



Reputational Risk **&** ***Integrity in organizations***

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Overview: Reputational Risk

A. Some facts finding on Reputation

1. Premium on Good Governance implementation (Legal Compliance)
2. Rating scores (Compliance & Reputation)
3. Perception on ethical behavior of businesses (Integrity & Reputation)

B. Conceptual Interdependences

1. Good Corporate Governance (Compliance/Legal)
2. Reputation & Risk
3. Integrity & Reputation
4. Safeguard Reputation from Corporate Governance Risk

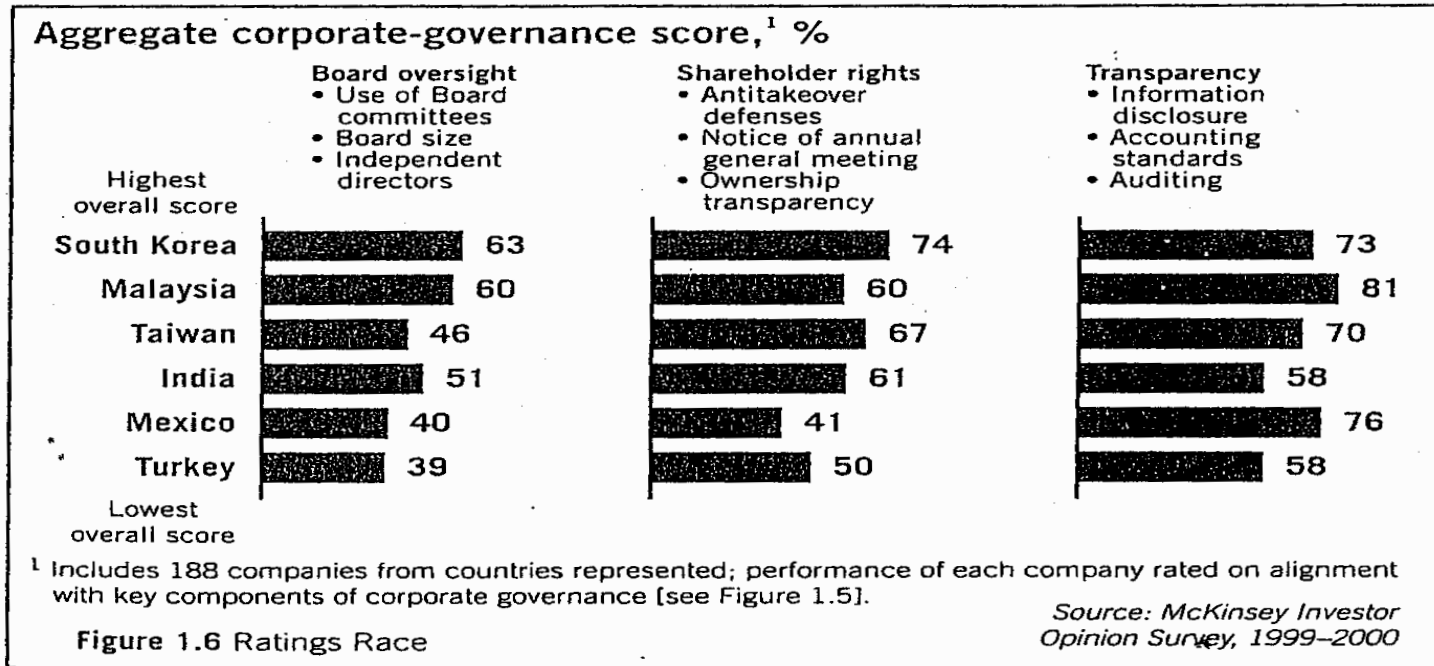
C. Research & Recommendations

1. Reputational Risk Management
2. An Integrated Responsible Corporate Strategy



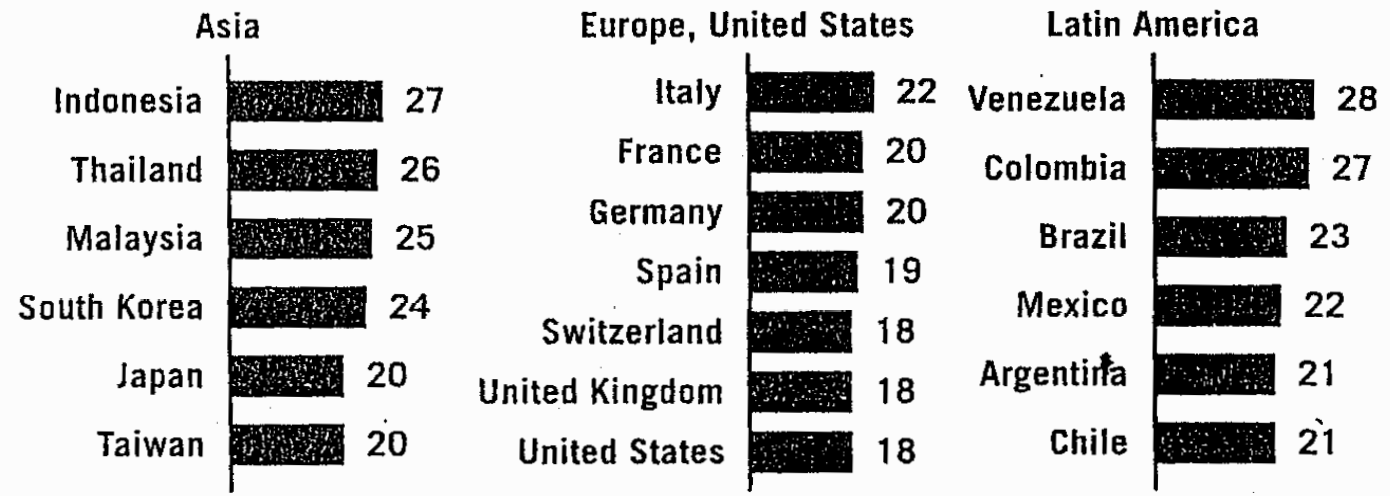
A. Facts / Perceptions

Corporate Governance across countries



Corporate Governance across countries

Relative premium: Measuring the value of good governance in three regions
Average premium that investors are willing to pay for well-governed company, by region, %



Source: McKinsey Investor Opinion Survey, 1999-2000

Figure 1.5 Relative Premium on CG

“Big business on the nose”

Financial review October 9, 2006

What makes a successful company:

- Determined 97%
- Inventive 95%
- Innovative 97%
- Fresh thinking 94%
- Visionary 93%
- A good place to work 91%
- Entrepreneurial 90%
- Interesting and different 87%
- **Ethical** 86%

“Big business on the nose”

Financial review October 9, 2006

What makes a great brand?

- High quality
- Never lets you down
- **Trustworthy**
- **Credible**
- Tells the truth
- Consistent
- A leader in its field
- The best
- **From a company with values/ ethics**
- Easy to remember

B. Interdependencies:

Good Governance

&

Reputational Risk

&

Integrity



Good Corporate Governance

Professional Integrity & GCG

- Good Governance is an expression of one's professional Integrity
- GCG leads to improved performance and willingness by investors to pay a premium

Corporate Governance **sensu stricto**

- **Corporate Governance** (McKinsey, i.e. in its strict interpretation) =
effective boards of directors, broad disclosure, strong rights and equal treatment of shareholders:
 - Internal & External Audit / Regulatory
 - Risk Optimization
 - Remuneration/Performance/Succession of Top Management

Corporate Governance **sensu lato**

- **Corporate Governance (in its broader meaning) =**
appropriate monitoring and management of the relationships between the corporation and its other stakeholders: employees, creditors, suppliers, customers, host communities - and the relationships among these constituencies themselves



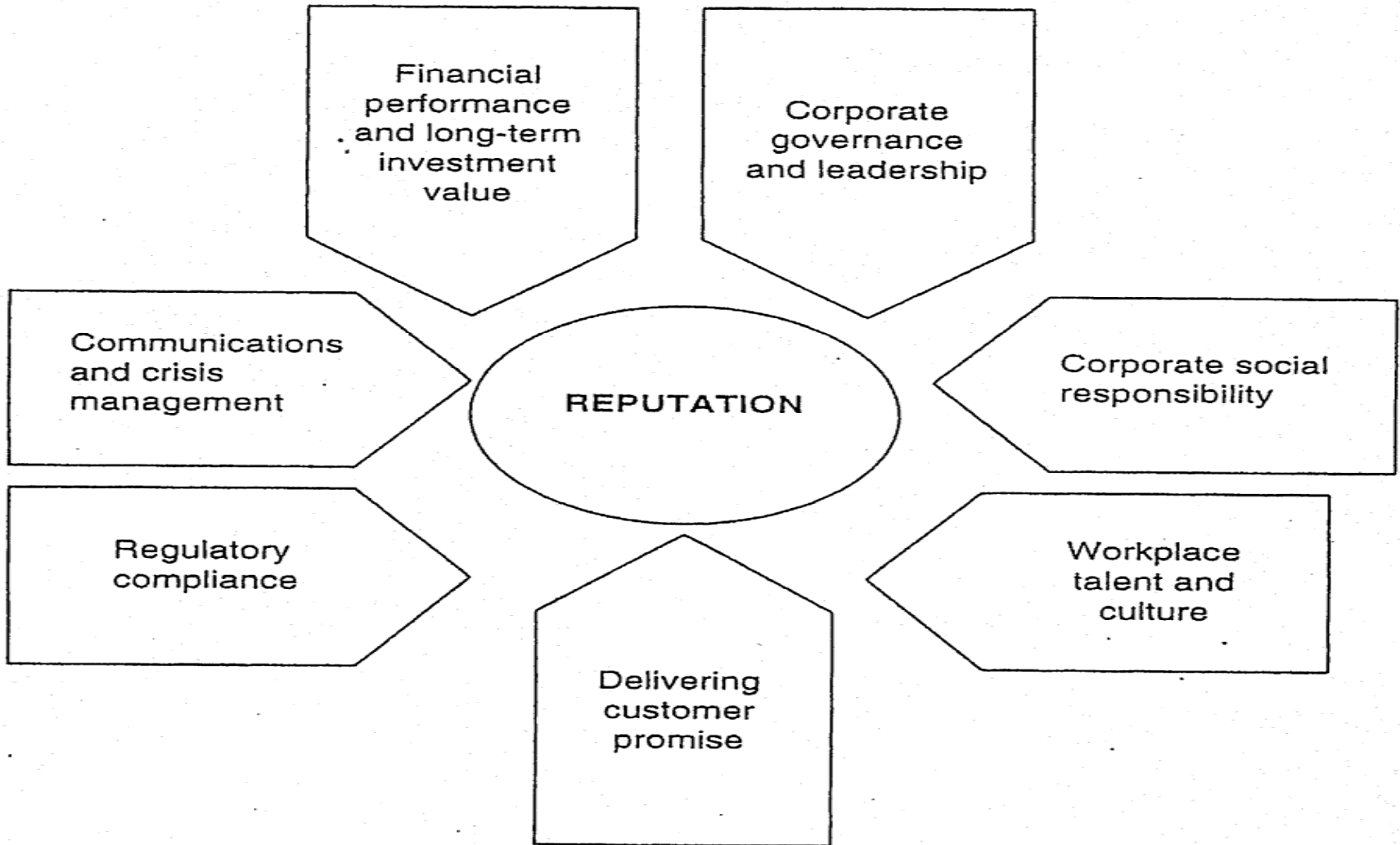
Reputational Risk

Critical Success Factors of Reputation

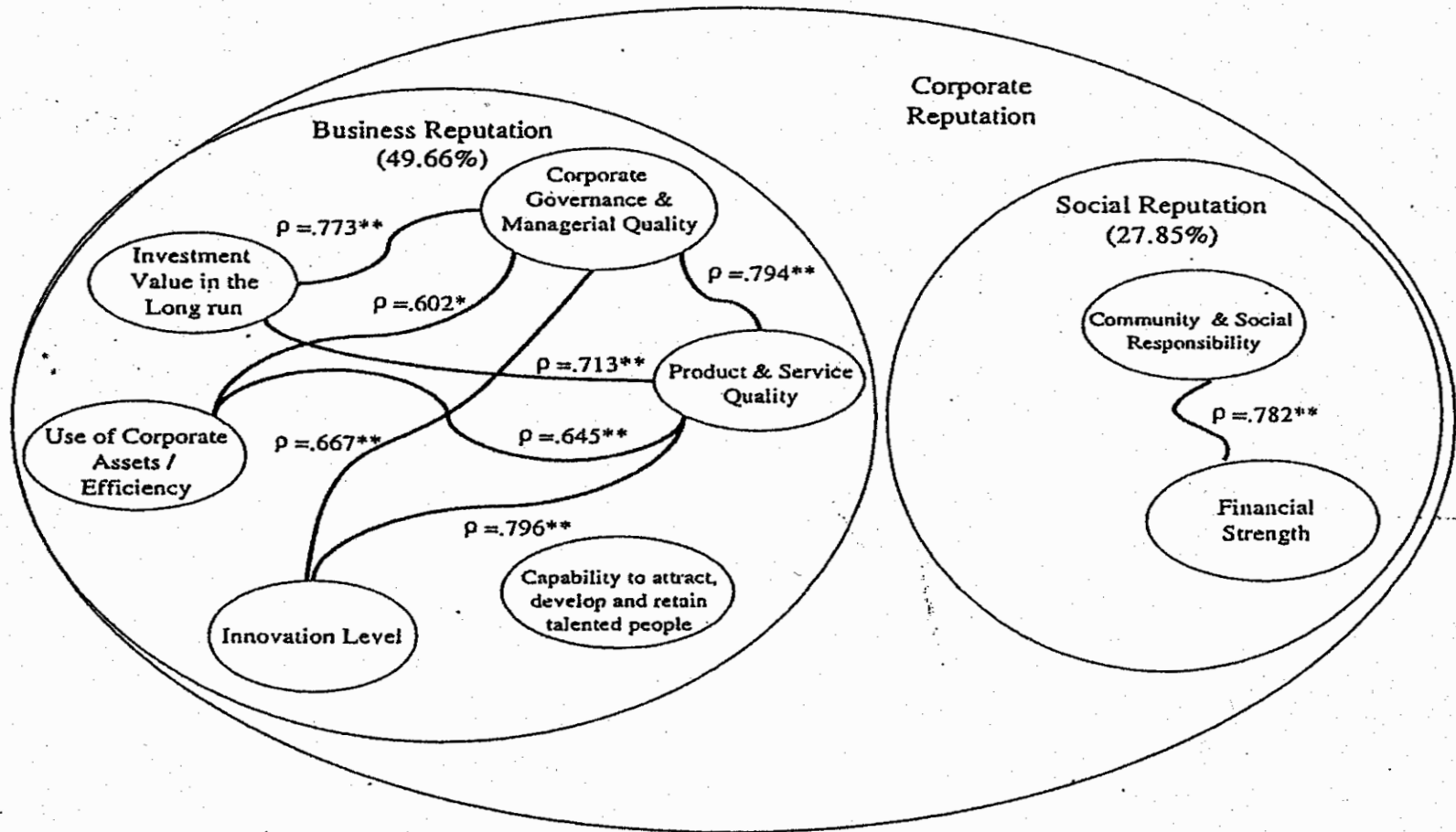
1. Financial Performance
2. Lt Investment value
3. Corporate Governance & Regulatory Compliance
4. Optimal & efficient use of corporate assets
5. Leadership & Managerial quality
6. Delivering customer promise = product & service quality through innovation
7. Capability to gather, develop & retain talented people = Corporate Work Culture
8. Corporate Social Responsibility
9. Communications & Crisis Management

Drivers of Reputation

RAYNER, J., Managing Reputational Risk, Wiley, 2003, p14



Business and Social Reputation



The complexity of corporate reputation.

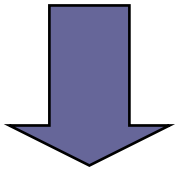
Inspired by ZABALA, I.; PANADERO, G, "Corporate Reputation in Professional Services Firms", Corporate Reputation Review, 2005, pp59-71



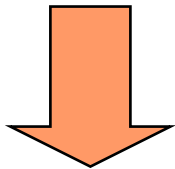
Integrity

Reputation

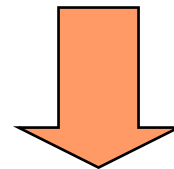
Integrity



Good Corporate Reputation



Trust



Legitimacy



Safeguarding Reputation

Safeguard Reputation **from Corporate Governance Risk**

- Compelling vision and strategy
- Responsible, accountable and dynamic leadership
- Balanced and effective board
- Independent, challenging and proactive non-executive directors (or commissioners)
- Appropriate remuneration and incentives
- Relevant and effective board committees
- Comprehensive and cohesive risk management and internal control systems
- Robust oversight and assurance
- Full and transparent disclosure
- Availability and responsiveness of directors



III. Research
&
Recommendations

How to become more reputable?

- To Avoid ***Illegal*** Corporate Behavior
- To Avoid or to Minimize ***Unethical*** Corporate Behavior =
 - How to minimize “***Creative Accounting***” practices (accountability and transparency) & ***Creative Compliance*** (Not just complying with the letter but also with the spirit of the law: from rules-based to principle based regulations) ?
- Pursue the highest ***professional Integrity*** as possible

Strategies?

■ ***Minimizing Unethical Behavior.***

- Put Control Systems in place = GCG
- Real Options Theory (implying uncertainty)
- Analyzing CSFs of Reputation in organizations
- Linking all the variables of Reputation

= (1) **GCG**

+ (2) **Reputation Risk Management**

■ Pursuing Integrity in developing ***Integrated “Responsible Corporate Strategies***

= (3) **CSR**

Strategies:

1. GCG

= minimal ethical & economic requirements

or *compliance to the letter of the law*

2. Reputation Risk Management

= obligations beyond the minimum

or *compliance to the spirit of the law*

3. CSR / Integrated Responsible Corporate Strategy

= ethical ideal

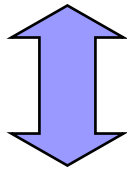
or *Integrity*

An Integrated Reputational Risk Management

Financial Performance (Tangible Assets)

+

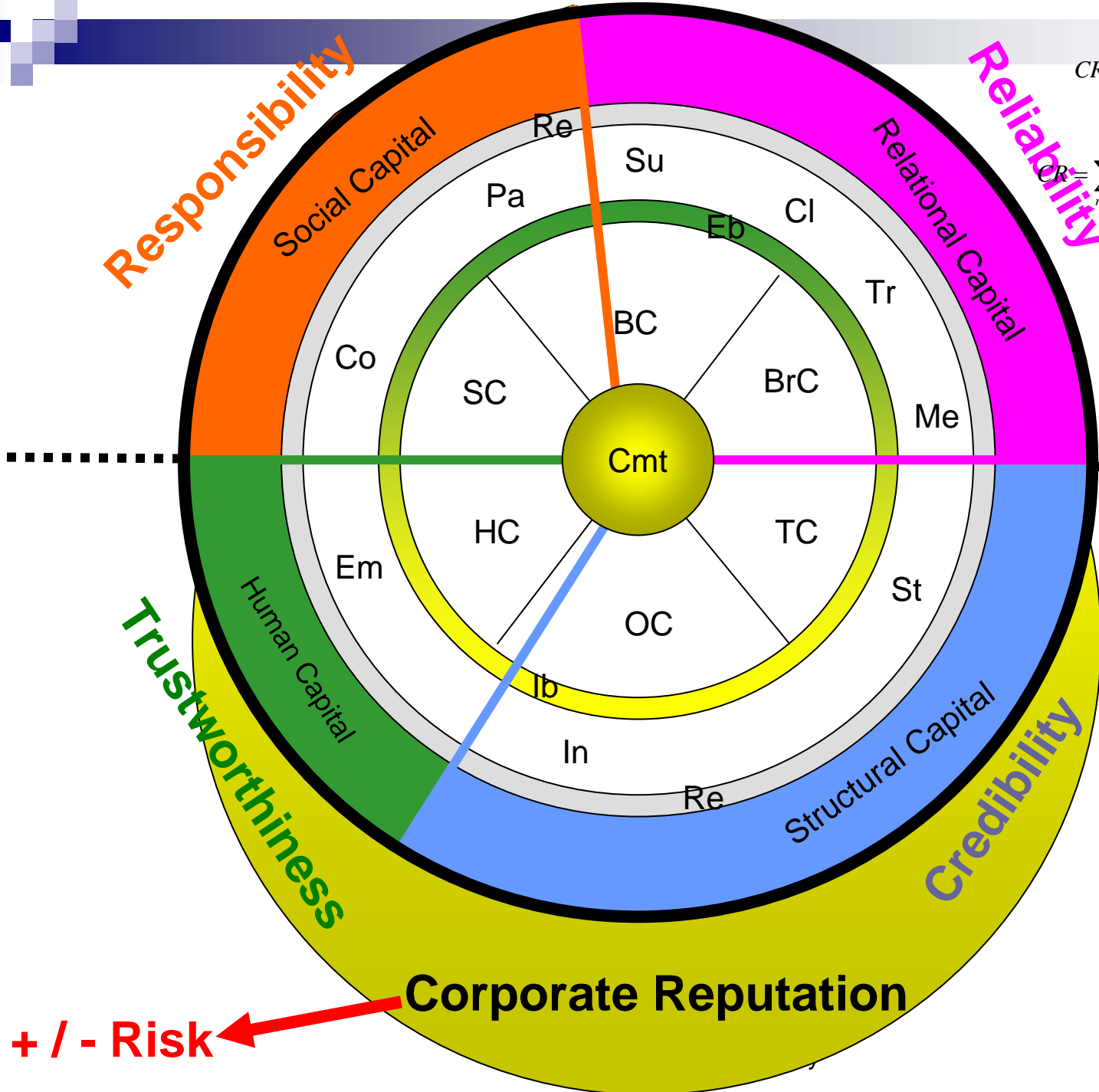
Non-Financial Performance (Intangible Assets)



- External Behavior = Social Capital + Business Capital
- Corporate Image = Brand Capital
- Internal Behavior = Human Capital + Organizational Capital + Technological Capital
- Ethics & Values = permeates all types of stakeholder Capital

CSFs of Integrated Reputational Risk Management

- Compelling unique vision and values / Cmt & BrC
- Supporting policies & codes of conduct / Ib
- Inclusive approach to governance / Cmt
- Understanding of responsiveness to shifting stakeholder requirements and expectations / Eb
- A robust and comprehensive risk management system / Ib
- Willingness to learn, adapt and recalibrate / Ib & Cmt & BrC
- An open and empowering organizational culture / Ib
- Alignment of goals, roles and rewards / Ib & BrC
- Extension of values & policies to business partners / Eb & BrC
- Transparent and credible reporting and communications / Cmt



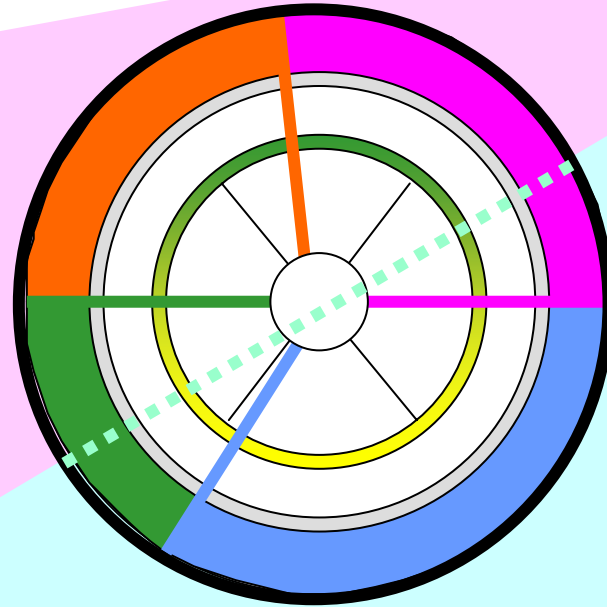
$$CR = \sum_{n=1}^{\infty} \left[\frac{Eb * (Com + Re)}{Ib * Mi (Vi + Val)} \right]_n$$

$$CR = \sum_{n=1}^{\infty} \left[\frac{(SC + BC) * BrC}{(HC + OC + TC) * Cmt_{Ca(1-4)}} \right]_n$$

External
Internal

- Eb=External Behavior
- Ib =Internal Behavior
- Re=Recognition
- BC=Business Capital
- BrC=Brand Capital
- SC=Social Capital
- TC=Technological Capital
- OC=Organizational Capital
- HC=Human Capital
- Cmt=Commitment
- Cl=Client
- Tr=Trade Organization
- Me=Media/NGO
- St=Stakeholder
- In=Investor
- Em=Employee
- Co=Community
- Pa=Partnet
- Su=Supplier

+ / - Risk



Risk Management=Max Shareholder Value

Rules & Regulatory oriented / Compliance

Reputational Risk Management=Max Corporation Value

Principles oriented / Integrity

*“Communitarian approach
justice – responsibility
cooperation - reciprocity*

Reputation & Integrity

*“Contractarian approach
freedom-liberty
competition - effectiveness*

Index IRRM

- Establish an Index on an Integrated Reputational Risk and 'Responsible' Management
- To what extent will cross cultural features influence this IRRM?



Thank you