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TYPES OF CRISES

Reputation management is one of the foundations to a strong communications strategy. While companies are rarely sunk by a crisis itself; failing to communicate effectively and explain what action is being taken, can escalate a crisis and cause far more long-term damage.

It is important to understand what constitutes a genuine crisis, versus an issue that can be anticipated.

When you are faced with a reputational issue, it can feel like you are the only one who is experiencing such a problem; and it is during such times that an agency can put matters into context.

Crises can be segmented into three distinct areas:

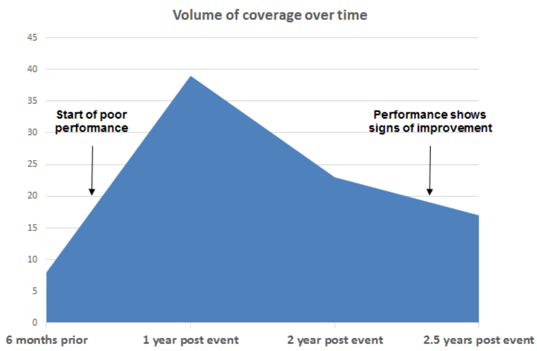
- An ordinary issue that may reflect on the company's reputation
- An issue that may seem ordinary but which indicates a weakness in the business model
- A genuine crisis.

When such events do arise, it is crucial to be clear from the outset which of the above three categories the issue falls into. The graphs provided in this section are all based on research of real-life examples:

1. *Ordinary reputational issue*

An ordinary reputational issue is something that most asset managers can expect to occur, such as underperformance in a fund *(Graph 1)*, outflows in assets under management, exposure to a challenging investment or the loss of a fund manager.

Graph 1:



This graph details the volume of negative coverage received following a sustained period of poor performance in a fund.

- The company continued to engage with the media but focused its messaging on the context of long term performance.
- This enabled it to minimise the level of negative coverage, as part of a wider conversation on investment.
- The negative coverage peaked before the fund's performance began to improve and continued to decline.

It is crucial to emphasise in any communication that everything remains business as usual. Every asset management company will experience underperformance in a fund – the nature of investment is that different strategies will outperform at different points in the cycle.

In the event of one of these occurring, messaging must always remain clear and transparent. Such issues are not indicative of problems with the organisation itself and can routinely be expected by most stakeholders. However, to ensure that all communication is aligned and the message of 'business as usual' is being conveyed there are steps to take to ensure that any risk is mitigated as far as possible.

For example, with the loss of a standard fund manager, it is important to co-ordinate where possible with the competitor that the manager is joining. The timing of any communication (even internal) should be strictly controlled, with key clients being called personally before anything is sent out. Timing announcements so that clients are not caught off guard is imperative to show that you are in control of the situation.

As with any potential problem, it is also important to develop a Q&A document that answers all possible queries relating to the departure and emphasises the depth and strength of the team who remains, as well as the reassignment of any responsibilities. The key point to note, as always, is that it is business as usual.

2. *Weakness in the business model*

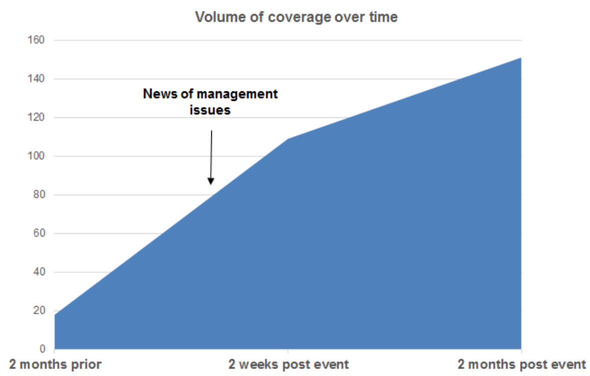
What may appear to be an ordinary reputational issue can sometimes have far broader implications by highlighting an inherent weakness in the organisation.

For example, if a firm experiences a succession of departures, all for similar reasons, there may be an inherent problem at the company. Likewise, a management culture that is in direct contravention to good corporate governance principles *(Graph 2)* may suggest an issue at the heart of its business model.

Exposure to a challenging investment is also not uncommon; but if the firm is overly exposed to one particular asset class or investment type, the lack of diversity within the investment strategy suggests the absence of thorough risk management. Performance which drifts from a clearly categorised investment style can also have wider, more serious, implications for a firm.

It is important to analyse each reputational issue as it occurs, to determine whether there may be broader implications that could arise both for the media but also in terms of a business strategy perspective.

Graph 2:



This graph details the volume of negative coverage after management issues highlighted a lack of corporate governance:

- The news ignited a public and industry backlash against the management issues.
- A lack of preparation and external communication meant third party speculation drove the conversation.
- The volume of coverage increased significantly following the announcement and continued to rise in the subsequent months.

3. *Genuine crisis*

A genuine crisis can comprise a number of issues, such as regulatory breaches or employment issues including overt sexism or ageism.

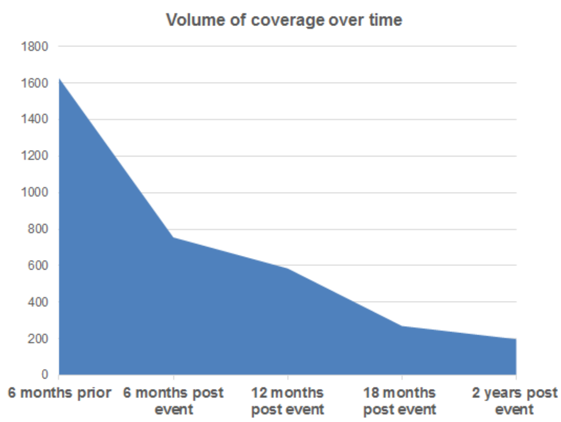
Corporate activity, such as M&A, can also be highly unsettling but this can be managed as part of a holistic strategy that encompasses how, what and when to communicate with staff, clients and other key stakeholder groups to ensure any transition is as seamless as possible.

While the exit of a fund manager *(Graph 3)* may not be a crisis in itself, the loss of a star fund manager can be significant, as some firms build their reputation on the back of a single individual. When they leave and assets start pouring out, it is a genuine issue.

When a crisis does occur it is essential for an organisation to seek external advice. While it can be tempting to shut other parties out for fear of information leaking, those working in-house are often too close to the issue to be able to put it in context. Dealing with a crisis should also be measured against what is happening in the wider industry as well as one's peers, a perspective that an external party can provide.

Speed is of the essence when bad news breaks, and the communications team needs to act fast to implement the crisis communications strategy that has been put in place and to update relevant parties as it evolves. There should be a very clear allocation of responsibilities and transparent report-back mechanisms.

Graph 3:



This graph details the loss of a star fund manager and show the length of time it can take to cut the tie with an individual:

- The most prominent spokesperson drove huge volumes of positive coverage, resulting in a crisis on departure, driven by outflows and fears about future performance.
- Rapid, transparent communication on continuity of approach and stable performance stemmed outflows.
- Negative coverage fell significantly as link with manager cut, although it is still referenced 2 years later.

ADVICE

Planning ahead

The first step in dealing with any crisis is to ensure you have prepared thoroughly. Organisations should have a blueprint for scenario planning which anticipates all potential crisis situations that may arise. This enables you to manage the event, not just react to it.

Part of the planning phase involves establishing a crisis communications team so that when a situation does develop, everyone has clearly defined roles and responsibilities. This should include at least two spokespeople to ensure there is a back-up; a Senior Lead who can make decisions in a crisis without reporting to anyone else; an in-house Communications Director; the PR consultancy team; and legal counsel.

The Communications Director mobilises the crisis committee and continually communicates the outcomes to all relevant parties, approves (or facilitates approval) of messages and reports back any ongoing developments.

The spokesperson, who must be available throughout the entire crisis, is not always the most senior person in the organisation. While ideally it should be the CEO, it is most important that it is someone who can communicate clearly and authoritatively in a calm manner.

Time is of the essence in a crisis and companies need to take control of the situation immediately to show that they are in control. Furthermore, they need to communicate the situation effectively as soon as possible. Communication of the crisis can be judged as harshly as the crisis itself.

Building relationships

Much is made of the importance of building strong relationships with the media during positive periods, as these will prove to be of benefit should a crisis occur. As Jonathan Stapleton mentions elsewhere in this paper, a good relationship with a journalist can mean a few hours' grace before a negative story breaks. This means key clients can be contacted first, rather than finding out from the media; or perhaps worse, being contacted for comment themselves before they have heard the news.

The same is also true for building relationships within an organisation. Communications may be an essential component to managing a crisis effectively; but that doesn't mean that the communications department is always advised upfront that a potential reputational issue is emerging.

The only way to ensure this happens is to build trust with the key individuals in the firm, which takes both time to establish, and an honest approach in the advice being provided, even when there may be disagreement about what route to take.

It is also important to build relationships with a range of internal stakeholders. There is probably universal recognition that the departure of a fund manager requires the involvement of the communications department. On the other hand, sales or product managers may not recognise when a pricing or product change has the potential to be a reputational issue - meaning that if communications is not integrated within the firm, developments may be communicated externally without due consideration for the consequences.

Social Media

Just because an organisation does not use Facebook or Twitter doesn't mean that others are not talking about them on these platforms.

Bad news spreads, especially in an environment that's open 24/7. Any online content, positive or negative, impacts how people view a business.

Online Reputation Management (ORM) tools can help protect an organisation's brand from negative exposure online. During a crisis this is particularly crucial as ORM allows one to monitor conversations that are taking place and to potentially respond instantly.

ORM can also be particularly useful to detect potential crises by listening to and analysing conversation around a brand.

Remember, any statement published on a company's social media account is deemed to be an official quote. Some organisations say an update on Twitter does not constitute an official statement – this is not true, and the media will use such accounts for quotes if they cannot source them directly from the company.

Perspective from the media: Jonathan Stapleton, Editor-in-Chief, Professional Pensions

Crisis communications is often viewed solely from the perspective of the organisation that is suffering under the cloud of a reputational issue; yet the reality is that for the media it can also prove to be a crisis as well.

Many journalists already receive up to 500 emails per day, and with deadlines having become instant, there is a need to continually identify and file new stories.

So when a story breaks, it is also a crisis for journalists at competitor publications, who firstly need to answer to their editor as to why they didn't break the story themselves. Secondly, they are then under intense pressure to file a story, with a new angle or new information.

In an age where news is instant, the media may have just 15 to 20 minutes to obtain a new angle, or new quotes, and get their version out. Even for the journalist who may have broken the story, it doesn't end there. They need to identify a new angle to keep the story alive.

So, when the story is out and a company refuses to provide any comment, it is a sure-fire way to ruin a relationship with the media.

Even worse, it is likely that the media will already know the company's clients – if they can't get comment first-hand from the company concerned, they will go to other sources. If the clients have not yet been informed, and they discover a reputational issue via the media, this can have a significant impact on the business.

This is why it is key to build strong, lasting relationships with the media. While journalists will always try to obtain comment from the company before filing, a good relationship can mean that they will delay breaking it for a few hours so that the company can contact key clients or stakeholders first.

Perspective from the client: Angela Doherty, former Senior Investment Consultant at Unilever

A client wants to build a trusted relationship with those they entrust to manage the assets of the pools of capital they are responsible for. It is paramount to keep this in mind, when a company determines how to keep clients updated on issues that may affect their ability to manage those assets.

As an asset management firm, there are clear commercial interests at stake when a reputational issue emerges and one of the primary goals is to ensure that they are able to keep both clients and their assets after a crisis, or major change. With this in mind, an asset manager will slant the communication to ensure that they stand the best chance of doing so. On the other hand, clients want honesty and transparency in all their communication on such matters.

Ultimately, however it is presented, it is important to ensure that it can't come back to haunt you if circumstances change. For example, pretending a star manager is still involved in a fund when they are not is inadvisable. If the messaging in future communication proves different from what you said in the past, the client will remember, which undermines the trusted relationship.

Honesty shows your respect for the client – it is better to hear bad news and be reassured than to avoid the subject altogether. Personnel changes are not always bad – sometimes it is positive to invest in new blood but it needs to be communicated honestly and transparently.

- <u>Invest</u> in relationships that you expect to last for 10 years or more and understand what is expected by your client.
- <u>Communicate</u> the key messages to your client before they hear it from a third party – in many cases it is best to call and then email the summary discussed on the phone.
- <u>Honesty</u> means the client can make a proper analysis of the situation. Even if you lose the mandate; they will remember and are more likely to come back to you in the future. Lie to them, and they are unlikely to ever trust you with their assets again.

USEFUL TIPS

Prepare: Preparation is key to dealing with any crisis; otherwise you risk only reacting to the event, rather than proactively managing it.

Build: Relationships are key – whether that is with the media, internally or with clients. Building on these in positive times means they can often be leveraged during a crisis.

Identify: Be clear on the nature of the issue and whether it is an actual crisis or an ordinary reputational issue. It is also critical to seek external advice as a sounding board to ensure

Update: The longer it takes a company to provide an update on a reputational issue, or worse failing to update stakeholders before it appears in the media, the more a reputation is tarnished.

Lead: Remain on top of the issue - keep all information in one place, so that decisions can be taken immediately and with reference to the full picture.

RESEARCH METHODOLOGY

Quantitative research was conducted over relevant timeframes using Factiva™, a comprehensive media database run by Dow Jones. Research focused on English language titles across national media outlets, newswires institutional and retail fund management trade publications.

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