

Boards of Directors: Managing Crisis and Mitigating Risk





“It takes 20 years to build a reputation and five minutes to ruin it.”

Warren Buffett

Directors & Boards

May 14, 2018

AT&T Admits Mistake Hiring Trump Lawyer: What was the high-powered board's role?

Board of Directors



Randall L. Stephenson
Chairman, Chief Executive Officer and President



Matthew K. Rose
AT&T Inc. Lead Director
Chairman of the Board and Chief Executive Officer, Burlington



Samuel A. Di Piazza, Jr.
Retired Global Chief Executive Officer, PricewaterhouseCoopers, International Limited



Richard W. Fisher
Former President and Chief Executive Officer, Federal Reserve Bank of Dallas



Scott T. Ford
Member and Chief Executive Officer, Westrock Group, LLC



Glenn H. Hutchins
Co-Founder, North Island and Co-Founder, Silver Lake



William E. Kennard
Former United States Ambassador to the European Union and former Chairman of the



Michael B. McCallister
Retired Chairman of the Board and Chief Executive Officer, Humana Inc.



Beth E. Mooney
Chairman and Chief Executive Officer, KeyCorp



Joyce M. Roché
Retired President and Chief Executive Officer, Girls Incorporated



Cynthia B. Taylor
President and Chief Executive Officer, Oil States International, Inc.



Laura D'Andrea Tyson
Distinguished Professor of the Graduate School, Haas School of Business, and Chair, Blum Center for Developing Economies Board of Trustees, University of California at Berkeley



At What Point Does a Board Step In?

- Prior Oversight: Does Management have a crisis plan and an effective process to identify emerging threats and mitigate potential risk?
- What is the threshold for management to inform the Board of a crisis?
- Does the Board have a process in place to deal with material crisis/risk issues?
- Are crisis and risk issues the first line responsibility of the full Board, or of the audit or risk committees?

Reputation & Why it Matters

Our stakeholders shape our reputation

- Reputation is defined as the extent to which a company is **meeting the unique and specific expectations** stakeholder's have for the company.
- A corporate reputation is defined by **all** of our stakeholders who have a material impact on our business

Reputation has a significant impact on business outcomes

- We know that a good reputation influences stakeholder behavior that benefits the company



Attentive Public Customers

Drive Commercial Value

Strengthen relationships and influence purchase decisions and satisfaction



Attentive Public Customers

Manage Risk

Gain the benefit of the doubt when a crisis or litigation occurs



Policy Makers & Influencers

License to Operate

Create a more favorable policy environment



Investors & Analysts

Financial Value

Drive investment decisions



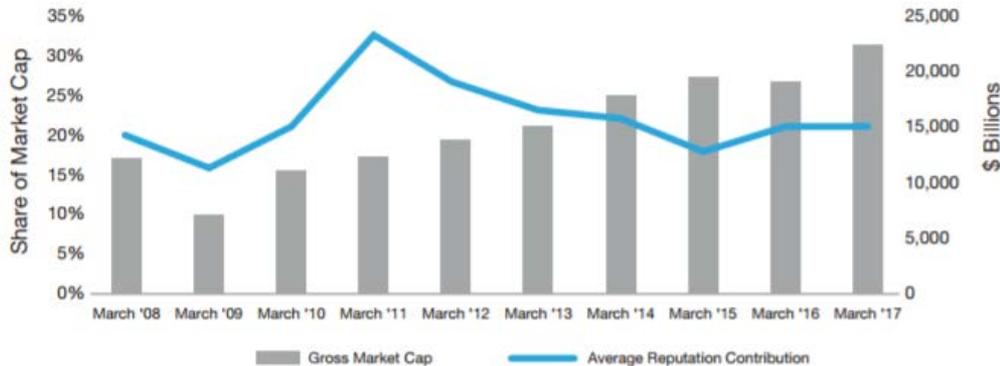
Employees

Employer of Choice

Attract and retain high-quality employees

Reputation and Risk/Benefits

\$1 in \$5 of market cap is accounted for by companies' reputation



Source: World Economics, Vol 13, No. 3. July-Sept 2012 / Reputation Dividend: The 2017 US Reputation Dividend Report

“Well managed corporate reputations provide an important reassurance for investors and help to mitigate concerns over deteriorating corporate earnings. Reputation therefore is a useful leading indicator of investment risk.”

World Economics, Vol 13, No. 3. July-Sept 2012

86%

of in-house counsel feel that reputation management is important in litigation situations.

Litigation Communications Survey Report, Feb 2016

You Will be Judged

- On:
 - Did you meet your fiduciary oversight duties?
 - Did you overreact? Underreact?
 - Were you appropriately transparent?
- By:
 - Financial markets
 - Employees
 - External stakeholders-supporters and adversaries
 - Pundits sitting in the cheap seats
 - Regulators/investigators/plaintiff lawyers
 - Potential Activist Investors

Scenario/Stage One

- General Counsel advises Board in a letter that well-known civil rights attorney Lisa Bloom has informed the company a complaint is about to be filed in court alleging the CEO and Chairman engaged in sexual harassment and sexual assault.

Scenario/Stage One

- General Counsel advises Board in a letter that well-known civil rights attorney Lisa Bloom has informed the company a complaint is about to be filed in court alleging the CEO and Chairman of sexual harassment and sexual assault.
 - How serious is this threat?
 - Does the Board convene? With or without the CEO/Chairman?
 - Does the Board need outside advisors?

Scenario/Stage Two

- Law Firm retained by the Board advises that its investigation finds credible evidence to back up the allegations against the CEO/Chairman
- Lisa Bloom sends a demand letter to the CEO/Chairman and the Company requesting a multi-million-dollar settlement and threatens to go public in 48 hours if the demand is not met
- Jodi Kantor of the New York Times, who broke the Weinstein story, has called the Company and says she is trying to track down a rumor that there is a sexual harassment case brewing involving “several senior members of the management team” at the Company.

Scenario/Stage Three

- CEO/Chairman settles confidentially with Bloom.
- The New York Times calls saying it is going to publish a story online regarding the settlement within two hours and asks are other senior executives involved?
- A financial analyst calls (or if a non-profit organization, a major donor) and says there are rumors the CEO/Chairman is out, that other senior executives are involved and that the Board is in disarray and derelict in its fiduciary duties.

Assessment

- RECAP
 - Additional learnings or observations?
 - Any decisions we would like to “do-over” in hindsight?

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