Leadership & Managerial Excellence Interest Group

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From the Chair

by Laura M. Kelly, CPCU, AIC, AIS, ARe, MLIS, ASQ, CQIA

Laura M. Kelly, CPCU, AIC, AIS, ARe, MLIS, ASQ, CQIA, is director of best practice compliance/insurance industry liaison for Goldberg Segalla LLP, overseeing the firm's compliance and quality department. Kelly's past experience includes more than 15 years in the insurance industry in roles as a claim adjuster, claim supervisor and litigation manager. She is chair of the CPCU Society's Leadership & Managerial Excellence Interest Group Committee and president of the CPCU Society's Northeastern New York Chapter, among other leadership roles. Kelly is also an active member of the American Society for Quality.

As 2011 begins, the Leadership & Managerial Excellence Interest Group Committee is quite busy working on a number of items. We are planning our educational programs for October's Annual Meeting and Seminars in Las Vegas, revamping our website, designing a mentoring program and developing a Leadership & Managerial Excellence award that will recognize a CPCU Society member for demonstrating an exceptional act of leadership.

In addition, our committee remains quite active on our LinkedIn group. The Leadership & Managerial Excellence LinkedIn group is open to all CPCU Society members and offers the opportunity to network with your fellow CPCUs. We hope that you will join the discussion.

As we plan for the 2011 Annual Meeting and Seminars, the programs that we are working on include "Terms of Engagement in Difficult Times," "Emerging Issues — Information and Insights That You Can Bet On" and "Don't Roll the Dice in Managing Agent and Broker E&O Exposures — Lessons That You Didn't Learn in E&O Class."

I'm very excited to mention that the 2011 Annual Meeting and Seminars may include the first-ever interest group networking event with all of the Society's interest groups participating. More details will follow soon, but if you're planning to be in Las Vegas, I hope that you will reserve time to attend this event!

While we are on the topic of interest groups, I urge you to consider selecting a primary interest group if you haven't already done so. It is as easy as visiting the Society website, logging in, selecting "Interest Groups" in the top menu

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From the Chair

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and choosing a primary interest group. And some key reasons to take advantage of all the resources interest groups provide and to select a primary interest group are as follows:

- Interest groups produce the vast majority of educational programs at the Annual Meeting and Seminars, in addition to educational symposia and webinars during the year, and your selection of a primary interest group helps us determine which areas are of interest to you so that we may develop valuable, helpful future programs.
- Interest group involvement offers networking opportunities as well as access to subject matter experts such as interest group committee members and your fellow group members.
- Interest groups produce cutting-edge newsletters.
- Interest groups develop reference and research material available to CPCU Society members.

In fact, you can help to spread the word about interest groups by educating your fellow CPCUs. Several of the interest group chairs developed an Interest Group Toolkit earlier this year that helps explain what an interest group is and the value that interest groups add to Society membership. The toolkit includes a PowerPoint presentation entitled "Interest Groups & You!", which provides details on the interest groups and the value they provide. And if you have any suggestions for additional items to include in the toolkit, we'd like to hear from you. You may order the toolkit by contacting **John Kelly, CPCU, AIS,** director of program content and interest groups, at jkelly@cpcusociety.org.

I would like to welcome our newest committee member, **John N. Masselli Jr., CPCU, CIC, AAI, AIS.** John is the general manager for New York Mutual Underwriters and earned his CPCU designation in 2009. He also serves on the New Designee Task Force and as new designee chair for the Northeastern New York Chapter. We are excited to have John as part of our Leadership & Managerial Excellence team!

Also, I would like to congratulate **Kimberly A. Sterling, CPCU, CLU, ChFC,** our group's chair-elect, on her recent promotion to property and casualty underwriting director for State Farm. Kimberly's new responsibilities will be to oversee the private passenger auto functions, including automation and analytics, process improvement and the auto product consultant and analyst teams for the enterprise. She has been a valued member of our committee since 2004.

Our Leadership & Managerial Excellence team looks forward to bringing even more value to your CPCU Society membership in 2011! ■

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CPCU Society Student Program — 'A Great Success'!

by Lamont D. Boyd, CPCU, AIM

Lamont D. Boyd, CPCU, AIM, director, insurance scoring solutions, with Fair Isaac Corporation (FICO), is responsible for client and partnership opportunities that make use of FICO's credit-based insurance scoring and property risk scoring products and services. Working with more than 300 insurance clients throughout the U.S. and Canada and speaking regularly to industry and consumer groups, Boyd is recognized as one of the industry's leading experts in predictive scoring technology. Previously, he served 19 years in underwriting and sales management with a major property-casualty insurer.

Editor's note: This article originally appeared in the CPCU Society's October 2010 Personal Lines Interest Group newsletter.

Given the number of comments we received during and following the 2010 CPCU Society Annual Meeting and Seminars, it's clear the CPCU Society 2010 Student Program was a "great success"! Such a success, in fact, that the Student Program will continue — and with the projected number of students joining us for the 2011 Annual Meeting and Seminars in Las Vegas significantly higher.

Here follows four very good examples of how the Student Program was received:

Douglas J. Holtz, CPCU, CIC, CSP, CRM, 2010–2011 CPCU Society immediate past president and chairman, offered the following observations and expressed his appreciation to all who contributed in making this program successful:

> "I was so impressed with the caliber of the students who joined us at the Annual Meeting in Orlando. They are a very bright and dedicated group of students who have gained tremendous insight into our business, the CPCU Society and all this wonderful industry has to offer. I'm thrilled with the response we received from the students, the chapters who financially assisted them with their travel expenses and our Board of Directors who supported their registration fees."

Warren L. Farrar, CPCU, CLU, ChFC, 2010–2011 CPCU Society president and chairman, shared his thoughts also:

> "To me, these young people represent our future. I met and had discussions with many of the students in Orlando, and was amazed by their enthusiasm and genuine interest in careers in insurance. They all had great things to say about the Student Program and especially appreciated having mentors with whom they could connect for guidance and counsel."

Veronica Fouad, St. John's University, echoed the sentiments of her fellow students:

> "I want to thank you for providing me with the opportunity to attend the CPCU Society Annual Meeting and Seminars. I had a wonderful time, and I have truly realized the importance of obtaining my CPCU designation. I would have to say that after this experience, I am a lot more serious about obtaining my CPCU in a very timely fashion. I met several great industry professionals, and I am inspired by the values they represent. I am also appreciative and fascinated by the support that this industry provides to its students. Please send my thanks to all of those CPCU chapters and sponsors who helped fund students at this Annual Meeting."

Jonathan Howard, University of North Carolina–Charlotte, shared these kind thoughts:

> "Thank you for taking the time to help us young emerging professionals in the insurance and risk management industries. I greatly appreciate your leadership in providing this wonderful opportunity to me and other students to attend this wonderful CPCU Society Annual Meeting and Seminars in Orlando. Thank you for coordinating all the efforts between mentors and students, roommates, committees, resource funding, hotel reservations for students and so much more. I believe that this was a great personal success as well a success in recruiting bright young talent from universities across the country."

You may be aware that we also developed a very unique "student-focused" seminar — "A Look into the Future" — for the Orlando Annual Meeting, one that highlighted the property-casualty insurance industry's need for the "best and brightest" now and in the future. This seminar was specifically designed to help risk management and insurance students, as well as new designees, understand more fully the variety of paths available to them in the property-casualty insurance industry.

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CPCU Society Student Program — 'A Great Success'!

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The seminar not only provided the unique perspective of students working toward risk management and insurance careers, but also provided attendees with a clear understanding of the value of the CPCU designation in helping them on their chosen path.

As seminar presenters, 2010 Student Program Committee Leader **Stacey Hinterlong,** Illinois State University, and **Ryan Rolfs,** Florida State University, offered their suggestions for pursuing a successful career in the insurance industry — and shared their own student and industry internship experiences.

Lynn M. Davenport, CPCU, AIC, AIM, with State Farm, and **Dave Newell,** with the Florida Association of Independent Agents (FAIA), offered excellent examples of successful industry representatives and highlighted industry and educational opportunities that can be pursued.

Our hope is that all students, new designees and industry veterans walked away from this seminar with great ideas and a clear understanding of what is needed to grow our industry through the development of talented individuals.

The CPCU Society is uniquely positioned, in large part due to the direction and support provided by CPCU chapter and interest group leaders, to offer a bridge between those who are seeking a rewarding future in the industry and those who are seeking people to contribute to a successful future.

A final note: Many thanks to all who contributed in so many ways to the success of our 2010 CPCU Society Student Program. Since another "great success" is fully expected for 2011, please don't hesitate to contact me by e-mail at lamontboyd@fico.com with any thoughts you may have, or assistance you're willing to offer, to help us attract bright, young minds to the insurance industry through the CPCU Society. ■

Twenty-five (25) students from some of the nation's leading universities and colleges joined us in Orlando, networking with industry leaders from a wide variety of CPCU Society chapters and interest groups. We took the opportunity to photograph some of the students during the CPCU Society's Diversity Reception.

Front row, from left, Donita Stevens, Temple University; Danielle Bastian, Olivet College; Samantha Reed, University of North Texas; Cassandra Wilcox, University of North Texas

Middle row, from left, Stacey Hinterlong, Illinois State University (Student Program Committee Leader); Carlie Peniston, St. John's University; Veronica Fouad, St. John's University; Brenae Robinson, Florida State University; Miranda Fouad, Rutgers University; Kelsie Griffin, Illinois State University.

Back row, from left, Douglas J. Holtz, CPCU, CIC, CSP, CRM, 2010–2011 CPCU Society immediate past president and chairman; Daniel Bean, Georgia State University; Michael Lungo, Florida State University; Josh Spencer, Ball State University; Ryan Rolfs, Florida State University; Casey Koontz, Illinois State University; Seve South, Ball State University; Luigi Biele, Rutgers University; Lamont D. Boyd, CPCU, AIM, the Society's Student Program director.

Participating students missing from photo: David Adams, New Mexico State University; Peter Curnin, Appalachian State University; Jonathan Howard, University of North Carolina-Charlotte; Hio Lam (Yoyo) Lao, University of Illinois; Nathan Mitzner, Southern Methodist University; Kanwar Singh, Virginia Commonwealth University; Stephen Walton, New Mexico State University; and Christopher Wexler, Appalachian State University.

Entrepreneurial Transitions Are Key Factors for Long-Term Success

by John T. Gilleland Jr., CPCU, API, AIS, AU

John T. Gilleland Jr., CPCU, API, AIS, AU, works as an account executive for a large P-C broker, enabling underwriters and consumers to reach agreements and make transactions. He also enables marketing, underwriting and claim professionals to collaborate with each other so they better serve customers. In 1995, John received his CPCU designation in Hawaii.

Roy Cammarano's *Entrepreneurial Transitions* and **Wilson Harrell's** *For Entrepreneurs Only* explain there are four phases that an entrepreneur or her/his successor should transition through. The phases are as follows:

(1) Entrepreneurial genius.

(2) Benevolent dictator.

(3) Disassociated director.

(4) Visionary leader.

As any company grows, the founder(s) of the company — or the successor(s) — must see that the company's leadership transitions from being led by the founding entrepreneurial genius to being led by visionary leaders as the organization matures. One key to success may be the leader of the company building a strong executive team and then enabling each member to run her or his departments without the entrepreneur's interference. Few entrepreneurs realize soon enough that in order for their company to reach its full potential, one or more leaders with different skill sets and experience should be brought in to run all or segments of the business.

When times get tough for large organizations, leaders are needed to focus everyone on a common goal and use that to rally the troops by celebrating small wins and build positive momentum. Such an effort is not attractive to most entrepreneurs. New talent or consultants should be hired to enable such a disciplined focus.

When hiring outside consultants, only hire those who provide the skills the company needs and does not already possess. This requires honest and unbiased self-evaluation, which most entrepreneurs cannot give.

Companies that continually dominate their niche are always asking themselves, "How would I compete with someone like me?" and then build the barriers to keep the competition at bay. This question is not something a middle-management professional would think about because it would require considering disruption of the status quo (harmony with upper management and frontline staff).

Very few founding entrepreneurs ever become visionary leaders — for very good reasons. Many successful entrepreneurs try to keep up with their companies' leadership requirements and begin to vacillate between being a benevolent dictator and a disassociated director. This is very awkward, frustrating and often painful for the founding entrepreneurs and their maturing organizations.

The ability to acquire the skills to be an effective CEO is as difficult as an average singer becoming a great recording artist. Some of it is God-given talent, and much of it is hard work and dedication at "constant improvement" and growth. Unfortunately, many entrepreneurs fail to acquire or develop the skill set they need to continue to lead the organization. Instead they rely on the skills that got them to where they were in the past. Mature professional athletes who re-invent themselves, or at least get new coaching in order to improve, are good examples of what entrepreneurs should try to do.

Often, entrepreneurs do not improve. Why should they? They've been successful thus far. If you have the opportunity to influence entrepreneurs needing to evolve, be sure to respect what they have achieved in the past, provide them with illustration and case studies so they can see what has worked for others needing to change, and ask them to either play to their strengths and delegate wisely, or acquire the skills they need to transition. ■

C’mon In! The Door’s Open

by Tamara C. Bigford, Richard J. Cohen, J.D., and Daniel W. Gerber, J.D.

Tamara C. Bigford is a principal in B Social LLC, a professional social media consulting firm that works closely with Goldberg Segalla LLP and other professional firms on their social media practices and policies.

Richard J. Cohen, J.D., is co-chair of the Global Insurance Services practice of Goldberg Segalla LLP, where he serves as managing partner.

Daniel W. Gerber, J.D., a partner of Goldberg Segalla LLP, maintains a national practice in commercial litigation and heads up the firm’s Social Media Strategic Team.

Editor’s note: This article is printed with permission. It is a follow-up to “Social Media in Claims Investigation — The Smell of ‘Tweet’ Success,” which appeared in the October 2010 issue of this publication.

More and more frequently, we are putting our private lives on public display — at least for a select group of invitees — through social media. But under what circumstances can a lawyer crash the party? If a social media user makes information publicly accessible, a lawyer may view the content as would any other member of the public. But what if the lawyer is thwarted by privacy settings?

Limits on the Use of Deception

An ethics opinion issued in 2009 by the Philadelphia Bar Association offers one perspective. Philadelphia Bar Association Professional Guidance Committee Formal Opinion 2009-02 (2009). That opinion addressed a circumstance in which a lawyer representing a party to a lawsuit sought to learn more about an adverse witness. The lawyer asked the Bar Association’s Ethics Committee whether he could ask a third party who was not affiliated with the pending litigation to send the witness a Facebook “friend request.” The third party would give his or her true name “but would not reveal the affiliation with the lawyer or the true purpose for which the information was being sought.” The Committee said no.

On their face, ethics rules might appear to forbid even a modicum of trickery, no matter how good the cause. Rule 8.3(c) forbids lawyers from engaging “in conduct involving dishonesty, fraud, deceit or misrepresentation.” In general, lawyers may not ask their agents, e.g., friends or investigators, to do what the lawyers themselves are ethically forbidden to do. “Model Rules of Professional Conduct” R. 8.3(c) (2009).

The use of minor trickery to gather evidence is not universally regarded as ethically forbidden, however. Judicial decisions in various jurisdictions specifically permit the use of some pretense or misdirection in gathering evidence for litigation. Civil rights “testers,” e.g., individuals pretending to be interested in renting an apartment, have been used since the adoption of civil rights laws to gather evidence of impermissible discrimination. See, e.g., *Apple Corps Ltd v. Int’l Collectors Soc’y*, 15 F. Supp.2d 456 (D.N.J. 1998); *Gidatex, S.r.L. v. Campaniello Imps., Ltd*, 82 F. Supp.2d 119 (S.D.N.Y. 1999).

Notwithstanding its acknowledgment of decisions allowing lawyers’ investigators to dissemble in some contexts, the Philadelphia Bar opinion considered it impermissible to use deception to gain access to an adverse witness’s Facebook profile, even for the legitimate purpose of seeking evidence of perjury. In the Committee’s view, the lawyer’s surrogate is ethically obligated to disclose the true motive for seeking access.

In light of ethical limits on impermissible deceit, a subsequent article offered this advice: avoid using third parties to contact counsel, parties or witnesses without expressly disclosing that the communication is on behalf of the lawyer, law firm or client; never use deception or misrepresentation in communications — including use of aliases and screen names that do not clearly identify you; always clearly identify yourself and the purpose of your communication; understand and follow user rules associated with sites. Tiffany Williams, “Facebook: Ethics, Traps, and Reminders,” 35 *A.B.A. Litig. News* 4 (2009).

In September of this year, the New York State Bar Association Committee on Professional Ethics similarly concluded that a lawyer who represents a client in a pending litigation, and who has access to the Facebook or MySpace network used by another part in litigation, may access and review the public social network pages of that party to search for potential impeachment material so long as the lawyer does not "friend" the other party or direct a third person to do so. Absent that admonition, the Committee determined that accessing the social network pages of the party will not violate Rule 8.4 (prohibiting deceptive or misleading conduct), Rule 4.1 (prohibiting false statements of fact or law), or Rule 5.3(b)(1) (imposing responsibility on lawyers for unethical conduct by nonlawyers acting at their direction). Opinion 843 (9/10/10).

Limits on Communications with Represented Persons

The Philadelphia opinion suggests that to avoid misleading the opposing witness a lawyer should straightforwardly ask permission for access to her Facebook profile. Here, another ethical limit comes into play, namely, Rule 4.2(a), which governs communications with represented parties. The rule provides: "In representing a client, a lawyer shall not communicate or cause another to communicate about the subject of the representation with a party the lawyer knows to be represented by another lawyer in the matter, unless the lawyer has the prior consent of the other lawyer or is authorized to do so by law."

Rule 4.2(a) does not forbid all communications with a represented party, but only those on "the subject of the representation." A request for access to a user's profile is not, at least explicitly, on the subject of the representation. It would be different if the ethics rule was read to impose an outright ban, or if other relevant law did so. Of course, other electronic media may provide for greater give-and-take. If the lawyer corresponds with the represented party in a chat room or in other contexts where the lawyer is not just reading but is actually communicating back and forth on the subject of the representation, the lawyer risks crossing the lines established by Rule 4.2.

But there do appear to be circumstances in which an attorney may indeed get access to the private portions of an adverse party's social media pages. A recent decision out of Suffolk County in New York (J. Spinner), permitted the defendant in a personal injury action to gain access to the private portions of plaintiff's Facebook and MySpace accounts (including deleted information) by showing that the limited public information that was available on those accounts was inconsistent with the claims being made by the plaintiff in her lawsuit. *Romano v. Steelcase, Inc.*, 2006-2233, NYLJ 1202472439237, at *1 (Sup. SU., Decided September 21, 2010).

Specifically, plaintiff's Facebook photo showed her smiling outside her home; plaintiff was claiming that as a result of the accident, she was largely confined to her home and bed. The Court also took note that "review of the public portions of Plaintiff's MySpace and Facebook pages reveals that she has an active lifestyle and has traveled to Florida and Pennsylvania during the time period she claims that her injuries prohibited such activity." Justice Spinner found that:

> In light of the fact that the public portions of Plaintiff's social networking sites contain material that is contrary to her claims and deposition testimony, there is a reasonable likelihood that the private portions of her sites may contain further evidence such as information with regard to her activities and enjoyment of life, all of which are material and relevant to the defense of this action. Preventing Defendant from accessing . . . Plaintiff's private postings on Facebook and MySpace would be in direct contravention to the liberal disclosure policy in New York State ...
>
> To permit a party claiming very substantial damages for loss of enjoyment of life to hide behind self-set privacy controls on a website, the primary purpose of which is to enable people to share information about how they lead their social lives, risks depriving the opposite party of access to material that may be relevant to ensuring a fair trial.

In opposition to the motion, Plaintiff claimed that she had a reasonable expectation of privacy, which the Court noted was belied by the clear language contained in the Facebook and MySpace user agreements. Neither Facebook nor MySpace guarantees the complete privacy of its users. The Court found that Plaintiff had "consented to the fact that her personal information would be shared with others, notwithstanding her privacy settings," and that, regardless, defendant's need for the information outweighed Plaintiff's privacy concerns.

We suspect that we will see more and more litigation over what portions of a person's "private" life can remain private when he or she put it on semi-public display. Did you know that Facebook's privacy policy is nearly 6,000 words long — or nearly four times the length of this article? We are just beginning to pry open Pandora's Box. We can only imagine what will be released. ■

Leadership & Managerial Excellence Interest Group Reaches for the Gold Once More!

by Kerry L. McGrath, CPCU, AU, AIS, CPIW

Kerry L. McGrath, CPCU, AU, AIS, CPIW, has been in the insurance industry for 31 years. Her experience includes personal and commercial lines underwriting as well as marketing. Prior to her current position as senior branch marketing director at Acadia Insurance Company, she held the position of commercial lines director.

The Leadership & Managerial Excellence (LME) Interest Group was awarded Gold Circle of Excellence recognition at the 2010 Annual Meeting and Seminars in Orlando, Fla. The LME Interest Group has achieved the gold level since 2002 — nine years in a row! LME is hoping to celebrate its 10th win next year, and the group will be focused on achieving the coveted “Gold with Distinction” COE level!

What is the Circle of Excellence (COE) Program? The Circle of Excellence Program was created by the Society in 1999. The Society recognizes chapter and interest groups for their efforts to achieve specific performance benchmarks. Chapters and interest groups can earn bronze, silver or gold recognition each year. Most chapters and interest groups make a submission to the Society each year.

The LME group continued to serve its members during the past year. It developed three educational sessions for the 2010 Annual Meetings and Seminars in Orlando — “Social Networking for Professional Success,” “Leadership Outside the Box — Your Personal Path to Success” and “Emerging Issues for Today’s Insurance Professional.”

In addition, the group produced a webinar, “Managing People Remotely,” hosted by the Katie School of Illinois State University, developed a LME group site on LinkedIn and issued regular newsletters with a variety of articles for Society members. LME also developed and conducted a workshop, entitled “Mentoring for Success,” in which participants learned the benefits and limitations of mentoring, the roles of mentors and mentees and the keys to mentoring success; participants were provided an option to enroll in LME’s mentoring program either as mentor or mentee. Also, the group continued to partner with the American Society for Quality (ASQ).

Six Reasons to Participate in the Circle of Excellence Recognition Program for Your Chapter

(1) Helps deliver value and services to your members in the areas of visibility, positioning members for success and stewardship of chapter resources.

(2) Provides direction for the year and is an excellent planning guide.

(3) Supports the Society’s Strategic Plan — Circle of Excellence provides a blueprint to help chapters align their efforts with the Society’s efforts in each area of emphasis.

CIRCLE OF EXCELLENCE
RECOGNITION PROGRAM

(4) Offers a focus of efforts — the activities are good suggestions for chapter projects and programs, and facilitate delegation and accountability.

(5) Earns recognition for your chapter. Chapters are recognized at the Annual Meeting, in *CPCU News* and *e-LINK*, and on the Society and individual chapter websites. Chapters are given a plaque to display at chapter meetings.

(6) Helps you write your chapter's history! The Circle of Excellence report is an excellent record of your chapter's achievements for the year. It can be a wonderful resource for future chapter leaders and those who are interested in tracking the activities and progress of the chapter over time.

The CPCU Society Strategic Plan is aligned with the Society's core purpose, which is to be a dynamic community of professionals dedicated to helping each other achieve career success through its core values — integrity, mutual support, diversity of views, professional excellence and knowledge.

Goal 1

Make CPCU the most widely recognized, valued, and highly respected professional designation/brand in the property and casualty insurance industry by CPCU employers, industry practitioners, and other important audiences.

Visibility

- Connections visits.
- Candidate development.
- Grassroots campaigns.
- Ethics activities.

Goal 2

The CPCU Society and The Institutes are working together to assure that the CPCU experience is so valuable that a growing number of people are compelled to earn the CPCU designation and join the CPCU Society.

Member Success

- Keeping members technically proficient.
- Leadership and professional development.
- Career management.

Goal 3

All Society members have access to a continually increasing number of programs and services that position them for success.

Stewardship

- Chapter planning.
- Member recognition.
- Member networking.
- Chapter administration.
- Education support.

Our committee members are pleased that the Leadership & Managerial Excellence Interest Group earned gold level recognition last year. It was made possible only through the continued support of our interest group members. Additional information regarding the Circle of Excellence Recognition Program can be found on the CPCU Society website, www.cpcusociety.org, under either the section for "Chapters" or the section for "Interest Groups." ■

Early Bird Catches Knowledge

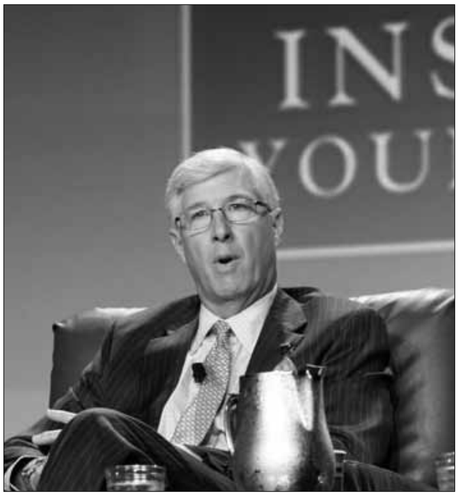
by Linda Gomez, CPCU

Linda Gomez, CPCU, is a personal injury protection (PIP) claim team manager for State Farm at the Livonia Operation Center in Livonia, Mich. She started her career with State Farm in 1985 as an auto claim representative in San Diego, Calif., and has worked in auto and fire claims. Prior to her current position, Gomez supervised support staff in the Metro Detroit offices. Her insurance career began in her home town of Omaha, Neb., with Mutual of Omaha, where she was a field claim supervisor. She has held various chapter board positions and is currently the vice president of the CPCU Society Greater Detroit Chapter.

Wow … what a selection of programs at last year's CPCU Society Annual Meeting and Seminars in Orlando. Getting up on a Sunday morning to attend the 7:30 a.m. general session, titled "Leadership Outside the Box — Your Personal Path to Success," turned out to be well worth the lost shut-eye. The session provided a rare opportunity to be mentored by leaders — not only representing the CPCU Society but also the insurance industry. The panel discussion featured four former CPCU Society presidents, **James L. Britt, CPCU; Marsha D. Egan, CPCU, CPIW, PCC; Marvin Kelly, CPCU, MBA;** and **James R. Nau, CPCU.** Moderator **Cynthia A. Baroway, CPCU, M.Ed., AIC,** asked several thought-provoking questions, which the speakers answered with honesty, experience and humor. I would like to share some of their thoughts with you in this article.

Leader vs. Manager

The panel was asked to describe the difference between a leader and a manager. Panel members agreed that the title manager defines a role or position of authority. A leader does not have a defined role, and Jim Britt defined leaders based on the strength of their personality. I thought Marsha Egan's explanation of the difference between "wantivation vs. motivation" provided insight into what a leader works toward, whether in a paid or volunteer position.



James L. Britt, CPCU, was one of the four CPCU Society past presidents who served as a panelist on "Leadership Outside the Box — Your Pathway to Success."

> I like to think of leadership by 'wantivation.' This means working with people to encourage them to want to achieve whatever goals or results are key to the organization. When they are internally motivated by wanting to do a great job and wanting to achieve results, you'll be amazed at their successes.

Leadership Quotes

The panel members then provided their favorite leadership quotes. A favorite came from Marsha, who quoted **Ralph Waldo Emerson:** "Who you are speaks so loudly I can't hear what you are saying." Marvin Kelly's favorite quote comes from **Thomas Paine:** "Lead, follow or get out of the way." Jim Nau selected a quote by **Winston Churchill,** "Never, ever give up."

Leadership Style

The panelists shared experiences which they felt shaped their leadership style. This part of the discussion showcased the difference in personalities of the panel members as well as their sense of humor. Their point was that we can learn from a good or bad experience. Bad experiences shape our style by making sure we treat people in a way we want to be treated. Key points were that a leader needs to be fair, self-aware and positive as well as have intellectual capacity, emotional discipline and hold others accountable.

Risk

Leadership outside the box … the panelists were unanimous about how they achieved career goals — in one word, ***risk.*** Panel members described their dreams of wanting something different, the decision to step out of their comfort zone and the personal and professional growth achieved.

Shaping One's Destiny

The panel discussed factors in shaping one's destiny. They pointed out the importance of informed risk-taking, building relationships, staying informed, maintaining business acumen, seeking leadership opportunities and networking as key elements. The panel used CPCU Society and chapter involvement as a great opportunity to achieve personal growth, leadership skills and networking.

Impact of Social Media

The impact of social media on leadership style was discussed. Jim Nau noted that this new technology makes transparency more important. Technology eliminates "secrets" and makes effective connecting with people very important in communication. Communication was the key element that ran through the panel's discussion on leadership. The ability to listen, effectively communicate a goal and address generational differences are strengths of a good leader.

These leaders stressed the need to be authentic and open to different ideas. They emphasized that a leader has strong core values and leads by example, which motivates others. Listening and watching these animated leaders discuss timeless traits of leadership were an inspiration to try something different. Each new experience can lead to an "outside the box" leadership experience. ■

Imaginative Leadership — Developing Leadership Skills to Inspire Creativity and Spawn Innovation

by Ernie Grecsek, CPCU, M.A.

Ernie Grecsek, CPCU, M.A., is a performance management consultant; he works with the DiscoveryOnstage corporate team in delivering workshops offering the "imagingogy" leadership model. Grecsek delivers courses for the CPCU Society Center for Leadership, which he facilitates at CPCU Society Leadership Summits and Annual Meeting and Seminars. His facilitation style has earned him high marks from attendees. Before launching his consulting practice in 2000, Grecsek served as the claims director with Nationwide Insurance and held executive- and management-level positions with Wausau Insurance Companies and Allstate Insurance Companies.

Editor's note: This article is the final in a three-part series on imaginative leadership. The first article appeared in the Leadership & Managerial Excellence Interest Group's July 2010 newsletter and the second in the October 2010 newsletter.

An article titled "The Creative Crisis," published in *Newsweek* this past summer, discussed the decline of creativity among children in the United States. The article mentioned that **Kyung Hee Kim,** an assistant professor of educational psychology at the College of William and Mary in Williamsburg, Va., had performed analyses of a creativity measure known as the Torrance Tests of Creative Thinking for almost 300,000 American adults and children; her findings indicate that American creativity scores have plummeted in recent years. This was not an encouraging report when today's business environments require the most innovative and creative strategies.

We might agree that creativity in the workplace is under siege. According to the Labor Department's most recent stats, productivity is up; however, there are fewer employees to cover more work. Many employees are being stretched to limits that are not sustainable. Organizations operating with this kind of environment develop cultures that inhibit creative thinking at all levels within the organization. Without creativity that introduces new and valuable ideas, innovation dies. This does not bode well for American businesses in the global marketplace.

Great leaders inspire others. Reflect on your own life and think of who inspired you to be a leader. Everyone can think of a person who was authentic and had a vision that translated to a style that encouraged us to deliver our best performance.

The DiscoveryOnstage team facilitated a learning initiative focused on developing leaders to discover their authentic self, strive for fresh approaches and inspire others to do their best work. Both co-founders of DiscoveryOnstage, **Dominic Catrambone** and **Jeremy Jackson,** wrote about the program in the Leadership & Managerial Excellence Interest Group October newsletter. The session was a full-day workshop held at the 2010 CPCU Society Annual Meeting and Seminars in Orlando, Fla., in September and hosted by the CPCU Society Center for Leadership. There were 13 students participating. The session was lively, revealing and fun!

Kent Jackson, CPCU, Ph.D., outlined in the first newsletter article of this series (July 2010), a third dimension of leadership as one that integrates knowledgeable understanding and an appreciation of traditional leadership models with an applied focus on skill development in areas more commonly associated with the performing and theatrical arts; he called it an Imaginative Leadership Model that reflects hybrid qualities augmented by theatrical skills training in artistic creation, production and performance. We are all familiar with the terms pedagogy and andragogy. We call this methodology "imagingogy."

Coincidently, a week before this session, Harvard Business School held a symposium titled, "Imagining the Future of Leadership," where they gathered expert thinkers to share attributes necessary to develop future leaders. **Bob Johansen, Ph.D.,** a Distinguished Fellow at Institute for the Future, conveyed that leaders need to engage with people in a way that is reciprocal; leaders have to become very good at giving things away in the trust that they will get back even more in return.

Deborah Ancona, Seley Distinguished Professor of Management at the MIT Sloan School of Management and Faculty Director of the MIT Leadership Center, expressed the notion of distributive leadership at all levels — leaders at the top and multiple leaders across the organization, even linked to people outside the organization in different sectors and other organizations, who can come together, work together and

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Imaginative Leadership — Developing Leadership Skills to Inspire Creativity and Spawn Innovation

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collaborate to move the organization towards its strategic goals.

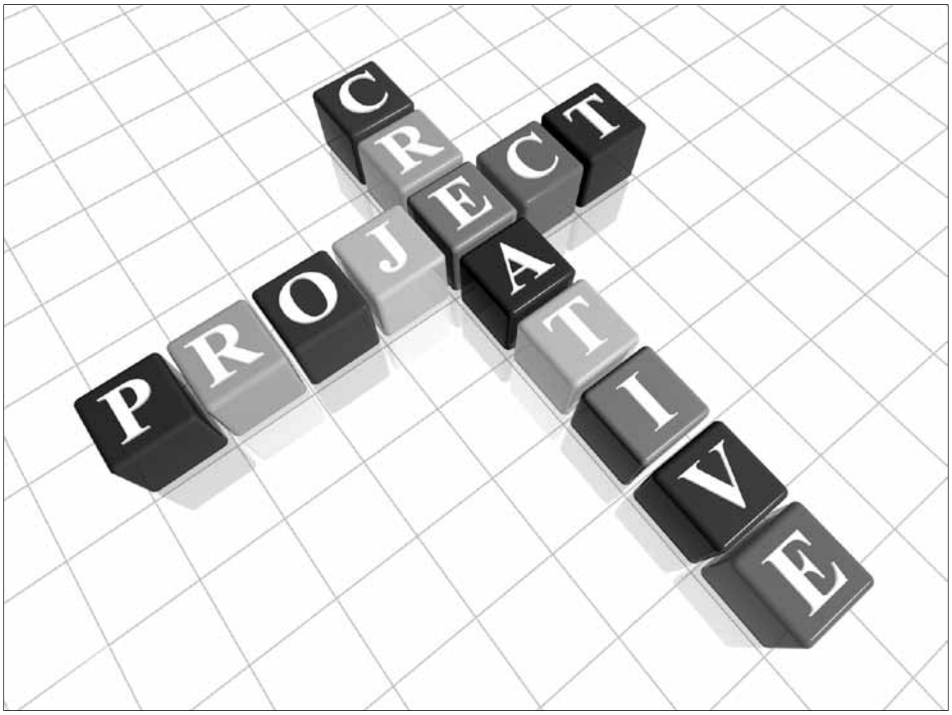
Marshall Ganz, lecturer in public policy, Harvard Kennedy School, sees leadership dealing with uncertainty; how to find courage to inspire courage in others to deal with uncertainty hopefully rather than fearfully; and how to imagine new ways to use existing resources and convert them to what is needed to meet strategic goals.

These leadership experts shared the view that future leaders need to be authentic, be open to distributive leadership within and outside of the organization, and being imaginative in seeking new ways to use existing resources in support of new and fresh approaches to enhance the brand and profitability.

Sharing highlights of the Orlando Annual Meeting session may help you gain insights into this new dynamic leadership model we call "imagingogy." To start the session, students were asked to take off their name tags and move to the center of the room. Dominic Catrambone and Jeremy Jackson engaged the group in physical and vocal warm-ups, including stretches and voice work designed to introduce collaborators to their tools and to establish the value of neutrality for both.

The session outlined three learning outcomes crafted into three acts, sequentially designed to facilitate the learning process:

- **Act 1 — Discovering the Authentic Self.**
  Ron Heifetz, co-founder of the Center for Public Leadership (CPL) at Harvard Kennedy School, describes it this way: "Authentic leadership is a function of those purposes, those commitments of service and the discipline anchoring them, not a function of self-expression. Fundamentally, leadership is the activity of educating and preparing people to be more adaptive so that they can marshal resources and creativity to thrive in ever-changing and challenging environments." And student **Daniel Luke II** describes Act 1 this way: "This is time to self-reflect and get in touch with who you are — not necessarily who you think you are. The exercises are designed to help you forget your inhibitions and relax."
- **Act 2 — Imagining Fresh Approaches.**
  Developing the capacity to creatively maneuver around opposition is vital to today's leader. Imaginative leaders assess wants and needs, within any situation, and collaboratively explore a plethora of ideas to support an innovative brand strategy. This segment encourages identification of strategic brand objectives, recognition of obstacles and exploration of tactics needed. One of the most exciting parts in this section was exploring creative brainstorming techniques. Both Catrambone and Jackson engaged the group in various physical and voice exercises that revealed a myriad of creative outputs. Student **Gregory Tardy** describes his Act 2 experience: "I learned the importance of creativity and imagination in leadership and decision making. When brainstorming, I learned never to respond with 'but … instead say yes, and …'"
- **Act 3 — Inspiring Creative Action.**
  This is the course capstone; here is where action learning takes place. Each person applies the tools learned in Act 1 and 2 and demonstrates ability to use them in solving a business problem. Prior to the session, students were asked to submit a business challenge or problem; these were used in Act 3. The remarkable conclusion of Act 3 was the myriad of creative strategies each student team developed to solve the actual business problem. Moreover, students discovered what is meant by being authentic and the notion of distributive leadership, and to inspire creativity and spawn innovation. Each student had to prepare a presentation not knowing if he/she would be



called on to deliver it to the class. Student **Tracy Stevenson,** shares her perspective of Act 3: "Took all that we learned and applied it to a business in a collaborative approach under a tight time frame, which resulted in a flow of ideas. Together we selected the best for the presentation."

The evaluations completed at the end of the session by all students confirmed an overall rating of 4.77 out of 5, ranking it among the most outstanding sessions conducted at the Orlando Annual Meeting. **Rajesh N. Lyer** summarized his workshop experience: "The seminar ... allowed us to state what we felt [with] each stage of the process by setting it in context to body awareness, sound awareness, emotional awareness and energy awareness. We learned new approaches to allowing us to create trust ... and focus on tasks which provided such [an] outlet, completing it with action oriented tasks... ."

How does all this learning translate to more effective leaders in the workplace? We need men and women who can inspire not simply by being charismatic, or by evidencing understanding leadership principles and concepts, or by simply employing assessment tools like Myers-Briggs, but with the power of their imagination and well-developed skills of interaction.

I wish in my corporate experience I had the insights, skill and abilities provided in this course. One of the many challenging corporate tasks I experienced was project management, where strategies and tactics to achieve an objective involved contributions from a diverse workforce. I wonder how different my results would have been if I was more authentic in my leadership style, employed brainstorming techniques using a "yes and" approach to galvanize the project team to create fresh approaches to problem solving. Creative ownership and involvement in the process of developing solutions encourages a powerful sense of pride, leading one to feel inspired to take action. Strategic thinking and planning is an application where the skills introduced in this course can have surprising and exciting outcomes.

When I reflect on my observations as a facilitator for the Orlando course, I was impressed with how the students responded to each step in the training process. Each phase of training elevated the group's interest and energized the students' thinking to deliver creative thoughts and actions culminating in Act 3. Each of three presentations revealed inspiring creative strategies with a team of cheerleaders and supporters who were committed to completing the mission.

In a post-session survey, we asked students to describe how transferable the knowledge and skills gained in this course are to their career goals and leadership roles. Responses ranged from "helped considerably" to "at a very high level." Here is how student **Daniel Fash** answered the question: "The course helped me curtail my analytical tendencies, which quite frankly is something I need to do. Being able to work in a flow where acting and reacting off the cuff can be a great, positive environment where truly creative processes and ideas can evolve. Saying your first thought or answer is usually the right one, really seems to be true. Being authentic with oneself first, I believe, is a needed ingredient before you can be fully immersed within a group environment. Acting dynamically, physically helps immeasurable in presentations and team meetings." ■

The Impact of Crisis Management on Corporate Reputation

by Calvin "Cal" E. Beyer

Calvin "Cal" E. Beyer is vice president and the head of manufacturing for Zurich North America's Customer Industry Segments (CIS). In his current role, Beyer is the senior leader of the manufacturing segment and is responsible for the strategic development and profitable growth of this diverse industry group. He is responsible for expanding North America Commercial's customer insight and thought leadership in the manufacturing segment. Beyer is a published author and a frequent presenter at regional and national industry events on various risk management topics, including emergency preparedness, crisis management, reputation risk management and business continuity. He has been active in the Construction Financial Management Association (CFMA).

Editor's note: "Source — *CFMA BuildingProfits,* Construction Financial Management Association, Princeton, N.J. (www.cfma.org)." Reprinted with permission.

The Hidden Cost of Crises — The Threat of Reputation Risk

Construction emergencies and disasters adversely disrupt the operations of contractors. Likewise, errors in strategic direction, managerial judgments and employee actions (or inactions) can create organizational crises that adversely impact both the financial performance and public image of the individual companies involved.

Moreover, the reputation of the construction industry as a whole is tarnished by these individual events as well. Construction financial managers (CFMs) can counter the threat of reputation risk by employing proactive strategies to help their companies better anticipate and prevent — or respond to and mitigate — organizational crises.

In this era of intensified media attention and electronic connectivity, the importance of preserving a company's image and corporate reputation has become increasingly important. Such innovations as blogging and social networking have changed the rules of engagement about publicity and what constitutes "news."

Before the information age and the omnipresent Internet, companies in crisis had more time to consider a thoughtful response. Often times, the initial media reports of a crisis detailed the corrective actions already taken by the company and overshadowed the original offense.

Today, the threat of negative attention from the media, the Internet and other electronic sources in the aftermath of a crisis is real. The almost universal access and blinding speed of information — and disinformation — demands an urgent response.

Negative attention can threaten a company's vitality and viability. For some, the avalanche of negative attention that follows a crisis will be too much to overcome. Depending on the specific circumstances, the resultant public perceptions and the responses from key stakeholders, company survival may be at risk.

The prospect of future work is jeopardized when contractors are removed from lists of eligible bidders or pre-approved contractors. Contractors may be removed from these lists for recurring safety violations, jobsite fatalities, excessive injury frequency or severity rates, an experience modification rating (EMR) above a specified threshold, or a reputation for poor workmanship resulting in construction defects.

The old adage that "the best offense is a good defense" still applies. A first-strike response must be initiated immediately to establish damage control and begin countering any adverse publicity. With the stakes from negative publicity so high, many crisis management professionals now emphasize preparedness as a way to minimize the threat of reputation risk.

Crisis Prevention vs. Crisis Risk Management

As a risk management professional, I am always surprised when companies fail to see the wisdom in planning for crisis prevention and mitigation. As a result, I have built a strong professional network of crisis management practitioners.

These professionals work in various specialty functions of business consultation (such as public relations, media management and crisis communication, critical incident response, and litigation management), and provide a full spectrum of support services to help companies respond to, mitigate and recover from organizational crises.

Yet, these professionals all share the same lament: Crisis management largely remains a reactive process in response to crises, instead of a proactive discipline.

In this context, I interviewed **James Lukaszewski,** a leading crisis management expert, for this article. His comments are excerpted in Exhibit 1 on page 16, where he describes how a company can shift from a mindset of reactive crisis management to a state of proactive crisis readiness.

Types of Risks Contractors Face

Contractors face many different types of risks that are traditionally classified into six categories: financial, operational, human, legal, insurance and fortuitous. Exhibit 2 on page 17 provides examples of each category. Note that technological risk can be classified as operational, human or fortuitous risk, as in the case of intentional or malicious man-made disasters.

For an application of this system, see my article on "Construction Defects: A Primer for CFMs" in the January/February 2009 issue [of *CFMA BuildingProfits*] that discusses the primary and secondary risks associated with various quality management consequences.

Strategic Assets vs. Strategic Risks

In addition, a new seventh category of risk has evolved within the risk management profession: strategic risks that center on a company's tangible and intangible assets. These assets and risks dictate a company's long-term strategic direction, determine its operational priorities and affect its tactical decision-making processes.

Chief among the strategic assets that can become strategic risks are company image and corporate reputation. Other examples include:

- Key relationships, including partnerships and strategic alliances.
- Availability of capital and credit.
- Patents and other intellectual property.
- Adoption of technology and other innovations, including outsourcing.
- Economies of scope and scale.
- Changing political and regulatory climate.
- Increasing competitive pressures, including new competitors, joint ventures/mergers and acquisitions.
- Contraction, divestiture or bankruptcy of existing competitors.
- Emerging substitute products or services.
- Shifting preferences of customers or changing demographic trends.

A quick scan of this list reveals that savvy companies can foresee and plan for most of these risks and the resulting consequences. However, there is one blind spot, an Achilles Heel, if you will: the threat of low-frequency, high-severity events and their impact on company image and corporate reputation.

This strategic-risk blind spot is not surprising when you consider the importance of experience as a teacher. This blind spot occurs when a lack of experience intersects with incomplete comprehension, and is further compounded by a lack of clear warning signals and inadequate detection systems.

Strategic Risk — The Missing Link

I call strategic risk the missing link because it has become a "silver bullet" for convincing change-resistant organizations to become proactive and take action to prevent organizational crises.

Whenever I encounter resistance to new ideas or a challenge to the status quo, I ask: "Are you thinking that this idea or change strategy will not be well-accepted by your owners or that it's not possible to be adopted by your company?"

Often the answer is a "Yes," accompanied by a shrugging of the shoulders or a rolling of the eyes as if to say, "What else can I be expected to do?"

I have begun countering this reply with: "Don't you think the good name of your company, its public image and reputation are worth considering before you say 'No' to this new idea? I would be very surprised if your owners are willing to put their company at risk. After all, it's their names on the signs and logos emblazoned on the company trucks and shirts."

Often, a smile breaks through and I see the proverbial lightbulb go on as the person responds with: "Well, now that you put it that way, perhaps we should consider your new idea or method." When this happens, the process of strategic risk management change has begun.

Strategic Risk Management — A New Definition

My article on "Crisis Management: The Critical Human Element," co-authored with **Bob VandePol** in the September/ October 2009 issue of *CFMA BuildingProfits*, described risk management as the conservation of an organization's human and financial resources.

Based on new realizations about the importance of and the need to manage strategic risk, I offer an expanded definition of strategic risk management as "the preservation and leveraging of an organization's human, financial and strategic assets." Simply put: Assets at risk from internal weaknesses or external threats (such as changing business conditions) must be preserved. Conversely, internal strengths and/or changing external conditions can and should be exploited.

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Exhibit 1 — Crisis Management Interview

Interview with crisis management expert **James E. Lukaszewski,** chairman and president, The Lukaszewski Group Inc.; ABC, APR, Fellow PRSA. Website: www.e911.com; blog: www.e911.com/crisisgurublog.html; or e-mail jel@e911.com.

How can crisis management be shifted from a reactive response to a proactive discipline?

Rename the Function "Readiness"
Since few managers believe that a crisis will ever occur on their watch, use a more constructive management word to describe what we are trying to accomplish. That word is "readiness." This is a positive concept because it asks the right questions rather than being accusatory or judgmental.

Choose Serious Threats
Ninety-five percent of all victim-producing crises are operational and arise from the daily operations of the business or organization where adverse events occur.

These negative events present very little reputational damage threats, unless the management of the victims is bungled. There are knowledgeable people, technicians and experts nearby who can quickly mitigate these kinds of situations.

In contrast, 5 percent of all crises are nonoperational, including sexual harassment, embezzlement, extortion, criminal activity, angry employees, activist attacks, media investigations or litigation. All of these are potentially emotionally charged situations that can produce victims.

These highly unlikely but extremely powerful events present enormous potential reputational damage and can often redefine the career of the leader in charge at the time. It is these nonoperational events where readiness energy needs to be focused.

Prepare Leaders for Leadership
Often, crisis preparation becomes an opportunity to teach management the value of staff functions. Forget that. Find ways to help leaders be leaders when adversity strikes.

Every readiness plan should have a management action component that spells out the crucial roles for leaders in crisis situations. This includes setting the moral tone of the response; breaking down the barriers that interfere with the effectiveness of the response; managing the adversely impacted stakeholders; and demonstrating leadership everywhere and at all times.

What are the hallmarks of leadership in companies that adopt proactive crisis prevention strategies?

First of all, there are comparatively few companies that fit the proactive description. Study after study shows that many of the most sophisticated companies and organizations have yet to seriously start preparing for adversity and crisis.

The readiness success template is a series of six steps:

(1) **Vulnerability Assessment** — a broad and thorough look at those things that could go wrong.

(2) **Key Issue Identification** — select the top half-dozen most threatening vulnerabilities for further preparation and readiness work.

(3) **Scenario Development** — develop each of the six top vulnerabilities into timeline scenarios that can then be used for teaching, training, reviewing and preauthorization.

(4) **Communication and Message Development** — once the scenarios have been selected and analyzed, various crucial activities and actions can be planned and timetables established.

(5) **Rehearsals, Drills and Practice** — unrehearsed and unpracticed plans will fail in most respects every time. A successful response requires that those involved actually practice every aspect of their scenario response on a regular basis.

(6) **Keep Plans Current** — establish ongoing techniques to keep plans, personnel and scenarios up to date. Personnel, organizational structures and reporting relationships change frequently. There must be a strategy to assure all response scenarios are staffed, practiced and ready to implement.

Exhibit 2 — Risk Categories and Representative Examples	
Financial	Cash flow crises; pricing fluctuations; owner bankruptcies; subcontractor defaults; credit risks; investment risks.
Operational	Differing conditions; weather events; mechanical breakdowns; IT system failures; structural or equipment collapses; power outages.
Human	Labor issues; human errors; substance abuse; employee malfeasance; workplace violence.
Legal	Governmental regulations; ethics and governance standards; legal agreements; contractual issues.
Insurance	Workplace injuries or jobsite fatalities; third-party property damages or injuries; construction defects.
Fortuitous	Natural or man-made disasters.

For example, several trends have emerged in the construction industry that have broad strategic implications for both individual companies and the industry as a whole.

Specific examples include: Design/Build project delivery; Leadership in Energy and Environmental Design (LEED), sustainability and "green" construction; innovative project financing; state and federal economic stimulus investment; and asset management concession agreements for toll-based infrastructure projects, such as roads and bridges.

Enterprise Risk Management = Strategic Risk Management

With the advent of enterprise risk management (ERM), strategic risk emerged as the seventh category within the risk management discipline. ERM integrates risk management with strategy formulation and execution.

ERM embeds risk management perspectives into strategic planning, situation or scenario analysis, and strategy formulation. It links strategy with performance measurement and drives risk identification, avoidance, reduction, mitigation and documentation in leading companies.

ERM can help companies avoid "strategic surprises" or "strategic shocks," such as unanticipated or unexpected events. It also helps identify emerging risks. In addition, ERM's integrated, holistic approach helps pinpoint interdependencies and contingent risks — situations that can produce the chain reactions or cascading events that are the precursors of catastrophic loss. (Consider subcontractor default, for example.)

By conducting a systematic assessment of a company's internal strengths and weaknesses, ERM helps identify potential opportunities in a rapidly changing business environment, while helping to avoid the pitfalls of external threats.

Reputation Management as a Strategic Risk Management Imperative

All companies must adapt to the increasingly complex nature of risk and develop new strategies to compete. Strategic risk management focuses on assets that are essential to vitality and long-term viability.

A company's reputation is a core strategic asset. Its image and corporate reputation are primary factors that determine its position in the industry and allow differentiation among its competitors.

Reputation management is a function of brand image, public relations and corporate communications focused on establishing trusted relationships with key stakeholders. Companies with superior reputations have been shown to gain a sustainable competitive advantage. There are many benefits associated with a positive company image and a healthy corporate reputation. Notable among them are the capacity to:

- Become or remain an employer of choice.
- Experience lower voluntary employee attrition.
- Attract new customers or retain your existing client base.
- Enhance your company's ability to forge strategic partnerships and alliances.
- Differentiate your company from its competitors.
- Charge premium prices.

Thomas W. Emison described the characteristics of "Strategic CFMs" in his article on "Key Performance Indicators That Drive Value" in the March/April 2004 issue of CFMA *BuildingProfits*. According to Emison, strategic CFMs "use benchmarking data, best-in-class reports, best practices studies and business analysis process tools to measure company performance."

Emison also provides a series of nonfinancial key performance indicators (KPIs) that drive value. Many of these KPIs would be effective at building or preserving corporate reputations and minimizing reputation risks.

Crisis Avoidance and Reputation Risk Management

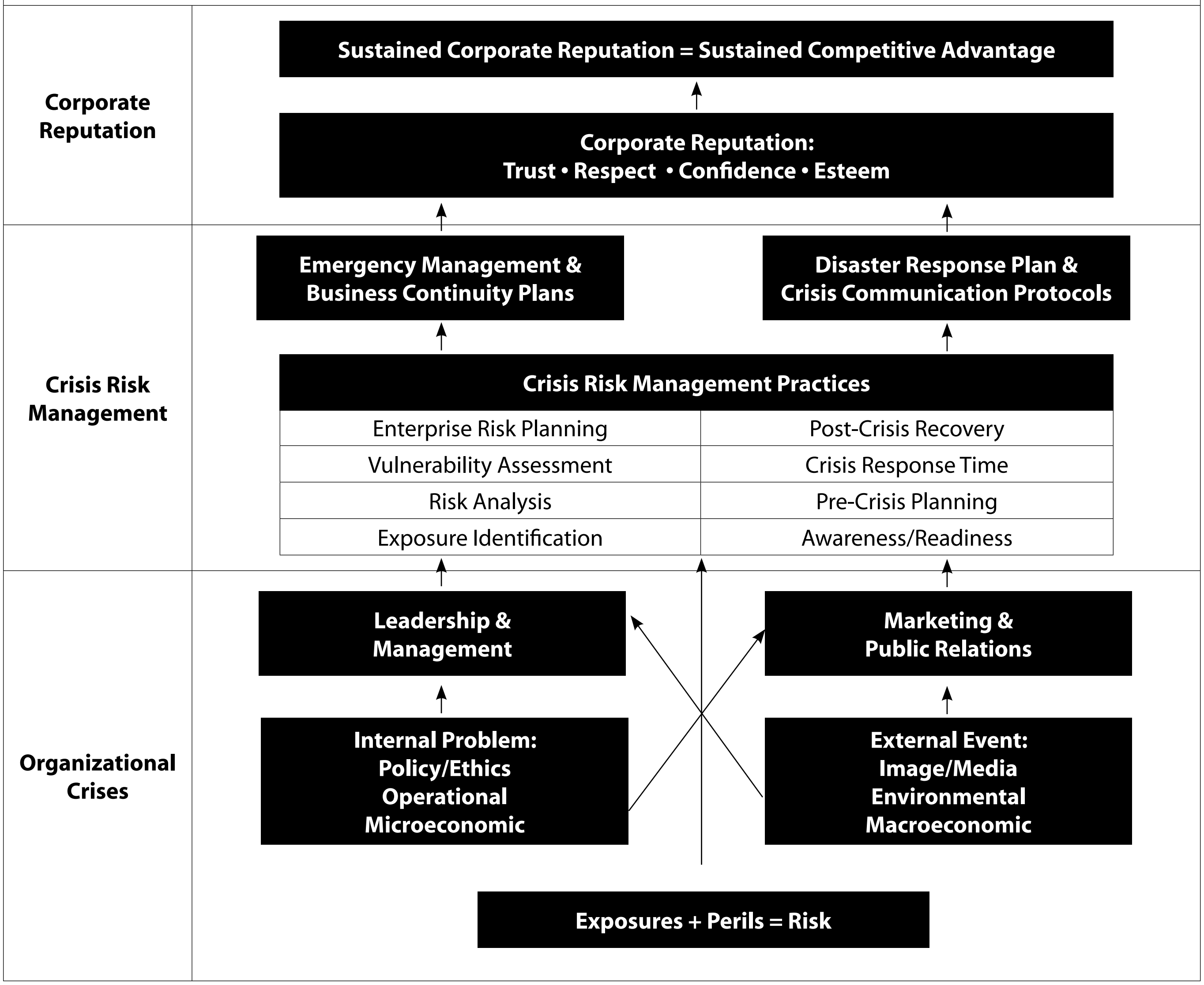
The importance of emphasizing crisis avoidance instead of crisis response and

Continued on page 18

The Impact of Crisis Management on Corporate Reputation

Continued from page 17

Exhibit 3 — Crisis Risk Management and Corporate Reputation



Web Resources

(1) Bernstein Crisis Management, Inc. — crisis management articles: www.bernsteincrisismanagement.com/articles.html

(2) Crisis Care Network — training: www.crisiscare.com/training.htm

(3) Crisis Management International — news: www.cmiatl.com/news.html

(4) The Luakszewski Group Inc. — crisis communication specialists: www.e911.com

(5) Marsh Inc. & Risk and Insurance Management Society, Inc. (RIMS) — "The 360˚ View of Risk: Excellence in Risk Management IV," an annual survey of risk: www.global.marsh.com/news/articles/excellence/documents/excellence_in-risk_management_IV.pdf

(6) Reputation Institute — "Is Your Company Building a Reputation that Enhances Business and Mitigates Risks?" — diagnostic tool: www.reputationinstitute.com/diagnostic recovery cannot be overstated. Financial icon **Warren Buffett,** CEO of Berkshire Hathaway, said: "It takes 20 years to build a reputation and only five minutes to ruin it. If you'd think about that, you'll do things differently."

Another Warren Buffet quote illustrates the importance he attaches to corporate reputation: "Lose money for the firm, and I will be understanding; lose a shred of reputation for the firm, and I will be ruthless."[1]

The Halo Effect vs. the Black Eye Effect

The "halo effect" occurs when the perceived positive attributes or actions associated with an individual, product, brand or company outweigh the negative features of the same person, product, brand or company. A major benefit of the halo effect is that these positive attributes persist or endure until diminished by a significant negative event.

The halo effect is a positive bellwether for personal and company reputation because once a person, brand, product or company has been perceived positively, the byproducts are trust, respect, confidence and esteem.

Unfortunately, a reverse halo effect also exists, whereby the negative attributes or actions of a person, brand, product or company outweigh the positive attributes and actions. This is described as the "black eye effect" — when one company in an industry experiences an event that produces a negative image, not only does that company get a "black eye," but the entire industry also suffers the same consequences.

The black eye effect represents a crucial turning point in any crisis — the point at which reputation risk shifts to reputation damage.

Reputation — The Ultimate Indirect Cost

CFMs frequently ask me to help quantify the costs of insurance risk and loss costs. In previous articles for this magazine [*CFMA BuildingProfits*], I have described "Risk Performance Metrics" (September/October 2007) and "Internal & External Benchmarking of Insurance Claims Data," co-authored by **Greg Stefan** (July/August 2008).

These articles shared examples of various methods and techniques of measuring or quantifying risk. An important concept here is the difference between direct and indirect costs in calculating the total cost of risk.

Basically, indirect costs are the uninsured costs that act as a multiplier on the direct insured costs. Indirect costs are rarely captured in job costing, and therefore, are a drain on a company's bottom line.

Given the gravity, difficulty and time needed to repair and restore a damaged reputation, a company's image and corporate reputation can be viewed as the ultimate indirect cost.

Reputation Management to Build Competitive Advantage

Anthony Johndrow, managing director of Reputation Institute's U.S. advisory practice, shared some thoughts on the applicability of reputation management to the small, privately held businesses that characterize America's construction industry.

He advises that: "The intangible asset of corporate reputation is much more tangible for small, privately held businesses — they reap the benefits or feel the consequences more directly.

"A strong reputation means strong relationships, and strong relationships build businesses — customers recommend you, communities support your projects, the media gives you the benefit of the doubt in a crisis and employees act as your best marketers."

Moreover, he asserts: "Corporate reputations are not easily earned, so once a gap vs. your competition is established, it's much more valuable than a marketing win. It can take years for your competitors to play catch-up." Finally, he offers an admonition as well: "Of course, reputations can be lost in a heartbeat by your own action or inaction. Keeping a strong reputation requires vigilance."

A conceptual model depicting the relationship between crisis risk management and corporate reputation is shown in Exhibit 3 on page 18.

Conclusion

In this era of increased competitive pressure and rapid change, the importance of crisis readiness to avoid and respond to organizational crises is a strategic management imperative.

Organizational crises threaten company vitality and stability by jeopardizing financial performance and corporate reputation. Strategic risk management can preserve and leverage the core company asset of corporate reputation.

As strategic leaders, CFMs are encouraged to build awareness among all employees of the importance of crisis avoidance and readiness. Ultimately, a company that recognizes and understands the value of corporate reputation will be more vigilant in protecting this core strategic asset. The benefits of doing so will reap both tangible and intangible results. ■

Endnote

(1) Miles, Robert P. Warren Buffett *Wealth: Principles and Practical Methods Used by the World's Greatest Investor,* pp. 197-198. Hoboken: Wiley, 2004.

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