

A new wave of reputational risk

Reputation is critical to the viability of a company. Corporate brand and reputation contribute, on average, 40% of a company's market capitalisation and this is even greater for larger listed companies. The influence of social media and the current trend towards "cancel culture" mean it is crucial to assess corporate decisions against the potential impact on reputation. This paper considers new areas of risk that have emerged or become more pronounced over the last few months and sets out practical measures businesses can take to safeguard their reputation.

COVID-19

How an organisation responds to the challenges arising from the pandemic can directly impact on its reputation. The interplay between operational business decisions and reputational risk is best illustrated looking at examples from the outset of the crisis in March.

Value retail chain Home Bargains reacted rapidly, announcing a GBP 30 mln fund to support self-isolating staff, as well as setting aside the first store hour each day for the elderly and vulnerable. These initial moves were received extremely positively, generating widespread media coverage, and leading to competing brands adopting similar measures. In comparison, businesses that initially resisted restrictions attracted negative press.

Looking to the challenges ahead, it is important to align decisions with business values and to communicate effectively with employees and customers. The legal position should not be considered in a vacuum. Just because something is technically possible and may have a financial benefit, does not mean it is the best course of action for the business. For example, Primark refused to accept the GBP 30 mln job retention bonus and received widespread national press coverage applauding the decision.

As well as making real time crisis decisions it is important to dedicate time to crisis planning, to consider what could go wrong and to prepare for that.

Key considerations

The main objective is to ensure a quick recovery and an opportunity to embed any necessary changes.

- Preparation: Identify key stakeholders and establish decision-making processes and protocols in advance of a crisis.
- Crisis response: Work with your legal advisor to investigate and collate facts/documents with the benefit of legal privilege.
- Legal advice: Formulate an appropriate response to negative reporting, consider wider remedies and courses of action that may be available. Work closely with your PR function. Advise the board and management on wider considerations in relation to regulators and reporting requirements.
- Rebound: Implement necessary changes to improve resilience within the organisation and to reduce the risk of reoccurrence.

Key areas of risk

Government support – Use of the furlough scheme, use of government retention bonuses and later redundancies can prompt negative coverage.

Home working – Increased risk of data breaches and employee health and safety/well-being issues, in particular mental health. (See also [The data security perils of home working](#))

Return to work – Health & safety challenges for returning staff. (See also [Can technology keep the workforce safe?](#))
Business continuity – Issues with delayed supply chains and pressure on internet operations. (See also [Supply chains – Contingency planning for future disruptions](#))

Black Lives Matter

Reactions around the world following the death of George Floyd in Minneapolis on May 25 have been unprecedented. Many multi-national businesses voiced their support through social media, donated funds and committed to change.

Stakeholders, whether employees or consumers, are noticing how brands use their influence to enact change and enhance their reputations. Businesses can expect to face direct challenges on these issues. It is critical to have a root and branch assessment so that any challenges can be met with evidence and calm explanations. This is not about paying lip service, but about meaningful and authentic engagement with issues, reflective leadership and tangible (and measurable) change. If done properly, a business will be ready to meet any challenge and confidently protect its reputation.

Practical steps

Strategy – Review diversity and inclusion policies, how are they referenced and how is data published.

Leadership – Assess the tone from the top and how communication works at all levels. Increase awareness, including through training programmes.

HR processes – Review recruitment and progression policies for under-represented groups.

Communication – Ensure effective and targeted communication to employees (including engagement with internal focus groups such as BAME committees) and clear communication to and strong external engagement with industry bodies, customers, and regulators. Respond appropriately and sensitively to any negative coverage and misinterpretation/misreporting.

Modern slavery

Organisations that understand exposures to risk within their supply chains will be in the best position to protect their financial and reputational performance. There will always be the more obvious supply chain disruptions to prepare for such as accidents, fires, and insolvencies. It is also critical to take account of corporate social responsibility, including in relation to legislation on bribery and modern slavery, given the impact it can have in terms of brand value, and customer and employee loyalty.

The recent experience of the fashion sector highlights the risks for businesses. Allegations of modern slavery and exploitation in the textiles industry were reported in the UK media and investigated by the UK's National Crime Agency. The parties involved terminated relationships with two suppliers and commissioned an independent report, though this did not prevent a significant impact on sales and share price. This demonstrates the importance of corporate social responsibility to customers and investors.

Practical steps

— Understand your supply chain (however complex) and identify any areas of risk or potential abuse.

— Do not interpret the UK government's decision to delay the need for companies to publish modern slavery statements by six months as a suspension of risk.

Cyber risk

Data loss and business interruption, within an ever-increasing regulatory framework, can have a serious impact on the bottom line and reputational confidence. In its Global Risks Report for 2019, the World Economic Forum listed cyber-attacks and data theft/fraud in the top five global risks. In the UK, the National Cyber Security Centre recently confirmed that hackers have been trying to compromise sporting organisations on a daily basis and even attempted to sabotage a Premier League transfer fee of GBP 1 mln.

Planning how to avoid, respond to and recover from cyber incidents is of profound importance and at the heart of business survival.

Practical steps

- Prepare internal *business continuity and security plans*, review them regularly and address new risks, such as home working.
- Regularly review and implement *regulatory and industry guidance*, such as NCSC guidance on defending against phishing attacks and ICO security checklists for home working.
- Produce a *data breach response plan* and run real time scenarios.
- *Schedule regular staff training* to reduce the risk of an unwitting staff member undoing all your hard work with a single click. Turn your greatest potential weakness into your greatest strength.
- Carry out regular *application and infrastructure penetration testing*.
- Consider working towards the *cyber quality standard certifications*.

#MeToo

The effect of the #MeToo movement on brand and bottom line is clear. A well-known fashion brand suffered a significant share price reduction after allegations against its founder emerged. Partners at several large accountancy and law firms have been sanctioned or forced out of their jobs.

Businesses must invest time and effort in creating a workplace culture built on respect and inclusivity. Where such cultures exist, the risk of harassment (and indeed the risk of retaliation against those who complain about it) is significantly reduced. The employer articulates and clearly communicates the appropriate conduct standard and tolerance levels. 'Group think' and unconscious bias is recognised and reduced. A positive culture helps to enhance productivity and profitability by increasing staff engagement and therefore retention. The brand also benefits, resulting in a positive impact on recruitment and consumer confidence.

Statistical analysis already suggests that women are disproportionately affected by the pandemic's economic fallout. Many organisations are also looking at budget cuts across the board and this will inevitably have an impact on progress being made on D&I issues. Because of the significant pressures faced by employers in relation to COVID-19, the UK Government Equalities Office announced in March 2020 that businesses do not need to report their gender pay gaps for the 2019/20 reporting year. However, research indicates that inclusive businesses fare better during an economic downturn.

Practical steps

- Run comprehensive *training* for all employees on appropriate workplace conduct and their responsibilities.
- *Investigate* allegations promptly and effectively, conducting internal or external investigations.
- Ensure relevant *policies* are regularly reviewed and effectively implemented.
- Review the *confidentiality provisions* in both employment contracts and settlement agreements.

Environment

Climate change comes with unique reputational and financial threats. No longer is this exclusively the arena for industries such as fossil fuel production or chemical manufacturing. Any business with a public profile should now expect to be held accountable for its impact on the environment.

There is increasing pressure from investors and consumers on businesses to demonstrate an active commitment to reducing their environmental impact. From their carbon footprint and plastic consumption to the ethics of their supply chains and waste disposal mechanisms, it is now commonplace for investors to require evidence of efforts to increase sustainability and reduce environmental harm. Equally, consumers are prepared to boycott companies that are seen to be failing in this regard.

It is crucial that companies provide an honest account of their impact on the environment without resorting to “green washing”.

Practical steps

Compliance – Comply with sector relevant environmental laws and prepare for future developments, including proposed legislation such as the Environment Bill that sets out provisions on enforceable targets and reporting obligations.

Policies and audits – Have formal environmental policies in place that stress the importance of environmental compliance. Commission periodic compliance audits by third-party consultants to identify non-compliance issues and other pitfalls.

Business and real estate transactions – Conduct due diligence of potential targets to identify environmental risks.

Stakeholders and interested parties – Consider environmental issues from the vantage point of those impacted by such issues, employees, investors, residents and customers.

Conclusion

The stakes around reputational risk management have never been higher. It is key to be ready and prepared. In times of economic uncertainty the last thing any business needs is to come unstuck on reputational issues or to make matters worse due to a failure to plan and prepare.

The risk areas highlighted in this paper are different in substance, but there are key risk management themes which apply universally: plan ahead, stay alert and engage with stakeholders.



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