



# When the CPO gets a request for a quote

CPOs have a central role to play in protecting organisational reputation by planning how they will react to a supply chain crisis

by Rima Evans

The crisis that has rocked Toyota has been frightening in scale – the damage to the brand has been as rapid as it has deep. And the fallout of the Japanese car giant’s recall of more than 8.5 million vehicles worldwide is not limited to the business world. In early February, it was reported Japan’s transport minister was worried the Toyota situation could spill over if trading partners chose to shun all Japanese products over quality fears. At a consumer level, the impact may be felt for years – even the most loyal Toyota fanatic would be forgiven for considering a non-Toyota next time around.

Amid all this, who is going to remember all of Toyota’s green projects and efforts to establish itself as a model of sustainability? The tree planting programme? The greening of its production sites? All of the good work has been undone in a flash. Worse still, the much-heralded Prius – rated as being among the cleanest cars on the market – has been involved in the recall.

Although the scale of this latest downfall has exemplified the media’s growing power in shaping corporate history, it is no one-off. Scores of organisations have suffered reputational damage to varying degrees – Nike, Gap, Mattel and Nestlé have in recent years have been involved in high-profile cases. The events that have hit Toyota only serve to underline that no company is infallible – and hard-won reputations can be seriously sullied in the non-stop, all-probing media frenzy that follows corporate problems, especially those with public safety implications.

Sergei Mendoza, manager, associates at the Reputation Institute (RI) and who advises clients on corporate reputation, describes the direct relationship: “In our work monitoring the media and corporate reputation, we know there is only a one or two-week delay between what is reported and the effect on the company.”

ILLUSTRATION: PAUL BLOW

# “Ikea’s corporate reputation is high. This is because it is very careful about selecting suppliers and ensuring its standards are applied”

For now, other companies may be looking at Toyota and feeling relieved it isn’t them caught in the media storm. But what if the full glare of the spotlight did turn on your company? And what if it was a procurement or supply chain issue at the heart of the problem? As a senior procurement executive, what steps should you take to deal with the problem? How would you handle the media and the internal investigations that would inevitably follow?

Michael Levin, a vice-president of Integrity Interactive, a consultancy that works with global brands to establish best practice compliance and ethics initiatives in their supply chains, warns: “If you find yourself in trouble, then you are at a distinct disadvantage. It really is too late if the media is at your gate. And reputation is very hard to recover, especially in a downturn. It’s easy to see companies getting into trouble, especially with the supply chains issue and unethical sourcing or corruption and bribery.”

Levin cites the substantial fines levied on firms as a potential wake-up call to those companies that are complacent about this issue.

“Mattel spent around \$110 million on adverts and marketing to overcome the stigma it suffered as a result of the recall it put in place [of Chinese-made toys over levels of lead].”

That amount didn’t include the penalty figure for violating a US ban on lead levels in paint, which was a further \$2.3 million, he points out.

Although prevention is better than cure, in cases such as Toyota’s, the key is to minimise the risk of reputational damage. This means recognising reputation management as a discipline, why and how it is important as a business tool, and putting in place thorough risk assessment and auditing processes.

The RI defines corporation reputation as the “sum of the perceptions of all stakeholders the company interacts with.” That includes clients, consumers, other businesses, employees, the general public, investors and suppliers.

A strong reputation is based on four key concepts, according to the RI: admiration, trust, good feelings and overall esteem. Organisations should take care to differentiate between reputation and brand, says Mendoza. Brand is what you communicate to stakeholders, and reputation is what stakeholders actually think.

He distinguishes between companies that are merely concerned with defending reputational risk – dealing with crises as they arise – and those that view reputation in a more positive way, as a strategic asset to be managed and nurtured and that can add worth to a company.

“Companies that fall into the latter category are thinking long term, and are interested in improving their position in terms of reputation to build sustainable, successful businesses,” Mendoza says. “They are building what we call reputational capital.”

## Standards and ethics

These businesses will have CEOs and leadership teams whose strategy has at its very heart the ideal of building trust. High standards and ethical policies will be a requisite.

“A CPO aligning themselves with this sort of strategy and who has the mandate to ensure the supply chain is also aligned with that strategy is vital,” he says. “They are the ones implementing the policies and feeding back to the rest of the organisation and they know the challenges to work on. Procurement is the function that can harness internal processes to create alignment for the good of the organisation. CPOs are vital in helping to safeguard reputation.”

Mendoza describes Ikea, the Swedish home furniture chain, as having “probably one of the largest supply chains in the world”. And its focus on building trust and improving reputation has paid off.

“In Sweden it consistently comes up high on the ranks for corporate reputation [see *briefing 1*, opposite]. This means people who know about the company and how it operates have a level of trust in Ikea. And this is because it is very careful about selecting suppliers and ensuring standards are applied by itself and its suppliers.”

However, Mendoza also points out that in pursuing a corporate strategy based on building reputation, CPOs are required to move beyond the traditional focus on reducing cost. They have to be more creative.

“The best-practice companies no longer look on the supply chains as a cost-cutting exercise and evaluate them in terms of price,” he explains. “You have to apply other criteria. For example, Cadbury [recently taken over by Kraft Foods] chose to partner with fairtrade producers. The cost of the cocoa it uses has gone up as a result but Cadbury has decided this is a worthwhile investment.”

## Applying risk management

Although there is a growing band of companies committed to building reputational capital and applying creative and innovative strategies to achieve their goals, many companies are still struggling to get to grips with applying robust risk management processes when it comes to their supply chains. Levin says that although companies, especially larger ones, recognise the need for rigorous audit of supply chains it can still be an area of weakness.

Tellingly, the action taken doesn’t match the rhetoric. *Managing for Supply Chain Integrity 2009*, a survey last year by Integrity Interactive, revealed that of 53 responding procurement and compliance professionals from global companies, 85 per cent agreed supply chain integrity is recognised as an important priority. Yet only 46 per cent were satisfied or very satisfied with their company’s approach to managing this issue. Worryingly, 17.3 percent were actively dissatisfied.

Levin says: “Companies understand the need for keeping on top of supply chains but it can be complex to put into action. If there is a very large number of suppliers, it can be harder to properly vet and get new suppliers on board as well as manage them on an ongoing basis.

“It’s also difficult in a downturn for companies to find the resources for this process. And with shrinking workforces it may be that initial processes are strong but as people leave, policies are not re-communicated and links with suppliers are more fragmented.”

He advocates this six-point approach to minimise risk:

1. Ensure the initial supplier selection process is comprehensive, repeatable, and documented. This must include inquiries into ethical standards and history, and not only quality and financial stability.
2. Establish ethical standards and expectations for suppliers (including labour, environmental and anti-corruption standards, among others).
3. Publish and actively communicate those standards to suppliers on a persistent basis (not simply at the initiation of the supplier relationship).
4. Perform routine audits of suppliers to ensure they continue to meet your ethical standards.
5. Perform risk assessments of your supply chain and identify suppliers as high risk, low risk, minimal risk and no risk.

## BRIEFING 1

## THE 25 WORLD’S MOST REPUTABLE COMPANIES

The 2009 Global Reputation Pulse Project is the latest of an annual study developed by the Reputation Institute of the world’s largest companies. It provides an overview of companies’ reputation with consumers. More than 70,000 online interviews were conducted with the general public in 32 countries on six continents in January and February 2009, measuring the admiration, trust, and good feeling that stakeholders have towards a company in their home countries.

### The 2009 study shows these are the most reputable firms:

- 1 Ferrero (Italy)
- 2 Ikea (Sweden)
- 3 Johnson & Johnson (US)
- 4 Petrobras (Brazil)
- 5 Sadia (Brazil)
- 6 Nintendo (Japan)
- 7 Christian Dior (France)
- 8 Kraft Foods (US)
- 9 Mercadona (Spain)
- 10 Singapore Airlines (Singapore)
- 11 Tata (India)
- 12 UPS (US)
- 13 General Mills (US)
- 14 El Corte Inglés (Spain)
- 15 Matsushita Electric Ind (Japan)
- 16 FedEx (US)
- 17 Grupo Bimbo (Mexico)
- 18 Honda Motor (Japan)
- 19 Whirlpool (US)
- 20 Votorantim (Brazil)
- 21 Walt Disney Co (US)
- 22 China Faw (China)
- 23 Google (US)
- 24 China Merchants Bank (China)
- 25 Caterpillar (US)

6. Establish in advance a remedial action plan in the event trouble is discovered.

He adds: “Risk assessment doesn’t have to be complicated but you can’t protect against the risk you don’t understand. Have policies in place setting out standards required, make sure these are understood and communicated throughout the supply chain and to third parties, and that everyone understands expectations at your firm. And ensure all new staff understand what is expected.

“By institutionalising this approach, a company at the centre of an ethics scandal in its supply chain will fare much better with the public and potentially avoid the media storm that is inevitable. It’s a matter of enduring six weeks of pain rather than six months or more of media pain.” ↘

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# “Any time you are in public, it is legitimate for your comments to be reported. A CPO should be thoroughly briefed to speak on a sensitive subject”

Levin agrees with Mendoza that CPOs’ involvement in this is critical. “This relies on a partnership between the chief risk or legal officer and the CPO.”

But even that does not guarantee protection. Cadbury, which Mendoza says scores highly in the reputation stakes owing to its association with sustainable suppliers and the fairtrade partnership, suffered a setback in 2006 when chocolate bars were recalled because of a salmonella scare. “In the end the company overcame that problem with minimal damage. Companies that have reputational capital can survive a crisis more easily.”

But risks do occur and companies get caught out. What then? Crisis management comes into play.

Rod Clayton, head of issues and crisis, EMEA at global PR consultancy Weber Shandwick, says: “It’s not the CPO’s core area but it is useful for any CPO to have a full understanding of crisis and issues management. There can be very different levels of awareness of what to do in dealing with unpredictable problems. There are procedures and steps to consider if you find yourself and the company in the middle of a media storm.

“However there are some background points to consider. First, any crisis management response will depend on the company’s internal standards of behaviour. What policies does it have, are they robust and enforced? Does it have the right checks and balances? But more important to the short term is does your company have a clear plan for contingency and crisis?”

Clayton warns that companies should always aim to have in place a crisis communication plan. “If you don’t have one, you should ask why not?” he advises.

“Where one exists, CPOs should ensure they are on familiar terms with it. A crisis communication strategy would typically sit within the business continuity plan and the two should dovetail. It covers issues that might not affect operations on a day-to-day basis but could affect corporate reputation. It will ensure the right team and right processes are in place in the event of a crisis and should have been tested.”

Although the plan cannot anticipate every scenario, he says,

it should be able to address an emerging issue quickly and efficiently as possible. Typically it should include:

- who the crisis communications team is;
- methods for convening that team;
- escalation criteria;
- sample scenarios.

The CPO should always be involved when drawing up the communications plan, Clayton advises. Plan, plan, plan is a key message but if the worst does strike he advises following these key steps.

## 1 | Consult the plan, and contact the communications team

Consult the company crisis communication plan and immediately contact your communications department to update them. It may also be necessary to consult the business continuity plan, for example, if you have to stop using a particular key supplier which may affect operations.

## 2 | Arm yourself with the relevant facts

Clayton warns: “A CPO will have huge amount of knowledge but may not have all the knowledge. When you feel proud of the work you do or the organisation you work for, you can feel emotional about what you may regard as a misrepresentation of the truth. Be careful not to make any public comment in this state of mind.

“Also beware of the kind of issue or problem you just can’t believe. Perhaps it really did happen and is true! You need to find out by fully investigating.”

## 3 | Don’t make any public comment without being briefed first

If you receive an outside enquiry from a member of the public or media or other organisation, consult your communications policy. Typically that would advise you to be courteous to the caller, get their name, contact information, nature of enquiry and, if it’s a reporter, the deadline they are working to.

Clayton stresses: “Be sure not to make any comment or give an interview straight away even if you feel you are the person

## BRIEFING 2

## IN THE GLARE OF THE MEDIA

Organisations’ ability to survive the withering heat of the media spotlight and retain public trust will depend on the quality and timeliness of a company’s response, according to crisis communication experts.

Toymaker Mattel is credited by many as having withstood this when its reputation took a dive following a recall of more than 20 million toys worldwide, which included its popular Barbie-branded products, in 2007.

The toys were found to be coated with high levels of lead paint while others contained magnets that could have been easily swallowed by small children.

Mattel, which used factories in China to manufacture the toys, blamed suppliers (some of which had themselves outsourced the work) for flouting its safety guidelines. But Mattel itself was criticised for poor quality control and lax testing of products.

The potential damage to Mattel’s sales and

reputation was huge, given the sensitivities around child safety.

However, Rod Clayton, head of issues and crisis, EMEA at global PR consultancy Weber Shandwick, who was called in to work with Mattel on defusing the crisis, says: “In the end Mattel was a good example of a company that took decisive, corrective action.

“It immediately investigated the problem with its supplier sources and strengthened testing systems and increased the number of random inspections it carried out.

“It was very conscientious in showing that it is a company dedicated to product safety and safety of children.

“It was also very communicative about the issue, with senior leaders making public statements and giving interviews. They publicly acknowledged the problem and what they were going to do about it, and made sure parents had as much information as possible about which toys were recalled.

They were given credit for that and the fact they were prepared to face up to the situation and take action.”

Robert Eckert, Mattel’s CEO, appeared before a US senate committee to outline a new three-point safety check and other fresh measures, such as testing finished products to prevent safety issues recurring.

Mattel was also helped by the fact that the problem emerged as a result of its own enhanced checks, rather than being exposed by an external authority, and its rapid admittance there was a problem. This also ensured the toys were recalled before any injuries could occur, rather than waiting for something to go wrong.

Mattel agreed to pay \$2.3 million in civil penalties over the affair.

For some of the Chinese suppliers, however, the cost was more than monetary. The boss of one the major suppliers at the centre of the scandal committed suicide.

best placed to answer the question. Seek advice from your communications team or, if there are legal implications, the legal team too.

“The advice also applies if you are giving an address at a conference. Any time you are in public it is legitimate for your comments to be reported. A CPO should receive full media training before public speaking engagements and be thoroughly briefed if speaking on a sensitive issue.”

And beware of falling into the trap of assuming others know what you may know and unwittingly making a situation worse by revealing some unpalatable piece of information.

## 4 | Assess the situation for what it is

“In the case of the internet, be careful not to read too much into a discussion or any negative comment,” Clayton says. “It’s easy to worry about every little remark but if nobody reads it or cares about it, it’s not a big deal. You could be in danger of attaching more significance to a situation or comment and making it worse if you can’t apply good judgment on whether it poses a substantial risk or threat.”

## 5 | Take steps to address the issue

The company needs to take strong, decisive and corrective action, the details of which will of course depend on what the problem is. Clayton says: “They need to show leadership in facing up to a challenge and working to solve it. The public

will often forgive a company if they feel it has acted well in trying to address the issue (see *briefing 2*, above).”

From a practitioner’s point of view, the theory is useful but it is experience that can be the real teacher.

Larry Beard, interim procurement director at British Airports Authority, admits that serious consideration of reputational issues usually follows a bad experience. Nevertheless, he advises: “Planning and forward thinking goes a long way.” He endorses a two-pronged approach: “using a risk-based approach embedded into your company risk management process to ensure sustainability” and having a “defined escalation process agreed with the business but more importantly your PR team”.

He stresses that planning for crisis is fundamental. “The textbook will tell you to just mitigate the risk but there will always be a risk so you must plan for the worst to strike.”

Beard recalls how, in a previous job, the company stilled a potential PR furore: “A particular TV news channel intended to run a item on how my company was disposing of a particular product. They believed there was a story to be told that, let’s say, was not positive.

“Since we had been aware of this potential environmental issue arising, we had planned for this happening. The communications department were ready with all the facts and the company position so when were approached by the TV news channel it became a non-story.” Just as the plan intended. **CA**