Protecting your reputation can protect your pocket
3Dom: changing how we view CCTV

With a combination of 3G connectivity, cloud computing and a highly sophisticated user interface, the NETView Visual Surveillance System marks a step change in the capability and cost-effectiveness of CCTV. Companies across multiple sectors are now exploring it’s potential to harness the power of visual data to protect their most valuable assets.

Locks, alarms and guards can all protect an organisation’s physical assets. But reputations are more difficult to defend. They can be quickly and comprehensively damaged - either by people or products, inside or outside the business, anywhere in the supply chain, from manufacture to delivery. And when reputations go, profits can follow fast. Which is why the ability to see exactly what’s going on anywhere in the supply process, act on it instantly and record it for future reference is a vital tool for protecting your brand.

Sources of reputational risk

Whatever sector or industry you work in, if someone who uses or experiences your brand is faced with an experience, event or product that shakes, alters or undermines their views or beliefs, then your reputation is at risk.

Reputations can also suffer due to changes in the competitive environment, or in the direct and indirect network of controls, regulations and behavioral expectations that the firm operates in. (See Fig 1 below).

What’s more, finding the right balance between financial and corporate conduct is a challenge for every business. Get it wrong and you can either undervalue your brand - or put its reputation on the line.
This is made even trickier by the changes in values and expectations businesses face – whether they’re due to cultural differences or game-changing events.

The change in attitude to the banking industry is a case in point. Successive revelations from casino banking to PPI mis-selling, LIBOR fixing, market manipulation, bonuses for failure, Ponzi schemes and money laundering have meant that ‘banker’ is now a derogatory term. Banks and their employees are seen as greedy money-grabbers, only out to make a buck.

Evidence seems to suggest that many of these failings were there for all to see. But they were overlooked in a culture where short-term profits overruled long-term regulation. With a less blinkered approach, perhaps involving observational management of trading floors or financial staff, the worst excesses of the banking industry may have been avoided.

The cost of losing your reputation

Damage to an organisation's reputation can have far reaching effects. A report by Malcolm Stokes of BT Operate, published in August 2010, identified ten areas where reputational damage can directly increase costs.

1. Advertising and communication costs to restore reputation
2. Reactive expenditure to prevent recurrence
3. Cost of de-mergers and re-branding
4. Value of lost business contracts
5. Cost of acquiring new customers to offset lost ones
6. Opportunity cost of new business prospects and partnerships lost
7. Increased cost of capital due to lower credit rating
8. Cost of delayed product launches and smaller market share
9. Cost of replacing executives and managers who resign
10. Cost of replacing skilled employees who leave

Pricing reputational risk

A positive brand reputation can take years to develop but it can also be quickly lost - take a look at Sony’s failure to protect the personal details of X-box Live users as a prime example.

That’s why some large corporations use third-party search engines to track all print, broadcast and Internet coverage against movements in share price. Many forward thinking businesses
are also catching on to the possibilities presented by visual surveillance as a means of overseeing the delivery and customer experience of a brand – even in the remotest locations.

However, valuing intangible assets like reputation has troubled accountants for many years – just how can you put a price on goodwill when you’re selling or buying a business?

The research speaks for itself

Research from 2005 to 2007 by Pamela Cohen and Jonathan Low of Communications Consulting Worldwide (CWW) for United Technologies Corporation - the manufacturer of Sikorsky Helicopters, Otis Elevators and Pratt & Whitney Jet Engines among others - compared data including consumer surveys, stock analyst opinions and published articles. They concluded that 27% of the stock market valuation of the company was attributable to intangibles like reputation.

CCW's research built on earlier studies, including a 1998 publication from University of Chicago School of Law by Karpoff et al that examined share price reactions to environmental violations and subsequent legal action. After reviewing 283 incidents they noted an immediate 1.58% drop in share price when the incident was publicized, increasing to 1.92% if legal action followed.

Automated systems and process, including visual surveillance, face recognition and the Internet of Things, where machines talk to machines, can create a fail-safe network that instantly recognized and flags up risks, leading to earlier action and resolution.

Further work undertaken by Perry and de Fontnouvelle of the Federal Reserve Bank of Boston in 2005, looked at the market reaction to 115 announcements of operational losses within financial firms. They suggested that if the share price reaction to the announcement of a major operational loss exceeded the loss itself, then the extra decline in market value was attributable to reputational loss.

They also found that these announcements caused an average fall of 1.9% in market value and that markets reacted worse to losses caused by internal events like fraud than external events. That in itself may suggest a measure of the value of strong internal controls.
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Further research done at The Stern School of Business into 49 reputation-sensitive events in the financial sector between 1998 and 2005 identified potential immediate falls of up to 7% in market value (described as ‘cumulative abnormal returns’) (See Fig 2 below).

One example was the involvement of J P Morgan with Banesto, the fourth largest bank in Spain in the early 1990s. When Banesto had to be nationalised by the Central Bank of Spain in late 1993, J P Morgan suffered a direct loss of approximately $10mn. But the market value of J P Morgan fell by around 10% during the 50 days following the announcement. This equated to a loss in shareholder value of around $1.5bn - far higher than the direct costs.

BP brings reputation into focus

The losses described above have been dwarfed by the impact of the Deepwater Horizon disaster on BP. Shares fell by 54% in the immediate aftermath wiping some $105bn off the company’s value. This was far in excess of the $32bn in financial charge the company recorded in its accounts - including the $20bn put aside for reparations. The graph of BP share prices published by Yahoo Finance dramatically illustrates this. (See Fig.3).
BP incident happened shortly after a report by Thomson Reuters and Interbrand by Brigham & Linssen\textsuperscript{2} that estimated thirty years ago, up to 95\% of corporate value was represented by tangible assets. However, at the time of the report this had fallen to 25\%.

The corresponding increase in the value of intangible assets was supported by a survey of Chief Executives of major corporations undertaken by the World Economic Forum and Fleishman-Hillard public relations. This found that a majority believed that corporate brand and reputation represented over 40\% of market capitalisation.

At one point BP’s p/e ratio had dropped to 5.2, and despite some recovery to 10.2, that’s still half of the normal rate for its competitors - showing the lasting impact of reputational loss and concerns about future claims for damages.

Examples of risks to brand values

In Brigham and Linssen’s Forbes magazine article they identified four ways which businesses can lose brand reputational value; internet and social media, sub-contracting and outsourcing, regulatory issues and employees

A: The Internet and social media

Social media means that today any ethical or compliance failures can be instantly broadcast all over the world. One of the most famous examples of this was the experience of a Canadian musician, Dave Carroll, who had his guitar broken by the ground crew for United Airlines during a flight from Nova Scotia to Nebraska.

United staff’s failure to respond well to his complaint cost them dearly. He parodied his complaint in a song posted on YouTube. It received 150,000 viewings on the first day, 5m
hits within one month and was picked up by national CBC News within two days, leading to a reported 10% (or $180m) fall in market value.

Observational management of ground crew may have resulted in better practices that meant the damage had never occurred in the first place.

B: Sub-contracting and outsourcing

At one time or another, just about every business relies on other businesses to manufacture or supply goods or materials. This always leaves them at risk from contractors or subcontractors.

Examples abound across every sector; just one is the 2007 Observer investigation into Gap Clothing, which found that an Indian manufacturer was using indentured child labour. More recently in November 2011, BBC’s Panorama programme reported that cocoa from Ivory Coast harvested by child labourers was still finding its way into products manufactured by Nestlé, despite the cocoa protocol signed ten years earlier. Both companies might have benefited from contracts that insisted on visual confirmation of working conditions and standard in sub-contracted companies.

C: Regulatory issues

Nearly every major western economy has strict laws, rules and regulations covering every industry. Breaking them can result in heavy fines as these examples show:

• Glaxo was fined $3bn fined for mis-selling three drugs by bribing or influencing doctors to prescribe Advair, Paxil and Wellbutrin.

• Barclays has been fined $450m by three separate regulators, two in the US and one in the UK, over its attempts to manipulate the LIBOR rate.

• The costs to Siemens from US and European bribery cases has been over $2bn

It’s worth noting that the US legal system actively encourages whistle-blowing by employees by granting immunity from prosecution and rewarding whistleblowers with a share of the fines levied against organisations. In addition these massive fines are compounded when the financial implications of reputational loss are also factored in.

Observational management in conjunction with robust internal controls may have instilled a culture where these practices were never given the chance to take hold.
D: Employees

As Perry and de Fontnouvelle reported, brand reputation suffers more if subjected to internal damage. However, many systems of reward and incentivization encourage behavior that focuses on short-term personal reward rather than rewards that grow the company’s profitability or market value.

Probably the most famous example is ‘rogue trader’ Nick Leeson, who caused the downfall of Barings Bank when he ran up massive trading losses. More recently, other banks have proved more robust at surviving similar trading losses, such as Kweku Adeboli at UBS and Jerome Kerviel at Societe Generale.

Conclusions

Your brand and corporate reputation has a market value far in excess of any attributed to it by accounting conventions – and it’s growing. And, so are the risks to it as social media penetration grows. It used to be said that public relations, particularly for large corporations, was a 24 hour-a-day role. But today, because social media moves so fast, it’s a 1,440 minute-a-day role.

This calls for a change in the way reputations are managed. Facebook, Twitter and other social media leaves organisations open to fast spreading attacks, often with no context around them. In fact some can be deliberately or maliciously misleading.

This is why more and more companies across multiple sectors are exploring the possibilities of visual surveillance systems such as NETView. They are working together to create exciting new applications and innovations that don’t just protect brands, but enhance them too.

Cost-effective visual surveillance solutions that can upload images via 3/4G and make them easily accessible and actionable– such as NETView - empowers businesses with a full visual history of any event. This means they can craft a measured response – whether it’s changing internal processes to answer a problem or refuting allegations with hard evidence.

A three-dimensional asset protection programme using live feeds from suppliers or subcontractors means that contracts and SLAs can be enforced and allegations quickly investigated - all within a very cost-effective structure.

The actions of employees are coming under increasing review due to government regulation. Transcripts or recordings of phone conversations and copies of company emails can give a two-dimensional record of activity. But having a visual and oral record can help encourage better employee behavior and give an organization strong evidence of regulatory compliance.
However, the most pioneering companies are not just looking at what can damage a brand, but what can promote it too. They are harnessing the power of positive images and leveraging the insatiable demands of the internet for more content to enhance, reinforce and change brand values and reputation for the better.

That’s the exciting potential of visual surveillance – potential that is being realised right now in a new environment where the power of the image creates a world of remote possibilities.