# Beyond branding

Image is important – but reputational risks can't be addressed by the marketing department alone, writes **Nir Kossovsky**

**HAVE YOU** heard this story before? A company sources product in a country with well-known lax workplace safety rules, no minimum wage and no prohibition against child labor. The company's in-country supply chain partner gives assurances of ethical management, consistent with the company's values. The company's risk management apparatus, mindful that any incident could damage the company's reputation and lead to consumer boycotts, concludes that the potential uproar is a marketing problem. The company launches a major corporate social responsibility campaign, spending millions building schools in developing countries and publicizing its commitment to education.

What could possibly go wrong with this practice in today's 'woke' society? For starters, when the death of a child in a workplace accident while working an 18-hour shift generates a massive public reaction, is the company's reputation going to be protected by the fact that it's built some schools? Or, in an era of rampant charges of greenwashing, social responsibility posturing and virtue signaling, is the damage going to be even worse because the company raised expectations of ethical behavior without addressing the underlying issues?

Finally, if that same company disclosed a year ago in its SEC filings that it was aware of material risks to its reputation due to these issues and appointed a board committee to address it, who do you think will be in the crosshairs when the stock takes a dive? Directors and other members of corporate leadership.

Between June 2018 and June 2019, 25 complaints alleging at least partial board-level responsibility in connection with corporate reputational damage were filed or amended in federal court, according to industry publication *Agenda*. How many were filed the year before? Six. Ninety percent of S&P 500 companies cite reputation as a material risk in their public filings, but most put the responsibility of reputational risk management into the hands of their marketing departments.

Marketing is not risk management. Marketers can develop and promote an aspirational image of a brand, but they have little impact on the operations and governance practices that define it. Companies such as Goldman Sachs and Boeing, each of which invested upwards of $1.5 billion on various social initiatives, have discovered the hard way that such investments are poor substitutes for real risk management.

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Reputational risk, in its crudest form, is the peril of economic harm from angry, disappointed stakeholders. Marketers, in their zeal to satisfy one objective, may inadvertently undermine another. Credibility requires authenticity, and aspirational marketing can actually undermine credibility. Activist investors and plaintiffs' lawyers can tell when stakeholders have had their expectations raised unrealistically and can harness the resulting anger. Board members and corporate leadership pay the price as the personal targets of these litigations and proxy fights.

That's why reputational risk should be placed under the same umbrella as other types of enterprise-wide risk – under risk managers who have access to every aspect of corporate operations and the internal clout to bring together resources from disparate departments within the company.

Marketing and communications need to be part of the picture. When crises hit, coverage in the media fuels the fire. But that is a byproduct of the crisis, not its cause. The company under attack for sourcing products from factories that engage in abusive child labor practices faces a crisis not because of the media coverage, but because of the business decisions and governance – or lack thereof – that caused the media to cover the story in the first place.

Risk managers understand this phenomenon and know the value of credible, objective, disinterested third parties who can vet corporate claims and validate their authenticity. They are already familiar with the types of insurance products that do just that and their historical importance as a tool that bolsters corporate reputations and stakeholder confidence.

When a crisis hits, stakeholders want to know that the company mitigated the risk. Insurance products, undergirded by solid underwriting, send that message for reputational risk as they have for other types of risk throughout history. IB

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