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2014 global survey on reputation risk

Reputation@Risk

October 2014

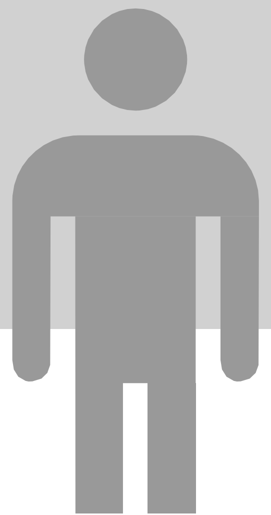
2. Reputation risk is the top strategic business risk

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.

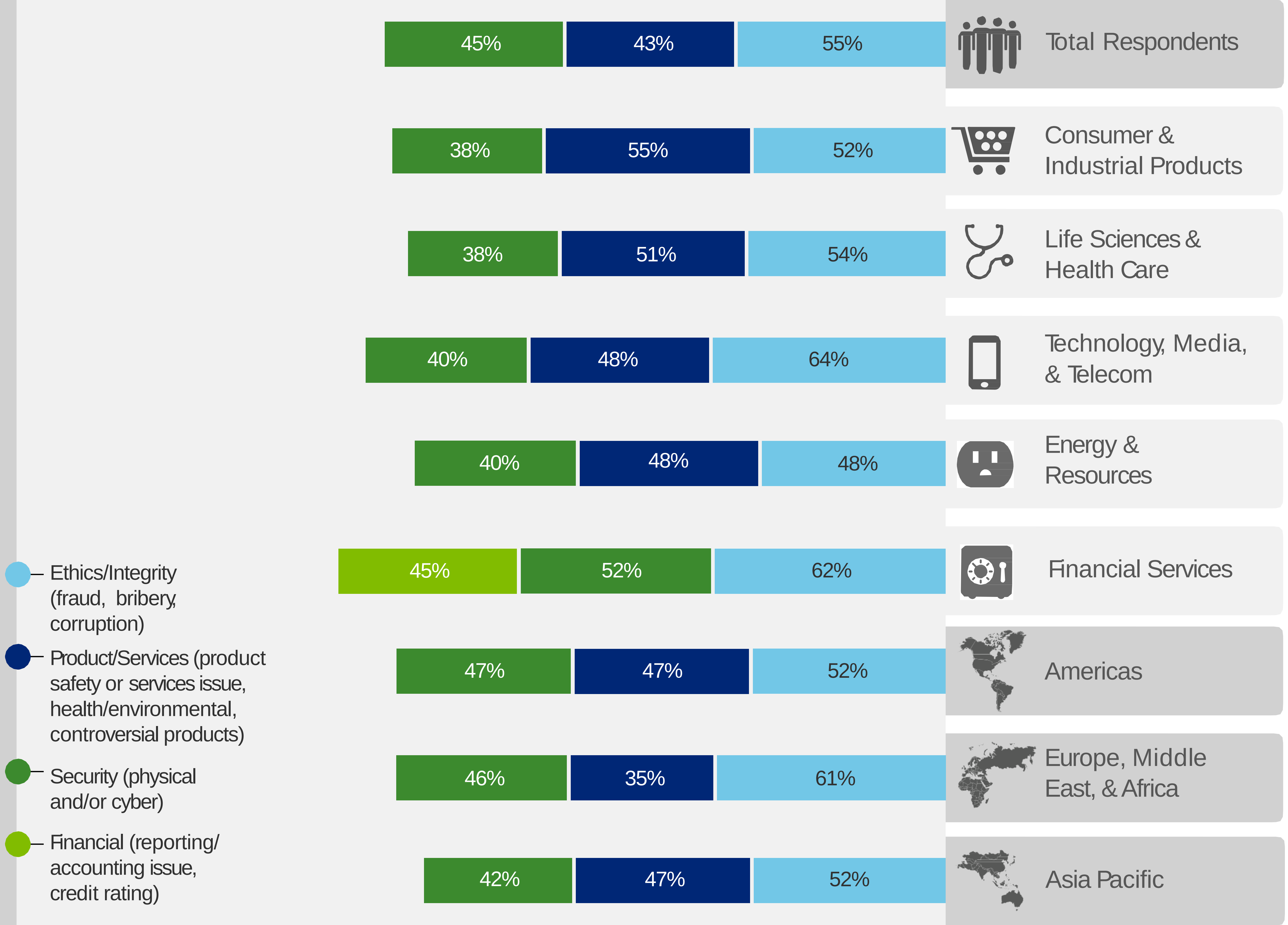
In addition, 88 percent say their companies are explicitly focusing on managing reputation risk.

87%

of executives
risk as more
other strategic



Top three reputation risk drivers of concern†



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

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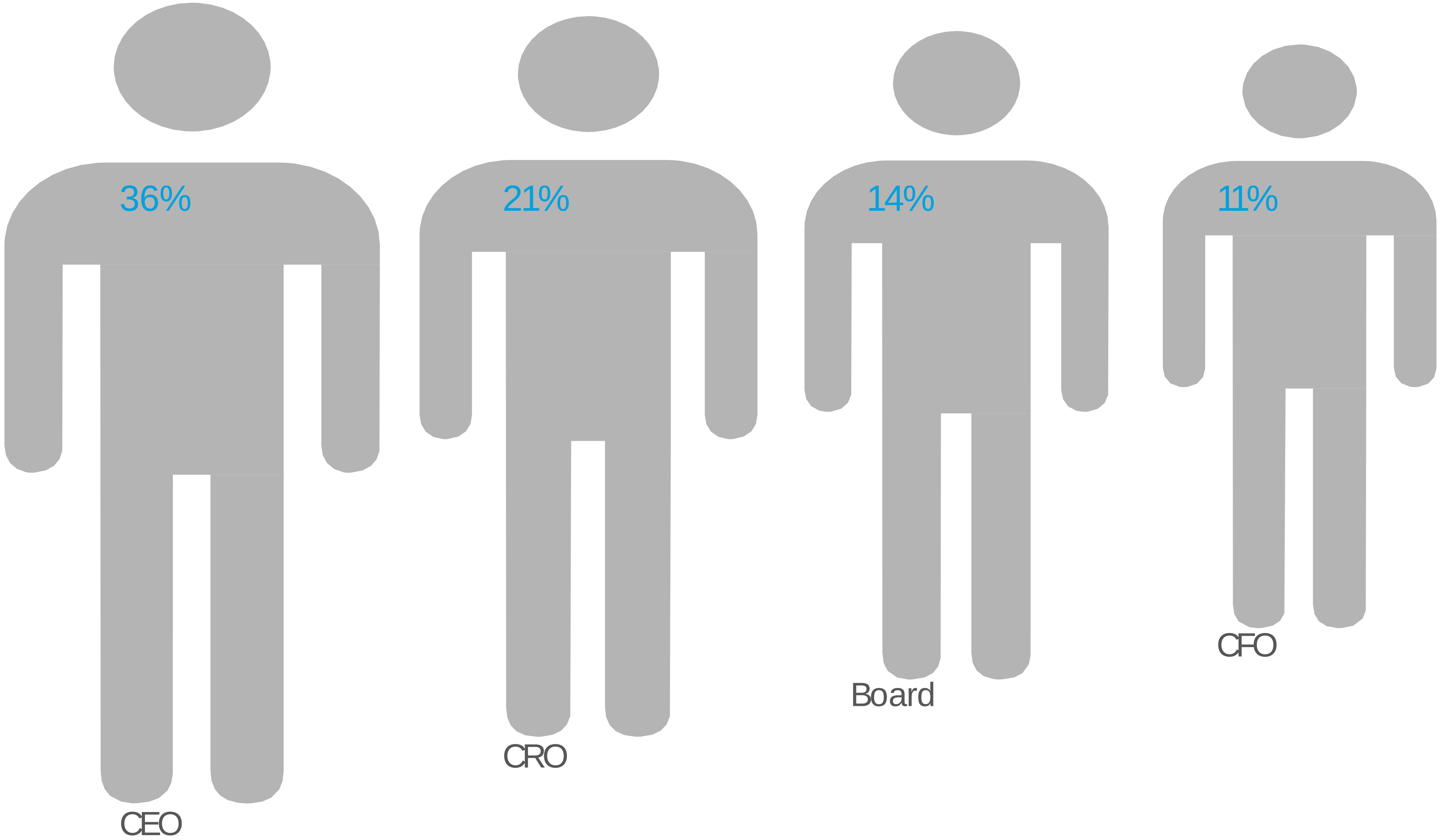
3. Reputation risk is a board and C-Suite issue

Primary responsibility for reputation risk



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4. Reputation risk is driven by other business risks

Top three drivers of reputation risk: past, present, and future†

Yesterday

20% | Security
19% | Ethics/Integrity
16% | Product/Services

Today

45% | Security
55% | Ethics/Integrity
43% | Product/Services

Tomorrow

43% | Security
50% | Ethics/Integrity
40% | Product/Services

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

5. Customers are key stakeholders for reputation risk

Importance of various stakeholders†

Total Respondents

- **81%** Customers/Indirect customers
- **73%** Government/Regulators/Public authorities
- **68%** Senior executives/Employees

Americas

- **81%** Customers/Indirect customers
- **72%** Employees
- **71%** Government/Regulators/Public authorities

Europe, Middle East, & Africa

- **76%** Customers/Indirect customers
- **75%** Government/Regulators/Public authorities
- **68%** Senior executives

Asia Pacific

- **86%** Customers/Indirect customers
- **75%** Shareholders/Investors
- **74%** Government/Regulators/Public authorities

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

6. The paradox of confidence and capabilities

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.

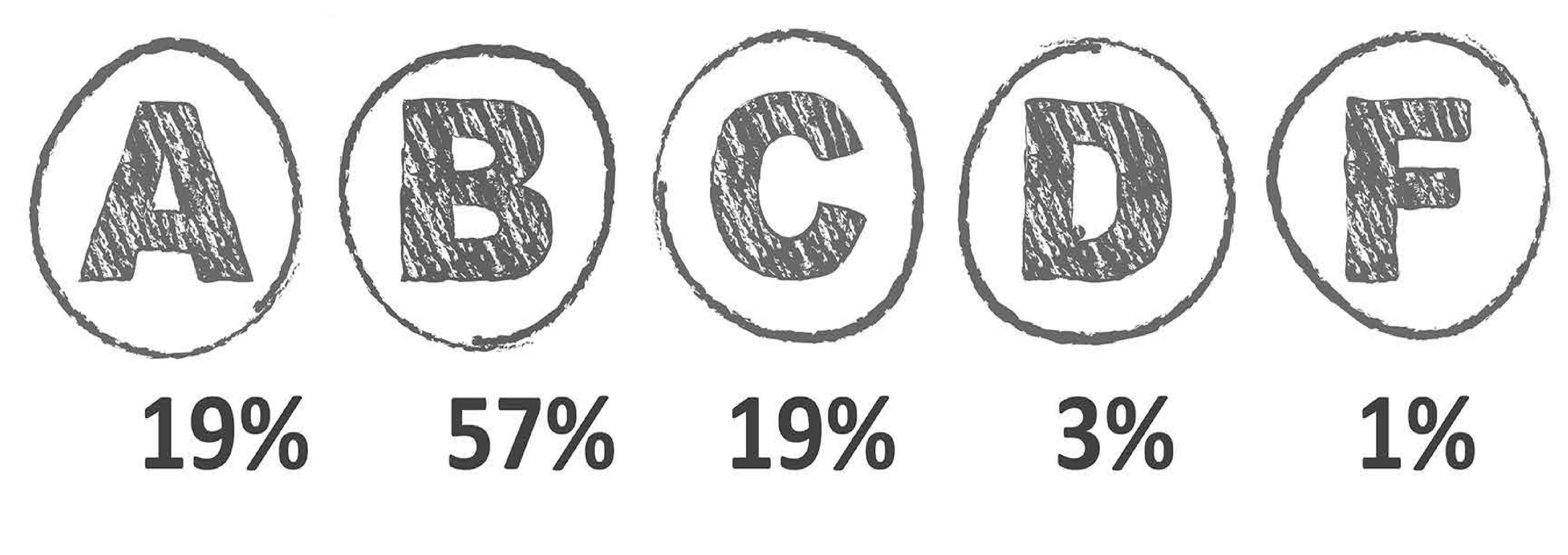
How to move forward?

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.

Companies self-grade their reputation risk capabilities†



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

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.

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†

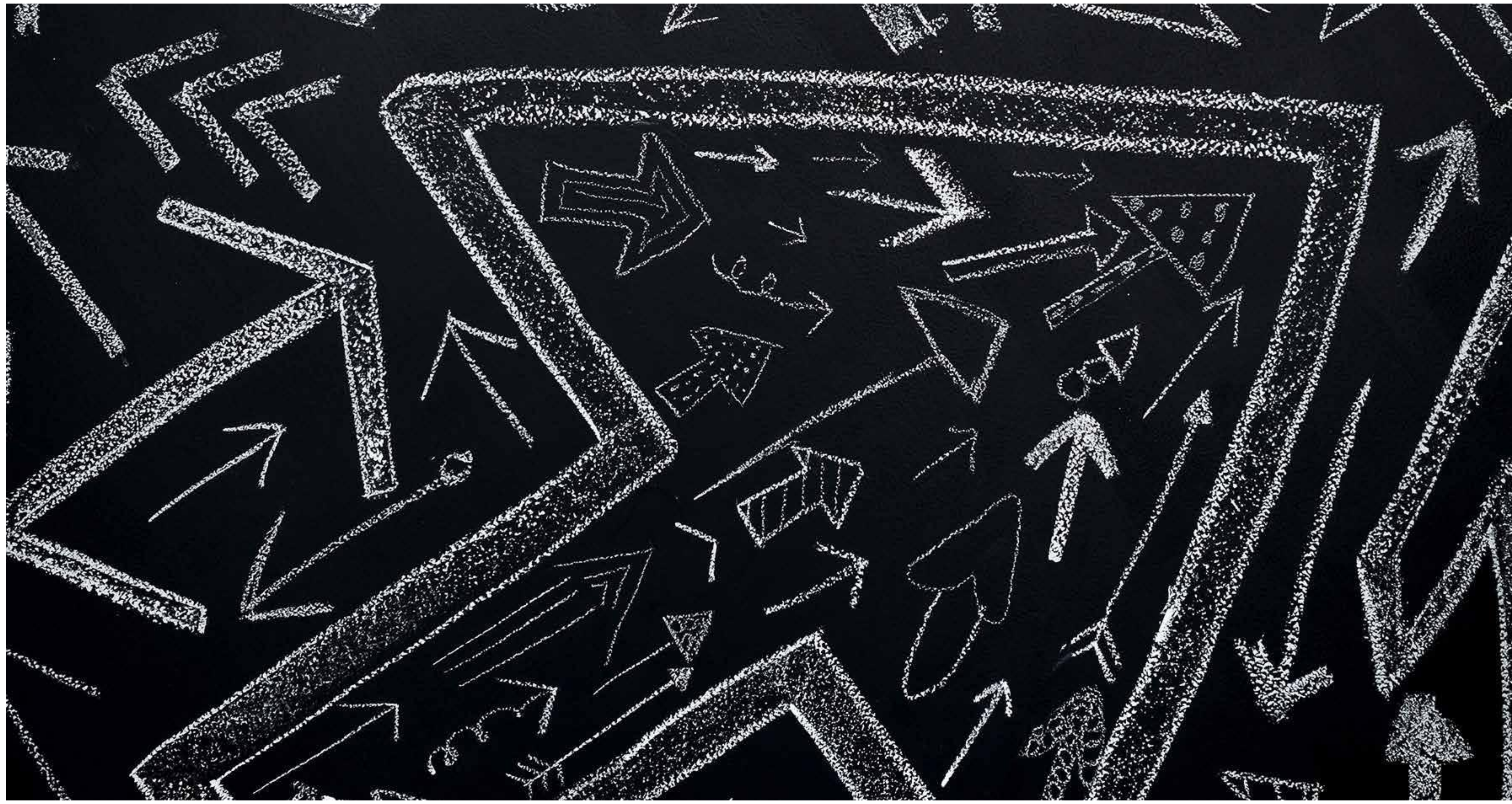
47%
Third-party/extended enterprise issue

44%
Competitive attacks

44%
Hazard or other catastrophe

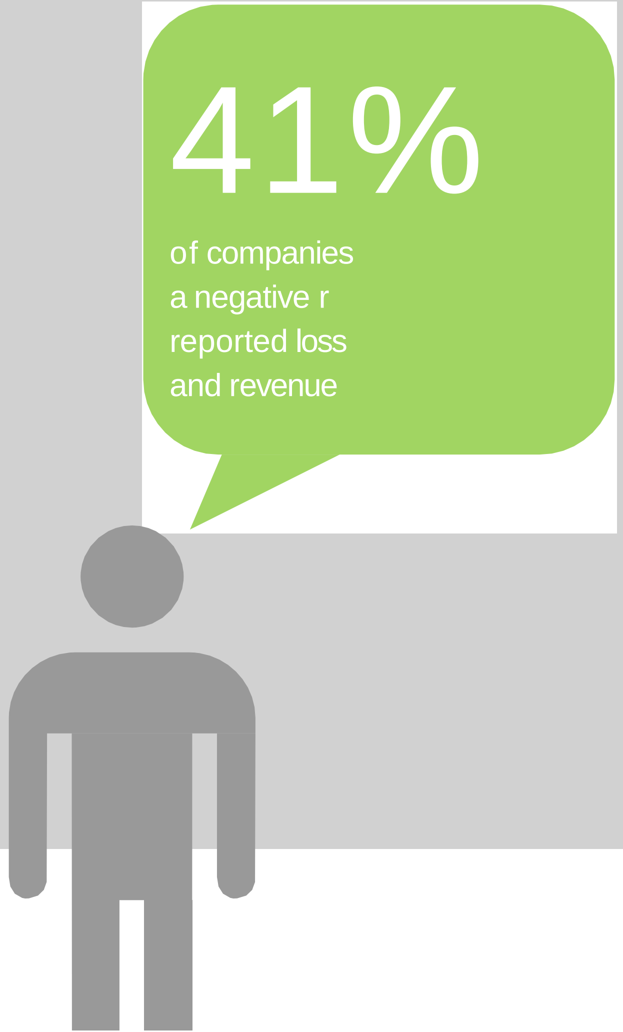
†Respondents could choose more than one answer; the top three are shown above.

"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."

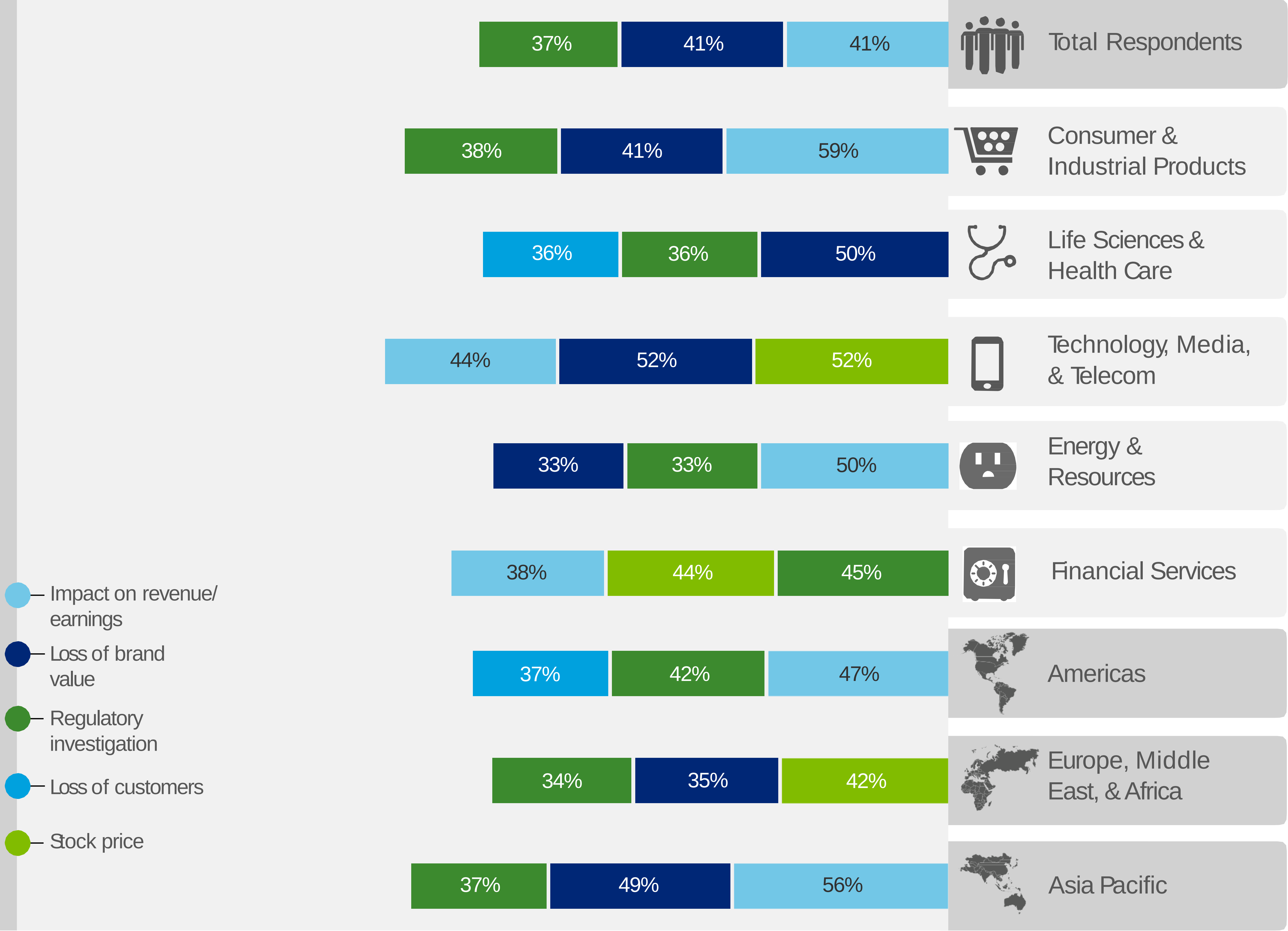


8. Loss of revenue and brand value are the key impacts

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.



Impact of a negative reputation event†



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

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

More 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.

Future investments†

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

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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."

Real-time

Efficiently processing and synthesizing real-time intelligence (e.g., pattern detection and recognition) for real-time reporting.

Text analytics

Uses natural language processing, sentiment analysis, and computational linguistics to identify and extract subjective information from structured and unstructured data sources.

Big Data

Cost-effectively monitoring internal and external "Big Data."

Forward-looking

Taking an outside-in view to supplement findings and assessing strategic, operational, and tactical business drivers in the future.

Early warning and triggers

Increasing signal-to-noise ratio to detect weak and early warning signals and avoid surprises.

Actionable insight

Operational insights that can be easily integrated and can have direct positive effect on the business.

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, organisations have been implementing and operating a worldwide business continuity management and crisis management system.

- Organisation must analyze what may be happening both internally and at competitors and other companies for identifying the risks and to propose possible mitigation measures."

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

- "The communications area must be very proactive to 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.

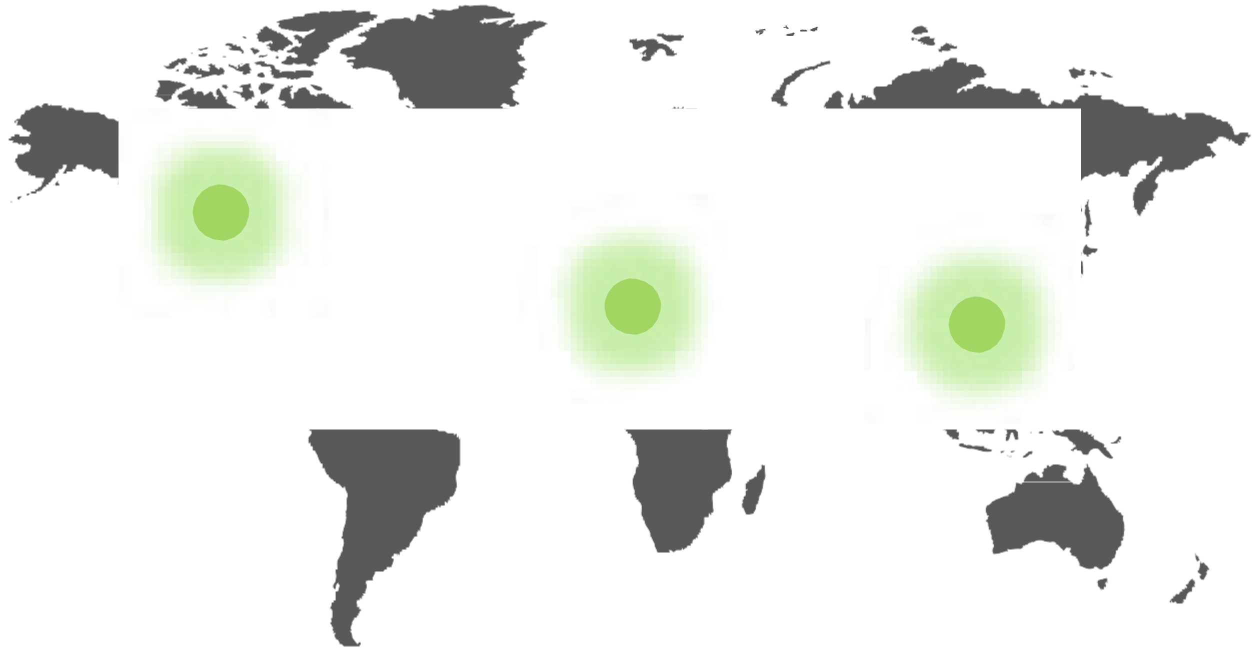
11. Moving forward

- Reputation risk will likely be increasingly critical in the years to come
- "[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. 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. 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.
- 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



20% Consumer & Industrial Products

13% Life Sciences & Health Care

14% Technology, Media, & Telecom

8% Energy & Resources

27% Financial Services

19% Other

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.

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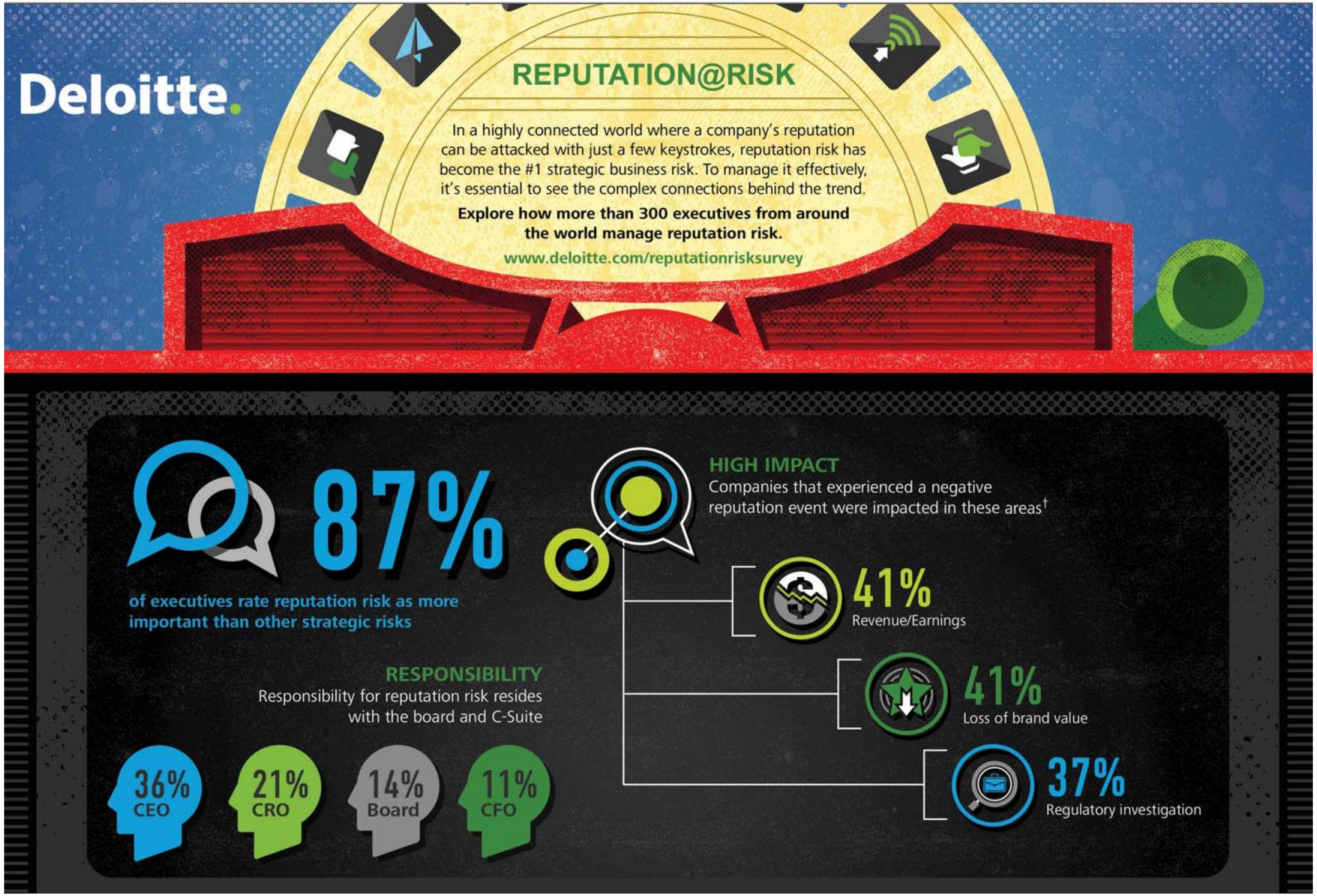

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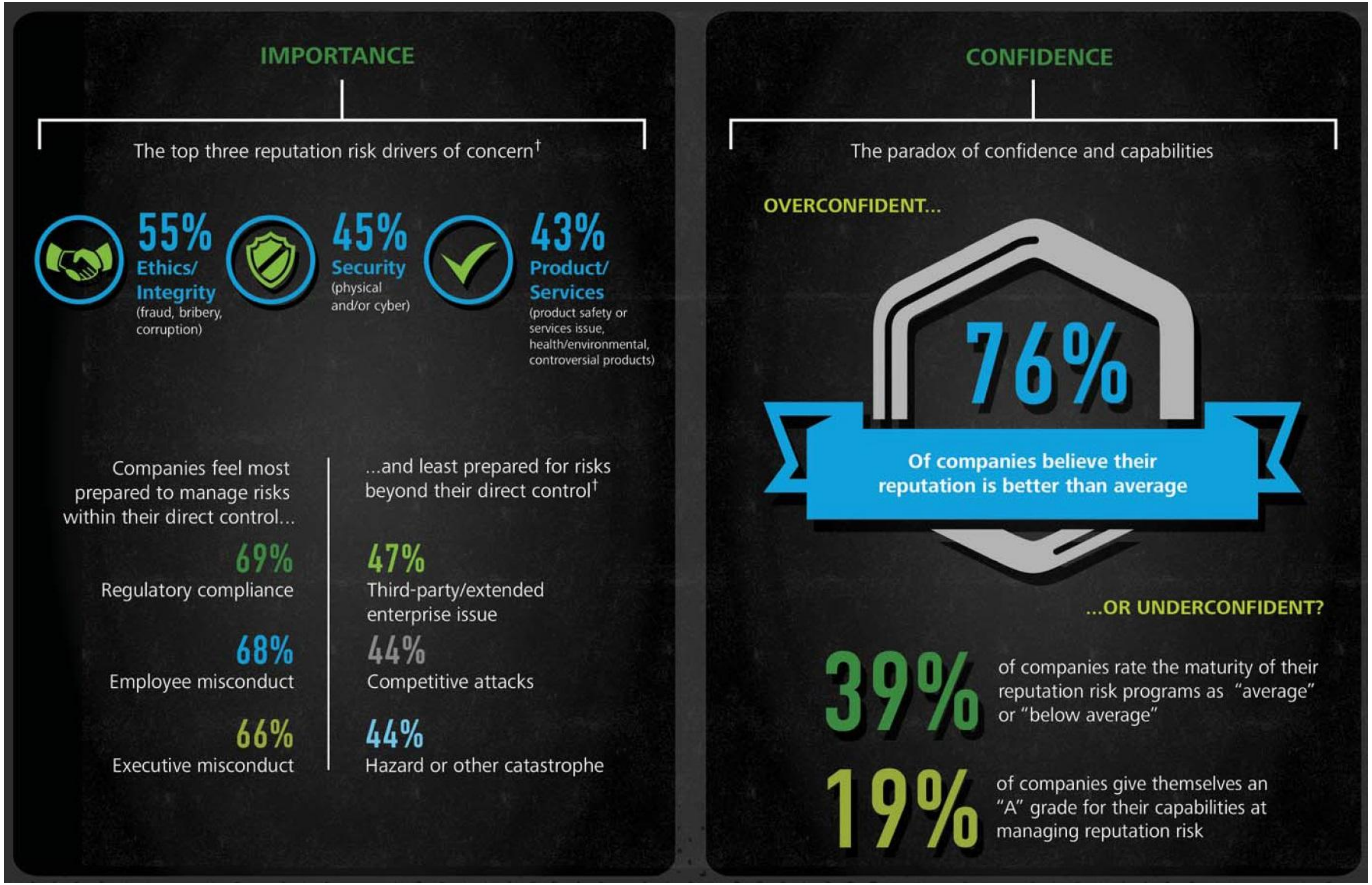

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Talk to us

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.

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