

## **Reputational Risk and Integrity in organizations**

Recent surveys in The Age (14 October 2006) and the Financial Review (9 October 2006) show that trust in the integrity of business leaders has been dramatically eroded over the last couple of years. The age-old respect for leaders in business or public life has been tainted and their reputation has nosedived. In the wake of the numerous recent corporate and organizational scandals in Australia and the world in general, politicians and lawmakers are demanding more stringent reporting and control mechanisms in an attempt to restore the reputation of the corporate world. Bad corporate reputation hurts. How to turn the situation around?

The complexity of today's business world requires executives and managers to make responsible decisions which benefit the corporation in a socio-economic sense. People are expecting solid financial results from business, yet they are also expecting that attaining these healthy financial returns can only be through fair play and socially responsible conduct. Hence, creating a good reputation is about creating certain 'soft' capital and generating value for the firm. 'Green' Australian corporations for instance are committed to socially responsible behavior which not only benefits its social reputation but also positively affects its financial long term strength. Its socio-economic reputation is built by demonstrating integrity as in the commitment to socio-economic & environmental values and principles, beyond targeted PR and tactic motives. Integrity creates 'goodwill' and ultimately enhances the reputation of the organization. When an organization can convince its key constituencies that its products and services not only match but exceed those increasingly more demanding socio-economic expectations, the organization has created reputational capital which will enhance its financial performance.

Indeed, firms 'creatively' gain sustainable competitive advantage by cultivating intangible assets such as reputation. A positive reputation is like a healthy immune system or having a comprehensive insurance in case of crisis. The risks to reputation – both threats and opportunities – arise from the main drivers behind reputation: corporate governance and leadership, financial performance & long term investment value, regulatory compliance, meeting customer expectations and

needs, workplace talent and culture, corporate social responsibility and communications & crisis management.

By systematically identifying these risks to reputation and nurturing the relationships with its key constituencies or critical stakeholders, organizations can safeguard and even enhance their reputation. In a way, continuous *reputational risk management* should be integrated and embedded into everyday decision-making, strategy development and the organization's policies, processes and procedures. Ultimately, it is the board's role in establishing such organization's vision, values, organizational culture and strategy that will determine the appropriate framework for managing risks and setting tolerance boundaries. If a board does not ensure that significant risks to the organization are identified and controlled so that exposures are acceptable and opportunities exploited, they are failing in their primary fiduciary duty to investors and stakeholders. Despite the superior 'green' quality of Australian farming products, the board of AWB for instance now unfortunately faces the charge of not fully safeguarding its reputation. The prudent and supervisory role of Australian organizational boards and its independent member(s) – as the "conscience" of the organization ensuring some (internal) accountability – cannot be overstated.

A clear set of values and principles that are consistently translated in corporate strategies and communicated by competent top managers may prevent damaging scandals. Although values and principles in themselves do not guarantee superior financial performances, the board and its CEO may hopefully not only create some competitive edge appealing to some intrinsic ethical values as in 'good reputation' in this increasingly scrutinized and transparent business world, but they may have created themselves an important and useful 'insurance policy' for the shareholders. In the process.

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