Leveraging governance principles to maximise reputational value

Corporates often hit the headlines for all the wrong reasons, suffering severe damage to their reputations and value. The damage experienced is severe, not necessarily because of the mistakes themselves, but due to weaknesses in leadership, governance, and the reactive response adopted to handling those errors under the public gaze. A failure to instil and maintain strong values, ethical conduct, and effective governance at all times, especially when responding to failure and crisis events, only compounds the harm done to the organisation and its stakeholders.

To address these underlying issues, regulators across the world have been increasing their requirements of boards. There is however an increasing trend that should make all boards sit up and take notice. Other stakeholders are now holding directors directly accountable for the impact of their failures. If they judge that directors have acted inadequately, or that they have misled the public or investors, for example by 'greenwashing', they are holding officers to account for resultant losses.

This article explores the link between effective governance and reducing the risk of issues that can lead to significant reputational and value destruction. It argues that good governance can protect against issues arising in the first place, but perhaps more importantly, protect against allegations of mismanagement or negligence, as well as reducing the risk of insurance claims against the Directors.

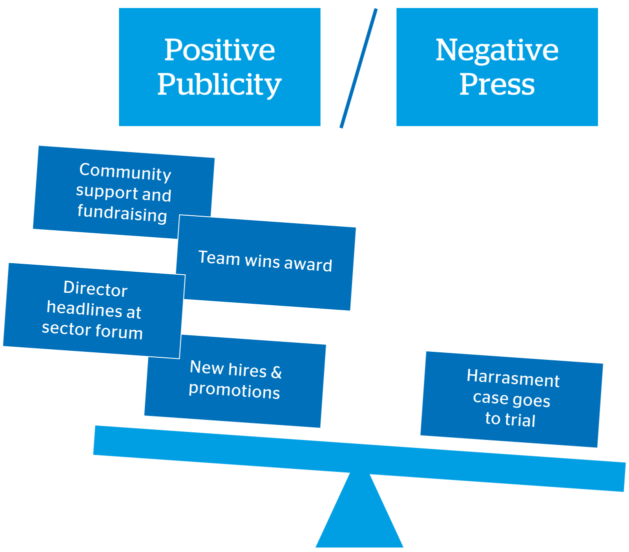
Reputation and the trust multiplier

It is widely understood and assumed that reputation has a major impact on an organisation's success or failure. Organisations with a good reputation generate trust and reap the benefits.

Trusting something means you are more likely to believe what you are told and act on it. Trust leads to more value added and efficient relationships in all directions. Customers are more likely to find advertising memorable, purchase more and pay a premium. Regulators are less likely to interfere with your business. Partners are more likely to give you good terms and the media is more likely to listen to your side of the story.[1]

However, trust can be fragile. Negative news and experiences often weigh much heavier than positive ones, and a good reputation, hard earned by years of positive experiences, can be very quickly undermined and lost.

Fig 1: Trust imbalance



So why then, given its importance and fragile nature, do so few organisations prioritise proactively managing reputational risk, instead relying on promoting positive media stories and reactive crisis management? Maybe they believe their reputation looks after itself and active risk management isn't needed.

Reputation can be defined as 'the opinion that people in general have about someone or something'.[2] Opinions are personal, not necessarily always based on facts or knowledge and ethics are not universal. And different societies and cultures place value and emphasis on different things. Also, an organisation's reputation has traditionally been viewed from an ethics or behaviour perspective.

Taking these perspectives into account, could it be that understanding what drives reputation is unpredictable, therefore managing its risks is seen as too difficult and complex? But, because it is so important, nurturing it, protecting it, and proactively managing reputation, is something that an organisation must do to ensure a sustainable and successful business.

How then should the board set about building a strategy to manage the risk of something that is grounded in the opinions of others?

Getting the governance basics right

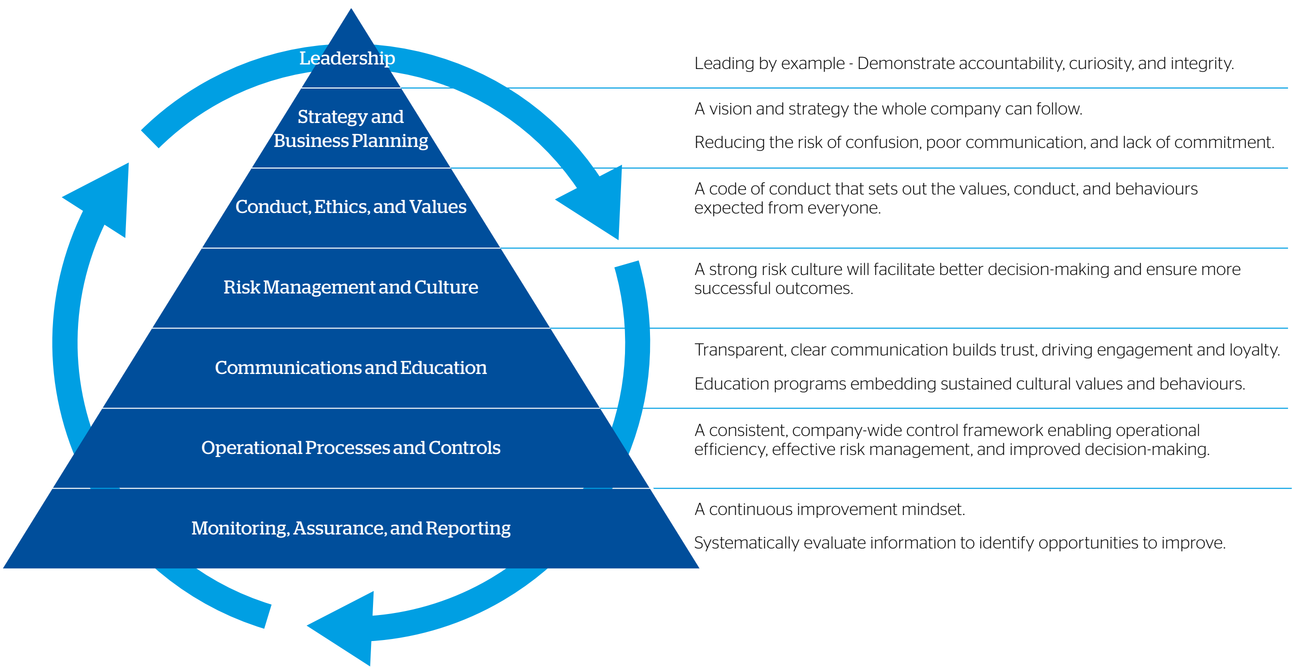
At the heart of most corporate reputational crises, there are individuals and teams who are accused of misconduct, in some cases those at the very top of the organisation. Although those responsible must shoulder the blame for their actions, at an organisational level their boards have also been found to be failing in their governance responsibilities.

Highly prominent governance failures have heightened regulator and public focus on corporate conduct, integrity, and ultimately, governance.

Good governance is central to an organisation being able to reliably achieve its objectives. It is built from the top of the organisation, by leaders with integrity and curiosity who are accountable for all aspects of the business. They embed strong values and behaviours by being clear about their expectations, ensuring there are mechanisms in place to monitor the health of the business, and they listen to the feedback that comes with it.

Without effective governance practices, the board is not only increasing the risk of penalties, fines, disciplinary actions, and in some cases imprisonment for senior officers involved, but also being seen as not acting responsibly, rapidly losing the trust of the public and investors, resulting in significant reputational damage and a loss of value.

Fig 2: Governance hierarchy



It's not the crime, it's the cover up

Some recent examples have rightly been described as scandals. Not because of misconduct or mistakes by individuals within the organisations, but because the organisations relied on tactics of restricting information and concealment to manage their reputation. The cover up.

Too often the focus was on how allegations would make the organisation look, rather than listening, being curious, keeping an open mind, understanding and addressing the root cause of the issues. Rather than valuing transparency and justice, they chose strategies of denial and containment, and in some extreme cases actively discrediting those raising concerns. They failed in their responsibility to ensure effective governance.

From time-to-time issues do occur, and society will often forgive organisations, providing it is felt they are being honest and transparent, their motives are fair, and that they have its stakeholders' best interests at heart.

Managing reputation by relying on the public relations machine to position positive media stories or crisis management when issues do occur, is not sustainable, and can be a greater risk to reputation than the issues it is trying to conceal. Communications and media management are valuable when telling an organisation's story, or delivering important messages, but they need to be considered as part of an overall corporate governance framework that includes strong leadership, transparency, clear values and culture, regular monitoring and robust oversight. Not doing so will only do more harm than good.

Top tips for managing reputational risk

1. Who do you serve?

Stakeholders can be broad and are typically determined by laws, regulations, and commercial considerations. As expectations and beliefs shift, stakeholders change over time, not just who they are and their priorities, but also their influence and how loud their voice is.

There may also be a perception that they have conflicting priorities, so balancing expectations, defining strategies, objectives and behaviours that hit the trust sweet spot could seem challenging. However, taking a proactive approach to understanding what drives opinion within your different stakeholders will be the first building block to driving longer term value and sustainability for all. You may also find more common ground than first thought.

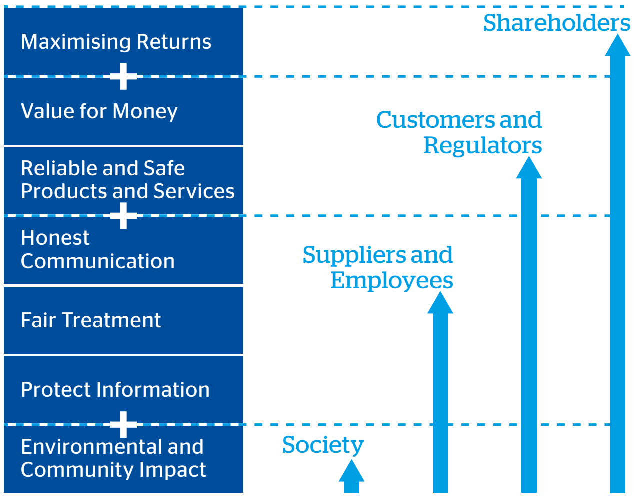
Complete a stakeholder analysis so you have a detailed understanding. It may confirm your prior assumptions, or it may not be what you expect. Either way, having good quality market and customer research to inform your strategies will serve several purposes:

> **Assesses current status –** providing a baseline, then repeated to monitor over a longer period

> **Gains clarity –** avoids assumptions of stakeholder expectations and what is important to them

> **Focuses risk management effort –** target areas that can most impact your reputation

Fig 3: Stakeholder expectations



2. Assess your reputation – do you have a reality gap?

The reputation-reality gap[3] is the difference between stakeholders' perception of an organisation and its actual character or behaviour. The bigger the gap, the bigger the risk that issues will highlight that reality doesn't match the perception. Understanding this and what's behind the gap will be fundamental to informing your reputational risk management strategy.

Scrutiny over corporate values and targets is increasing and stakeholders are holding organisations to account more than ever before. Make sure your commitments align to internal targets and objectives, giving you the best opportunity to keep your promises.

Combining analysis from both internal and external sources can provide you with a good all-round view and provide some indicators of where to begin closing the gap. Some examples include:

> Media and sentiment analysis
> Customer satisfaction surveys
> Employee satisfaction and advocacy surveys
> Customer complaint and returns data
> Internal incident and problem reporting
> Audit information, including thematic reviews against values and public statements / targets
> Quality management data.

3. Review your Board and governance effectiveness

Assess your board and governance effectiveness[4], either by completing a self-assessment* using an established framework or engaging an independent body to complete the assessment on your behalf. Completing this review, and refreshing it on a regular basis, is a critical element of ensuring your governance practices are fit for purpose and adapting to your changing business environment. Be open to and actively support the recommendations of the review, even if it is feedback that is difficult to hear.

Transforming internal structures and practices can take time, but prioritising the following two areas would have an immediate positive impact on governance:

> **Diversity on the board** - A board made up of members with diversity across skills, experience, backgrounds and cultures will be more capable of anticipating risks, identifying solutions, connecting and engaging with a wider group of stakeholders. Remember though that diversity is wasted unless members have equal voice and influence.

> **Information for the board** – Accurate, timely, and digestible information is critical for the board to perform effective oversight and decision making. Utilise a combination of key risk and performance indicators, and importance should be placed on those that relate to stakeholder priorities such as corporate values, fair treatment and environmental and social impact. Critically the board must demonstrate curiosity when reviewing and understanding management information.

*QBE customers can access a free Governance Effectiveness Review self-assessment via our QRisk Customer Portal

4. Enterprise Risk Management

Integrate reputational risk management within your overall risk management strategy.

Many organisations tend to focus on managing their reputation by dealing with the threats as they arise. This is crisis management which aims to limit the damage once the issue has already occurred.

There are many ways in which an organisation's reputation can be devalued, therefore it is likely that most of the risks monitored will ultimately have some link back to reputation. Taking an enterprise-wide approach is critical to ensuring the organisation is taking a proactive approach to managing reputational risk and moving away from a fragmented approach that reacts to the next crisis.

Considering reputational risk in this way means that you can define coherent and joined up mitigation strategies, ultimately maximising the business benefit from driving a good reputation.

5. Listen to those who speak up

Whether it relates to unlawful activities, compliance failures, or misconduct, organisations benefit from a culture where colleagues, including board members, feel psychological safety to speak up about their experiences.

Advocating easy and confidential mechanisms for people to raise concerns about the organisation enable the board to be aware of genuine concerns, particularly those that influence your reputation. As a minimum, speak-up processes must achieve:

> **Confidentiality** – maintaining trust to encourage use

> **Visibility** – promoted through regular reminders and training

> **Ease of access** – multiple routes, for example email, phone and online

> **Thorough and prompt investigation** – reports taken seriously, avoiding delays

> **Timely feedback and follow up** – clear communication on actions taken or not taken.

These elements alone may not be enough to encourage all those with a genuine concern to come forward and speak out. There may still be some scepticism that they will be heard, and action taken. So, to further encourage its use, the board should also consider the following steps:

> Being transparent about commitments to investigate issues

> Sharing summarised and anonymous information about cases reported and how you have responded

> Encouraging managers to show leadership by:
- sharing their experiences
- creating a safe space for open communication with their teams
- reassuring their teams they will be listened to.

6. Take accountability for the end-to-end supply chain

Third-party due diligence used to focus on financial stability, operational capacity, and quality, later evolving to include data protection and cyber controls. More recently, resource abuse, unethical and even corrupt operations, and exploitative working practices, has meant that ethics and social responsibility are a key element.

Businesses rely heavily on suppliers and partnerships to support their route to market, drive innovation, and deliver efficient processes and operations. It has been commonplace to treat these relationships as a 'black box', claiming little or no responsibility for their operations or actions.

This 'out-of-sight, out-of-mind' approach is no longer acceptable or advantageous. Supply chain actions affect you and your stakeholders, and so these risks cannot be transferred or ignored. Make sure you have transparency and accountability across the entire supply chain. Oversee the part they play, be aware of their values and behaviours, and ensure that they align to yours.

Taking the following steps will support good third-party governance and overall accountability:

1 **Policy –** define and establish a policy for selection and management of third parties
2 **Evaluation –** agree on assessment criteria to be used when selecting third parties
3 **Visibility –** create an inventory of suppliers, mapping interfaces and dependencies
4 **Risk –** look further than just data and security and include ethics, ESG, resilience, reputation
5 **Contracts –** review these to ensure they align to your values and include relevant clauses
6 **Continuity –** collectively review and test BCM and resilience plans to ensure alignment
7 **Service levels –** appoint someone to oversee the relationship and monitor performance
8 **Off-boarding –** procedures to manage potential risks (e.g. security) as the relationship ends.

7. Leverage the ESG agenda

Climate and biodiversity issues, socially responsible management, and ethical business practice all present their own challenges and risks. The push for more sustainable practices across the globe is driving an agenda focussed on environmental, social and governance (ESG) risks and opportunities which cannot be ignored. This push cannot be decoupled from reputational risk.

Many of the factors and expectations of ESG will also be relevant to an organisation looking to proactively manage its reputation. Consider aligning the ownership and oversight for ESG and reputational risk to create effective momentum and increased profile of reputational risk management across the business.

Final thoughts

These steps may seem like common sense, and you would be forgiven for expecting organisations to be doing some or all already, but the headlines keep coming. Sometimes accused of stifling innovation and slowing the business, risk and governance disciplines are all too often neglected. They can be overlooked in favour of those seemingly more 'exciting' commercial activities.

However, effective governance is an enabler. It makes better decision making and achieving your objectives more likely. It will help you drive value for all your stakeholders and of course maintain your hard-earned reputation.

With new rafts of legislation demanding more proactive approaches and corresponding duties to prevent harm, board behaviour will be increasingly in the spotlight. The Economic Crime and Corporate Transparency Act 2023; Worker Protection (Amendment of Equality Act) Act 2023; and the Terrorism (Protection of Premises) Bill ('Martyn's Law') are just three recent examples, each with high potential for reputational harm if not tackled effectively. Identifying board level indicators for effective governance will be essential.

References

1 IPSOS https://www.ipsos.com/en-uk/building-reputation-2023-link-between-corporate-reputation-and-business-efficiency

2 Cambridge Dictionary - Definition of Reputation https://dictionary.cambridge.org/dictionary/english/reputation

3 Harvard Business Review – Reputation and its risks https://hbr.org/2007/02/reputation-and-its-risks

4 QBE Resources

QBE's Risk Solutions team has developed a range of risk guidance and self-assessments, and this is available to all our policyholders, at no extra cost, through our QRisk Customer Portal.

The following assessments might be of particular interest:

QBE Governance Effectiveness Review self-assessment

- Poses a series of questions designed to help you consider your governance approach in areas such as Board Structure and Capabilities, Risk Culture, Conduct, Competence & Ethics and Organisational Governance.

QBE ESG self-assessment

- Provides a framework to assess how a range of ESG risks and opportunities are addressed within your business.

QBE Risk Culture Profiling Tool

- The tool can help organisations evaluate their risk culture through comparisons with indicators and behaviours that contribute to good leadership, governance and operations.

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