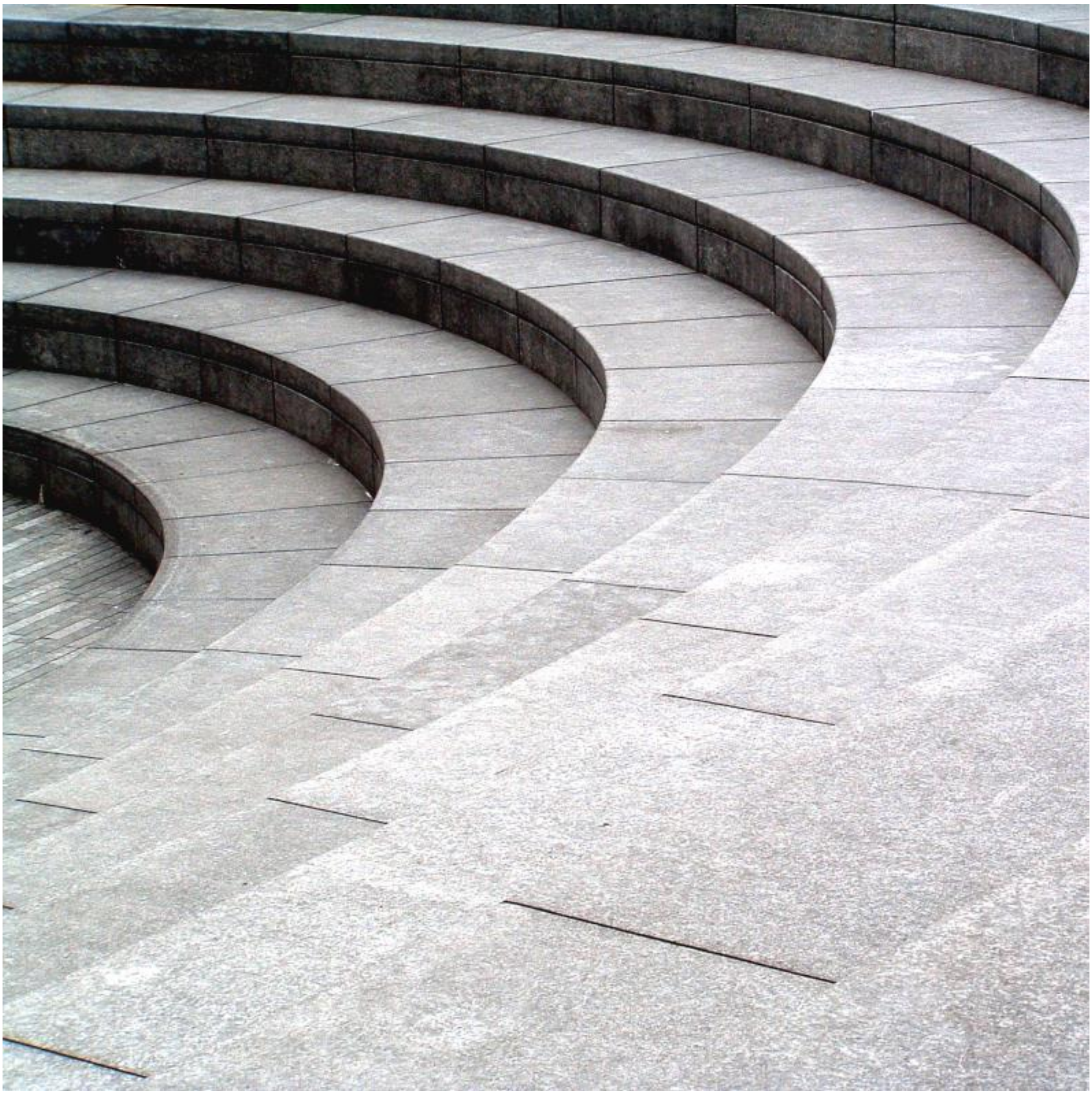
Executive Summary Notes

Reputational Risk & ESG Breakfast



Michelle introduced herself as the first Organisational Risk & Resilience Director at M&G Plc, joining the senior leadership team post demerger, to support the group Chief Risk & Compliance Officer. Describing the business as a complex FTSE 100 global enterprise investment and savings business. She was pursuing new opportunities following departure in April 2022.

Michelle's career didn't start in Risk, in fact she describes as "3D" the first part of her career being in customer centric environments linked to brand, marketing, and communications. The second transition was into leadership and development, especially in the boardroom in a variety of roles but most recently as Senior Independent Director at Warwickshire County Cricket Club, Edgbaston. She felt these two underpinned her third transition into delivering as a successful Risk Director in financial services reporting to Audit & Risk Committee.

Michelle's area of risk management was developed to focus beyond the traditional confines of financial and operational risk, to tackle the challenges of the new world with the emphasis on 'how' a business delivered its products, services and aligned authentically to purpose. It focused not just on the key controls on internal stakeholders and processes but how a business tackled the evolving expectations of a variety of external stakeholder groups and in particular the behavioural elements of stakeholder response (comms and behaviour) to key situations such the move for employees to WFH triggered by the lockdowns.

Michelle referenced the latest PwC report entitled "Marginalised to mainstream - Reputation Management in the era of ESG" and congratulated Hoggett Bowers for recognising the transformation that risk management was undergoing and articles published earlier in 2022 on the same topic. She was concerned about reputation being labelled 'mainstream' because it could lead to complacency. She believed there remained a good deal of misunderstanding about reputation, reputational risk, and the new world, related to the transition over the last decade from where it used to sit in crisis communications and many risk teams lacked confidence.

Michelle then moved on to talk about the key areas to help businesses provide effective check and challenge:

The value of reputation; Reputation was not the same thing as brand. Reputation was owned by a range of key stakeholder groups and could not be 'managed' in the traditional brand management way. For example, if a firm closed down its website and all social media channels - in effect stopped speaking, the conversation would continue externally building and shaping perception. Reputation was calculated as the sum of all key stakeholder groups and dependent on the criteria deemed important by those stakeholder groups e.g. customers, employees, publics. She believed that a risk team should be able to articulate reputationally what they were protecting and in which stakeholder group? This came before assigning the valuation on reputation with various measures available and interesting perspectives available from companies like Reputation Dividend.

United Airlines provides an interesting case study from 2017 when Dr Dao was forceably dragged off the plane enroute to open a Veteran's clinic. Commentators highlighted that whilst there was a dip initially in share price that overall detrimental impact was limited across the customer stakeholder group as research had shown that whilst customer may have disapproved of the actions of the airline they ultimately had limited alternative options. However, what emerged over the longer term appeared to be a weakening in the reputation with the key investors stakeholder group with potential to impact on future finance. This evidenced the clear need to clearly define who your key stakeholders are both from an internal and external perspective and consider contagion across groups.

Structure and scale; Michelle believed that firms of all size and scale should prioritise Reputational risk, particular in a global digital world as it is not simply a challenge for FTSE 100. Businesses are today facing the fact that a single employee or customer (as demonstrate with United Airlines examples) can publish content that impacts significantly on the perception of a brand. This could be positively or negatively.

Large organisations benefitted from having reserves in the "brand bank". For example, VW had continued to trade despite the 2015 emissions scandal on account of their reserve of loyal employees & customers. However, she believed for smaller or newer companies the impact could be terminal. Authenticity and purpose are key, you must be able to articulate what your firm stands for regardless of size, sector or strategy.

In terms of structure, she believed the holy grail was effective top down leadership to set the tone/approach, joining up seamlessly with the front line (bottom-up) to allow front line to make quick decisions and provide localised horizon scanning and intelligence back up and across.

The question of trust; Trust was formed by people and stakeholders based on their perception and understanding. Firms often fought against what they believed to be mis-perception by a stakeholder group, detractors are easily able to publish and often have the loudest voice in today's social media. The people who are independent hold the power to perception i.e., the people who 'Trustpilot' us and rate businesses but not always as independent as they seem with additional challenges of fake news and brand identity theft confusing the market place.

Agencies sold 'magic' solutions to reputation management but in reality stakeholders want value add content that was authentic and timely on their terms. Michelle cited one of the most successful campaigns she saw was created in-house and quickly in response to a cybercrime attack, resonating strongly across the market against pension fraud and identity theft. People wanted to know how to protect themselves, and the content was adding real value. Expectation forms trust, consistently delivering will ensure people know who they are in a relationship with.

Activism and incubation; in 2009, Dave Carrol hit the media spotlight when he single handedly took on United Airlines. As a musician, he was on the way to a concert when they broke his guitar in transit. His band made a film on YouTube with 150,000 views in the first 24hrs. At the time it had an impact on the United Airlines share price sending the business into crisis mode. However, the content is still online today, with over 25M views to date just sitting there, incubating. The online universe means it is unlikely to ever go away.

Today we see activism in our AGMs and shareholder meetings which can be helpful in revealing blind spots but also unhelpful in causing distraction and dilution. The challenge for leaders was remaining strategic and focussed on priorities - ensuring that a business wasn't suddenly jolted into a new ESG issue, diverting from more meaningful impact elsewhere.

Communication and buy-in; Michelle talked about the need to bring everyone along on the journey. Standard risk thinking in areas like taxonomy and policy needed to evolve, along with the management tools used to tackle issues on reputation and ESG. Current tools were focused on 'closing' issues but as the examples proved, an issue very rarely disappeared and could incubate.

The firm needs clarity on what it stands for on ESG. What issues are you going to own? Communicate very clearly on the issues you can act meaningfully on.

The meeting then moved onto Q&A.

A Partner in a law firm, shared her observations that many approached ESG with a defensive tone. It is seen as a challenge to manage, an issue to control. Yet, should she encourage clients to see ESG as an opportunity, including for profit by helping them to see the positive.

Michelle agreed, that promoting the opportunities was as important as managing the risks but she had also seen firms who didn't understand the risks over promising and under delivering on the opportunities so there needed to be balance to avoid greenwashing. Firms who invested in opportunities were more sustainable and this impacted positively on the bottom line. Research on recruitment of talent was very compelling - candidates were draw and remained with firm who fully embraced ESG.

A further question arose in respect of how a firm accurately defines 'stakeholder' when in effect 'everyone' could be considered as a stakeholder.

Michelle drew a parallel to marketing. Firms like to think that 'anyone' could buy their product/service but in reality segmenting a market led to more focused investment, effective R&D and better customer outcomes. The same applied to segmenting stakeholders - there were many ways to do it and firms could use it as a form of competitive advantage. The Better Business Act was also helping to provide greater clarity in Corporate Governance, broadening base from shareholder to stakeholders. This meant that groups including the customer, the employee and supplier are now equally important today.

An investor raised the question of communication. It's harder for people to describe the benefits of ESG and PwC's report picks up on this with the reference to the moral compass. How it resonates with many more, in comparison to the financial focus.

Michelle agrees, the impact of the moral compass on ESG and the people focus are critical. It is well understood that employees care who they work for and that the business itself evidences it cares. It used to be the brand that communicated the message. Now, it's what the business stands for that is so important, as well as how it operates and how it pursues its goals. In many ways, today, this is the licence to operate.

An Infrastructure Partner highlighted how the focus used to be value, and profit. Today, it's commercial, and moral. If fully embraced, this provides the opportunity to achieve profit and purpose.

An experienced Consultant, who also teaches geopolitical risk, stated one of the points he emphasises with his students is, that international and global, are not the same. With discussion now on the G being squared i.e. Governance & Geo-Political? A good example of how parts of a business can undermine another, was highlighted in an example of a Financial Services organisation whose Texas based business, supported fossil fuels, undermine the UK position.

An Insurance Risk Director observed how ESG has now become more mainstream, enabling a change of conversation, for example with underwriters. Specifically, the mission of insurance has always been to help business to operate. Ten years ago, to insure certain areas in infrastructure it was seen as the right thing to do, for the client and for the business. Yet ten years on, it is no longer seen as positive. These changes emphasise the need to make understanding, the culture of a business. It is very important to question and to think deeply. After all, perception, it is a person's reality. Organisations need to check and need to challenge. This is the culture.

Michelle observed that ESG often resulted in polarised views. People often view a situation through the lens of 'right or wrong', without understanding the implications and consequences. Tobacco is a good example if an ESG issue that polarizes people. In some locations, tobacco farms support communities. If the tobacco farm were to close, the local community would need to find alternative sources of income which is why a responsible transition is so important. This evidences how the moral compass is used needs to be thought through. The culture needs to be clear and used to ensure decision makers understand and are informed on the facts, and the consequences.

Thinking about it as a process and ESG as a supply chain, it was suggested, impact assessment is often the missing pieces of ESG governance. The old, polluting, London buses have been replaced by the new, greener, buses. Where are and who's making use of the old polluting buses – Africa. Again, the moral compass comes in to play.

The purpose of ESG needs to be defined. What do we want to do and what do we stand for? In summary, it's helpful to remember, ESG has a magnetic North, not a true North.

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