

DEAL WITH YOUR RISKS AND MINIMISE YOUR CRISES



The recent screening of the film “Deepwater Horizon” led me to thinking about reputational risk management and how undervalued the process is by organisations and companies.

The film is a well-crafted action thriller that in passing characterises BP with an apparent greater focus on cost cutting than on the safety of its people which ultimately led to its reputation being damaged.

As Eccles, Newquist and Schatz¹ commented in the Harvard Business Review: “Most companies do an inadequate job of managing their reputations in general and risks to their reputations in particular.”

And that is strange, because time and again, the firms with a good reputation are more successful than those with bad reputations. For example, if you want the best talent available, then your reputation has to stand scrutiny in what is now a very competitive marketplace.

Those who better value their reputation not only attract the best people, they are often perceived to deliver a better value offer to investors who in turn believe they deliver superior earnings and future growth. This is often evidenced in those firms’ higher price to earnings multiples, market values and their access to lower cost capital.

It seems that too many organisations and companies put their faith in crisis management plans and while having them is commendable, it is really only a reactive approach designed to safeguard reputations through limiting damage in the public eye.

To quote Eccles, Newquist and Schatz again: “Knowing first aid is not the same as protecting your health.”



Clearly organisations and companies need to do better in the field of risk identification and management, particularly around their reputations. The financial and strategic consequences of reputational damage in the affected marketplace are clear and high.

For example, the 17th annual Harris Poll (for 2016) on reputation rankings for the 100 most visible companies in the U.S. makes for interesting reading when compared to past polls.

Three years ago in the 2013 poll the Toyota Motor Corporation was placed 19th on the list as judged by Harris's Reputation Quotient[®]. This year and after a number of scandals soon after the 2013 poll was published, Toyota sits at 63.

Those companies with consistently good reputation management processes have stayed at the top of this list year after year - Amazon, Apple, Google, United Services Automobile Association (USAA) and the Walt Disney Company.

Conversely, those who appear at the bottom of the 100 have been there for a number of years.

Reflecting on the antagonist in the film "Deepwater Horizon" we see an interesting story unfold. At the turn of the century, after an intense period of growth through acquisitions, BP or British Petroleum changed its logo and its name to Beyond Petroleum.

It chose to put its new image and its embrace of alternate technologies, particularly solar, out in front of the public but did it undertake a rigorous risk analysis of its operations in reference to its brand change? If it did, its diligence in overcoming any identified risks was soon swamped by a number of catastrophes.

By 2005, an explosion at one of its facilities bought during the company's expansion program killed 15 people and injured scores of others. A massive leak from an oil pipeline it owned in Alaska in 2006 further contributed to its loss of reputation.

Of course the Deepwater Horizon explosion, the loss of 11 more lives and the environmental impacts that lasted months and even years, consigned BP to number 98 on the 100 higher profile companies in the Harris reputation ranking Poll this year.

At last place is the Volkswagen Group which demonstrated how lying and falsifying claims in the US market affected their reputation. Both BP and Volkswagen are each facing several billions of dollars in costs that may have been avoided had they taken another path.

A robust risk management process is just as important for a small to medium sized business or organisation as it is for the large end of town.

If a restaurant decides to skimp on cleaning its kitchen and then gets pinged by the health authorities, its chances of staying in business are greatly diminished.

The power of a good risk management process is sometimes in not what you already know, but what is bubbling under the surface. That is certainly our experience with clients.

And, once issues are identified, rated and then ranked by the executive group, the issues and their importance have an agreed focus and energy to diminish their potential.

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Note 1

https://www.researchgate.net/profile/Roland_Schatz2/publication/6460600_Reputation_and_its_risks/links/56b2497c08ae5ec4ed4b3660.pdf