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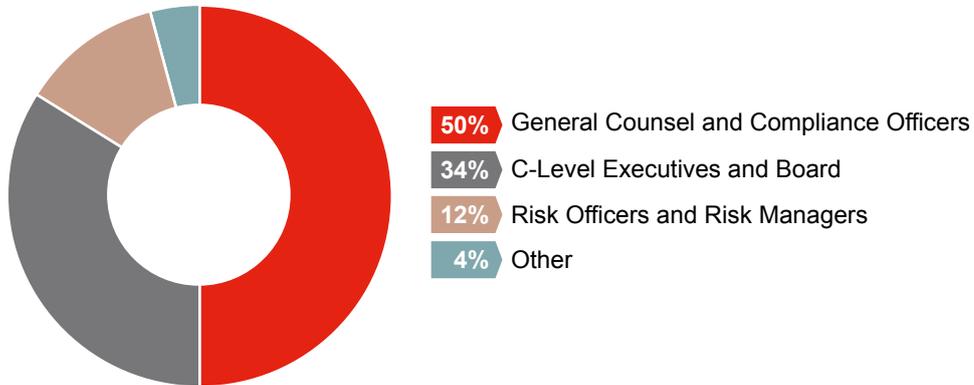
Reputational Risk Australia

2017 Survey Report

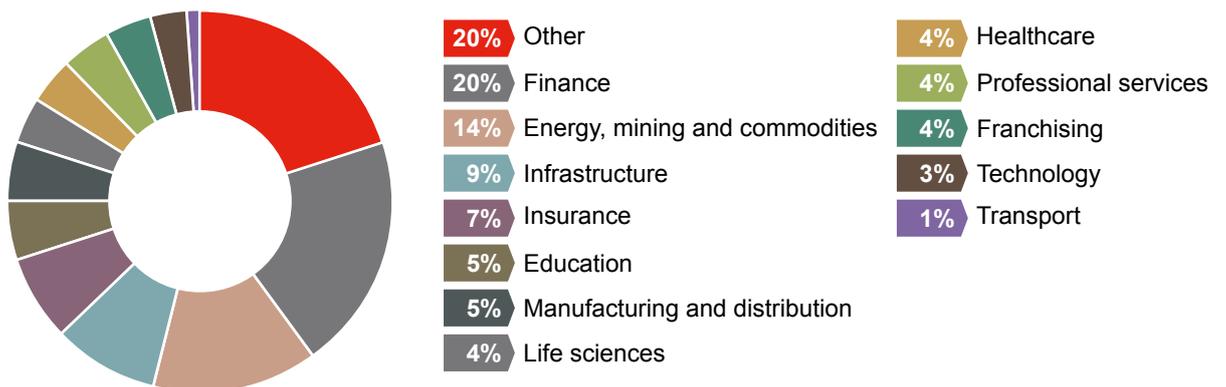


Respondent profile

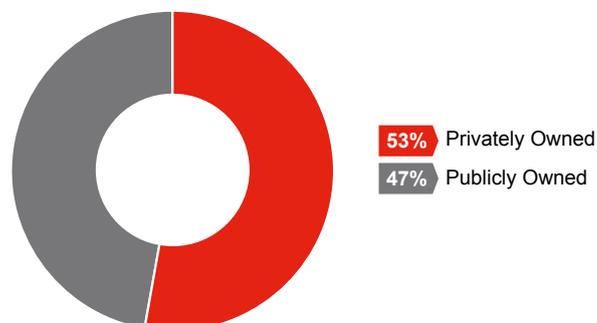
Respondent role



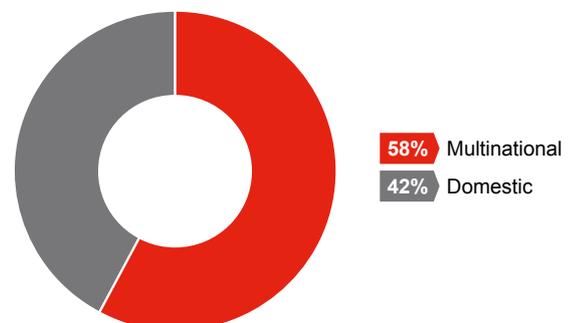
Industry



Organisation type



Domestic / multinational organisation



About the survey

The Reputational Risk Australia 2017 Survey Report is based on responses collected from 78 senior business respondents across Australia between May and July 2017 by means of an online questionnaire.

Key Findings

Reputation matters. There is no exact formula to quantify its value, yet damage to reputation is immediately noticeable, and long-lasting.

The challenge of managing complex, multifaceted reputational risk is compounded by the fast-moving nature of our digital age. Social media enhances the speed at which news travels, is commented upon, and occasionally becomes viral, turning crisis management into a race against time.

Norton Rose Fulbright has surveyed business leaders across Australia in order to better understand what reputational risk means for them and their companies. The results of the research are outlined in our report.

Risk awareness is high amongst Australian business leaders; however, views differ on the key exposures that may affect a company's reputation, and on the potential impact of reputational damage.

The majority of respondents considered that reputational risk management was the executive team's responsibility. However, the sources of exposure most associated with reputational damage (i.e. regulatory investigations, cyber incidents, corporate governance and conduct) are complex, and by nature cross-functional. An open dialogue between board members and the executive team, general counsel and risk managers is necessary in order to manage reputational risk effectively.

Most respondents indicated that their companies have implemented certain reputational risk management strategies. Some have taken a long-term, continuous improvement view and embedded regular compliance audits into organisational processes; others have relied on governance structures or on insurance for risk mitigation. But only a minority of organisations have quantified risks related to reputation and less than one third has tested policies' resilience against risk scenarios. Supply chain risk mapping is another key area for improvement: while most companies have mapped their risks and set up mitigation strategies, supply chains have not been analysed for exposures by more than half of respondents.

Increased transparency, accountability and ethical behaviour are the trends shaping tomorrow's business world. Several factors are driving the change: enhanced international cooperation between regulators, public scrutiny, and rapidly spreading, social media-powered news. While CEO's appeared highly concerned with social media, neither they nor other respondents were as concerned with disruptive innovation (i.e. artificial intelligence, Internet of Things, augmented reality). Similarly, respondents do not appear to link flexible work and outsourcing to potential reputational damage, a view that may be contested as employment structures are reinvented and tasks increasingly delegated through global supply chains.

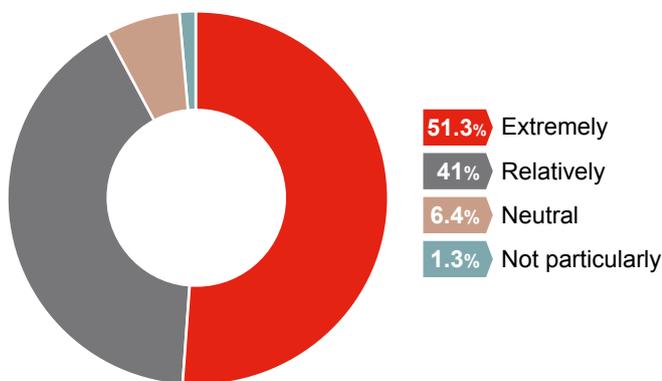
The foundations of an effective reputational risk management strategy are present for most companies included in this research. The next step in fostering organisational resilience is to address areas for improvement, such as supply chain risk mapping, risk quantification and regular training, in order to embed **risk management** into the corporate culture.

The outlook is positive for organisations striving to build and safeguard their reputations as ethical contributors to their communities. The key trends expected to affect companies in the future all point to a more transparent and accountable business world, with consumers and regulators expecting not only compliance with black letter law, but also ethical conduct. This evolution in public scrutiny is powered along by social media and increased global connectivity.

Identifying and understanding areas of reputational risk and potential consequences

Australian business leaders are keenly aware of reputational risk and sensitive to its consequences, with only 6% describing their organisation as neutral and a tiny 1% not being particularly concerned with potential reputational damage. However, depending on their role in the organisation – board members, executives, general counsel or risk management respondents ranked the potential impact of various risks upon their company’s reputation differently.

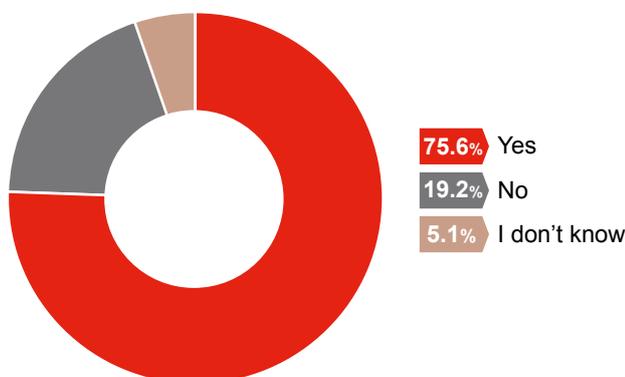
How sensitive is your organisation to reputational risk?



Identifying reputational risk

High awareness amongst business leaders has resulted in reputational risk having been mapped by most respondents: three out of four have formally identified risks that could have an adverse impact on their company’s reputation. However, 25% of respondents risk being exposed to reputational damage given the lack of preparation.

Have you formally identified key risks that could have an adverse impact on your reputation as a firm?



Determining likelihood and impact

While there is broad consensus amongst respondents when it comes to the importance of reputational risk, views often differ as to the sources of major exposure, as well as their ranking. An open dialogue across senior teams would likely bring about a cohesive picture of what reputational risk means for each organisation.

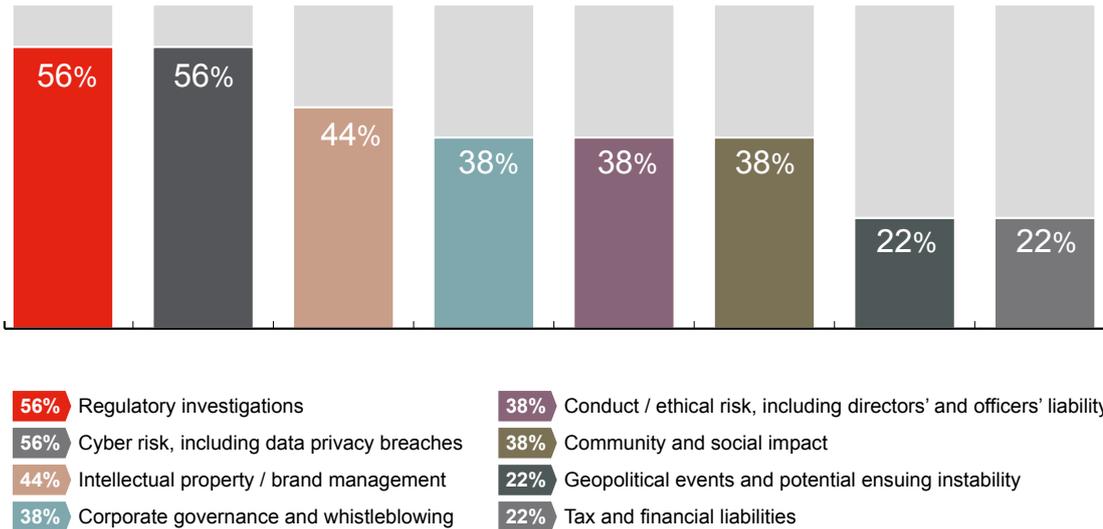
Risk professionals and general counsel were more sensitive to the potential impact of reputational risk, and tended to assign a higher likelihood to incidents than C-level executives and board members.

Most respondents selected regulatory investigations, conduct and cyber risk as top reputational risks. However, notable differences in ratings applied to:

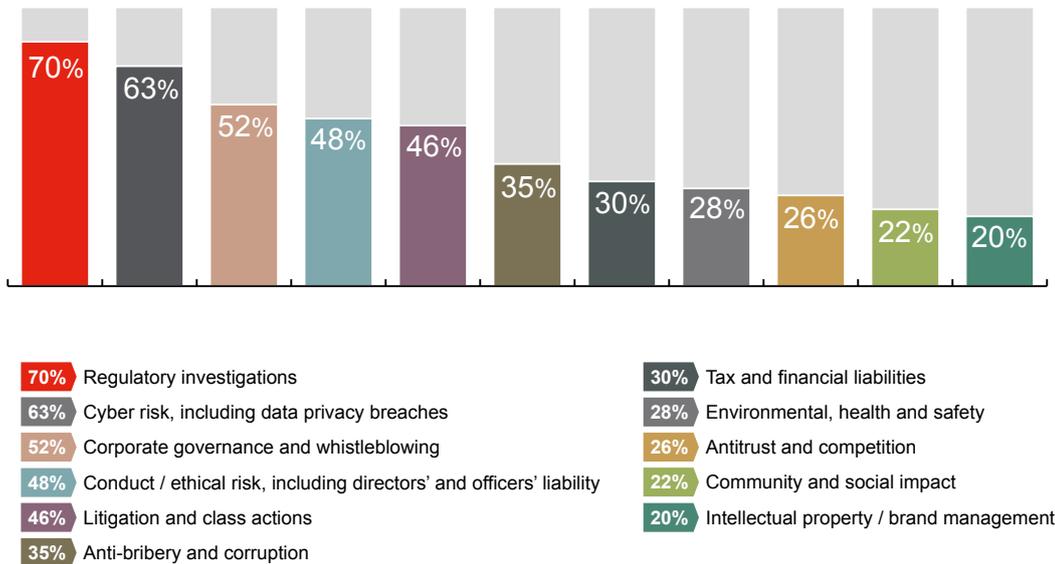
- intellectual property and brand management, a concern for 44% of board members and C-level executives, but only for 19% of general counsel and risk professionals.
- community and social impact: 38% of board members and C-level executives viewed it as a likely risk, in contrast with only 22% of general counsel and risk professionals.

Which risks are most likely to have an impact on a company’s reputation?

As identified by Board members and C-level executives



As identified by general counsel and risk professionals

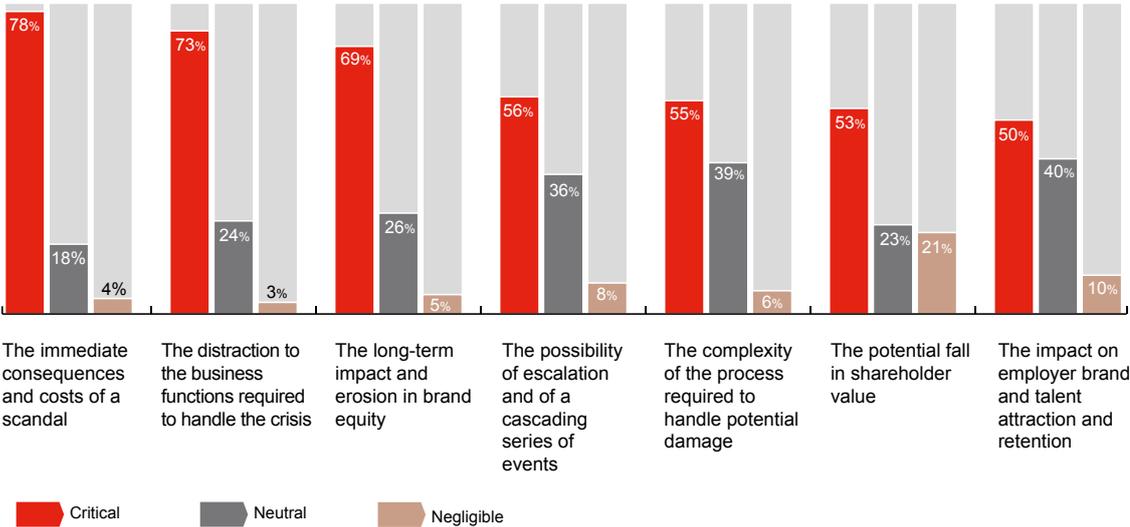


Regulatory investigations and cyber risk top the list for board members, C-level executives, risk professionals and general counsel alike.

Regulatory investigations are increasingly significant and taxing for businesses, extending to a broader array of issues, and critically, crossing borders more frequently. While regulators are better connected than ever, social media is slowly replacing traditional channels as the main source of news. In this interconnected, fast-moving landscape businesses are required to display a higher level of transparency and ethical standards than ever before. This trend is confirmed by the high likelihood and impact ratings assigned to corporate governance and conduct risks. Under increasing scrutiny and reporting obligations, 80% of respondents from public companies identified regulatory investigations as their key concern.

While the rapid development of the cyber landscape has brought business opportunities across all sectors, it has also been accompanied by an increasing number of cyber attacks, and a variety of other incidents that can negatively impact companies' reputations. From privacy breaches undermining customers' trust to trade secrets being sold to competitors and jeopardising a brand's standing, cyber risk continues to evolve and threaten business continuity and reputations alike.

What are the most severe consequences of reputational damage?



The immediate consequences of a reputational incident take precedence over its long-term impact. Crisis management, and minimising the financial costs and other impacts of a scandal, were front-of-mind for respondents.

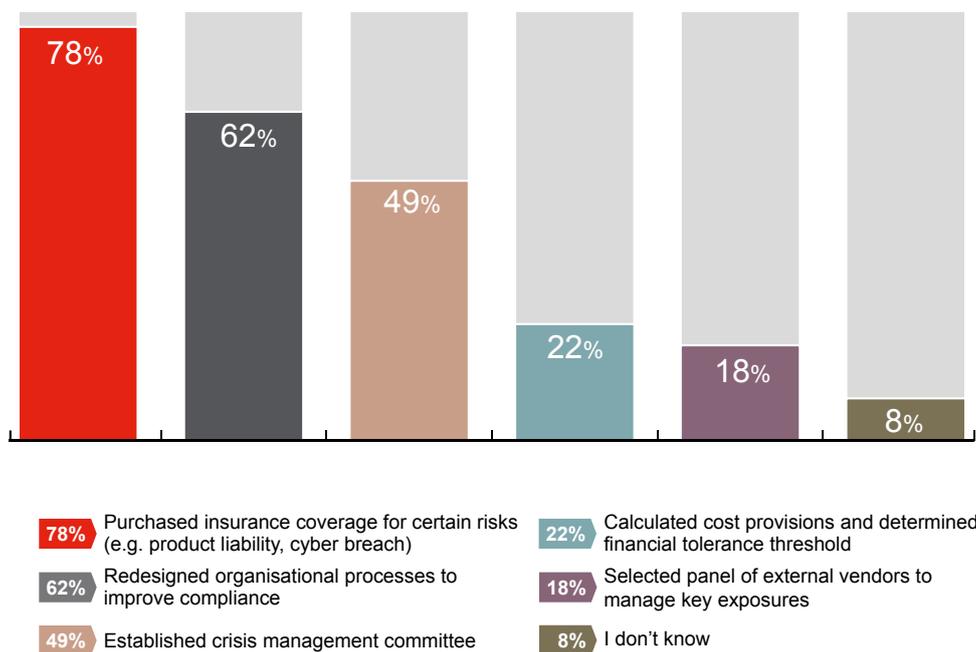
The financial cost of crisis management is magnified by the distraction to the business functions required to handle the crisis, with CEOs particularly worried about disruption to operations: 82% of them identified distraction to critical business functions as a consequence of reputational damage, in contrast to the 73% respondent average.

Public companies and board members were concerned with the negative impact of reputational damage on shareholder value: 70% of listed companies and 67% of board members identified a drop in shareholder value as a critical impact of reputational damage.

Estimating impact and mitigating exposures

Reputational risk awareness runs high amongst business leaders, and areas of **exposure** have been identified by 76% of respondents. Risk mitigation strategies were also in place for most of these identified areas of exposure.

What measures have you taken to mitigate the potential impact of reputational damage?



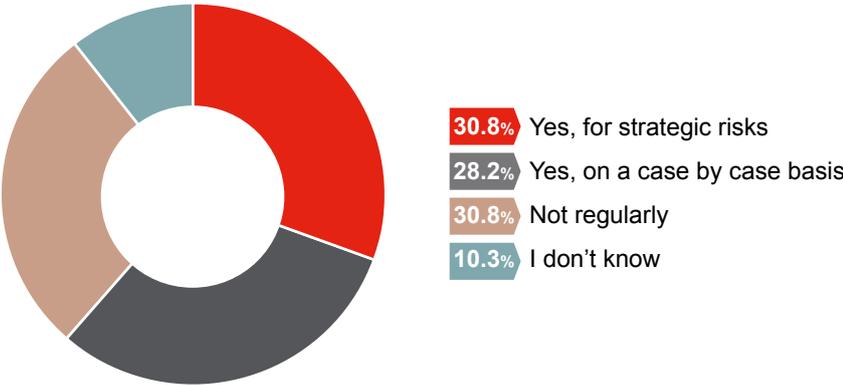
A broad array of strategies is being employed, yet 8% of respondents were not aware of any measures being taken to manage reputational risk within their organisations. Certain actions, such as reviewing and redesigning organisational processes to improve compliance, are likely to have a long-term positive impact, and help embed risk awareness into the overall corporate culture.

Risk quantification and scenario use

The figures on the previous page also underline a contradiction: while only 22% of respondents indicated that their company had financially quantified the impact of reputational damage, 78% of them have chosen to transfer certain risks to the insurance market. Risk scenarios to test the resiliency of policies and of organisational processes were mostly used for strategic risks or on a case-by-case basis.

There is an opportunity for companies to advance their analysis of reputational risk, and quantify the potential impact of various incidents, so as to use insurance strategically, especially in relation to emerging risks such as cyber.

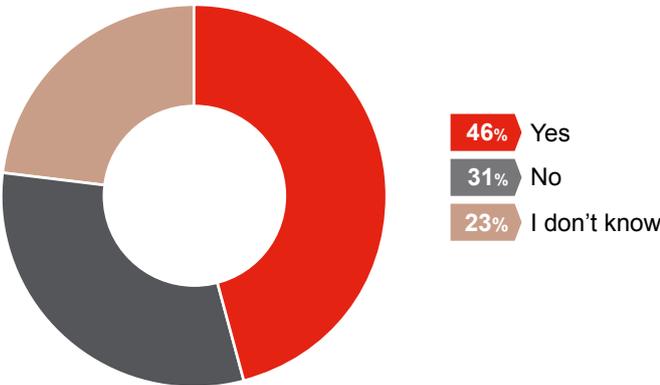
Do you use risk scenarios to estimate the potential impact of incidents?



The weakest link: reputational risk across the supply chain

Two out of three respondents indicated that their supply chains were partly outsourced to developed and emerging markets. Yet one out of four business executives did not know if they had reputational risk exposures across their supply chains.

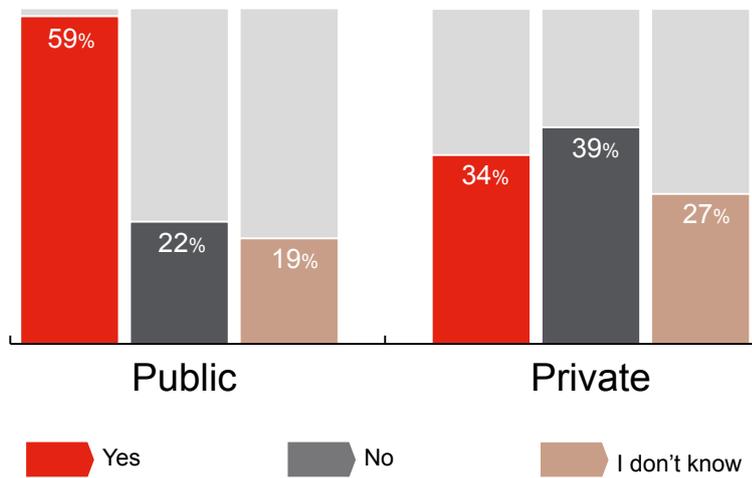
Has your organisation identified reputational risk exposures across its supply chain?



The direct connection between risk awareness and efforts to mitigate exposures was confirmed yet again: 74% of companies that have mapped reputational risk across their supply chains took active steps to manage them.

Not unexpectedly, 59% of public companies have assessed their supply chains for reputational risks, in contrast to a 46% average and 34% for private entities. Similarly, multinationals were more concerned than domestic companies, although many risks with a direct impact on reputation, such as cyber breaches, are country agnostic, and widely spread across supply chains.

Has your organisation identified reputational risk exposures across its supply chain?



Overall, while risk identification is advanced amongst respondents' companies, risk quantification and supply chain risk mapping are areas for improvement.

Building organisational resilience

Reputational risk takes a myriad shapes, making effective mitigation a challenge. From identifying and quantifying potential exposures to monitoring the evolution of the risk landscape, businesses face a complex process of growing and protecting their reputations. Several strategies are being employed by companies keen to build organisational resilience.

Tone at the top

Just over half of respondents (53%) identified the executive team as the key party responsible for managing reputational risk. It is, however, critical that a thorough and open dialogue be pursued between executive leaders and the risk management and legal functions, which are best placed to advise when it comes to crisis management and long-term repercussions such as litigation or class actions.

Key stakeholder in managing reputational risk

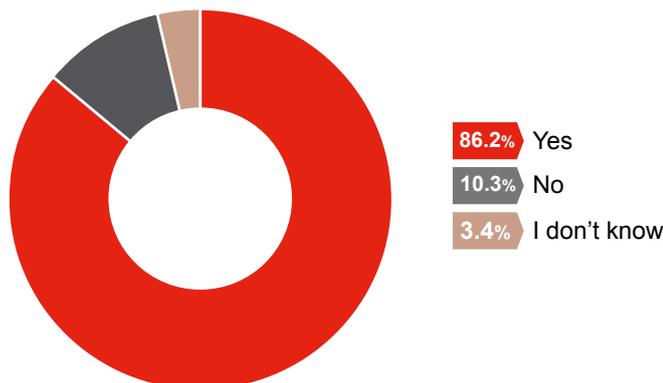


Managing reputational risk – process, policies and protocols

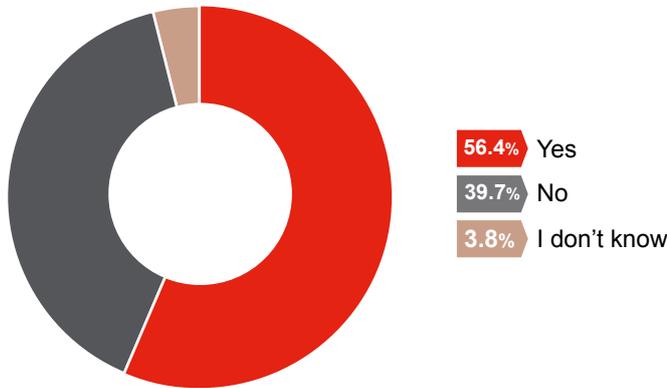
Strategies to manage reputational risk are varied, as discussed in the previous section. With regard to policies and procedures, responses were close to unanimous: policies were regularly reviewed for all strategic risks, while over half of companies had established crisis management committees, and two out of three had protocols surrounding crisis situations.

Public companies were more likely to have established committees and protocols, yet policy work was highly developed across all company sizes and industries.

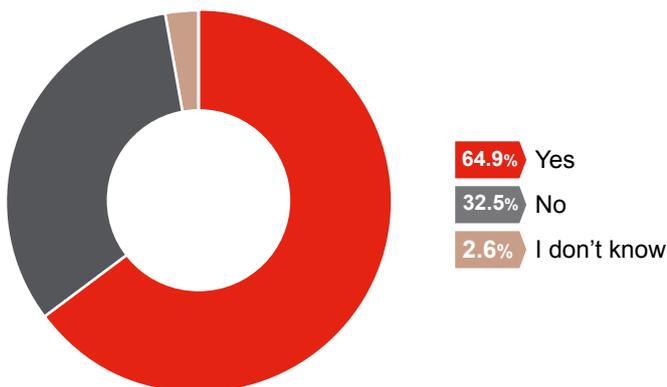
Do you have policies in place to address identified reputational risk exposures?



Does your organisation have a crisis management committee?



Does your organisation have a crisis management protocol?



Organisational fitness regime: audit and compliance

With the groundwork of policy, governance and protocol completed by most respondents' companies, regular audits and compliance maintenance are the next logical steps.

Three out of four respondents reported regular process audits – a necessary process to help build organisational resilience and foster a culture of excellence.

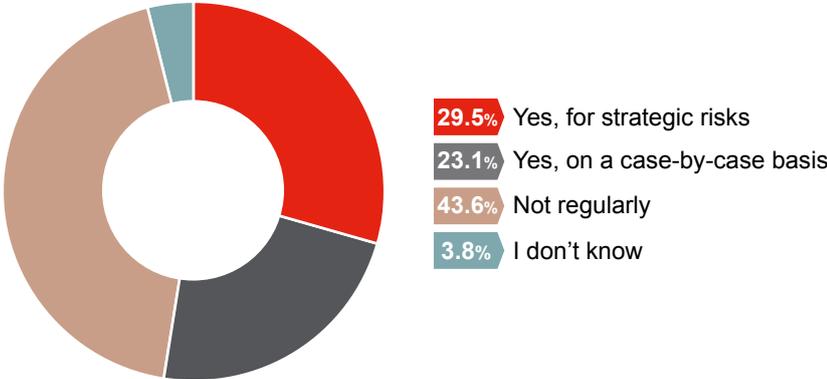
Financial institutions, currently amongst the most scrutinised businesses worldwide, have the most rigorous compliance regimes: 93% of them ran regular audits, significantly higher than the 76% average.

One step further: embedding compliance in the organisational culture

Aligning the tone at the top with official policy, and strengthening governance frameworks through regular process audits are strong building blocks for an organisational culture of compliance. This in and of itself may function as a highly effective reputational risk management strategy in the long term.

However, there is an aspect of embedding compliance within the organisational culture that most respondents have rated significantly lower: training. Close to half of organisations do not run regular training, with one out of four only training their employees on a case-by-case basis.

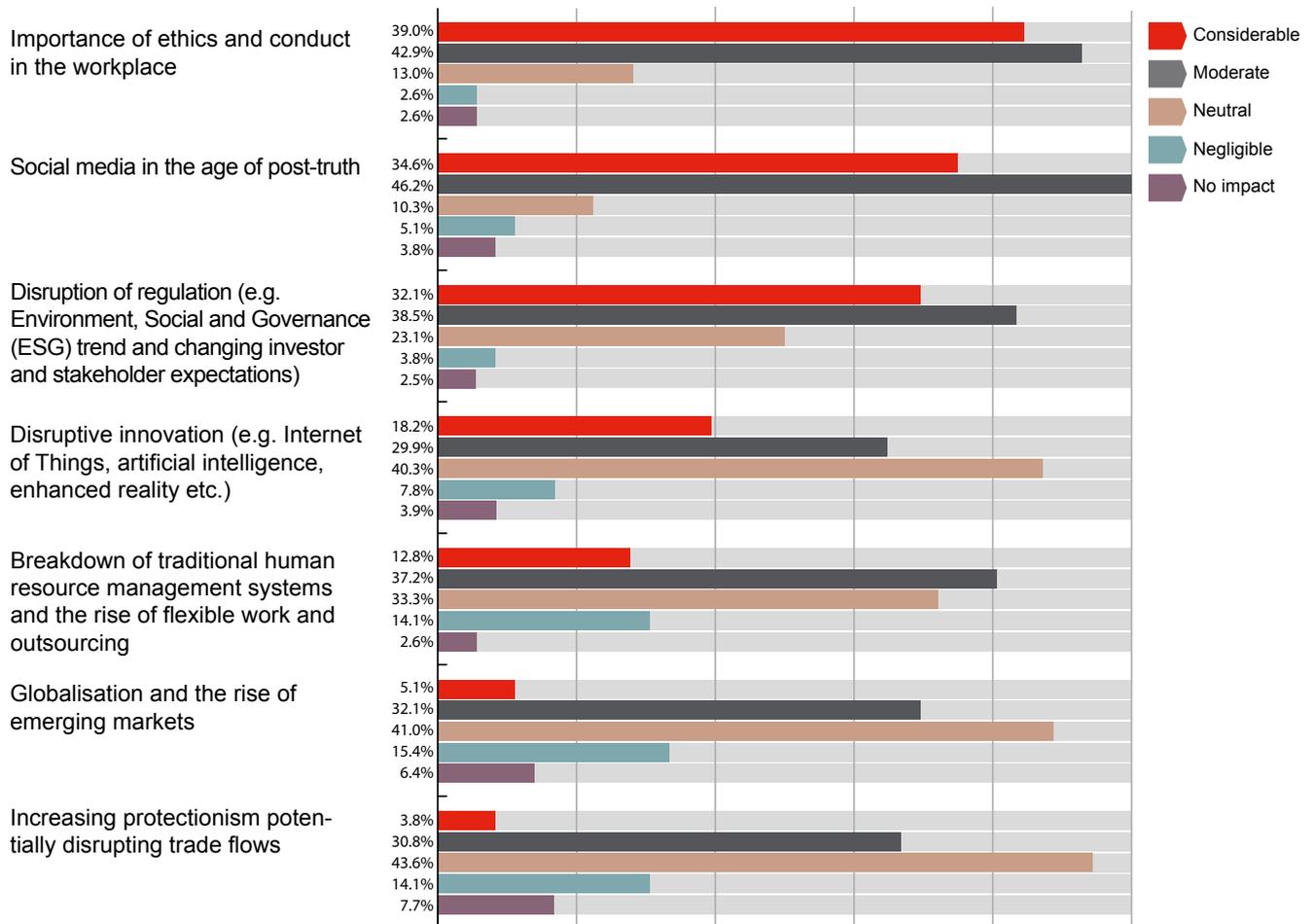
Do you organise regular training to mitigate reputational risk and embed awareness into your organisation’s culture?



While policy, protocols and governance frameworks are a solid foundation, training can make the difference when it comes to cultural change, and it is an area for improvement compared to other elements of the risk management mix.

Future trends and their potential impact

Which global trends do you expect will have the longest impact upon your reputational risk profile in the future?



Increased transparency, accountability and ethical behaviour are the trends shaping tomorrow’s business world. Several factors are driving the change: enhanced international cooperation between regulators, public scrutiny, and rapidly spreading, social media-powered news.

Two out of the top three future trends assigned the largest potential impact upon reputations are related to corporate behaviour: 39% of respondents believed that the importance of ethics and conduct in the workplace will be a key risk factor for corporate reputations in the future, while one out of three selected environmental, social and governance (ESG) investment.

While ESG investment is a natural concern for financial institutions, it is also markedly more important for public companies reliant on capital markets to fund their long-term growth. Sandwiched between these two corporate conduct-driving trends is social media in the age of post-truth, the new engine of fast-spreading global news.

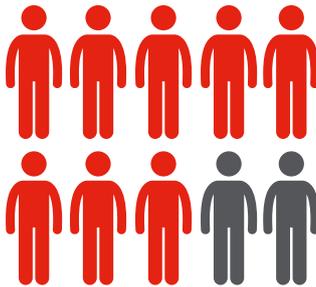
While CEOs appeared highly concerned with social media, neither they nor other respondents were as concerned with disruptive innovation. Similarly, respondents do not appear to link flexible work and outsourcing to potential reputational damage, a view that may be contested as employment structures are reinvented and tasks increasingly delegated through global supply chains.

It is likely that future years will bring about enhanced transparency and higher standards of ethical behaviour from businesses across all industries.

Australian organisations are...

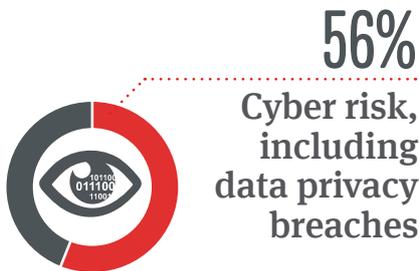
...**extremely sensitive** to reputational risk  51.3%

 75.6% ...aware of their main reputational risks



8 Australian organisations have purchased insurance coverage for certain risks
10

Board members and C-level executives believe that the **top three risks** most likely to have an impact on a company’s reputation to be:



Two out of three respondents indicated that their supply chains were partly outsourced

However, **less than half** of surveyed organisations have identified risk exposures across their supply chain



The **top 4 future trends** expected to have the longest impact on reputational risk are:

 Ethics and conduct in the workplace

 Social media in the age of post-truth

 Disruption of regulation

 Disruptive technology

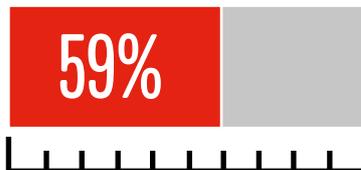
The top 3 **critical concerns** for organisations are:

 78% The immediate consequences and costs

 73% Distraction to business functions

 69% Long-term impact and erosion in brand equity

More than half of respondents **do not use risk scenarios to estimate the potential impact of incidents** regularly





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