senateshj

REPUTATION REALITY 2019

Trans-Tasman perspectives on reputation and risk

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SenateSHJ surveyed 254 business and public sector leaders and corporate affairs executives in Australia and New Zealand. The aim of these interviews was specific — we wanted to gain a clear understanding of attitudes towards reputation and risk, and to pinpoint any key shifts and challenges around reputational risk.

This is the sixth time that SenateSHJ has researched leaders' attitudes towards corporate reputation — and it reflects the importance we attach to the topic.

Since our first survey in 2006, it has become increasingly evident that damage to reputation is an issue for organisations and brands, and for the people who lead those organisations. Reputational damage is an issue that is not going away.

In 2018, nine out of 10 of Australasia's executive leaders say reputation is a primary asset of their organisations, and the research highlights that 65% say reputation is harder to manage than any other form of risk. While risks to reputation are growing and evolving, many organisations are failing to prepare adequately for a crisis.

Our research identifies shifts in attitude and emerging issues and helps us understand how we can most effectively support our clients to build, enhance and protect their all-important corporate reputations.

254 LEADERS & EXECUTIVES SURVEYED

6th YEAR OF RESEARCH

94% SAY REPUTATION IS A PRIMARY ASSET

65% SAY REPUTATION IS THE HARDEST RISK TO MANAGE

APPROACH AND METHODOLOGY

The Reputation Reality survey sought the opinions of 254 people between 11 October and 4 December 2018 — from senior leaders and board members to senior executives and senior managers in the private and public sectors.

151 respondents were in Australia and 103 were in New Zealand. This survey is considerably larger than previous surveys, with 108 more participants.

254
PARTICIPANTS SURVEYED
IN TOTAL

103
NEW ZEALAND

- 26% Government
- 13% Utilities e.g. gas/water
- 12% Professional services
- 11% Healthcare/pharmaceutical
- 11% Not-for-profit
- 10% Banking/financial/insurance services
- 10% IT/tech/communications
- 8% Transport/postage/warehousing
- 8% Manufacturing
- 8% Other
- 7% Retail/wholesale
- 6% Agriculture/forestry/fishing

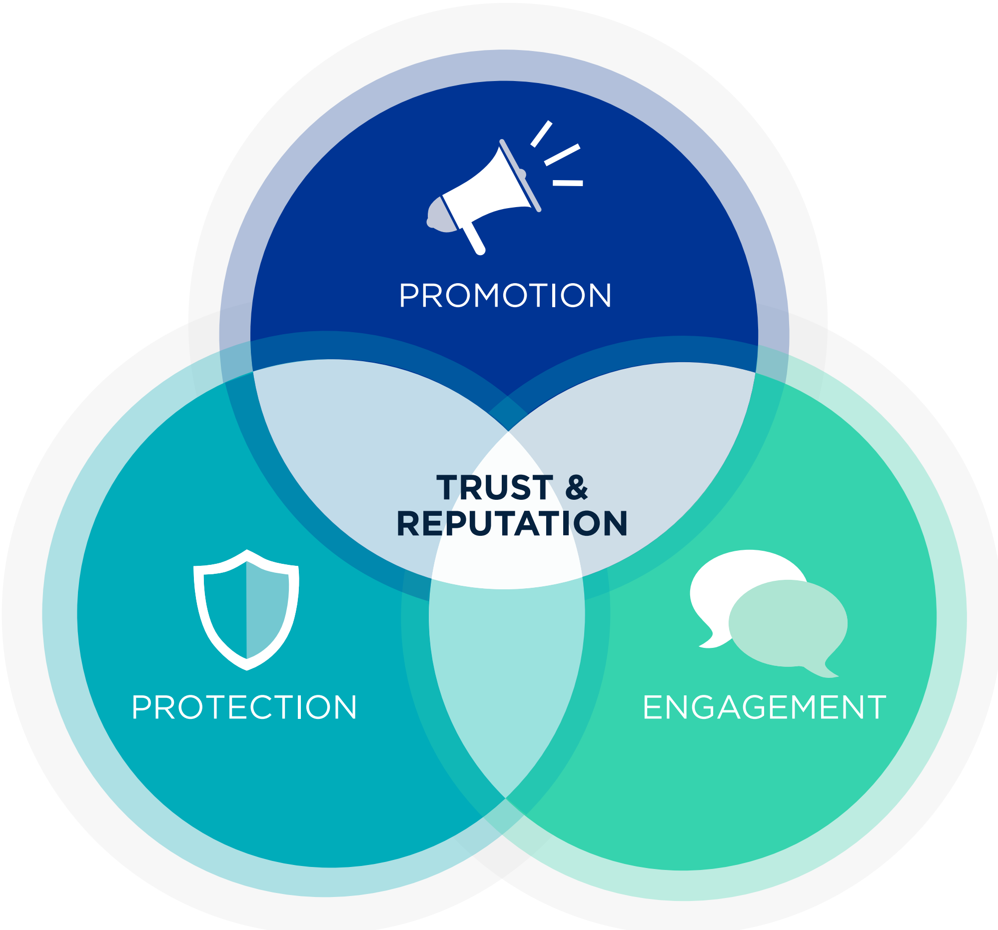
151
AUSTRALIA

- 28% Government
- 21% Other
- 19% Healthcare/pharmaceutical
- 17% Professional services
- 14% Banking/financial/insurance services
- 10% Not-for-profit
- 7% Education and training
- 5% IT/tech/communications
- 2% Retail/wholesale

OUR REPUTATION MANAGEMENT FRAMEWORK

TRUST & REPUTATION

Key stakeholders are at the heart of our framework



Build proactive plans to manage areas of concern or risk, including stakeholder engagement, issues management and culture audits

Manage employees' engagement to highlight and embed specific behaviours that build trust with customers and stakeholders

Identify and promote platforms that make valuable contributions in areas stakeholders care about

CRISES HAVE A DEEP IMPACT

> “Unstructured communications, inauthentic demeanour of the executives and lack of ownership of issues undermine credibility of reputation and messaging.”

Reputation is widely recognised as a non-negotiable asset. Public and private sector organisations risk damaging it at their peril, as evidenced by the recent Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in Australia.

The Royal Commission was the reputation crisis of 2018 most often mentioned by those taking part in the latest Reputation Reality survey in Australia. AMP and CBA were specifically singled out as facing uphill battles to restore their reputations due to their lack of transparency, failure to take responsibility, and slow responses to the unfolding crisis.

Other reputational crises nominated in the survey include the Australian Government/Liberal Party leadership wrangle, the Facebook/Cambridge Analytica data privacy issue and the Australian cricket team’s ball-tampering scandal.

In New Zealand, the financial problems besetting the country’s largest building organisation, Fletcher Building, were nominated as a crisis of reputation, along with alleged sexual misconduct at law firm Russell McVeagh and the National Party’s issues relating to its former MP Jami-Lee Ross.

The common thread in all these cases is the deep impact a crisis can have on the reputation of an organisation and on the brand, board and senior executives. Unstructured and poor communications, inauthentic demeanour of the executives and lack of ownership of issues were all pinpointed by respondents as exacerbating a crisis and wreaking untold damage on organisational and personal reputations.

KEY RESEARCH FINDINGS

Reputation has become more important — but it's harder to manage than any other form of risk.

Almost universally, organisations agree that corporate reputation is a primary asset (96% in New Zealand and 92% in Australia).

The consensus also, particularly among larger organisations, is that reputational risks have increased in the past three years.

An increasing number of respondents told us that corporate reputation is harder to manage than other forms of risk.

At SenateSHJ we believe this is a result of a number of factors, including the rapid pace of change, increased regulatory scrutiny, consumer activism, the sophistication of how consumers use social media to raise complaints, pressure on organisations to focus on purpose and profits not merely returns for shareholders, and the demands on listed companies by institutional investors relating to environmental, social and governance issues e.g. gender equity, pay parity, climate change.

> **63%** of Australian respondents say corporate reputation is more difficult to manage than other forms of risk — up 9% from 2017 compared to the last survey

> **67%** of New Zealand respondents also share this view — a rise of 12% from 2017

Despite the high value placed on reputation, it appears that less effort is being made to guard an organisation's reputation proactively.

While 72% of Australian respondents told us reputation is more important to manage now than it was three years ago — up from 60% in the previous survey — only 42% of Australian respondents 'strongly agreed' that their organisations were proactive in protecting their reputations.

81% of Australian organisations say they are proactive in managing their reputations — a 10% drop from the previous year.

Three key factors were identified as playing the biggest role in exacerbating a crisis and wreaking untold damage on organisational and personal reputation. They were:

1. Unstructured and poor communications
2. Inauthentic demeanour by executives
3. Lack of ownership of issues.

An overwhelming number of respondents believe that an organisation's reputation is a prized asset, but only one in three Australian respondents (34%) with a crisis communication plan is 'very confident' in managing the plan in a crisis. A further 42% of Australians are 'moderately confident'.

In New Zealand, confidence levels are similarly lacking, with only 38% of respondents feeling 'very confident' in implementing their crisis communication plan and 36% stating they are 'moderately confident' in managing their crisis communication plan.

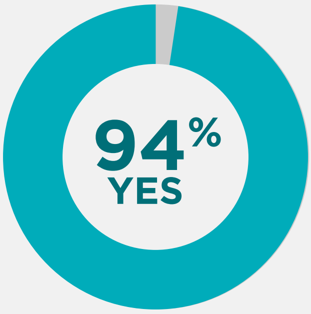
The survey highlights a continued lack of confidence among public and private sector business leaders that the systems and processes they have in place are robust enough to weather a reputational storm.

> "Leaders see reputation as a vital element of success and as a primary asset, but they are facing a 'crisis of confidence'."

KEY RESEARCH FINDINGS

CORPORATE REPUTATION IS A PRIMARY ASSET

96%



92%

CONFIDENCE LEVELS IN MANAGING A CRISIS COMMUNICATION PLAN

OF THOSE WITH A CRISIS COMMUNICATION PLAN

ONLY 1 IN 3
VERY CONFIDENT

38%
VERY CONFIDENT

36%
MODERATELY CONFIDENT

34%
VERY CONFIDENT

42%
MODERATELY CONFIDENT

REPUTATIONAL RISKS HAVE INCREASED

21%
in 3 years

9%
in 3 years

‘INTEGRITY’ AND ‘QUALITY OF PRODUCTS AND SERVICES’ MATTER

‘Integrity’ and ‘quality of products and services’ are regarded as the top drivers of a good reputation in Australasian organisations.

The nomination of these two drivers is particularly pertinent in light of the most discussed reputational crisis of 2018 in Australia — the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

The Royal Commission made 76 recommendations, many of them underpinned by the need to improve the integrity of financial organisations, and to improve protection, service and product quality for consumers.

In line with this push towards greater integrity, 64% of respondents to our survey from the banking and financial services sector placed integrity at the top of the drivers of good reputation. This was higher than the average of 48% in Australia and 56% in New Zealand and we believe it is a direct result of the Australian Royal Commission into banking, superannuation and financial services.

‘Leadership’ rose in importance, moving to third from eighth place in Australia. Increasingly leaders are expected by their stakeholders and their employees to step up and take a stand on social and environmental issues relevant to their businesses. There is also pressure for leaders to take a stronger stand on the purposes of their organisations and aligning them with everything the organisations do.

But ‘competence’ and ‘authenticity’ are now seen as less important factors in creating a positive corporate reputation.

Quality of products and services was included in the survey for the first time in 2018 and it ranked high as a driver of good reputation.

The more precise focus on quality of products and services may reflect the increasing level of exposure of product recalls — especially globally — and the impact of social media commentary. The anonymity of social media channels enables unfiltered and immediate responses from customers, which are shared widely and often picked up and covered by traditional media.

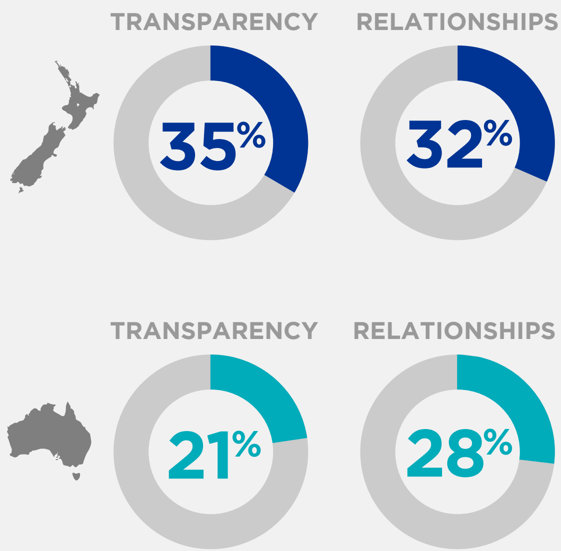
TOP DRIVERS OF GOOD REPUTATION

INTEGRITY	56%	48%
QUALITY OF PRODUCTS	39%	39%
LEADERSHIP*	29%	34%
TRANSPARENCY	35%	21%
RELATIONSHIPS	32%	28%
COMPETENCE	19%	20%

*Leadership is a new addition to the top three drivers in 2019 for Australia.

Organisations in the public sector in Australia were most likely to nominate ‘leadership’ (40%) as a key reputation driver. IT/tech/communications organisations were least likely to nominate leadership.

NEW ZEALAND LEADERS PLACED GREATER EMPHASIS ON TRANSPARENCY & RELATIONSHIPS THAN AUSTRALIAN LEADERS



“Increasingly leaders are expected by their stakeholders and their employees to step up and take a stand on social and environmental issues relevant to their businesses.

There is also pressure for leaders to take a stronger stand on the purposes of their organisations and aligning them with everything the organisations do.

But ‘competence’ and ‘authenticity’ are now seen as less important factors in creating a positive corporate reputation.”

WHAT SITUATIONS TRIGGER A REPUTATIONAL RISK?

The survey findings show that while some factors remain the same as in previous years, when it comes to keeping corporate eyes and ears open for potential triggers, organisations cannot take anything for granted.

'Customer dissatisfaction' has become the most significant current trigger in Australia, rising through the ranks from fifth place in our last survey to the number one spot. Customer satisfaction was the core reason for the Royal Commission of Inquiry in Australia as well as the conduct and culture review of New Zealand retail banks. Both were circled directly back to Government and regulators responding to years of customer dissatisfaction (which also played out in the media about the vulnerable not having a voice). To drive change the financial services industry would need to put customer interests at the forefront of how it operates.

Other top triggers in order, which remain unchanged from 2018, are:

- Data/privacy/cyber issues
- Ethics/social/governance
- Regulatory changes.

These triggers are set to remain a concern for executives looking to the future.

CURRENT VS FUTURE TRIGGERS

CURRENT	FUTURE
2016 Research Findings 1. Safety 2. Customer dissatisfaction 3. Data/privacy/cyber issues 3. Employee conduct (equal)	**Next 2-3 years** 1. Safety 2. Customer dissatisfaction 3. Data/privacy/cyber issues
2017 Research Findings 1. Employee conduct 2. Customer dissatisfaction 3. Data/privacy/cyber issues	**Next 2-3 years** 1. Culture change/ transformation projects 2. Regulatory changes 3. Data/privacy/cyber issues
2018 Research Findings 1. Customer dissatisfaction 2. Data/privacy/cyber issues 3. Ethics/social/governance	**Next 2-3 years** 1. Data/privacy/cyber issues 2. Regulatory changes 3. Customer dissatisfaction

CURRENT	FUTURE
2016 Research Findings 1. Customer dissatisfaction 2. Employee conduct 2. Product/service recall/failure 2. Regulatory changes (all equal)	**Next 2-3 years** 1. Customer dissatisfaction 2. Regulatory changes 3. Ethics/social/governance
2017 Research Findings 1. Ethics/social/governance 2. Data/privacy/cyber issues 3. Regulatory changes	**Next 2-3 years** 1. Regulatory changes 2. Ethics/social/governance 3. Data/privacy/cyber issues
2018 Research Findings 1. Customer dissatisfaction 2. Data/privacy/cyber issues 3. Ethics/social/governance	**Next 2-3 years** 1. Data/privacy/cyber issues 2. Regulatory changes 3. Customer dissatisfaction

We asked respondents to share the biggest risks they believe their organisations may face in the future.

Here are some of their thoughts:

“Cyber attacks breaching privacy.”

BANKING, FINANCIAL AND INSURANCE SERVICES

“Professional standards/sexual abuse, financial sustainability, governance and transparency.”

NOT-FOR-PROFIT

“Product failure; activism; employee dissatisfaction.”

HEALTHCARE/PHARMACEUTICAL

“Breach in trust or quality of service.”

PROFESSIONAL SERVICES

“Natural disaster — floods. Social media influence.”

GOVERNMENT

“Political changes, social/digital media risks.”

GOVERNMENT

“Cyber security and lack of ability to innovate faster than competitors.”

IT/TECHNOLOGY/COMMUNICATIONS

“Loss of trust/belief by clients. Regulatory breaches.”

BANKING, FINANCIAL AND INSURANCE SERVICES

“Health and safety and environmental crises have an enormous potential to harm us.”

CONSTRUCTION

“Increased client litigation around ‘product’ suitability as regulators tighten up enforcement and interpretation — moving away from a risk-based assessment to a black/white interpretation of laws and regulations.”

PROFESSIONAL SERVICES

WHO IS THE FACE OF CORPORATE REPUTATION?

Chief Executives are again regarded as the custodians of this important role. Almost 68% of respondents in New Zealand and 57% of respondents in Australia say Chief Executives are the names, faces and sources of information that their organisations think the public are most likely to trust.

The view was that a strong and effective Chief Executive who is a good communicator is a make-or-break factor in steering an organisation through a crisis. At no time previously have Chief Executives had to perform so well on the public stage, especially when under pressure. It is also important to note that they can be the first 'scalp' when things go wrong and when blame is apportioned.

Once again, the fallout from the financial services Royal Commission in Australia highlights the importance of having a trustworthy Chief Executive at the helm. The Chief Executive Officer (CEO) and Chair of National Australia Bank resigned in February 2019 — the latest in a succession of heads that rolled in connection with the inquiry.

In his resignation statement, the CEO asserted that he had always "acted with integrity" but recognised there was a "desire for change" within the banking organisation.

In terms of other sources of trust in a crisis:

- Organisations in the government sector are more likely than those in other sectors to think the public would trust their websites in a crisis (41% in New Zealand, 47% in Australia)
- IT/technology/communications businesses are least likely to believe the Chair is most likely to garner public trust (14% in Australia and 20% in New Zealand), and are most likely to see the Chief Executive (71% in Australia and 80% in New Zealand) in this role
- In Australia not-for-profits place equal public trust in the media and the Chair (both 53%). Continued changes within the media sector may have an impact on the future.

The advent of paywalls and subscription fees for traditionally free newspapers has had an effect on how people perceive printed and online media. For example, in New Zealand, the New Zealand Herald invested in an advertising campaign focusing on its values of truth, facts and trust. One advert reads: "In an age of misinformation, it pays to get your news from a source you can trust."

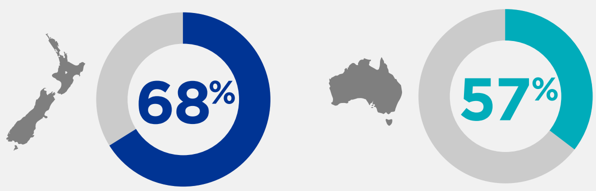
The campaign is deliberately asking readers to think about what media they should trust in an era of 'fake news'. It will be interesting to see if press-based media using paywall business models are still considered trusted sources of information in the future. Or will their continued need to have 'click-bait' content undermine this trust?

MOST TRUSTED TO LEAD IN A CRISIS

1	CHIEF EXECUTIVE	68%
2	EXTERNAL EXPERT OR ANALYST	50%
3	MEDIA	44%
4	REGULATORY BODIES	34%
5	CHAIR	33%

1	CHIEF EXECUTIVE	57%
2	REGULATORY BODIES	38%
3	MEDIA	37%
4	EXTERNAL EXPERT OR ANALYST	36%
5	CHAIR	31%

CHIEF EXECUTIVES ARE REGARDED AS CUSTODIANS OF CORPORATE REPUTATION



WHY WE TRUST WHO WE TRUST

"I think consumers want to hear directly and quickly from the head of the company."

"The CEO is the custodian of the Brand and reputation of the organisation."

"In a crisis, it's expected that a CEO is facing the media to not only show leadership but also show that this is a priority for him or her."

"It depends on the authenticity."

"Public expect CE to front and have some answers, and as such having CE front of an issue will provide a level of trust and accountability — never 100% of course!"

"The Chief Executive is the ultimate leader and needs to show accountability and also provide the confidence and/or accountability required."

"The Chief Executive knows the organisation. She is responsible for the efficient running, and compliance of day-to-day matters."

"The public believes that the regulator will act in their best interests and is there to protect them."

"Because they have authority and perceived independence."

"Independent source of authority and likely to have community interest at heart."

"In a crisis third party analysis likely to get similar or more cut through than company info — depending on nature of crisis and also how company is handling crisis response itself."

"Because as a 'designated expert' they are regarded as independent, authoritative and objective."

"A 3rd party expert adjudicator has increasing 'authority over issues' where own staff/sources are seen to be in a defensive 'explaining is losing' situation."

"This is where most of the crisis will play out, as it has in the past, and will drive public opinion."

"The media will be active in a crisis, and their voice will be significant."

"The majority of the community still believe rightly or wrongly in the integrity of the media to provide accurate and balanced reporting. Whilst this is not the reality it certainly remains the perception amongst many people."

"Traditional and social media still play a big part in how the public learns about a crisis. It is not wholesale trust, but they are relied upon as sources of information which can shape perceptions."

"Media still a go to in a crisis — especially in a vacuum, and level of trust in media which is usually low, is higher in a crisis as they become key source of info."

"Has the ability to produce and cycle information and new information through faster than others which is what people seek in a crisis."

"Media are still regarded as a source of truth — the increase of social media means trusted brands are more important than ever for a source of truth."

"Because generally the public regard mainstream media as objective, balanced and authoritative."

"The media can 'make or break anything'. They have to be treated with respect, even if they don't deserve it."

LEADERS NEED TO COMMUNICATE, STAY CALM AND BE DECISIVE

To be effective, whoever takes the reins during a crisis needs to possess key attributes. Respondents had clear ideas on what attributes and actions help to limit or avoid reputational damage.

Clear communication is valued by 85% of respondents in New Zealand (Australia 83%). Remaining calm under pressure (71% Australia/64% New Zealand) and decisiveness (59% Australia/53% New Zealand) are also valued. But for small organisations in Australia and New Zealand, 'direction' is seen as important.

Highlighting these top three desirable attributes in a crisis was US Starbucks Chief Executive Officer Kevin R Johnson. The coffee empire in the US faced a significant crisis and a media backlash in 2017 when two black men were arrested at a Philadelphia Starbucks store.

The two men were quietly waiting for a friend when a store employee asked them to leave. When the young men politely refused and explained that they were simply waiting for a friend, the police were called. The two were handcuffed and taken away in a police van but were swiftly released, having committed no offence other than sitting in the café and waiting for their friend.

The resulting media reports fuelled a public relations crisis for Starbucks, with the business accused of blatant racism. But before the crisis became of an unmanageable magnitude and caused irreparable damage to the brand, the Starbucks Chief Executive Officer stepped in.

He offered a full and genuine apology to the men and to the Philadelphia community and he admitted fault and took ownership of the problem. He also took action to fix the problem to ensure it wouldn't happen again, which included firing the employee who'd called the police and ensuring that all Starbucks employees take part in racial bias training.

We believe his actions and leadership were significant factors in the quick management of a volatile situation that had global ramifications.

EFFECTIVE KEY ATTRIBUTES IN SUCCESSFUL CRISIS MANAGEMENT

CLEAR COMMUNICATION

85% 83%

REMAINING CALM UNDER PRESSURE

64% 71%

DECISIVENESS

53% 59%

ONE IN THREE EXECUTIVES ARE NOT CONFIDENT IN EXECUTING A CRISIS COMMUNICATION PLAN

BE DECISIVE

OF THOSE WITH A CRISIS COMMUNICATION PLAN

ONLY 1 IN 3
VERY CONFIDENT

> "Having a crisis communication plan in place is one thing — having the confidence to enact and enforce the plan is another matter."

Business continuity plans are more widely used in Australia than crisis communication plans — 80% versus 64%. In New Zealand the pattern is similar — 84% versus 72%.

Senior executives were most likely to be concerned about customer dissatisfaction (44% in New Zealand, a jump from third spot in 2017, and 38% in Australia, a jump from fifth spot in 2017).

In New Zealand, crisis communication plans are most prevalent in:

- The agricultural/forestry/fishing sector **100%**
- The healthcare/pharmaceutical sector **91%**
- The manufacturing and transport/postage/ warehousing sector **88%**
- The banking/financial/insurance services sector **80%.**

Professional services **50%** and IT/technology/ communications **40%** are least likely to have a crisis communication plan.

In Australia, crisis communications plans are most prevalent in:

- The banking/financial services sector **76%**
- The government sector **72%**
- The retail/wholesale sector **67%**.

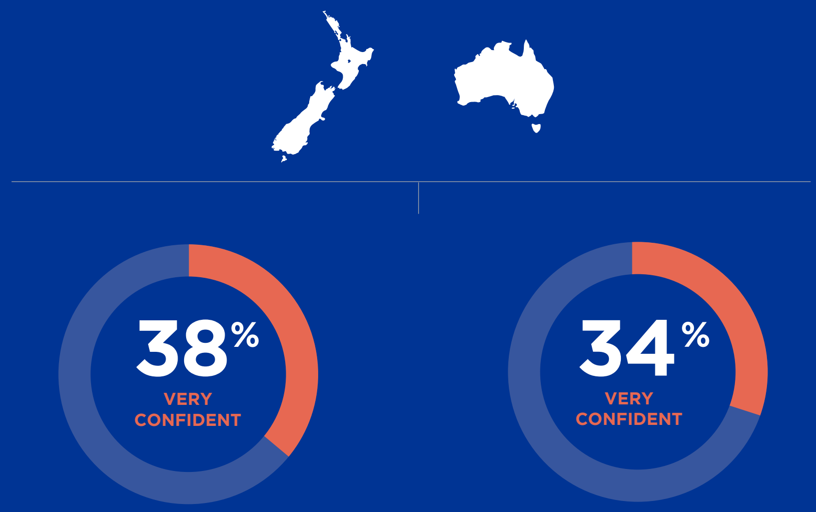
The IT/technology/communications sector is least likely to have a crisis communication plan (43%).

But having a crisis communication plan in place is one thing — having the confidence to enact and enforce the plan is another matter.

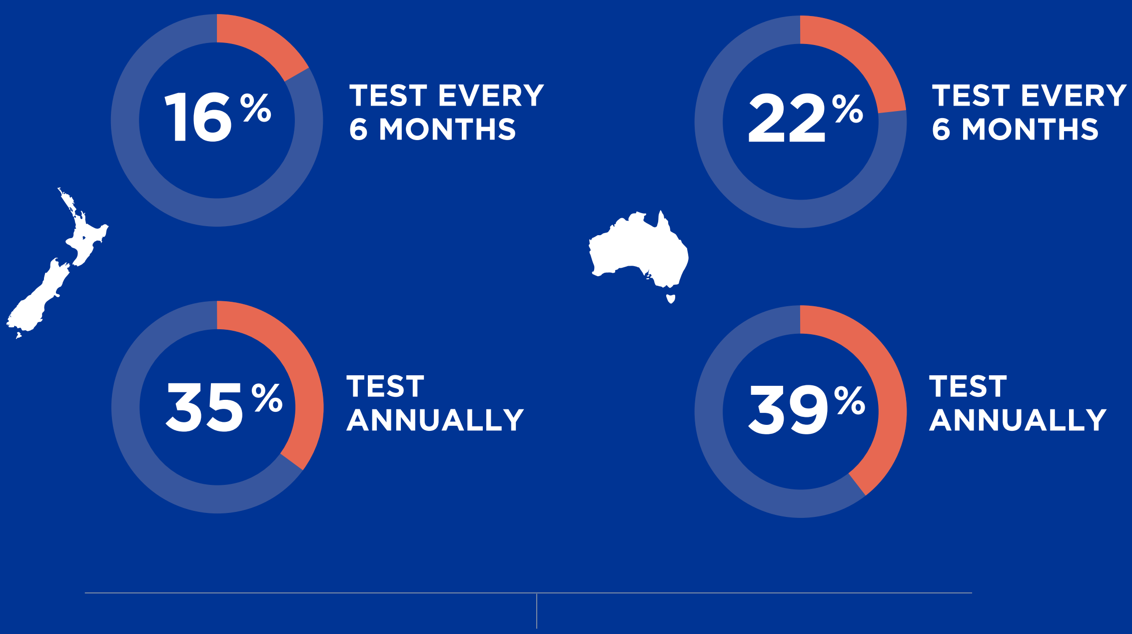
In Australia just over a third (34%) of organisations are 'very confident' about executing a crisis communication plan and 42% are 'moderately confident'. In New Zealand, confidence levels are similar at 38% very confident and 36% 'moderately confident'.

New Zealand confidence levels still have room for improvement. But when seen in conjunction with the fact that 7% more respondents believe their organisations are now being more proactive in managing reputation, this is a step in the right direction. In Australia it's a slightly different picture. While three-quarters of organisations display confidence in executing a crisis communication plan, the 10% drop in perceived proactivity in managing reputation is a cause for concern.

CONFIDENCE IN EXECUTING A CRISIS COMMUNICATION PLAN IN NEW ZEALAND AND AUSTRALIA



CRISIS COMMUNICATION PLAN TESTING



ABOUT 50% TEST AT LEAST ONCE A YEAR

PRACTICE MAKES PERFECT

Around half of organisations test their crisis communication plans at least once a year — in Australia, 22% test every six months and 39% test annually. In New Zealand, these figures are 16% and 35%.

During testing, digital and social communication was included in the scenario by 86% of Australian respondents and by 71% of respondents in New Zealand.

So why, when protecting an organisation's reputation is recognised as being of prime importance, are almost half of the organisations not putting their crisis communication plans to the test?

The old adage that practice makes perfect holds true in this situation.

The only way to identify and rectify gaps and weaknesses in a crisis communication plan is to test it regularly. In addition, regularly testing a plan will highlight where updates and improvements are required as an organisation grows and evolves. A robust crisis communication plan needs to be worked and flexed, like a muscle.

The ability of resources to cope with the physical demands of a crisis situation is vital. A comprehensive scenario should include interactive engagement using digital channels and content to truly test an organisation's capability.

Crisis scenario testing should be a regular event on the corporate calendar. It is part of an organisation's tool kit to better manage positive reputation and brand and should be considered a factor in providing the best insurance an organisation can have.

Valuable by-products of crisis scenario testing are the trust it builds in a crisis team and the clear understanding of roles and responsibilities it ensures.

A SCENARIO SHOULD TEST FOUR KEY AREAS OF COMPETENCE

1. **Leadership and decision-making**
2. **Knowledge of roles and responsibilities**
3. **Use of systems and processes**
4. **Ability of resources to cope with the physical demands of a crisis situation**

MONITORING THE RISK HORIZON

In line with our findings in 2017, monitoring of social and traditional media is most commonly used to keep a close eye on reputation and risks to reputation.

In Australia 70% of respondents nominated social media monitoring, closely followed by 68% relying on traditional media monitoring. Customer surveys were employed by 60% of respondents in Australia.

In New Zealand, these three tools were also most used, with 76% of organisations relying on traditional media monitoring, 70% on social media monitoring and 67% using customer surveys to glean feedback.

Across the various sectors in Australia, there were some differences.

Most frequent users of social media monitoring:

- Retail/wholesale (100%)
- Government (84%)
- Banking/financial/insurance (86%)
- Healthcare/pharmaceutical (71%).

At only 29%, IT/technology/communications organisations were less likely to use some of these most popular monitoring tools.

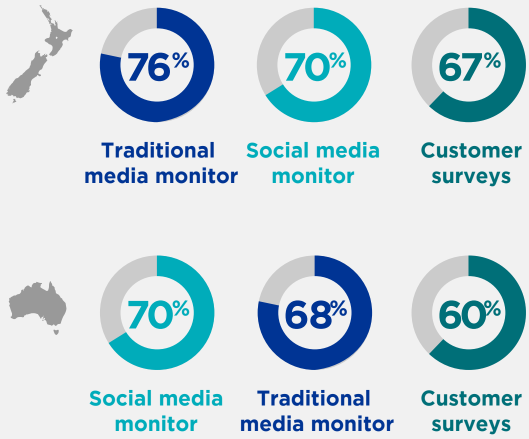
In New Zealand, professional services organisations were less likely to use most monitoring tools — only 42% use traditional media monitoring and 42% use social media monitoring.

Most frequent users of social media monitoring:

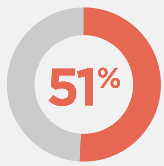
- Retail/wholesale (86%)
- IT/technology/communications (80%)
- Banking/finance/insurance (80%).

Government relied heavily on traditional media monitoring (96%) along with agriculture/forestry/fishing (100%). Manufacturing (88%) showed the strongest reliance of all sectors on using traditional crisis/issues scenario planning.

PREFERRED WAYS TO MONITOR RISKS TO REPUTATION



RESPONDENTS FROM LARGER ORGANISATIONS IN AUSTRALIA



are more likely to invest in crisis simulation/training in the future

ATTITUDES AROUND REPUTATION

ATTITUDES ARE RELATIVELY STABLE ACROSS ALL INDUSTRIES

"Corporate reputation is one of our organisation's primary assets."

"Reputation is more important to manage now than it was three years ago."

"My organisation is proactive in protecting its reputation."

"Corporate reputation is harder to manage than other forms of risk."

"There has been an increase over the last three years in the risks affecting my organisation's reputation."

IN NEW ZEALAND AND AUSTRALIA

PLANNING FOR THE FUTURE

An organisation's reputation is a prized asset — hard won and all too easily lost. Our survey clearly shows that, in 2018, business leaders believe managing reputation is more important than ever. But those same leaders also recognise that reputation is more complex and challenging to manage than other forms of risk.

So, what does the future look like for organisations in terms of improving and strengthening reputation management?

In Australia, almost half of respondents cited investing more in governance, for example establishing and/or managing a risk register. New processes and systems, including media monitoring, were nominated by 42% of interviewees, while 38% of organisations were investing more in technology to improve reputation management, including crisis simulation/training. Crisis simulation/training and government relations complete the top five priorities.

Large organisations are more likely than others to plan to invest in crisis simulation/training (51%), government relations (43%) and appointing someone externally to manage reputational risk (26%).

Industries revealed different focuses for investment to manage reputation.

In Australia, governance is invested in most commonly by:

- Banking/financial/insurance services (43%)
- Not-for-profit organisations (60%)
- IT/technology/communications businesses (57%).

However, there are other differences across different sectors:

- Government is focused on: new processes and systems (56%) and stakeholder mapping software (16%)
- The healthcare/pharmaceutical sector is prioritising governance (54%)
- Professional services sector is investing equally in governance and technology (both 54%)
- Retail/wholesale respondents equally nominated governance, new processes and systems, government relations and modifying or deleting products/services (all 67%).
- Education and training are investing mostly in new processes and systems (45%).

In New Zealand there are four main areas of planned investment: government relations, governance, crisis simulation/training, and new processes and systems. Government relations has higher priority for organisations in New Zealand, followed by governance e.g. establishing/managing a risk register, crisis simulation/training and new processes and systems.

In New Zealand, banking and financial organisations are also more likely to invest in technology and stakeholder mapping software:

- New Zealand: 60% (technology), 20% (stakeholder mapping software)
- Australia: 29% (technology), 5% (stakeholder mapping software)

There are also other significant differences between different sectors in New Zealand and Australia. For example:

- The healthcare/pharmaceutical sector in New Zealand makes greater investment in government relations than Australia (64% versus 50%)
- More than twice as many not-for-profit organisations in New Zealand plan to invest in government relations compared to Australia (91% versus 27%).
- New Zealand's IT/technology/communications sector also invests more in new processes and systems compared to Australia (70% versus 14%).

TOP PRIORITIES TO IMPROVE REPUTATION MANAGEMENT

1. GOVERNANCE **49%**
2. NEW PROCESSES & SYSTEMS **42%**
3. INVEST MORE IN TECHNOLOGY **38%**
4. CRISIS SIMULATION/TRAINING **36%**
5. GOVERNMENT RELATIONS **30%**

1. GOVERNMENT RELATIONS **51%**
2. GOVERNANCE **49%**
3. CRISIS SIMULATION/TRAINING **48%**
4. NEW PROCESSES & SYSTEMS **44%**

REPUTATIONAL CRISES OF 2018

What can be learnt from some of the most recent, significant reputational crises in Australia and New Zealand? What factors propelled and fuelled those crises, and what are the common criticisms of the responses? What could have been done differently — and better?

In nominating the most noteworthy crises, respondents identified common failings including:

- Unstructured and poor communications
- Inauthentic demeanour of executives
- Lack of ownership of the issues.

Respondents listed **six crises** as most memorable in 2018. Other crises nominated by New Zealand respondents are shown in the following pages.

In contrast to Australia, New Zealand respondents notably mentioned the reputational crisis surrounding the US Government and President Trump. With around 15% of people nominating the US Government's issues, this was seen as the most significant reputational crisis of 2018 by New Zealanders.

President Trump's presidency and reputation have been plagued by a series of allegations — ranging from suggestions that he paid secret hush money to cover up an affair with a porn star to further allegations that he knew WikiLeaks was going to release emails that would damage the reputation of his presidential rival, Hillary Clinton. Trump has previously sworn that his campaign team had no knowledge of the damaging Clinton emails.

Continuing the international focus, 5% of people also mentioned the Me Too campaign. The anti-sexual-harassment movement spread predominantly through social media and was a response to the sexual harassment allegations made by a series of women against Hollywood film director Harvey Weinstein. The allegations triggered an avalanche of stories of sexual harassment that suggested the film industry had a serious problem with predatory behaviour towards women.

6 MOST MEMORABLE CRISES OF 2018

1. FINANCIAL SERVICES ROYAL COMMISSION
2. AUSTRALIAN CRICKET TEAM
3. FLETCHER BUILDING
4. RUSSELL McVEAGH
5. FONTERRA
6. THE NATIONAL PARTY

01

FINANCIAL SERVICES ROYAL COMMISSION

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was led by the Honourable Kenneth Hayne, who submitted his final report to the Governor-General on 1st February 2019.

The Commission was established in December 2017 to investigate the alleged misconduct of Australia's banks and financial services entities. The Commission received 10,323 submissions.

The report made 24 referrals to regulators and a further 76 recommendations on how to fix problems in the financial system. Hayne was scathing of the actions of banking executives.

During the investigation, and in the days and weeks after the final report's release, a number of senior executives tendered their resignations. AMP Chief Executive Craig Meller quit and apologised "unreservedly" for AMP's conduct — primarily, charging clients for advice they never received. Shortly after Meller's resignation, AMP chair, Catherine Brenner, also stepped down.

The resignations and reverberations continued, with senior executives falling on their swords in bids to signal a new and more transparent eras for their respective organisations.

Commonwealth Bank was also strongly affected, but perhaps not to the same extent as AMP. CBA Chief Executive Officer, Matt Comyn, told the Royal Commission that the organisation had wrongly sold credit card insurance to more than 60,000 unemployed customers. The Commission heard that CBA had also hesitated in removing unhealthy incentives for mortgage brokers to sell larger-than-necessary loans.

CBA's Chief Financial Officer resigned — one of a series of senior figures at the bank to step down.

The fallout highlights that when a crisis hits, the Chief Executive may be the most trusted source of information, but the buck also stops with them. A crisis needs to be tackled quickly and with integrity and with transparent and authentic communication if there is any hope of salvaging reputations and careers.

RESPONDENTS SAID OF AMP:

"They were not ahead of the issues and were not transparent with the general public enough. They appeared to have underestimated the gravity of the issues."

"Had to have the truth dragged out of them by a Royal Commission. Even then the Chair and Chief Executive tried to deflect, rather than own, the problems."

RESPONDENTS SAID OF COMMONWEALTH BANK:

"Weren't honest until forced to be."

"Blaming the previous administration, sounded like buck shifting."

"Handled it reasonably well once it was public other than attempting to cover up the issues in the first place."

REPUTATIONAL CRISES OF 2018

02

AUSTRALIAN CRICKET TEAM

In March 2018, the Australian cricket team's reputation was shattered after players were caught tampering with the ball during the third test against South Africa. Cricket captain Steve Smith and fielder Cameron Bancroft admitted to cheating after Bancroft was captured by TV cameras using sandpaper to scuff the ball and then trying to conceal the sandpaper.

Former Australia batsman Jimmy Maher called it "a national day of shame," while former wicketkeeper Adam Gilchrist said he was "shocked" and "embarrassed" by the team's actions.

But the crisis was exacerbated by Cricket Australia's management, and Chief Executive James Sutherland was criticised for evading the issue and failing to call out the cheating — despite the fact that Smith and Bancroft admitted to ball-tampering in an after-match media conference.

The lack of strong and firm leadership from the front, and the lack of a co-ordinated voice, only served to make the issue even bigger than the headlines.

"Did not acknowledge the history of poor culture. Failed to articulate what will change to avoid a repeat."

RESPONDENTS SAID:

Poor management was due to leaders:

1. Not admitting their role in the crisis
2. A lack of proactivity
3. Allowing multiple players to speak about the crisis.

"CEO did not get on top of issue early. Poor communication to the stakeholders, especially cricket fans."

"They let players at the centre of the scandal further compound things with the choices they made in terms of managing their own PR."

REPUTATIONAL CRISES OF 2018

03
FLETCHER BUILDING

It has been one of New Zealand's biggest businesses but, in the six months to the end of December 2018, Fletcher Building's building and interiors businesses suffered a NZ$630 million loss.

The business name is connected to some of the country's most iconic and renowned landmarks, such as the Museum of New Zealand Te Papa Tongarewa, the Sky Tower and Wellington Railway Station. But the company has suffered some heavy financial knocks, losing nearly NZ$1 billion in the past two years — primarily due to several large, fixed-cost, projects failing to meet company expectations.

Chair Ralph Norris told a media conference in Auckland in early 2018 that he took accountability for the business's downturn in fortunes. He referred to "information flows through to the board" not being as fulsome as they could have been. He also cited costs to complete projects being significantly higher than expected, placing the business under greater and unforeseen financial pressures.

RESPONDENTS SAID:

Fletcher Building's reputational crisis was due to confidence being lost in their ability to turn around their financial performance.

> "The board's financial governance over the company's management and performance was not adequate."

> "Did not listen to what the market was saying."

04
RUSSELL McVEAGH

In 2018, law firm Russell McVeagh was part of an inquiry by senior public servant Dame Margaret Bazley, who was recruited to examine sexual misconduct allegations levelled at the firm.

The allegations stemmed from a Christmas party in 2015 where four summer clerks were allegedly on the receiving end of sexually inappropriate behaviour from a drunken male partner at the firm. The same partner, who later quit, behaved in a "sexually inappropriate" manner again days later and in a further incident.

When the allegations became publicly known, Russell McVeagh Chair Malcolm Crotty admitted that the company "didn't investigate thoroughly enough… we made a mistake in that respect". He added: "Our firm is committed to changing the culture of our organisation and we all recognise that change requires collective and long-term commitment."

The crisis of reputation was made worse by the lack of swift action by the company to deal with the allegations not being taken seriously enough, and the lack of action permitting more damaging incidents to take place.

RESPONDENTS SAID:

> "Very 'old school' in its response. Didn't recognise the seriousness of the situation."

> "Nothing authentic about it — took far too long to show any sort of leadership. Obviously, every single person in a position of authority knew about their culture and did nothing about it."

REPUTATIONAL CRISES OF 2018

05

FONTERRA

In late 2018, Fonterra's business operations came under a harsh spotlight with the release of a report commissioned by the Fonterra Shareholders' Council. The independent report highlighted a NZ$2 billion "opportunity cost" in foregone earnings during the 17-year life of Fonterra to date.

The report also concluded that "valued-added" business returns were significantly lower than they should have been. This was reportedly due to Fonterra's investment in infant formula manufacturer Beingmate Baby & Child Food Company in China.

Commentators said the report findings confirmed a "general, widely-held belief that Fonterra as a business has substantially under-performed in terms of return on capital since its formation".

"The assessment clearly shows that Fonterra's financial performance since inception has been unsatisfactory. When considered as a stand-alone investment, the average returns generated by Fonterra since inception are lower than relevant benchmarks," said Council Chair Duncan Coull.

In 2018, Fonterra recorded its first-ever annual loss in the business's 17-year history. In 2017, the business made a profit of NZ$745 million. In 2018, this plummeted to a NZ$196 million loss.

Survey respondents said questions around Fonterra's business structure and profitability were taking the greatest toll on Fonterra's reputation.

RESPONDENTS SAID:

> "Slow to respond and when they did, inconsistent and arrogant response. Lacked intimacy and credibility in their core values and beliefs."

> "Did not seem to have a clear idea of its main message or direction — many messages into the market at the same time confused and diluted their position."

06

THE NATIONAL PARTY

In October 2018, New Zealand's National Party expelled former whip Jami-Lee Ross, from the party, citing his "appalling behaviour" as the reason for the political upset. But on the day of his expulsion, Ross quit the party.

The political saga was triggered by a fight over the leaking of the travel expenses of National leader Simon Bridges, which highlighted a $113,000 limousine bill for Bridges. Following an inquiry, Ross was blamed for the leak. He denied the claims and retaliated against Bridges by making allegations of corruption involving donations to the party, specifically referring to a $100,000 donation from a Chinese businessman that Ross alleged his leader had ordered him to cover up, so the donation didn't have to be declared. Bridges called those allegations "baseless".

The messy battle continued, with Ross releasing recorded conversations that created further turmoil and disunity within the National Party.

RESPONDENTS SAID:

> "Didn't own the story quickly enough, leadership did not come across as strong and in control."

> "The National Party lost control of the agenda and became vulnerable to attack from others."

> "Allowed the situation to get out of control and into the public domain."

AND NOT FORGETTING...

FACEBOOK/CAMBRIDGE ANALYTICA DATA BREACH

Facebook was fined £500,000 by the UK's Information Commissioner's Office (ICO) after it found a "serious breach" of the law had taken place. The ICO is Britain's data protection body and it fined Facebook after finding that Facebook had given app developers access to people's data "without their clear consent". The breach involved up to 87 million Facebook users who completed a personality quiz. The data gathered from the quiz was then shared with Cambridge Analytica, which used the data to target political advertising in the US. ICO said: "Even after the misuse of the data was discovered in December 2015, Facebook did not do enough to ensure those who continued to hold it had taken adequate and timely remedial action, including deletion."

87 MILLION FB USERS
HAD THEIR PRIVACY BREACHED

THE MARSDEN POINT REFINERY PIPELINE INCIDENT

The pipeline rupture triggered a major fuel shortage in parts of New Zealand in 2017, resulting in flights in and out of Auckland Airport being cancelled. Investigations failed to pinpoint exactly how the pipeline had been damaged, although digger drivers working in the area were questioned and some reports suggested the pipe had been weakened by surrounding excavation work.

Growing demand for fuel also saw the owner of the pipeline, Refining NZ, pushing more fuel through the pipe. But at the conclusion of investigations, Refining NZ and First Gas, which monitored the pipeline on behalf of the refinery, were not found to have played a role in causing the leak.

PIPELINE RUPTURE

A MAJOR FUEL SHORTAGE

ECOSYSTEM DISEASE OUTBREAKS

In 2018, Auckland Council took decisive action to protect trees in the Waitakere Ranges from the devastation of kauri dieback disease. The closure of some areas of forest was designed to prevent the spread of the disease. It can be spread by a speck of soil and there is currently no cure.

Auckland Council issued statements and information to residents about the controls and restrictions and why they were needed. The Council also spelled out its plan of action to tackle the issue of diseases such as kauri dieback disease that can devastate natural ecosystems.

KAURI DIEBACK

CLOSURE OF PARTS OF THE WAITAKERE RANGES

AND NOT FORGETTING...

AUSTRALIAN STRAWBERRY INDUSTRY CRISIS

Australia's strawberry industry was thrown into chaos in 2018 after a woman stuck needles into the fruit that was then sold in supermarkets across the country. The discovery of needles by unsuspecting consumers sparked a nationwide investigation, and copycat incidents were also reported in New Zealand and Australia.

The incidents led to strawberry farmers dumping tonnes of the fruit: strawberry sales fell and farmers faced crushing financial costs due to the needle crisis. The industry was forced to respond by fitting metal detectors to inspect fruit for any contamination.

ROYAL COMMISSION INTO INSTITUTIONAL RESPONSES TO CHILD SEXUAL ABUSE

In December 2018, the child sexual abuse crisis engulfing many institutions peaked with the conviction of Cardinal George Pell. The former third-highest-ranked member of the Vatican was found guilty of child sex abuse involving two 13-year-old boys at a Melbourne cathedral in 1996. Pell maintains his innocence.

The five-year inquiry heard from thousands of people who had been sexually abused as children while in institutions. Many survivors of abuse said it had affected their mental health, personal relationships, physical health, education, employment and economic security.

The final report made a series of recommendations, including the establishment of a National Redress Scheme to help survivors of institutional child sex abuse gain access to counselling, financial compensation and/or an apology from the offending institutions.

CARDINAL PELL
GUILTY
OF SEXUAL ABUSE

VOLKSWAGEN EMISSIONS SCANDAL

It is a crisis that has cost Volkswagen around €30 billion in fines and settlements and it is the car manufacturer's biggest business and reputational crisis in its history.

The crisis began to unfold in 2015 when the Environmental Protection Agency in the US found Volkswagen had fitted cars with software that could detect test conditions and cut the cars' emissions to bolster test results. The technology allowed cars to pump out up to 40 times the permissible levels of nitrogen oxide while on the road. Nitrogen oxide exposure has been linked to premature deaths worldwide.

Australian Volkswagen owners launched a class action against the car company, seeking compensation and a requirement for the company to "admit they were wrong".

VOLKSWAGEN
€30 BILLION IN FINES

BUT ON THE UPSIDE...

Some organisations reacted well when issues arose that could easily have led to damaged reputations.

CATHAY PACIFIC'S SPELLING MISTAKE

A spelling mistake of epic proportions literally flew around the world but the calculated and clever response from Cathay Pacific led to the brand attracting a positive response. The side of a Cathay Pacific Boeing 777-367 aircraft was emblazoned with 'Cathay Paciic' — omitting the 'f'.

Cathay Pacific's tongue-in-cheek response in social media, 'You had one job!' and 'Oops this special livery won't last long! She's going back to the shop!', confronted the misspelling of the brand name and saw the funny side of the error. The bemused media exposure led to plenty of social sharing and even broader reach and brand appeal.

CATHAY PACIIC

> "Oops this special livery won't last long! She's going back to the shop!"

BUNNINGS' BBQ SNAGS

Bunnings' traditional fundraising sausage sizzles made headlines when a new inhouse rule dictated that onions would from then on be placed under the sausage. The idea behind the missive was health and safety — onions placed firmly under the sausage would be less likely to fall out and create a slipping hazard.

The new rule stirred debate, with potential for Bunnings to be seen as another heavy-handed corporate becoming part of a nanny state. Instead, Bunnings used the media attention as an opportunity to reinforce and clearly explain its safety policy, while reminding communities about its role in supporting local fundraising events.

> "... onions placed firmly under the sausage would be less likely to fall out and create a slipping hazard."

WHAT DOES ALL THIS MEAN FOR ORGANISATIONS IN 2019?

Awareness of reputation and the trust that stakeholders attribute to a brand as a result of that reputation is at an all-time high. This is due to increasingly tough regulatory action, a series of royal commissions in Australia, and social media and the platform and publishing power it gives the customer. Whistle-blower laws are also having an effect and so is increased activism by shareholders in listed companies, many of whom are shining a light on company policy and behaviours on issues such as gender equity and environmental, social and governance issues such as sustainability and climate change.

This heightened awareness has seen many businesses — from the board to the executive team — wake up to the importance of protecting or building reputation and trust.

At SenateSHJ we have decades of experience in dealing with issues and crises and we've learned that most of these are due to organisational culture — more specifically what that culture is prepared to allow or ignore.

Moving into 2019 and beyond, companies need to think about the following:

1. Stronger alignment with the customer
   This requires regular customer research that reveals how customers view a company from a reputational perspective across products and services, innovation, citizenship and taking stands on social issues and leadership, and potentially a comparison with other stand-out brands in these areas.

2. Regular risk culture surveys with staff
   There are tools available, such as SenateSHJ's Risk Culture Barometer, that survey staff and executives about potential risky behaviour in an organisation. It analyses where the risks lie and assesses what cultural/behavioural change strategies are required to bring about the desired change.

3. A focus on and realignment around purpose and values
   This requires executive and board buy-in and cross-disciplinary team involvement to create broader take-up, and a senior leadership champion — preferably the Chief Executive. It requires transforming the approach from concept to practice by matching what is said by leaders of the business with the values and purpose, and finally its actions internally and externally. These include things like: aligning campaigns, events, sponsorship, advertising and marketing, and staff events, rewards, communication, feedback, reviews and training.

"This heightened awareness has seen many businesses, from the board to the executive team, wake up to the importance of protecting or building reputation and trust."

SENATESHJ CRISIS COMMUNICATION CHECKLIST — PHASE ONE, PRE-CRISIS

In talking to clients as part of our Reputation Reality report, 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.

Crisis preparedness 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. through a crisis simulation exercise)?			
Has your crisis management team been trained on the crisis communication plan in the past 12 months?			
Have your spokespeople received media training within the past 12 months? Are you confident you are monitoring social channels effectively and have the capability to manage social commentary?			
Has your senior management given you official licence to act in case of a crisis, in order to protect your organisation's reputation?			
Have you undertaken any stakeholder mapping in the past 12 months?			
Have you identified stakeholders who will be of importance to you during a crisis?			
Have you built relationships with priority stakeholder groups, including media, who could speak on your behalf in a crisis?			
Do you have the names and contact details of your priority stakeholders collated and saved in a central location?			
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 organisation information collated and saved in a central location?			

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