Companies can mitigate potential reputational risks by building up their “reputation buffer”. This brief explains what a “reputation buffer” is and how to use it as a de-facto insurance against reputational losses in the wake of crises. The brief also spotlights examples of a new, more formal type of reputation insurance, offered now by financial institutions.

Companies across the globe increasingly acknowledge that reputation matters, while trying to account for how dynamic and fragile reputation can be. After all, reputations change over time. A number of internal or external factors can influence how a company is perceived by its diverse stakeholders. Reputation Institute’s research has shown that companies with strong reputations can not only reap business benefits such as increased sales and customer loyalty, but also recover better from crises and financial downturns.

“Reputation Buffer” Is the Best Kind of Reputation Insurance

“Reputation buffer” refers to the intangible reputation capital accumulated by the company, which helps it achieve its business goals and serves as an “insurance policy” protecting the company against reputational losses in case of an adverse event. Reputation Institute’s research shows that in addition to increased consumer support (see sidebar), companies with better reputation spend less time recovering from both macroeconomic and company-specific crises. At the industry level, more reputable companies have been quicker at recovering after the most recent financial crisis of 2007-08:

- 86% of respondents said they would recommend products of companies with Excellent reputation (RepTrak® Pulse scores, compared to 26% willing to recommend products of companies with Average reputation and just 4% recommending products of firms with Poor reputation.
- 84% of respondents would work for companies with Excellent RepTrak® Pulse scores, compared to 28% for companies with Average reputation and 5% for companies with Poor reputation.
The RepTrak® Model

Reputation Institute’s RepTrak® model for reputation measurement is structured around four core themes and seven dimensions of reputation. Together, these elements explain a company’s reputation.

1. Corporate Reputation
ReTrak® Pulse is the core of a company’s reputation. It measures the strength of the emotional bond between the company and the public.

2. Seven Dimensions of Reputation
Reputation Institute evaluates stakeholders’ perceptions of company performance across seven reputation dimensions:

- Products and Services,
- Innovation,
- Workplace,
- Governance,
- Citizenship,
- Leadership and
- Performance.

The individual dimensions have varying weighted importance in different industries.

Figure 1. Strong Link between Reputation and Stock Price (US)

The chart on this slide demonstrates that the RepTrak® Portfolio has outperformed the S&P500 Index since 2006. It has also done so by an increasingly wide margin since the financial crisis of 2008. An investment of $100 in the RepTrak® Portfolio would be worth $250 in 2013, whereas investing in the S&P would net around $140.

When it comes to company-specific crises (such as product quality issues, supply chain disruptions, workplace, and ethical or regulatory issues) companies with stronger preexisting reputation are able to mitigate potential negative effects with minimal losses to their reputation.

Reputation Institute’s research shows that consumers are more likely to give better reputed companies the "benefit of the doubt": when a crisis strikes, 79% of consumers would trust companies with Excellent reputation (RepTrak® Pulse score) to do the right thing, compared to only 27% of consumers trusting companies with Average reputation and 8% trusting those with Poor corporate reputation.
Companies with stronger reputations have developed better internal capabilities to swiftly recover from crises:

- **Better understanding and communicating with stakeholders**, which provides a clearer idea of how a particular crisis may impact various stakeholder groups, allowing them to quickly craft targeted response strategies and messaging;
- **Higher levels of stakeholder engagement**, whereby stakeholders are consistently informed about and able to provide feedback on positive developments related to the company. As a result, media coverage of an adverse event will not be the first time stakeholders hear in-depth details about the company’s behavior-in-question;
- **More reputable companies often have formal reputation crisis management plans** that outline procedures, roles and responsibilities to be enacted in case of a reputation emergency.

**Can Corporations Buy Reputation Insurance?**

In recent years, several financial institutions have begun offering formal reputation insurance to their clients. The coverage under such policies – offered by AIG and Allianz, among others – extends to a predetermined set of events/scenarios that can have an adverse impact on corporate reputation. Interestingly, when these policies are scrutinized more closely, it becomes evident that they, in effect, constitute reputation crisis management plans for their clients.

AIG’s Reputation Insurance - ReputationGuard® - offers “a combination of proactive mitigation and reputation attack response coverage, addressing crisis communication costs.” In similar vein, Allianz’s Reputation Protect “provides the funding for crisis management for our clients in the event of a crisis.”

Both policies cover:

- Pre-crisis: consultation to determine client’s level of crisis preparedness;
- During crisis: reputation/brand perception monitoring across various media outlets; advice/services of preapproved expert communications and public relations agencies; costs of advertising and media campaigns to remedy negative impacts.

By buying a reputation insurance policy similar to those described above, a company outsources part of its reputation crisis response function. This does
not mean that it should reduce its focus on building up its reputation capital in the first place. As with any insurance, the best-case scenario is if the policy never gets used. Formal reputation insurance should be considered within the broader framework of reputation risk management, as a potential complement to a robust business strategy for improving long-term corporate reputation.

The Do’s and Do-not’s of Reputation Crisis Management

While stronger reputation prior to a crisis serves as a formidable reputation buffer, the ultimate reputational impact also depends on how a company responds in its aftermath. Companies need to be able to act fast in devising solutions to emerging problems and communicating their response to stakeholders.

Consider the example of Target’s reputation crisis at the end of 2013, when it suffered from a data security breach that compromised personal information of up to 110 million customers. A year later, Target’s RepTrak® Pulse Score fell below the U.S. retail industry average for the first time. The way the company handled the crisis significantly worsened the market impact: “Target did a poor job of handling the aspects of the crisis that they could control. The retailer failed to communicate what was going on to their stakeholders and customers. They were ill-prepared to handle the public backlash...Target’s response was delayed, disorganized and, according to some, lacking in compassion. The initial breach may have cost Target the trust of some of their customers, but the retailer’s response in the coming months probably cost them the trust of many more in the years to come.” (“Target’s Reputation Plummets in 2014 Following Biggest Security Hack in U.S. Retail History”, November 2014, Reputation Institute).

To improve their ability to effectively respond to a crisis and mitigate any negative effects, companies must develop a reputation risk management strategy before a crisis occurs. Doing this will ensure that, in the event of a crisis, company will be ready to respond fast, taking accountability when appropriate and effectively communicating on how it is addressing the problem.

Having a reputation risk response plan in place helps to identify key people who will be in charge of managing a crisis – from gathering ongoing market and stakeholder feedback to crafting the right messages and operational responses. In crisis communications, it is important to convey to stakeholders that the company cares about them and how it is fixing the problem. The long-standing
reputational impact will also depend on whether stakeholders decide that the crisis was an aberration caused by external factors, or a manifestation of deep-seated internal vulnerabilities.

Recommendations

To protect their reputations over the long term, companies need to adopt a comprehensive reputation management strategy, which should include a reputation risk management plan. Specific recommended strategies include integrating reputation metrics into a broader set of business goals, and expanding enterprise risk management plans to include reputation risks.

Relying on third parties to aid in managing an ongoing reputation crisis – either directly or in collaboration with a formal reputation insurance provider – should be considered as a supplement, rather than a replacement for a sound corporate reputation risk management strategy.

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