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Managing Reputation Risk:

What's in a Name?

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Melanie Lockwood Herman, *Executive Director*
Nonprofit Risk Management Center
Melanie@nonprofitrisk.org

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What is a Reputation?

- A nonprofit's reputation is reflected in:
  1. The confidence of stakeholders in your ability to deliver your mission.
  2. The opinion of stakeholder groups about the effectiveness and value of your programs and activities.
  3. Your nonprofit's "trustworthiness" in the eyes of key constituencies.

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What is a Reputation?

- An opinion about trustworthiness
- Collective view of an organization's past <u>actions</u> and <u>results</u>
  - Compared to "image" – cache, appeal
- Confidence in the ability of an organization to "deliver" in the future
  - Compared to "brand" – name, logo, distinguishing marks

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- “The purest treasure mortal times afford is a spotless reputation.” *– William Shakespeare*
- “It takes twenty years to build a reputation and five minutes to destroy it.” *– Warren Buffet*

We all have one…

- “Like it or not, every individual, every company, every organization develops a reputation that is based on people’s perceptions of it over time.”
  – Ronald J. Alsop

The Reputation Timeline

- Can a “good” reputation be built quickly?
- Can a “bad” reputation be formed quickly?

Protecting Your Reputation

- "The key question for companies is whether they will passively let others form opinions about them or actively manage and maximize their most valuable asset."

  – Ronald J. Alsop

Passive Protection

- The nonprofit's brand is "protected" through complex and detailed policies.
- The nonprofit's reputation is kept in a safe place…

Active Protection

- Your nonprofit wants (and needs) to know what people think of your:
  - Culture, values, programs/services, quality, priorities, policies
- You continually strive to exceed stakeholder expectations
- You listen, learn and evolve

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Why Focus on Reputation?

#1 - a good reputation:

- Encourages people to seek services from the nonprofit.
- Attracts donors and contributors.
- Inspires members of your community to volunteer their time and talents.
- Helps attract qualified employees.
- Contributes to a positive risk profile and insurability.
- Attracts potential partners and collaborators.
- **Inspires confidence** by stakeholders, including the board.

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#2 - Halo Effect

- A good reputation leads to trust and “benefit of the doubt” during periods of difficulty.
  - A reputation “retaining wall” may help protect your agency during a crisis.

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Challenges in Reputation Risk Management

- Stakeholders on the “outside” will never know as much as insiders
- Information travels faster than ever imagined
- Many people unknown to you are contributing to your nonprofit’s reputation

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When things go wrong…

- Survey says:
  - The expected length of time to repair a damaged reputation was 3.65 years, according to a survey conducted by Burson-Marsteller in 2003
- Results differ:
  - Audi – 10 years to recover sales #s after allegation of defect in 5000 series models

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What is Reputation Risk?

- "the potential that actions or events negatively associate an organization with consequences that affect aspects of what humans value." – Scott and Walsham (2005)
  - Risk: reality versus possibility
  - Reputation: anticipating performance

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- According to an Economist Intelligence Unit (2005) survey,
  - "52% consider reputation risk as a risk by itself, while 48% consider it as a consequence of other risks" like operational risk – people, process, systems and external events – compliance and financial.

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What is Reputation Risk?

- "Reputation risk is the potential loss that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions (financial loss). – U.S. Federal Reserve (2004)

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What is Reputation Risk in the Nonprofit Sector?

- Reputation risk is the potential loss of confidence in the nonprofit, either localized or widespread and whether warranted or not. Reputation risk may result in a decline in demand for the nonprofit's services, loss of support by donors, reluctance by volunteers to serve, and lack of interest in collaboration by current or prospective partners.

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What is Reputation Risk?

- Potential losses resulting from the *gap* between stakeholder expectations and the nonprofit's ability to deliver. – Sethi (1977)
- Potential losses due to a *misunderstanding* of stakeholder expectations.
  - **Legitimacy gap** = "chasm between what an organization believes and does and what its key publics think it should do and believe."

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Legitimacy

- **Pragmatic Legitimacy** – earned by meeting the expectations of stakeholder groups
- **Moral Legitimacy** – perception of consistency between the organization's conduct and performance and societal expectations for moral conduct. Is the organization doing the "right thing"?
- **Cognitive legitimacy** – following established models of form and function

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PZB Gap Model

Parasurarman, Zeithaml and Berry (1985)

- Gap I: **Knowledge gap:** The difference between consumer expectations and management *perceptions of consumer expectations.* The nonprofit's leaders don't know what stakeholders expect.
- Gap 2: **Standard gap:** The difference between management perceptions of consumer expectations and service specifications. The nonprofit isn't organized to deliver what stakeholders want.
- Gap 3: **Behavior gap:** The difference between service specifications and the service actually delivered. The nonprofit is unable to deliver what it intends to deliver.
- Gap 4: **Communication gap:** The difference between service delivered and what is communicated about the service to stakeholders. The nonprofit either fails to communicate what it can deliver or makes promises it is unable to keep.

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PZB Gap Model

- Gap 5: **Gap between service and expectations**: The discrepancy between your stakeholders' expectations of your services and perceptions of your actual performance. Negative view of your performance.

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Narrowing the "Legitimacy Gap"

1. Change public perception through education and information (no change to performance; lowering expectations); or

2. Change performance to match stakeholder expectations (strengthening performance).

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Can you measure reputation?

- Harris Interactive – "Reputation Quotient" (RQ) Survey

- Reflects overall American sentiment about leading companies by surveying 20,000 members of general public

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Reputation Quotient®

- Survey seeks ratings of pre-selected, visible companies on 20 attributes and six categories or dimensions.
  1. Products & Services
  2. Financial Performance
  3. Workplace Environment
  4. Social Responsibility
  5. Vision & Leadership
  6. Emotional Appeal

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Source:

The Annual RQ® 2009 Summary Report

A Survey of the U.S. General Public Using the Reputation Quotient®

www.harrisinteractive.com

Survey says:

- The % of Americans polled who said that Corporate America's reputation is "Good" rose from 12% to **18%**.
- The % who rate the reputation of Corporate America as "Not Good" or "Terrible" decreased from 88% to **81%**.
- The technology industry continued as top ranked; 72% rated the reputation of the industry as positive, up five points.

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"You can't manage what you can't measure..."

- Measure reputation by determining how your nonprofit is perceived by different stakeholder groups and what factors drive their views.
- What are your nonprofit's perceived strengths and weaknesses?
- How does your reputation compare with that of your top competitors?

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Managing Reputation Risk TIPS

- **Encourage feedback and complaints.**
- **Don't wait** until things go wrong to measure or evaluate your reputation.
- **Consider radical steps** to integrate reputation assessment into you nonprofit, e.g., your performance appraisal process
- Keep in mind that **relationships with stakeholders are complex**. Many stakeholders have their own agendas which may at times be inconsistent with your nonprofit's mission and goals. Steps you take to strengthen your reputation in one area may alienate one or more stakeholder groups. Some of this alienation may be short-term.
  - Example: parents of children in a community sports league

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Managing Reputation Risk

- What is your nonprofit's "credo," values statement, or code of ethics?
  - Let it be your guide during periods of crisis or difficulty
- Trademark as a "trustmark"
- Remember the nuances of effective communication:
  - appropriate message, communicators, audience and method

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- Seize opportunities to reinforce your "credo"
  - Johnson & Johnson employees rate the company on how well it has lived up to its Credo.
  - GE's integrity program: "The Spirit and the Letter"

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Taking Action

- Humility (admit mistakes) and Speed (without delay)
- "I preach to everyone that you're never going to do away with sin. But you have to handle compliance problems with dispatch and integrity." – *Ben Heineman, GE*

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Example

- Customer Service beliefs:
  - Customers are the lifeblood of our business and we are interdependent on each other.
  - Customers are the primary motivation for our work; they are not an interruption of our work.
  - Customers are people who bring us their wants and desires and our primary objective is to satisfy them as best we can. They are not people to argue or match wits with.
  - Customers are fellow human beings with feelings and emotions like our own; they are equals to be treated with courtesy and respect at all times.

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Tips from *The 18 Immutable Laws of Corporate Reputation*

- Create emotional appeal
- Recognize your shortcomings
- Make your employees your champions
- Beware of reputation rub-off
- Manage crises with finesse

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Crisis (& Reputation) Management

- Start from a position of strength (hopefully your good reputation precedes you!)
- Remember that stakeholders believe you will "do the right thing"
- Consider two simultaneous priorities:
  - (1) Addressing the "problem" (what you're doing about what happened and what you're doing to prevent a recurrence); and (2) Communicating about the problem.

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Crisis Management Tips

- Cultivate a relationship with the local media *before* a crisis hits…
- Don't create a communications void in the days following a crisis
  - Silence reinforces suspicions
  - Silence will give your critics or detractors the opportunity to shape your story

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Crisis Management Tips

- "But we're not allowed to apologize or admit responsibility!"
- You can own up to a problem and express sorrow and regret without admitting liability. *Make certain your counsel understand this!*
- Whose reputation is on the line?!

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Johnson & Johnson

Textbook Reputation Management

- 1982 – seven people die after taking Tylenol capsules spiked with cyanide
- Credo precedes crisis; "made the big decisions easy"

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Tylenol Case Study

- What did J&J do?
  - Established toll-free consumer hotlines
  - Recalled 30 million bottles of Tylenol
  - Took out full page ads offering the opportunity to exchange capsules for tablets
  - Executives appeared on major media
  - Developed commercials introducing tamper-resistant packaging

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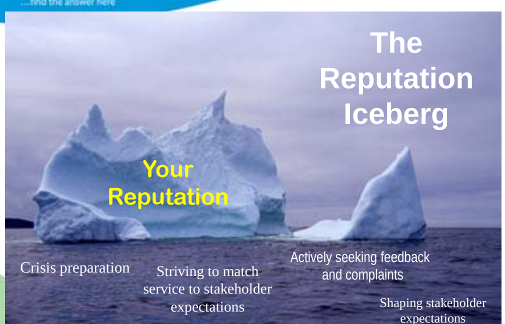

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Resources on Reputation Risk

- ***The 18 Immutable Laws of Corporate Reputation**: Creating, Protecting, and Repairing Your Most Valuable Asset*, by Ronald J. Alsop

- Scott, S. V. & G. Walsham (2005). "Reconceptualizing and Managing Reputation Risk in the Knowledge Economy: Toward Reputable Action," *Organization Science, 16, 3, 308-322.*
- Sethi, S. P. (2007). *Advocacy Advertising and Large Corporations. Lexington, MA: Lexington Books.*

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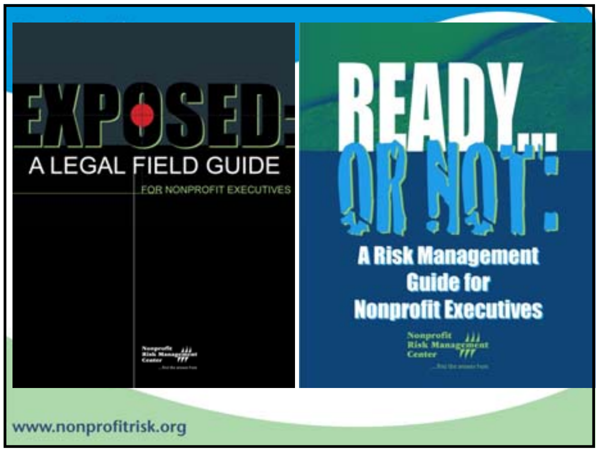

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Thank you!

- Melanie Lockwood Herman
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  - **www.nonprofitrisk.org**

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Next Month's Webinar

- **Back to School: Orientation, Education and Training**
- September 1, 2010 – 2:00 pm Eastern

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