

Protect your reputation before it is attacked

 By [Chris Mberdyk](#)

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The vast majority of the value of companies today is in their reputational goodwill. The risk of losing this value is now acknowledged as the "risk of all risks".

My good friend and former communications head at Woolworths, Neeron Naidoo, who now runs a successful reputation management consultancy (www.hewers.co.za) told me that while a solid and sustainable reputation is today's foremost competitive advantage, most boards struggle with putting in place reliable processes to identify, assess and proactively manage reputational risk.

I could not agree more. And still to this day I cannot understand why boards of directors can't get their heads around protecting their most valuable asset proactively, instead of waiting for a calamity that has them running around like headless chickens.

Neeran Naidoo believes that easy access to information through the internet and instantaneous dissemination of opinions through social media have significantly amplified the opportunities and risks associated with reputation. Most boards seem to live in the vain hope that scandals won't happen to the companies they are entrusted with. In the case of reputational disasters, this is particularly negligent as the response to such a crisis often matters more than the event that caused the crisis.

"Nothing is more difficult than keeping a clear head when a crisis hits and the company is unprepared.

"Without a solid reputation, the company will lose its customers, be shunned as an employer, be alienated by investors, be avoided by suppliers and meet hostility wherever it turns.

"Scandinavian wine consumers recently removed South African wines off the shelves of selected stores after a documentary called Bitter Grapes highlighted the social conditions on some wine farms. Wine drinkers made a clear ethical choice to choose wines whose producers they trust," he said.

Naidoo says good overall reputation has become the premier competitive advantage.

"Reputational risk is different from other risks as it cannot be transferred. If a company faces the risk of an accident, insurance can be bought to hand this risk to an insurance company. No such products exist for the risk of suffering reputational damage. Companies are stuck with those risks and therefore have no choice but to take full responsibility for them and manage them themselves.

"If reputational risk is not at the top of a company's risk register, it amounts to an admission that it has no real way of identifying, understanding and managing it. By implication, the company also doesn't understand the opportunities that lie in its reputation.

"This is surprising, as reputational risks are actually highly predictable.

"Reputational risks materialise when values are infringed, fundamental trust is broken and material expectations are betrayed. Sophisticated reputation analytics are now able to pinpoint areas of reputational risks for companies with a high degree of reliability.

"To identify and understand reputational risks one needs to have a firm grasp of the expectations of stakeholders about the company, on the one hand, and, on the other hand, assess the ability of the company to meet those expectations and continuously earn the trust people have in the company.

"Owners of small businesses typically know this intuitively and manage it all the time. It is also easier for them to be close to the internal capabilities of their companies and have regular direct exchanges with their stakeholders. For larger companies, this would require an exceptionally engaged board or a formal process that takes care of things.

"As a national example, early in 2017 SA had an international reputation of having an ethical government, but living in SA it was easy to see that this trust, and the expectations that went with it, was not backed up by realities on the ground. The difference between external perceptions and internal reality was so significant that it was predictable that something had to give."

Naidoo told me that while it was not easily predictable that this risk would start to materialise with the exposure of the unethical shenanigans of Bell Pottinger, it was highly predictable that there would be an event that would expose this misperception about SA to the international community.

"Being prepared to deal with reputational risks and crises is critical, as the response to a reputational crisis cannot only mitigate the negative effects but lead to an improvement in the company's reputation.

"Well-managed crises are opportunities to reiterate your values, reinforce what you stand for and give customers and other interest groups a reason to trust you.

"There is hardly a better illustration of commitment to values than Woolworths chairman Simon Susman's "repatriation" of a live frog in a customer's lettuce from Cape Town back to its home in Mpumalanga.

"Of course, the best way to handle a risk is to succeed in preventing a crisis from happening in the first instance. When crisis hits, however, companies need to be prepared. For both it is essential that the board has a firm grasp of the impending reputational risks.

ABOUT CHRIS MOERDYK

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