

Full Length Research Paper

Reputation risk management for airports: A case study of TAV airports holding

Triant Flouris¹ and Ayse Kucuk Yilmaz^{2*}

¹Hellenic American University, Athens, Greece.

²Department of Civil Aviation Management, School of Civil Aviation, Anadolu University
Eskisehir, Turkey.

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Reputation is one of the most valuable assets of an organization, its entire survival could be based on its good reputation achieved for one or many of its attributes such as quality, price, reliability, and environmental friendliness amongst others. Global companies are investing substantial resources to manage their reputation risk. They do so by integrating reputation risk management into their overall enterprise risk management practice. Strong corporate reputation can provide important benefits such as higher market and shareholder value and market position strengthening. Furthermore, a strong positive reputation permits companies to charge higher prices for their services; it helps attract top talent, and can lead to stronger sales and improved market position vis-à-vis competition. Reputation risk should be managed throughout the organization. This paper is an effort to develop the concept thorough its application to airport management and more specifically to the case of TAV Airport Holdings.

Key words: Airport business, civil aviation management, enterprise risk management, management and strategy, reputation, risk, sustainability.

INTRODUCTION

A main question in contemporary business management relates to how organizations can protect and enhance their reputation. Our view is that answering this question in an optimal manner requires the implementation of Reputation Risk Management frameworks in corporate strategies and the testing of the effectiveness of these strategies. Reputation is on the top of the list vis-a-vis enterprise-wide risk management as company reputation is tied directly to its competitive positioning. Good reputation can be translated into company value whereas bad reputation can do the opposite, by extracting value from a

company which may be very sound operationally and managerially. As a part of the discipline of enterprise risk management, reputation risk management has the key potential to provide both competitiveness and differentiation advantages to a company. Competitiveness and differentiation, in turn, support corporate sustainability. The objective of this paper is to discuss the significance of reputation risk management to contemporary business as a value added competitive force by applying it to a real life case of an aviation company, TAV Airports Holding, that has applied such a framework in its business model and corporate practice. In our effort to meet our stated objective, we will review the literature and clarify the reputation risk management concept in a theoretic manner and then, through the TAV Airports Holding case study, present the link of the concept to contemporary practice in airport management and its competitive

*Corresponding author. Email: akucukyilmaz@gmail.com. Tel: +90222 3350580-6812.

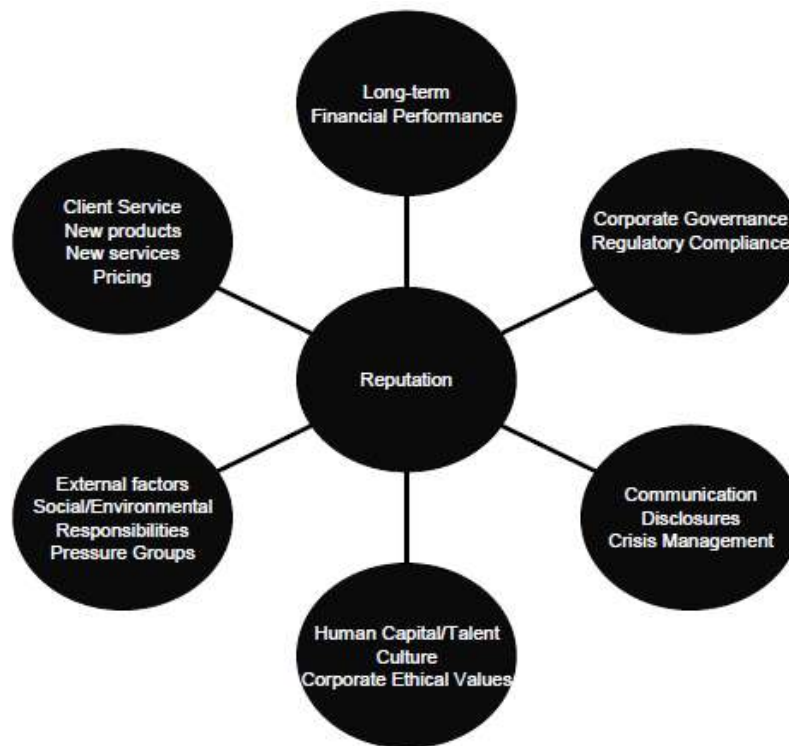


Figure 1. Value Drivers to Corporate Reputation (Towers Perrin, 2007).

benefits.

Reputation risk and the reputation risk management concept

According to Aksoy (2010) "reputation does not occur spontaneously or by chance." Contrary to customer value created in a conscious way, strategies to attract investors to the company, mostly consist of studying the steps taken towards becoming the desired company. The establishment of a qualified distribution and service channels, media, and established relationships with the public and cooperation with civil society complement each other in many areas such as managing a holistic point of view present the right mix.

Reputation should be considered a contemporary business strategy and management issue. In defining the concept in this manner, we can see that reputation management has a strong interrelationship with risk management. Reputation risk is defined by Rayner (2003) as "any action, event or situation that could adversely or beneficially impact an organization's reputation."

The value drivers to corporate reputation are determined by Towers Perrin (2007) as follows (Figure 1):

1. Long-term financial performance

2. Client service, new products, new services, pricing
3. External factors, social/environmental responsibilities, pressure groups
4. Human capital/Talent culture, corporate ethical values
5. Communication, disclosures, crisis management
6. Corporate governance, regulatory compliance.

Reputation can be seen as a differentiation tool which provides competitive support for companies. Reputation is defined and viewed as the total contribution to a company which includes quality commitment, corporate social sustainability, and sustainable development (Demir, 2010).

Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion (www.bankersonline.com/tools/riskmgt_reputationrisk.doc . Accessed on June 2, 2010). This affects the institution's ability to establish new relationships or services or continue servicing existing relationships. This risk may expose the institution to litigation, financial loss, or a decline in its customer base. Reputation risk exposure is present throughout the organization and includes the responsibility to exercise an abundance of caution in dealing with its customers and the community. (www.bankersonline.com/tools/riskmgt_reputationrisk.do. Accessed on June 2, 2010).

Risk management is a vital part of the internal

management processes of the organization. Companies should set a strategy for reputation risk management, define the objectives, and set the metrics by which reputation damage is measured. Risks to reputation are then identified, prioritized, and treated. Because insurance is not available to protect firms against the loss of reputation value after a reputation damaging event, communication with the media and key stakeholders is discussed as a risk mitigation strategy (Regan, 2008).

According to Noel Arnold and Associates (2007), a strong, positive business reputation is an extremely valuable asset for any organization. Amongst other things, it enables an organization to:

1. Charge a premium.
2. Have more loyal customers.
3. Be the employer of choice in increasingly tight labor markets.
4. Have a higher share price.
5. Be less of a target to regulators.
6. Lead public debate on issues important to the company.

All the above are indicators of strategic competitive advantage which is defined in literature, very generically, in its cornerstone manifested discussion by Michael Porter as "doing something different" (Porter, 1996). Of course Porter and theorists that wrote about the subject after him have provided detailed models defining competitive strategies and (sustainable) competitive advantage that the above ingredients are parts of.

The management of reputation risk is an important function, which, if administered effectively, can help minimize any negative returns should an event or crisis impact a company. Therefore, reputation risk management must be part of an effective enterprise risk management system. Planned, proactive action by management reflects the company's internal risk culture, as this indicates that a company is pre-emptive. This characteristic assists in elevating the reputation of a company, because it appeases all shareholders, and this increased confidence helps to increase shareholders' return (Joosub, 2006). This can be seen in Figure 2.

Reputation is a perception which typically exists "in the eyes of the beholder." According to Noel Arnold and Associates (2007), reputation risk is a function of three things:

1. Whether or not the company's existing reputation exceeds its true character
2. The volatility of external beliefs and expectations
3. The degree of internal coordination within the company.

Managing reputation based risk is not an extraordinarily expensive undertaking that would require years to implement. The key components of reputation risk

management are listed by Rayner (2009) as follows:

- i. Clear and well-communicated business vision, values, and strategy that set the right ethical and stakeholder-aware tone for the business
- ii. Supporting policies and codes of conduct that guide employee behavior and decision-making so that goals are achieved in accordance with business values
- iii. Extension of the business's values and relevant policies to key partners in the supply chain.
- iv. Dialogue and engagement to track the changing perceptions, requirements, and expectations of major stakeholders continuously
- v. An effective enterprise-wide risk management system that identifies, assesses, responds to, monitors, and reports on threats and opportunities to reputation
- vi. A culture in which employees are risk-aware, are encouraged to be vigilant, raise concerns, highlight opportunities, and act as reputational ambassadors for the business
- vii. Transparent communications that meet stakeholder needs and build trust and confidence
- viii. Robust and well-rehearsed crisis management arrangements

According to a survey done by The Economist Intelligence Unit (2005), reputation based risk is the most significant risk as a threat to company's global operation today (Figure 3).

Executives know the importance of their companies' reputations. Firms with strong positive reputations attract better people. They are perceived as providing more value, which often allows them to charge a premium. Their customers are more loyal and buy broader ranges of products and services. Because the market believes that such companies will deliver sustained earnings and future growth, they have higher price earnings multiples and market values and lower costs of capital. Moreover, in an economy where 70 to 80% of market value comes from hard-to-assess intangible assets such as brand equity, intellectual capital, and goodwill, organizations are especially vulnerable to anything that damages their reputations (Figure 3) (Eccles et al., 2007).

Airport business and reputation management

To achieve global success, airports, as other organizations, should manage their reputation risk using the triple bottom line concept. Their achievement level in regard to environmental, economic, and social objectives contributes to the improvement corporate reputation as, they are perceived as a solid economic, social, and environmentally friendly performer.

According to Appold and Kasarda (2009) commercial airports are increasingly recognised as producers of local and regional benefit. They have become ever more

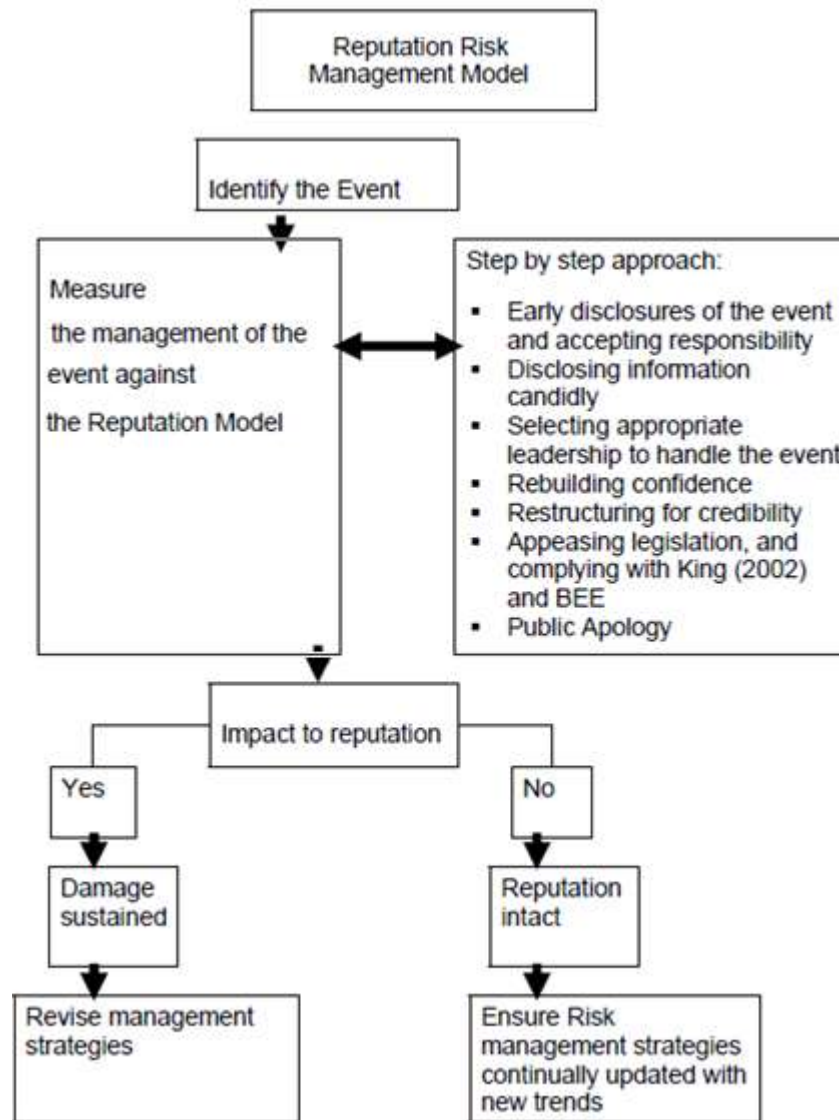


Figure 2. Reputation Risk Management Model (Joosub, 2006).

important economic engines as business travel and air cargo expands, benefitting aviation-dependent firms not only in the immediate airport area but often those considerable distances away.

Airports also create, or at least localize, certain costs. Noise, including its effect on the ability to enjoy and develop nearby land, and the consequent impact on property values and potential tax revenues are often the most contentious airport-related burdens (Appold and Kasarda, 2009).

Airports are vital gateways for developing local business and as such are a key component of local, national and regional infrastructure. At the same time, airports are much more than regulated public service providers. They are complex commercial entities that

must meet well-defined business objectives in terms of day-to-day operations, financial performance and planning for future growth (Airport Council International, 2006).

In regard to our case in hand, TAV, they demonstrate successful implementation of the reputation risk management principles discussed, in an airport organizational context, and through the active use of their Corporate Communication Department.

TAV Airports Holding have undertaken the construction and operation of three major airports in Turkey (Istanbul Atatürk, Ankara Esenboga and Izmir Adnan Menderes Airports) and the Tbilisi and Batumi Airports in Georgia, Enfida and Monastere Airports in Tunisia. With over 11,000 employees at the time of authoring this article

How significant a threat do the following risks pose to your company's global business operation today?

(Index score, where 100 = highest)



Figure 3. Risk of Risks (The Economist Intelligence Unit, 2005)

TAV has a world presence. TAV Airports Holding has 12 companies, it is operating in ground handling services, operation services, duty free shops, food and beverage services, Information Technology and security services, which are complementary to airport operations.

TAV Airports serve 285,000 flights by 300 airline companies every year, with 27 million passengers on average. Having established itself as an international company with its increasing business volume and

projects undertaken, TAV Airports Holding's plan is positioning itself in a leadership position in Turkey and becoming a leading force in the Middle East, North Africa and the Caucasus Region. (http://www.tavairports.com/index_en.asp, 2010-07-02)

TAV was founded in 1997 as a joint venture between Tepe and Akfen Groups following their success in winning the tender for the İstanbul Atatürk Airport International Terminal. Reflecting Turkey's contemporary architectural

style, İstanbul Atatürk Airport is an airport operation project undertaken under the “Build-Operate-Transfer” model. TAV, according to their website, has set out with a customer centric service approach that emphasizes customer satisfaction in construction, operation, and management. (<http://www.tav.jobs/english/kurumsal.html>, July 2, 2010)

As earlier mentioned, corporate reputation management, whose favorable impacts on sustainable growth, profitability and market values of companies have been proven to have gained further prominence in the recent past. Today, Corporate Communications and Reputation Management stand out as very important competitive factors and an added plus to an organization's reputation which in turn plays a major role in increased returns to organizational assets. TAV has a purposeful approach to achieving competitive positioning through the use of contemporary reputation risk management methodology.

More specifically, according to an interview with the TAV Airports Holding CEO (Sani Sener Interview), the primary goal of TAV Airports Holding Corporate Communications Department is to deliver messages crafted by the management team to social as well as corporate stakeholders with accurate content, at the most relevant time and through the most effective channels, in order to further enhance and maximize the company's corporate reputation.

Furthermore, the TAV Airports Holding Corporate Communications department also aims to increase the recognition awareness of national and international operations of TAV Airports. By deploying a “systematic thinking capability,” the Corporate Communications Department is able to devise and launch creative projects compatible with the company's communication objectives, and identify the projects that have potential and make them compatible with company philosophy.

Timely access to accurate information inside and outside the company, being able to deliver the information, and managing crises with a pre-determined strategic plan are very important. The Corporate Communications Department creates the Strategic Communication Plan in order to accomplish its communication goals. They strive to deliver messages determined according to this plan to social stakeholders using the best communication tools (TAV, 2009).

Conclusion

Corporate reputation is viewed as being value priceless. Although reputation has both intangible and invisible elements, it has the potential to affect corporate sustainability and competitive positioning. Reputation is highly related with triple bottom line sustainability related issues. If a company achieve aims which are related with the triple bottom line based concept (environmental, economic and social related) then that company can improve

its reputation. Corporate reputation management requires managing risks using an entity-wide approach since entity risk management plays a pivotal role in providing corporate sustainability outcomes.

Corporate reputation management can not be applied separately from managerial approaches in a company. A holistic approach is needed at all times. This holistic approach can contribute to sustainable development. TAV Airports Holding is global corporate player in airport operations, which demonstrates awareness of the fact that corporate reputation has powerful effect on the market value of a company. TAV appears to be making conscious efforts, in the words of its CEO, to connect its corporate culture with its corporate values. Corporate reputation has the potential to affect corporate performance. At the end of the reputation management process, a company should achieve objectives tied to the creation of brand value. TAV appears to practice this concept. In the contemporary business environment, ‘invisible’ values which include reputation have a directly impact on corporate performance and can they become both important and effective in the calculation of corporate brand values.

Reputation risk management is an emerging issue in contemporary business and management. TAV as discussed in this paper was selected as a good example in Turkey of an aviation organization that is aware of and actively practices reputation risk management.

This paper aimed to apply, via a case study, reputation management principles to the global airport business based on the premise that a risk management perspective to reputation management provides invaluable support to a manager in achieving the objectives of corporate sustainability. Further research is needed in order to develop a new framework to reputation risk management in aviation, which will be part of the whole enterprise risk management system of an aviation organization.

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