



Reputational currency - how healthy is your account?

The digital era has transformed thought leadership for corporate reputation. The rise of big data has enabled analytical experts to put quantitative assessments on the 'currency' of reputation. This comes at a time when public trust is declining aided by an abundance of fake news; the reputation of any organisation communicating information is critical.

All organisations provide information, regardless of sector, whether government statistics, a plethora of social media posts, financial reports to investors, product advertisements or in the case of the NHS, patient guidance. In the information age the list is endless. This paper explores the concept of reputational currency and the role that internal audit has in providing assurance over how organisations are proactively managing their reputation, and its value.

In times of uncertainty, such as the coronavirus crisis, information is critical to an organisation's reputation:

- What did the lack of PPE say about the government's ability to resource the NHS?
- How did perceptions change for luxury brands such as Burberry (PPE) and perfume giant LVMH (hand sanitiser) switching production lines to provide critical products, likewise small businesses that did the same?
- Where will consumer preferences reside - with companies that gave timely refunds or those who delayed or refused to reimburse travellers, audiences etc when commitments couldn't be fulfilled due to lockdown measures?

The words and actions of leaders are important amid chaos – the CEO of Primark was clear in his response to the company losing sales of £650m a month while stores were forced to close, “in time we can rebuild the profits, we can't replace the people we lose.”

Double vision

The Oxford dictionary defined reputation as ‘the beliefs or opinions that are generally held about someone or something’. This is the traditional **Outside-in** perspective, yet reputation is two-fold. It is also about what an organisation or person projects and tells others about themselves, the **Inside-out** perspective.

By considering both dimensions of reputation organisations can begin to understand the key drivers, measure them and increase their value.

Research by the Reputation Institute (RI), now known as RepTrak, led to the creation of the RepTrak™ Reputation Model defining seven rational dimensions that sit around four emotional bonds that connect individuals to organisations. These are familiar topics for audit leaders and will be explored in more detail.

Kasper Nielsen of the Reputation Institute said that ‘to understand reputation you need to make the intangible tangible. You need to break down your reputation into specific components that you can measure and manage.’

Using the RepTrak model, RepTrak gathers data from a wide variety of sources (7000 companies, 55 countries, 20 industries), weights it against each dimension and uses machine learning to conduct detailed analysis to measure reputation. Focusing on lead indicators in each category it is possible to assign a value at risk (VaR) and proactively manage the relevant elements to maximise advantage through reputation.



Each year they produce a Global RepTrak report of their results and rank organisations according to their reputational qualities.

Outside-in

This is the reputation that has been paid for; it is the advertising, press interviews, presentations that are pushed out to stakeholders. It is what the organisation projects as its reputation, the social responsibility initiatives, style of job advertisements, work environment, annual report and sustainability activities.

As with product/service marketing, there is often considerable ‘noise’ which makes it difficult to know if the message has actually been heard and where it cuts through there may be other distractions or misunderstandings.

Conceptually, reputation could be regarded as a by-product of these actions or it could be integral to their planning and how they are delivered.

- What do you think is the case in your organisation?
- Does a clear picture emerge if the dots are joined up or is it a random collection of lines?

Inside-out

This is the reputation that has been earned; it is the dialogue that investors, customers, clients, suppliers and employees share about the organisation. This can include reviews, articles, media, endorsements, shares and retweets etc. It is the cumulative effect over time of behaviours, emotions and experiences

associated with an organisation – an organisations culture.

2018 RepTrak results found that over 53% of reputation perception came from the critical dimensions of product/service, governance, good citizenship and innovation.

- How much effort does your organisation put into governance, citizenship and culture?
- What is the focus of activity with external stakeholders?
- Where are the audit touchpoints for assurance? Where should they be?
- Who is accountable for knowing what is being said about the organisation? How formal is it?
- What reporting is done? Has this ever been audited?

It is often said that beauty is only skin deep and that real beauty radiates from the inside-out. This is also true of reputation.

A new currency

Reputation has the potential to be the biggest currency in the digital/information age. The speed at which opinions are shared is staggering. Just consider for a moment the number of Twitter followers that Barack Obama (119m), Donald Trump (81m), Bill Gates (51m), BBC news (44m) Elon Musk (35m) reach with a single tweet plus the millions of viewers that a viral video receives on YouTube/Facebook.

In an era of fake news, perhaps it is ironic that one of those calling for media responsibility, US president Donald Trump, found his own tweets censored in May 2020 by algorithms introduced by Twitter to alert users to potentially misleading information.

A concern for many companies is the reputational risk they're facing from negative press, reviews, social media and more in the digital age. Research by reputation experts [Igniye](#), found one in three UK SMEs said negative digital content had damaged their brand. And then there are own goals. Was the [singing CEO](#) responsible for the dip in Sainsburys share price in May 2018 or was it just over-inflated after announcing its strategic interest in buying Asda? How will the ramifications of the Oxfam sexual misconduct scandal be counted not just in the immediate loss of government funding, cancelled donations and [redundancies](#) but longer term due to cancelled projects, prolonged poverty and despair.

It is often said that people trust people not companies. Therefore it follows that the CEO is an important factor in corporate reputation. According to RI research 14% can be attributed to the CEO – their behaviours, their words, their values, their leadership.

- What is your CEOs contribution to the reputation of your organisation?
- As an audit leader what is yours? What do you contribute?

Auditors across all sectors would be outraged if their organisation had little in the way of controls to manage its cash yet are we as affronted by a lack of formality over the management of reputation?

Likewise, organisations invest resource in protecting and maintaining assets such as property, people, machinery etc. Consider the commonality of a fixed assets audit. Is reputation not an asset that also requires protecting, maintaining and auditing?

Role of internal audit

Internal audit has long been associated with the cornerstones of corporate governance, yet this is just one of four interdependent pillars that are critical to providing insightful assurance.

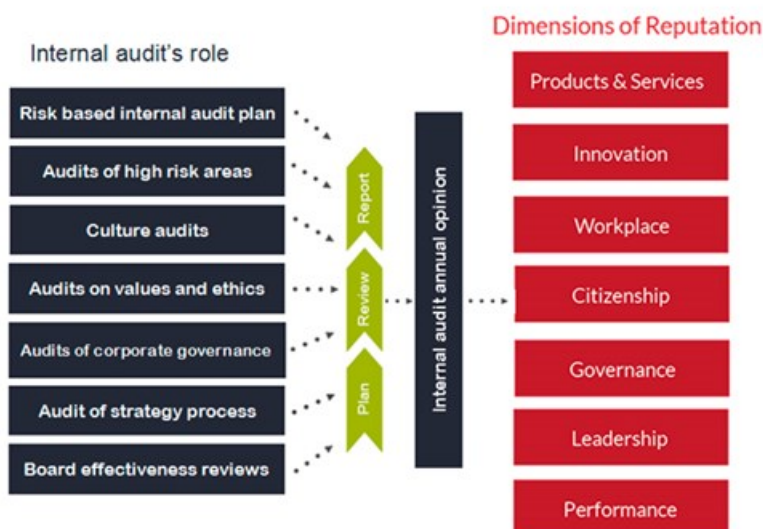


Chief audit executives (CAEs) may be concerned about auditor skillsets, intangible constructs, board commitment and a host of other pretexts as to why reputation in particular is not part of the audit plan. These are not justified reasons.

Reputation auditing doesn't require specialist skills so find ways to overcome the other barriers; open the dialogue to find an influential supporter, look at the wider network of non-executives, research examples of organisations that have lost value due to reputation damage in the same sector, invite a specialist to talk to the board to raise awareness, talk to other CAEs, the list could go on.

Use the diverse competencies across the organisation to support internal audit such as those who deal with external communications, corporate affairs, company secretary, human resources, corporate communications, brand marketing –not the traditional 2nd line of defence but reputation, culture and trust have not been traditional types of audit – but they need to be going forward.

Thinking about each of the dimensions from the RepTrak model provides auditors a framework against which to plan assurance.



A useful exercise could be to think about each of the organisations objectives and what reputation events could negatively impact them against each of the dimensions.

Are they on the risk register? How likely are they to happen – should their management be a priority? What is the organisation doing to prevent these events from occurring? How effective are the controls? All typical audit questions that will help to position reputation auditing on the audit plan in an appropriate and proportionate manner.

A valid start point could be to audit the organisation's approach to managing reputation risk. Often considered as a consequence of risk events materialising, reputation is also a risk in its own right; particularly when applying the inside-out theory.

In 2015 an emission scandal rocked Volkswagen yet by 2018 the share price had increased by 10% and investment booming. The costly crisis was an enabler for internal change influencing investors and consumers towards a more positive future.

Reputation risk management

According to the RI, most organisations are still developing along the maturity curve for the management of reputation risk. Think about where your organisation sits on this – it will help shape the assurance approach.



Managing reputation is much like culture; it runs through the organisation and is managed everyday by everyone. It is grounded in the actions, decisions and ways of working from a complaints procedure through to investor roadshows. How does your organisation make sure this happens consistently and in a way that protects the 'image', the reputation that is desired?

- Who if anyone is accountable for reputation risk? If no-one, then who are the key stakeholders, the decision makers and influencers that can create and stand behind a business case?
- How is reputation risk identified and assessed – consequence or its own risk?
- What is most relevant for the organisation to generate interest? Have particular dimensions of reputation caused issues or are they well managed? Where is the most value to be gained?
- Where do the competences reside that can manage the different dimensions of reputation? It is not just about protecting what has been earned to date but also about building on it for the future – a

tangible asset like cash would be invested, property would have a maintenance schedule – what about reputation?

- How is reputation linked to performance and reward? How significant are the perceptions of stakeholders to the executive team?

When is the corporate story created to the depth that it integrates into all stakeholder touchpoints? A consistent, managed reputation.

Mobile phones catching fire and a bribery scandal have not seen Samsung fall out of favour. Their reputation has survived and strengthened due to strong crisis management, transparency and a focus on core product values.

Internal audit can also provide consultancy to support the business, facilitating a risk workshop to explore reputation – moving through different phases of analysis to decision making and generating actions. This could be a pre-cursor to future assurance activity for organisations that are still evolving their understanding of the value of proactive reputation management.



Audit leaders will be familiar with the requirement of listed companies to make a viability statement, confirming long term sustainability to assure investor confidence. When considering the principal risks what value is placed on reputation? Does it receive the prominence of cybersecurity, IT programmes, cash flow and regulations? Perhaps a reputation resilience statement will be a future obligation; for now, it should at least be factored into viability assessments.

Closing thoughts

At a time when Edelman's 2020 trust **barometer** continues to show a crisis in trust, audit leaders can think about their own organisations and whether its reputation has declined, increased or stagnated over recent years. In an era of big data, corporate social responsibility initiatives may not be impactful with stakeholder communications competing for attention in a sea of bad news over good.

As we head into a global recession due to covid-19, reputation assurance and raising the profile of its value could make all the difference in challenging times.

"Next to doing the right thing, the most important thing is to let people know you are doing the right thing."

- John Rockefeller