data to track stakeholder perceptions.*

#### What to analyze?

##### Identify factors that indicate changes in stakeholder expectations and potential reputation risks.

- Identify elements of your strategy and operating environment that could affect reputation.
- Design an analytical framework around the identified elements, and develop automated tracking.
- Implement reputation risk monitoring.

*Design key risk indicators to monitor potential reputation impacts.*

#### How to move forward?

##### Use insights from identifying reputation risks to inform ongoing risk management decisions.

- Apply the analysis of key risk indicators to ongoing decision making.
- Take early action on evolving stakeholder expectations and unmet expectations to allow time for recalibration as needed.

*Develop an organizational culture where the strategy for managing reputation risk is constantly recalibrated in response to emerging information.*

# 7. Companies are least prepared for risk drivers beyond their direct control

Companies surveyed are most prepared to manage reputation risk drivers in areas where they have direct control, such as regulatory compliance and employee/executive misconduct. However, they are less prepared when it comes to risk drivers beyond their direct control, including third-party ethics, competitive attacks, hazards or other catastrophes, followed by environmental issues.

“When we deal with reputation risk, [internally driven issues] are often quickly dealt with,” says Suncorp’s Herbert. “What we worry about are the consequential impacts where reputational issues continue to escalate and evolve even though the underlying issue has been mitigated.”

**Companies feel most prepared to manage risks within their direct control...**

**69%**  
Regulatory compliance

**68%**  
Employee misconduct

**66%**  
Executive misconduct

**...and least prepared for risks beyond their direct control\***

**47%**  
Third-party/extended enterprise issue

**44%**  
Competitive attacks

**44%**  
Hazard or other catastrophe

\*Respondents could choose more than one answer; the top three are shown above.



# 8. Loss of revenue and brand value are the key impacts

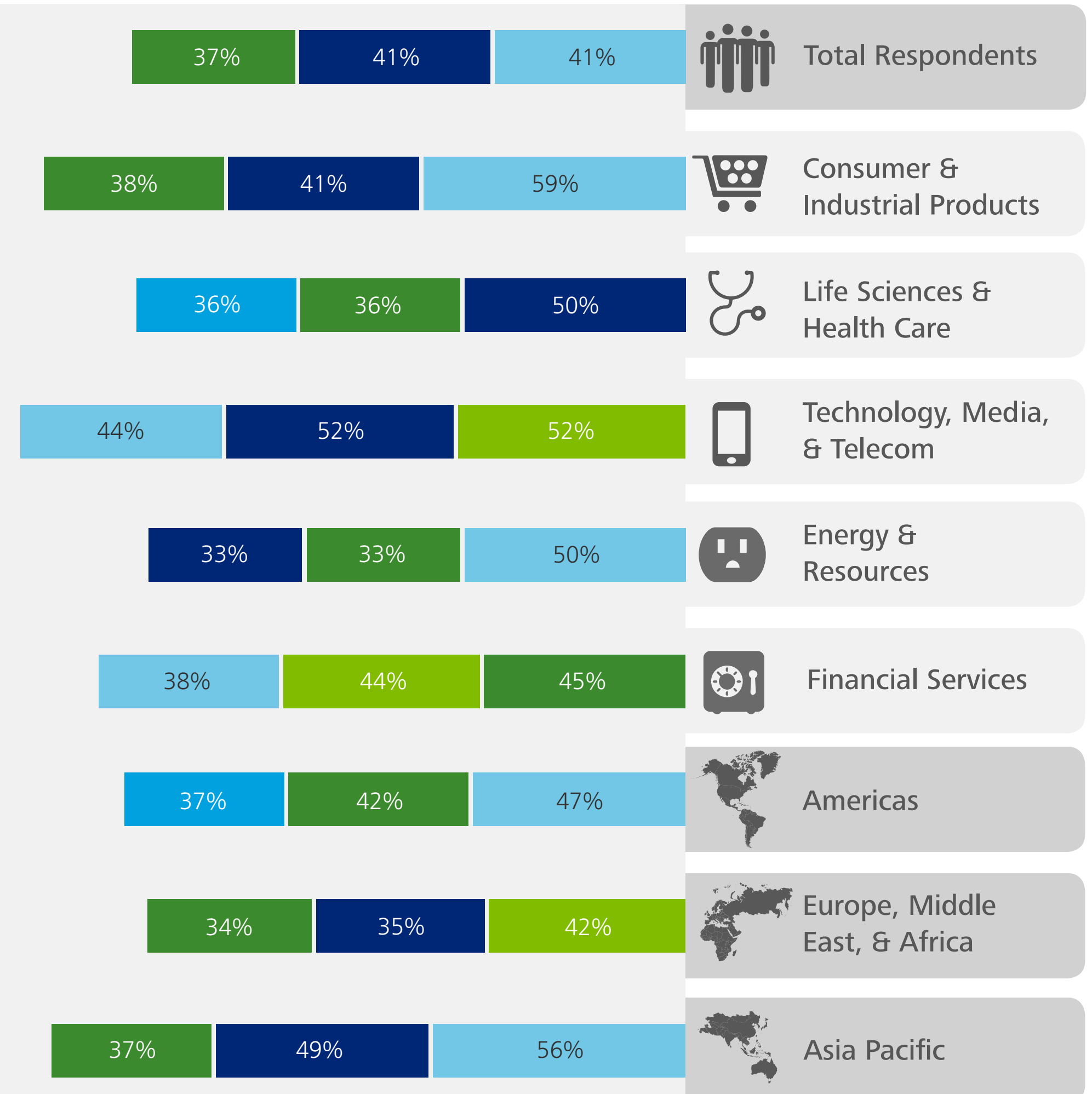
When a reputation risk spirals out of control, there can be a wide range of negative impacts. However, revenue and brand value are key. In our survey, 41 percent of respondents who experienced a reputation risk event say loss of revenue was the biggest impact. This was particularly true for consumer and energy companies. The same number of respondents (41 percent) say loss of brand value was the key impact. This was especially true in life sciences and technology.

41%

of companies that experienced a negative reputation event reported loss of brand value and revenue

- Impact on revenue/earnings
- Loss of brand value
- Regulatory investigation
- Loss of customers
- Stock price

Impact of a negative reputation event†



### Reputation risk in financial services

As the trigger point for the global economic downturn, financial services firms have faced some of the biggest challenges in managing reputation risk and protecting the value of their brands.

“What changed for us was risk appetite as a result of the global financial crisis,” says Suncorp’s Herbert. “If you go back to 2008, 2009 — that’s when the focus on protecting the reputation and confidence of the organization became paramount. That’s when the board set a very low risk appetite for reputation risks.”

“The reputation of Investment Banks including Barclays Bank in the UK has really suffered since the crisis,” says the company’s Kohler.

“I would put customers and politicians and the press on one side and regulators on the other,” says Reto Kohler. “I think with regulators it’s almost easier because you know what the regulations are and you have compliance and legal departments — you know what you need to do to comply with the regulations, whereas reputation risk with customers and politicians and the press is much more fluid.”

“As we’ve seen in the past, it doesn’t take very much [to create a problem],” says Reto Kohler. “Banks have been a very useful and willing target in the last few years. My hope is that things will calm down over the next few years, that the debate will come back to a more business as usual level. I think the only way that will happen is if the economic environment improves. And if we as an industry and as a firm continue on the path of caring about reputation and conduct and demonstrate that we’ve heard the message and implemented the appropriate efforts.”

Thirty-seven percent of the surveyed companies say regulatory investigations were a major consequence. And that number is even higher (45 percent) for respondents in financial services. Given the strong regulatory backlash from the global financial crisis, it’s not surprising that this is something that has hit financial services firms especially hard.

“Managing reputation risk successfully will help us and the industry avoid giving cause for further change in regulation,” says Barclays’ Kohler. “Additional regulation driven by mismanagement of reputation risk would be bad, and there’s always a danger of that.”

“The size and duration of any negative reputation impact depends on the situation. If you have an event such as malicious fraud by internal or external parties, then maybe your stock might still be down a year later — for example, your market cap might be down four percent,” says Navigators’ Yarpezeshkan. “However, if you have a financial restatement and it’s for technical reasons or other similar things, then maybe your stock price bounces back. So when people say they have reputational events, I would look at what is the impact at a future point in time, say one year later. Did the stock price come back? If it did, then I may question the true severity of the event.”



# 9. Companies are focusing more attention and resources on reputation risk

**M**ore than half of the surveyed companies (57 percent) say they plan to focus more attention on reputation risks in the future.

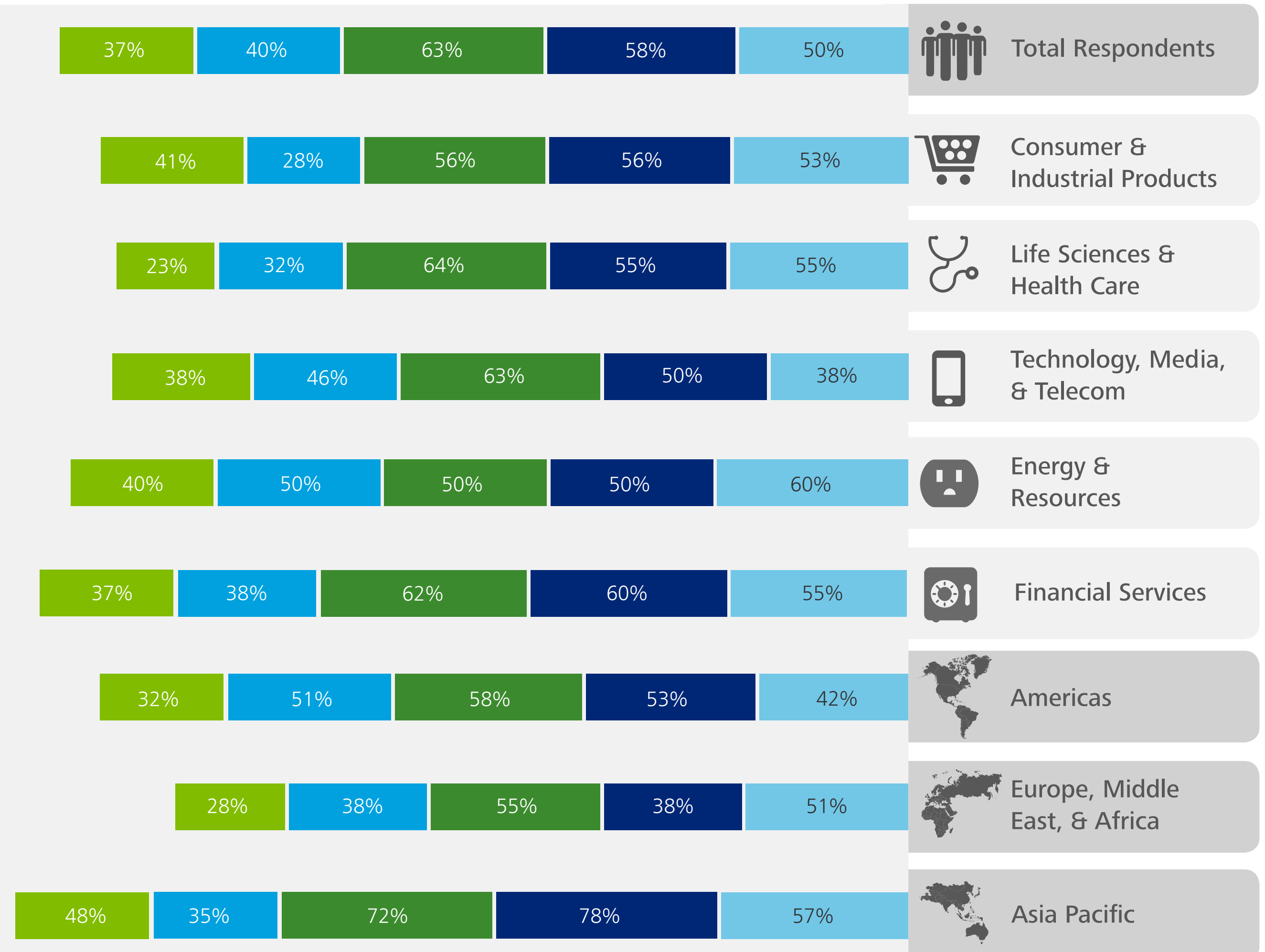
Areas targeted for future investment and development run the gamut from technology and data to people and processes.

**57%**

of companies surveyed plan to focus more attention on reputation risk in the future

- Investing in people, i.e., reputation risk officer
- Investing in data, i.e., traditional media/negative mention monitoring, social media data, surveying, etc.
- Investing in technology, i.e., brand monitoring tools, predictive analytic tools, etc.
- Developing reputation risk processes
- Developing crisis management processes and capabilities

## Future investments†



†Respondents could choose more than one answer; the top five are shown above.

### Five lessons about crisis management for C-Suite executives

From an accident that disrupts a supply chain to a social media controversy, companies manage minor crises all the time. It's part of doing business. But dealing with a major crisis is different. A single big event — or a combination of small events — can trigger a major crisis that threatens the very survival of the business. These critical situations expose an organization's readiness and responsiveness — testing its values, leadership, and character at a time when there is no room for error. Some things to consider in your approach to crisis management:

- **Don't wait until a crisis hits to get ready.** Monitoring, preparation, and rehearsal are the most effective ways to get ready for a crisis event. Organizations that can plan and rehearse potential crisis scenarios should be better positioned to respond effectively when a crisis actually hits.
- **Every decision during a major crisis can affect stakeholder value.** Reputation risks destroy value more quickly than operational risks.
- **Response times should be in minutes, not hours or days.** Teams on the ground need to take control, lead with flexibility, make decisions with less-than-perfect information, communicate well internally and externally, and inspire confidence. This often requires outside-the-box thinking and innovation.
- **You can emerge stronger.** Almost every crisis creates opportunities for companies to rebound. However, those opportunities will surface only if you're looking for them.
- **When a crisis seems like it's over, it's not.** The work goes on long after you breathe a sigh of relief. The way you capture and manage data, log decisions, manage finances, handle insurance claims, and meet legal requirements on the road back to normality can determine how strongly you recover.

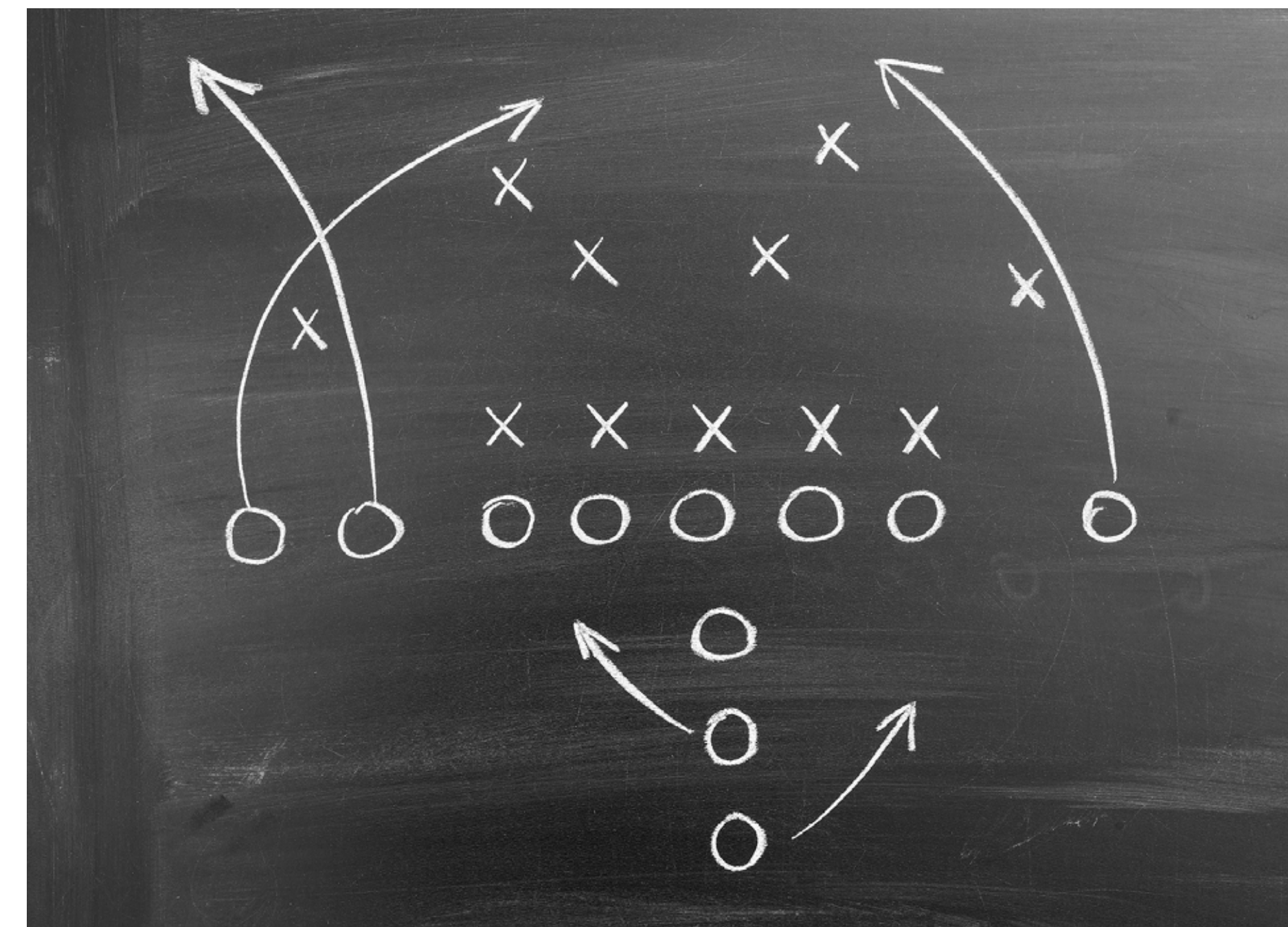
Scenario planning is another area that needs attention and investment, with 36 percent of surveyed companies saying they don't do "what if" scenarios to prepare for reputation risk. Companies in the Americas are least likely to do scenario planning (only 18 percent) compared to companies in Asia Pacific (28 percent) and EMEA (31 percent).

"In terms of resources, I would love to have more," says Alanis of CEMEX. "However, we are very strict about budgets. We are constantly upgrading systems and upgrading information technology, we have a very good idea of the roadmap that we need to follow in order to be up to date and up to speed and ready for any possible crisis or attack."

According to the executives we interviewed, crisis management is a key area for future investment.

"We invest in risk management so that we can handle crises before they explode," says Alanis. "The ideal goal is zero surprises. That is my goal, that is where the bar is set. However, this is not always possible. One part of my job is to keep 'evangelizing' about risks and our preparedness. We are constantly updating the crisis management team and documenting how we are handling crises so we learn for the next one."

Suncorp has a similar focus on crisis management. "We will be looking at increasing crisis response resources and scenario testing — testing them more frequently," says the company's Herbert. "The crisis management side of things is probably one that we've continued to develop."





# 10. Leading practices and lessons from the front lines

## Risk sensing: A solution for getting in front of reputation risks

Risk sensing provides executive-level decision makers with real-time market awareness on issues that are likely to affect a company's reputation.

"We've embarked on a number of initiatives to allow us to better identify emerging risks that could impact our business. We also assess how key stakeholders perceive us in the marketplace," says Deloitte U.S.'s CRO, Chuck Saia. "We employ what we call risk sensing technology and have embedded it in our governing structure so we can understand how brand impacting events affect organizations like ours, allowing us to adjust our strategies."

<p><b>Real-time</b></p> <p>Efficiently processing and synthesizing real-time intelligence (e.g., pattern detection and recognition) for real-time reporting.</p>	<p><b>Text analytics</b></p> <p>Uses natural language processing, sentiment analysis, and computational linguistics to identify and extract subjective information from structured and unstructured data sources.</p>	<p><b>Big Data</b></p> <p>Cost-effectively monitoring internal and external "Big Data."</p>
<p><b>Forward-looking</b></p> <p>Taking an outside-in view to supplement findings and assessing strategic, operational, and tactical business drivers in the future.</p>	<p><b>Early warning and triggers</b></p> <p>Increasing signal-to-noise ratio to detect weak and early warning signals and avoid surprises.</p>	<p><b>Actionable insight</b></p> <p>Operational insights that can be easily integrated and can have direct positive effect on the business.</p>

Integrating risk sensing capabilities and technologies into a company's day-to-day business processes can give decision makers the deep and timely insights they need to address potential problems before they turn into crises.

Reputation risk is a growing challenge that companies around the world are still learning how to manage. The executives we interviewed offered a number of valuable insights into how their organizations are tackling the challenge.

"To ensure continuous operation of all critical business processes, we have been implementing and operating a worldwide business continuity management and crisis management system," says SAP's Kraus. "To enable effective response and minimize possible losses in case of crisis situations, we have installed local crisis management teams at our main locations, supplemented by regional crisis management teams for the Americas (including Latin America and North America), APJ, and EMEA, and a global crisis management team."

"We have a very proactive way to foresee what risks are going to be," says CEMEX's Alanis. "We investigate risks constantly, look at how they are developing, and analyze all of the information we have. We then let decision makers know. That's how we manage every risk. Reputation risk is managed within this framework either as a sole risk (if we see it that way) or within the other risks we are monitoring. Twice a year we prepare a global risk agenda for the company, which can be updated if an urgent issue arises. In that global risk agenda we include all of the relevant issues at the corporate level and country level. All top

management participates to identify major risks going forward. We don't just focus on identifying the risks — we always propose possible mitigation measures."

"We analyze what may be happening both internally and at competitors and other companies," says Alanis. "[This review] can include all types of issues. We do a very comprehensive exercise and then put it all together and present it to the executive committee as well the board. So they are always aware of the issues that we'll be facing. We don't just focus on identifying the risks — we always propose possible mitigation measures."

At Marico, "we have several touch points that keep us in tune with the current external thinking," says Chief Financial Officer Karve. "We are constantly talking to analysts and investors who give us feedback on how we are faring vis-à-vis the peer companies and our own potential. Our Quality team keeps a close tab on quality of Marico products on the retail shelf. It actively addresses consumer complaints. We have an active whistle blowing mechanism to ensure that highest standards of integrity as enunciated in Marico's Code of Conduct are maintained in the organization. Thus, it can be said that we are investing a lot in getting external perspectives on a continuous basis."

At MTN, "we have a program we initiated about 18 months ago called 'Perfect Ten,'" says the company's Basson. "Within that perfect 10, you have dimensions of customer interaction or where we want to be in terms of getting to a perfect 10 (in terms of net promoter score) with our customers. We look at customer touch points like call centers and walk-in centers. We are ensuring that our reputation is maintained with customers and thereby mitigating risk. And what we are telling ourselves is we own our customer relations, so let's make sure the experience is a perfect 10."

"Reputation risk is topical across all three sub-committees of the board — the risk committee, audit committee, and sustainability and ethics committee," says Basson. "The discussion centers on how we manage our key stakeholders more specifically, the regulators from a reputation point of view."

"The communications area is very proactive," says CEMEX's Alanis. "We have a corporate communications area at headquarters and they have communications representatives in the regions and countries. They maintain the monitoring of what is being said, of how we are being perceived, and of course try to promote our positive projects from using wind power to social responsibility projects. There is someone monitoring social media and all other media proactively."

# 11. Moving forward

Reputation risk will likely be increasingly critical in the years to come, which means companies should continue to improve their capabilities in this area. Leading organizations already treat reputation risk as a strategic issue — a trend that we expect will accelerate.

“[It makes sense] that 87 percent of companies say managing reputation risk is important,” says Barclays’ Kohler. “But what are the other 13 percent doing?”

These days, even issues that seem insignificant can become headline news. And global reputations can be boosted or blasted with a few keystrokes. What’s more, 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. In this complex and rapidly changing business environment, what can a company do to protect its reputation and maximize the value of its brand?

Crisis management is a critical capability for handling major reputation problems — and an area that more and more companies are investing in. An effective crisis management approach helps you stay ahead of growing threats that have the potential to undermine your business. It begins with identifying and preparing for strategic risks and includes a broad portfolio of capabilities such as simulation, monitoring, risk sensing, response, and communications. Risk sensing is especially important because it can help you identify emerging problems while there is still time to head them off. However, all of the capabilities need to be in place before a crisis hits — because the absolute worst time to develop a crisis management strategy is when your back is against the wall and you’re running out of options.

A truly effective approach to managing reputation risk requires constant vigilance — before, during, and after a crisis. “We don’t see reputation risk management as having a start date and end date,” says Marico’s Karve.

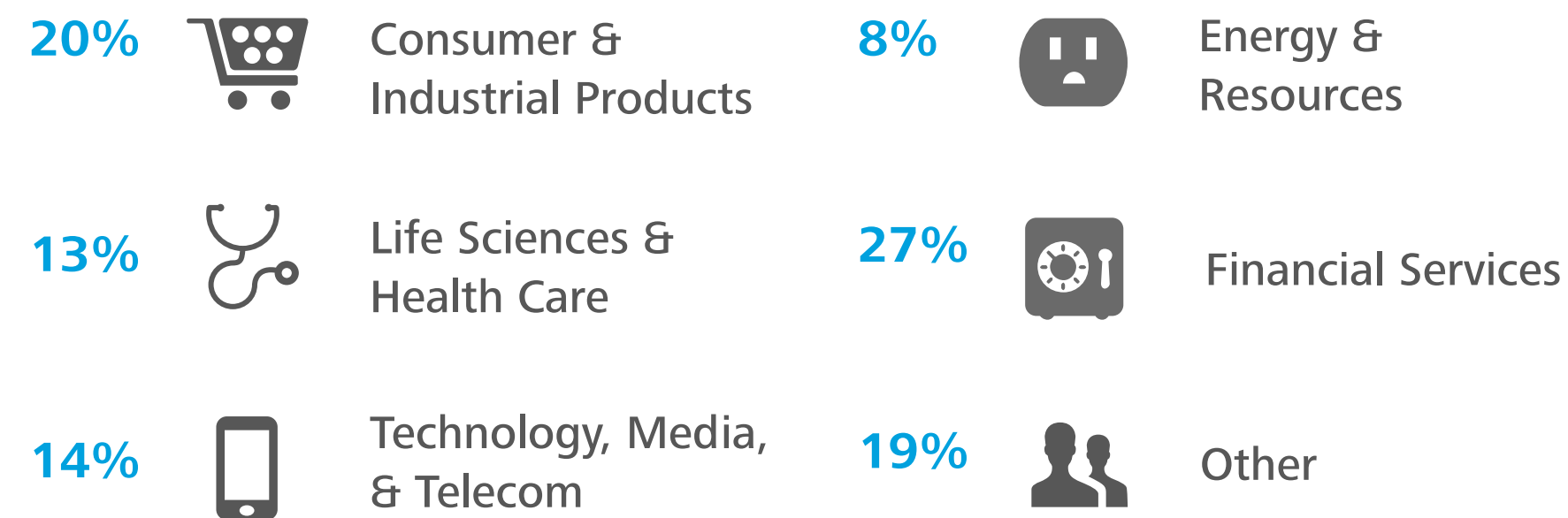
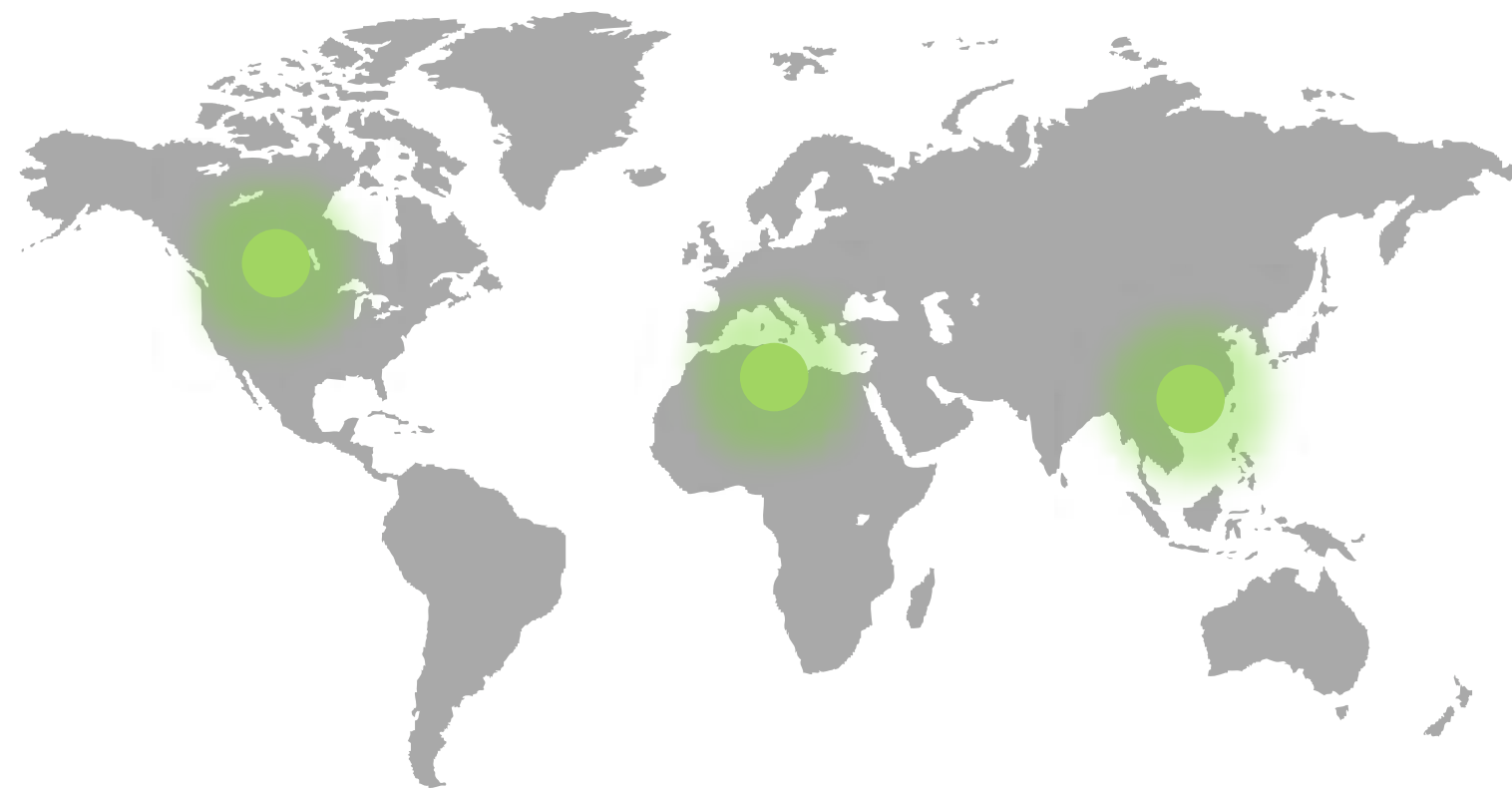
What’s more, even if you’re well prepared, there can always be surprises that catch you off guard. “What I’ve learned,” says CEMEX’s Alanis, “is that regardless of having A+ preparedness, tomorrow we may face a crisis or an issue so new or something so big that you will have a hard time no matter how prepared you think you are.”

Protecting your company’s reputation and brand is a major challenge — but it’s also a manageable one. 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.

# 12. About the study

## Survey demographics

34% Americas    33% EMEA    33% Asia Pacific



This study was a joint effort by Deloitte Touche Tohmatsu Limited and Forbes Insights. The global survey included more than 300 respondents from the Americas, EMEA, and Asia Pacific. Nearly all respondents were C-level executives (126), board members (13), or risk executives (169). Surveyed companies came from all five major industry sectors (FS, C&IP, TMT, LS&HC, and E&R), and all had annual revenues in excess of US\$1 billion (or the equivalent).

Additional detailed insights were obtained through personal interviews with executives from eight leading companies representing all major geographic regions.

Forbes Insights and Deloitte would like to extend their gratitude to the following executives for sharing their views and expertise with us:

### Americas:

- Enrique Alanis, CRO — headquarters, CEMEX
- Chuck Saia, Chief Risk Officer, Reputation and Crisis Officer, Deloitte LLP (U.S.)
- Arya Yarpezhkan, Group CRO, The Navigators Group, Inc.

### EMEA:

- Reto J. Kohler, managing director, head of Strategy, Barclays Investment Bank
- Mohamed Basson, General Manager — Group Business Risk Management, MTN
- Miriam Kraus, senior vice president of Global Governance, Risk, and Compliance, SAP (Germany)

### Asia Pacific:

- Vivek Karve, chief financial officer, Marico
- Clayton Herbert, group CRO, Suncorp Limited

## Talk to us

We look forward to hearing from you and learning what you think about the ideas presented in this study. Please contact us at [risk@deloitte.com](mailto:risk@deloitte.com).



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