senate shj

REPUTATION REALITY 2020
GETTING AHEAD OF THE GAME

Trans-Tasman perspectives on reputation and risk

A 2020 SNAPSHOT

This is the seventh trans-Tasman survey undertaken by SenateSHJ into leaders' attitudes towards corporate reputation. This year the Governance Institute of Australia partnered with us to produce the report.

95%+ of senior executives say "**REPUTATION IS A PRIMARY ASSET**"

RISK ⬆ IN 3 YEARS
Reputation risks have increased in the past three years

REPUTATION HARDER TO MANAGE ➡
A growing proportion of senior executives believe corporate reputation is harder to manage than other forms of risk

3 TOP DRIVERS OF REPUTATION
- Quality of products and services
- Integrity
- Relationships

CULTURE HAS EMERGED AS 4TH
Culture has emerged as the fourth most important driver of a good reputation

#1 CHIEF EXECUTIVES IN A CRISIS
Chief Executives are the number one trusted sources of information in a crisis

STAKEHOLDER ENGAGEMENT IS CRUCIAL
At least 74% of organisations rank stakeholder engagement as a crucial area in which to invest

AT LEAST 77% HAVE PLANS IN PLACE
At least 77% of organisations have business continuity plans in place

JUST UNDER 1 IN 3
Just under a third of organisations test their crisis communication plans annually

50% HAVE CRISIS COMMUNICATION PLANS **69%**

18% TEST THEM ANNUALLY **26%**

HOWEVER

81% ARE PROACTIVE IN PROTECTING THEIR REPUTATIONS **92%**

BUT LESS THAN 37% 'STRONGLY AGREE'

BUT LESS THAN 40% 'STRONGLY AGREE'

ISSUES OF CONCERN FOR DIRECTORS AND CHIEF EXECUTIVES

Welcome to the 2020 edition of Reputation Reality – produced in partnership with the Governance Institute of Australia. The costs of reputational crises are high and increasing. A recent study by Gautham Ravi (see page 27) estimated that the cost of a crisis for 11 Australian organisations was over AUD$12 billion (an average of AUD$1 billion per company) over the period of a crisis. In addition to financial costs, personal reputations can be forever damaged, creating negative and enduring legacies.

Reputation Reality is a tool for organisation leaders and practitioners in the private, not-for-profit and public sectors. It provides an accurate, clear understanding of the attitudes towards reputation across Australasia, pinpoints emerging risks, challenges and trends around reputation management, and gives you a benchmark for how well prepared your organisation is to maintain a solid reputation in a crisis.

Since our first survey in 2006, it has become increasingly evident that managing reputational risk is a significant issue for organisations and brands, as well as personally for the people who lead those organisations.

The emergence of culture as the fourth significant driver of reputation for organisations reflects the responses and commentary identified in several reputational crises in the past year, and the increasing number of royal commissions and whistle-blower events in the past decade. We believe culture will continue to grow as a critical reputation driver. This reflects the ongoing 'war for talent' and the need to ensure internal cultures reflect the diverse views and publicly stated values of employees and external stakeholders. In fact, we were somewhat surprised that culture sat only fourth in the list given the discussions within organisations and at board level, and commentary and actions from government and regulators that have focused on culture.

The dissonance between understanding the importance of reputation and the actions needed to actively invest in building and protecting reputation identified in previous Reputation Reality studies still exists.

It is reflected in the continued high awareness of corporate reputation as a primary asset for organisations, versus the lack of strong levels of confidence in organisations' performance in proactively managing reputation.

The continued low level of crisis communication plan testing at least once a year also demonstrates that proper investment in reputation management is still being undermined by a 'she'll be right' attitude or an inability to measure a return on the investment.

We have also seen a greater proportion of organisations without a crisis management plan altogether. The low levels of confidence in being able to manage digital and social media channels in a crisis are also a worrying sign given their ability to create risks disproportionately.

This should be very concerning for directors and senior executives. They are ultimately responsible for managing all organisational risks, and the current low level of annual crisis preparation indicates a large number of organisations will struggle to manage a crisis effectively. This should be something that keeps directors and senior executives awake at night.

Appreciating that corporate reputation is a primary asset is heartening. However, this needs to be matched by investments in people, risk mitigation processes and communications. Only then can the benefits of a good reputation significantly influence an organisation's success. The benefits are well known and include:

- Creating differentiation to set you apart from your competitors
- Enhancing employee value propositions, attraction and retention
- (Often) determining stakeholders' inclination to buy, support or invest
- Driving a higher value to your products/services in the market
- Assisting to remove barriers to competition
- Providing goodwill (initial trust, time and space) in a crisis to communicate the facts
- Mitigating significant market capitalisation, legal and regulatory costs.

What is clear is that reputational damage is an issue that is not going away, and being prepared can mitigate the extent of damage in a crisis. As Benjamin Franklin said: "By failing to prepare, you are preparing to fail."

Neil Green

Chief Executive, SenateSHJ

ORGANISATIONS MUST 'OWN' RESPONSIBILITY FOR CULTURE

Thank you for giving our members the opportunity to participate in SenateSHJ's annual Reputation Reality report. The Governance Institute of Australia's 2019 Risk Management Survey, unanimously across all respondents, regardless of industry, organisation size and job title, found:

1. Regulatory Reform/Legislative Change

2. Damage to Brand or Reputation

3. Increased Competition

4. Talent Attraction/Retention and

5. Cyber-crime were the top risks facing Australian organisations for not only the next 12 months but the next three to five years.

The banking royal commission, Australian Prudential Regulation Authority's and Australian Securities and Investments Commission's ongoing investigations, and the new Australian Securities Exchange Corporate Governance Council's Corporate Governance Principles and Recommendations have also forced organisations to look at their governance frameworks, including how they manage their culture, ethics and risk profiles.

The emergence of culture as the fourth most important driver of good reputation in Reputation Reality 2020 corresponds with boosting shareholder confidence and attracting and retaining employee talent. A good culture leads to robust staff morale, innovation, operational efficiencies and a sustainable business with long-term value. It builds on quality products and services and customer service as key drivers of business reputation.

There is no one size fits all approach to culture. Culture must be appropriate for the context in which the company is operating. While cultural variation can be an important driver of innovation, there needs to be internal alignment with a core organisational purpose, values and principles to ensure overall cultural coherence.

Having an ethical framework sitting at the heart of the governance structure of a company enables the delegation of authority to a network of responsible decision-makers while maintaining organisational integrity. The ethical framework or the organisation's values serves as a common and authoritative point of reference for all decision-makers, and shapes culture. An ethical framework differs from a code of ethics or conduct, which articulates decisions to be made in specific circumstances.

A clear theme from the banking royal commission final report is that the board's role is to oversee and change the culture and conduct of its organisation, not just its financial performance. Governance professionals play a key role in assisting boards in determining what information about culture they want or need, and it will be critical to have a conversation with boards about their needs. Oversight of organisational culture forms part of boards' responsibility for non-financial risks, an area identified as a weakness for several organisations in the APRA report of the inquiry into the Commonwealth Bank of Australia and the final report.

The organisation itself must 'own' responsibility for culture at all levels.

The Governance Institute's 2019 Ethics Index of the Australian population supports the Reputation Reality 2020 findings that the most senior levels of management, such as the Chief Executive, have the most influence on the overall ethical practices and outcomes of an organisation.
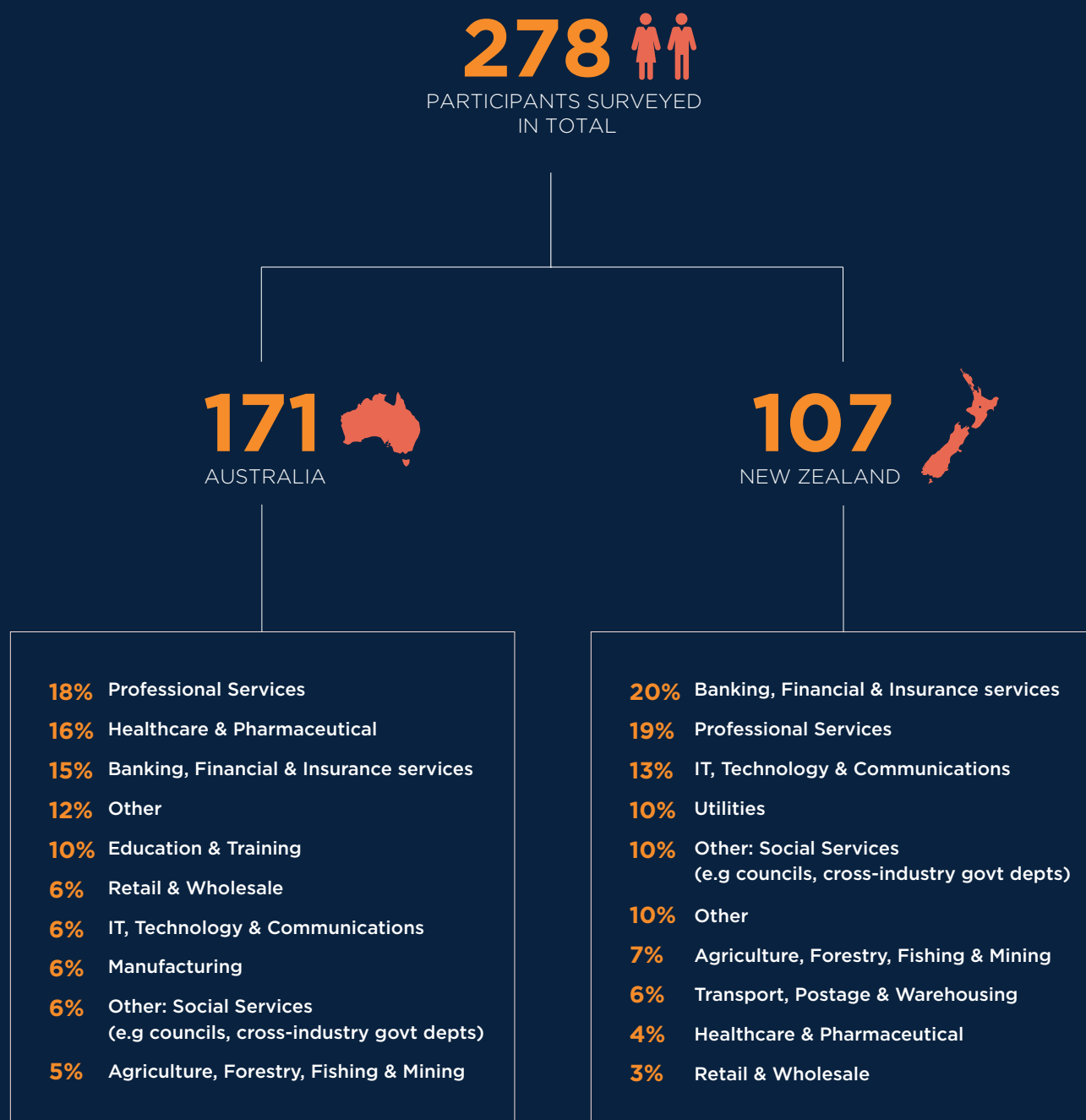
Megan Motto
Chief Executive, Governance Institute of Australia

METHODOLOGY AND APPROACH

The Reputation Reality survey sought the opinions of 278 people between 2 October and 29 November 2019 — from board members and C-suite leaders to senior executives and managers in the private and public sectors.

171 respondents were from Australia and 107 were from New Zealand, representing a slightly larger sample size than other years. This year we have produced this report in partnership with the Governance Institute of Australia.

278
PARTICIPANTS SURVEYED
IN TOTAL

171
AUSTRALIA

18%	**Professional Services**
16%	**Healthcare & Pharmaceutical**
15%	**Banking, Financial & Insurance services**
12%	**Other**
10%	**Education & Training**
6%	**Retail & Wholesale**
6%	**IT, Technology & Communications**
6%	**Manufacturing**
6%	**Other: Social Services** (e.g councils, cross-industry govt depts)
5%	**Agriculture, Forestry, Fishing & Mining**

107
NEW ZEALAND

20%	**Banking, Financial & Insurance services**
19%	**Professional Services**
13%	**IT, Technology & Communications**
10%	**Utilities**
10%	**Other: Social Services** (e.g councils, cross-industry govt depts)
10%	**Other**
7%	**Agriculture, Forestry, Fishing & Mining**
6%	**Transport, Postage & Warehousing**
4%	**Healthcare & Pharmaceutical**
3%	**Retail & Wholesale**

SENATESHJ'S FRAMEWORK FOR MANAGING REPUTATION

Reputation is the biggest risk faced by organisations. However, reputation is not what you think you are; it is how others perceive you. It is the connections your employees have with your customers and stakeholders, how they behave and how engaged they are with your organisation. It is about reacting in the right way when things go wrong.
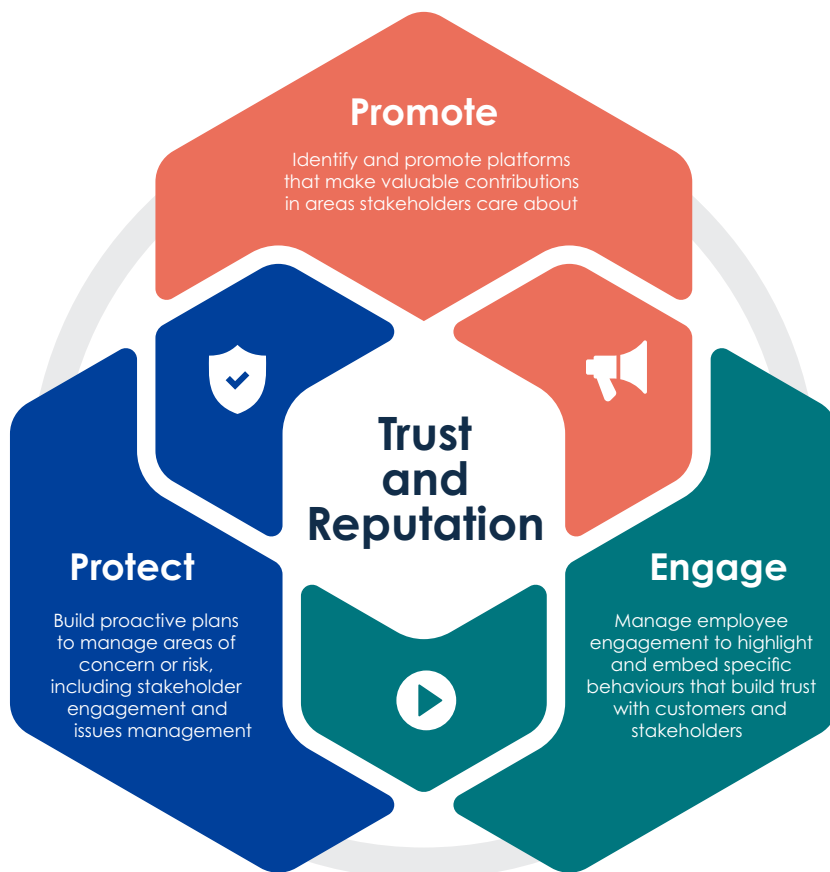
Protect

- Crisis preparedness
- Crisis management
- Issues tracking
- Stakeholder engagement (early, around specific projects and issues)
- Alignment with corporate risk frameworks

Promote

- Stakeholder engagement (relationship building)
- Executive visibility/profile-building programme
- Thought leadership
- Corporate social responsibility communications programme
- Proactive media and government relations
- Social media and content marketing – an integrated approach

Engage

- Employee engagement and communications
- Culture change
- Leadership behaviour programmes
- Behavioural programmes
- Change management

INSIGHT

Today, reputational risk is harder to manage than in previous years. **Intangible risks such as culture and the impacts of public opinion are ever-present threats** to senior executives as they battle to maintain the reputations of, and trust in, their organisations. We are in an era of crisis preparation, not crisis management – the value of reputation and the cost of not being prepared are too important to ignore and companies do so at their peril.

MANAGING CORPORATE REPUTATION KEEPS GETTING HARDER

Corporate reputation is recognised by almost all organisations (95% in Australia and 97% in New Zealand) as a primary asset. However, more than two-thirds of senior executives agree that reputation is harder to manage than any other form of risk.

While the importance of managing reputation is up on previous years, fewer organisations are actively protecting it. More worrying is the relatively low level of senior executives who strongly agree their organisations are proactive in protecting their reputations.

INVESTMENT IN STAKEHOLDER ENGAGEMENT IS CRUCIAL

Stakeholder engagement is seen as vital to an organisation's reputation – inside and outside a crisis. Leaders and executives identified stakeholder engagement as the most important area in which to invest to improve how they manage their organisations' reputations.

DECREASING FOCUS ON CRISIS PREPAREDNESS

The use of crisis communication plans in Australia has dropped from 64% in 2019 to 50% in 2020. Of those organisations with plans, only 25% are testing the plans annually (40% in 2019). Confidence in those organisations' ability to carry out the plans in a crisis has also fallen, from 22% feeling 'very confident' in 2019 to 15% in 2019.

In New Zealand, just over two-thirds of organisations have crisis plans and only 37% test them at least annually. Feeling 'very confident' in carrying out a plan in a crisis has decreased from 27% in 2019 to 19% in 2020.

CONFIDENCE IN MANAGING DIGITAL AND SOCIAL MEDIA CHANNELS IN A CRISIS IS LOW

In both countries, confidence in managing traditional channels in the event of a crisis is significantly higher than confidence in managing digital and social media channels. Most organisations that test their crisis plans include digital and social media communication in the testing process.

THE MOST IMPORTANT DRIVERS OF REPUTATION ARE CONSISTENT WITH THOSE IN 2019

The three most important drivers of good reputation are integrity, quality of products and services, and relationships.

CULTURE EMERGES AS A KEY DRIVER OF REPUTATION

Culture, a new option in the survey this year, was ranked as the fourth most important driver of good reputation in Australia and New Zealand.

THE CHIEF EXECUTIVE REMAINS FRONT AND CENTRE

In both countries, the formal responsibility for managing corporate reputation continues to sit with the Chief Executive. Additionally, the Chief Executive is seen by leaders as the most trusted source of information in a crisis, as the face of the organisation and as the holder of power to make changes.

INVESTMENT IN STAKEHOLDER ENGAGEMENT IS CRUCIAL

DECREASE IN USE OF CRISIS COMMUNICATION PLANS

▼14% SINCE 2019

▼3% SINCE 2019
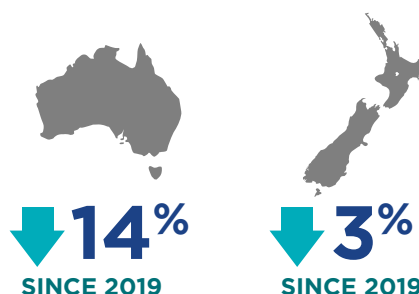
CULTURE = 4TH MOST IMPORTANT DRIVER OF A GOOD REPUTATION.

" We are in an era of crisis preparation, not crisis management – the value of reputation and the cost of not being prepared are too important to ignore and companies do so at their peril. "

TOP THREE DRIVERS OF REPUTATION

The three most important drivers of good reputation are integrity, quality of products and services, and relationships. We added culture as a new factor in 2020 and it was selected as the fourth most important reputation driver. The inclusion of culture was driven by commentary from previous surveys that highlighted its emerging importance.

Customer dissatisfaction remains the most significant trigger of reputational risk on both sides of the Tasman. In Australia, this is followed by data/privacy/cyber issues and regulatory changes. Technology disruption is now a more significant risk factor than previously – eighth up from 14th in 2019.

In New Zealand, data/privacy/cyber and employee conduct issues sit in second and third places, with health and safety moving into fourth place from eighth in 2019.

CULTURE IS A KEY DRIVER OF GOOD REPUTATION

Culture was identified as the fourth most important driver of a good reputation. We know that a strong, purpose-driven culture helps drive a good reputation and a better experience for employees.

However, if it is not actively managed, valued and monitored, it can easily contribute to an organisation's next reputational crisis.

In Australia, banks and the financial services sector have reported an increase in the importance of culture as a reputational trigger. This is unsurprising given the spotlight on culture and conduct during and after the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

In January 2020, the Institute of Directors in New Zealand released its Top Five Issues for Directors in 2020, stating that several reviews in New Zealand and Australia of organisational culture and conduct had put some organisations in the spotlight. Executive pay and allowances were also on the radar.

The Institute's Chief Executive, Kirsten Patterson, commented: "These are reminders that protecting the organisation's reputation and brand should be up there on the board risk register."

7 KEY AREAS OF CULTURE-RELATED RISK

1 **SHAREHOLDER VS CUSTOMER FOCUS**

2 **AVERSION TO RISK** – going under the radar

3 **LACK OF GOVERNANCE** – standard slips become acceptable or are ignored

4 **GAPS IN SUPERVISION AND MONITORING/ REPORTING PROCESSES** – a culture of 'getting away with it'

5 **UNOFFICIAL SHORT-CUTS** – under-staffing, unrealistic deadlines/schedules, avoidance of systems, overcomplicated processes, etc.

6 **BLAME CULTURES** – 'them vs us'

7 **POOR TRAINING AND STAFF DEVELOPMENT** resulting in accidents, mistakes, lack of motivation, poor quality, sub-standard client service, etc.

PROTECTING CULTURE TO MITIGATE RISK

1 **ALIGN YOUR BEHAVIOURS** and communications with your purpose

2 **ENSURE VALUES-LED** decision-making

3 **ENSURE INTEGRITY** and authenticity in terms of your actions matching your words

4 **TAKE A STAND ON ISSUES** that align with your purpose

5 **UNDERSTAND AND TRACK EXPECTATIONS** of stakeholders and customers

6 **ROOT OUT DEVIANT CULTURAL VALUES** and behaviours.

" Your reputation is not what you think you are; it is how others perceive you. "

INSIGHT

A damaged reputation is the biggest risk faced by many organisations. But your reputation is not what you think you are; it is how others perceive you.

There is a good reason for senior executives believing that integrity, quality of products and services, and relationships are the three most important drivers of a good reputation. They directly offset the four major reputational risks: customer dissatisfaction, the threats of data/privacy/cyber issues, regulation changes, and culture. Knowing and working diligently to ensure your organisation is consistently acting in the right way requires you to wear your stakeholders' shoes, not your own.

What you say and what you do need to be tightly aligned and believable. Actions should match words and, above all, both should be authentic. This requires listening to internal and external stakeholders and then honestly addressing perceived or real issues and clearly communicating your stance on these.

You may not win acceptance or agreement; however, being consistent and true to your word is crucial to earning respect and building reputation.

LEADERS SEE FUTURE RISKS DIFFERENTLY

Looking forward two or three years, the reputational risks senior executives in each country are most concerned about are slightly different.

Data/Privacy/Cyber issues, technology disruption and regulatory changes top the list in Australia, while customer dissatisfaction remains the top issue for New Zealand senior executives. Data/Privacy/Cyber issues and employee conduct are the next two most important risks in New Zealand.

KEY RISK CONCERNS IN THE NEXT 2–3 YEARS

IN AUSTRALIA:

As well as the key concerns below, senior executives have a heightened awareness of the actions of competitors/new entrants and environmental risks as significant triggers of future reputational risk compared with previous years, whereas they are less concerned this year with legislative breaches.

DATA/PRIVACY/CYBER ISSUES	**39**%
TECHNOLOGY DISRUPTION	**33**%
REGULATORY CHANGES	**32**%
CUSTOMER DISSATISFACTION	**29**%
SOCIAL MEDIA INFLUENCE	**25**%

IN NEW ZEALAND:

Compared with previous years, senior executives have a heightened awareness of employee conduct and global financial and/or political instability as significant risks to reputation, whereas they are somewhat less concerned with regulatory changes.

CUSTOMER DISSATISFACTION	**42**%
DATA/PRIVACY/CYBER ISSUES	**36**%
EMPLOYEE CONDUCT	**24**%
REGULATORY CHANGES	**23**%
HEALTH AND SAFETY ISSUES	**22**%

AUSTRALIAN RESPONDENTS SAID:

"Heightened customer and regulatory scrutiny puts organisations at risk of an erosion in trust, reputation and financial performance."

"Competitors/Competition in our market. Artificial intelligence. Technological disruption."

NEW ZEALAND RESPONDENTS SAID:

"Regulatory change that impacts our ability to offer certain products – cyber acts, breaches of customer information or an impact on our systems and ability to service customers – not keeping up with disruption and change in the market."

"Pace of regulatory change, change of central government strategy, reputation risks incurred by associated organisation."

MOST SIGNIFICANT FUTURE TRIGGERS
OF REPUTATIONAL RISK BY SECTOR

RETAIL & WHOLESALE
- **Environmental risks**
- **Data/Privacy/Cyber issues**

45%

MANUFACTURING
- **Actions of competitors/ New entrants**
- **Technology disruption**
- **Regulatory changes**
- **Social media influence**

50%

HEALTHCARE/ PHARMACEUTICAL
- **Employee conduct**

39%

BANKING, FINANCIAL & INSURANCE SERVICES
- **Technology disruption**
- **Data/Privacy/Cyber issues**

42%

BANKING, FINANCIAL & INSURANCE SERVICES
- **Regulatory changes**

52%

PROFESSIONAL SERVICES
- **Data/Privacy/Cyber issues**

50%

IT & TECHNOLOGY
- **Actions of competitors/ New entrants**

57%

UTILITY ORGANISATIONS
- **Environmental risks**
- **Customer dissatisfaction**

55%

INSIGHT

Irrespective of the sector in which you work, societal norms and expectations shift and, with them, what is acceptable in terms of issues such as labour practices, manufacturing practices, products, materials used, the supply chain and services. **Activists and public sentiment are indicators of what is deemed to be acceptable behaviour and they are typically forerunners of formal regulation.**

Organisations need to ensure they are in touch with, and listening to, their customers and other stakeholders and demonstrating they are taking action to address major concerns before social movements become widespread or formal regulation is enacted. Ignoring this will only place intransigent organisations at a higher level of reputational risk.

THE CHIEF EXECUTIVE REMAINS KEY

In our 2020 Reputation Reality survey, 51% of respondents in Australia and 59% of respondents in New Zealand said that Chief Executives are the most trusted names, faces and sources of information for the public in a crisis. However, it is important to remember that almost all respondents in this survey are C-suite.

In both countries, the formal responsibility for managing corporate reputation sits primarily with the Chief Executive. This requires them to be prepared to be front and centre in a crisis. Given that the next four most trusted sources of information in a crisis are outside an organisation, it is vital that the organisation has a strong, accessible leader who can relay timely, accurate information effectively.

In Australia, customers/clients are the second most trusted information sources during a crisis, along with external experts due to their perceived impartiality, followed by media, who are believed to deliver the truth.

In New Zealand, the other most trusted sources are similar to those named for Australia; however, external experts and regulatory bodies are ranked second and third respectively, ahead of customers/clients and media, again due to their perceived impartiality.

The biggest change in trusted sources since 2019 in Australia was the media dropping below external experts and analysts. Board chairs fell one place below regulatory bodies.

In New Zealand, media went from being the third most trusted source to fifth.

In both countries, organisations' websites went from being the sixth most trusted sources of information to ninth.

> Interestingly, in the banking, financial and insurance services sector in Australia the Chief Executive was overwhelmingly selected as the most trusted source during a crisis. However, in New Zealand, the regulatory bodies and external experts or analysts were the most trusted sources. We believe New Zealanders think this because of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry investigation process and our own Financial Markets Authority/Reserve Bank of New Zealand bank conduct and culture review. However, the overwhelming trust in Chief Executives in Australia is surprising given the number of reputational crises in this sector in Australia in the past two years.

LEADERS NEED WELL ESTABLISHED PUBLIC PROFILES AND STRONG COMMUNICATION SKILLS

Clear communication continues to be the most important leadership attribute for the person leading the crisis management team, as ranked by 91% of respondents in Australia and 84% of respondents in New Zealand. The ability to remain calm under pressure was ranked second by 71% of respondents in Australia and New Zealand.

The view is that the Chief Executive needs to have a well established and positive public profile grounded in credibility, trust and accountability. These qualities are viewed as vital in a crisis, with the Chief Executive needing to be seen to lead and own the messaging of the organisation authentically.
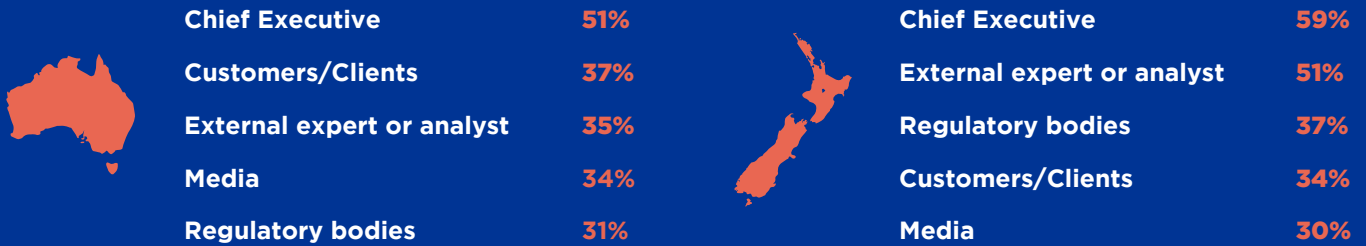
Respondents felt the visibility of the leader, the quality of their narrative and their ability to respond well to media, across all mediums, will make or break the integrity of a crisis response.

We agree with this assessment; however, in our experience many leaders are not as well prepared as they need to be.

> " The buck stops with the Chief Executive. The leader must stand accountable and represent the company to demonstrate they're managing a crisis appropriately from a leadership perspective and that the organisation takes matters seriously. "

> " The head of the company needs to lead and own messaging in the event of a crisis. "

MOST TRUSTED INFORMATION SOURCES

Chief Executive	**51%**
Customers/Clients	**37%**
External expert or analyst	**35%**
Media	**34%**
Regulatory bodies	**31%**

Chief Executive	**59%**
External expert or analyst	**51%**
Regulatory bodies	**37%**
Customers/Clients	**34%**
Media	**30%**

INSIGHT

There has never been a harder time to communicate consistently, clearly and convincingly. Fake news, confused stakeholders, pervasive social media and rapid organisational change are just some of the communication risks conspiring against clarity.

In a fast-moving world, senior executives operate under intense, and often unforgiving, public scrutiny. Social media networks, traditional media and diverse stakeholder groups all contribute to the high-pressure, high-stakes world that executives need to navigate effectively to succeed.

Leaders must respond to difficult situations in real time, articulating their organisations' positions and values clearly and persuasively.

This skill is essential.

Performance is just as important as (and sometimes more important than) the messaging. Senior executives need to invest in building their ability to perform in public. This needs to be a core skill because it is what they are judged on in the court of public opinion.

While the C-suite respondents rated Chief Executives as the most trusted sources in crises, they also believed their digital and social media channels, or media, would be perceived as less trusted sources of information than other channels by the public.

In Australia, over one-third (34%) of respondents believed media was the most trusted source, while 22% selected their social media platforms and 21% selected their websites as the most trusted sources

during a crisis. Only 18% said other senior executive team members were the most trusted sources of information in a crisis.

In New Zealand, under one-third (30%) of respondents believed media was the most trusted source, while 19% selected their social media platforms and 18% selected their websites as the most trusted sources during a crisis. Only 8% said other senior executive team members were the most trusted sources of information in a crisis.

This perception appears to underestimate the power these digital information sources have over organisations' reputations. It also appears to ignore how many of their stakeholders are consuming news and content today, and the absolute need for an organisation's digital channels to be authoritative sources of information.

Having up-to-date digital channels enables:

- Anyone searching for information to access accurate, relevant information easily

- Media and commentators to access and re-use this information

- Incorrect online information to be balanced

- Trust and engagement with stakeholders to be built through regular content posts.

It also takes pressure off the communications team, who can direct interested parties to the website or social media channels, freeing them up to focus on critical roles and tasks.

Investment in stakeholder engagement is invaluable for reputation management both inside and outside a crisis. We are encouraged by the large proportion of leaders who recognise this. When developing a stakeholder plan, do not merely include the audiences you believe will be beneficial to your organisation. Cast the net wider to ensure you seek the views of a diverse set of stakeholders, especially those who currently may feel opposed to your plans and views. The increasing emergence of issue-based micro-bloggers and influencers means new and emerging stakeholders will need to be factored in to your plans.

STAKEHOLDER ENGAGEMENT A PRIORITY

Most senior executives believe their organisations should be investing in stakeholder engagement, followed by capabilities and resources, to improve and protect their reputations.

Results showed that 74% of leaders and executives in Australia and 82% in New Zealand feel the first place to invest in improving how their organisations manage reputation is stakeholder engagement – this includes government relations, external networking, internal culture and engagement and corporate citizenship activity.

In Australia, stakeholder engagement is less likely to be an important area in which to invest for private organisations, small organisations with 21-100 employees and those in other senior executive/board member roles.
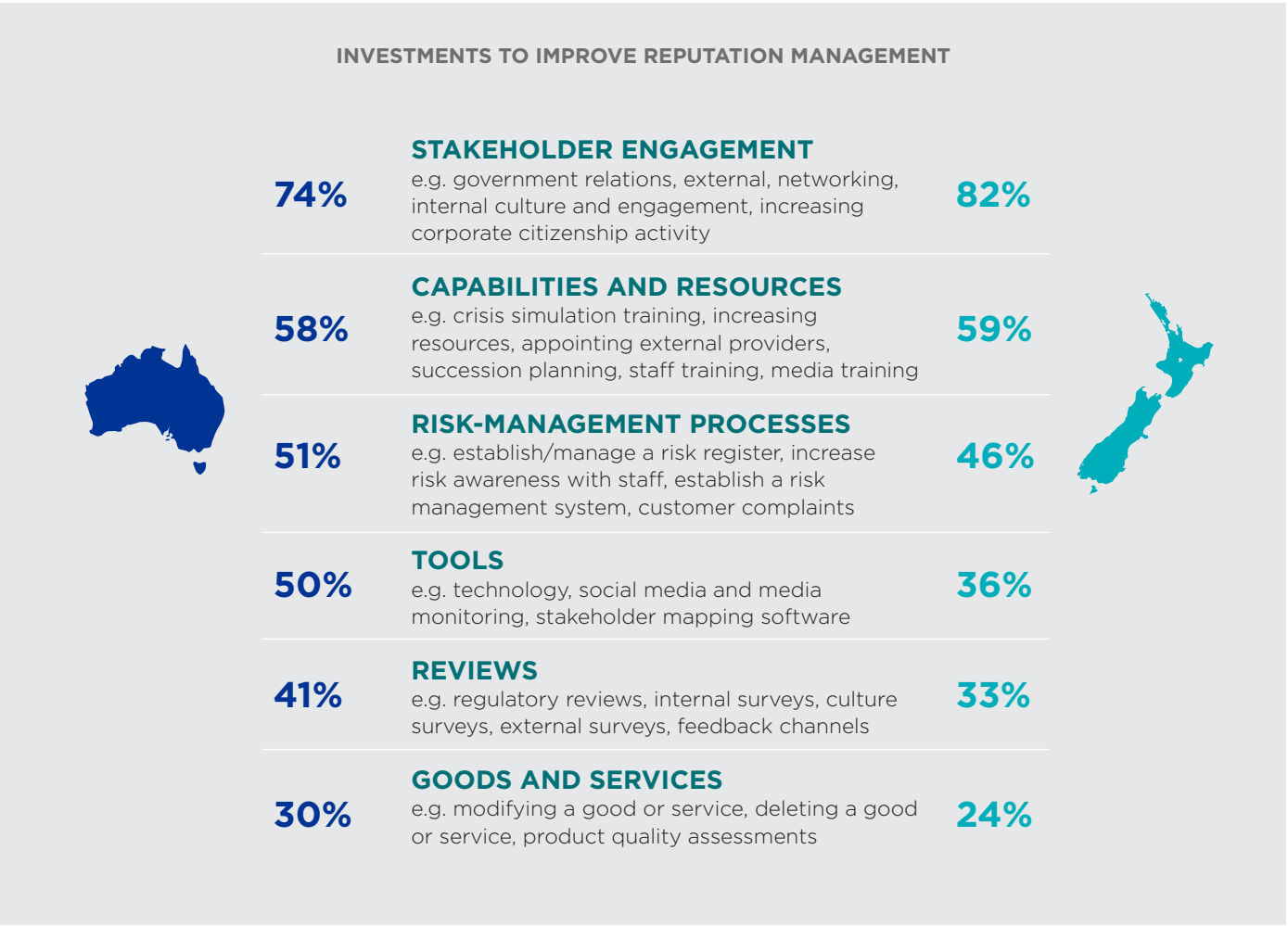
In New Zealand, 100% of respondents from the healthcare and pharmaceutical, retail/wholesale, agricultural and transport/posting/warehouse sectors felt stakeholder engagement was the most important investment opportunity.

Following stakeholder engagement was investment in capabilities and resources, including crisis simulation training, increased resources, external support, succession planning, and crisis and media training for staff.

Sitting closely behind this was investment in risk-management processes, including the establishment of a risk register, a risk management system and a robust customer service process for times of crisis.

Marketing/Communications heads/managers are more likely to believe investment should be in goods and services – this includes modifying goods or services, removing goods or services, and product quality assessments.

> " By building excellent stakeholder relationships, the information coming from the company is trusted. "

INVESTMENTS TO IMPROVE REPUTATION MANAGEMENT

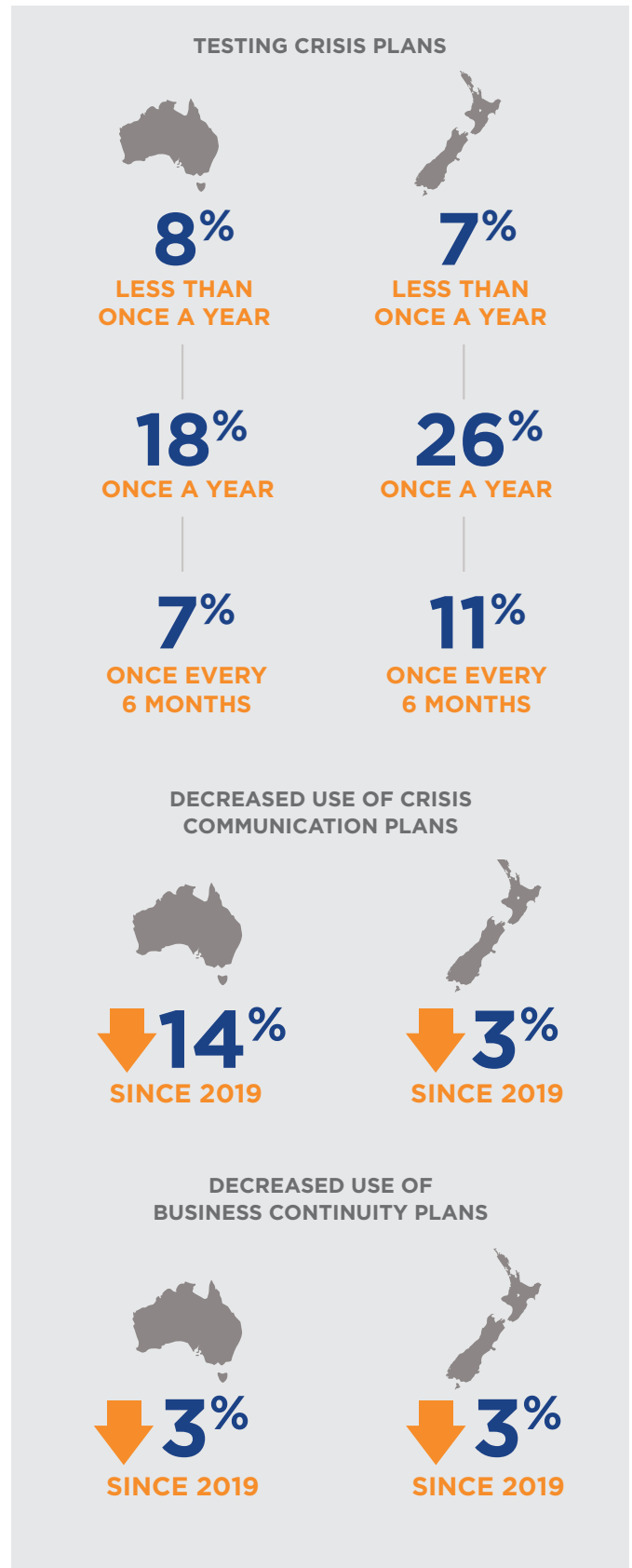| Australia		New Zealand
74%	**STAKEHOLDER ENGAGEMENT** e.g. government relations, external, networking, internal culture and engagement, increasing corporate citizenship activity	**82%**
58%	**CAPABILITIES AND RESOURCES** e.g. crisis simulation training, increasing resources, appointing external providers, succession planning, staff training, media training	**59%**
51%	**RISK-MANAGEMENT PROCESSES** e.g. establish/manage a risk register, increase risk awareness with staff, establish a risk management system, customer complaints	**46%**
50%	**TOOLS** e.g. technology, social media and media monitoring, stakeholder mapping software	**36%**
41%	**REVIEWS** e.g. regulatory reviews, internal surveys, culture surveys, external surveys, feedback channels	**33%**
30%	**GOODS AND SERVICES** e.g. modifying a good or service, deleting a good or service, product quality assessments	**24%**

LESS IS BEING DONE TO PREPARE FOR CRISES

Across Australia and New Zealand, the trend for organisations to be crisis ready is declining. In both countries business continuity plans are more widely used than crisis communication plans; however, both tools are in decline compared with 2019.

For those with crisis communication plans in place, fewer organisations are testing them on an annual basis. Only 15% of Australian organisations and 19% of New Zealand organisations felt 'very confident' in their ability to carry out their plans in a crisis. This is a significant decline from 2019, when 27% of New Zealand organisations and 22% of Australian organisations were 'very confident' in their ability to carry out their plans. This decline in Australia is in part because of the decrease in the number of organisations that have crisis communication plans at all, which is even more concerning.

When this is viewed in conjunction with the other themes in this report, it highlights a significant reputational risk for those organisations needing to manage crises.

> How an organisation responds is just as important as what it says, and failing to prepare properly greatly enhances reputational risk.

TESTING CRISIS PLANS

8% LESS THAN ONCE A YEAR

7% LESS THAN ONCE A YEAR

18% ONCE A YEAR

26% ONCE A YEAR

7% ONCE EVERY 6 MONTHS

11% ONCE EVERY 6 MONTHS

DECREASED USE OF CRISIS COMMUNICATION PLANS

14% SINCE 2019

3% SINCE 2019

DECREASED USE OF BUSINESS CONTINUITY PLANS

3% SINCE 2019

3% SINCE 2019

A business continuity plan will ensure essential services and processes are protected and backed up, and operations get back on track as quickly as possible. **A crisis communication plan is concise, is easy to follow and has clear roles and responsibilities to guide decision-making in a crisis. It is designed to allow effective decision-making under intense public scrutiny with little notice and information.** This requires senior crisis team members to know their roles and those of others in the team and have the relevant coaching and practice to assess reputational risk quickly and respond accordingly.

In our experience, the more often you can test your crisis plan the better. It is almost guaranteed that some people in the crisis management team will change roles or leave, some people will be unavailable, stakeholder details will change, and templates could be out of date. More importantly, senior executives may not have had the necessary coaching or practice to help them perform under pressure.

How an organisation responds is just as important as what it says, and failing to prepare properly greatly enhances reputational risk.

The best crisis communication plan is concise, is easy to follow, has clear roles and responsibilities, and is tested regularly. It is also supported by pre-agreed training for key people and pre-approved content (word and audio-visual), both of which enable quick response times.

See page 30 for our summarised crisis preparation checklist.

INSIGHT

The transfer and influence of information on social media can snowball out of control quickly and have disproportionate reputational impacts. **Having a social media crisis communication plan and capability enables your organisation to act quickly and consistently, which may help you to regain control.** The plan should include a robust social media monitoring tool to see how the crisis is being received and portrayed online, with real-time monitors and alerts as well as data and trend information to help inform your team.

This will assist your organisation to stay abreast of the crisis as well as balance fake news and factual inaccuracies when they appear.

The level of resources required to monitor, assess and respond to fake or incorrect online content is high in a crisis. There needs to be a clear understanding of content development and tone and sign-off protocols in any crisis.

CONFIDENCE IN MANAGING DIGITAL CHANNELS IS LOW DURING A CRISIS

Confidence in managing traditional channels in a crisis is higher than confidence in managing digital and social media channels. In Australia less than a fifth (18%) of respondents and in New Zealand less than a quarter (23%) of respondents are 'very confident' in managing their digital and social media channels.

When it comes to sector-specific behaviours, respondents in the education/training sector in Australia had the highest levels of confidence in managing digital and social media channels in a crisis (35% 'very confident'), and in New Zealand those in the social services sector (55% 'very confident') and retail and wholesale sector (67% 'very confident') had high levels of confidence.

In Australia, lower levels of confidence were reported by those in professional service organisations (40% 'slightly/not at all confident'), and in New Zealand low confidence was reported across several industries including healthcare/pharmaceutical (50% 'slightly/not at all confident'), IT/technology (43% 'slightly/not at all confident') and transport/postage/warehousing (67% 'slightly/not at all confident').

In 2020, a reduction in digital and social media crisis plan testing was reported in Australia, with only 35% of respondents including digital and social media channels in testing, down from 47% in 2019. In contrast, 49% of respondents in New Zealand included digital and social media as part of crisis plan testing, a slight uplift from 45% in 2019.

In New Zealand, those in those in public relations/corporate affairs managerial roles were more likely to say their organisations tested their plans annually (50%) and that they included digital and social media communication (84%). Those in the smallest organisations (0-20 employees) were less likely to have included digital and social media communication in their last tests (27%).

> Digital and social media capabilities are integral to successful crisis management — does your organisation have a plan, and if so, are you testing it?

CONFIDENCE IN MANAGING A CRISIS

TRADITIONAL CHANNELS

HIGHER

CONFIDENCE

LOWER

SOCIAL MEDIA CHANNELS

'VERY CONFIDENT' IN MANAGING DIGITAL AND SOCIAL MEDIA CHANNELS

LESS THAN
1 IN 5

LESS THAN
1 IN 4

A LOOK BACK AT INTERNATIONAL REPUTATIONAL CRISES OF 2019

In line with last year's Reputation Reality report, 2019 was a chaotic year globally for organisations. Participants highlighted several large-scale reputational crises outside their countries, as well as those in their own backyards.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was the most significant reputational crisis in Australia. As the investigation continues and industry reforms loom, those organisations affected are still struggling to manage the reputational fallout, the breakdown in stakeholder trust and responses to ongoing and widespread misconduct issues.

In New Zealand, the terrorist attack in Christchurch on 15 March 2019 was the most significant crisis for the country. Prime Minister Jacinda Ardern, New Zealand Police and associated parties were commended for their clear, prompt, transparent and empathic communication during this time.

President Trump was also mentioned. Respondents noted conduct related issues which culminated in calls for his impeachment.

Boeing also made the top list on both sides of the Tasman regarding its 737 MAX aircraft, which were involved in two separate crashes. The manner in which Boeing communicated with the media and the public was highlighted as creating additional reputational damage.

Brexit, Facebook privacy and live video streaming issues, climate change and aged care were also mentioned by respondents.

MOST SIGNIFICANT REPUTATIONAL CRISIS DOMESTICALLY OR OVERSEAS

The following reputational crises, domestically or overseas, were identified as the most significant in 2019.

AUSTRALIAN RESPONDENTS SAID:

1 THE ROYAL COMMISSION
into misconduct in the Banking, Superannuation and Financial Services Industry, namely NAB, ANZ Westpac and Commonwealth Bank

2 BOEING 737 MAX

3 US POLITICS – DONALD TRUMP

NEW ZEALAND RESPONDENTS SAID:

1 CHRISTCHURCH TERROR ATTACK

2 US POLITICS – TRUMP

3 BOEING 737 MAX

4 BREXIT

5 THE ROYAL COMMISSION
into misconduct in the Banking, Superannuation and Financial Services Industry, namely NAB, ANZ Westpac and Commonwealth Bank

A LOOK BACK AT DOMESTIC REPUTATIONAL CRISES OF 2019

MOST SIGNIFICANT REPUTATIONAL CRISIS FOR A DOMESTIC ORGANISATION

When asked to list the most significant crises for each country, respondents said:

AUSTRALIAN RESPONDENTS SAID:

1 THE ROYAL COMMISSION
into misconduct in the Banking, Superannuation and Financial Services Industry, namely NAB, ANZ Westpac and Commonwealth Bank

2 AMP

3 CATHOLIC CHURCH
Ongoing sexual abuse allegations/ Cardinal George Pell

NEW ZEALAND RESPONDENTS SAID:

1 FONTERRA

2 ANZ

3 NZ GOVERNMENT

4 LABOUR PARTY

> "Credibility and accountability are important – the visibility of the leader and their messages and ability to respond to media will reflect the honesty and integrity of the organisation's apologies and narratives."

> "The head of the company needs to lead and own messaging in the event of a crisis."

CRISIS THEMES OF 2019

THEMES OF SUCCESSFUL CRISIS MANAGEMENT

When commenting on the most significant crises of 2019, respondents shared several clear themes when it came to the successful management of a crisis:

1. **ADDRESSING THE ISSUE AND STATING THE FACTS**

   Clear communication was ranked as the number one leadership attribute in a crisis

2. **ACCOMPLISHED PERFORMANCES ARE CRUCIAL**

   Calm communication in the face of a crisis was ranked as the second most important leadership attribute

3. **DISPLAYING GENUINE UNDERSTANDING AND EMPATHY**

   Survey respondents listed the ability to listen in the top three leadership attributes in a crisis

4. **SHOWING DECISIVENESS AND COMMUNICATING CLEAR ACTIONS**

   Decisiveness and prioritisation ranked fourth and fifth respectively in the top leadership attributes in a crisis.

THEMES OF UNSUCCESSFUL CRISIS MANAGEMENT

They also shared some key themes when it came to the mismanagement of a crisis:

1. **LACK OF TRANSPARENCY**

   "The company did not act with openness and transparency but tried to cover up the issues"

2. **LACK OF AWARENESS AND EMPATHY**

   "The organisation focused on itself, lacked authentic empathy"

3. **LACK OF SPEED AND FAILURE TO BE PROACTIVE**

   "Leaders thought their prominence/strength/size would count. They didn't communicate proactively – only in response to claims/bad news".

THE EROSION OF VALUE IN A CRISIS: RESEARCH

SenateSHJ recently worked with a University of Technology Sydney Master of Data Science and Innovation student, Gautham Ravi, to help facilitate his thesis. The thesis, titled Crisis Value Erosion, evaluated the loss of value of 11 Australian Securities Exchange/NZX-listed organisations that had experienced crises. It then tracked this against daily media sentiment during the crises, closing share prices and earnings per share (EPS).

Findings include*:

1. **On average organisations lost over AUD$1 billion in market capitalisation. The losses ranged from AUD$12 million to AUD$6.4 billion**

2. **EPS slumped, on average, by 30%**

3. **In some instances, media sentiment remained negative for several years**

4. **On average the share price recovery to pre-crisis levels took either months to a year (some share prices, at the time of this report, have still not recovered to pre-crisis levels)**

5. **The overall loss in market capitalisation for the 11 organisations was AUD$12.606 billion.**

*Gautham Ravi, 2019, Crises Value Erosion, MDSI I-lab-2 project thesis.

THE OUTLOOK FOR 2020 –
GETTING AHEAD OF THE GAME

Authenticity and the performance of organisational leaders will be critical in the year ahead.

People expect more, and they are more influenced by 'snackable content' from sources they trust. They distrust traditional structures even more than they have in the past. As a result, the dynamics of communication and building reputation are changing rapidly.

We continue to see a decrease in the influence of traditional media channels, the increased evolution and emergence of new digital and social media channels, and changing content-consumption habits, especially among younger generations who are creating powerful voices and social movements on a wide variety of societal matters.

Internal communications, employee engagement and culture have also emerged as increasingly important for organisations. While this may seem obvious, the pace of change, the number and scale of transformation projects and the importance of change management are among the biggest leadership challenges organisations face, and many are ill-equipped to manage them.

A lack of internal trust, or values alignment, has seen an increase in the number of whistle-blowers and activist employees. Organisations need to consider carefully how they will react if their values are publicly challenged against commercial campaigns and operating processes. Climate change, human rights, labour practices and environmental, social and governance issues more broadly, are prime examples of this tension.

It is likely to mean some organisations will get it wrong in their attempts to do it right. Through digital and social media channels, the public are quick to identify mistakes, which means organisations are potentially targets for strong criticism and, with it, reputational risk.

The recent example of Peloton's pre-Christmas advertisement, which focused on a man giving his wife exercise equipment, resulted in international online commentary and criticism. The advert was perceived as sexist and promoting issues relating to body image confidence.

The increasing number of micro-bloggers, or single-issue online commentators, has also placed increased pressure on organisations. These influencers do not rely on traditional media channels, have no ethical editorial policies and, sometimes, base their commentary on opinion more than fact.

Their believability is high among their legions of followers, and secondary sharing by those followers further promotes their points of view.

> **The dynamics of communication and building reputation are changing rapidly.**

IN 2020 ORGANISATIONS NEED TO FOCUS ON FOUR KEY AREAS:

1. BE AUTHENTIC

- Live your organisation's values

- Demonstrate you 'walk the talk', or risk being accused of being disingenuous (internally and externally)

- Ensure your culture is real and trusted and you invest in its health regularly.

2. BE AWARE OF AND SENSITIVE TO RISK

- Constant and rapid change creates risk. Assess local and international trends and issues. Listen to your stakeholders about what concerns them

- Actively monitor and assess all factors ranging from societal and environmental concerns to financial, economic and data security risks, regulatory reforms and culture and conduct issues

- Ensure assessments are from a stakeholder's perspective

- Do not assume all organisations in your sector are acting in the same way – 'the lowest common denominator' could cause a crisis contagion.

3. ENGAGE MEANINGFULLY TO GAIN TRUST

- Develop and maintain an engagement plan that includes all stakeholders that may affect or influence your organisation

- Engage consistently with stakeholders and focus on building robust relationships based on mutual respect and listening

- Bring value, meaning and purpose to stakeholder engagement

- Place an emphasis on building an internal environment that is open, supportive and trusting – getting the culture right goes a long way to avoiding a crisis.

4. BE PREPARED AND BUILD CAPABILITY

- Have robust, extensive communication and crisis management plans in place that cover all eventualities and all channels – not just the traditional ones

- Make sure the plans are tested regularly to ensure relevance and to instil resilience and trust in your team and the confidence to activate the plans. Twice per year is preferable.

SENATESHJ TOOLS

In talking to clients as part of our Reputation Reality survey, it was clear that many felt a crisis communication checklist would be a useful asset. Below is a checklist for phase one, pre-crisis.

The aim of the checklist is to provide a company's communication team with the essential tools to prepare for a crisis and to mitigate risks. The checklist covers the immediate actions required. As part of our work with clients, we develop tailored plans and checklists covering the initial period and the subsequent stages of a crisis.

SENATESHJ CRISIS PREPARATION CHECKLIST
— Phase one, pre-crisis

While every crisis has a different run sheet, our research has shown there are a few fundamentals when it comes to protecting reputations and mitigating risks.

ACTION	RESPONSIBILITY	RESOURCES	CHECK
Planning, testing and training			
Do you have a crisis communication plan?			
Is it integrated with your organisation's business continuity plan?			
Has it been updated in the past 12 months?			
Has it been tested in the past 12 months i.e. via a crisis simulation exercise?			
Have you undertaken crisis/issues mapping in the past 12 months?			
Have you developed approved core messages for each issue and saved them in a central location?			
Do you have key organisational information collated and saved in a central location?			
Have you undertaken any stakeholder mapping in the past 12 months?			
Have your spokespeople received media training in the past 12 months?			
Have you built relationships with priority stakeholder groups, including media, who could speak on your behalf in times of crisis?			
Are you confident you can manage digital and social media channels in a crisis?			
Do you have a timely approval process to ensure swift communication in a crisis?			

SENATESHJ TOOLS

CRISIS SCENARIO TESTING

Our starting point is that plans do not train people. We believe experience is the best teacher, but it can only be gained through practice. It is unrealistic to expect your teams to perform well without having an opportunity to develop their confidence and capabilities.

Best-practice issues management is based on careful preparation – identifying risks and preparing as much as possible. We offer a range of services and tools to help clients strengthen their organisations' preparedness and mitigate and manage reputational risks. Crisis simulation is a key tool in that set.

Simulations allow participants to sample in real time the pressure and scrutiny that accompany a crisis. They also deliver opportunities for realistic assessments of individuals' and teams' potential to perform in an organisation-wide crisis, surfacing gaps in resources, processes and capabilities.

We run exercises on a secure, password-protected server, using multiple news and social media channels, including your own digital assets. It means there are multiple forms of decision-making interactivity, real-life personas and rich media content.

The fact that we can replicate social media pressures is key because it gives participants the realism they need to respond in a way that builds 'muscle memory' – an asset they can apply when they experience a real crisis.

The ability to rehearse in real time truly stress-tests your organisation's ability to monitor and respond to fast-moving digital pressures.

CULTURE RISK BAROMETER

The link between organisational culture and reputation has never been greater, as highlighted by the slew of leaders belatedly recognising culture as the cause of their companies' crisis. It's why SenateSHJ created the Culture Risk Barometer.

In a world where reputation and stakeholder trust are paramount, a closer examination of 'the way we do things around here' and how to mitigate related risks before they cause a crisis is critical.

The Culture Risk Barometer is a research tool that provides a litmus test of the behaviours that lead to misconduct and that could ultimately create a crisis. Combining quantitative and qualitative research, the Culture Risk Barometer identifies these reputation hotspots, enabling you to put in place mitigation strategies to maintain or strengthen your company's behaviours and reputation and avert a potential crisis.

> " The ability to rehearse in real time truly stress-tests your organisation's ability to monitor and respond to fast-moving digital pressures. "

> "By failing to prepare,
> you are preparing to fail."
>
> **BENJAMIN FRANKLIN**

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