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Research Note

Branding and Managing Reputational Risk

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Abstract: In a time of headline grabbing reputational failures, reputation is an increasingly acknowledged vital asset to organizations. The development of organizational branding can be an important piece of building a strong reputational foundation. Effective management of risks to reputation requires organizations to prepare and plan for the events and incidents that risk damage to their reputations. Through clear and consistent communication, training, leadership, and planning, organizations can better prepare and survive the reputational tests that every organization faces.

Introduction

Billionaire businessman Warren Buffett once said, "It takes 20 years to build a reputation and five minutes to ruin it." And we have seen the truth of that in recent years. There have been many well-established organizations and individuals that have faced defining moments that, depending on the choices made, determined survival beyond that key turning point. It is how organizations prepare for and handle these moments that define their future reputations.

While everyone knows that there are many dangers and risks that exist in the world, the risks associated with reputation and brand can be particularly tricky. This stems from the fact that while there are actions for strengthening and protecting a reputation, ultimately the power to control reputation rests in the hands of others. Organizations and individuals are increasingly recognizing the critical importance of preparing for and facing these risks, particularly in the age of instant and easily replicable communication.

Brand and Reputation

The ideas of brand and reputation are certainly related to each other, though there are a few distinctions that can be made between the two. While there is not universal agreement about what these differences necessarily are, it is important for an organization to think the two parts through.

Reputation can be summed up as the ideas, beliefs, expectations, and opinions that are held (in general) about something or someone. The perception of an organization does not necessarily have to be based on truth or reality, but is simply the way that someone or something is thought about by others. And reputation has been

shown to be an escalating factor in both business value and customer behavior. One report found that the intangibles like reputation actually account for a majority of organizational assets, particularly in service-oriented firms (Tonello 6).

Brand, on the other hand, is not as neatly summed up. Maria Ross writes that brand can be thought of as “the personality and soul of an organization communicated in various ways “(8). Bill Taylor talks about for an organization “your brand is your culture, your culture is your brand”, in the sense that internal factors can play just as an important part of building external brand as the other brand initiatives. An organization does in general have more control over building and shaping brand. But brand is not simply good public relations or a strong marketing campaign, but rather all the interactions and actions of an organization both internally and externally. Brand is part of reputation, and a well-developed brand can help protect reputation in times of crisis and business-interruptions. Building a clear and consistent brand is critical especially for businesses, Ross stresses. “Brand *clarity* attracts customers and brand *consistency* makes them stick around” (25).

Reputation and Digital Communication

Traditionally, brand was built by companies through mass media (newspaper, radio, the few main television channels) and was considered more about advertising and marketing than about the portrayal of the company in its entirety. Word of mouth and informal communication between customers is also not a new concept, but the medium of the Internet has changed the rate and ease by which these opinions and ideas are shared. Competitors and potential customers alike both have unprecedented access to consume and create editorial commentary, consumer reviews, news articles, and the

like about both companies and individuals. Reputational risk therefore must be incorporated into all areas of risk management, including communications and customer relations. And information access can be a two-way street. Organizations can now also, faster and easier than ever, keep an eye on relevant public opinion and perception through monitoring digital sources and gathering customer feedback.

Reputational Risk

Damage caused from a reputational or branding failure can result in multifaceted and long-lasting consequences. For example, the recent security breach of EMC Corp's RSA division, which resulted in the attack on defense contractor Lockheed Martin Corp, has already injured a previously stellar reputation that will likely be difficult to regain. It takes around three-and-a-half years to recover from an event resulting in reputational damage on average, though the companies with strong track records tend to recover easier (Tonello 9). Brand and reputation matters for organizations both large and small, and can be impacted both directly and indirectly by direct risks as well as risks to associates, suppliers, and partners. Reputational risk is increasingly acknowledged as a very complex part of risk management, and the most difficult to manage. Reputation can be a major competitive advantage, and a major source of disaster. Preparing for the worst and having a plan for the inevitable events that happen is part of successful reputational protection.

Johnson & Johnson: Reputation Managed Well After Crisis

The tales of poorly managed reputational incidents are numerous, but it is important to highlight the actions taken by those who have survived and overcome the risks.

Johnson & Johnson's swift and decisive Tylenol recall in 1982 reveal several important factors in managing reputation in a time of crisis. After seven people died from cyanide-laced Tylenol capsules, a painkiller product responsible for 17% of the company net income the previous year, Johnson & Johnson recalled 31 million bottles. Yet the market share, which had dropped 30% after the crisis, was almost completely recovered a year later after the recall and relaunch, and the brand remains strong today (Rehak). This case highlights a few particular actions that revealed how reputation can be managed even in the aftermath of a deeply damaging event.

1. Johnson & Johnson made it clear that the safety of their customers was their number one concern through the recall, which was at the time an unprecedented action. Part of a reputation is following through with action the promises that have been made.
2. The company chairman at the time, James Burke, was seen as being very upfront with the public and the media about the entire ordeal. Strong leadership and consistent communication combined with the persistent customer care helped protect the brand Johnson & Johnson had already developed. Johnson & Johnson showed they had control over the situation, and committed to fix the problem so it would never reoccur.
3. Recovering from a crisis is expensive in many ways, and still the company took the initial financial hit to fully address the problem. Over \$100 million was invested after the incident (Rehak), with a number of follow-up campaigns in the following years. Not all organizations have the capital to spend on the scale of Johnson & Johnson, but the action of spending money on fixing the problem was a clear message to the consumer. And the financial and business results have

been clear – Johnson & Johnson has been paying out increasing dividends for decades (Rehak).

Making Your Reputation and Brand More Resilient

There are a number of ways to work as an organization and as an individual on building a strong brand and a more resilience reputation before a crisis or incident even occurs. Taking proactive action can mitigate or even prevent some of the negative consequences that are associated with a negative failure.

1. Know your brand. Identify what the “heart & soul” of your organization is, and clearly define what that means in the practical terms you can control. Brand is not just a logo or business paraphernalia, but identifying how brand is manifested through those means is important to know.
2. Once you have defined it, keep the message clear and consistent. Whether it is formal communication or informal behavior, a strong reputation relies on customers and the public seeing and hearing the consistent brand of the company. Identify who is responsible for speedy and clear communication after an incident. A quick and effective response to an issue can be the most valuable pillar of keeping a strong reputation.
3. Strong leadership is key, but as Taylor mentions, brand is part of internal organizational culture as well. Responsibility for organizational reputation starts at the top leadership and goes all the way down. Communicate and train employees in acceptable behavior (in both the physical and digital realms) and make sure organizational expectations are clear. For example, an organizational

social media policy that is both appropriate and understood by employees can help protect from accidental reputational damage from within.

4. Build your digital identity and increase online reputation resources. What does that mean exactly? When the inevitable incident happens an organization is going to want anyone searching online for the company to have positive search results. So before the crisis happens, proactively build your reputation. Upload and create links between organizational content, whether that means reviews, news pieces, social media sites, publications, or videos. Redundancy is often a positive feature online – you want people to be able to find things easily, and connections across the web strengthen search engine results.

Conclusion

Much of reputation risk management is as much about crisis prevention as it is about management after a crisis. Preparing and planning for the unexpected is not a simple action nor is it without cost. But the process can have significant positive returns for the organizations that invest in building their brand and making their reputations more resilient.

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