Crisis, Reputation & Hubris

Managing Risks for Clients and Firm

Matt Nixon
Managing Partners’ Forum
7 October 2015
Agenda

• Trust, Crisis and Reputation
• Pariah Lifecycle – Role of Hubris
• Crisis Case Study
• Opportunities and Challenges
• Q&A
## Trust in Business Leaders vs. Politicians

<table>
<thead>
<tr>
<th>Trust to do the following:</th>
<th>Business Leaders</th>
<th>Government Leaders</th>
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<tbody>
<tr>
<td>Correct issues within industries that are experiencing problems</td>
<td>26%</td>
<td>15%</td>
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<tr>
<td>Make ethical and moral decisions</td>
<td>21%</td>
<td>15%</td>
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<td>Tell you the truth, regardless of how complex or unpopular it is</td>
<td>20%</td>
<td>13%</td>
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<tr>
<td>Solve social or societal issue</td>
<td>19%</td>
<td>16%</td>
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Source: Edelman Trust Barometer 2014
Three Types of Crisis

Operational

Financial

Behavioural
Crises: increasingly fast, global and furious

- **28%** of crises spread to international media within **1 hour**
- **69%** spread internationally within **24 hours**
- **53%** of companies’ share prices **did not recover** to pre-crisis levels within **one year**
- **58%** of companies experienced **significant disruption** to operations
- **53%** lost revenue
- Yet **25%** of companies said they had ‘months’ of notice of the crisis before it broke in the media, and **8%** had ‘weeks’ to prepare
- Nearly **10%** of board directors left within six months of the crisis breaking; of these nearly half stated publicly that the crisis was causal to their departure

**Once a complex crisis breaks, you probably won’t keep up**

Source: Freshfields: *Containing a Crisis* and *Knowing the risks, protecting your business*
Current Orthodoxy on “Reputation”

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<tr>
<th>CLAIM</th>
<th>IMPLICATION</th>
<th>ACTION</th>
<th>DG VIEWPOINT</th>
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<tr>
<td>Reputation is Relational</td>
<td>Get relationships right and you can influence reputation</td>
<td>Build relationships with stakeholders directly, especially customers,</td>
<td>True, but remember you can’t always control or contain who chooses to relate to or with you</td>
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<td>regulators, investors, government</td>
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<td>Multiple Reputations</td>
<td>Reputations can be managed differently with different</td>
<td>Create messages and communicate differently with different audiences</td>
<td>True, but excessive balkanisation is problematic; don’t leave all synthesis to the CEO and the Board</td>
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<td>Reputation Intermediaries</td>
<td>Some people’s views matter more than others in determining</td>
<td>Get close to and influence the influencers (especially press, government and social media influencers)</td>
<td>True, but in the age of Twitter you may be surprised at where critical positive and negative intermediaries arise</td>
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<td>Signalling Power</td>
<td>What matters is the signal and who shapes it</td>
<td>Invest heavily in signals and signallers (ie Brand/Corporate Affairs/Comms)</td>
<td>What matters is the truth that lies behind the signal. You can’t put lipstick on a bulldog forever</td>
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Source: Disraeli Group Analysis based on Oxford Said Business School Centre for Reputation
What’s the risk of “excessive” stigma?

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<th>Excessive</th>
<th>High</th>
<th>Medium</th>
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1. **There is such a thing as “too much” stigma.** Societies start to punish organisations felt to be transgressive (highly stigmatised) through forms of public shaming, campaigns, boycotts, press and political pressures.

2. Such organisations are increasingly treated as **pariahs**, and groups start to differentiate their treatment of such organisations/industries and by extension their leaders, staff and partners. This is an existential threat, and can terminate your licence to operate, sometimes quite suddenly.

3. There is a recognisable **pariah lifecycle**. Recognising where your organisation lies on this lifecycle can provide insights into the appropriate defences against reputational threats, as well as the nature of interventions to fix problems.

4. Pariahs are on the **increase**, and not just in the private sector. Either you are one, or could become one. **No one is immune. You are at risk.** Accepting emerging pariah status over time is a mistake, as pariahs are inherently unstable.

5. The only solution is to change **what is actually happening**, not just fiddle with perceptions. PR and a social media strategy won’t be sufficient to save you if your culture and leadership are broken.

6. The notion that we can **control or manage** stakeholder perceptions (even via reputational entrepreneurs) is **flawed**, with serious implications for how we plan for and address crises. Only holistic approaches grounded in organisational purpose, leadership and real world execution provide real protection against risks.
A Pariah organisation is well known, but is more infamous than famous. It has become - permanently or temporarily - stigmatised as unacceptable to many stakeholders in the society where it operates, because it has violated the norms of that society.
Pariah Organisation Life Cycle

**GENESIS**
- A recognisable brand
- Rapid Growth
- Success, praise and recognition

**CATHARSIS**
- Ritual cleansing
- Forgiveness from society
- Renewal of social contract

**METAMORPHOSIS**
1. The real thing – gives opportunity for real catharsis and change
2. False change – failure to deal with the deep cultural and systemic issues

**HUBRIS**
- Senior people out of touch
- Lack of respect for dissent
- Arrogance and grandiosity
- Lack of attention to warning signs

**NEMESIS**
- Public shaming
- Betrayal of trust
- Loss of reputation
- Organisation failure

**CRISIS**
- Behavioural, Operational or Financial
- Issues become crises
- Responses
- Reactions
Focus on Hubris

• A disease of power and success (INDIVIDUAL and COLLECTIVE):
  – Arrogance, superiority, and lack of respect
  – Dishonour and disdain, apartness, aloofness

• Also we may see:
  – Aspects of narcissism (with no sign of self-knowledge/self-mockery)
  – A visionary “cause” gives special moral privileges (eg not following rules)
  – Lack of accountability (except to God/History)
  – Talks of self in third person

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Crisis Case Study: Barclays LIBOR
Friday 29 June 2012
Saturday 30 June 2012
Sunday 1 July 2012
Monday 2 July 2012
Wednesday 4 July 2012
Thursday 5 July 2012
The Damage – Financial

• Barclays was fined £290M by UK and US regulators for LIBOR fixing:
  – The fine was reduced for cooperation
  – UBS was later fined £940M, RBS £390M, and Rabobank £660M.
  – Deutsche Bank was fined $2.5 Billion in 2015
  – Total industry fines were $5.8 Billion for LIBOR alone
• The costs of internal investigations, extra legal costs and subsequent costs of extra compliance have not been quantified separately, but are several times higher
• Fines for Forex manipulation to date are over $10 Billion
The Damage — Brand and Reputation

Source: YouGov Daily Buzz Scores
The Damage – Brand and Reputation

Source: YouGov Index Scores (composite index)

2010 lowest recorded

computer outage

27 Sep 2015

LIBOR story breaks
The Damage - Talent

• In the space of a week we lost our Chairman, CEO, and COO
  – Within two months, the Group HRD also left
• Shock and impacts on engagement at all levels
  – Staff in branches faced irate customers (though some brought cakes!)
  – People wanted to know how this happened and who was responsible
  – Felt defensive to the brand, but not to those who were accountable
• No immediate uptick in employee turnover, but external headhunter activity increased dramatically
• Great interest in the next CEO and the values and changes ahead
• Barclays fired five staff; others were disciplined or had previously left the bank
• No Barclays staff have yet (2015) been convicted of any crimes with respect to LIBOR rigging, but UBS trader Tom Hayes received a 14 year sentence recently, and more prosecutions are expected
Salz on Genesis Conditions

“Many of the banks which experienced the greatest difficulties seem to us to have suffered from a combination of control and risk management failures, exacerbated by cultures favouring aggressive growth, and often compounded by governance weaknesses. Underpinning these failings was a hubris born of (as it turned out) misplaced confidence that financial markets had irreversibly changed in ways that somehow made banks and economies more robust.”

Salz, 3:18
Salz on LIBOR crisis

“For Barclays, it took a crisis for the problems to gain real urgency. The particular event that caused this crisis and led to this Review was the announcement in June 2012 of a settlement by Barclays with regulators that included fines of £290 million in relation to the alleged manipulation of LIBOR. Prior to this settlement, most people probably knew little about LIBOR. It caught the attention of the media, politicians and the public – and so became a real crisis – because of emails that were made public and seemed to confirm a pervasive, much-caricatured, unethical, greedy and selfish behaviour on the trading floors of investment banks.”

Salz, 3:23
Salz quotes Walker on Governance

“Equally, however, the greater the entrenchment of the CEO, perhaps partly on the basis of excellent past performance and longevity in the role, the greater is likely to be the risk of CEO hubris or arrogance and, in consequence, the greater the importance (and, quite likely, difficulty) of NED challenge. Achieving an appropriate balance among potentially conflicting concerns is frequently the most difficult part of the overall functioning of the board.”

Salz 9.20 quoting Sir David Walker, A Review of Corporate Governance
Working for the Pariahs – Loyalists

- Often long service, perhaps low in the hierarchy
- Have or inherit pride in the organisation built before the crises hit
- May deny the issues, or argue they are misunderstood and misrepresented by outsiders
- Focus on their colleagues and stakeholders who accept them, regard those hostile to the organisation as enemy
- Experience crisis as deeply painful and personal
- Regard organisational failure as equivalent to personal failure and defend accordingly
Working for the Pariahs – Mercenaries

- Can have long service, but typically move organisations more than loyalists
- Are aware of the issues and accept the reality
- Get over the initial shock of crisis quickly
- Focus on stakeholders who are positive and supportive
- Accept the impact on their own personal brand
- Accept their own need to move on when their work is done or they are surplus to requirements

© Matt Nixon 2014
Working for the Pariahs – Heroes

• Often join the organisation to change it
• Accept and understand the issues are real
• Can be overtly critical of the organisation and its previous responses
• May even seek out critical stakeholders
• May struggle with loyalists, mercenaries and external stakeholders who accept the pariah as is.
• They may welcome crises, as they are opportunities to force change, and opportunities to do act heroically.
Potential Interventions for Professional Services Firms

**GENESIS**
- Risk Assessment and Identification
- Organisation Health Check

**HUBRIS**
- Top Team Risk Assessment
- Partner Selection Committee Calibration

**METAMORPHOSIS**
- Identification of real drivers
- Involvement and engagement with wider ecosystem (industry, regulators, government, oppositions)

**NEMESIS**
- Initial Response
- Initial Organisational Learning
- Legal responses

**CATHARSIS**
- Generative solutions that go beyond re-vamped BAU
- Apology and forgiveness

**CRISIS**
- Crisis Response Planning
- Risk Assessment
- Link to Leadership and Talent
Questions for this audience

• What do professional services firms do to reduce their clients’ risks of hubris and crisis?
• How do you manage your own risks?
• Are there lessons from the relative success of your industries in preventing crises for your clients?
• Or does the status quo suit us quite well?