Reputation Risks for Life and Health Insurance Companies: An Underrated Threat

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Reputation is no longer a ‘soft factor’

A good corporate reputation means a company enjoys the trust of its key stakeholders. It is one of a company’s most important intangible assets, but it can be damaged quickly if managers ignore potential risks.

This is particularly true for life and health insurance companies. Rather than selling a tangible product, they are offering a promise of performance, possibly decades in the future. Since their customers have only very limited means of checking an insurance company’s performance promise, they rely on reputation. In particular, they trust the insurance companies to deal responsibly with sensitive customer details and with the money entrusted to them. For this, they are prepared to pay a premium. A good reputation is therefore a key source of competitive advantage.

It is therefore all the more surprising that, unlike in the manufacturing sector,1 reputation risks still play a subsidiary role in the corporate risk management of insurance companies. There are two reasons for this: the difficulty of measuring such risks, and a lack of understanding about the mechanisms that lead to reputation risk events. Many risk managers are asking whether there is in fact any way of managing reputation risks.

What are reputation risks?

Reputation risks arise when a company fails to meet stakeholders’ expectations and they change their behaviour. There are two different interpretations here:

- Reputation risks seen as an original, stand-alone risk category (reputational risk) arise as a result of e.g. rumours about a potential hostile takeover or negative media reports about changes to the board of directors.

- Reputation risks as a possible consequence of other risks (‘risk of risks’ or reputational impact) are, technically speaking, an additional category alongside financial loss. This means that a corporate reputation can be damaged as a result of practically any type of risk, including poor corporate governance, unethical practices, cyber risks, compliance failures and dubious sales practices. The occurrence of these risks can lead directly to financial loss (primary
impact). At the same time, changes to stakeholder behaviour can lead to additional reputational losses, which come with further financial effects (secondary impact). These secondary impacts can be much more serious than the primary risk impacts. This effect explains in part why reputation risks are systematically underrated in traditional risk management approaches.

A few examples
- For an insurance company, a hacker attack on confidential customer data can turn into a disaster, particularly if confidential, unencrypted customer information is stolen, e.g. social security numbers and health details. Customers will sue for damages for identity theft. Supervisory bodies will expect a thorough investigation. Such cases often lead to proposals for new legislation, as happened recently in the US, where some states want to make the encryption of personal data mandatory for insurance companies.

Data theft and cybercrime can spark a serious reputation crisis, particularly in the health sector, so insurance companies should make these issues a priority.2

- Other awkward situations include debatable sales practices or malpractice by individual sales employees that becomes public knowledge. Some cases have made a lasting negative impression. Consumer protection bodies and politicians often claim that high broker commissions lead to customers being given the wrong advice. In the past, some providers encouraged customers to take out high life assurance policies financed by loans. The yield on the investment was expected to exceed the loan interest, resulting in very high gains for the customer. In fact, the opposite happened and customers lost large sums of money. The insurance companies had not pointed out these risks sufficiently, if at all, in their sales brochures, resulting in a wave of complaints. In many cases, the direct consequences of this kind of problem include the reversal of insurance contracts or payment of compensation. However, the long-term, indirect effects on the insurance company are much more damaging.

- The capital investment side of the business can also be a stumbling block. There are sometimes protests during annual general meetings against dubious investment practices. Critics point to investments in mining projects that damage the environment or to speculation in agricultural commodities. NGOs are increasingly calling on life insurance companies as major institutional investors to pursue responsible, socially acceptable investment policies.

- The product side: The products themselves are also frequently the cause of a company’s reputation being tarnished. Consumer protection bodies criticise the poor half-life of certain pension products, claiming that a lack of transparency means customers are not sufficiently informed about risks, yield prospects and fees when signing contracts.

Editorial

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This 2015 issue of Risk Management Review focuses on reputation risk, with two comprehensive articles on the subject. A good reputation is an intangible asset – a fragile thing with far-reaching significance for a company’s success. It is easy for an organisation to suffer a damaged reputation if it ignores the potential risks.

Dr. Carina Sieler and Hans-Christoph Noack outline the spectrum of possible reputation risks for insurance companies and highlight the potential impacts. Managing reputation risks is important.

Sieler and Noack point out that Peter Drucker’s claim ‘If you can’t measure it, you can’t manage it’ does not apply to reputation risks, since these risks cannot be measured using conventional quantitative measures. The authors develop a practical organisational and management model for managing reputation risks in the insurance industry.

Frank Romeike and Dr. Christian Weißensteiner’s article describes the need for a company-wide risk management system in the insurance industry. They justify their position by defining the term reputation and developing an analysis – supported by research studies – of factors that influence reputation. Another recent study deals with reputation as a risk factor. The authors used the findings from various studies and sources to develop concrete tools for preventative reputation risk management.

Adrian Schweizer’s article asks the question: ‘What really works in management communication?’ To tackle this fascinating problem, Schweizer refers to the neurological research conducted by Gerhard Roth. The concepts of ‘communicative alliance’ and ‘emotional restructuring’ play a key role in the effectiveness of communication as practised by managers and leaders and represent an addition to general communication theory.

The ability to emerge stronger from extreme challenges and serious difficulties is called resilience. Ulrich Geuther’s article explains the features of resilient leadership and resilient companies. In a second step, he develops appropriate strategies for increasing individual and organisational resilience – in line with the saying ‘Never waste a good crisis’.
Poor service in the private health insurance sector can also cause problems, e.g. low-rate policies that can leave policy holders in a worse position than compulsory health insurance policies.

The consequences of reputation risk events

The reputation of an insurance company can be damaged in just a few days. The risk is higher today than it was a few years ago because it is amplified by global communication channels, a constant media presence and dwindling customer loyalty. If there is a serious loss of trust, reputation risks can quickly threaten a company’s very existence. But even a gradual erosion of trust can be dangerous for an insurance company.

The examples also show that the consequences of reputational risk events can vary widely. Generally, they have an impact only on the company concerned to start with, but in some cases the impacts can also affect the entire industry. This kind of spill-over effect is more common in insurance than in other sectors of the economy.3

Life and health insurance companies in particular have been suffering from a poor industry reputation in recent years. The period of low interest rates in the wake of the financial crisis, claims of excessive marketing costs, cancellation penalties and insufficient participation in valuation reserves have tarnished the reputation of the entire industry. Crises affecting individual companies can often have an impact on the insurance industry as whole: when one German insurance company got into financial difficulties, it led to the creation of a national rescue company for the life insurance industry. The protection fund, which has since been enshrined in law, is designed to protect existing customer policies in the event that an insurance company becomes insolvent. The UK, Scandinavia and the Netherlands introduced bans on commissions for insurance brokers after sales were being driven by commissions. There are also various legislative proposals at EU level dealing with customer data and minimum rates of return on life insurance policies.

However, the impacts of reputation risks on individual companies are a greater threat. As a rule, the secondary impacts of reputation risks are a decline in new business compared with competitors, or an increase in policy cancellations. Other potential consequences include (class) lawsuits by policy holders, greater state supervision, specific regulatory measures against insurance companies that become public knowledge, and even criminal prosecutions of board members.

Managing reputation risks is no easy task

There are already attempts in the banking sector to integrate reputational risks into existing risk management systems (especially under operational risks). By contrast, reputational risk management in the insurance industry is still in its infancy. There are a number of reasons for this.

- Although an insurance company’s reputation is undoubtedly one of its key assets, it is difficult to evaluate corporate reputation and to measure changes. There are no accounting methods for identifying potential stakeholder expectation gaps or estimating the resulting behavioural changes.

- Moreover, reputation risks develop considerable momentum as a result of global communication channels, a constant media presence and the increasingly interactive nature of the media. Static risk assessments are therefore not much use because what is needed above all is foresighted action, particularly in a crisis. Reputational damage often escalates into a real crisis of confidence simply because of the way in which companies deal with risks. Denying, disputing and ignoring problems or resorting to heavy-handed legal measures can cause a situation to spiral out of control. Crisis situations can be exacerbated unnecessarily by communication errors, and social networks accelerate the process dramatically. Today, the first few hours are decisive when it comes to crisis management. As Warren Buffet said, ‘It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently.’

- Good reputation management is hampered by the fact that this is a typical interdisciplinary area that frequently involves many different parts of the organisation: the management team, the communications department, the chief risk officer, marketing, CSR, investor relations, the legal department and maybe even internal strategy experts. However, in most cases there are no clear responsibilities. In many companies, risk managers choose to leave the management of the organisation’s reputation to the PR department.

So what can companies do if they want to improve the management of reputation risks in the future?

Measuring and monitoring reputation risks

Peter Drucker’s old saying ‘If you can’t measure it, you can’t manage it’ fails when it comes to reputational risks. There are no meaningful, quantitative risk indicators available today that help companies manage their reputation by means of figures. Instead, reputational risks have to be assessed using a qualitative or semi-qualitative approach. A measuring concept should be designed to register changes in
stakeholder expectations as early as possible, before they can damage the company. The key is to recognise why and when expectations change in the key stakeholder groups, whether they be policy holders, investors, NGOs, rating agencies, employees, the media, supervisory bodies or the government. Risks that can appear fairly insignificant from inside a company (e.g. individual employees failing to comply with the internal code of conduct) can turn out to be huge reputational risks when viewed from the outside.

To obtain this kind of outside-in perspective, companies need to monitor opinions, moods and trends as they emerge, to identify changes quickly and to set the correct priorities for the company. So far, there is no magic solution. Handy tools include rolling media analyses, focus group interviews, self-assessments and regular stakeholder surveys. These can help identify approaching problems that will affect the company’s business model and that have the potential to alter stakeholder expectations and conduct. What will be the effect, for instance, on an insurance company’s reputation if it offers telemetric tariffs for car or health insurance that lead to different tariffs for different customers?

For critical questions it is a good idea to simulate possible risk scenarios. One method is the business wargaming method, in which stakeholder behaviour is simulated in a number of different rounds so as to uncover the mechanisms underlying their reactions. How will data and consumer protection bodies, customers or legislative authorities react to the possibility of recording movement and eating behaviour via health apps? Will more favourable tariff conditions for people who live a healthy lifestyle be seen as discriminatory? What happens to the personal data collected? Using this information, a company can make some rough quantitative calculations about the potential direct and indirect financial consequences of the stakeholder behaviour.

Ultimately, a valid measurement of reputational risks comes at the end of a longer process, in which companies systematically analyse the expectations of their own stakeholder groups.

**Organisation and risk management**

Instead of worrying about a precise measurement, it is more important for companies to answer the following questions: Who is responsible for dealing with reputational risks within the company? How well prepared is the company to address the risks identified? What potential solutions are available? How do these tie in with the company culture and strategy? And what is the best way to communicate with the relevant audience?

When it comes to risk prevention, we need to differentiate clearly between the various responsibilities and processes. Regular monitoring of stakeholder expectations can be coordinated by the communications department. However, line managers in underwriting, service areas, marketing, sales and IT usually have a better idea of real stakeholder concerns than corporate communications departments. This means they are in a position to identify the importance of issues for their own products, services or IT systems faster, but may not be able to assess the impacts on the company’s reputation.

If stakeholders change their expectations, the company needs to find appropriate responses. These should be discussed and decided upon by a cross-functional reputational risk committee consisting of senior managers.

In addition, reputational risk considerations need to be a fixed component of strategic decision-making processes about new business models, projects, investments and products. However, this is still the exception in most companies today.
Even when a company has a foresighted risk management system in place, around 20 per cent of all reputational risks cannot be identified early enough to bring them under control. Good crisis management is therefore another important element of reputational risk management. In view of the short response time available, responsibility in a crisis must lie with the CEO, supported by an interdepartmental crisis team. This team needs to be in place before a crisis arises. It should consist of decision makers from a range of departments who have been well-trained in crisis management. In general, fast, transparent communications and admitting responsibility are crucial for gaining control of a reputation crisis without suffering major losses.

**Conclusion**

Fortunately, most insurance companies will not be starting from zero. A reputation risk review helps record existing approaches used to manage reputation risks and can pinpoint areas for improvement.

A good starting point is to find out what experience the company already has in dealing with reputational risks. The next step is to carry out an inventory on the following levels:

- **Culture:** Does the company have a practice of listening to what motivates external stakeholders and what they expect from the company? How are stakeholders involved in practice?

- **Processes:** How are reputational risks monitored and reported? How do internal and external communication processes work?

At the end of the process, the company will have a profile of its strengths and weaknesses with regard to its current management of reputational risks, including a comparison with its key peers. It can use this as a basis to draw up a development path and define key fields of action.

**References**


Reputation: A Risk Factor

Current situation – Reputation drivers – Risk assessment

by Frank Romeike MA, RiskNET GmbH, Germany, and Dr. Christian Weißensteiner, certified risk manager, Austria

It often takes years, sometimes even decades, to build a good reputation, yet a reputation can be damaged, or even destroyed, in the blink of an eye. And it is not unusual for the loss of a good reputation to bring a company to its knees. Current developments and increasing pressure from new media (social media, discussion forums, blogs, etc.) can exacerbate the problem. Insurance firms, banks and companies in other industries therefore need to identify threats to their reputations early on and take preventive measures to protect them over the long term. Past experience has shown that reputation risks can have immediate knock-on effects. Warren Edward Buffett, the American investor, entrepreneur and philanthropist, put the problem in a nutshell: ‘It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently.’

Why is reputation management so essential?

In 1999, the 66-year-old life insurance company General American Life was one of the top 50 life insurance companies in the USA, with assets of US$ 14 billion. On 30 July 1999, a simple mismatch between assets and liabilities, compounded by the rumour mill, led credit rating agency Moody’s Investors Service to downgrade the company from A2 to A3. The downgrade caused a serious crisis of confidence and loss of reputation among the firm’s customers and investors, which led to the insurance company being placed under state supervision within the space of ten days.

The reputation crisis hinged on securities worth US$ 6.8 billion issued by General American. Investors were given assurance that they could cash in the securities on seven days’ notice. Within a few hours of the downgrade, several funds managers were demanding

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Figure 1: Rebuilding a reputation is extremely challenging

Figure 2: Rebuilding a reputation can take years

Figure 3: The dimensions and criteria of reputation

(Source: Weber Shandwick survey, in partnership with KRC Research (2006): Safeguarding ReputationTM Survey, global survey – 950 business executives in 11 countries, including North America (U.S., Canada), Europe (UK, Spain, Germany, Italy, Belgium-Brussels), Asia Pacific (Japan, Hong-Kong, India) and Brazil)

(Source: Pontzen/Romeike, p. 406)

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Theory
The term ‘reputation’ refers to the way a company or person is perceived by others. The term ‘corporate reputation’ refers to public perception of an organisation. It follows that a company can have a good or bad corporate reputation only if it is the subject of media attention and reporting (cf. Pontzen/Romeike 2014).

We can differentiate between functional reputation and social reputation (see Figure 3). A company acquires a functional reputation by meeting commercially defined expectations. The criterion that determines a company’s functional reputation is therefore its competence. By contrast, social reputation focuses on the way in which these expectations are met. The relevant criterion here is integrity.

These different forms of reputation are served by different strategies: a good public reputation can be acquired through excellent commercial results (functional reputation) or by demonstrating exemplary management and a high level of social engagement (social reputation). Social reputation and functional reputation are inextricably linked. It is a company’s functional reputation that puts it in a position to make resources available for social projects.

Analysis of factors that influence reputation
The academic discussion is currently focused on ways in which reputation can be represented and measured (cf. Bauer/Romeike/Weißensteiner 2012, Schwaiger/Eberl 2004 and Weißensteiner 2014). An appropriate systematic approach is needed to analyse reputation as a valuable, lasting construct as part of a risk assessment and to develop risk management measures from this analysis. The two-dimensional view of reputation combined with an analysis of the individual factors reveal some key aspects (see Figure 4).

A company’s reputation can be viewed as a two-dimensional construct, with a cognitive component (competence) and an affective component (likeability). The cognitive dimension is assessed by stakeholder groups and looks at the extent to which commercially defined expectations are met. The affective dimension covers the way in which these expectations are met. Reputation risks can result from other risks (a compliance risk, for instance), in which case they are consequential risks. On the other hand, a reputation risk can itself lead to other risk events. In order to manage reputation risks proactively we need to analyse the causes and reputation drivers associated with the individual business risks identified. The main factors include product and service quality, financial performance, employer attractiveness and corporate social responsibility (CSR). The quality factor is assessed within the customer stakeholder group using a wide range of instruments (customer surveys, complaints, etc.), a company’s attractiveness as an employer can be assessed using e.g. employee motivation surveys, financial performance can be evaluated using various financial market studies, and CSR can be analysed via acceptance studies involving various opinion leaders, journalists and the general public. When analysing an identified risk for any reputation-related side effects, we need to look at the factors listed above and to develop management measures based on the risk impact on individual factors.

Recent survey on reputation as a risk factor
Graz University of Technology (TU Graz) carried out an empirical survey in 2012 in conjunction with RiskNET, the specialist online risk gateway. It surveyed over 400 risk management experts from a range of industries and assessed the current status of reputation risk management (cf. Bauer/Romeike/Weißensteiner 2012).

The responses to the question concerning the perceived future importance of reputation risks for the companies involved (possible responses:...
1 = much lower, 4 = staying the same, 7 = much higher) are shown in Figure 5. The mean value of 4.88 (s = 1.03) and the frequency distribution indicate that reputation risks will become more important in the future. More than half of all respondents (62.5 per cent, responses 5–7) said that reputation risks would become more important in the future. Around a third (33 per cent) of respondents believe the importance of this kind of risk will remain the same.

When asked whether reputation risks are already taken into account in existing risk management systems, nearly a quarter (24.4 per cent) of all respondents said that this type of risk is not taken into account (Figure 6).

As shown in Figure 6, there are some considerable differences between industries. Only 4.2 per cent of insurance companies said they did not take account of reputation risks. This means that around 95 per cent of insurance companies already take reputation risks into account in their risk management systems, either explicitly or implicitly. Among the banks (30.4 per cent) and manufacturing companies (39 per cent), this type of risk is assessed much less often. The main reasons given include not having any means of assessing/quantifying these risks (79.2 per cent), followed by not having any means of identifying them. The other reasons given included the fact that existing risk management systems only provide qualitative or implicit representations of this kind of risk.

The main practical hurdle mentioned by the companies surveyed is the difficulty of assessing reputation risks. Around 65 per cent of all respondents agree (either completely or mostly) that reputation risks are more difficult to assess than other types of risk. In this context, the development of a standardised assessment system for reputation risks is seen as particularly important, with a mean value of 2.62 (s = 1.27) (see Figure 7). The finding that more than half of respondents (52.2 per cent) do not have a standardised assessment system points to the difficulty of conducting a standardised assessment of reputation risks. Only 14.2 per cent of the companies surveyed said that they had already implemented standardised assessment of reputation risks in their risk management system.

What tools are available for preventive reputation risk management? The first aim of reputation risk management is to identify, as early and as comprehensively as possible, events that could have a negative impact on a company’s reputation. One method used for this is the issue management technique. The underlying aim of this kind of early warning system is to avoid the nasty surprises and conflicts that these issues would otherwise entail, but also to exploit the opportunities that can be associated with them.
The key is to ensure that issues affecting a company’s reputation are identified as early as possible (keyword: ‘weak signals’), since only companies that are informed in good time are in a position to act at all in a crisis and actively influence reports. A company that only reads about an issue in the newspaper days after it starts being discussed on the relevant blogs will be driven by headlines, since developing crises can have an immediate impact on a company’s capacity to act (see Figure 8).

The task of identifying reputation risks can be partially outsourced to external service providers, who use a defined list of terms and statistical and mathematical methods to identify topics on the Internet that point to potential reputation risks. In addition, it should be the duty of each and every employee (‘collective vigilance’) to spot explosive situations as early as possible and to report them to the risk manager concerned. This can enable companies to defuse and steer the issue without a particularly high outlay in terms of personnel or financial resources, particularly in the latent phase of a crisis, before the public is really aware of the issue. In addition, dealing with emerging negative issues early on often gives a company the chance to improve its reputation with stakeholders, who usually respect efforts to prevent problems.

This is confirmed by the research paper ‘Der gute Ruf als nachhaltiger Erfolgsfaktor – Management und Controlling von Reputationsrisiken’ (Good reputation as a lasting success factor: Managing and controlling reputation risks). Raising employee awareness about spotting reputation risks and conducting regular stakeholder monitoring are viewed by the respondents as the most important tools for proactively assessing reputation risks as part of the risk management process. 89.8 per cent of the 451 experts surveyed said raising employee awareness concerning the identification of reputation risks was very important (56.1 per cent) or important (33.7 per cent).

A reputation driver analysis was carried out as part of the research project (cf. Weißensteiner 2014). The aim was to design an adequate, empirically valid assessment model for reputation risks that could be used to extend the scope of the risk management process to cover reputation aspects.

The overarching objective was to identify the influence of individual reputation drivers, based on empirical findings, to enable an evaluation of reputation risks. The project analysed the following key factors that influence a company’s reputation (cf. Weißensteiner 2014, p. 160 et seq. and Schweiger/Eberl 2004, p. 623 et seq.):

- Quality of products/services,
- Financial performance,
- Attractiveness as an employer,
- Corporate social responsibility,
- Innovative capacity.

A reputation driver model was developed in three steps, based on a linear structural model and the ‘partial least squares regression’ analysis method (see Figure 9).

In the model shown here, the two reputation constructs (likeability and competence) can be described to a certain extent (likeability 58 per cent, competence 71 per cent) in terms of their five driving factors (cf. Weißensteiner 2014, p. 191). The likeability dimension is positively impacted by quality, attractiveness, innovation and CSR. Financial performance has a negative impact on likeability, although this is the only insignificant relationship in the model. If we relate this model to the insurance sector, an insurance company should therefore focus its reputation efforts primarily on quality management, brand and employer attractiveness, CSR and innovation.

The competence dimension is positively impacted by financial performance, quality, attractiveness and innovation. The negative influence of the CSR driver is significant.

**Conclusion**

The management of reputation risks should be an integral part of good corporate governance and of a company-wide risk management system. This is particularly relevant for insurance companies because their business model is built on trust and an appropriate reputation. Effective quality management and high levels of brand and employer attractiveness are important drivers for a company’s reputation, along with corporate social responsibility and innovation.

Identifying future trends and developments at an early stage also gives companies the opportunity to reduce or avoid escalations through prompt strategic corrective actions, thereby protecting the company...
value. Reputation (risk) management involves a commitment to responsible communications with all stakeholders that reflects the corporate culture. It must not take the form of opportunistic lip service. Robert Bosch, the German industrialist, engineer and inventor, recognised this as far back as 1921: ‘I have always acted according to the principle that it is better to lose money than trust. The integrity of my promises, the belief in the value of my products and in my word of honour have always had a higher priority to me than a transitory profit.’

References and further reading


‘What Did You Learn from Your Failure?’
Or: How to Lead so That Others Cooperate
by Adrian Schweizer, management trainer and consultant, Zurich, Switzerland

‘I feel, therefore I am.’
— Antonio Damasio

Simply issuing orders no longer works in an achievement-oriented management structure. Managers are realising that the authority conferred by status is often no longer enough to get anyone to do anything. As a result, management training programmes are increasingly teaching techniques designed to give managers and leaders the ability to communicate with staff in such a way that, ultimately, they still do what managers want them to do. A book that came out in September 2014 explains clearly which methods have been scientifically proven to work in communication and which ones are not effective. Professor Gerhard Roth conducted neurological tests for the best-documented psychotherapies to investigate which hypotheses can be regarded as effective. Since psychotherapy presumably counts as communication under difficult circumstances (because therapists are working with sick people), the methods that Roth and his team have scientifically proven to work can, in essence, be applied to everyday communication as well. And if that is the case, the findings can presumably be applied to a type of communication that lies somewhere in between: management communication. This form of communication is not quite as difficult as psychotherapy, since those involved are not sick, but it is probably somewhat harder than everyday communication because managers are trying to get staff to move in a particular direction. So what can we learn about management communication from Roth’s research?

1. Prof. Gerhard Roth’s studies
Over the past 15 years, Roth (University of Bremen) has continued the studies on the efficacy of psychotherapy methods conducted in the 1980s by Prof. Grawe (University of Bern), the ‘father of German psychotherapy legislation’. Instead of evaluating metastudies, like Grawe, Roth conducted neurological tests to investigate directly whether the central hypotheses of certain methods are actually effective. So what do the studies tell us?

The findings of Roth and his team included the following, which I have summarised:

a) No mode of action for a therapy is fully backed by neuroscience: None of the modes of action claimed for the therapies investigated was found to be fully tenable from a neuroscience point of view.
b) 50% effective: The therapeutic alliance: The only thing that is scientifically proven to have an influence on the therapy’s success is the ‘therapeutic alliance’. The actual methods used appear to be of secondary importance. If the client has had a chance to learn to trust his therapist and if the therapist believes he can help his client, then success is possible. If this is not the case, then success is less likely.
c) The remaining 50% is the result of any intervention: A successful therapy approach consists of the therapeutic alliance and a subsequent method from one of the schools of psychotherapy.
d) Early impressions are important: Childhood impressions do appear to have a significant influence on our behaviour as adults, as psychoanalysts claim.
e) Understanding does not help: Freud’s hypothesis – that you need to understand these impressions intellectually to be able to neutralise them – is not scientifically tenable. Intellectual understanding actually tends to strengthen such impressions. At most, understanding them helps the therapist decide on the next steps.
f) Feelings shape thoughts: Contrary to what cognitive behavioural therapists claim, it appears that thinking cannot change feelings, i.e. the emotional manifestation of a problem. Rather, the reverse appears to be the case: feelings steer thoughts.
g) Change involves unlearning: Therapy does not appear to delete old content. Instead, it seems to be about a more or less stable process of unlearning and relearning.

2. What are the implications of these findings for leadership techniques?
2.1 The communicative alliance and emotional restructuring
How then can I apply Roth’s findings about successful therapies to management communication? Our managers aren’t sick, are they?

This argument misses the point. It is not about the people at whom the techniques are aimed – healthy people in this case, sick people in that case – but about the tools and presuppositions used by the person tasked with communicating – managers in this case, therapists in
that case. And in both cases the basic process is the same:

Both therapists and managers must be capable of establishing a **basic mutual understanding** with the other person before they can hope to achieve a more specific exchange of information. Roth calls this fundamental mutual understanding the **therapeutic alliance** in his context. In our context we can call it the **communicative alliance**.

Both situations also involve changing people’s perceptions. According to Roth, this change of perception cannot be achieved through cognitive processes, but only through emotional restructuring. One method that can be used here is to elicit other, stronger feelings that modify the initial feeling.

**Reflection appears sensible, but doesn’t achieve anything!**

This means that, from a neurological point of view, the evidence shows that cognitive processes are not capable of altering feelings. So it is not the case that someone feels bad because they are thinking wrong thoughts about themselves or the world, and that they just need to put their thoughts straight to feel good again. Roth has not been able to find evidence for this order of events in the brain in a single experiment.

On the contrary, it is our feelings that influence our thoughts.

It therefore appears that human thought is driven far more by emotions than we might like. This is something Antonio Damasio, another famous neurologist, has also discovered. One of his best known books is called *The Feeling of What Happens: Body and Emotion in the Making of Consciousness*. Behavioural psychologists like Gerd Gigerenzer (Max Planck Institute for Human Development, Berlin) and Dan Ariely (M.I.T. and Duke University) came to similar conclusions at around the same time. Ariely’s books therefore carry titles like *Predictably Irrational: The Hidden Forces that Shape our Decisions* and *The Upside of Irrationality: The Unexpected Benefits of Defying Logic at Work and at Home*. It is partly because of this research that a change has been taking place in psychology in recent years that is today known as the **emotional revolution**:

I believe there are a number of possibilities:

- a) through experiences
- b) through the 4 perceptual positions
- c) through the 4 chairs
- d) through role play
- e) through the talking stick
- f) through storytelling

2.2 Changing thoughts by changing feelings

a) Changing feelings through personal experience

The thing that really convinces people is their own experience: employees must have the opportunity to try out new approaches and to experience their effects in person. For this to work, it is vital that they are not told what they have to do or practise. Instead, the manager needs to explain the problem and then let the employees discover the necessity...
for a different approach themselves through trial and error and then, if possible, be involved in developing the new process. It would therefore seem to make much more sense for the manager to involve employees in the search and readjustment process, instead of trying to come up with solutions behind closed doors. Viewed like this, it probably does not make much sense for an individual to be tasked with developing the company’s mission, vision and values or corporate strategies. It would make much more sense to invite as many employees as possible to figure out their own mission and vision and to use those to work out for themselves what the corporate culture should be and develop the strategies from that. This process enables the employees to gather experience and experience feelings that they will never have if the manager tells them what to do.

This kind of ‘learning organisation’ depends on a no-blame culture. If employees are always reprimanded the moment something goes wrong, it generates one feeling only: fear. Fear does bring about change, but probably only in the wrong direction. We need a basic attitude like Socrates, who asked himself at the end of every day: ‘What did I do today? What did I do wrong? What did I learn?’

b) Adopting the four perceptual positions
Future pacing is a fast-track learning tool. In it you run through the expected future scenario with the four perceptual positions. I wrote about this in Risk Management Review 2014. Experience (1st or 2nd position) is followed by reflection (3rd or 4th position). This tool enables managers to run through difficult management situations very quickly and work out what to do. Since the 4th position can appear somewhat esoteric to the uninitiated, there is a slightly adapted method.

c) The four chairs
You can rehearse for an upcoming negotiation using a table and four chairs: I imagine myself sitting on one side and my negotiating partner on the other side, with an uninvolved observer on the left and a systemic observer on the right. I can then run through these positions one after the other (always via the uninvolved observer) and ask: what have I learned? Here too the idea is to move from feeling A to rethinking and then to feeling B, which again brings about emotional restructuring.

d) Role play
Another way of gaining experience with feelings is through role play: acting out future scenarios. It is important that everyone plays each of the expected roles. One of the most successful American law firms, Florin|Roebig in St. Petersburg, Florida15 has built a replica of the local courtroom and the barristers rehearse the trial for a week, playing through all the different roles. Most other law firms think they are crazy, but then they are not on the list of the top American law firms.

e) The talking stick
Another very good method that uses feelings to change feelings is the talking stick method:16

Imagine two people arguing: when one person is putting forward his view on a particular issue, it would be nice if the other person listened attentively and with empathy. Sadly, however, this is not what usually happens. Instead of putting ourselves in the other person’s position and trying to empathise with what he has experienced, we stick to our own point of view and don’t listen to what the other person is saying or, worse still, we start assembling counter-arguments. In order to prevent this and to give both sides the chance to understand what the other person is saying, Native Americans came up with the idea of the talking stick.

The person talking holds the stick, and when they have finished, they pass it to the other person. This person repeats from the 2nd position what he thinks he has understood. Once he has repeated everything, he gives the stick back to the speaker.

If the ‘replay’ was correct and complete, it is the listener’s turn to speak. If the replay was incomplete or incorrect, or if the speaker feels that the listener was not speaking from the 2nd position, he repeats what he said: ‘I didn’t say that you were absent by chance. I said you chose not to come!’ The listener tries again and maybe a third or fourth or fifth time – as many times as it takes for the speaker to be happy with the replay. Then they switch roles.
In the following article, Ulrich Geuther investigates resilience – people’s ability to be successful even in the most adverse circumstances. He shows how the main ‘resilience factors’ help managers strengthen their own resilience and that of their companies. This was something Jesus Christ recognised – he communicated most of his messages through parables. But story-telling is not easy.

So let us end this article with a story:

A man goes up to a Rabbi and says: ‘Rebbe, my flat is so small. I’ve got a wife and seven children and my flat is so small!’ The Rabbi says, ‘Take this goat back to your flat!’ The man is appalled: ‘But, Rebbe, my flat is much too small!’ – ‘Do what I tell you and come back in one week.’ After a week, the man comes back and complains: ‘Rebbe, my flat is so small. I have a wife and seven children and a goat and my flat is so small!’ So the Rabbi says, ‘Take this cow back to your flat!’ The man protests, but in vain. After a week he comes back: ‘Rebbe, my flat is so small. I have a wife and seven children and a goat and a cow and my flat is so small!’ So the Rabbi says to him: ‘Get rid of the goat and the cow!’ The next day the man comes back and says cheerfully: ‘Rebbe, my flat is so big!’

The Resilient Leader

‘Never waste a good crisis’

by Ulrich Geuther, business coach, trainer and consultant, Lisbon, Portugal

In the following article, Ulrich Geuther investigates resilience – people’s ability to be successful even in the most adverse circumstances. He shows how the main ‘resilience factors’ help managers strengthen their own resilience and that of their companies.

There is almost nothing we admire as much as people’s ability to struggle on and achieve their goals in the face of adversity. The more difficulties they face along the way and the bigger the obstacles, the more we value their success. The tougher the fight and the greater the perseverance and ingenuity required to survive it, the greater our admiration for the person involved.

We call the ability to be successful in difficult situations and to use setbacks to one’s own advantage ‘resilience’. Resilience plays a key role for leaders.

Origins

The term ‘resilience’ comes from the field of material science, where it refers to the ability of a material to return to its original state following elastic deformation.

Nowadays, ‘resilience’ has become a key term in a wide range of disciplines and describes the ability of a system to continue functioning despite serious interference.
When applied to individuals, resilience acquires a **psychological definition**, which provides the clearest description of the essence of resilience in relation to management:

**Resilience is ‘the ability to withstand, adapt to, or rebound from, extreme challenges or adversity’**.4

The studies conducted by US researchers Emmy Werner and Ruth Smith5 are key to the psychological understanding of resilience. They tracked nearly 700 children from difficult backgrounds over a period of 40 years. Around a third of the children grew up to be capable adults despite considerable adversity. These were the resilient ones. The longitudinal study by Werner and Smith also showed that people’s resilience capability varied considerably over time and that most people took some time to develop it.

As a result, it is assumed that resilience can be learned.

The significance of this concept for leaders is obvious. After all, being able to act in a crisis and help others keep sight of team goals and stay on track is a genuine leadership task.

This means that managers face two challenges:

- They need to ensure that they themselves can continue to function, especially at times when many other people in the company are at risk of breaking down under the increasing pressure, and
- They need to make the organisation as a whole more resilient so that it stays on track even in extremely difficult circumstances.

Therefore, managers have to look after their own resilience and that of the company.

How can they do this? What specific steps can managers take to develop greater resilience in themselves and in their organisation?

To find answers to these questions, let us take a look at the abilities that have been identified as **resilience factors** in research and in practice.

**General resilience factors**

The general resilience factors were initially identified in studies with children (see above) and later confirmed for adults from a wide range of cultures and different areas of life.

The list below contains a selection of these factors — the ones that have also proved particularly effective in my own practice as a coach, trainer and consultant.

Resilient people differ from less resilient people in that they:

- have greater control over their impulses,
- are more attuned to their environment and the outside world and less inward-looking,
- are more likely to reach out to others and are less aggressive,
- are more empathetic and are more likely to talk about their feelings,
- are more likely to ask for help and are able to admit their weaknesses,
- respond very positively to attention, and
- are very focused on and motivated by performance.

The overlap between the top resilience factors and the five emotional intelligence factors first described by Daniel Goleman6 is striking.

According to Goleman, emotionally intelligent people have a realistic view of themselves, successfully control inappropriate emotional reactions, possess sufficient energy and stamina – as a result of their strong performance focus – to cope with periods of motivational drought, and can easily put themselves in another’s shoes and communicate effectively.

These people therefore meet a large number of the requirements for being resilient (Figure 1: The five factors of emotional intelligence).

However, there is more to resilience than these factors.

**Resilience factor 1: Positive relationships**

Chief among the defining characteristics of resilience is one that the American Psychological Association (APA) calls ‘the primary factor in resilience’:

- **Self-awareness**
  - being acutely aware of one’s own impulses, strengths and weaknesses and the impact of one’s behaviour on others
- **Self-regulation**
  - being capable of controlling and managing one’s own impulses and emotional reactions, particularly in difficult situations
- **Motivation**
  - very high levels of energy and motivation to achieve; able to survive drought periods
- **Empathy**
  - capable of putting oneself in the position of others
- **Social competences**
  - able to communicate effectively with others and form and cultivate relationships with others effortlessly
Positive relationships inside or outside the family

For managers: positive relationships inside and outside the organisation

These positive relationships are characterised above all by mutual support and assistance – people who look after each other. In other words: if you have people you care for and who care for you, you have greater chances of finding the stability you need that will make you resilient in a crisis.

It is clear that the picture of the resilient manager that is emerging here is far removed from the aggressive lone fighters we still see heading many large organisations today. These leaders may possess a number of impressive qualities, but they are less likely to be resilient. As we have seen, for this you need a high level of the emotional intelligence that makes social connections possible. And it is these relationships that enable people to survive real crises and come out of them stronger than before. Ultimately, all human strengths come from interacting constructively with others.

Before we come back to the question of what managers can do to strengthen their own resilience and that of their organisations, we need to consider two other factors that have proved key to understanding resilience: optimism and self-efficacy.

Optimism

Optimism is the ability to see a glass as half full when others are complaining that it is already half empty. Optimism means choosing from all the possible aspects of a reality to focus on those that are positive, constructive and helpful. Optimists identify these positive aspects and perceive them as options. Pessimists focus their attention on problematic aspects, frequently on whatever is annoying them or not going the way they would like.

However, people with an optimistic outlook do not only focus their attention on different, positive aspects – they give what they perceive a different, positive meaning.

Resilient people have the ability to reframe. This means they can place a threatening, annoying or frustrating issue in a new context that makes new interpretations and new courses of action possible.

Now, some people will object that optimism is something that one either does or does not possess. People are either optimistic or they are not – it is part of their personality. The counter-argument is that the room for development available to each and every one of us is vast and can be accessed and exploited through appropriate techniques, such as reframing. We will come back to this later.

Self-efficacy

Self-efficacy focuses on a concept whose importance for people in companies (managers and staff) should not be underestimated. The key research in this area dates back to studies conducted by American psychologist Albert Bandura in the 1970s.7

The most important aspect of self-efficacy is the conviction of one’s ability to act, even in difficult situations, and to have an impact on events and on the world. While others make chance, luck, misfortune, other people and other uncontrollable external factors responsible for events, resilient people share an internal locus of control – the belief that they can have a significant influence on the course of events.

As an indispensable component of resilience, self-efficacy appears to be particularly significant, if only because it reflects a basic human need to have control over one’s own circumstances.

All change management measures that do not take this factor sufficiently into account are doomed to failure, as countless examples have shown.

Resilience and management: What can we do to make us and our companies more resilient?

How managers can increase their own resilience

The five factors of emotional intelligence (see above), which should be part of any management training programme, create the basic requirements needed to increase personal resilience.

In addition, from my work as a consultant, trainer and coach, I believe the following steps are helpful for increasing resilience. I have formulated them here as commandments:

1. Identify the purpose of your existence and define the most important goals for your life!

2. Give difficult situations a constructive meaning!

3. Strengthen inner self-belief (self-efficacy and internal locus of control)!
1. Identify purpose and goals
We start from the questions that managers have to ask themselves at some point:

Who are we? Where do we come from? Where are we going? What do we live for?

The real purpose here is to find a genuine answer to the question ‘What do I live for?’ – an answer that links you to something beyond your own life and that provides a purpose: something to achieve that is bigger than yourself. This self-reflection will lead you to the purpose of your existence and the most important goals in your life. It will also reveal your strengths and weaknesses and anything that is driving you forwards or holding you back.

2. Find constructive meanings
We have already talked about re-framing. This is the ability to see things differently and to give them a new, constructive meaning. Reframing lets you mobilise positive energy that you can use for problem solving.

The following questions can help us reframe a situation:

- To what extent could the situation I am experiencing be made for me?
- What can I learn from this situation?
- What opportunity might it present? and
- What other ways are there of seeing the problem?

The last question brings us to the source of creative solutions, the place where all innovations begin.

3. Self-efficacy
Strengthening the internal locus of control should be something managers do as a matter of course. Your role as a manager involves a clear call to action, which assumes you believe that your actions can actually achieve something.

But how can you ensure that your locus of control is realistic and not just a figment of your imagination?

Writing at the interface between re-framing and internal locus of control, Anthony Robbins describes how managers can develop their own control model. These are the important questions that managers ask when they feel control slipping away from them in a situation:

- How can I focus my energy on those things I can control and influence?
- What empowering meanings can be drawn from this event? What meaning will I give to those events, so that they enable me and others to benefit from them?
- What steps do I take to let go of the things that are causing me to experience stress – those things I can’t control?

Managers need to be able to identify which of these three conditions for action apply to a situation:

a) that I have under control,
b) that I can influence, or
c) that lie outside my control and influence?

Obviously, it does not make sense to wear yourself out over things that you cannot influence.

Moreover, we need to admit that our influence over others is not nearly as great as we might like. We cannot control the behaviour of other people, however hard we try.

The only thing over which we can have complete control is ourselves and our emotional reactions. And we achieve this largely by guiding our attention and through the constructive and empowering meanings that we give events.

In his influential book Awaken the Giant Within, Anthony Robbins describes three things we all have a hold on:

1. Where we direct our attention.
2. What meaning we give to things.
3. What we do next.

This self-efficacy belief is what sets resilient people apart from those who believe that they are primarily a pawn of fate.

‘Nothing in life has any meaning – except the meaning you give it.’
Anthony Robbins

How managers can strengthen a company’s resilience

‘Resilient leadership’ is the term used to describe those leadership behaviors that help others withstand crisis, adapt to, or rebound from, adversity.”

How can leaders – through their behaviors – increase the resilience of individuals and, at the same time, foster a culture of resilience within the organisation as a whole?

Leadership actions on the six logical levels have proved particularly effective in practice.

This is what leaders can do:

1. Their leadership behaviour enables everyone in the company to identify with the purpose of the organisation and to find their own personal meaning from it.
2. Their leadership behaviour systematically strengthens the self-assurance of managers and staff.
3. Their value-based leadership ensures that everyone’s day-to-day actions are guided by the same values.
4. The leaders make sure that the company effectively and systematically promotes individuals’ self-efficacy. The most important instrument here is delegation and the transfer of responsibility (empowerment).
5. The leaders are role models for solution-oriented behaviour and promote this approach at all levels.

6. The leaders create open, robust conditions and ensure that employees have the resources they need to deal with difficult situations.

It is necessary to do all this systematically, and to implement adequate measures on all six levels.

The reward will be an organisation that not only survives crises better, but uses them to emerge stronger than before. In this way, the crisis was not wasted.

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1. Winston Churchill is reported to have said: ‘Never let a good crisis go to waste’ (http://www.goodreads.com/quotes/717228-never-let-a-good-crisis-go-to-waste).

2. In material science, resilience is the ability of a material to absorb energy when it is deformed elastically, and release that energy upon unloading (http://en.wikipedia.org/wiki/Resilience_materials_science).

3. For example: ‘Resiliency is the ability to provide and maintain an acceptable level of service in the face of faults and challenges to normal operation.’ (http://en.wikipedia.org/wiki/Resilience_(network)).

4. Resiliency Science Institutes, International (RSI)


8. Self-reflection always includes feedback from others.


12. The Xcellience Institute works with this model successfully in Germany. See also Geerd Philipsen and Frank Ziemer, ‘Mit Resilienz zu nachhaltigem Unternehmenserfolg’, Wirtschaftsinformatik & Management 2/2014.

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First time feeding the ducks with you... - and what appears? 

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