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CORPORATE REPUTATION: IT CERTAINLY MATTERS

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One hardly needs any reminding of the global economic crash and its devastating effects the world experienced in September 2008. Many businesses were brought to their knees, and countless individuals were financially ruined as a result of what could only be described as reckless trading, backed by the greed of a select group of business executives in the financial services market. And just eight years later the devastation lingers on, and a number of country leaders still cite the global crash as the fundamental reason for their economic woes and the plight of their impoverished citizens.

When looking back on this monumental disaster, most commentators would cite the decision of the United States to place two of its government sponsored enterprises on cautionary notices -- namely Fannie Mae and Freddie Mac which was done in order to ensure their financial soundness -- as the catalyst for the global economic meltdown. Just a few days later, Lehman Brothers filed for bankruptcy and this was then followed by further failures of prominent financial institutions in the US, including Europe and the Nordic regions.

"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 Buffett
American Business Magnate, Investor and Philanthropist

At the time, whilst most everyday citizens would not have fully understood the causes of this catastrophe, it was unsurprising to hear many people -- who were interviewed during this period -- saying that in their opinion *Lehman Brothers* caused the global economic meltdown. There was no real mention of the sale of Merrill Lynch to the Bank of America or the American International Group's (AIG) credit default swaps and how these events also played a role. Everyone just spoke about the *Lehman Brothers* and their perceptions of the bank's reckless lending. Whilst there may be a degree of truth in the perceptions of those interviewed, the reality of the global collapse is perhaps two-fold: (i) there were a *series of events* which fulfilled a critical part in this unforgettable moment in history and (ii) these sequential events were underpinned by *fateful and poor timing,* where the greed of certain executives and their respective activities resulted in a head-on collision.

Turning more specifically to corporate reputational matters; it is interesting how few people today actually remember the CEO of Lehman when it collapsed, namely Richard Fuld and who was also known as the "Gorilla of Wall Street". With a total compensation of $500 million during his eighteen year tenure as CEO, Fuld was known to have ruled the bank with an iron fist. With his dictatorial style, he generally prevented people the opportunity to assist him with the bank's strategic direction. Together with his Chief Operating Officer -- Joe Gregory -- who was his right-hand man; they were feared and any employee who posed any form of threat to their unscrupulous ways was simply removed. Clearly, the culture of Fuld's leadership and management style were critical reasons for the bank's collapse. Whilst Fuld's name may have disappeared from the public's memory; the name of Lehman Brothers will remain engraved in the history books as the one and only reckless organisation that changed the world for the worse, and which caused (and continues to cause) untold misery of epic proportion. With hindsight of these past events, when questioned about his role in the Lehman collapse, one wonders how Richard Fuld regards both corporate reputation, as well as his own reputation against his personal motto stating "*that was then, this is now".*

Like with so many CEOs who are associated with corporate scandals or corporate failures; one must question the impact their association has upon the organisation's corporate reputation and the manner in which this erodes the credibility of the organisation if it is left unchecked. Using the Lehman Brothers case as an example; it is particularly important that an organisation has an impeccable reputation which is underpinned with good governance. Moreover, the organisation must have a known track record for being entrusted with other people's money if it is to be successful in attracting future investment.

Undoubtedly, corporate reputation affects the way in which various stakeholders behave towards an organisation, also influencing, for example; employee retention, customer satisfaction and customer loyalty. CEO's of credible organisations regard their corporate reputation as a valuable 'intangible asset', and together with their board, they position their reputation as a strategic priority in order to, amongst other, encourage new investment from shareholders which is linked to superior overall returns.

Corporate reputation is an important factor across all four major risk areas of an organisation, these being within the organisation's strategic, operational, financial and compliance areas. There is no question that an organisation's reputation is critical to its long-term health and this has become a key issue for most boardrooms. Unlike previous times where an organisation's reputation was relatively safe from wide-spread and rapid attack, today the internet, blogs and mobile technology have made it possible for almost any disgruntled person -- or a vested stakeholder group -- to negatively broadcast information to large audiences in a very short space of time, and causing untold damage. The media, and more specifically social networks play a powerful role in the making and or breaking of an organisation's corporate reputation.

"Lehman Brothers became a victim, in effect the only true icon to fall in a tsunami that has befallen the credit markets. This is the most momentous bankruptcy hearing I've ever sat through.

It can never be deemed precedent for future cases. It's hard for me to imagine a similar emergency."

U.S. Bankruptcy Judge James M. Peck

Despite a widespread understanding of the importance of corporate reputation; the fact that it is very difficult to accurately quantify, as well as to pre-determine how to manage the associated risks, makes it an extremely difficult task to manage, let alone insure. Due to the intangible nature of an organisation's reputation, it is also generally speaking complex to measure. All efforts to safeguard the organisation's reputation require a commitment from all the organisation's key stakeholders. Whilst there are a number of measures an organisation may adopt in an effort to bolster its reputation, maintaining good stakeholder relations and engaging frequent dialogue to understand their views will go a long way to underpin the organisation's reputation. Indeed it is also critical that the organisation constantly monitors its external environment more systematically in order to identify the emerging corporate reputational threats that put their stakeholder relationships at risk. It goes without saying that "prevention is better than cure". Having a good corporate reputation is a hard-won asset; it should be defended, protected and reinforced at all times. Once the organisation's reputation is damaged, it is far more difficult to repair the damage than it would have been to take the preventive steps to avoid the damage in the first place.

Organisations that place their corporate governance and ethical business practices at the core of their strategy and operations -- and who strive for quality -- are inherently less prone to corporate reputational damage. Key to this is the organisation's unwavering commitment to provide all its stakeholders an accurate account of all its dealings -- including its risk culture and treatment thereof -- through the organisation's annual Integrated Report.

With more informed stakeholders and activists who demand greater transparency and robust governance practices from organisations, having a good corporate reputation is a non-negotiable aspect of business. An organisation's corporate reputation -- and any activities which could potentially harm its reputation -- should remain a standing item of discussion at the board and operational levels.

As the organisation's reputation can be attacked from a wide variety of angles, all employees have a role to play in its defence strategies. Getting this right also provides stakeholder's the necessary assurance that the organisation is responsive to their customer's demands, that their products and services are safe and reliable and most of all, that the organisation is visibly practicing its good corporate citizenship. Indeed, the organisation's name says it all.

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