# Corporate Reputation Risk Insurance Measurement and Risk Management

Posted on October 29, 2019

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## Foundations and Insurability of Reputation Risk

Reputation is a good image created by the public. Reputation risk refers to the loss suffered by businesses from having a negative image by the public. The risk has negative implications on the business performance (Fombrun, 1996). If the public image is lost, the performance reduces at a higher rate. Reputation risk can arise from an individual perception and from the business point of view. In relation to the individual, it is the loss of the image due to unprofessional character. In regards to business, reputation risk is the risk of a business losing the general public image, which leads to reduced production and revenue (Honey, 2017).

Reputation risk can be measured and a value attached to it. Insuring a business against the risk of reputation damage is done, especially by large corporations (Jacob, 2012). The senior executives are concerned about the reputation of their businesses especially with the presence of the social media platform. The platform operates on a twenty-four-hour cycle basis, where news is often reported. Social media is a threat to most organizations; thus, they need to ensure that they maintain a good public image. Measuring the risk of a company is a difficult task that requires the inclusion of experts to guide the process (Lam, 2014). The reputation risk makes companies suffer huge losses. However, the reputation risk can be measured as follows;

## Measuring Corporate Reputation and Business Value

The reputation of the business can be tracked by checking on the corporate reputation. The corporate image is a source of the business's income. Where a business is well established then it is easy to win the general public and increase the demand. The increased demand creates a larger market base for the organization's products and services. The brand equity can be observed in the market where the business operates. Check on the branding image and obtain the people's choices and preferences (Power, 2004). This can be done through the use of social media. Trust is an intangible characteristic that can be used as a measure of image risk through a social media platform. Customers will express their opinions regarding the company's operations; hence becomes easier to know how your company

is performing in terms of preference. Leadership can create a positive public image. It helps to know the people behind the idea and their flexibility and experience in decision-making.

Secondly, the company should identify the reputation of its activities. The final product of the company should help quantify the reputation of the business and the supplier. Corporate brand image should not be a hindrance when it comes to reputation measuring. The stakeholders need to look beyond the corporate brand image and identify the products that are in the line of production and also in the supply chain that would damage the reputation of the company. When a customer is dissatisfied with the company's products, be it one or more, then the overall reputation is affected and this would significantly reduce the general performance of the business. The reputation would have a long-term effect. Therefore, the company might have a difficult time gaining the trust back from the public.

## Risk Events, Competitors, and Reputation Monitoring

Thirdly, some of the events within and outside an organization would have a negative image of the company. Therefore, it is important to identify the events and be able to value their impact. A general image of event-based risks helps businesses to capture the risk and minimize their chance of occurrence. Through the building of the picture, a better response plan is put towards minimizing and countering reputation loss (Nocco and Stulz, 2006).

Lastly, it is important to track the reputation of your competitor as a business. A competitor is an organization that is established to offer products and services similar to your own. Businesses usually tend to consider pricing strategies to assist them in penetrating the market. The Risk monitoring software helps business organizations track the changes in the business world. The companies have the capacity to measure the changes in the conversation regarding a certain product or service that is rendered by your company. Therefore, it is important to measure the risk that could arise from such unfavorable circumstances and affect the performance of the business (Narasimhan and Talluri, 2009).

## Risk Mitigation and the Benefits of Insurance

The methods indicated above would help reduce and mitigate the risk that would be associated with damaging the business brand. The exposure to events that aim at damaging the business brand is also eliminated. Once the data is measured and the right tools are used for quantification, then the business can attach a value to the reputation risk. Better approaches to handling and mitigating the reputation risk can be devised. Therefore, the business will remain a going concern.

The huge losses suffered by the organization would have a long-term effect on the general

performance. The stated reason will leave organizations with an interest in insuring against reputation risk (Kytle and Ruggie, 2005). Just like other risks, reputation risk is a unique risk that, when it occurs, causes the company to suffer a huge loss in terms of revenue reduction. The impact is noticed when the customers start shifting from one company to another because of a negative image created. The image spreads faster through social media, and large populations will access the news. It keeps the demand low, and the sales are reduced drastically. As a business entity that expects to continue as a going concern, insurance is necessary to assist in compensation in case such a problem arises. The insurer covers the risk and allows the business to operate without fear of loss. In case the reputation is damaged, the company will be compensated and resort to other actions such as rebranding (Bebbington, Larrinaga, and Moneva, 2008).

There are a lot of benefits that accrue from insuring against the reputation risk. The companies that are insured will always not suffer huge losses especially when such a situation occurs. The insurer bears a large portion of the loss since they have always enjoyed premiums paid by the business. Secondly, there is a surety of continuity since the business will not have lost much of its finances, and what is required is to help gain a public image and instill trust in the customers. Rebranding would be another option after compensation (Kartalia, 2000). It communicates a lot about the business. First, the business is no longer operating as in the past. Second, expect a difference in the products and services rendered currently. Thirdly, insuring the business will help gain public confidence. Through such confidence, the business is in a position to increase its customer base (Martin, 1988). An increased customer base means the business has a ready market for its products and services.

# Corporate Cases and Challenges in Policy Design

Reputation risk has affected most organizations. Good examples of the companies that have such a problem include the LG brand. A tweet was made through the social platform twitter that the phones made by iPhones are naturally curved. The tweet was made by LG as a mockery of the iPhone. The mockery backfired, and LG's reputation was at stake. The emission scandal of the third largest world car manufacturer, Volkswagen, has caused a huge reputation loss for the company. The loss has been propelled by social media. The company has lost a large share of the market and the performance reduced significantly.

Insurance company's policies are quite complex. Formulation of the policies for reputation risk has been a challenge. Most of the companies have sought to handle the problem in a much-synthesized manner. Last, it was about the insured company's demanding huge amounts of money for compensation (Hogan and Lodhia, 2011). Later, the insurer has the challenge of estimating how much to ask for premiums. The premiums are a source of income to the insurance companies. The estimate of the value requires a technical analysis as it has become a difficult task for the insurer to compensate for huge losses that require significant amounts.

# Integrated Reputation Risk Management

The reputation of the business is a major concern to the organization. The business needs to protect and manage its reputation in a number of processes. The business can invest at the start. The investment helps in the diversification of the revenues. It means that the company will have a series of investments that will help reduce any associated risks (Chapman, 2011). The aim is to preserve value and maximize the shareholder's wealth. Investing in the company's reputation increases the chances of growth and expansion. The outcome is increased performance in terms of revenue. Investing in reputation over a long period of time reduces the damage that would arise and spread through social platforms. The other step in ensuring that the business is protected against the risk is to ensure that reputational risk is a top priority for the top management. Leadership is a key driver of growth for the business (Davies, 2002). Therefore, the reputation of the business depends on the top management. It starts from the top; hence, more emphasis is required. They need to ensure that the values and core values of the business are maintained and, in addition, the company is working towards meeting its visions and mission. They should commit resources to help in avoiding reputation damage.

Proactive management of key reputational risks helps the company to have a competitive advantage against its competitors. Before, an issue can explode and spread fast. The management should be ready to manage the issue at first sight. The aim is to avoid the spreading of the news through social media. The crisis can spread in minutes and move across the world. In order to plan for such management, the manager should start by doing an audit of the issue and give a strong decision that would help to cover up. The plan should assess the internal and external environment of the business. Check on how it could affect the business activities internally and what impact it could have on its external environment.

Some companies have developed a system for reputational risk reporting and evaluation. Therefore, measurement and creating awareness to the public or internally is important. Soft skills are required by people involved in risk management. Prudence and understandability are the key skills required to ensure the reputation is managed. Additionally, easy-to-use tools should be developed to assist in reporting. They should be incorporated into the plan to allow and fasten decision making. Media monitoring is important since it will discourage the spread of rumors that can affect the company's performance.

Lastly, integrating reputation management into the operation procedures of the business is a key thing. It means that every interested party, ranging from the top management, should be responsible for protecting the business's reputation. In other words, the employees should be involved when planning for risk management. The employees should be trained on issues related to risks so as to understand the technicality involved. Quality should be maintained in the process of risk management (Aula, 2010).

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