

## Corporate Reputation and Internal Audit

By

Kastuv Ray

[kastuv@kastuv.fsnet.co.uk](mailto:kastuv@kastuv.fsnet.co.uk)

Homer's Iliad is about the Trojan War, which was caused by the abduction of Helen of Sparta by Paris (a Trojan Prince), what resulted was a long war. Both sides had fierce warriors and legends were created. Let us focus on Achilles.

Achilles was the son of Thetis, a sea nymph and Peleus and was dipped at birth in the River of Styx and this made him invulnerable except for his heel. He was the greatest Greek Warrior and lived for the thrill of battle. He went to Troy knowing that he was destined to die. Achilles' reputation was such that his appearance or war cry would send the Trojan warriors running from the battlefield in panic and fear. During his quarrel with the Commander-in-Chief of the Greek forces, he withdrew his forces and the tide changed in the favour of the Trojans. His comrade saw this and begged Achilles to wear his armour. Firstly, the enemy was terrified but Hector (brother of Paris and the greatest warrior in the Trojan camp) stepped up to the challenge and killed Achilles' comrade. Consumed with grief and anger, Achilles savagely defeated Hector. This was the reputation of Achilles on the battlefield. Of course, the character was not without his deficiencies.

What makes Pepsi Cola different from Sainsburys' Coke? Taste, quality of the product, the bottles, can and of course the advertising campaigns. For example, in England, we watch David Beckham (the English footballer) on TV drinking Pepsi and we want to do the same. Add to this the history and reputation of the company.

Corporate Reputation is vital. With the current focus on risk management, reputational risk should "ride high" on the list of priorities in the risk register. Public trust in many companies has been damaged by recent corporate scandals and times are difficult for Managing Directors and Chief Executive Officers. It is interesting to note that even with all the articles being written on Corporate Reputation, there are still some individuals who are solely concentrating on sales and profits with the perception that "It Could Never Happen to Us". Individuals involved in the corporate scandals that have rocked the world may have thought this and look what happened.

Customers influence Corporate Reputation. Management of Corporate Reputation is vital to achieving objectives, as is its measurement. The media may be in certain cases be considered a primary threat to Corporate Reputation. A company may have the best mission statement in the world, brilliant employees and a leading edge knowledge management database but a bad comment from a shareholder can affect Corporate Reputation.

What can internal auditors do to deal with this? Quite simply put, we must do our job. It is strange that reputational risk actually crops up nearly everywhere in the risk register as does the media. For example, a marketing audit may focus on the quality and standard of company literature generated as there is a risk that if the brochure is poor this will reflect badly on the company.

Fraud and Whistleblowing Policies should tackle the way media attention is handled. Reputational risk plays a key part in a Student Experience audit, as there should be an effective Student Support facility available on site or on the Internet, which provides counselling, and advice to alleviate difficulties. Certain internal auditors in organizations have been so worried about their corporate reputation that they have undertaken specific audits, which are based on the Enron scenario.

Typical examples of audits that could be undertaken which may encompass reputational risk are: Customers Services, Human Resources particularly treatment of staff and working conditions, Financial Management (this should include a review of all key financial systems), Quality of Management and Corporate Social Responsibility.

Further guidance on Stakeholders and Reputational Management can be found within Tolley's Corporate Governance Handbook by Andrew Chambers (Managing Director of Management Audit Ltd).

Contributed by Kastuv Ray 29/03/03