CORPORATE DIPLOMACY: BUILDING REPUTATIONS AND RELATIONSHIPS WITH EXTERNAL STAKEHOLDERS

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The Wharton School, University of Pennsylvania

&

Principal, PRIMA LLC
AES-Telasi: PowerTrip meets PowerPlay
### Best Practices of Corporate DIPLOMacy

<table>
<thead>
<tr>
<th>Analytical</th>
<th>Behavioral-External</th>
<th>Behavioral-Internal</th>
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Best Practices of Corporate DIPLOMacy

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

Integrating stakeholder data into core business systems

Earning stakeholder trust & the social license to operate

Adapting to negative feedback in a necessarily imperfect system

Strategically communicating to reinforce trust & reputation

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
Hypothetical issue: cholera outbreak attributed to mine

Engagement Strategy

- Partner with National Health Service
- Use the health service’s influence over radio stations to customize messaging based on the stations’ divergent opinions of the company.
Best Practices of Corporate DIPLOMacy

- Stakeholder mapping & analysis
- Integrating stakeholder data into core business systems: Assessing relative impact of strategies on financial and operating performance or other KPIs
- Earning stakeholder trust & the social license to operate
- Adapting to negative feedback in a necessarily imperfect system
- Strategically communicating to reinforce trust & reputation
- Cultivating an externally-facing organizational mindset

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

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Integration: FVTOOL, Monte Carlo Simulation

Value in Billions

<table>
<thead>
<tr>
<th>Occurrences</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0</td>
</tr>
<tr>
<td>0.2</td>
</tr>
<tr>
<td>0.4</td>
</tr>
<tr>
<td>0.6</td>
</tr>
<tr>
<td>0.8</td>
</tr>
<tr>
<td>1.0</td>
</tr>
<tr>
<td>1.2</td>
</tr>
<tr>
<td>1.4</td>
</tr>
<tr>
<td>1.6</td>
</tr>
<tr>
<td>1.8</td>
</tr>
<tr>
<td>2.0</td>
</tr>
</tbody>
</table>

Total Sustainability
Portfolio Value-Added

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

Values in k USD
Integration: FVTOOL, NPV of sustainability

Dashboard - Total Sustainability Value Added

<table>
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<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>TOTAL</td>
<td>135,853.42</td>
<td>51,995.36</td>
<td>187,848.83</td>
<td>75.00%</td>
<td></td>
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For $2billion CAPEX project, sustainability investments returned as much as $187 million of NPV.
Best Practices of Corporate DIPLOMacy

- **Stakeholder mapping & analysis**
- **Integrating stakeholder data into core business systems**
- **Earning stakeholder trust & the social license to operate**: Enhancing understanding, fairness, clarity and ability to resolve disputes
- **Adapting to negative feedback in a necessarily imperfect system**
- **Strategically communicating to reinforce trust & reputation**
- **Cultivating an externally-facing organizational mindset**

**Analytical**

**Behavioral-External**

**Behavioral-Internal**

Witold Henisz
The Trust Radar

Empathy

Commitment

Expertise

Transparency
Arnstein (1969) Ladder of citizen participation

- Citizen control: Degrees of citizen power
- Delegated power
- Partnership
- Placation: Degrees of tokenism
- Consultation
- Informing
- Therapy
- Manipulation: No power
Best Practices of Corporate DIPLOMacy

Stakeholder mapping & analysis

Integrating stakeholder data into core business systems

Earning stakeholder trust & the social license to operate

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

Strategically communicating to reinforce trust & reputation

Cultivating an externally-facing organizational mindset

Analytical

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

Figure 4-1: Site Selection Activities

- **Stage**
  - 1997: No Project and Competing Technologies
    - Offshore: Cases 1 & 1A
    - Onshore: Cases 2, 3, & 3A
  - April–October 2002: Concept Selection
    - Luanda, Ponta Splimbera, Barra doande, Soyo, offshore
  - November 2002–May 2004: Concept Development
    - Round 1 – Pre-Screening: 10 Soyo alternatives (5 plant locations and 7 marine terminal locations)
    - Round 2 – Initial Screening: 5 Soyo alternatives (5 plant locations and 5 marine terminal locations)
    - Channel and Hybrid: Two alternatives from Round 2, plus

- **Sites Reviewed**
  - Offshore near Lombo East, Ponta da Musserra, Ambriz, Luanda (Ponta da Musserra North, Ambrizete, Cabeca da Cobra separately by BP)
  - Site evaluated against: safety, local impact/content/social benefits, security of gas supply, extent and timing of elimination of flaring, synchronization with oil development, schedule risk, economics
  - High-level quantitative assessment eliminated 5 based on not being mutually exclusive themes, operability and security issues, intractable environmental concerns
    - Strategy tables
    - SWOT
    - Screening matrix
    - Paired comparison
  - Site evaluated against: socioeconomic, economic, health & safety, environmental, operability, reliability, maintainability, schedule
    - 3 additional sites eliminated
    - Scoring and weighted screening matrix

- **Approach**
  - No formal site selection criteria at the time
  - No formal site selection criteria at the time

- **Shortlist Sites**
  - LNG Preferred Solution
  - Luanda
  - Soyo
  - Pre-FEED Base
  - Low Tech
  - Best Shipping
  - Simple Pipelines
  - Up the River
  - Low Tech
  - Best Shipping
  - Best Shipping Selected
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Scenes from the Battlefield
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Cultivating an externally-facing organizational mindset: Incentives and rites that reinforce shared > shareholder value and long-term > short-term for all

Analytical
Behavioral-External
Behavioral-Internal

Witold Henisz
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

Stakeholder mapping & analysis
Integrating stakeholder mapping & analysis into core business systems

Stakeholder relationships are personal relationships
Adapting to negative feedback in a necessarily imperfect system

Strategically communicating to reinforce trust & reputation
Cultivating an externally-facing organizational mindset

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