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What about reputation risk?

Highlights

- As state employees, we are responsible for the success and reputation of our agencies.
- Reputation can be damaged through errors or poor decisions, employee bad behavior, or third party actions.
- Take responsibility for protecting your agency's reputation by implementing strong internal controls.

Many of us are familiar with the Warren Buffett quote "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you will do things differently." This caution makes sense in the digital age, where any misstep or perceived wrongdoing is instantly broadcast and available for the entire world to see. Less known is the original quote by Benjamin Franklin in the 18th century, "It takes many good deeds to build a good reputation, and only one bad one to lose it." So it seems that colonial Americans were as concerned about reputation risk as we are today.

Applied to government, reputation is our stakeholders' perception of our agencies' trustworthiness and integrity. Our stakeholders represent a wide variety of interests, including legislators, constituents, recipients, and taxpayers. Situations affecting reputation can undermine the good work of all state employees and decrease confidence in public officials and programs.

Mistakes, fraud, or the actions of third party business partners can all damage reputation. A strong internal control system can help manage the reputation risk in all three of these areas.

In some cases, employees inadvertently damage their agency's reputation simply by making mistakes or bad decisions. Implementing internal control activities, such as authorizations, separations of duties, and approvals, provide a "second set of eyes" on decisions and transactions. As part of a speak-up culture, these independent reviews allow employees to openly discuss and resolve potential issues before they become problems. Strong internal controls are not just bureaucracy. Rather, they offer a safe haven for employee performance, helping to promptly identify and correct

mistakes.

An agency's reputation will also suffer if an employee commits fraud. Once the culprit is uncovered and publicly identified, unfavorable publicity is sure to follow. Stakeholders may begin to lose confidence in the agency's ability to perform any of its responsibilities in a legal, ethical, and effective way. Controls such as a strong ethical culture, training employees to recognize fraud warning signs or "red flags," and providing a retaliation-free way for employees to report suspicious behavior help prevent employee fraud, and uncover it quickly if it occurs.

Finally, like it or not, we are increasingly being held accountable for the actions of our third party business partners. Bad behavior or mismanagement on the part of grantees or vendors can ruin the reputation of the sponsoring agency. It is important to thoroughly assess any potential new business partners. Make sure they are capable of performing and there are no known red flags, such as financial stress or past poor performance. After the grantee or vendor receives the contract, it is important to continue monitoring performance for signs of problems.

As state employees, we are all responsible to help our agency meet its mission and objectives. The reputation of each agency, and the state as a whole, depends on each of us performing our assigned tasks to the best of our abilities, honestly and ethically.

Suggested action steps: Consider again the words of Warren Buffett and Ben Franklin. Think about your agency's reputation risk. Do you and your coworkers take responsibility for your agency's success and reputation? Are you aware of anything that could damage or destroy the good reputation that you and your colleagues have worked hard to achieve? Make sure you consider reputation risk in your daily activities.

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