BFL MAKES A DIFFERENCE

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Editorial

Barry F. Lorenzetti

With the recent Toyota and BP public relations nightmares, we should all be questioning ourselves as to the efforts and measures expended by our organizations to safeguard a most precious asset: Reputation.

Accidents can and do occur with their lot of negative publicity to manage, but as individuals, we are taught at a very early age about the necessity and benefits of having a "good" name and preserving it, and of course, the consequences of the opposite. Business people are also well aware of the fact that reputation is a most influential factor of a company's success.

Although the risks to reputation have received more attention in the past decade, the business culture throughout many companies is in fact fostering risk to the entity's reputation.

Every year, billions are spent by enterprises large and small on publicity, sponsorships, etc., to bolster company image. However, many organizations forget or neglect to think about what needs to be done internally to safeguard this image. There are many possible sources to reputation damage as illustrated in our feature article by Dominique Labelle, Vice-President, Corporate Solutions, but I wanted to touch briefly on two which I believe are generally underestimated: Employee communications and management remuneration.

Amongst chief concerns with respect to employees is "putting your money where your mouth is". Employees are without exception the best and most effective ambassadors of a company, if they are "on board". They can do wonders for a reputation. However, they can also have a very negative effect on the company's image; they will see very clearly through a lack of corporate ethics or any double talk and will spread the word. Thus clear and transparent communication is required to make sure to keep employees "on board".

Another ever looming issue when it comes to image, is the question of management remuneration. Human nature is such that it is difficult for a person to make a decision which is good for the company's reputation but which has a negative impact on the decision maker's personal wallet.

In the current North American business culture, since remuneration packages are heavily weighted with financial results, one could say that decision makers are effectively being encouraged to play Russian roulette with the company's reputation. It is much easier to take risks with the entity's reputation than with one's own, especially if there is personal financial reward awaiting on the other side.

If an organization's Directors and Officers don't want to be left holding the bag one way or the other, it is crucial that they focus on trying to avoid accidents and manage external communications. It is equally essential that they master internal communications as well as avoid putting their decision makers in situations where they are able, individually, to damage the image of the entity due to short-sighted or self-serving decisions.

It is a complex set of parameters to manage for sure but without a good reputation, would your organization be in business at all? Reputation is "the" asset which enables significant growth for an entity, it is built upon the hard work of employees and managers. And if safeguarded, it can and does provide extraordinary returns over generations. It stands to reason that great effort should be invested in establishing and protecting it. ♦

REPUTATION RISK

Dominique Labelle, Vice-President, Corporate Solutions, BFL CANADA Risk and Insurance Inc., Montreal

Truly accidental events and errors do occur and that cannot be avoided. These occurrences can produce their share of bad publicity, depending on how well the crisis is managed.

While it is quite important to handle a crisis effectively when it does occur, in order to minimize the damage to your entity's name and bottom line, it is even better to be able to prevent the occurrence of such a risk.

When it comes to reputation, risk management is a delicate and complex task and it calls into question certain principles and practices of the current business culture. If you take into account globalization and instantaneous communications which have revolutionized business in every sense, it can be even more daunting but well worth the prevention effort; the recent Toyota and BP cases would surely convince sceptics of the prevention approach.

Reputation is everything to a company (for profit or not); it is its political capital. And every day, in every single activity of the organization, this capital remains stable, grows, or is eroded based on the perceptions of the various parties involved with the company – the stakeholders. Not for profit and service organisations are especially vulnerable in that respect as they depend heavily (if not solely) on reputation to operate at all.

Depending on the type of organization, the stakeholders are clients, employees, suppliers, shareholders, donors, volunteers, investors, media, business partners, creditors, governments, the community and the public at large. And those parties who are not direct stakeholders will

nonetheless get wind of your company's reputation; word spreads like wildfire. Good reviews will create positive disposition towards the organization, even in parties who have not experienced it – they will rely on the grapevine and spread the word.

Unfortunately, the same applies when the review is negative; with modern communications, word will get around faster than you know. Things may very well be misinterpreted or blown out of proportion and some media or other can easily pick it up, write about it and the next thing you know, you are the topic of conversation on blogs, YouTube and social networks! We have all seen local consumer advocacy journalists try to obtain for a consumer what was denied them by a company, or national media exposing financial mismanagement of a public company.

There is no one definition of reputation risk among scholars and experts, but in reality, reputation is the backdrop for every aspect of the operations of a company. The concept is quite basic but the fact that the risk to an entity's reputation is intertwined with all other types of risks faced by the entity makes handling it that much more difficult. How do you get a handle on an omnipresent risk?

Preserving reputation or enhancing it really depends on what values your organisation embraces and fosters internally and how well your employees integrate these values in the execution of their respective charges. But it also depends on leadership; common sense dictates that employees will be concerned with preserving the image of the company if management decisions and actions reflect this goal.

All activities and all interactions of an organisation involve risk. Being in business is being exposed to risk. And as is the case for all risks, reputation risk needs to be managed (controlled and/or financed).

While there isn't much to do about financing except assuming the risk (few insurance products exist that cover the risk even partially), there is a lot to be done about controlling the risk.

An omnipresent risk requires omnipresent monitoring. What resources can be marshalled to achieve this? Only one resource that all organisations possess is as ubiquitous as the risk at hand: personnel.

Yes, your personnel are as omnipresent in your entity's activities as the risk is. Well informed and trained, they can be a most effective tool against the realization of a reputation nightmare.

Of course, one preoccupation should be to make sure they are competent to perform their duties and if not, you need to invest in improving on their skills or replace them if necessary. Your employees also need to be fully aware of the potential impact of their work and decisions on the reputation of the company; as mentioned above, they need to be following management's lead in this respect.

As a general rule, the entity must show transparency and integrity towards all stakeholders in order to foster understanding of its objectives and plans as well as loyalty; this is an especially sensitive subject with employees who witness first hand any discrepancies between the public face of the company and its actions in fact. Too many variances or variances on touchy issues will cost you the respect and loyalty of a number of employees with the potential for damaging your reputation.

However, there are costs to training employees and to being transparent with all stakeholders. As we have all witnessed in the current business culture, funds are too often insufficient to do something properly to begin with, but plentiful to do it over or to go into damage control mode when something goes wrong. So managers should be taking a second look at investing in employees – this is where prevention lies and where efforts have to be made. As mentioned in the Editorial, one of the sources of risk to reputation is the fact that management personnel are largely unchecked in their means to make decisions, in this area or any other for that matter that will negatively affect the business' reputation.

In the same train of thought, many organizations invest in publicity but not in training and/or informing their personnel to minimize bad decisions and accidents.

Our business culture is sales driven and publicity can be linked to sales, whereas this is more difficult to do with training and informing. But have you ever asked yourself if your organization is "pushing sales at any cost"?

Under pressure, decision makers can become obsessed with increasing sales but be oblivious to the fact that the pressure they are themselves putting on their respective organizations to achieve this can cause losses due to product defects, production errors, etc., and that they are damaging the entity's reputation at the same time. They are undoing at one end what the organisation is trying to achieve at the other end.

So we need to remember, that while ad campaigns and sponsorships do help enhance branding, they cannot compensate the damage to reputation caused by certain weaknesses (bad decisions).

To add to the problem, because reputation risk is pervasive, it is generally underestimated by companies and their management. It is most often thought of in connection with customer service and the Communications function while in reality, it can hit you from just about any function and any corner of your company.

There are so many sources of potential threat to the reputation of an entity – let's look at some examples:

- The speeds at which the vehicles in your fleet travel and the courtesy of your drivers on the road
- A breach of Customer information security (a frequent problem in this day and age)
- A management or Board decision which is not popular with one or more groups of stakeholders
- Operations which damage the environment
- Embezzlement of funds collected for a charity
- The incompetence of your personnel in any area of the organisation
- Incorrect/incomplete financial statements upon which fat bonuses are paid out (having to restate results that were misleading is not something beneficial for your company's reputation, and if you add a little scandal to it – it becomes even worse)
- Budget cuts that affect product safety standards
- Hiring of illegal immigrants
- Tax evasion
- Etc.

There are literally hundreds if not thousands of other examples that could be given.

Yet somehow, it seems that managers and employees alike are not sufficiently aware of the potential impact of their actions and decisions on a day to day basis on the reputation of the company or they tend to forget about it over time. Not remedied, the consequence of this ignorance or forgetfulness is that they expose their organization to reputation damage by making incompetent, short-sighted, illegal or self-serving decisions, each in their own little bubble.

For example, a decision to forego training or reduce training for certain positions can be equivalent to asking for trouble.

Would you think nothing of letting an untrained or insufficiently trained pilot fly your family for a summer vacation? Would you like to be operated on by an incompetent surgeon, advised by an inexperienced lawyer or have your car assembled by an unmaintained robot? Why is it then that organisations think nothing of cutting into training and information for their employees, maintenance schedules or resources for quality assurance? Is it because, having thought it through carefully, they believe it will cost them less to weather a crisis? Most likely not. What happens 99% of the time is that decisions are made in a vacuum and the temptation of taking risks with what is not ours (the company's reputation) is too easy.

Business leaders need to show common sense in this respect and we all need to remember that a company's reputation is exposed at every turn and with each decision, and that its preservation rests on the shoulders of managers and employees both. In the end and by all measures, a company depends on the quality and dedication of its personnel to build a reputation and to protect it. ♦

THE COST OF SUPPLEMENTAL HEALTH CARE PLANS

Thomas Guay, President
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Three provinces, Alberta, British Columbia and Ontario have recently taken action to control the spiraling cost of prescription drugs. Discussions are under way in Quebec and the province is expected to follow suit. Will their new legislation help plan sponsors control the rising cost of their Supplemental Health Care Plan?

Let's take a closer look. While costs of generic drugs will be lowered in these provinces, it appears that dispensing fees on the other hand will be increased. For example, effective July 1st, the Ontario Government eliminated professional allowances paid to pharmacists by the drug manufacturers as well as reduced the price they will pay for generic drugs. The Ontario Drug Plan will only pay 25% of the cost of the brand name equivalent. These changes will be phased out of private plans over the next three years.

The dispensing fee, that is the fee charged by the pharmacist to fill the prescription, will be increased from $7 to $8 or $12 depending on how far pharmacists are located from one another. In addition, Ontario will provide pharmacists a transition allowance of $1 per prescription, which will be phased out over a three-year period.

As for Ontario employer sponsored group plans, generic drugs will eventually be reduced to 25% of the cost of the brand product phased in over a period of two years. This past July, it was lowered to 50%. Effective April 1st, 2011, the cost will be lowered to 35% and by April 1st, 2012, the price will be further lowered to 25%.

What is the bottom line for plan sponsors? At this point it is hard to tell. In a typical drug plan, only 25% to 30% of the total dollars spent are for generic drugs. Brand name drugs still represent the majority of the cost.

Dispensing fees, whether they are for brand name or generic drugs, will certainly rise over the next three years and pharmacies may increase the mark-up included in the ingredient costs from the current levels.

Nevertheless, in view of the significant price reductions on generic drugs, it will be important for plan sponsors to encourage plan members to switch from brand name drugs to the generic equivalent. There will have to be incentives built into the plan to encourage the switch.

It is time to act. You should consider amending your plan so as to include mandatory generic substitution. If plan members insist on brand name drugs, they should be responsible for the cost differential.

In addition, in view of the increases in the dispensing fees, consideration should also be given to introducing a dispensing fee cap up to the provincial maximums.

It is too early to tell if the new provincial legislations will help plan sponsors control the rising cost of their Supplemental Health Care Plan, but the above two are simple measures to implement to work towards cost reductions. Your BFL CANADA Benefit Consultant will gladly work with you to review additional options available to best suit your needs. ♦

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