THE BRAND INSTITUTE AUSTRALIA

TOP 6 REPUTATION HEALTH RISKS FOR THE TECH INDUSTRY IN 2020

The Brand Institute Mini Guide: Reputation Risk | Technology

AUTHORS NOTE

Assoc. Prof. Karl Treacher (GAICD) is the CEO of The Brand Institute of Australia and an Associate Professor at Griffith Business School specialising in corporate brand reputation governance. He has 20 years experience working with tier-one brands, boards and business leaders and is recognised as an expert in organisational reputation, brand, culture and experience alignment.

As an authority in corporate reputation, Karl has provided education for the Australian Institute of Company Directors and has led boards and executive teams through the repositioning of many of Australia's iconic companies. Karl recently led NAB's retail experience program, and was heavily involved in the evolution of Bupa (HI Retail), APRA, PwC and RACQ's customer environments and experiences.

In addition, Karl has worked with a range of high profile individuals including Arnold Schwarzenegger, Mike Baird (NSW Premiere) Guy Leech and the 2017 Australia of the Year, Alan Mackay-Sim. Karl is an accomplished strategic leader and has been invited to speak at TEDx, CEDA, and for many years was a global strategy advisor at McCann Worldgroup.

Karl's background in human science, creative advertising and culture & experience development equips him with the unique ability to effectively influence markets and drive brand performance through three interconnected functions: Marketing, Culture and Customer Experience. Karl was the resident brand and culture expert at Marketing Magazine from 2010 – 2016, studied organisational leadership at Oxford University and has written for a wide variety of industry publications authoring of over 65 articles.

In his personal life, Karl competed in a variety of endurance sports before retiring into surfing and family life with his wife, daughter and rescue dog, Bernard.

In 2019 the ASX Corporate Governance Council revised its policies and guidelines. For the first time it stipulated that organisations must take all reasonable steps to 'preserve and protect their reputation and standing in the community with key stakeholders, such as customers, employees, suppliers, creditors, law makers and regulators.'

THE TECHNOLOGY INDUSTRY IS AT THE FOREFRONT OF PROGRESSIVE ORGANISATIONAL PERFORMANCE. WHILE THIS IS AN ENVIABLE POSITION, IT ALSO COMES WITH SIGNIFICANT LIABILITIES AND RISKS

THE ORGANISATIONS WITH THE HEALTHIEST REPUTATIONS ARE THOSE THAT PROACTIVELY DEVELOP REPUTATION RISK AND LEVERAGE STRATEGY, REMAINING FOCUSED ON THEIR PUBLIC PERCEPTION

In 2020 brand and reputation health risks for technology companies are on the rise. Regulator-led, corporate transparency and personal communication proliferation means there are now very few ‘corporate secrets’. Specifically, how an organisation is run along with the experience customers and the public have with it. The organisations with the healthiest reputations are those that proactively develop reputation risk and leverage strategy, remaining focused on their public perception across key reputation health attributes. Meaning, they commit to a plan based on deep, current insights.

Reputation itself is based on a company’s existing brand image, conditioned expectations and perceived likely behaviour. Therefore, it is imperative that all organisations firstly recognise what they mean to specific audiences (customers, consumers, shareholders etc.) along with the specific set of expectations that accompany that relationship. Only then can organisations identify areas of brand and reputation health risks and optimisation.

The reputation health of an organisation is based on trust (to do what it says it does and do the right thing) along with a commitment to meet and exceed expectations (brand, product, service etc.). The first step in mitigating reputation health risk is understanding an organisation’s reputation health profile - independent of its competitors, and against them. These insights provide critical information into the key elements that contribute to building or fostering a healthy corporate reputation. Anything from ‘what matters most to key audiences’ through to ‘what strategies need to be developed to adequately protect the organisation’s reputation.’

Reputation health is achieved and maintained by establishing comprehensive reputation insights before constructing strategy, both for reputation health risks and reputation health development across an organisation.

REPUTATION HEALTH IS THE DEGREE OF CONFIDENCE THE PUBLIC AND SPECIFIC AUDIENCES HAVE IN A PARTICULAR ORGANISATION

Reputation health is an advanced understanding and interpretation of reputation. Unlike traditional reputation studies, reputation health analysis takes into account public sentiment, competitive analysis, distinctiveness and weighted reputation influences. Reputation health is relevant to, and a primary consideration for boards and executive teams. Key functions within organisations that influence reputation health are: corporate affairs, marketing, customer experience teams and HR/people and culture.

The reputation health of an organisation accounts for between 30-40% of market capitalisation. Investigating and understanding the state of an organisation's reputation health is the basis for reputation risk assessment (and mitigation) along with sustainable reputation growth planning.

The organisations with the healthiest reputations are, without exception, the best performing within their category.

These companies enjoy favour with the media, higher sales, greater loyalty and advocacy, talent retention, higher profits than competitors and strong share price performance. Given the increased transparency into organisations, their culture and leadership, there is an unprecedented number of companies investing in the development and protection of their reputation health.

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#6 POOR ETHICAL STANDARDS & CITIZENSHIP

Current insights from the National Reputation Health Report suggest the public's view of corporate citizenship and governance of ethical standards is less than ideal. This view is supported in part by a wide range in ranking in the recent 'Ranking Digital Rights (RDR) Corporate Accountability Index (2019)'. A large proportion of the public are to some extent aware of media reports of low pay, poor working conditions and environmental hazards in supplier factories in China and across Asia, all connected to the large global technology companies (primarily hardware-based companies).

The reputation health implications and subsequent damage associated with these perceptions do not seem to undermine financial performance...yet. However, there is an increasing demand for greater ethical governance and appropriate corporate citizenship from the world's leading organisations. A range of studies including Edelman's Good Purpose Study indicate the public's willingness to support unethical corporate behaviour is perpetually waning.

Reputation health risks exist for any technology company posting significant profits that isn't integrating social and environmental policies and active governance in their business operations and in their interactions with stakeholders - on a voluntary basis.

Furthermore, for the more brand-agnostic consumers, respecting human values is a driving force behind brand consideration, loyalty and advocacy. Any brand that becomes commoditised will be evaluated on its values and behaviours more so than its product and service benefits.

The public's general view of the tech industry's commitment to ethical standards is poor. For example, Facebook and IBM share similar ranking with Caltex and Rio Tinto (2019 National Reputation Health Study). This being the case, technology companies remain at constant risk of poor public assumption. Meaning there is an unhealthy default perception of technology company ethics and citizenship. As a result technology companies must over-index on both (i) their actions and investment in ethical decision making and governance and (ii) communication of ethical progress - doing well and doing the right thing.

RECOMMENDATION An appropriate corporate citizenship position, allows for increased transparency and accountability. It takes pride in the concept of conscious capitalism and its strong regard for humanity and the environment. Importantly, an unhealthy 'collective perception' has been established regarding the industry's supply chain practices, so the public's level of scepticism is high. Therefore any CSR communications initiative should be mapped over the long term, and be entirely truthful. "Greenwashing' and misrepresentation of corporate citizenship represents an increasingly damaging reputation health risk for all organisations, not the least being those in the tech industry that already exist under a cloud of doubt.

From a brand perspective, there is substantial evidence that consumers are increasingly aligning with organisations that represent their values and at their core 'do the right thing'. Through the complexity of brand affinity, it's safe to conclude that consumers buy on trust and credibility before being influenced by product benefits. Consumers want deep, trusted relationships with the brands they choose to support them in their everyday activities, be it work or lifestyle.

#5 WEAK LEADERSHIP

The reputation health of most technology companies depends on the public's perception of the organisation's strategic vision, deep customer focus and operational excellence.

The role of leadership in this specific reputation health 'triad' is paramount and comes with its own pre-established set of expectations. Technology leadership is expected to be bold, precise and considered. Any deviation from this generalised view may affect public confidence and reputation health.

Reputation health risks exist for tech companies that fail to live up to their existing brand position and development trajectory. There is no place for 'also rans' when it comes to technology leadership, in fact the opposite, tech companies nurture and further their reputation health by remaining focused on supporting the image they have established with the public and key audiences.

From the invention of the 'wireless' (radio) through to cloud technology the public have developed a reliance and category perception of the industry's responsibility, and commitment.

"A lot of times, people don't know what they want until you show it to them." Steve Jobs

Interestingly, the brand and reputation of tech company CEOs matters now more than ever. The likes of Steve Jobs and Bill Gates set permanent precedents for what tech company leadership looks like. Despite being vastly different in character and style, both demonstrated unwavering attention (in most instances) on innovation and perfection. Both leaders established extremely strong personal reputations and as a result bolstered their company's reputations. Today, investors, the media (and consumers to a lesser extent) take interest in tech company leadership to gauge the organisation's performance and governance. There is also a curiosity that stems from the desire to predict an organisation's speed of progress and likely future behaviour. Both of which heavily influence perceptions and overall corporate reputation.

Uber's recent cultural challenges and reported cases of misconduct are attributed to a failure in organisational leadership. Failure to effectively establish appropriate values and failure to deploy effective management and governance measures lead to substantial reputation risk and consequent damage. Locally in Australia, Uber's reputation health ranked 78th from the 100 most recognisable companies, and within that, 84th in terms of perceptions of leadership.

Following a series of damning Royal Commissions, the public has become very cynical around organisational governance. Reputation health risk exists for companies without well communicated, robust governance principles and heavily policed risk assessment and mitigation processes. In every reputation scandal, regulators rightly investigate why preemptive steps weren't taken and why an organisation didn't invest in appropriate 'lead indicators' to warn of potential misconduct, product or experience flaws. Australian businesses will continue to see accelerated regulator interest in order to protect customers, but also shareholders from avoidable reputation damage.

RECOMMENDATION Organisations now need to be very clear as to the role of senior leadership in setting, driving and supporting a culture of 'ethical progress'. Pressure from shareholders remains constant, and regulator scrutiny is on the rise. As the Australian finance sector experienced recently, there is little tolerance for compromising ethics in the quest for results, nor acceptance of ignorance. Boards, directors and senior executives must possess the appropriate business acumen and be in charge of a suite of governance tools that keep them informed and largely in control of culture, conduct, customer experience and communication. Anything short of this leaves organisations vulnerable to poor perceptions of leadership, or worse, misconduct and the inevitable reputation damage that follows.

#4 PERCEIVED INNOVATION LAG

In the tech industry, there are a few specific attributes that make up the lion's share of a company's reputation health. In order of influences, they are perceptions of (i) product, perceptions of (ii) experience and perceptions of (iii) innovation (capability).

Therefore any poor performance in these areas - either in product development or user experience will likely be well publicised and create reputation risk. The more reputation health-aware organisations are developing strategies to highlight developments in each of these areas (helping brand image and reputation), in order to establish something of a buffer, should product or experience issues arise.

Customers are now conditioned to expect 'new', and new in 2020 is the integration of AI into customer experience. This is still an emerging field but most companies have started to explore how they can use AI to improve the customer experience and streamline their business operations. Those that don't may be seen as less credible in the industry - which prides itself on driving forward-thinking and progressive solutions.

Tech companies this year will also be expected to play a leading role and be present in the proliferation of XR. Big brands are in full flight now exploring the wealth of possibilities offered by both current forms of XR (VR and AR) and how they will interact with customers. Reputation health risk exists for tech companies that don't feature in what will be a heavily discussed tech development.

RECOMMENDATION The greatest reputation health gains in the tech industry will come from a high volume of newsworthy commentary from reputable sources. These gains will also act as defence against reputation health risk.

By strengthening an organisation's brand in the areas that make it more credible, a company gets ahead (to an extent) of reputation risk. The stronger the brand, the more robust the reputation. Tech companies need to establish and execute specific marketing and media campaigns across all components of the most influential attributes. For the tech industry this means creating awareness of market leading products and associated customer value (for money and otherwise), advances and investments in innovation and customer experience, and evidence of delivering on substantial promises (reinforcing trust).

#3 POOR BRAND EXPERIENCE

Tech brands have a very unique role when it comes to the relationship they have with their customers, and the broader community. In many respects, they are the beacon of hope, the glimpse into the future, the vehicle to stay relevant, and the enabler of livelihood and lifestyle.

Therefore an unusual dependence exists between specific tech brands and the people who choose them to support their lifestyle. More often than not, the consumer fails to recognise this dependence, however subconsciously it presents as trust and credibility...which by definition means reputation.

Reputation health risks exist across a range of brand experience fronts:

1. Brand distinction. The reputation health of any organisation depends in part on distinction and differentiation. In short, what does a company have a reputation for? One of the biggest mistakes that is also a significant reputation health risk is corporations settling for 'tracking well' in their reputation analysis. Competitive tracking is only one component of reputation health. What tracking doesn't give companies, is an insight into what that company and its offerings are renowned for. **Without a degree of distinctiveness, organisations can never achieve sustainable reputation health.**

2. Brand personality, the overt expression of a brand's character. Some of the more typical, traditionally leveraged elements of brand personality are more subtle for tech brands. Tone of voice for instance is only one consideration when it comes to on-brand engagement with their customers. The visual identity elements are more pronounced and subliminally indicate brand positioning and are a reflection of accuracy about their customer's needs, values and expectations.

3. Brand Psychology. Every brand meets a conscious or subconscious customer need. Understanding the role the brand plays sets organisations up for meaningful connections and enhanced customer experience. For instance, many FMCG brands are assumed to meet convenience needs, however when investigated further there are always subtle 'sticky' emotional considerations that influence decision making (e.g. patriotism, environmental impact and reflections of personal brand etc.). Without this knowledge organisations cannot experience optimal reputation health. Instead, they are likely to make strategic errors, communicate inappropriately and consequently become less meaningful and credible to their customer base.

RECOMMENDATION In 2020 tech companies must possess an intimate knowledge of audience needs by segment, and deliver tailored, meaningful value. The area of brand psychology is grossly under-utilised in Australia, subservient to conventional segmentation models and traditional customer experience principles. Tech companies have permission based on their relationship with their customers to be ever relevant and meaningful. Investing in customer affinity with their brand(s) is at the heart of brand psychology and should be a regular, standard organisational procedure.

#2 PRODUCT FLAWS & DEFECTS

When it comes to influencing reputation in the tech industry, the perceptions of a product's value and usefulness is unsurpassed. In many ways, technology as an industry is based on making people's lives easier and more interesting. The overwhelming dependence on product quality is a double edged sword for every tech company. It provides differentiation opportunity, while creating expectations loaded with dire consequences should a product disappoint. As quality continues to improve in general, the public's tolerance for what was once referred to as 'bugs' has reduced year after year. In fact, there is now a heavy reliance on product perfection across most audiences with any defect, flaw or issue treated severely.

Product safety across the majority of tech products is assumed. Some time ago, the centre of technology (physical) safety concerns was 'tissue heating' as a result of mobile phone use. Over the past decade, this concern has been alleviated with the World Health Organisation declaring "To date, research does not suggest any consistent evidence of adverse health effects from exposure to radio-frequency fields at levels below those that cause tissue heating."

However, an 'exploding phone' on the other hand is a multi billion dollar reputation issue. The well documented battery malfunction that lead to the recall of the Samsung Galaxy Note 7 is a valuable example of the significant influence the perceptions of a company's products has on corporate reputation. Samsung quickly lost $26 billion in value in the stock market as a result of this issue in 2017, and its product reputation is still in recovery some three years on.

RECOMMENDATION When it comes to operational governance in the tech industry, it's an ever evolving process. 'Standards' need to be fluid and reevaluated for every update, upgrade and product launch.

Every board should be demanding regular insights into the quality assurance process, along with the re-assessment of the QA process itself - regularly.

#1 CYBER SECURITY

When personal data has been exposed or stolen, customers feel betrayed and the general public lose trust. There is no greater brand nor reputation risk for any organisation. Privacy policies are rarely read, but customers assume that all companies that collect personal data have a responsibility and appropriate governance controls in place to protect it. A data breach is seen as a breach of the company's responsibility to keep personal data private and secure, and many customers will take their business elsewhere after such a privacy violation.

Further, the reputation loss after a cyberattack has a direct impact on the company's ability to acquire new customers. Once information about a breach has been made public, many potential customers avoid a brand in the short term, and harbour distrust about it over the long term.

A study of 10,000 individuals by Gemalto found that 70% claimed they would stop doing business with a company that had experienced a data breach. With such potential losses, it is no surprise that the Marsh and Microsoft Global Cyber Risk Perception Survey found that reputation loss after a cyberattack was the biggest concern of companies.

RECOMMENDATION Given the high incidence of cyberattacks and the potential reputation and performance repercussions, substantial investment in cybersecurity defenses are paramount. Integral to this are the governance procedures adopted and managed by boards and executive teams. Organisational policies pertaining to the communication of security breaches are also a key determinant in the degree of reputation damage associated with an incident, should one occur. The public expect immediate action to be taken in arresting the situation along with immediate notification of the incident and recommended next steps. Any delay, perceived reluctance or company interference in notifying customers of an incident will amplify the inevitable reputation damage. The highly publicised reputation decimation that reduced Yahoo's value from $100 billion to a sale price of $4.8 billion came as a result of repeated data breaches that collectively released the personal details of 3 billion users. Yahoo were also slow to report and in many cases took the bare minimum steps to inform and support their customers.

Similarly, eBay reported a cyberattack in May 2014 that it said exposed names, addresses, dates of birth and encrypted passwords of all of its 145 million users. It's reported that hackers had access to their entire user database for 229 days. eBay was criticised at the time for a lack of communication informing its users and poor implementation of the password-renewal process. This is a reflection of and constitutes poor governance.

CONCLUSION AND GENERAL RECOMMENDATIONS

BEFORE EFFECTIVE REPUTATION RISK OR LEVERAGE STRATEGY CAN BE DEVISED AND EXECUTED, ORGANISATIONS NEED TO HAVE A COMPREHENSIVE UNDERSTANDING OF THEIR COMPETITIVE STANDING, INDUSTRY REPUTATION AND AREAS OF DISTINCTIVENESS

1. Re-think reputation. Recognise that your organisation's reputation health is an increasingly important, organisation-wide priority. A priority that is a company's lifeblood for trust, credibility, brand consideration, loyalty and advocacy. A priority that is now regulated by policy for all listed companies. Corporate reputation is valued at approximately 30-40% of an organisation's market capitalisation. This being the case, tech company boards must become more active in assessing and scrutinising the executive reputation governance process. The reputation health of all technology organisations should become a constant board and executive agenda item, along with oversight of specific reputation health risk mitigation strategies.

For too long companies have focused primarily on brand identity/image and communication alone, leaving 'reputation management' to corporate affairs or media relations. While the media have a dominant role in shaping public perception, reputation risk mitigation is now a perpetual executive governance priority, and the best corporate brand strategy intimately connects with, and leverages reputation health opportunities.

2. For ASX listed organisations, the preservation of reputation health is now policy. Investors have begun seeking assurances and conducting audits into organisations reputation health policies, management and governance. Ideally, organisations will achieve reputation health certification status to satisfy shareholder enquiry. At the core of reputation health certification is commitment to a deep understanding of the company's reputation health, beyond competitive reputation tracking.

3. There are 36 areas of public, customer and shareholder perception that constitutes the reputation health status of an organisation. These are commonly referred to as reputation attribute components. Before effective reputation risk or leverage strategy can be devised and executed, organisations need to have a comprehensive understanding of the most heavily weighted components along with their competitive standing, industry reputation and areas of distinctiveness. Only then can organisations construct a meaningful reputation health plan to deliver sustainable reputation influence, building trust and affinity between the company and its stakeholders.

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