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The Reputation Crisis: Risk Management based Logical Framework to the Corporate Sustainability

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1. Introduction

The corporate reputation is an integral part of its overall performance. In this chapter, we argue that a stronger link should exist between risk management and corporate reputation in sustainable way. In view of the modern corporate risk management, reputation is the part of the risk intelligence based process management. This chapter is prepeared about managing corporate reputation with proactive process in the pre-crisis, crisis and pro-crisis situation. Managing reputation is not one time process. Our inspiration to this model comes from Weber's conceptual framework for modern sociology.

Managing reputational crisis is an integral part of ongoing risk management to corporate sustainability.

In today's globally warmed business environment the corporate reputation is closely tied to triple bottom line concept which includes economic, operational, environment and social performance. Corporate reputation is the most important value for business while it the part of good corporate governance. Reputation crisis affects the entire organization Management of the enterprise-wide (corporate) risks requires systematic approach via new business strategies to todays globally warmed business environment. Crisis that is process is the unexpected situations which affects on corporate reputation. The main research question is: "How is the best way to manage reputation crisis via ongoing process management approach?" Crisis arises from external and/or internals causes of the corporates. Crisis situations have a potential of the affect on both brand and reputation of corporates. Crisis situations offers opportunities that are why the modern risk management based approach should be implement in ongoing way to manage reputation effectively. In view of the modern corporate risk management, reputation crisis is the part of the risk intellience based process management. This is ongoing process which is not implay in the crisis situation. Reputation is strategic risk for companies and it should be manage all time. Corporate risks and their impact on reputation must be managed by managers to stay sustainable and competitive in globally warmed business environment.

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We aimed to offer Risk intelligence based ongoing new logical framework to the reputation crisis which is the important risk to corporate sustainability. Reputation crisis requires logical framework to achive corporate sustainability via modern risk management based approach. The modern corporate risk management considers country or local risk. Country/local risk has direct impact on shaping (tailoring) framework to manage corporate reputation crisis. Our framework aimed to provide also, a clear social map which need to effective management of the reputation crisis. For this aim, our conceptual framework starts with the anaysis of the company's socio-cultural environment. In this point, Max Weber's ideas guided us to draw logical framework. Max Weber has been provided major contributions to sociology. By other words, Max Weber, is the founder of modern sociology as a distinct social science. He offered a philosophical basis for the social sciences, a general conceptual framework for sociology, and a range of learned studies covering all of the great world religions, ancient societies, economic history, the sociology of law and of music, and many other areas (Gordon, 1998). In the same way, we tried to do this exactly. We have been developed both the risk intelligence and logical framework. Modern sociology framework that founded by Weber is requires continious development to adopt environmental changes. Similarly, reputation management efforts framework needs adapt to the changes within their environment. For this reason, we have developed new *"Risk intelligence based ongoing logical framework to the reputation crisis"*. This characteristic provides a modern management framework to reputation crisis via ongoing risk management process alike Weber's conceptual framework to modern sociology. Our chapter intends to set bridge between the modern risk management and reputation crisis field since reputation is one of the most important risk for organizations in competitive business environment.

The business strategies about reputation crisis should be applied in the modern corporate sustainability risk management concept. We assumed that, the modern risk management embraces all corporate risk in the triple bottom line concept: environmental, financial and social risks. All of these risk categories has impact on corporate reputation. These risks can be reason to reputation crisis. Corporate risk map is the critic point of this topic. Corporate risks must be managed via ongoing modern process framework. Otherwise, costs of the crisis inreases for corporates. The most threaten cost is the reputation damage for companies. Also, Crisis situations are the risk factor in view of corporate sustainability.

The implementations of the risk management have both critical and strategic importance to manage corporate reputation crisis situations. It is assumed that, crisis situations have a strategic role in view of seeing opportunites in the crisis and the seizing of these opportunites towards corporate sustainability. Its purpose is the development of rigorous frameworks to manage corporate risks 8includes crisis situations and business continuity) successfully.

The proactive crisis management activities include forecasting potential crises and planning how to deal with them. There is important thing is organizations have time and resources to complete a holistic crisis management plan before they experience a crisis. Crisis management in the face of a current and potential, crisis includes identifying the real nature of a current and potential crisis and crisis sources risks, intervening to minimize damage and recovering from the crisis with proactive and corporate sustainability based approach. This conceptual framework is based on enterprise risk management concept. This model is offered to support reputation management efforts via risk management based perspective. Gaining a strategic view point for corporate via proactive crisis management framework is aimed with this research. A further aim of this study is the promotion of risk Intelligence.

We aimed to design "*The Proactive and Risk intelligence based ongoing logical framework to the reputation management.* The modern and logical framework has been developed by using verbal model in this research. We preferred a verbal model since risk management process have both qualitative and quantitative elements. The mission of our work is determined as to help manage reputation crisis via logical modern framework, advocating on their behalf in order to turn adversity into opportunity.

Proactive risk management practices support the effective handling of reputation crisis at the corporate level. We conclude, reputation crisis have serious potential to create cost. For this reason, reputation crisis is the important threat to corporate sustinability. It must be manage in the risk management concept. Several crises are reviewed to design logical and modern and holistic risk management framework. Also, risk management and crisis management frameworks are reviewed.

We tried to tie risk management to reputation management in modern logical way. Finally, the primary goal of this chapter in the book is to offer a logical modern framework to reputation crisis via holistic approach. The framework has ongoing processs approach.

Our new approach offers new process which has 3 main steps. Our framework has a flexible and dynamic composition. For this reason, it can be a living guide to manage corporate risks for managers in the sustainable way. Leading organisations in the globally warmed business world have risk/crisis management framework and crisis plans in place. Today, the next critical move is to make hollistic and full integration of these plans into a reputation risk management process.

We assumed that reputation crisis should be embedded in corporate risk management process. Corporate risk management highly interelated with business continuity and crisis management. Success level of crisis management highly depends on corporate risk management implementations holistically. Maximizing corporate reputation is possible via holistic management of the corporate risks in sustainable way. Integration of fundamental management systems is the key to effective management.

2. Corporate reputation risk and risk management

Reputation has intrinsic current value and shapes stakeholder behaviour to influence future value. A collection of perceptions and opinions, past and present, about an organisation which resides in the consciousness of its stakeholders (Rayner, 2004). Risk is a fundamental element of a company's sustainability strategy. The identification of the risk sources and theie analysis is critical. The relationship between the different types of risk, combination of the different types of risks and integrated affect of these risks should be considered in managing reputation both strategically and sustainable way (Joosub, 2006).

Risk management is a vital part of the internal management processes of the organization. Companies should set a strategy for reputation risk management, define the objectives, and set the metrics by which reputation damage is measured. Risks to reputation are then identified, prioritized, and treated. Because insurance is not available to protect firms against the loss of reputation value after a reputation damaging event, communication with the media and key stakeholders is discussed as a risk mitigation strategy (Regan, 2008).Risk management is essential to create value in volatile business world. In 2004, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued its Enterprise Risk Management—Integrated Framework with this definition of ERM (see www.coso.org):

"Enterprise risk management is a process, effected by the entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within the risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."



Fig. 1. Creating Value through Risk Management (Accenture, 2009)

Risk management contributes to improvement of corporate reputation, but much depends on setting the right strategy with corporate-specific framework for a particular company. Shareholders influences pozitively since their business have risk management system. Many survey respondents are keenly aware of the reputational effects of good risk management. Asked how effective risk management confers competitive advantage on their organisations, significant minorities say that important areas in which it achieves this include better reputations among customers, rating agencies, shareholders and employees. For example, as trustees of pension funds push an increasing amount of money towards the managers of alternative assets (such as hedge funds) in the hope of generating higher returns, those providers that can define clearly their risk appetite and achieve sustainable returns within a strong risk management framework can expect to gain a competitive advantage over their rivals in terms of their relationship with these customers (PWC, 2007). Risk management can improve triple bottom lines of sustainability as well as company reputations (See Fig.1) (Accenture, 2009).

3. The science of corporate reputation management: reputation assest

"In the long term, an honest and fair approach to doing business willalways be the most profitable. And the business world holds such anapproach in much higher esteem than is generally imagined"
(Robert Bosch, 1921)

Crisis Management defined as the preparation and application of strategies and tactics that can prevent or modify the impact of major events on the company or organization. It is the way of thinking and acting when everything "hits the fan." At worst, crisis management can be the life-or-death difference for a product, career, or company (Caywood, 1997:189). Crisis has potential to do direct impact on corporate reputation. For this reason, crisis periods are indeed time of the reputation risk management for the managers in the competitive business environment. Crisis situations are risky process and it should manage timely manner.
Reputation Assest

Corporate Reputation is one of the critical intangible assest for companies as seen following list (Rayner, 2004):

- Leadership & governance
- People, skills and culture
- Innovation
- Intellectual property
- Brands
- Knowledge management
- Communication
- Business relationships
- Corporate reputation

Managing corporate reputation is vital for companies. A ''good reputation'' enhances the firm's transactional capacity; a ''bad reputation'' has negative consequences and a downside impact on the value of the firm to stockholders. Therefore, the risks generated by reputation can prove to be opportunities as well as threats. In fact, subjective and multidimensional approaches (consumer, product and situation characteristics) evidence that (Gaultier-Gaillard & Louisot, 2006):

- The concept of reputation is very broad and considered an intangible asset. The management of risks linked to reputation offers therefore long-term protection for brands.
- Brands are everyone's business in the firm and the same applies to managing risk to reputation. The management of inherent risks is transversal in essence.
- Reputation building is a long-term effort, a trust base on which the firm's image isforged and organized.

The organization's most important asset is at stake, their reputation. It is useless to conceal the truth from the public because eventually someone will blow the whistle. Firestone continued to sell faulty tires to the public when they knew there was a problem with the product. After many deaths, Firestone recalled millions of tires, and the public wondered how long Firestone knew about the problem. Now Firestone is on the verge of declaring bankruptcy and going out of business because they made poor crisis management decisions. Johnson & Johnson did not share the same fate as Firestone when crisis struck the company in 1982. One of Johnson & Johnson's well-known products, Tylenol was tampered with. Someone had been placing cyanide pills inside of Tylenol bottles, and it was killing people. Johnson & Johnson reacted quickly and pulled their product off the selves. Instead of suffering long-term damage to their reputation, Tylenol regained consumer confidence quickly because their crisis management plan told them to act in the interest of the consumer. Sometimes crisis management is used to protect a company from its customers. In 1991, a Pepsi customer claimed to have found a syringe in a can. Once the story hit the press, there were numerous reports of people finding screws, syringes and bolts in Pepsi cans. The Pepsi Company immediately denied that this was possible and that these claims were fraudulent. Pepsi started running ad campaigns against these incidents saying that they were "copycats" and Pepsi cans are "99.9% safe". This gave Pepsi enough time to discover what was happening. A grocery store surveillance camera caught a customer placing a syringe in the Pepsi can. Pepsi now had the proof they needed to refute the claims that their soda was unsafe to drink (Hayes, 2001).

The company's reputation highly affects corporate business result since It's both most valuable and intangible asset for corporates. Managing company's most valuable asset is

one of the main subjects of corporate risk and crisis management in sustainable way. A business's reputation can influence (Rayner, 2004):

- Stakeholders' willingness to give a business the benefit of the doubt when a crisis occurs
- Investors' willingness to hold its shares
- Consumers' willingness to buy from it
- Suppliers' willingness to partner with it
- Competitors' determination to enter its market
- Media coverage and pressure group activity
- Regulators' attitude towards it
- Its cost of capital
- Potential recruits' eagerness to join
- Existing employees' motivation to stay

Corporate reputation is strategic asset and a source of economic value for investors. Research demonstrates that the essence of with stakeholders to build approval and appeal. Doing so requires putting in place a continuous loop of measurement and valuation, providing the underpinnings of a scientific approach to reputation management (Fombrun & Riel, 2004). Reputation management is concerned with knowing what people believe about organisation and ensuring they take actions that improve these attitudes to corporate benefit. A company's success may be determined solely by financial success (or failure) or outputs, but these things are actually dependent on what is known as reputation. Corporate reputations are determined by a variety of factors: leadership, finances, quality of products and services, operations, human resources, ethics, customers, business peers, and stakeholder and community engagement. Essentially, a person's attitude toward an organisation is based on their direct experiences of that organisation, their indirect experiences (what they know. about similar organisations), and their perceptions formed from second-hand information. (i.e. what other people tell them). The art of reputation management is ensuring the stakeholders. Experiences are positive and their expectations are well managed all the time. A good reputation makes people more likely to want to transact with an organisation as a customer, client, investor or stakeholder. (Senate Communication Counsel and TNS Global, 2007:7).

Corporate reputation is a growing factor in creating and maintaining corporate competitive advantage due to four trends in the business environment: the global interpenetration of markets, media congestion and fragmentation, the appearance of ever more vocal constituencies, the commoditization of industries and their products (Fombrun, 2005:303). According to the report of the Senate Communication Counsel and TNS Global (2007), every organisation in the survey thinks risks to their reputation are increasing. Internationally, executives identified direct threats to their reputation as the greatest risk their organisations faced. However, the Senate/TNS survey found that in New Zealand, only half as many bosses agreed, citing human capital risk as their main concern. This was followed by reputation, IT network issues and government regulation.

Risk management to corporate reputation provides support to track and evaluate reputation across a wide array of metrics including:

- Holistic Management and organization
- Strategic planning
- Business continuity planning (e.g., irregular operations, emerging risks)
- Competitive Innovation and differentiation

- Corporate culture
- Corporate relationship management
- Sustainability in Triple bottom line concept: social (e.g. corporate social responsibility), financial and environmental (e.g. environmental management systems, policy and prosedures)
- Personnel empowerment
- Stakeholder Relationships Management: Stakeholders are the new consumers. Leaving them out of the development and marketing mix is a missed opportunity and a huge risk to success (*Riggins, 2009).*

What is the Reputation?

According to the Nuttall (2006), reputation is:
- an intangible asset
- greater than brand
- offering premium value growth opportunities to shareholders
- sum total of all stakeholders' experience

Reputation is the reason why people and organizations do business with company (Davies, 2002). Reputation is one of the most vulnerable values the corporations have to stay sustainable in the globally warmed business environment. Today, corporates focuses on stakeholder relationship management to sustain their process about sustainability. Corporate sustainability can be described as meeting society's expectation that organisations ought to add social, environmental and economic value to their conduct, products and services. It is therefore the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of all involved stakeholders (Rensburg et al., 2008). Reputation is as much about *perception* and the perception of behaviors as it is about fact. It is about ethics, trust, relationships, confidence and integrity. It is built on the fundamental belief that management knows how to run its business and will win in the long term (Resnick, 2006). Reputation" is the perception of the corporation by the public (including the corporation's various stakeholders such as suppliers, customers, employees, local communities, etc.), and is a function of certain events exposing a corporate identity feature (a business practice, a behavioral incident, or a characteristic of the products sold) that was previously unknown to the public (The Conference Board, 2007).

True understanding of corporate reputation is critical to managing reputation crisis in the context of the risk management since identification is first vital step to holistic management process. From Fombrun and van Riel perspective, image and identity are the basic components of reputation. Their integrative perspective presents identity as the perception employees and managers – those inside the firm – hold of the nature of their firm. In contrast, image is the perception that external observers have of the firm. *Corporate Reputation is defined* as Observers' collective judgments of a corporation based on assessments of the fi nancial, social, and environmental impacts attributed to the corporation over time (Barnett et al., 2006:26-28). Corporate reputation is clearly different identity, image and capital (see Fig. 2.).

A corporate reputation is a stakeholder's overall evaluation of a company over time. This evaluation is based on the stakeholder's direct experiences with the company, any other form of communication and symbolism that provides information about the firm's actions and/or a comparison with the actions of other leading rivals. The relationships between the

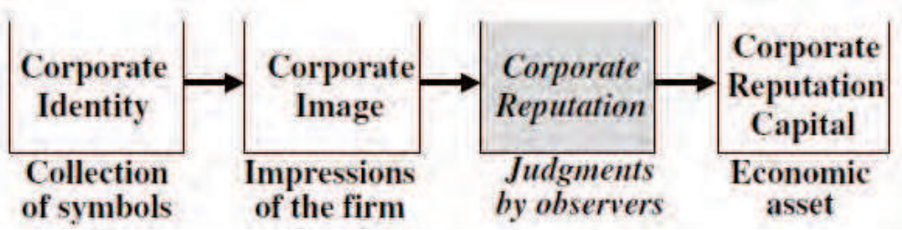


Fig. 2. Corporate Reputation: The Definitional Landscape (Barnett, M.L.; Jermier, J. M.; Lafferty, B.A. (2006). Corporate Reputation Review, Vol. 9, No. 1, pp. 26–38., Palgrave Macmillan Ltd, 2006).

corporate reputation that a company has with each of its stakeholders and the everyday corporate images that it projects, is schematically presented in Fig. 3 (Gotsi & Wilson, 2001). Once key stakeholder relations have been identified and categorized, management should analyze them from a situational and contextual point of view, so as to prioritize groups of stakeholders based on criteria including: their actual influence; the criticality, rationality, and urgency of their claims; their access to and control of key business resources; and the likelihood of their taking supporting action. (The Conference Board, 2007:13).

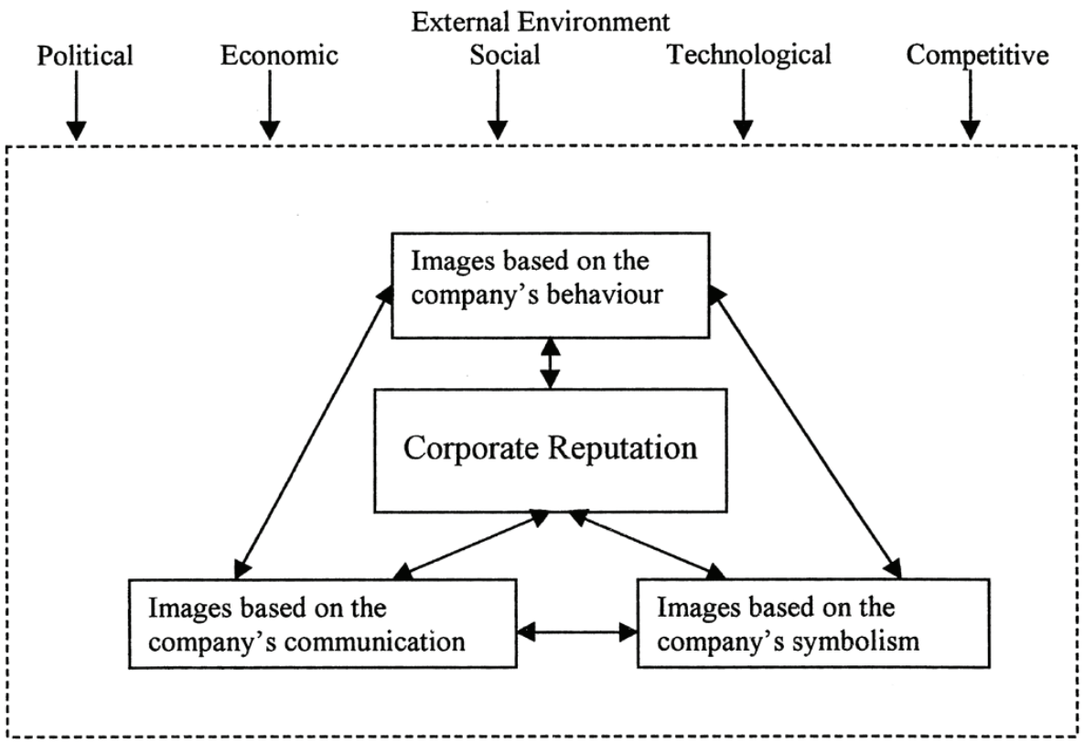


Fig. 3. Defining corporate reputation (Gotsi et al., (2001), Corporate reputation: seeking a definition, Corporate Communications: an International Journal, Volume:6, Number:1, 2001, pp. 24-30, MCB UP Ltd.

According to the Fombrun and Van Riel (2004), the value of a corporate reputation is magnified in a crisis because of the loss of physical assets and business momentum, the impact on people assets and the expected clear-up and associated legal costs associated.

(Fombrun & Van Riel, 2004, pp. 34-5). In order to protect and enhance their reputation capital, organizations must be able to rely on an enterprise-wide process that (The Conference Board, 2007):

- Maintains an asset inventory where the relationships constituting reputation capital are classified according to: their nature (i.e., enabling, customer, normative, peer, and special interest relations); the criticality, rationality, and urgency of stakeholders' claims; their influence on and control of key business resources; and their proneness to support corporate deliberations.
- Quantifies their intrinsic value, determines their propensity to be strategically deployed, assesses their impact on risk appetite (i.e., how much risk the business is capable of undertaking in the pursuit of its strategic vision), and evaluates their actual contribution to long-term business growth.
- Develops a set of extra-financial measures of performance appropriate to assess whether reputation-capital stakeholder relations are being adequately developed and deployed in the pursuit of the business strategy.
- Clearly communicates such information to the market.

Reputation Risk Management to Corporate sustainability provides sustainability in the economic, environmental, and social aspects of business in order to achieve a "sustainable company" target (See Fig. 4.).

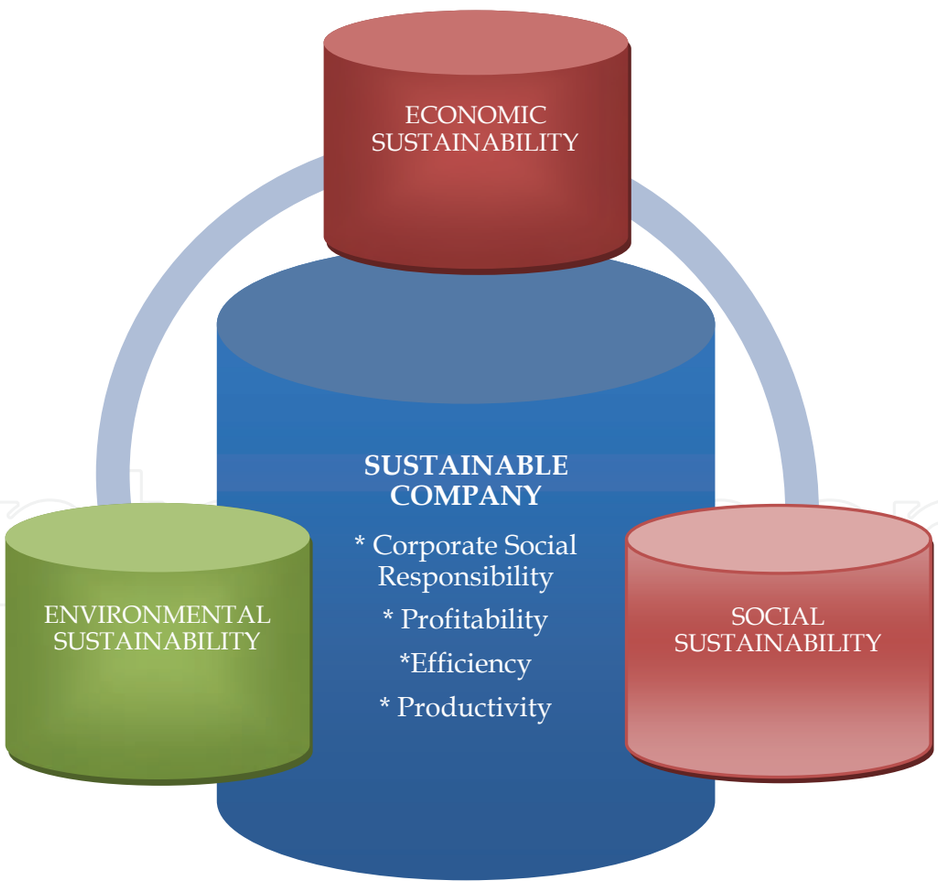


Fig. 4. Corporate Sustainability Components (Adapted from Nemli, E. (2004). Sürdürülebilir Kalkınma: Şirketlerin Sosyal ve Çevresel Yaklaşımları, Filiz Kitabevi, İstanbul, Türkiye).

Companies are beginning to understand the importance of building and protecting their reputation. Companies invest significant resources to understand how stakeholders feel, but very few measures the impact reputation has in shaping tangible business outcomes. By measuring return on reputation (ROR), companies can convert reputation from being an *intangible* asset to an asset with *tangible value* to the company. Reputation, and the efforts undertaken to protect and enhance it, have a measurable impact on several key factors that allow companies to succeed in the marketplace (Dumont, 2009):

- Creating a more favorable regulatory environment
- Managing risk, particularly in litigation and other crises
- Enhancing employee recruitment and retention
- Strengthening and differentiating the brand
- Improving company valuation

Reputation risk management should be integrated with Enterprise Risk Management (ERM) or other risk management programs in the organization. The value of reputation should be quantified to enable management to improve decision making regarding resource allocation to reputation risk management and to calculate a return on investment for those efforts. Employees should be used as corporate ambassadors to understand potential gaps in reputation. Organizations should develop an understanding of and build relationships with key stakeholders. Social networking and new media sites should be taken seriously and potentially monitored and engaged in to assess and influence stakeholder perceptions. Additionally, crisis management should be enhanced to take into account stakeholder emotions (Bayer & Hexter, 2009). The Corporate Reputation Quotient of Harris Fombrun is comprehensive measuring method of corporate reputation that was created specially to capture the perceptions of any corporate stakeholder group such as consumers, investors, employees or key influentals. The instrument enables research on the drivers of a company's reputation as well as comparisions of reputation both within and across industries. This business reputation model has the following 6 drivers of corporate reputation with subsequent 20 attributes: Emotional Appeal (Good feeling about the company, admire and respect the company, trust the company), Products and Services (Stands behind products/ services, offer high quality products/services, offers products/services that good value), Vision and Leadership (has excellent leadership, has a clear vision for future, recognizes/ takes advantage of market opportunities), Workplace Environment (is well managed, looks like a good company to work for, looks like it has good employees), Financial performance (record of profitability, looks like a low risk investment, strong prospect for future growth, tends to outperform its competitors) and finally, Social Responsibility (support good causes, environmentally responsible, treats people well).
(http://www.valuebasedmanagement.net/methods_corporate_reputation_quotient.html).

Stakeholder Relationship Management and Reputation Crisis

Reputation is patiently built on the history and the culture of the firm; therefore, deontology, corporate social responsibility, ability to internalize the concept of sustainable development, financial health, global strategy, and integrated risk management are among the key elements. However, even in the list given here, the importance of each of them in building stakeholders' trust varies substantially (Gaultier-Gaillard & Louisot, 2006). Stakeholders are the new consumers. Leaving them out of the development and marketing mix is a missed opportunity and a huge risk to success (Riggins, 2009). The Stakeholder Reputation Matrix illustrates some of the various groups that influence reputation. The

potential for reputational distress from any one of these sources is inevitable during the life of a corporation.

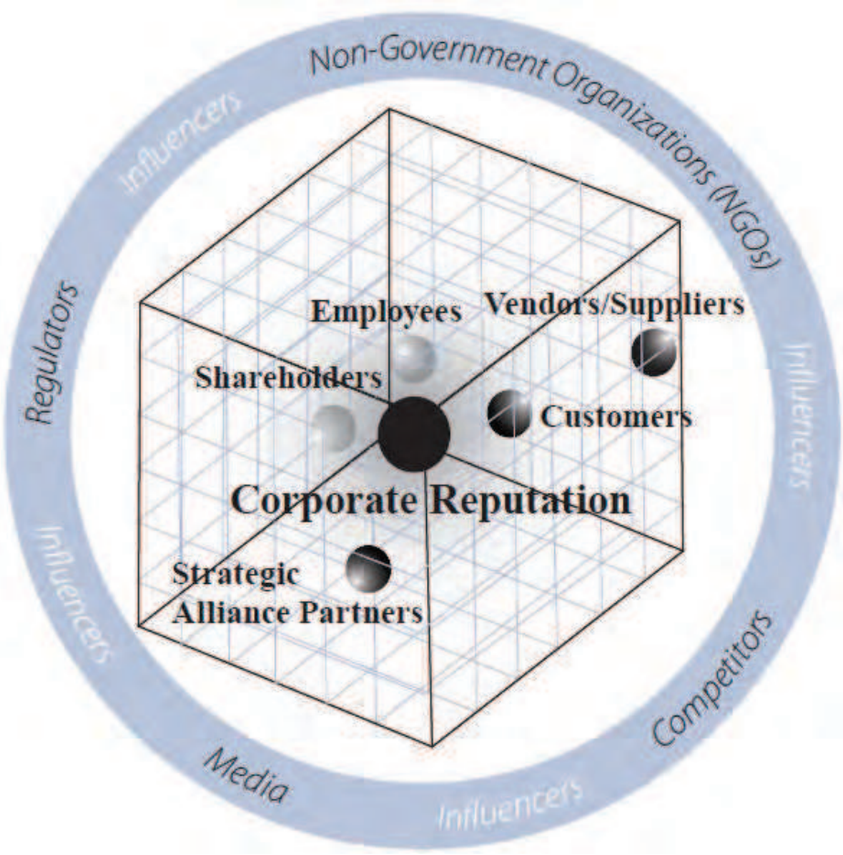


Fig. 5. Stakeholder Reputation Matrix. Resnick, Jeffrey T., (2006) Reputational Risk Management: A Framework for Safeguarding Your Organization's Primary Intangible Asset, Opinion Research Corporation, p.3.

4. Methodology: proactive and logical framework

" I would rather lose money rather than lose people's trust. The promises I make and reliability of my products are always more important to me than the short-term gains."
Robert Bosch

The link between corporate governance, risk management and reputation has been elusive for some time but it seems that the wake up calls have been numerous with financial scandals, terrorist attacks, natural event-induced disasters and technological catastrophes creating an unending chain of reminders of the complexity of the modern economy. Nobody now can ignore that long term development rests on a rational balance of risks, threats and opportunities, for their own merits and as a whole, to enhance the use of resources not only for this but also for future generations Gaultier-Gaillard & Louisot, 2006). Reputation management requires logical framework to achive corporate sustainability via enterprise risk management based approach. Enterprise risk management considers country or local risk. Country / local risk has direct impact on shaping (tailoring) framework to manage

reputation risk. Our framework about Enterprise risk management provides a clear social map which need to effective management of the reputation crisis. For this aim, our conceptual framework starts with the anaysis of the company's socio-cultural environment. In this point, Max Weber's ideas guided us to draw logical framework.

Weber's perspective to developing new logical framework

According to Weber (1905), social action depends on the human subject who can select proper tools to achieve objectives. The individual (human) is able to create history since he is capable of creating his own realities. Social action is directly intended for the human subject who is the individual in the cultural process. We can adapt this idea to corporate sustainability. The organizational transformation is one of the key elements of corporate sustainability. Weber emphasized the "approche compréhensive". In Weber's opinion (1905), the ability to be comprehensive is important. The manager who has a comprehensive ability has power to have an impact on the economic dynamics of the business world. This shows the necessity to incorporate Weber's ideas into those of risk management. Max Weber provided major contributions to sociology. He has been described as the founder of the general conceptual framework of sociology as a science. He developed a consistent social science philosophy. In the same manner, we have developed a consistent risk management philosophy based on a new logical framework to corporate sustainability. The modern sociology framework that was founded by Weber, requires continuous development in order to adapt to environmental changes. Similarly, the risk management framework needs to adapt to the changes within the globally warmed business environment. For this reason, we have developed a new conceptual framework that has a flexible and systematic composition. This characteristic provides a modern framework to the risk management process. Our inspiration comes from Weber's conceptual framework for modern sociology.



Fig. 6. Main Steps of Reputation Risk Management Model

The effective management of corporate reputation across various stakeholders such as employees, suppliers, shareholders, regulatory bodies and general public requires specific and targeted strategies. A strong corporate reputation generates confidence which leads to long term competitive advantage. A strong corporate reputation can power a company's success by (Huber, 2009):

- providing easier a ccess to capital markets and attracting financial resources
- attracting, motivating and retaining talented employees
- facilitating price premiums, up- or cross-selling opportunities and new product launches

- gaining new customers
- leading to public goodwill and positive references.

The purpose of the Risk Management based Logical Framework to the Corporate Sustainability is to support the management of corporate financial, environmental and social responsibilities and the achievement of the corporate outputs and deliverables about corporate reputation via new systematic and hollistic process. The aim of this model (see fig. 6) is offer a framework for integrating reputation risk into corporate risk management in sustainable way.

Applying principles from the risk management to the management of reputational crisis provides both holistic and executive management with a framework. This framework is the valuable process to maintain and enhance corporate reputaion via best handling risks about corporate sustainability. This framework (see figure 8) aimed to support business continuity in time of crisis. Stakeholders can rely on the continuation of services from the company even in times of crisis.

Corporate reputation becomes increasingly dependent on an organisation's ability to executive an organizational model. Execution results in a good reputation and correlates highly with strong financial performance and overall success. Therefore a favourable organization reputation delivers financial payoffs (Le Roux, J R J, 2003). Potential benefits of corporate reputation risk management clearly shows necessity of its implemantation for us. Benefits of reputation. The benefits of holistic, proactive and systematic reputation risk management are identified by Rayner as following (Rayner, 2004):

- Builds stakeholder trust and confidence
- Maintains 'licence to operate'
- Attracts investment
- Boosts customer and supplier loyalty
- Reduces regulatory intervention
- Creates barriers to entry
- Facilitates premium pricing
- Enables recruitment/retention of the best
- Provides a store of reputational capital that protects against future crises

According to the Gaultier-Gaillard and Louisot (2006) all the recommendations and expectations listed above can be summarized in one simple commandment that stresses the link between trust and reputation: promote a virtuous circle of reputation building (Fig. 7).

Corporate Reputation risk Management Framework Model

There is, main steps of the framework are described in fundamental context.

In our model, Initial step includes to determination of the Corporate Objectives & Stakeholder Expectations in the following context:

- Corporate objectives
- Stakeholders' expectations: Identification and Dialogue
- Core Processes
- Key dependencies
- Risk as uncertainty
- Priority relationships
- Organizational competence
- Corporate Risk appetite
- Corporate Risk tolerance, threshold

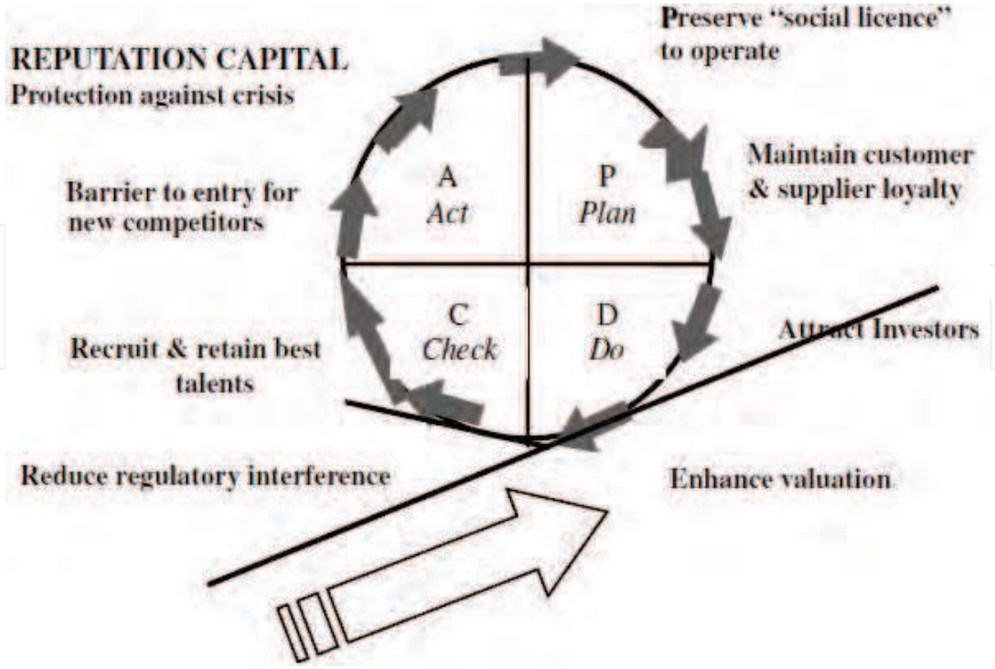


Fig. 7. Building stakeholders' trust. (Gaultier-Gaillard & Louisot, 2006). The figure developed by the authors and the students of the DESS Gestion Globale des Risques Universite' Paris 1 Panthe'on/Sorbonne – the Deming wheel of continuous improvement with the reputation capital to block roll backs.

In the first step, General attitudes and perceptions to reputation and risk management is determine by managers. Reputation should be well understood by throught of the organization.

- **Setting of Socia-cultural-financial Corporate map: analysis to corporate culture**
  - A kind of swot analysis to corporate structure about awarenes of risks to reputation and crisis situations
  - Corporate culture is a fundamental for long-term strategies according to our framework. Initial step involves mapping corporate culture, building communication strategy building information management system within the company for identifying reputational issues among the both external and internal stakeholders of company.
- **Setting relationship between risk and interested parties:**
  a. Reputational risk and customers
  b. Reputational risk and employees
  c. Reputational risk and shareholders
- **Establisment of The Reputation in a strategic context**
  - Internal Assests
  - External Assests
  - Market Assests
  - Performance analysis
- **Building crisis communication strategy**
- **Establisment of the Crisis information management system**
- **Public relations based organization: crisis committe and function**



Fig. 8. New Corporate Reputation Risk Management Process

In the second main step, Analysis and Implementation step includes;

- **Identify and prioritize the risk of reputation crisis factor and their resources**

If managing risks to reputation is to be efficient, the first step is to identify those risks. One can manage only what one knows. Therefore, a formal brainstorming exercise should be conducted to identify what makes the ''uniqueness'' of the entity. it is vital to mitigate the risks inherent to the company's core competencies if one is to manage effectively the risks to reputation (Gaultier-Gaillard & Louisot, 2006). Risks to reputation can arise from many sources the major drivers. Key sources of risk to reputation are listed as following (adopted from Rayner, 2004 and Joosub, 2006):

- Financial performance, long term investment value and profitability
- Corporate governance and ethical behaviour
- Communication and public relations
- Crisis management
- Corporate Social Responsibility
- Workplace talent and corporate risk culture
- Regulatory compliance
- Delivering stakeholder promise (e.g. customer)
- Employees and key manager's decisions
- Product/Professional liability
- Product recall and litigation
- Marketing innovation and customer relations
- Stakeholder relationships

Key risks organisations believe they face identify in this step as following (Senate Communication Counsel and TNS Global, 2007)**:**

® Financing risk
® Reputational risk
® Credit risk
® Terrorism
® Market risk
® Foreign exchange risk
® Natural hazard risk
® Crime and physical security
® Political risk
® Regulatory risk
® IT network risk

According to the Rayner (2004), Identifying reputational risk is **"**Any event or circumstance that could adversely or beneficially impact an organisation's reputation". For this reason identifying of impact severity of risk is important as well as identifying risk and its source. Potential reputational events should be examined at three levels: those that impact the industry, the enterprise, and the business unit. The most critical reputational events to track are those having the potential to impact all three (Resnick, 2006). (See Fig. 9)

- **Prioritize reputational risk elements: factors influencing quality of corporate reputation**

Factors influencing quality of corporate reputation is determined by Senate Communication Counsel and TNS Global, (2007). These should consider as sources of reputation risks. They are:

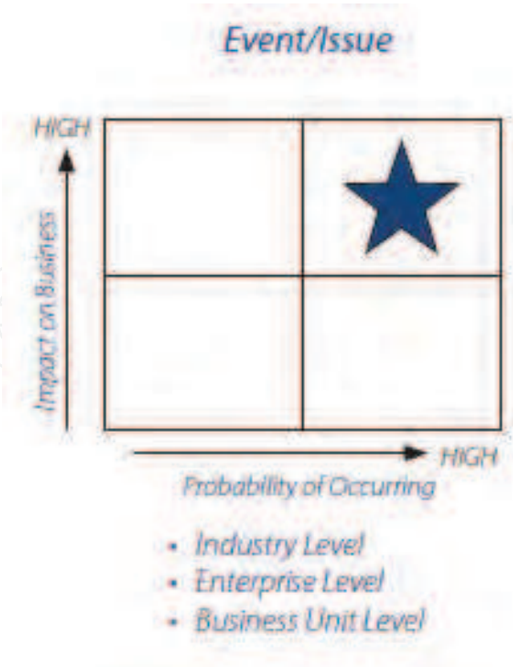


Fig. 9. Risk Matrix (Resnick, J T., (2006). Reputational Risk Management: A Framework for Safeguarding Your Organization's Primary Intangible Asset, Opinion Research Corporation, p.13. Retrieved 10/08/2009 from http://www.carma.com/Reputational_Risk_White_Paper.pdf.

- Theorganisation's sponsorship programme
- Exposure of unethical practices
- Poor crisis management
- Non-compliance with regulation/legal obligations
- The category of business/industry in which you operate
- Security breaches
- Failure to address issues of public concern pro-actively
- Environmental breaches
- The organisation's level of innoation
- Failure to hit financial performance targets
- Known level of the learders by public both nationally and internationally
- General public perception about corporate employment treatment

Risk Analysis

One useful qualitative tool is a risk map for reputation risks. This requires the firm to assign a score to the expected frequency of a reputation event and the expected severity of the reputation damage that might occur. Figure 10 illustrates a simple risk map with frequency on the x-axis and severity on the y-axis. When mapping frequency, the firm needs an estimate of the likelihood of the underlying event occurring, and the likelihood of reputation damage conditional on the event happening. (Regan, 2008)

To assessment of the corporate reputation related risks as:

- **Decide what strategy to take**
  - Terminate?

- Transfer?
- Treat?
- Tolerate?
- Transform?

- **Decide how to manage the risk to rebuilding stakeholder confidence and restructuring credibility,**
  - Control effectiveness?
  - Current risk score?
  - Residual risk - target score?
  - Action Plans?

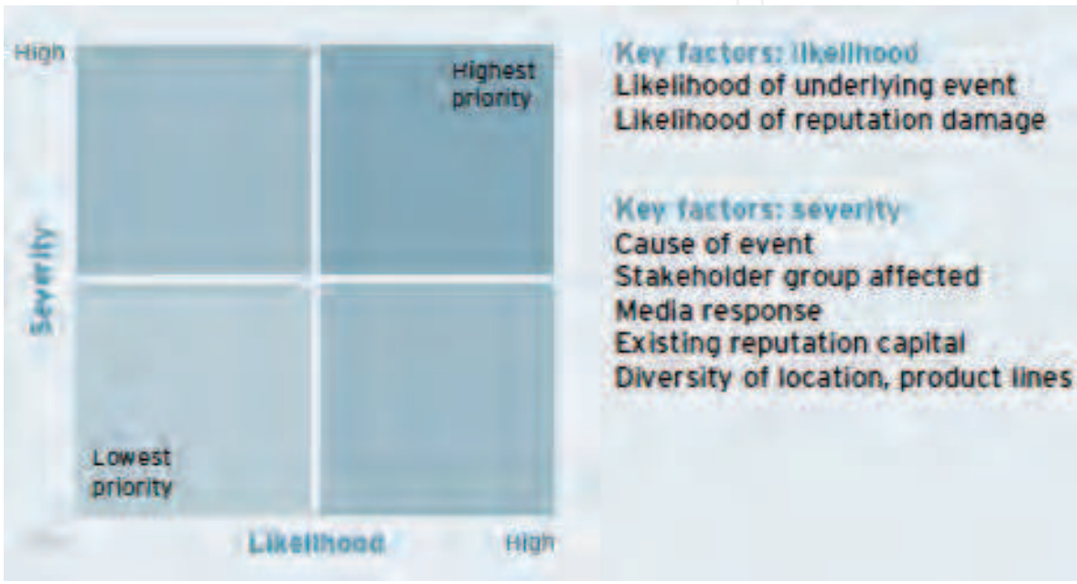


Fig. 10. Risk Map (Regan, 2008)

- **Analysis risk the impact to reputation**
  - If there is reputation damage, management put into practice their risk management strategies to revise of damage on corporate reputation
  - If risks don't impact on reputation, management provide risk management strategies continually improved and updated with emerging and transformed events.

Prioritization of stakeholders is an equally important exercise, especially because an enterprise is unlikely to have sufficient resources to audit all possible groups (which is not a recommended course of action). Available resources must be focused among stakeholders having the greatest impact on a business. Negative word-of-mouth communication from any of these groups on a frequent basis can result in significant reputational damage. Each enterprise is unique, however, and different stakeholders may emerge as more or less important to an entity. The situation becomes even more complex when considering the role of tangential stakeholders such as regulatory authorities and NGOs (nongovernmental organizations). These stakeholders wield the ability to carry enormous influence under certain circumstances. For this reason, a company should conduct its own stakeholder prioritization process (Resnick, 2006). Business managers should be highly aware of the

stakeholder's concern and demand when setting a reputation strategy since corporate reputation includes the analysis of the different stakeholders. Hollistic perception is one of the critical challenges for managers. Stakeholders play a role and have an impact on corporate reputation.

In the final step of the model, Auditing & Monitoring & Reporting step includes;

- Review and make improvements from lessons learnt

Also, the new model includes assignment and collaborative efforts as following:

- Assignment of the Roles and Responsibilities
- Do collaboration with between all management departments to provide holistic reputation management: crisis management department, public relations and risk management department, financial management, human resource, etc. High level managers alike risk managers are responsible to set and implement the model.

Business environment is constantly changing; also strategy-setting is a dynamic process that never ends. The same applies to risk management to reputation crisis. These activities foster the delicate alignment of strategy, communication and leadership that drives positive reputation in both good and bad times. Communication that makes an organization transparend enables stakeholders to appreciate the organization's operations better and so facilitate ascribing it a better reputation. To build and sustain a good reputation, corporates must commit to following principles (Le Roux, 2003):

To make a corporate reputation strategy part of the overal business plan, so that everyone within the organization can understand what elements of the general business process have an impact on corporate reputation. This will have a positive impact on the organization's reputation.

i. To identify the financial management issues that to an organization's corporate reputation, and where possible to manage elements that undermine corporate reputation actively.
ii. To understand what the corporate marketing elements are that influence corporate reputation, in terms of the image that needs to be portrayed to the vaious stakeholders of the organization and the most effective incorporation and use of the marketing mix in terms of building the corporate reputation.
iii. To have a clear understanding of the corporate communication elements that influences the corporate reputation. To build a corporate culture that attracts top talent. Organizations with positive reputations are able to attract employees of high calibre, who in turn have a positive impact on the organization's reputation. It is necessary to have an understanding of corporate social responsibility; to devise a crisis management strategy to defend corporate reputation. These will enable the organization to be proactive in protecting its reputation in crisis times as well as to disseminate the organizational "story" to internal and external stakeholders. This will enable stakeholders to have a clear understanding of what exactly the organization is and what they can expect from it.

Corporate reputation management is conducted using an array of sophisticated tools and techniques including competitive benchmarking, reputation scorecards, key performance indicators, journalist surveys, media content analysis, new media measurement, PR research, stakeholder evaluation, internal communications measurement, opinion polls, omnibus surveys, and crisis research. Tools and techniques, such as thought leadership studies, reputation survey and analysis, PR and communications measurement and rating methodologies, stakeholder research and corporate image surveys can all be designed to support corporate reputation management (Echo Research, 2009).

5. Conclusion

Risk is a constituent part of both the business and the society in which we survive. Reputation is valuable assest for corporates in sustainable way. Integrating risk management with strategy-setting, such as an enterprise risk management (ERM) approach, helps an organization manage its risks to protect and enhance enterprise value in three ways. First, it helps to establish sustainable competitive advantage. Second, it optimizes the cost of managing risk. Third, it helps management improve business performance. These contributions redefine the value proposition of risk management to a business (Gibbs, 2006).
Maintain and enhancing of the corporate reputation is the most important and difficult process facing corporate risk managers. The leading companys ensures that the risk management to corporate sustainability and reputation crisis is embedded throughout the whole organization. The risk management process follows logical sequence just as any business process will. Corporates can create advantage to competition via reputation risk management. Reputation provides improvement of the competitive positions in their business environment both internally and externally. Our proposed process model can contribute in both risk management and reputation management field. This model can improve according to the company specific needs. For this reason, this fresh framework can give inspire to business managers to set their corporate reputation and risk management systems in a sustainable way. Trust and interactively understanding is core of the corporate reputation. For this reason, corporate reputation is topic of the strategic risk management. Reputation is strategical issue.
Reputation impact on throught of the organization should measure and score with risk analysis. To effective managing of corporate reputation,

- Risk management approach should be consider by managers,
- Reputation should be considered as an organisational asset.
- Reputation crisis should be considering one of the important strategic risk to any organization.
- key reputation drivers should identify in the concept of risk management process
- Risks about reputation crisis should be prioritize by managers such as failure to deliver product or service to the expected standard and timely manner
- Risks about reputation crisis should be analysis in view of corporate governance principles and ethical practices.
- Crisis must be analysis in view of impact of corporate value and reputation
- Holistic framework as systematic and dynamic process should develop to managing risks about reputation crisis.
- Proactive and risk management based approach should active in enhancing and protecting corporate reputation
- Risks involving a corporate reputation should monitor and identify in timely manner
- Resource allocation is important to risk management which includes reputation crisis

This chapter aimed to offer both a logical and proactive process for managing corporate reputation via risk management based perspective. The model has 3 main steps as initial, implemantation &analysis, monitoring, reporting & reporting. Each main step of the process has several sub-steps. These are listed in article. The model based on framework of existing ERM guides and standards. We suggest that reputation assest should be managed with risk management based proactive approach since corporate reputation is issue of the risk management to enhance and maintain corporate value.

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