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> The purest treasure mortal times afford
> Is spotless reputation; that away
> Men are but gilded loam or painted clay
> William Shakespeare, *Richard II*, Act 1, Scene 1

As this article points out, it rarely appears on any balance sheet but it is invaluable, to a company as much as to a person. It is hard to earn and easy to lose and, in difficult time, often put at risk for short-term gain. It ought to be part of any risk management plan but often there are no specific strategies to protect it.

However included, in the article is a very useful checklist for you to go through with your chairman and I suspect you'll both find the answers to the questions posed, illuminating and possibly worrying.

The report referred to in the article is available at www.reputability.co.uk.

As one who has been through two significant reputation-threatening corporate situations in his career, I strongly commend attention to this issue. In one case, the company is still suffering some seven years later.

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Weathering the storm

By Anthony Fitzsimmons, Chairman, Reputability Ltd

Reputational capital can be an organisation's most valuable intangible asset, though it appears on few balance sheets. It is strategically important and easily destroyed, yet uninsurable and often poorly protected.

Bill Margaritis, Chief Executive of FedEx, said: 'a good reputation can be a lifesaver in a crisis, and a tailwind when you have an opportunity'. Warren Buffett told his managers: 'It takes 20 years to build a reputation and five minutes to ruin it.' A Coca-Cola chief executive mused: 'If I lost all of my factories and trucks but kept the name Coca-Cola, I could rebuild my business. If I lost my name, the business would collapse.'

Reputational crises happen more frequently than is commonly perceived, and can have catastrophic results for those who have not worked out how to make their reputation intrinsically strong in the face of severe adversity.

Taken together, the provision on risk mandated by the Companies Act 2006, the Walker Review and the UK Corporate Governance Code demand a leap forward in best practice on governance for risks to reputation, at both board and operational levels. Furthermore, it will likely fall to company secretaries to lead the board-level work required.

Blind spots

First, what is a reputation? It is a synthesis of everything everyone thinks about the organisation or person concerned. Different observers will have different perceptions, so understanding a reputation fully requires the ability to comprehend the perspectives of all stakeholders, including those that are only occasionally involved. These 'occasional stakeholders' are easily overlooked, but can be of critical importance.

A reputation built on solid foundations should be more easily sustained through bad times as well as good. The challenge is to identify and build those foundations. A comprehensive understanding of stakeholder expectations and perceptions – and the reasons for them – is a good starting point. Understanding these foundations also helps organisations to seize opportunities to grow in stature.

Many still believe that reputational risk consists mainly of those found in a typical risk register. My observation (not a rigorous statistical sample) is that, beyond general claims of a good reputation, most company reports are coy about the company's reputation and what is done to protect it. Some barely mention the word. Of those that do, most imply that reputational damage is seen mainly as a potential consequence of risks that emerge from a conventional risk analysis.

There is no doubt that traditional risks can, and do, cause reputational damage. However, risks to reputation go far beyond this. Weak points are often hard to identify — many sit in 'blind spots'. There may be organisational silos which do not speak to each other. There may be a ceiling on information flows so that information widely known to lower echelons does not flow to upper levels. There may be taboos. It may be that no one who knows of the risky behaviour feels able to report it. Thinkers may be unaware of relevant information, and are thus unable to 'join the dots'. And, as the UK's MPs have learned, arrogance and a longstanding status quo can mask reputational risks, especially when public morality is changing, and tales of amorality and double standards sell newspapers.

Vital

A well-structured reputational risk analysis will highlight many risks that would not appear on a traditional enterprise risk map. Best practice is still evolving, but its approach is fundamentally different from the traditional method.

Traditional analysis builds, mainly from the bottom up, on experience of what has caused trouble in the past. Using this method, identified consequences may indeed include reputational damage, leading some risk managers to believe that risks to

What questions should boards consider in deciding their approach to managing reputational risk?

reputation need not be considered independently of conventional risks. This approach is far short of sufficient.

Effective analysis of risks to reputation starts at the opposite end and looks outwards and to the future, as well as inwards and to the past. One type of question simply asks 'what might damage our reputation?'. Many need help to convert their knowledge into useful answers, which must be gathered from all relevant perspectives before being evaluated, prioritised and acted on. It is not easy to see ourselves as others see us.

A high-level workshop, supported by four professional bodies including ICSA and GC100, recently discussed the question 'What questions should boards consider in deciding their approach to managing risks to their company's reputation?'. The report produced by the workshop should be essential reading for company secretaries, general counsel and boards alike.

The conclusions, briefly, were that boards should take responsibility for reputational capital; that board-level leadership on the topics is important; and that, since investors are involved, commercial boards should consider reporting more explicitly on matters of reputation.

There are two main challenges for company secretaries in getting the board to deal with reputational risk. The first is to get the board to ask itself the right questions and set the right tone. The report distilled 11 questions to start the discussion. Answering such questions, and filling any gaps that are revealed, are essential steps towards forming an effective strategy to manage the risks and opportunities that go with a good or growing reputation — or improving a poor one.

The second challenge lies in helping to design and set up a practical system at both board level and below. At the strategic level, responsibility for reputation needs specifically to be allocated,

Question time

Getting boards to ask the right kinds of questions is key to effective reputational risk identification. A recent workshop identified the following questions as the basis for a solid analysis of possible reputational risks.

- Do we understand how our reputation relates to our strategy?
- Do we understand what underpins our reputational capital?
- Have we explicitly allocated responsibility for reputation and risks to it?
- Can we be confident that our risk management system will rigorously capture all the important risks to our reputational capital?
- Is our governance structure for reputational questions fit for purpose; does it have blind spots or encourage perverse incentives?
- Do we seek out and listen to the views of internal and external stakeholders?
- Are we open-minded or limited by groupthink?
- Do we see issues from the perspective of external stakeholders as well as internal perspectives?
- Are we encouraging risk aversion or short-termism?
- Would greater disclosure to shareholders be an opportunity?
- How often should we revisit these questions?

probably to one person who reports directly to, or is on, the board. They will be responsible for maintaining and growing reputational capital.

There also needs to be a separate role for a person who is able to report frankly to the board on all risks to reputation without any fear of reprisals. Walker suggested that financial institutions should have a board risk committee and a chief risk officer reporting to it. Only some will need a risk committee, but the notion of a quasi-autonomous chief risk officer can be adapted.

At an operational level, a good system will start from comprehensive knowledge of what will make the organisation's reputation sustainable even through bad times. It will systematically capture the important threats to reputational capital and recognise opportunities as they arise. Designing and implementing a good system needs subtlety if it is not to be sabotaged by cultural and behavioural realities or overcomplexity.

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A good reputation can be invaluable, but many organisations appear not to give it attention proportionate to its importance or vulnerability. Reputational crises are frequently destructive. They needn't be. They are much less risky for those who have perceptively built their reputational capital on strong foundations. Sound strategy and forethought are essential.

Company secretaries can encourage and help their boards to do the necessary thinking, and to do it well before things go wrong.

As a Taoist sage put it more than 2,000 years ago: 'Plan for the difficult while it is easy. Act on the large while it is minute. The most difficult things in the world begin with things that are simple.'

The report mentioned in the article can be downloaded from www.reputability.co.uk.

This article was first published in the March 2010 issue of *Chartered Secretary*, the journal of the UK Institute of Chartered Secretaries. Reprinted with permission of the publisher.