

2017 IIA INDONESIA NATIONAL CONFERENCE

M.O.V.E. FORWARD

Mastery, Open-Minded, Value, and Ethics

Managing Reputational Risk

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Reputational risk

the risk of possible damage to organisation's brand and reputation, and other associated risks

(in lost revenue; increased operating, capital or regulatory costs; or destruction of shareholder value, consequent to an adverse or potentially criminal event even if the company is not found guilty)

arising from

any association, action or inaction which could be perceived by stakeholders to be inappropriate, unethical or inconsistent with the organisation's values and beliefs.





This type of risk can be informational in nature that may be difficult to realize financially.

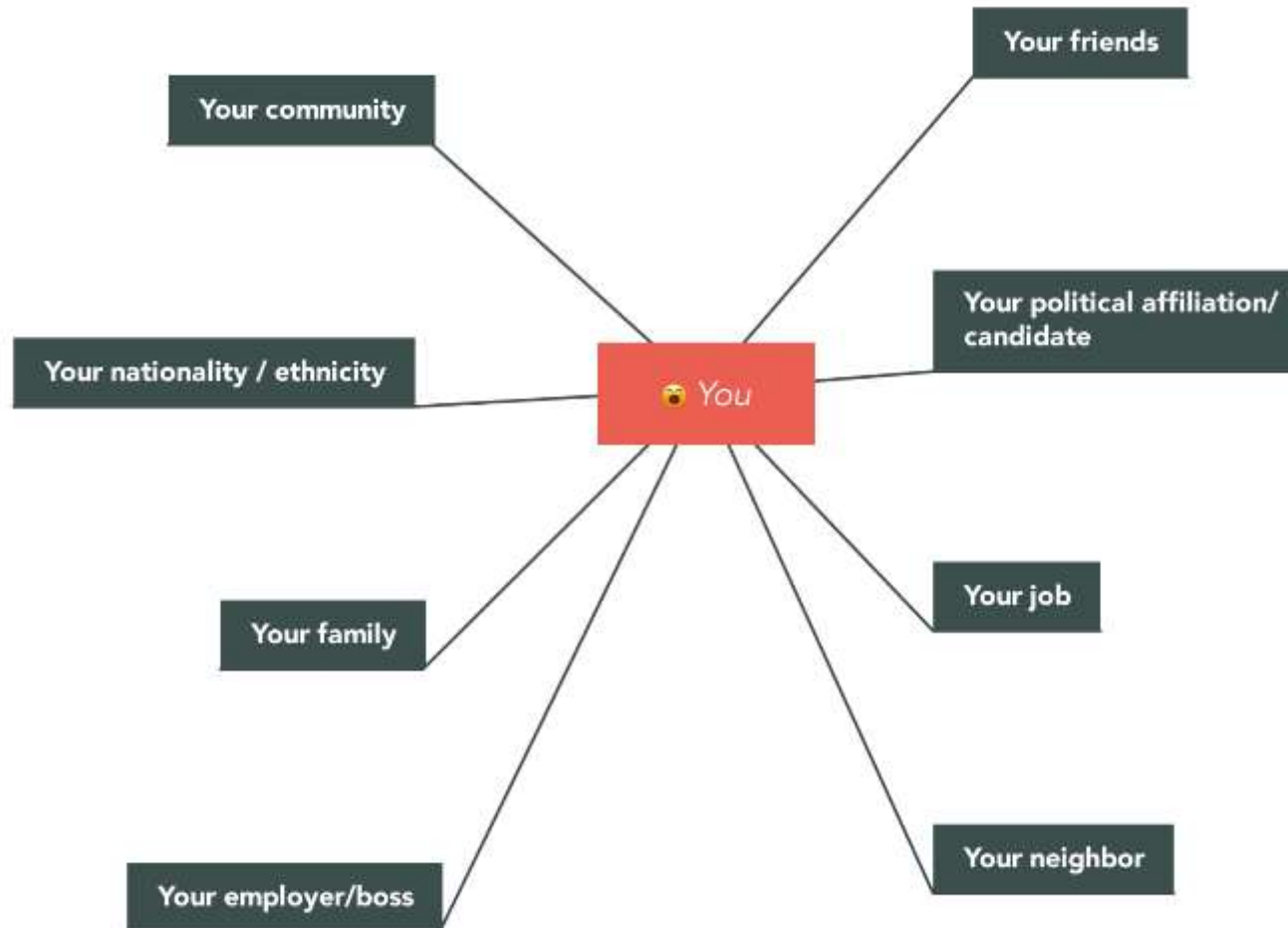
Extreme cases may even lead to bankruptcy (as in the case of Arthur Andersen).

The reputational risk may not always be the company's fault as per the case of the Chicago Tylenol murders after seven people died in 1982.





All of us are exposed to reputation risk





business leaders are sensitive to the pivotal role reputation plays in the success of each company



Reputational Risk Australia - 2017 Survey Report

Board members and C-level executives believe that the **top three risks** most likely to have an impact on a company's reputation to be:



The results outline the high awareness and good knowledge of different exposures that could result in reputational damage, but also point to certain areas for improvement.

Two out of three respondents indicated that their supply chains were partly outsourced

The **top 4 future trends** expected to have the longest impact on reputational risk are:

However, **less than half** of surveyed organisations have identified risk exposures across their supply chain

- Ethics and conduct in the workplace

The top 3 **critical concerns** for organisations are:



More than half of respondents **do not use risk scenarios to estimate the potential impact of incidents** regularly



- Social media in the age of post-truth
- Disruption of regulation
- Disruptive technology



It's likely that the true cost of reputational damage is highly underestimated.

The 2016 Reputational Risk Report | Standing Partnership

How much do you estimate reputational issues have cost your organization?



It's difficult to put a price tag on a brand's reputation, but the survey identified a clear financial impact that occurs when reputational problems arise. More than one-in-four survey respondents said their organization has experienced a reputational issue – defined as a risk of loss resulting from damages to a company's reputation either in lost revenue; increased operating, capital or regulatory costs; or destruction of shareholder value.

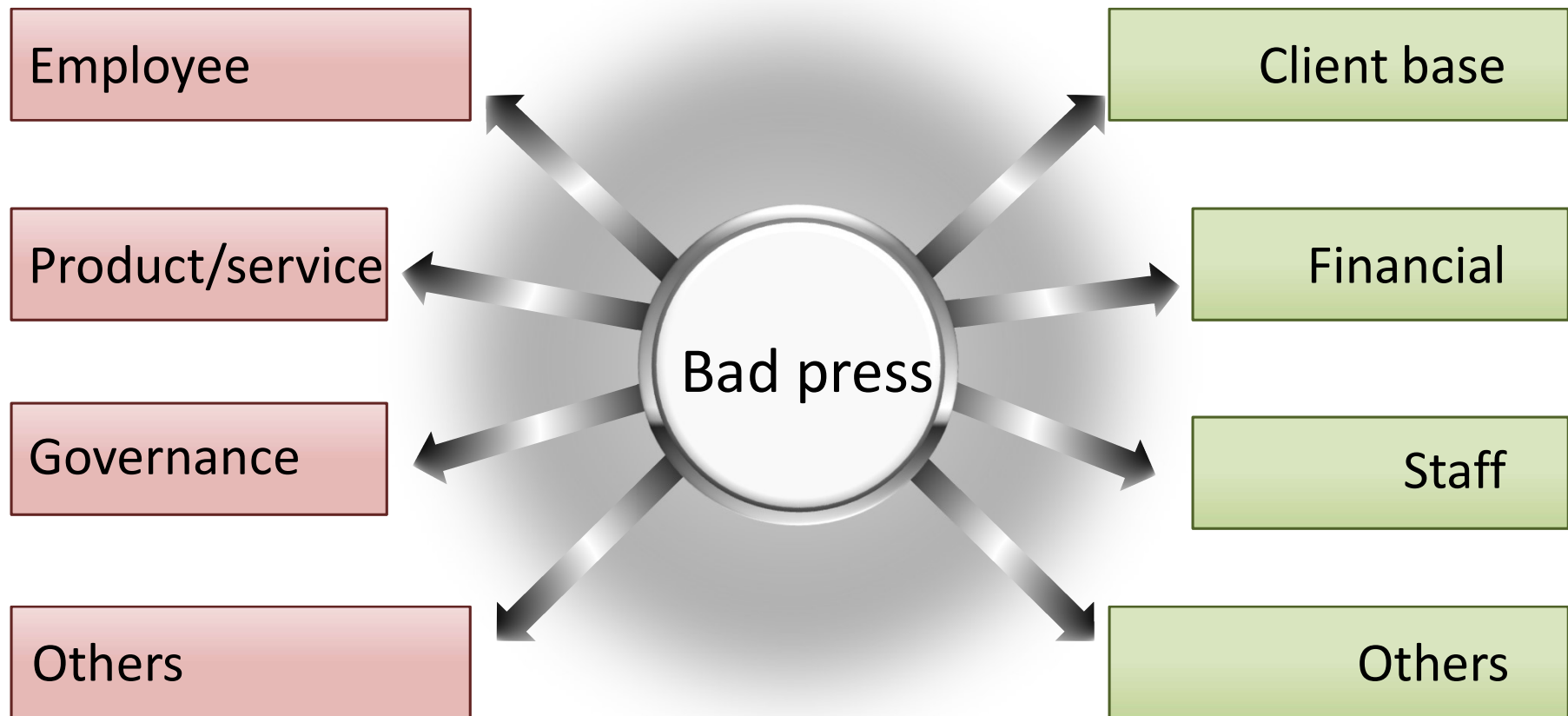
Base: Organization ever experienced a reputational issue.



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Reputation risk





Bad press: online channel

ALARMING

statistics about the damage **Google**

can do to **your business reputation!**



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Potential threats

Poor employment conditions, dissatisfied employee, negligent employee

Difficulty in managing quality of product/service, high profile product recall incidence

Conflict of interest, false disclosure, heightened focus on fraud and corruption, unethical business practice, failure to protect customers' privacy

Increasing CSR expectation, series of cost-cutting decisions, IT breach, stricter regulations, business associations/partners

Employee

Product/service

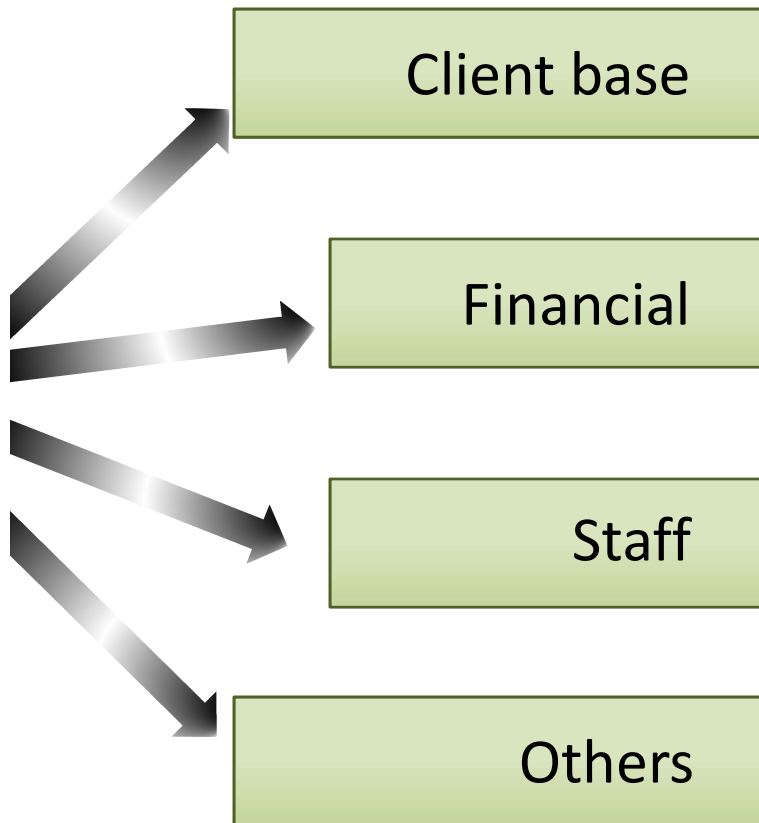
Governance

Others





Potential impact



Damage to existing customer relationship (loss of existing customer), inability to form new customer relationship

Fall in share price, higher risk perception of the stock, inability to attract debt & make investment, lower valuation

Loss of key staff, inability to recruit talent

Aggressive take over by competitor





Product recall lead to bottom line



2013

General Motors suffered a public backlash following a deluge of vehicle recalls year, highlighted by a near 11-year delay in recalling millions of cars equipped with a faulty ignition switch that caused a number of deaths.

In Congressional hearings, GM Chief Executive was grilled about the company's failure to respond promptly to the ignition switch problems, and had to explain why an internal probe blamed lower-level engineers for the botched response while clearing GM's executive team.

GM shares dropped 16%, while the S&P 500 has gained 6.6%.

The ignition switch recall and difficult market conditions put "tremendous pressure on bottom line." GM recorded \$1.2 billion in recall-related charges, and took a special charge of \$400 million to implement a compensation program for those suffering as a result of the ignition switch failure.



Samsung's reputation has crashed after its Note 7 exploding phone fiasco

Rob Price · Feb. 21, 2017, 9:52 AM · 1,105



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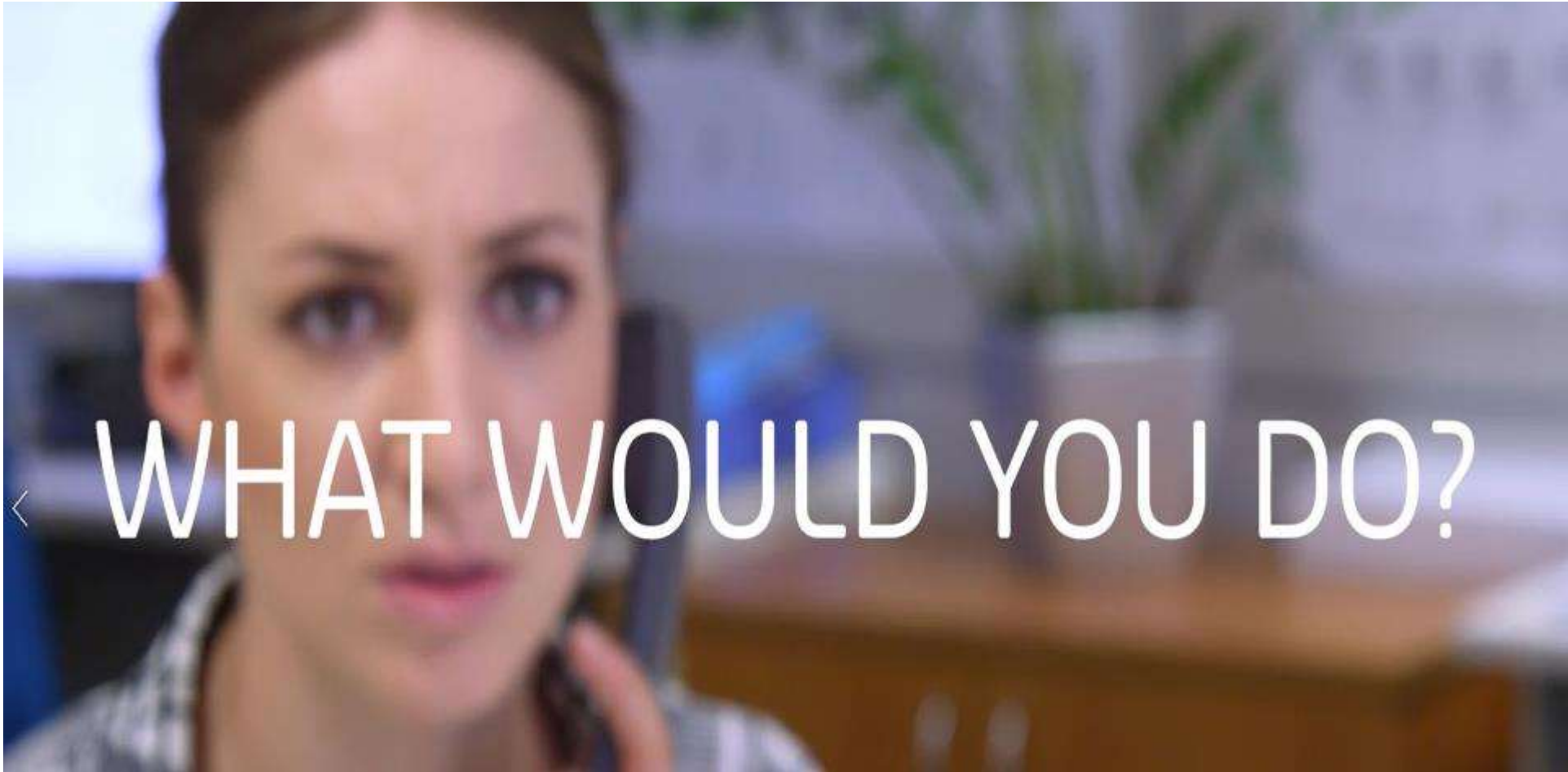
Samsung's reputation has taken a battering over the last year.

Its Galaxy Note 7 smartphone was a disaster of unprecedented proportions — the premium device wouldn't stop exploding, forcing Samsung to issue a global recall that cost it \$5 billion (£4 billion) in losses and lost sales.

And now it's seeing the consequences with consumers.



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WHAT WOULD YOU DO?



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KitKat story: increased CSR expectations



Greenpeace:

Nestlé, maker of Kit Kat, uses palm oil from companies that are trashing Indonesian rainforests, threatening the livelihoods of local people and pushing orang-utans towards extinction. We all deserve to have a break - but having one shouldn't involve taking a bite out of Indonesia's precious rainforests. Greenpeace was asking Nestlé to give rainforests and orang-utans a break and stop buying palm oil from destroyed forests.





Kitkat story: social media crisis



17 March 2010 – Greenpeace publishes ‘Caught Red-handed’ report. Greenpeace state they have new evidence which shows that Nestlé are using palm oil produced in areas where the orang-utans rainforests once grew. Greenpeace posts on YouTube a viral video ‘Kit Kat – give the orang-utan a break’. Nestlé demands video to be removed due to copyright violation. The Video is then posted on Vimeo.

Nestlé receives 200,000 emails, hundreds of phone calls.

Nestlé struggles to respond to bombardment of criticism from angry consumers on Twitter and its official Facebook page. The company initially tried to respond on Facebook (not successful, rude and not tackling the issue).

This is Social Media Crisis



KitKat story: solution

Thanks for the break!

Nestlé announces it will stop using products that come from rainforest destruction.

► [Read more.](#)



May 2010

Nestlé developed a plan to identify and remove any companies in their supply chain with links to deforestation.

Nestlé announced a break for the orang-utan - as well as Indonesian rainforests and peatlands - by committing to stop using products that come from rainforest destruction.



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Lesson learned from KitKat story

The key to crisis management is being prepared.

Be prepared.

Goals of crisis communication:

1. terminate the crisis quickly
2. limit the damage
3. restore credibility

Be available.

Be credible.

Act appropriately.





A new approach to managing a 'Classic' reputation



Last year, Coca Cola suffered a net revenue decline from \$11.5 to \$9.7 billion, making the \$1 million prize a cost-efficient gamble that, can “conceptualize an ideal state and implement a roadmap to reduce reputation risk.”

A new Coca-Cola-sponsored contest seems to publicly acknowledge its reputational risk, but at a minimal cost that could manage or even reduce it.

In early August 2017, the beverage giant announced its Sweetener Challenge, seeking non-employees (preferably scientists or agriculture or nutrition professionals) who can bring the company a “natural, safe, reduced, low- or no-calorie compound that generates the taste sensation of sugar when used in beverages and foods.” The winner will be announced in Fall 2018 and will receive \$1 million.

Taxes on soda, the decline of its consumption, and mounting data that sours on sugar has unquestionably affected the bottom line for the company and put pressure on the broader beverage industry. By initiating the contest, Coke seems willing to try a fresh approach to manage or favorably alter its reputation as a brand founded on sugary cola, while simultaneously attracting and retaining consumers and generating sales. That seems far less risky than not trying new techniques.



Business is built on trust,
so it is essential that in addition to
standard risk inherent to our
business, we avoid risks that can
undermine trust.





Recommendation: design your framework

before

Build your strategy

- Define reputation risk in your organisation
- Review your existing reputation
- Identify risks & damage, mapped & prioritised
- Craft your reputation risk management strategy, and integrate it with ERM
- Adjust operation/process/policies as needed

Strengthen yourself

- Train your people regularly on exposures that can result in reputational damage, ranging from cyber risk to ethical conduct and diversity.
- Reinforce values and brand
- Strengthen your crisis preparedness: stress-test policies and processes against real-world risk scenarios regularly, and embed the learnings for continuous improvement.
- Constant monitoring

during & after

Manage the crisis

- Demonstrate ownership, be credible
- Communicate decisively
- Act appropriately
- Proposed short & long term solution to fix the issue

Get back that trust

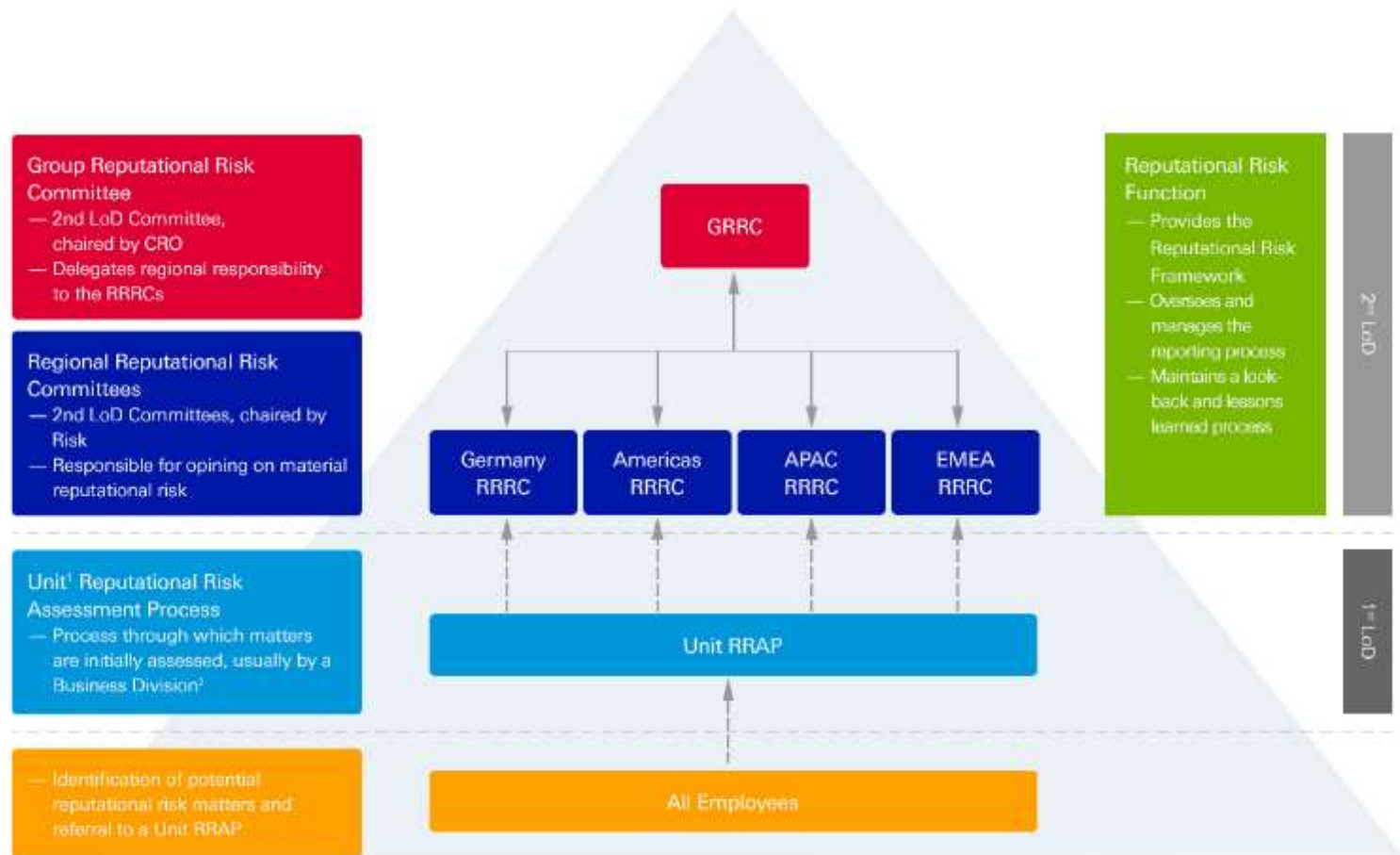
- Review your governance & processes to identify what went wrong and what need to be fix
- Communicate intensively on your improvement actions to regain trust





Managing the risk: learning from others

Deutsche Bank's Reputational Risk Framework





Remember this 😊

It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.

Warren Buffett





Hatur Nuhun

Thank you !

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