REPUTATIONAL RISK

Before you read

Celebrity endorsement is when famous people appear in advertisements to promote particular products. Name as many as you can think of.

Reading

Read this article from the *Financial Times* by Paul J Davies and do the exercises that follow.

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LEVEL OF DIFFICULTY ●●○

When star power hits the rough

Paul J Davies

As Tiger Woods tees off at The Masters tournament, the humbled athlete is not the only one counting the cost of his fall from grace. The 34-year-old golfer's reputation as a clean-living and dedicated sportsman and husband was undone when his infidelities were spilled across television, newspapers and Internet sites after a mysterious car accident at his home.

Mr Woods' success on the course had enabled him to line up lucrative sponsorship deals off of it, with brands including Accenture, Nike, Gillette, Electronic Arts. Some estimates suggest that the arrangements made him the world's first sports star to make $1bn in career earnings.

But as his life became embroiled in scandal, those companies also took direct financial hits, from having to commission and produce new advertising to the costs of their own public relations campaigns explaining their actions in dropping the golfer and legal fees. According to a study by Christopher Knittel and Victor Stango, economists at the University of California, Davis, the collective loss in stock market value of all the companies that Mr Woods endorsed was worth $5bn–$12bn.

Of course, companies do not need a celebrity relationship to experience reputational damage. Toyota estimates that its global recall of cars had a direct cost of about $2bn (€1.5bn, £1.3bn). That figure does not take into account potential lost future sales, or Toyota's own stock price decline, which has knocked Y1,673bn ($17.8bn, €13.3bn, £11.7bn) off its market value even after a strong rebound in the past month.

In the wake of the Tiger Woods scandal, DeWitt Stern, the insurance broker, saw an opportunity to publicise a product it had launched to cover reputational risk, including how to deal with celebrity endorsers becoming engulfed in scandal. More recently, Lloyd's of London, the insurance market, held a conference on how to manage reputational risk and what cover – if any – might be available.

Companies are increasingly recognising that reputation is an important and valuable asset that is vulnerable and volatile, according to Anthony Fitzsimmons, chairman of Reputability, a consultancy focused on reputation and crisis strategy, risk and management.

"Reputation can be an organisation's most valuable intangible asset, though it appears in few balance sheets except as goodwill in acquisitions," he says. "People are generally aware of their brand values, but many have not worked out what matters most when things are going wrong. Few have made a systematic analysis of what might damage their reputation, let alone worked out how to keep their reputation strong through difficult times."

1 **Look through the whole article. Which sport does the expression 'hit the rough' in the headline come from? Why is it used?**

2 **Find expressions in lines 1–19 to complete these statements.**

If someone ...

a) suffers from losing their good reputation, they have a ....
b) behaves very well in their marriage, their job, etc. they are described as ....
c) does not smoke, drink alcohol, etc. they are described as ....-........... .
d) has a reputation that is destroyed, it is ....
e) signs deals that make them a lot of money, these deals are ....
f) makes a total of $1 billion from their job, these are their ....

3 **Match these things from lines 20–46 with what they cost. (The cost of four of the things is not mentioned.)**

1 the minimum estimated value of all the shares in all the companies whose products Tiger Woods endorsed
2 the maximum estimated value of all the shares in all the companies whose products Tiger Woods endorsed
3 the legal fees of companies dealing with the damage done by Woods' actions
4 the cost of producing new advertising following the damage done by Woods' actions
5 the cost of Toyota's recall of cars so far
6 the possible future costs of Toyota's recall
7 the fall in the total value of Toyota's shares initially
8 the fall in the total value of Toyota's shares at the time of writing

a) $12 billion
b) about 1,700 billion yen
c) $2 billion
d) $5 billion

4 **Complete the table with words from lines 20–58, and grammatically related words.**

noun	verb
commission	
	campaign
endorsement, endorser	
damage	
recall	
	decline
rebound	
publicity	
	cover

5 **In lines 59–79, find:**

a) an adverb meaning 'more and more'.
b) an adjective describing reputation as an asset in relation to the ease with which it can be damaged.
c) an adjective describing reputation as an asset in relation to possible changes in its value.
d) a two-word expression to talk about plans to deal with disastrous situations.
e) a two-word expression to talk about a business's property, but one that cannot be physically touched.
f) the value of this asset when the business is sold.
g) a two-word expression used to talk about what people associate with particular product names.
h) a two-word expression referring to a methodical examination of something.

Over to you 1

You head a consultancy specialising in reputation and crisis management. A car manufacturer comes to you for advice on what to do to recover its reputation following a recall of 100,000 of its cars because of a steering problem. (Luckily no accidents were caused by this, but there were some 'near misses'.) What would you advise the car company to do in relation to its communications and advertising following the recall?

Over to you 2

You are head of an oil company that has caused great environmental damage following an explosion on one of your oil rigs. What would you do to restore to try to your company's reputation?

TEXT BANK