

## CORPORATE REPUTATION CAN ACCOUNT FOR 30%-40% OF A BUSINESS'S WORTH<sup>1</sup>

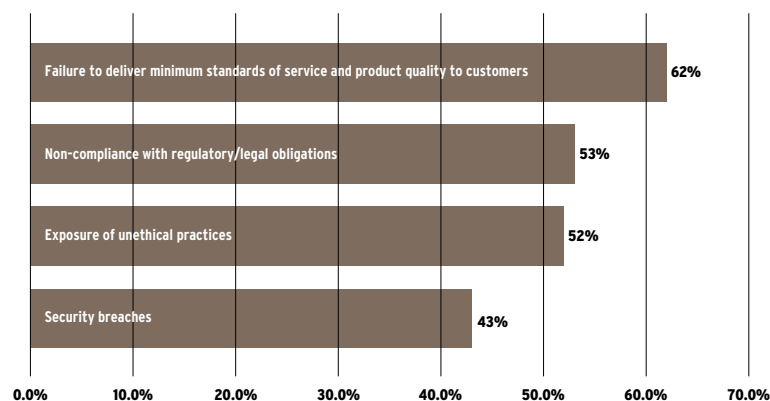
Corporations will spend considerable time as well as capital to protect their financial well-being. Today there is more understanding and recognition that negative publicity about the Corporation can impact the financial position. The 2010 incident with BP and the Deepwater Horizon oil rig has drawn attention to how the crisis situation can become a threat to the brand's positioning and meaning<sup>2</sup>. Protecting the reputation of the organisation now is no less critical than protecting the financial well-being. Reputation may be the single most valuable asset of the business<sup>3</sup>. The difficulty with reputation is its inherent intangibility; the damage manifesting in loss of trust and consumer confidence. However, this loss of public trust can have a very damaging impact on any business; consider the loss of consumer confidence with the U.K. bank Northern Rock in 2007 causing the subsequent nationalisation of this private institution.

Larkin (2003) noted that a changing society has driven the focus towards corporate reputation, particularly:

- The rising expectations of stakeholders about the social responsibility of business
- A decline in trust of companies and their leaders
- A more simplifying and sensationalist media
- The emergence of a victim culture
- The rise in anti-business and anti-technology activism

A survey carried out by the Economist Intelligence Unit (EIU) published in 2005 indicated that 83% of the respondents felt that risks to their company's reputation had increased. But, more importantly, this research indicated that for industries outside the financial sector the risk of failing to deliver minimum standards of service and product quality to customers was the prominent threat identified.

### KEY THREATS TO REPUTATION IDENTIFIED BY EIU



Delivering minimum standards of service is keenly relevant to the Leisure Industry. Failure in this leads to customer dissatisfaction; the customer is a vital stakeholder. The key to a good reputation is always meeting and aiming to exceed the stakeholder's expectations<sup>4</sup>. It is important therefore to identify the stakeholders in your business; the expectations they hold; how they interact with your business; the influence they can bring. Following stakeholder identification is the need to isolate which operations within your business will most likely suffer an incident that will impact your reputation. Galtier-Gaillard et al (2009) consider that there are seven activities within which incidents can be categorised.

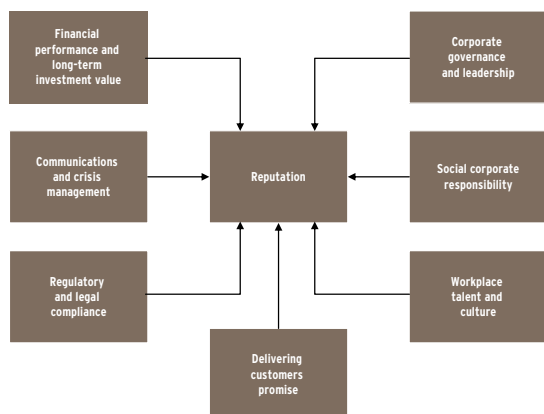
<sup>1</sup> Rayner .J (2004) 'Keeping your promises'

<sup>2</sup> Greyser .A (2009) 'Corporate brand reputation and brand crisis management'

<sup>3</sup> Siano .A, Kitchen .P and Confetto .M.G. (2010) 'Financial resources and corporate reputation'

<sup>4</sup> Gaillard-Gaultier .S, Louisot .JP and Rayner .J (2009) 'Managing reputational risk'

## REPUTATION DAMAGE WILL OCCUR FROM THESE DEFINED ACTIVITIES



Source: Galtier-Gaillard, Louisot and Rayner 2009

**For each of these categories of activity, pertinent questions are raised**

### Financial performance

- Does your business have a solid track record of performance?
- What are the future prospects?
- What could harm the business in the future?
- Which stakeholder group values financial performance?
- Are stakeholders given all the information they need?

### Communication

- Are the values of the business transparent?
- Are communications frequent and valid?
- Is the communication consistent?

### Regulatory

- Is the business seen as law abiding?
- Does the business comply with its own internal standards?
- Does the business comply with the spirit of the law?

### Delivering Customer Promise

- Does the business provide consistently exemplary quality service?
- Does the business innovate and launch new services?
- Does the business keep customer data secure?
- Does the business market responsibly?
- How are complaints handled?

### Workplace culture

- Can the business recruit top talent?
- Can the business retain employees?
- Is there a culture of pride in the business?

### Social Corporate

- Is the business a good corporate citizen?
- Does the business act in the long-term interest of stakeholders?

### Corporate Governance

- Is the appropriate tone set by the board and executive?
- Does the business have a realistic vision of the future?
- Does the business display good corporate governance?
- Does the business have a good supporting strategy?

Having a sterling reputation with the stakeholders is not a fool-proof remedy to surviving an incident. Although such an excellent reputation provides substantial goodwill it also creates a higher level of expectations for the behaviour of the business during a crisis. Falling short of these higher expectations is not satisfactory to stakeholders. The rising use of social technology offers the public instant communication on a vast scale not previously possible. Such communication allows instant negative publication across media channels about the incident. Although it is impossible to stop such channels of communication, a clear approach to handling an incident assists the business in overcoming reputation damage quickly and efficiently. Advice from Professor Greyser suggests a focus upon forthrightness in communications and on truly substantive credible responses in behaviour as these are the most likely avenues to rescue a brand.

The cost of communication can be prohibitive; therefore the use of risk transfer via insurance is one suitable method to absorb these costs. There are a few insurers who are beginning to gain more experience with the insurance of reputation as a non-physical damage business interruption coverage. This type of insurance relates to reputational harm triggered by specifically named events. Using a matrix formula along with an insurer application form it is now possible to develop a bespoke insurance product for the hotel industry.

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