CORPORATE DIPLOMACY: BUILDING REPUTATIONS AND RELATIONSHIPS WITH EXTERNAL STAKEHOLDERS

Witold J. Henisz
Deloitte & Touche Professor of Management
The Wharton School, University of Pennsylvania

Presentation at Ryerson University’s Institute for the Study of Corporate Social Responsibility

Toronto, Ontario, Sept. 8, 2014
Lack of Integration = Marginalization

- Vice President or Higher
- Senior Manager
- Associate Director/Director
- Manager
Arrogant Engagement
PERILS OF GOOD INTENTIONS
AES-Telasi: PowerTrip meets PowerPlay
Best Practices of Corporate DIPLOMacy

**DUE DILIGENCE**
- Stakeholder mapping & analysis

**INTEGRATION**
- Integrating stakeholder data into core business systems

**PERSONAL**
- Earning stakeholder trust & the social license to operate

**LEARNING**
- Adapting to negative feedback in a necessarily imperfect system

**OPENNESS**
- Strategically communicating to reinforce trust & reputation

**MINDSET**
- Cultivating an externally-facing organizational mindset

Analytical  Behavioral-External  Behavioral-Internal

Witold Henisz
Best Practices of Corporate DIPLOMacy

**Due Diligence**

**Stakeholder mapping & analysis:** Identify key stakeholders, their interests, strengths. Linkages & behavioral drivers

**Integration**

Integrating stakeholder data into core business systems

**Personal**

Earning stakeholder trust & the social license to operate

**Learning**

Adapting to negative feedback in a necessarily imperfect system

**Openness**

Strategically communicating to reinforce trust & reputation

**Mindset**

Cultivating an externally-facing organizational mindset

Analytical  Behavioral-External  Behavioral-Internal
Country A, Mine Site A

According to the same logic, the fact that challengers and opponents share issues of concern without being exposed to the potential moderating influence of more positively disposed groups represents a source of sociopolitical risk.

(bubbles indicate average mentions per stakeholder) weighted by effective power)
Engagement Strategy

- Partner with National Health Service
- Use Health Service's influence over radio stations to customize messaging based on the stations' divergent opinions of the company

Hypothetical issue: cholera outbreak attributed to mine
Best Practices of Corporate Diplomacy

**DUE DILIGENCE**
- Stakeholder mapping & analysis

**INTEGRATION**
- **Integrating stakeholder data into core business systems**: Assessing relative impact of strategies on financial and operating performance or other KPIs

**PERSONAL**
- Earning stakeholder trust & the social license to operate

**LEARNING**
- Adapting to negative feedback in a necessarily imperfect system

**OPENNESS**
- Strategically communicating to reinforce trust & reputation

**MINDSET**
- Cultivating an externally-facing organizational mindset

**Analytical**  **Behavioral-External**  **Behavioral-Internal**

Witold Henisz
Integration: FVTOOL, Value Protection

Sustainability-related event (risks) could cause a substantial decline in value of a project, such as:

1. Delay in the planning phase (pre-feasibility, feasibility)
2. Delay in the construction phase
3. Disruption in the production phase (operations)
4. Project cancellation/expropriation
5. Added (unforeseen) costs
6. Lawsuits

<table>
<thead>
<tr>
<th></th>
<th>Annual Rate of Occurrence</th>
<th>Duration (months)</th>
<th>One Time Cost</th>
<th>Lost Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Min</td>
<td>0.3</td>
<td>Min: 0.1</td>
<td>Min: 140k</td>
<td>Min: 20%</td>
</tr>
<tr>
<td>Likely:</td>
<td>0.45</td>
<td>Likely: 0.4</td>
<td>Likely: 250k</td>
<td>Likely: 40%</td>
</tr>
<tr>
<td>Max: 0.6</td>
<td></td>
<td>Max: 0.7</td>
<td>Max: 500k</td>
<td>Max: 60%</td>
</tr>
</tbody>
</table>

Objective: to model cash flow, based on Monte Carlo simulations
Integration: FVTOOL, Monte Carlo Simulation

Monte Carlo is a:
- Statistical technique by which a quantity is calculated repeatedly
- Using randomly selected “what-if” scenarios.
- Results approximate the full range of possible outcomes

Witold Henisz

Total Sustainability
Portfolio Value-Added

<table>
<thead>
<tr>
<th>Minimum</th>
<th>-319749</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum</td>
<td>1301754</td>
</tr>
<tr>
<td>Mean</td>
<td>517167</td>
</tr>
<tr>
<td>Std Dev</td>
<td>273004</td>
</tr>
</tbody>
</table>

Values in k USD
Integration: FVTOOL, NPV of sustainability

Dashboard - Total Sustainability Value Added

<table>
<thead>
<tr>
<th>Sustainability Issue /Initiatives</th>
<th>Value Creation NPV Calculations</th>
<th>Value Protection NPV Calculations</th>
<th>Total SD/CR added value (NPV)</th>
<th>Relative Share</th>
<th>Sharpe Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Access</td>
<td>113,914.77</td>
<td>11,413.62</td>
<td>125,328.39</td>
<td>16.46%</td>
<td>4.21</td>
</tr>
<tr>
<td>Local Business Dev</td>
<td>48,723.09</td>
<td>7,609.08</td>
<td>56,332.17</td>
<td>10.98%</td>
<td>2.17</td>
</tr>
<tr>
<td>Health Programs</td>
<td>6,094.80</td>
<td>3,804.54</td>
<td>9,899.34</td>
<td>5.49%</td>
<td>1.34</td>
</tr>
<tr>
<td>Water Programs</td>
<td>5,561.69</td>
<td>6,340.90</td>
<td>11,902.59</td>
<td>9.15%</td>
<td>1.03</td>
</tr>
<tr>
<td>Local Employment</td>
<td>1,862.06</td>
<td>8,877.26</td>
<td>10,739.32</td>
<td>12.80%</td>
<td>0.70</td>
</tr>
<tr>
<td>Biodiversity</td>
<td>(8,899.47)</td>
<td>7,609.08</td>
<td>(1,290.39)</td>
<td>10.98%</td>
<td>(0.10)</td>
</tr>
<tr>
<td>Community Foundation</td>
<td>(31,403.51)</td>
<td>6,340.90</td>
<td>(25,062.62)</td>
<td>9.15%</td>
<td>(1.33)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>135,853.42</strong></td>
<td><strong>51,995.36</strong></td>
<td><strong>187,848.83</strong></td>
<td><strong>75.00%</strong></td>
<td></td>
</tr>
</tbody>
</table>

For $2billion CAPEX project, sustainability investments returned as much as $187 million of NPV.
Best Practices of Corporate DIPLOMacy

**DUE DILIGENCE**
Stakeholder mapping & analysis

**INTEGRATION**
Integrating stakeholder data into core business systems

**PERSONAL**
**Earning stakeholder trust & the social license to operate:** Enhancing understanding, fairness, clarity and ability to resolve disputes

**LEARNING**
Adapting to negative feedback in a necessarily imperfect system

**OPENNESS**
Strategically communicating to reinforce trust & reputation

**MINDSET**
Cultivating an externally-facing organizational mindset

Analytical | Behavioral-External | Behavioral-Internal

Witold Henisz
The Trust Radar

Empathy

Commitment  Transparency

Expertise
Arnstein (1969) Ladder of citizen participation

- Citizen control
- Delegated power
- Partnership
- Placation
- Consultation
- Informing
- Therapy
- Manipulation

Degrees of citizen power

Degrees of tokenism

No power
Best Practices of Corporate DIPLOMacy

**DUE DILIGENCE** Stakeholder mapping & analysis

**INTEGRATION** Integrating stakeholder data into core business systems

**PERSONAL** Earning stakeholder trust & the social license to operate

**LEARNING** Adapting to negative feedback in a necessarily imperfect system: Frequent data updates, avoiding behavioral traps and a safe environment for self-criticism

**OPENNESS** Strategically communicating to reinforce trust & reputation

**MINDSET** Cultivating an externally-facing organizational mindset

Analytical  Behavioral-External  Behavioral-Internal

Witold Henisz
Every Aspect of Proposal Influenced by Stakeholder and Cross-Functional Feedback

Figure 4-1: Site Selection Activities
Best Practices of Corporate DIPLOMacy

**DUE DILIGENCE**
- Stakeholder mapping & analysis

**INTEGRATION**
- Integrating stakeholder data into core business systems

**PERSONAL**
- Earning stakeholder trust & the social license to operate

**LEARNING**
- Adapting to negative feedback in a necessarily imperfect system

**OPENNESS**
- **Strategically communicating to reinforce trust & reputation:** Integrated reporting that matches words to deeds, crisis management, transparency and honesty

**MINDSET**
- Cultivating an externally-facing organizational mindset

**Analytical**

**Behavioral-External**

**Behavioral-Internal**
Scenes from the Battlefield

Knowledge for Action

Witold Henisz
**Best Practices of Corporate DIPLOMacy**

<table>
<thead>
<tr>
<th>DUE DILIGENCE</th>
<th>Stakeholder mapping &amp; analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTEGRATION</td>
<td>Integrating stakeholder data into core business systems</td>
</tr>
<tr>
<td>PERSONAL</td>
<td>Earning stakeholder trust &amp; the social license to operate</td>
</tr>
<tr>
<td>LEARNING</td>
<td>Adapting to negative feedback in a necessarily imperfect system</td>
</tr>
<tr>
<td>OPENNESS</td>
<td>Strategically communicating to reinforce trust &amp; reputation</td>
</tr>
<tr>
<td>MINDSET</td>
<td>Cultivating an externally-facing organizational mindset: Incentives and rites that reinforce shared &gt; shareholder value and long-term &gt; short-term for all</td>
</tr>
</tbody>
</table>

Analytical  
Behavioral-External  
Behavioral-Internal
• In 1923, our Danish founders began a journey to change diabetes. Today, we are thousands of employees across the world with the passion, the skills and the commitment to continue this journey to prevent, treat and ultimately cure diabetes.

• Our ambition is to strengthen our leadership in diabetes
• Our key contribution is to discover and develop innovative biological medicines and make them accessible to patients throughout the world.
• We aspire to change possibilities in haemophilia and other serious chronic conditions where we can make a difference.
• Growing our business and delivering competitive financial results is what allows us to help patients live better lives, offer an attractive return to our shareholders and contribute to our communities.
• We never compromise on quality and business ethics.
• Our business philosophy is one of balancing financial, social and environmental considerations - we call it 'The Triple Bottom Line'.
• We are open & honest, ambitious & accountable. We treat everyone w/ respect
• We offer opportunities for our people to realise their potential.
• Every day, we must make difficult choices, always keeping in mind, what is best for patients, our employees and our shareholders in the long run.
Best Practice of Corporate Diplomacy

- Join the LinkedIn Group or follow @whenisz
- Check out free content at http://www.corporatediplomacy.com