

REPUTATION, RISK AND GOVERNANCE

By Marion Turner

WHAT IS REPUTATION?

'It takes 20 years to build a reputation and five minutes to ruin it.'

Attrib. Warren Buffet, US financier

Any organisation's reputation derives from a mix of the rational and emotional attachments that stakeholders form with it. Unlike image, which is a more immediate external perception of an organisation and may be one element of reputation, reputation is built up over a longer period and is about the integrity of an organisation. It is the result of a collection of memories, perceptions and opinions, influenced by every event, contact, public statement, media reference, rumour or leak about that organisation. It is as much about impressions, beliefs and feelings as about experiences and knowledge. But perception strongly influences – or can become – reality.

A good reputation means the business is perceived to match stakeholders' values, while a bad one means it is not. In the corporate sector a company may emphasise its ethical investments, as for example the Co-operative Bank, or its environment-friendly policies, as for example the Body Shop, and use these selling points in its publicity.

An organisation cannot completely separate itself from a sector or product reputation—for example, a train-operating company from the railway industry. Similarly a housing association needs to take account of the Housing

Corporation's warning about 'the possible effects of excessive payments (to executives) on the sector's reputation'. Yet every organisation has the opportunity to develop, and manage the risks to, its own reputation.

WHAT HAS REPUTATION TO DO WITH GOVERNANCE?

A theme that recurs throughout the Housing Corporation's volumes of *Learning from problem cases* is that one of the primary causes of serious problems is poor governance, and this experience is shared by other regulators. Poor governance can help destroy the reputation of a business and the personal reputations of board members and management. The private sector has numerous cases of board-room casualties and tarnished personal reputations, for example Ratners, Blue Arrow, Marks & Spencer, BCCI, Hollinger and Equitable Life; as well as some fatally damaged organisations.

Most corporate governance disasters happen because the non-executives become too close to, or blindly trust, the executive. Non-profit-distributing organisations are particularly vulnerable as there are rarely enough independent, critical, voting shareholders to intervene.

WHAT IS THE ROLE OF THE BOARD?

Good practice guidance on corporate governance emphasises the important role of the board in considering the nature



EDITOR'S FOREWORD

This sixth paper on risk management is published as part of a short series sponsored by the Housing Corporation. The aim is to encourage development of best practice among housing associations. The papers follow on from previous publications that sought to introduce and develop effective risk management. In particular the publication in 2000 of Effective Risk and Business Management was designed to identify the elements of a risk management framework for housing associations.

The views expressed in these topic papers are those of their authors and not the Housing Corporation. It is hoped that they will stimulate discussion and the development of best practice in specific areas of risk management. Comments on the papers would be welcomed.
Roger Lustig



and extent of risks facing the organisation and the levels of risk which are acceptable; the effectiveness (and costs) of risk management; and the organisation's ability to respond to changes in its business and the external environment. The board needs to consider qualitative as well as quantitative risks.

The board – explicitly or implicitly – sets the tone for how the organisation, and the individuals who comprise it, behave. Reputation and risk are so pervasive and inter-linked that they cannot be the responsibility of a single individual or department. Organisations that have successfully protected and enhanced their reputations have put reputation management firmly on the agenda for all employees, with the tone set clearly by the board as the ultimate arbiter in assessing the impact of significant risks to reputation. At minimum, board members can make three invaluable contributions to an organisation:

- take strategic decisions;
- provide specialist expertise and breadth and depth of experience;
- protect and enhance its reputation.

The board should establish and communicate the association's values and its appetite for risk through policies and procedures that provide direction for delegated decision-making. It needs to establish a climate of trust and openness in which employees:

- understand their responsibilities for identifying and managing opportunities and risks, including to the association's reputation;
- are encouraged to challenge management and give early warning of all potential risks, including to reputation;
- recognise and value the extent to which their attitudes, behaviour, and oral and written communication, affect the association's reputation.

The board needs to ensure that risk management and control systems are in place and operate effectively, so that

management can confidently provide assurance that all significant risks, including reputation risk, are being managed appropriately.

DOES REPUTATION HAVE A VALUE?

■ *'A good reputation is more valuable than money.'* Latin maxim

Reputation is now often the single most valuable asset of a business or the one that differentiates it from the rest. In the corporate sector, using a crude measure of the value placed on goodwill in takeovers, the significance of this intangible asset is estimated to have risen four-fold in the past 15 years from around 18% of corporate worth to around 82%. While goodwill rarely features in housing associations' accounts, in a non-accounting sense reputation is, as for other businesses, one of the most valuable, perishable, and often mismanaged assets.

Analysts valuing a business now increasingly consider that the underlying value of a business consists of intellectual property, board and management experience and expertise, customer opinions and loyalty, rather than tangible assets alone.

This will not be news to housing associations. A primary concern of lenders is the quality of the board and directors. And the trinity of values underpinning the Housing Corporation's Regulatory Code emphasises governance and management as much as viability.

As current and future tenants increasingly exercise choice, reputation may be a key element in their choice. Tenants' preferences are likely to be determined as much by the association's reputation as by the objective quality of the property or service. That reputation will depend significantly on word of mouth. Given choice, tenants' preferences are likely to reflect the extent to which they respect and trust the service supplier.

WHAT ARE THE REWARDS OF A GOOD REPUTATION?

Stakeholders may claim to make their decisions on transparent, objective grounds, but these are inevitably informed by an organisation's reputation and, at the margin or when two organisations are otherwise evenly matched, this may be decisive. Housing associations operating in intermediate and commercial markets often use their place in the regulated housing sector to differentiate themselves from private operators, promoting an ethical, reputable approach to health authorities, universities etc as well as to prospective tenants. Associations also use reputation-enhancing mechanisms such as credit ratings, CharterMark and Investors in People to, for example:

- secure loans on better terms and conditions;
- bid for preferred partner status;
- break into new markets.

Conversely, complaints that an association has lost business because of 'unfair' or 'unfounded' perceptions are common.

So, a good reputation may be used to 'sell' an organisation and facilitate further growth. As well as being cited in bids for new projects, it can be used effectively to recruit new staff in an increasingly competitive employment market. Much of this involves grapevine recommendations between colleagues from other associations. Word gets around and may form part of recruitment publicity. Camden provides an example, advertising with the strap-line 'Council of the Year'.



WHAT ARE THE ELEMENTS OF REPUTATION?

■ *'You can't build a reputation on what you are going to do.'* Henry Ford

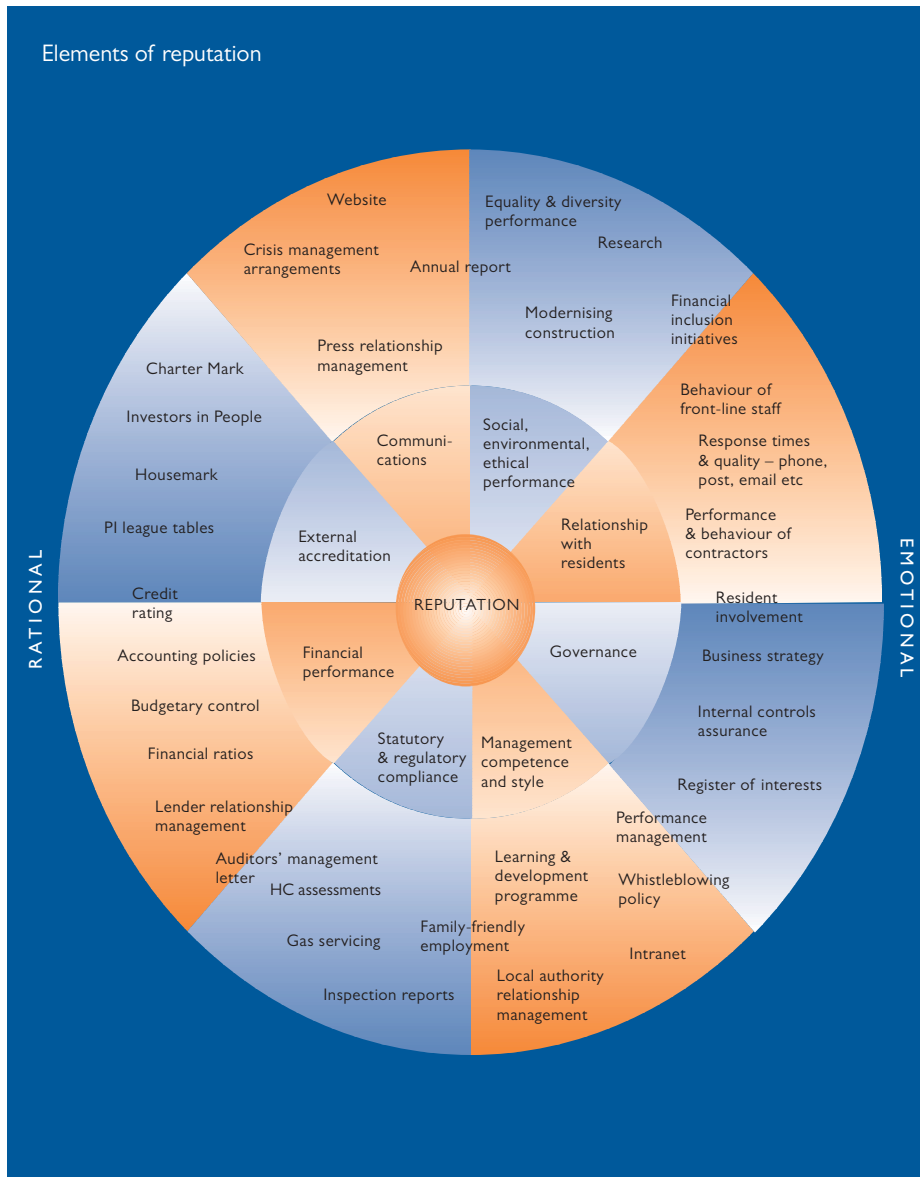
Reputation has numerous facets. Their relative importance will depend on the interests and expectations of the particular stakeholder or audience. Each facet may have both rational and emotional perspectives that can affect perceptions. The diagram on the next page sets out some examples of areas of the business that can have a reputation dimension, and relevant activities within those areas.

WHAT IS REPUTATION RISK?

Risk is about uncertainties – that may have either a positive (constructive) or negative (destructive) impact. So, a risk is an opportunity that will not be realised or a threat that an event or action will materialise. That missed opportunity or unmanaged threat in turn damages an organisation's ability to deliver results for stakeholders and to achieve business objectives.

Reputation can be regarded as a source of risk in its own right, or as a consequence of other risks being realised, or both. Certainly, reputation risk can derive from financial or operational activities or have an effect or outcome with financial or operational consequences. However, while every business risk and process can affect reputation, reputation risk is generally about an opportunity or threat that has a social or ethical dimension, rather than purely a financial or operational one. Although reputation risk triggers a management response, it could also attract public attention and trigger a negative emotional response from stakeholders and the public. This response might not be fully within the organisation's control and could cause, at worst, a breakdown in relationships.

In the coverage of Enron, the press and public were less interested in the detailed accounting policies than in the behaviour



of the board and senior executives. The public's view of an organisation's strategic behaviour has often had a devastating impact on future strategies. For example, the way the press and others projected Shell's attitudes during the Brent Spar and Nigerian episodes seriously affected its reputation among some of its customers; and the behaviour of Barclays Bank in relation to cashpoint charges and rural branches certainly affected its reputation. Both antagonised many current and potential customers. It is debatable whether Shell and Barclays had understood and assessed the financial, operational and reputation risks, and anticipated the outcomes.

HOW CAN REPUTATION AND REPUTATION RISK BE MANAGED?

An organisation needs to manage its reputation just as it does its other assets. Reputation can be protected, sustained and enhanced through the active management of issues, opportunities and, crucially, relationships, both at high level and as routine contacts. Reputation can be enhanced or undermined by positive or unfortunate encounters with an employee, a voicemail or email auto-response, a switchboard or a call centre. Nowadays, the style and accessibility of information on an organisation's website also contributes to its reputation.

‘Trust is principally affected by:
■ *the quality of services received; and*
■ *how open and honest organisations are about their performance, including their ability to admit to and learn from, their mistakes.’ Corporate governance: Improvement and trust in local public services, Audit Commission 2003*

Successful reputation management involves identifying key stakeholders and understanding them and those who influence them. This involves identifying the issues that need managing and the opportunities for getting news and information to the right audiences.

Managing issues is often about:

- closing gaps between stakeholders’ awareness and actual performance;
 - managing stakeholders’ expectations;
- by:
- nurturing and promoting the association’s strengths;
 - identifying, addressing and managing weaknesses.

The key is to recognise and define the issues before they impact and to take positive, planned action to defuse them rather than having to react hurriedly and defensively. So, to avoid being taken by surprise, organisations should scan, monitor and track potentially influential external forces. They should analyse those forces in terms of their effects on an organisation’s image, financial performance and ability to deliver. Based on that analysis, an organisation can develop and implement a strategy for managing its reputation.

This is not just about press coverage. Tracking external changes in demand for housing in an area will influence an association’s development and asset management strategy; demolishing unwanted, newly built homes does nothing to enhance reputation.

However great or small the value of your reputation, it is crucial to keep your reserves of goodwill topped up. They

need to be available on demand to balance deficits caused by unforeseen events, for example to preserve customer trust following a safety scare, personnel scandal or financial fraud. While bad publicity cannot always be prevented (even on ‘a good day to bury bad news’), a war chest of good publicity and constructive relationships can help limit the damage by providing a reserve of goodwill. While some remnants of a reputation may be salvaged by a reactive and defensive strategy, this is a poor substitute for a proactive and integrated programme of reputation building.

To monitor, report and review reputation and reputation risk, any association needs to analyse and understand the strengths, weaknesses, opportunities and threats of and to its reputation. In parallel it should look at the probability and potential impact of scenarios of individual and combined events. Favourable press coverage is one thing; but satisfaction surveys, regulatory reports and external accreditation can indicate the impression an association is making on different and important stakeholders.

Reputation can be actively managed by, for example, regularly sharing, tracking and monitoring a top 20 list of issues, covering:

- the issue;
- the key messages to be consistently promulgated;
- the potential triggers of positive or negative reactions by key stakeholders; and by identifying the issue ‘owner’ responsible for managing the issue and drawing on communications specialists as necessary.

WHERE DOES A COMMUNICATIONS STRATEGY FIT IN?

Effective press and public relations can smooth and enhance an association’s operations and its ability to do business. This is not exclusively about media relations, and while only the largest associations are likely to be able to afford

a dedicated communications team, every association needs to have a coherent and consistent communications strategy. This needs to be disseminated to all board members, managers, staff and anyone else who might represent the association in whatever capacity such as its consultants and contractors. Such a strategy will derive from the association's vision and values and will be about 'what we do and how we do it'.

A communications strategy should be proactive by addressing questions such as:

- With whom do we need proactively to establish channels of dialogue, through which we can convey good, neutral and bad news, and develop awareness and understanding of our association?
- Whose opinions and interests should we be aware of so that we can tailor the management of issues accordingly and more readily achieve opportunities?

The answers may include the local, national or trade press. They will certainly include tenants and key current and potential partners, for example local authorities, regulators, lenders and other stakeholders.

HOW CAN A REPUTATION CRISIS BE MANAGED?

'Without the most careful planning, involving consultation with all the interests concerned, no operation has a chance of success. Needless to say, planning can often go badly wrong...it is impossible to know all the relevant facts when you make your plan...'

Denis Healey, The Time of My Life

Most chief executives would put adverse publicity as one of the greatest risks to the business. A good test of a key reputation risk is to ask: 'What is the worst thing I could read or hear about my association?'

Fraud or other financial risks can be life-threatening to business, but headlines tend to focus on the quality of service and, in particular, the neglect or abuse of

vulnerable tenants, anti-social behaviour or neighbourhood neglect, and stories of 'fat cats' and greedy executives. The media reach a wider audience than the association's stakeholders; press reports will be read and believed by a wide population and could immeasurably damage reputation. You may be able to recover your position with known stakeholders, but that story may define your reputation with others who may be prospective tenants or partners or have local or national influence.

In a crisis, communication can become more fraught. Without established relationships, the organisation may become defensive. Journalists, up against a deadline, may become suspicious and see the organisation as part of the problem, rather than a source of dependable information. While the press might sometimes like to go for the jugular, most journalists recognise the merits of balanced reporting and a prompt and persuasive spokesperson can sometimes nip a media-fest in the bud. The press will often respond well to an honest and empathetic response; for example when Michael Bishop, the chairman of British Midland Airways, responded immediately to the Kegworth plane crash in 1989, focussing on what he felt and what he was going to do about the situation, even before he knew the full facts. There are two important lessons here: to begin crisis communication at once and to deliver it from the top of the organisation.

It is important to have a contingency plan for handling the unexpected. Some organisations have an area of their website dedicated to crisis communications. Publications on disaster recovery invariably advise against a knee-jerk reaction and an unplanned comment. To manage a crisis successfully, an organisation needs:

- leadership;
- pre-identified individuals who are able to make effective decisions under crisis conditions;

- a crisis control group outside the normal command structure, with clear lines of responsibility;
- a crisis communications strategy with pre-identified and trained top-level spokespeople to deal with press and other enquiries;
- clear internal communications;
- scenario planning, including training and rehearsals to test plans and build confidence in the plans;
- flexibility.



Anchor Trust had a lot of coverage in the Birmingham Evening Mail during autumn 2002, focussing on an elderly resident in one of its sheltered schemes. Anchor responded in several ways:

to the press:

- briefing them on developments (on and off the record) to establish credibility and rapport;
- explaining the powers (and their limitations) of social landlords, including tenant confidentiality;
- increasing understanding about the nature of sheltered housing;
- emphasising social housing values;

to the tenants:

- building on existing relationships with two good level-headed scheme managers;
- taking, and communicating, early action;
- providing a security guard.

ERITH: Man died while replacing house bay windows

Falling bricks kills workman

The death of a workman during a window replacement project generated headlines in Erith during the summer of 2001. While the building contractor was responsible for all health and safety, the signboards identified Orbit Bexley Housing Association as the owner and developer of the site and, as relations with the local press had not always been optimal, Orbit was conscious that coverage might have been biased.

Press reports did, however, clearly identify the responsible contractor, who was subsequently fined, and Orbit concentrated its response on support for the bereaved family and counselling for local residents.

SUMMARY

Reputation risk has been described as the risk an organisation least wants to crystallise, as it can be one of the most difficult to recover from. It tends to be particularly unpredictable, both in occurrence and fall-out, and very likely to spiral out of control. However, it is no longer seen as unmanageable.

There is a clear business case for achieving and maintaining a good reputation. Reputation is a key resource that confers legitimacy and credibility and can contribute positively to longer-term success. Reputation does this by supporting the recruitment and retention of high-quality staff, maintaining customer and supplier loyalty, attracting investment and bolstering competitiveness. The ability to manage reputation and its associated risks effectively has become a key competency in an increasingly competitive world.

The Author



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February 2004
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