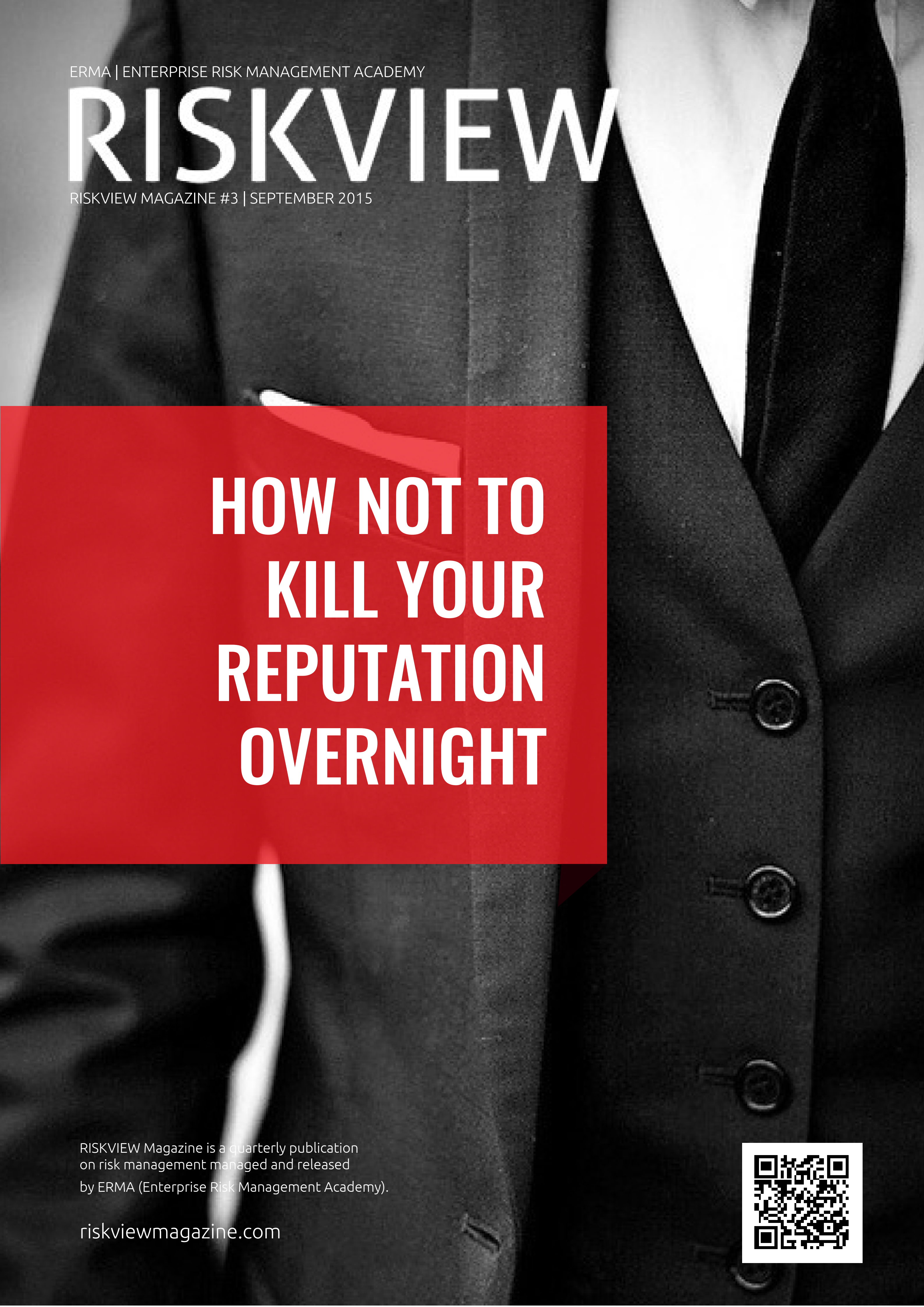


ERMA | ENTERPRISE RISK MANAGEMENT ACADEMY

RISKVIEW

RISKVIEW MAGAZINE #3 | SEPTEMBER 2015

HOW NOT TO KILL YOUR REPUTATION OVERNIGHT

RISKVIEW Magazine is a quarterly publication
on risk management managed and released
by ERMA (Enterprise Risk Management Academy).

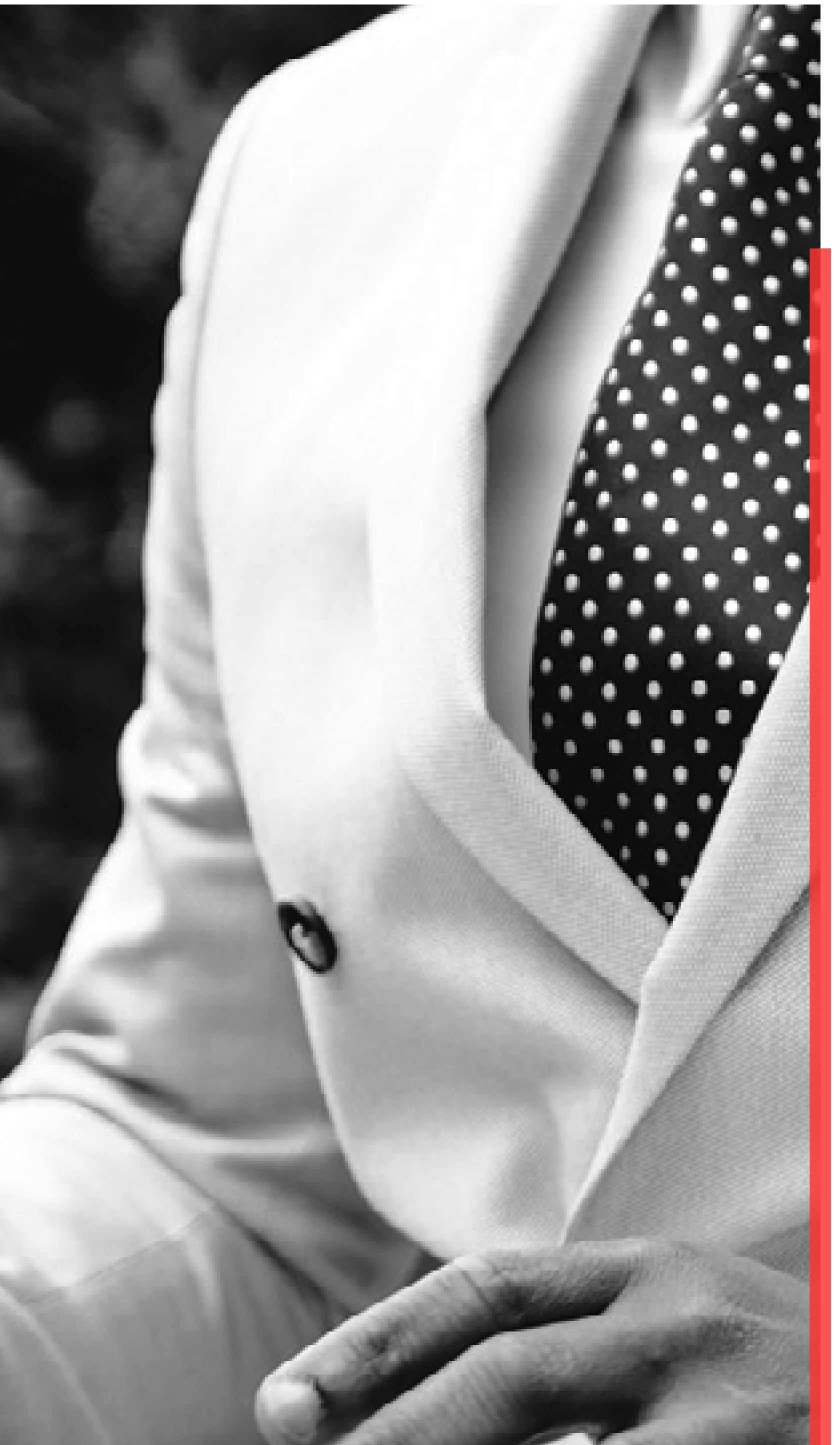
riskviewmagazine.com

WELCOME TO THE THIRD EDITION OF RISKVIEW MAGAZINE

Colin Adams
ERMA Advisory Board

In this edition, we look at the question of reputational risk. As an intangible asset, reputation is sometimes difficult to quantify, leading to less than satisfactory attempts to manage and protect it. At the same time, the explosion in instant connectivity through the internet and social media makes proactive, real-time management of reputation more urgent. Companies who get ahead of this curve, who work proactively on their reputation management, who engage more broadly and openly with stakeholders, who anticipate trends and who take a risk management – rather than crisis management – approach are most likely not just to protect value, but to create value from their brands and reputations. The following articles discuss these issues in more detail.

IN THIS EDITION



RISKVIEW


"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."
- Warren Buffet

JUST HOW AFRAID ARE WE OF REPUTATION RISK?

By Willis Hudson

"Investing in technology is one of the ways to mitigate reputational risk before it hits a company"

In a volatile global marketplace, where the world never closes its eyes, reputation is seen as a key source of competitive advantage, and trust & confidence are now understood to be key business drivers. A company's reputation reflects the degree of trust in the company.

But what really is a reputation? Some say it is something very subjective and elusive. Some argue that it is not readily defined. Nevertheless, every time a company sells a product, provides a service, enters into a contract, builds a new facility, invests in research or technology, or enters into litigation, it is making decisions that define its reputation. It is an intangible asset. While it exists primarily in the minds of customers, shareholders and the public, it can have a profound impact on the balance sheet and economic profit of companies.

In this volatile business environment, companies are getting more and more worried about building and maintaining their reputation. But how crucial and important is reputation to long-term business success?

A recent study by Deloitte and Forbes Insights revealed just that.

In this annual Global Survey on Reputation Risk, more than 300 global executives shared their opinions and views on the importance of a good reputation risk management process.

One of the main important things revealed in the study is that the majority of the companies surveyed were generally confident about the strength of their reputation. However, most of them acknowledged that unexpected risks may emerge and destroy their decades-built reputations, especially with today's 24/7 media and constant public scrutiny. Despite this fairly high confidence, only 19% of all companies considered themselves to have a very good ability to manage their reputation risk.

The companies surveyed were least confident when dealing with something beyond their control, for instance risks generated from third-party contractors

(47% of those surveyed identified this), attacks as part of competition (44%) as well as catastrophic events (44%). The study also revealed that the primary drivers of reputation risk were: issues related to ethics and integrity such as fraud, bribery and corruption; security risk; and product and service risks.

In short everyone is worried about reputation risk. But why? Of the primary reasons cited for concern, revenue and brand value loss were the top two reputation risk events impacts.

The survey also revealed that many companies are starting to improve their ability to manage their own reputation, by allocating more investment to related technologies such as analytics software, brand monitoring tools, and also crisis management planning.

But how prepared are companies in facing reputation risk? Some companies, such as SAP have proactively engaged different functions, internally and externally, to ensure that they are able to identify any potential events that may impact their reputation as early as possible, by embedding risk awareness at all levels of the company.

Companies simply cannot afford to find out about new risks at the time that they arise. They need to know beforehand. When we discover that something happened the same day, then it is too late for us to manage. New technologies play a very important part here. With rising tools with analytics and monitoring functions, companies can start proactively to manage their reputational on a real-time basis.

UNDERSTANDING REPUTATION RISK

By Ashley Wong

Companies everywhere usually have a very clear understanding about the importance and value of their reputation. A strong and positive reputation means a stronger ability to attract consumers, and often to push a premium price in their offerings. A strong reputation also means a more loyal customer base, a stronger motivation for customers to buy even more products or services offered by a company. A company with a strong reputation is perceived to have a stronger power in delivering more sustained earnings and future growth, hence a higher price-earnings multiples and market values.

In a world where intangible assets are, in many cases, worth much more than a company's physical assets, assessing the true value of these intangible assets can be a constant challenge. Especially considering that these assets, such as brand equity, intellectual capital, and network are very vulnerable to anything that may damage their reputations.

Benjamin Franklin once said "It takes many good deeds to build a good reputation, and only one bad one to lose it."

Unfortunately many companies are not doing a decent job in managing or guarding their reputation, or in understanding what risks can damage their reputation. Many surveys revealed that companies tend to focus their effort in handling the reputation threats that have already surfaced; this is essentially incident or crisis management and not risk management.

Rather than using a crisis management approach, which tries to limit whatever reputation damages have been done, companies must start to prevent any threats that may disrupt their reputation.

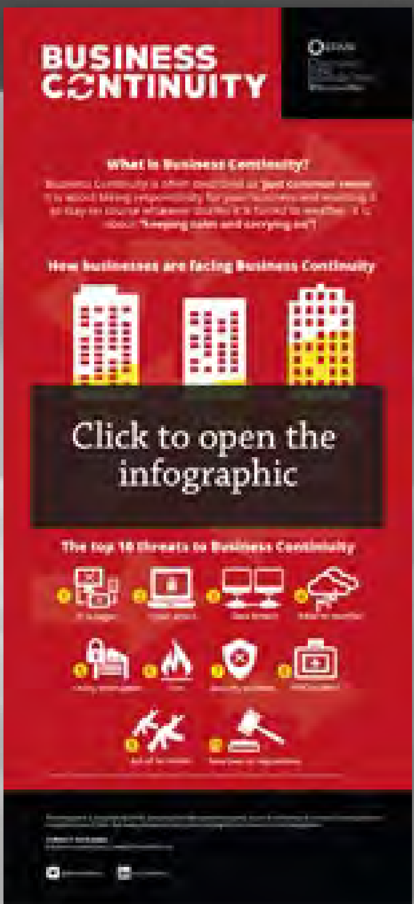
From a risk management point of view, companies must use a proactive approach in managing reputational risks. Companies need to understand the factors that affect the level of these risks and further explore how they can identify, quantify and control these risks. This process will help everyone involved in risk management do a much better job in assessing which threats actually exist and which threats are actually posing a danger to reputation.

Over the years, many risk leaders, regulators, consultants, and companies have tried to develop guidelines on how can we assess and manage risks in multiple industries and processes. However, reputation risk is something that remained hard to define and measure.

Because of this lack of consensus, sometimes even the most advanced companies have only vague ideas on how to properly manage reputation risk. With Enterprise Risk Management systems focusing mostly on operational and financial risks, who should be responsible for managing reputation risks? Is it the CEO, who oversees the firm's crisis-response system and is ultimately responsible for dealing with anything that may damage reputation? Is it the CRO, who is in charge of overseeing the whole risk management process? Or is it the risk managers, who need to manage risk at a local and product levels?

In many cases, contingency plans for reputation or other crises, are about as close as companies get to reputation risk management. While contingency plans are certainly very important, companies must not confuse it with the ability to manage reputational risk.

RISK MANAGEMENT INFOGRAPHIC



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LESSON LEARNED

THE FIFA CORRUPTION CASE

By Kendal Randy

Power, greed, and temptation in the world of professional sports were on display worldwide after the dramatic resignation of FIFA President Sepp Blatter in June 2015, and his subsequent suspension from office in October of the same year. From the point of view of risk management, the result of this is clear: the impaired reputation of the once-respected organization and the financial fallout that will definitely happen afterward.

Just days after being re-elected as global football's top official in May, he announced he would be stepping down as a corruption scandal enveloped the governing body. Despite the allegations hounding FIFA, Blatter was reelected. One of the allegations is the suspicion of bribes from sports marketing companies to multiple FIFA officials. FIFA also allegedly accepted bribes to host the 2022 World Cup in Qatar. The stadium construction in Qatar has been marred by tragedy, with more than 1,000 worker casualties and another 4,000 estimated by its completion. Various government bodies have launched investigations against FIFA and charges have been laid against some FIFA officials.

The problems of FIFA raise an important question: can reputational risk be insured against? Is it effective to do so?

No one would disagree that reputational risk is an emerging risk. According to Aon's 2015 Global Risk Management Survey, executives around the world considered damage to reputation and brand is the number one risk that is facing companies. Reputation risk can be incurred through events such as pollution or product recalls. However, the extent of damage in the FIFA case is less clear-cut. Dominating the negative narrative are allegations over business practices, governance issues, and ethical challenges.

While it is not known if FIFA carries insurance for this sort of risk, the FIFA case does highlight the potential cost to a brand and reputation of certain risks, especially for well-known brands or large organizations.

With reputational risk insurance, whenever a threat to reputation is identified the coverage gives the ability to consult with experts. Communications strategy and sensitive information management are included in the insurance, as well as the cost of communications in response to bad publicity (social media campaigns, print and online advertising, and television). In some cases, the cost of brand monitoring after a bad publicity event is also covered by the insurance. Unfortunately, insurance policies cannot cover all losses due to reputational fallout. According to a global survey conducted by ACE, the financial impact of reputational risk on businesses is hard to quantify. ACE also said that insurers and brokers can still help their clients by providing more holistic insurance solutions that allow the input of crisis and PR specialist. Professional risk engineering should be involved to improve risk management processes and governance.

FIFA case is a good example for many other organizations—big or small—on what may happen when a reputational crisis occurs. It is important for an organization to prepare as much as possible in advance, especially with respect to reputational risk insurance, to prevent as far as possible unrecoverable damage after reputational fallout.

FIFA WORLD CUP SCANDALS

In the 2002 World Cup, South Korea's great World Cup run was overshadowed by a controversy with the referees. After their controversial win against Italy in the Round of 16, South Korea also won yet another controversial match in the quarter final against Spain. Shortly afterwards, both referees were forced to retire due to match-fixing and allegations of receiving a new car for helping South Korea to advance.

Moving on to the 2006 World Cup, there was another scandal involving FIFA. The Dutch newspaper *Die Zeit* claimed that the German government allegedly sent Saudi Arabia a shipment of rocket-propelled grenades so that they would support their '06 World Cup bid. The newspaper alleged that as the result, Germany beat South Africa 12-11 in the final round of voting.

In another case, a letter implicating leading South African officials in a $10m payment scandal is at the heart of an FBI investigation into alleged FIFA corruption. The December 2007 letter, from the World Cup 2010 organizer Danny Jordaan to FIFA general-secretary Jerome Valcke, appears to support the allegation that the South African government agreed to the payment. It is alleged that the payment was a bribe given to secure South Africa's bid to host the World Cup.

It doesn't stop there. Ray Whelan, executive consultant of Match Services – a subsidiary of the company that provides hospitality services for FIFA – was arrested following an accusation of allegedly selling VIP World Cup 2014 tickets at inflated prices. As a consequence, FIFA president Sepp Blatter faced damaging questions about the relationship between FIFA and the provider.

WHAT'S TRENDING

RISING CHALLENGES IN REPUTATION RISK

By Ashley Wong

For any large company, consumer opinion is important and must be a priority. When it comes to a crisis, companies will not get any benefit if the public sees their bad side. An example is the crisis of the Amtrak train derailment in Philadelphia, USA, in May 2015. In the midst of confusion about the facts surrounding the incident, the U.S. passenger rail company was being both attacked and defended by people who had formed their opinions without full knowledge. Amtrak's communication team faced a difficult task to determine how much the crash had damaged the company's reputation and how they could restore it.

Following this event, the Reputation Institute completed a series of focus groups about the factors driving reputational risk management for Amtrak until 2020. Based on the discussions, Cees Van Riel, co-founder and vice-chairman of Reputation Institute, reported the ten key issues that drive reputation management:

1. Authenticity comes first and becomes a priority.
Companies should develop and commit to an authentic narrative based on their main objective. The most important thing is to make sure stakeholders identify with and buy into the company's message.

2. The revolution of big data will have consequences.
The development of information technology will integrate reputation data into all enterprise data such as social trends, market research, etc. Communications departments need to understand and be able to act on it.

3. Reputation management will be a long-term act.
Companies that are thinking about the long-term Key Performance Indicators usually carry out better decisions and results,

compared to the ones that are focusing on short-term indicators. It is what the World Bank research shows.

4. Chief Communication Officer will lead reputation management.
Even though CEO has the final responsibility for the company's reputation, CCO has also important role in this matter. To achieve their goals, CEO and CCO have to build their business and leadership abilities as soon as possible.

5. Employees will be the reputation ambassador for companies.
The Reputation Institute predicted that by 2020 prospective employees will have choice of places to work. Thus, they will reflect the company's reputation wherever they are.

6. Reputation management will increase the value of the business.
In the future, reputation managers will have to know that the power of reputation is needed to improve the performance of a company.

7.Stakeholders will increase in numbers and influence.
In a global and interconnected world, companies will no longer be able to focus on the few groups—employees, shareholders, regulators, and customers. Stakeholder landscape will be more complex and require proactive focus.

8. Personalized messaging will become the trend.
Since traditional advertising will be less effective, companies will need to know where critical conversation about them is taking place, and where to step in with personalized messaging.

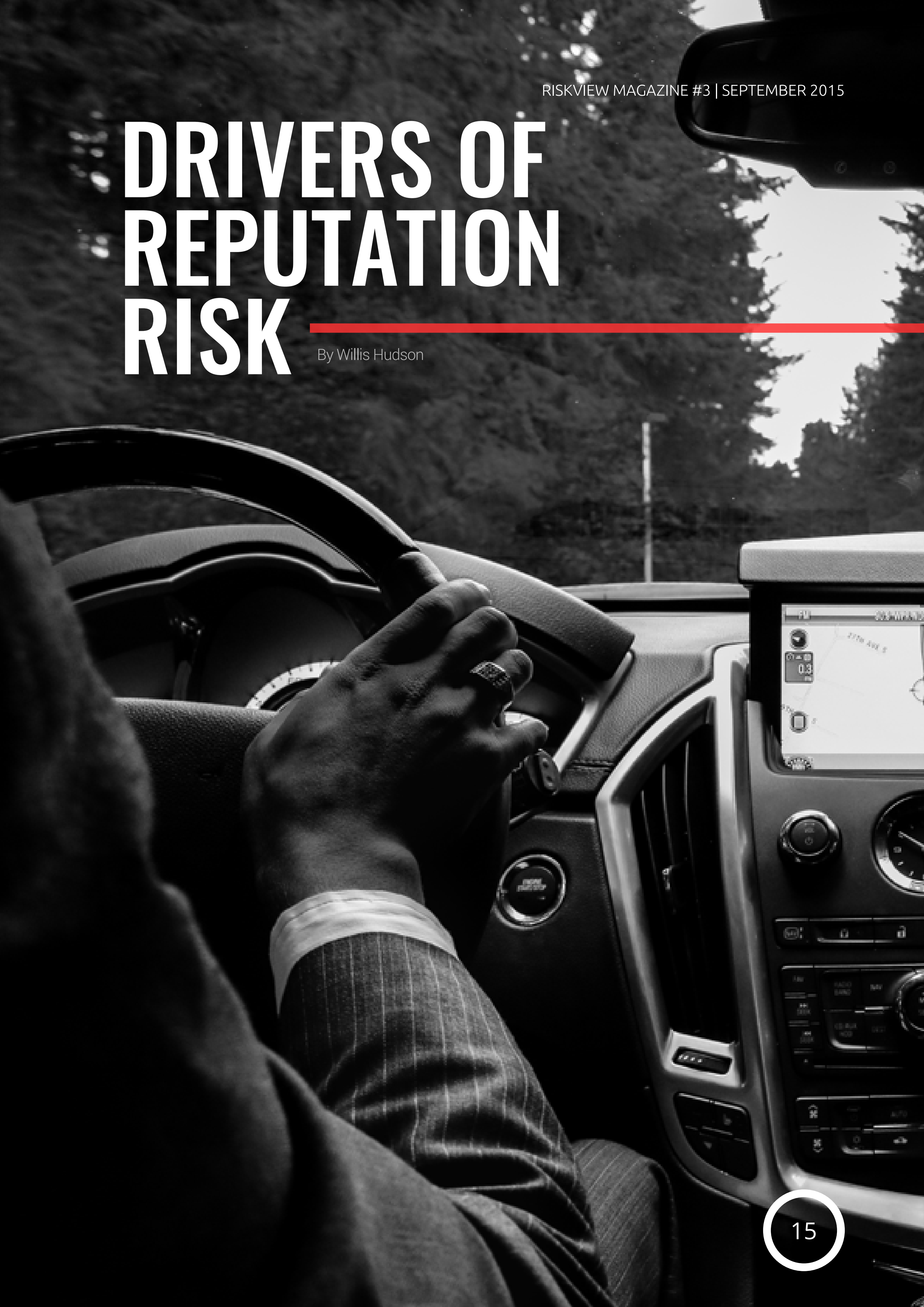
9. Individual companies will be affected by industry reputations.
Companies will have to pay more attention to the consequences of industry reputation and understand that it is the result of decades of messaging.

10. Social relevance help is needed to make companies stands out.
The most crucial reputation driver will be the coverage to which a company can show the value of its products and services for a large group of stakeholders. It is not about the function of the product, but what it can do for individuals and society.

Comprehending and responding to these trends will help companies build a strong reputation to respond to shifting consumer views in time of crisis. Surely, reputation management needs time to grow strong. However, the sooner companies implement it the better.

DRIVERS OF REPUTATION RISK

By Willis Hudson



Reputation is a matter of perception. By understanding this, a company can effectively manage reputational risk through its risk management effort. Three things can determine the extent to which a company is exposed to reputational risk: a reputation that does not fit with the company's true character; the change of expectations and external beliefs; and the quality of internal coordination. These three things create perception gaps which are likely to become a reputational risk for the company.

The actual behavior or character of a company is distinct from its reputation. The gap between actual behavior and reputation can be a gap that poses a substantial risk, especially when the underlying reality is worse than the reputation. In the end, company's reputation will decline when it fails to live up to its billing.

To bridge the gaps between reputation and reality, there are two options available for the company: improving its ability to meet the expectations; or promising less, to reduce expectations. Unfortunately, managers often choose short-term manipulations. Accounting fraud and restatements of results are often the result of reputation-reality gaps regarding financial performance.

Companies sometimes do not get full credit for meeting their various stakeholders' expectations. Inaccurate media reporting or unfair attacks from particular interest groups can often cause this. It can also happen when a company's reputation has been damaged by a problem and they the company unable to convince the stakeholders that the progress to address the problem is real.

While such things can be stressful situations for companies' executives, they have the obligation to drive value creation for shareholders through closing reputation-reality gaps.

Other reputational risk drivers are changes to the beliefs and expectations among stakeholders. Risks increase when reputation-reality gaps widen due to shifting expectations.

The reputation of a company that adheres to old and outdated standards of behavior can be easily be threatened by changes to expectations in their environment. Stakeholders' expectations can shift quickly due to a change in the company's policies or behavior. At other times, latent concerns can burst to the surface triggered by some particular events. The case of the drug manufacturer Merck is a good example. Many people wondered whether the potential of the drug Vioxx to cause heart attack and strokes had been fully disclosed by Merck. The controversy has raised patients' and doctors' expectations that drug companies should disclose more detailed results and analyses of clinical trials.

Complaints often respond negatively to this sort of criticism, sometimes claiming the rules have changed. Nevertheless, companies must pay attention to the signs of stakeholders' changing beliefs and expectations. Moreover, how much attitudes can vary by region or country is sometimes often underestimated by companies.

Bad coordination of the decisions made by different business units and functions of a company is another major source of reputational risk. A company's reputation can suffer if one unit creates an expectation that another unit fails to meet. A company's reputation can also be put at risk by the timing of unrelated decisions which may cause stakeholder groups to jump to a negative conclusion.

A company's ability to identify changing beliefs and expectations can also be inhibited by poor internal coordination. In most sophisticated companies, individual functional groups are actively trying to manage various stakeholders' expectations. However, often these functional groups fail to share information and coordinate their plans together.

It is the responsibility of the CEO to assign the responsibility for coordination in the company. A survey by the Economist Intelligence Units in 2005 revealed a shocking result. The survey asked 269 executives about who had the major responsibility for managing risk in their companies, and 84% of the respondents pointed their fingers at "the CEO". This means that because of CEO is responsible for everything, and then he or she is also responsible for reputational risk. However, in reality the ongoing process of coordinating all the activities that affect reputational risk cannot be managed by the CEO alone.

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LESSON LEARNED

ASHLEY MADISON, A CAUTIONARY TALE

By Meredith Evelyn

Nowadays, cyber security is a hot issue which regularly leads to serious risk and threatens business sectors. One of the most highlighted cases is what happened to infamous online dating service site Ashley Madison and dating sites Established Men and Cougar Life. More than 50 million user accounts of Avid Life Media—the owner of the dating sites—were hacked by activities who called themselves "The Impact Team". The hacks cost a lot, considering that personal life of those Ashley Madison accounts could be exposed anytime. Moreover, this is not just about economy and people's private life embarrassment, but this is also about cyber terrorism, warfare, and public safety. In the risk management context, this case poses a serious risk with implications extending into national security.

The compromised Avid Life Media accounts are the reason why this case could be seen as having a serious national security implication. If it is assumed that half of those accounts are U.S. accounts, then there would be a lot of American workers' personal secrets that are in the hands of the hackers. These people may come from various occupational backgrounds such as Federal and State elected officials, FBI employees, NSA, nuclear power plants workers, TSA, DHS, local elected officials, and people with top security clearances.

Since this case is about with cyber security, what can we learn from the Ashley Madison case?

It is important to know that cyber security consist of two fronts: the technological front; and human front. The technological front is the system where hackers seek to penetrate. The human front is the social engineering used by the hackers to deceive others to give access keys to the technological system. Both these aspects are identified as key areas for risk management systems. It is estimated that the funding for cyber security has been growing, from just over one billion dollars in 2010 to in excess of three billion dollars in 2013.

According to a chart from Mattemark, investment in technological solutions is accelerating as the answer to cyber security. This is an important part solution, but will never be enough to deal with cyber crime. The reason for this is that reactive technology development cannot keep up with potentially damaging cyber attacks. Defensive measures are never perfect and always lag offense. That is why defensive technology often comes just as a direct response to an attack. No matter how much improvement is made

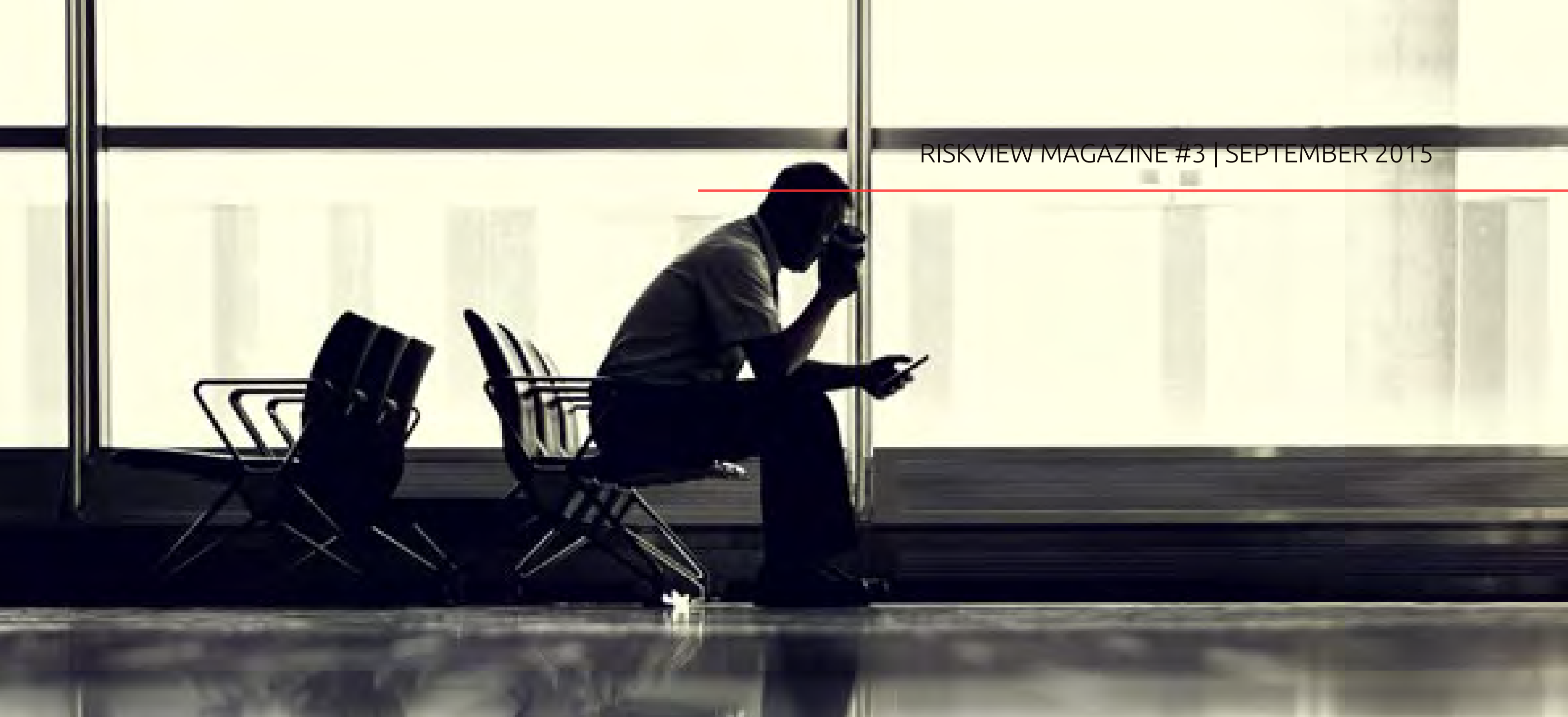
to cyber security, a gap between new attack vectors and our ability to defend ourselves is always there. Moreover, the more our world becomes more connected through the internet, the closer we are to a point where a devastating damage occurs before we can even mount our defensive line. What is more, cyber security investment focuses only on the defensive aspect of the first front layer in cyber security, thus leaving human weakness—the second front—exposed.

It is true that humans as the second front is the bigger issue than technological solutions. This is due to the fact that humans ultimately control the systems, and unfortunately, human can be weak. As long as sites are vulnerable to cyber attack, we are also vulnerable to it. That is the reason why recently there has been a small but growing minority that is trying to improve this weakness. They call for openness and a post-embarrassment world. In the Ashley Madison case, the hackers insisted Avid Life Media shut down their sites if the company did not want the hacked accounts made public. Fortunately, companies do dare to stand up and against the hackers; they are improving their cyber security so that no further breach occurs in the future.

Defending ourselves from cyber terrorism needs collaboration from all fronts. Investing in countermeasures must be continued, along with the ability to recognize that personal privacy concepts put many people at risk. Understanding both aspects help us to be more aware and cautious. The expected result is, there will be no other Ashley Madison case that poses the same threat—or even greater threat—than what we already face today.

THE OTHER SIDE OF REPUTATION RISK

By Ashley Wong



In the age of the Internet, people can easily grab almost any information they want. So much publicly available information has the ability to influence perception, thus creating what we called "reputation". As an individual or group, reputation is very important. While it was not that easy to hurt one's reputation decades ago, internet access today allows anyone to mess with your reputation, anytime. In the business context, a bad reputation can harm companies' business. Therefore, an online reputational risk management is needed to shield their online reputation.

Nowadays, it is extremely easy for a person to say whatever they want about a company on the internet. Companies should determine two things to avoid this potential ruining their online reputation. First, from the moment when a company reads or sees what others have written, it should find out whether the what has been said is accurate or not. If yes, the company should use the criticism for its own advantage. For example, if it is a negative feedback, the company can turn it into something positive instead. Second, the company will have to determine whether to respond or not, and how they wish to respond. This decision will further affect the company's online reputation, so it needs to be based on good judgment.

Whether it is positive or negative, online feedback surely can be of great. Negative feedback, for example, can give companies valuable information to improve their business. This can often be more useful than positive feedback. However, such criticism can also be extremely damaging for a company's reputation. This is possible since the companies interact with so many people online, that they may post anything about them. People, including clients, can see this material like an open book. It is very possible that one of their clients sees negative feedback in the worst possible way.

Fortunately, there are some things that the companies can do to protect their online reputation. First, companies have to make sure that their business receives much more positive feedback than the negative ones. A good reputation comes from how positive people see their business over time. Second, companies have to gain control over what people find in the internet when they search for them—what they do and what they comes up with—in the search engine result pages.

1. Create full profiles on the popular social media channels. Profiles are capable of increasing the companies' chance to rank higher on the search engine result pages. Full profiles on Facebook, LinkedIn,

Twitter, Pinterest, Google Plus, YouTube, and even Foursquare will drive people's attention. They have to make sure that the profiles are interesting for others to read.

2. Create and leverage links for guest posting on other people's website. Links are very important to generate solid traffic to the companies' websites. The number of clients they can possibly get is higher with more traffic. In most cases, the place where the companies are guest posting will not have any objection to their putting links.

3. Generate numerous online reviews. Reviews are great to influence people who read them. Companies can try to ask for reviews to anyone who come to their website or do some business with them. The chance of positive reviews are high actually. Nevertheless, if they get negative reviews, it is better to respond them with appropriate manner, so that people will see the company as highly credible.

Online reputation is clearly something precious that companies must defend, protect, and shield for the sake of their business. Respond appropriately to those who give negative feedback and it will make others see the company positively. Not only that, the chance is high that they will respect the company and stand up for what they represent and believe in. In fact, if a company keeps in touch with people online regularly via social media, it is unlikely that they will post negative feedback. This is one of good reputational risk management strategy through social media.

Taylor Swift published an open letter to Apple and its CEO, Tim Cook, due to Apple's decision not to pay artists during the free trial of Apple Music. She felt it would be highly unfair until Apple finally changed its mind and agreed to pay all the artists during the free trial period. However, Swift's Apple-shaming has done a wonderful thing for Apple's publicity since there are millions more potential users that became more aware of the Apple Music service, instead of being a disaster for the brand. Swift had a win-win scenario for herself, Apple, and all artists.

Instagram banned the tag #curvy from being searched by its users since the photo-sharing app sensed that the hashtag was related to porn material. The ban has resulted in users' furious complaints since they insisted that the hashtag is used for promoting their healthy figures and body positivity. Instagram finally agreed with the users and lifted its ban after the users used #curvee and #bringcurvyback as protest. However, the new #curvy is not the same as it used to be; Instagram is limiting pictures to prevent users from posting pornography.

Sony Picture Entertainment's devastating hack in 2014 has resulted in Sony's proactive responses to overcome the attack. The hack has been linked to North Korea because of Sony's fictional movie production, The Interview, a movie about assassination attempts against North Korean leader Kim Jong Un. Despite the fallout, Sony still earned a US$20 million income from the movie and made a profit last quarter. Sony willingly spent US$15 million in order to deal with the cyber-attack. Sony hired an independent security contractor named FireEye to assess the damage and help

ALMOST INFAMOUS

HOW COMPANIES ARE SEEING THEIR EMPLOYEES AS SOURCE OF RISK

By Meredith Evelyn

Social media is everywhere nowadays. People can access it from their home, school, public space, even from within their office. Yes, sometimes the employees sneak in to open check their Facebook or Twitter feeds every now and then. Should the companies care? And why?

Companies need to keep track of what their employees are posting and tweeting about. Most importantly, they have to monitor the issues that are related to the workplace, because employees do not always post something 'good' about their company. We have seen cases where employees were kicked out of the company due to their inappropriate posts. However, it is just a temporary solution and does not clearly benefit company's reputation in the future. Therefore, to avoid unfortunate events related to employees and their social media activities, a company must set a policy that exclusively covers the usage of social media by the employees and its relation to them. These social media policies from several reputable companies can be great examples.

SOCIAL MEDIA POLICY

Adidas' Social Media Policy:

1. Employees are allowed to associate themselves with the company when posting but they must clearly brand their online posts as personal and purely their own. The company should not be held liable for any repercussions the employees' content may generate.
2. Content pertaining to sensitive company information (particularly those found within Adidas internal networks) should not be shared to the outside online community. Divulging information like the company's design plans, internal operations and legal matters are prohibited.
3. Proper copyright and reference laws should be observed by employees when posting online.

HP's Blogging Code of Conduct:

1. HP promotes healthy and honest discourse with its readers.
2. The company reserves the right to edit or amend any misleading or inaccurate content depicted in blog posts. The company also reserves the right to delete blog posts violating the code of conduct.
3. HP values, respects, and upholds the intellectual property rights of its bloggers.

GAP's guidelines and decorum in social media:

1. "Some subjects can invite a flame war. Be careful discussing things where emotions run high (e.g. politics and religion) and show respect for others' opinions."
2. "Your job comes first. Unless you are an authorized Social Media Manager, don't let social media affect your job performance."
3. "If you #!%#@# up? Correct it immediately and be clear about what you've done to fix it. Contact the social media team if it's a real doozy."
4. "Don't even think about it.... Talking about financial information, sales trends, strategies, forecasts, legal issues, future promotional activities. Giving out personal information about customers or employees. Posting confidential or non-public information. Responding to an offensive or negative post by a customer. There's no winner in that game."

HOW UNDERSTANDING DIGITAL CONSERVATION CAN HELP STRENGHTEN OUR REPUTATION

By Kendal Randy

People naturally experience certain emotions within their daily activities. Love, happiness, hate, frustration, security, excitement, satisfaction, desire, impatience, and apprehension are emotions that every normal person has. From the social media point of view, those feelings possess important meanings to convey, whether it is for developing a brand and company, or used as valuable information for risk management. Yes, the power of social media channels has created a realm of venting and consumer voice that companies can understand through examining those feelings. And now the question is, how does a company get to understand customer sentiment reflected from those feelings, as it pertains to their brand online? Are there any tools a company can use to reveal consumers' feelings? What's more important is, how can one use this tracking and insight ability effectively to decide strategy in tackling issues and building success?

Understanding customers' sentiment before utilizing them needs something deeper than a few social media posts. According to the author of Measure What Matters: Online Tools For Understanding Customers, Social Media, Engagement, and Key Relationships - Katie Delahaye Paine - counting the numbers of re-tweets, visits, shares, and mentions are just about quantity or so called 'vanity metrics'. Focusing on just quantity can give a company false perception on whether their content is generating leads for them or not. Yet with a customer's sentiment analysis, companies can go deeper and concern themselves with 'quality metrics'.

Within 'quality metrics', companies can observe much more than just quantity, such as feelings, opinions, satisfaction ratings, comments, re-tweets, the quality of shares, replies, conversations, and overall engagement quality over time. With this analysis and measurement, a company can uncover opinions about their brand's key aspects such as service, appeal, awareness, and content. Later on, one can discover the positive, negative, or indifferent aspects of their brand shared online and react accordingly as they see necessary.

Like any other data mining system on the internet, the platforms of sentiment analysis are based on tailored algorithms. Usually, the algorithms are designed to recognize words and group them into 'negative' and 'positive' words to let a

company know that their brand is being adored or detested. One thing to point out is that sometimes the system will not be effective if someone uses sarcasm or irony. Most sentiment analysis tools are textual, not contextual. Moreover, social media monitoring tools usually come with a sophisticated customization level in the search terms. This way, companies can make adjustments and get flexibility across different things the companies can search for simultaneously. This is interesting since companies can monitor their competitors too, to compare their sentiment measurements and to gain an advantage from it.

There are a number of tools out there that companies can use. Nevertheless, remember that they cannot use all of them randomly. They must choose the right tools for their business' needs. It is important to assign adequate time and budget to 'online listening and monitoring' to gather, analyse, and manage conversations involving their brand. By doing so, a company can get real insights on the engagement level of their marketing efforts. Companies can also learn about their online reputation they have created through the content that their audience created. To help companies with the sentiment tools, there are several tools that may help provide value concerning online sentiment analysis and their particular ability to give valuable insights or to be used in a company's risk management strategy.

1. Social Mention

Social Mention is a tool that allows the user to track mentions for keywords. Based on the keywords the user picks, he or she will receive pre-defined video, blogs, Q&A, hash tags and even podcasts. It also indicates if mentions are positive, negative, or neutral.

2. Trackur

Trackur is an online monitoring tool that allows the user to track a wide range of keywords across the internet and social monitoring. It also enables the user to track the influence of the content creators around their brand.

3. Google Alert

Google Alert is a notification tool. The tool sends emails to the user when it finds new results such as web pages, newspaper articles, or blogs that match the user's search term.

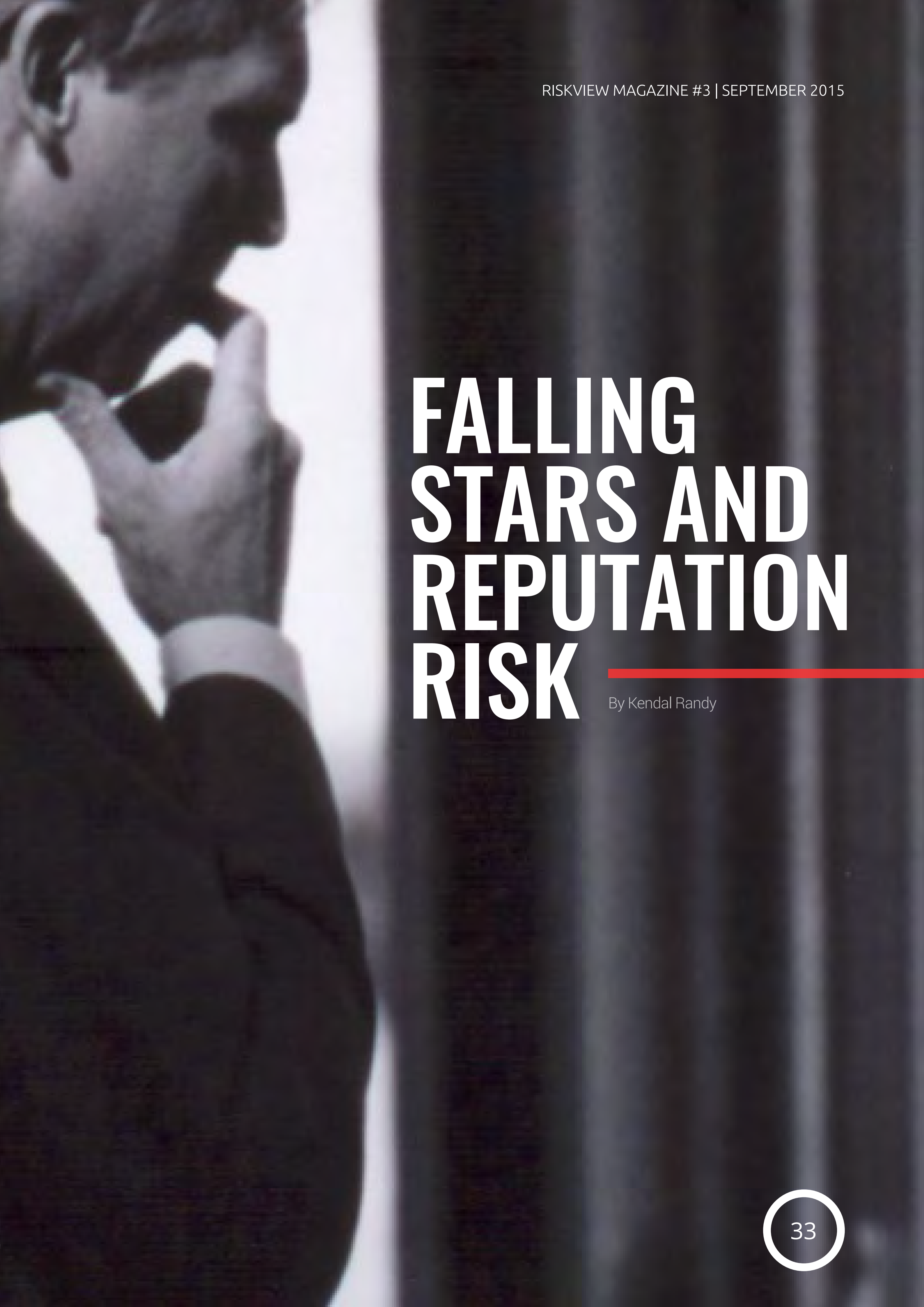
4. Meltwater

An advanced tool for sentiment tracking. Meltwater uses low-level crowdsourcing to track and analyze irony and sarcasm in a post.

5. Topsy

Topsy is a tool that allows the user to track keywords specifically on twitter. The tool will show links, tweets, hashtags, videos, and influencers on Twitter. It also shows sentiments on each keyword that the user search.

DIGITAL CONSERVATION & LISTENING TOOLS



FALLING STARS AND REPUTATION RISK

By Kendal Randy

Public figures, renowned persons or celebrities, often become role models and inspirations for many people. That is why putting a company's brand or image in their hands is considered a good strategy for marketing and reputation building purposes. Public figures undoubtedly can give positive influence over a service or product that they represent. Unfortunately, doing this can also invite risk. When a public figure makes a mistake or is publicly embarrassed, stigmatized, and discredited, the company obviously would be the party that suffers most. If a company fails to take it into account with its risk management planning, things can go wrong in a blink of an eye. Roger Sandau from Integro Entertainment shares his thoughts on this matter to help companies understand what lies ahead when endorsing their brands and reputations.

Roger has gathered many cases that can be examples of how companies, team, and sponsor that tie their reputations and financial to a single key personality or individual can be very vulnerable to reputational risk. One example is Brian Williams who inflicted reputation damage on NBC Nightly News and its network due to his "conflated" recollection about his story in Iraq 12 years ago. Other examples are Lance Armstrong, former professional road racing cyclist, and Paula Deen, a television personality, who have been publicly damaged because of their own actions, resulting in the loss of their advertisers and endorsement partners. Their demeanor backfired on the companies as well. Instead of building strong brand image, they damaged the brands they were entrusted with.

Therefore, many companies that use celebrity endorsement strategy usually secure insurance coverage to cover financial loss in case problems arise with the individual who holds company's image. A public disgrace policy provides coverage for negative outcomes which possibly happen and prepares financial protection for:

1. Money paid to the disgraced spokesperson to secure their services.
2. Expenses incurred to hire a replacement spokesperson.
3. Expenses incurred to replace or re-shoot advertising and marketing materials that feature the name or image of the disgraced spokesperson.
4. Expenses incurred to cut the spokesperson's image or brand from product packaging.

Despite the fact that a public disgrace policy is usually written on a stand-alone basis, it can also be combined with death and disability. A spokesperson or endorser that has a history of scandals or misconduct surely will be more expensive to insure than others. In an extreme case, some may be uninsurable. That is why the insured needs to understand and be capable at accepting and understanding the definition of "disgrace" in a specific policy. Of course the definition must be clear and broad to respond to misbehavior that may damage reputation, marketing efforts, products, and services of the insured. However, companies must remember that covering financial loss only is not enough. There are more things to consider such as the long term effect on the company's reputation.

Unfortunately such a situation can develop quickly with the presence of the internet and social media networks like Twitter and Instagram these days. A single mistake from a renowned person or celebrity can spell big trouble with the potential to impact on the person in an instant overnight. Automatically, all businesses and products associated with the renowned person will soon suffer from this relationship.

Putting company's reputation at stake in the hands of renowned person or celebrity is not something to be avoided at all. However, there are risks that must be well managed to prevent something bad happening to the company. Insurance coverage is a wise option. No company wants to suffer from trusting their brand and image to a key individual. The more a company implementing robust risk management over this marketing strategy, the better they can handle the crisis.

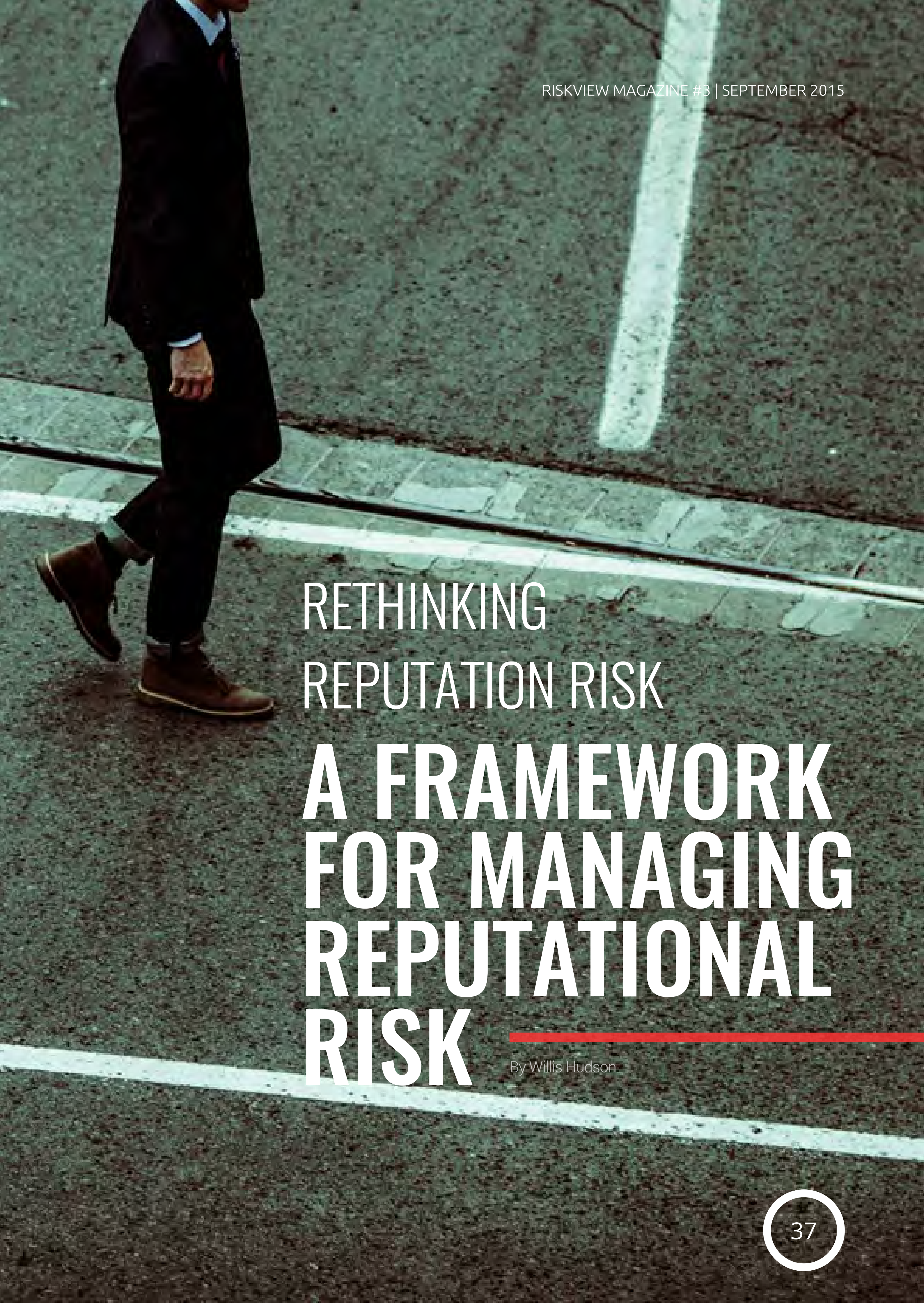
THE FALLEN STARS

Bill Cosby

Bill Cosby has been accused of sexual abuse of 16 women, and 12 of them claimed to be drugged. The sexual assault allegations covered issued wide-ranging period dating back decades. As a consequence, Cosby was stripped of his professorship at Spelman College, and Disney removed his bronze statue displayed in Disney's Hollywood Studio shortly after the revelation. It doesn't stop there, as millions of his fans turned their back, NBC pulled his latest project. Cosby Show reruns have been halted, and Netflix "postponed" their working relationship. Now, he must be responsible for what he has done even though he continues to deny all of the sexual allegations against him.

Tiger Woods

Tiger Woods mistress scandal in 2009 apparently gave damaged his career. It was all started with a nightclub hostess named Rachel Uchitel who blew up the scandal to the media. And by Dec. 11, 2009, two weeks after the blow up, it was revealed that there were up to 14 mistresses in total. His big sponsors such as EA, Nike, and PepsiCo are reported to have suffered significant losses due to the Woods scandal: some quote figures of losses up to US$12 billion; just in 10-15 trading days the sponsors lost more than 2% of market value. Thus, the scandal sent a negative market-wide signal about the reputation risk associated with celebrity endorsements.



RETHINKING REPUTATION RISK

A FRAMEWORK FOR MANAGING REPUTATIONAL RISK

By Willis Hudson

Feared by most business practitioners, reputational risks are shadowing companies as emerging risks nowadays. To deal with them, managing reputational risk is urgently required. Robert G. Eccles, Scott C. Newquist, and Roland Schatz from Harvard Business Review explained that companies need to understand five important steps to conduct reputational risk management effectively. The steps are: assessing the company's reputation among stakeholders; evaluating the company's real character; closing gaps between reputation and reality; monitoring changing beliefs and expectations; and putting a trusted senior executive below the CEO in charge.

Reputation is a matter of perception, and it must be measured. This principle is valid in multiple areas of reputation assessment, as long as they are contextual, objective, and if possible, quantitative. Therefore, regarding reputation assessment, there are three questions that need to be addressed: What is the company's reputation in area of financial performance, product quality, and so on? Why? How do these reputations compare with those of the firm's peers?

There are many techniques available to evaluate the reputation of a company. The techniques are analysis of media, surveys of customers, employees, investors, NGOs, and industry executives, focus groups, and public opinion polls. Although all of them are useful, a detailed and structured analysis of what the media are saying is especially important because the media shape the perceptions and expectations of all stakeholders.

According to research that is conducted by Media Tenor Institute for Media Analysis in Lugano, Switzerland, establishing a positive or good reputation via the media highly depends on several factors or practices. First, the company must always available on the public's radar screen. Second, they need at least 20% of positive stories in the leading media, no more than 10% negative, and the rest neutral. Third, the mix of positive, negative, and neutral stories can be influenced by managers by striving to optimize the company's "share of voice".

Furthermore, company's ability to meet the performance expectations of stakeholders must be objectively evaluated. In assessing reputation, it will be better if the approach to evaluating character is more contextual, objective, and quantitative. Reality assessment must be assessed relative to competitors, same as the reputation of the company. For example, performance-improvement targets based only on a company's results for the previous year are meaningless if competitors are performing at a much higher level.

A more effective investor relations and corporate communications program can be conducted to close the gap when a company's character exceeds its reputation. The company must enhance its capabilities, behavior, and performance or moderate stakeholders' perceptions if a reputation is inexcusably positive. If the gap is large, the company will need more time to close it. However, if the damage when stakeholders recognize the reality is likely to be great, then management should seriously consider lowering their expectations.

There are ways to understand how beliefs and expectations are evolving. Some of them are regular employees, customers, and other stakeholder surveys. Those surveys can reveal whether their priorities are changing. While most sophisticated companies conduct such surveys, few take the additional step of considering whether the data suggest that a gap between reputation and reality is forming or widening. Moreover, periodic surveys of experts in different fields can identify political, demographic, and social trends that could affect the gap. Companies need to comprehend how the media shape the beliefs and expectations among public. Dramatic changes of coverage amount influence how fast and to what extent beliefs and expectations change.

These important steps to conduct reputational risk management effectively will not happen automatically. The CEO must give the responsibility to one person to make these things happen. Some suitable candidates are the COO, the CFO, and the heads of risk management, strategic planning, and internal audit. They have the necessary resources and credibility to do the job. In the other hand, those whose existing responsibilities pose potential conflicts probably should not be chosen.

Companies need a standard framework to proactively manage reputation risks by assessing the existing and potential risks quantitatively, control them, and come to a decision whether they will accept the risks or avoid and mitigate them.

A Framework for Managing Reputation Risk

Understanding the factors that determine reputational risk enables a company to take actions to address them.

DETERMINANTS OF REPUTATIONS RISK	Reputation-reality gap	Changing beliefs and expectations	Weak internal coordination
WAYS TO MANAGE REPUTATIONAL RISK	Objectively assess reputation versus reality Examine the gap between the company's reputation and actual performance; make necessary improvements	Assess and accept impact of changing expectations Know that stakeholders' changing expectations will affect reputation even if they seem unreasonable at the time	Explicity focus on reputational risk Recognize that this is a distinct kind of risk and manage it in a proactive and coordinated maner. Assign one person the task of managing reputational risk

Strong and sustainable reputation

Reputational risk management is not an expensive undertaking, and it will not require years to implement. Compared with the value at stake for many companies, this is a modest expense. It is important to understand the factors that determine reputational risk enables a company to take actions to address them. At last, what companies need to focus are recognizing that reputational risk is a differentiate category of risk and giving one person clear responsibility for managing it.

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RISKVIEW

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