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**Exhibition Insurance as an Effective Risk Management Strategy
By Michelle Bruno, CEM**

The goal of exhibition insurance is to bring the insured party back to the financial position they held prior to the loss. When there are multiple stakeholders involved such as the organizer, exhibitors and contractors, the lines between coverage from one group's policy to another are not always clear. Because the exhibition organizer is inherently and contractually liable for the activities on the show floor, the responsibility for parsing through the policies and coverage for their organization as well as those of the exhibitors and contractors falls upon them. In a volatile economy, with profits at high risk for erosion, insurance is another tool organizers can utilize to protect assets and manage risk.

The requirement for insurance of any type is usually stipulated in the facility rental contract. The rule of thumb for what the facility requires and what organizers should carry for general liability coverage is at least \$1 million according to Kevin Graves, vice president of Holmes Murphy and Associates, a national risk management and insurance brokerage firm. To manage risk more fully, Graves recommends that organizers include workers' compensation (to cover employee injuries while on the job), automobile (if employees are using their own vehicles or renting them) and inland marine (to cover property in transit and on show site) insurance. Event cancellation insurance and additional coverage for acts of terrorism are other risk management options that organizers can take into consideration.

Determining how much insurance to purchase over and above what a facility requires is a matter of company preference. While \$1 million is the industry norm for most companies, Graves admits that it may not be enough coverage for some organizations. "It is really about how much you can afford and what allows you to sleep at night," he explains. In some instances, public shows serving high risk attendee populations (senior citizens for example), may opt to review claim histories for a particular jurisdiction before deciding on the appropriate amount of coverage. Other risk management options include the purchase of an *umbrella* policy with additional limits for liability coverage.

Requiring that exhibitors and other contractors (including exhibitor appointed contractors) carry insurance and name the organizer as an additional insured party, helps to protect the organizer from claims that result from the activities of those companies. The amount of coverage that organizers should require from exhibitors and contractors is "a very individual decision," says Graves. However, the \$1 million minimum threshold is a good place to start. The lines between insurance coverage provided by the organizers and that of other stakeholders are meant to be overlapping. Spreading the risk among all of the participants helps keep costs down and reduces the amount of exposure for all companies involved. Having the appropriate types and levels of insurance, as well as requiring exhibitor clients and vendor partners to carry insurance, is an important risk management strategy for exhibition organizers. Holmes Murphy's Graves offers some further advice on working with insurance providers:

- Consider an insurance agency with experience in the exhibition industry. "A "Main Street" agency might have less of an understanding or have a difficult time getting the coverage that needs to be in place for an exhibition," says Graves.
- Review facility contracts thoroughly with legal departments or insurance advisors before signing. "We see lots of signed contracts with inadequate coverage requirements. Contracts with municipalities often use outdated language even though the terminology has changed substantially in recent years," comments Graves.
- Evaluate insurance coverage at least every two years to coincide with updates from the major insurance companies. The terrorist attacks on September 11 and hurricane Katrina brought major unexpected adjustments in coverage for many businesses in the review periods following the

disasters. The recent credit crisis has actually helped the insurance market where current pricing is “somewhat soft,” according to Graves. Checking in periodically with insurance providers can help companies anticipate future changes as well as opportunities.

With credit markets strained, the replacement of assets resulting from damage or theft on the exhibition floor can be difficult for organizers and exhibitors. Managing risk appropriately with exhibition insurance, among other strategies, can help sustain show profitability in the event of a loss and provide organizations with a welcome feeling of security during uncertain economic times.

Public Relations and Crisis Management:

The convergence of marketing and communication strategies in a changing business climate

By Michelle Bruno, CEM

The field of public relations has evolved over the past decade. While the framework of the profession has remained consistent, changes in technology have made information gathering and communication more challenging for public relations professionals and their clients. As media outlets diversify into online and offline *personas* and information, consumers become less tolerant of traditional styles of communication and the job of delivering important company messaging has turned from tactical to strategic. With crises of every flavor looming large on the corporate horizon, having a solid strategic communication plan in place can make the difference between success and failure for an organization.

The Internet and social networking have changed the public relations landscape. The control over information flowing from and about companies to the media and into the hands of customers has been compromised. Roger Halligan, president of H + A International, Inc., a Chicago-based marketing and communications firm specializing in the exhibition industry characterizes the shift. “Up until 10 years ago, you did not have e-mails or Web sites. We delivered faxes [press releases] to the media. Now you have to be on top of all media including blogs. Technology has changed the way people want to be communicated with,” he says.

Halligan’s firm is taking advantage of the shift. They have developed an e-newsletter format for their exhibition and trade association clients called the *MarketPlace Monitor*, which blends the spontaneity of the Internet with the credibility of the trade publications. The *Monitor* is a listing of links to relevant articles, white papers and other resources with brief descriptions of the content. Online videos have also become a very popular medium for some of H + A’s clients. “The Craft and Hobby Association produces a very ‘touchy feely’ show. It is a huge social media setting with crafting blogs and lots of uploaded videos,” says Halligan.

The convergence of media has created a need for firms that can manage the entire marketing and communications strategy for clients. As the core competencies of advertising and media relations – formerly the domain of advertising and/or public relations firms – merge with expertise in social networking, search engine marketing (SEM) and search engine optimization (SEO), a new type of firm is emerging to more efficiently manage the flow of information to the end user. The field of public relations has shifted from a tactical enterprise to one involving strategy and planning that incorporates technology and new media. Halligan recommends a strategic review of communication objectives with clients at least every six months to discuss changes in the organization, business climate, customer behavior and potential risks and challenges. His firm also maintains solid relationships with trade associations, editors, publishers and thought leaders in order to learn about changes and trends that may affect his clients down the road.

In addition to technology, changes in the global political and economic landscape have also influenced public relations. Crisis management has become an integral part of the communication strategy for many firms including exhibitions and trade associations. With acts of terrorism, weather disasters and financial market fluctuations now a part of the normal business climate, a written crisis communication plan allows a company to take immediate control over the flow of information in the event of an emergency. The plan

should designate a company spokesperson to address media inquiries and disseminate information. It should list the procedure for communicating to stakeholders such as sponsors, exhibitors and attendees and list the cell phone numbers of internal decision-makers and key personnel. A quick response to crisis can make or break a company. "Get a statement out right away and only communicate what you know for sure," Halligan advises.

Proving a tangible return on investment for an intangible service such as public relations has always been challenging for firms in the field. Most firms with exhibition industry expertise provide such services as media clippings, advertising equivalency reports, attendance summaries, surveys and third party testimonials. With the refinement of Web monitoring tools, they may also be in a position to track Web site visitors, e-mail responses and online purchases. "The more that you can do to show your value the better, but after all is said and done, it is still a gut level feeling that clients get for what they feel they have received in value," says Halligan. Public relations firms that have made the transition to marketing and communications companies able to manage information flow from a high level strategic perspective, stay abreast of changes in technology, interpret trends and crises in the marketplace and get important messaging into the hands of consumers efficiently, are an invaluable asset for many organizers and associations.

Professional Forecasters - Innocent until proven strategic
Based on the Research of Marco Ottaviani And Peter Norman Sorensen
Kellogg School of Management

Imagine you are the chief operating officer for a *Fortune 500* technology company and you have to sign off on a major pricing increase for your firm's best-selling product line in two days. All the internal data you have – labor costs, product sales/growth trends, competitors' and vendors' anticipated pricing – support the price increase. But you are still hesitant. Then, perusing *Business Week* on the morning train, you come across an "Investment Outlook" article. Your eyes widen. It is filled with predictions by professional economic forecasters like this one: "Better pricing trends will keep corporate profits better than expected but also greatly heighten inflation fears next year." Now you are relieved, confident that the price increase is the right course to take. After all, professional forecasters have no incentive to distort their predictions.

Or do they?

In their article "The Strategy of Professional Forecasting" (*Journal of Financial Economics*, 2006), Marco Ottaviani, a Kellogg faculty member in the Department of Management and Strategy, and his co-author, Peter Sorensen, consider that exact question. They investigate how forecasters' professional incentives sometimes motivate departures from their clients' best interests – namely, making the most truthful predictions they can.

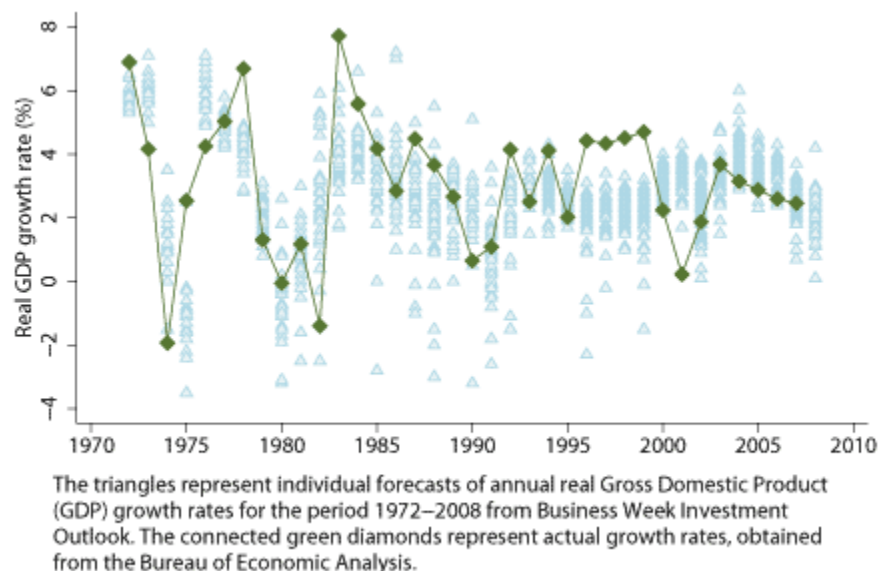
Professional forecasters – typically highly compensated employees of financial companies or heads of their own independent forecasting firms – play a crucial role in shaping corporations' and individuals' decision-making: firms decide whether they should hire workers based on their prospects for future demand and choose their financing strategies using projected long-term interest rates; and high net-worth investors take expected economic trends (e.g., inflation, bond rates) into account to place big bets. In short, forecasters' words – and numbers – have major influence on the decisions, and ultimately the fortunes, of many.

Guided Guesses

But how do these "profits prophets" form their expectations? By definition, professional forecasters must guess the future. Hence, one may think that they would maximize the accuracy of their reports by making the most truthful predictions they can. As previous research has argued, financial analysts' projections should be truthful because their livelihood depends on their accuracy. And a glance at the significant

dispersion among economic pundits' predictions for major economic indexes year after year suggests that they are indeed using private information and personal expectations to make their guesses. It also reveals that they are rarely "right," as can be shown by a simple plot of the GDP growth forecasts against the actual GDP growth rate (see Figure 1).

Figure 1: Real GDP growth rate forecasts versus actual rates



No one expects forecasters to be consistently on the money, but there is an implicit assumption that they are being truthful. As Ottaviani and Sorensen suggest, "Forecasters are presumed honest, unless proven strategic." And that is where it gets tricky, largely because professional forecasters are paid, and accorded fame, based on their reputation and not necessarily the actual accuracy of their predictions. That is, the more they are perceived as having superior future-gazing skills or knowledge about the economy, the more money – and fame – they get. As such, rather than telling people what they really know, forecasters may be tempted to manipulate their predictions strategically to enhance their reputations and accompanying cash and celebrity.

No one expects forecasters to be consistently on the money, but there is an implicit assumption that they are being truthful. Specifically, Ottaviani and Sorensen argue that some forecasters may have incentive to shift their forecasts more toward the established consensus on specific indicators to avoid unfavorable publicity when wrong, while others might exaggerate their true predictions with the hope of standing out from the forecaster crowd in certain contexts. The researchers analyze the forces that drive these strategic incentives by developing two theories, the reputational cheap talk theory and the forecasting contest theory, and they consider empirical evidence for each.

Reputational Cheap Talk Theory

The reputational cheap talk theory posits that forecasters aim to appear well-informed. A natural question, then, is why forecasters would not fully disclose what they know or believe; after all, by making the right predictions forecasters stand only to improve their reputations. To answer this question, first note that everyone – market participants and forecasters alike – shares knowledge of some public information, whether CNN headlines, *Financial Times* articles or others. This common information creates baseline expectations regarding several economic variables. More importantly, these baseline expectations usually point in the right direction. But professional forecasters should be able to improve upon common knowledge because they have access to more precise information about the economy's state, allowing them to combine what everybody knows (public information) with what they alone know (private information) to generate their personal predictions. As such, forecasters' personal predictions typically fall between public and private beliefs – deviating from public expectations based on their private information, but not as exaggerated as their private information might be because they take public information into

account. If forecasters were not strategic, they would honestly report their personal predictions. Market participants would then be right to take these forecasts at face value.

However, if the market believes that forecasters are honest and rewards them based on their reputation for accuracy, will the forecasters be content to honestly report their personal predictions? Taking into account all the information they have, forecasters expect their personal predictions to be correct. To convince the market that their private information is accurate, however, they would like the market to believe that their private information is located at their personal prediction. In other words, if forecasters can convince the market that their predictions are based fully on private information, they would be considered even better informed than they really are. Consequently, forecasters have strong incentive to confirm original market beliefs by making predictions closer to the market consensus than what they truly believe. If so, the market's original belief that forecasters report honestly their personal predictions is not consistent with the actual behavior of the forecasters.

If the market is fully rational, it will be able to anticipate that forecasters are distorting their predictions to pretend to be more informed than they really are. As a consequence, the market can only trust forecasters to communicate part of the information they have. As Ottaviani and Sorensen point out, "Paradoxically, the desire of analysts to be perceived as good forecasters turns them into poor forecasters." In line with this, the authors also note a report in *The Economist* on the "surprisingly good performance of a sample of London garbage men in forecasting key economic variables." Presumably the garbage men were free of reputation-focused incentives.

Forecasting Contest Theory

In contrast, the forecasting contest theory makes the completely opposite prediction: that forecasters have an incentive to distance themselves from market consensus. Indeed, if forecasters predict extreme events and happen to be right, their reputation will skyrocket; if they merely repeat what everybody else is already saying, they stand to gain little, even when they are right. As the theory's name implies, this behavior results largely from high-profile public forecaster competitions such as the *Wall Street Journal's* "Forecasting Survey" (macroeconomics) and "All-Star Analysts" (earnings), which feature write-ups for winning forecasters. Other such rankings and contests appear online (e.g., <http://www.valididea.com>, <http://www.bigtipper.com>), and some include monetary prizes. Without a doubt, forecasters stand to gain much-enhanced reputations by winning or placing in such contests. As Ottaviani and Sorensen note, "it is easier for people to keep in mind who is an 'all-star' analyst, or who came in first in a contest, than specific details about forecast accuracy."

Indeed, forecasting contests, rather than focusing on each forecaster's prediction and its eventual distance from the actual economic indicator in question, tend to report only the relative accuracy of different forecasters, usually a ranking of forecasters by level of accuracy. In many cases the report will not even include forecasters who did not place. In this context, forecasters have incentive to differentiate themselves from competitors by putting greater weight on their private information, potentially enjoying major reputation gains when they guess right. Therefore, their contest-related predictions tend to be exaggerated toward those suggested by their private information (i.e., including little if any public information). In support of this, Ottaviani and Sorensen point to empirical evidence that financial analysts releasing late earnings forecasts "tend to overshoot the consensus forecast in the direction of their private information."

In sum, the reputational cheap talk theory should be more relevant if forecasters focus on their absolute reputations – that is, how accurate their predictions are compared to actual economic indicators. Here forecasters would be expected to align their predictions more closely with publicly available information. In contrast, if forecasters attend more fully to their relative reputations, as if they were competing in contests that generate rankings, they will behave in line with forecasting contest theory and tend to exaggerate predictions in the direction of their private information. So which of these theories better explains the actual picture in professional forecasting? Although certainly not definitive, recent studies show a strong tendency toward exaggerated forecasts, in line with the forecasting contest theory.

Rather than prescribing how forecasters should make their predictions, Ottaviani and Sorensen provide a framework that helps us interpret forecasters' predictions, urging us to recognize that these professionals have specific incentives to depart from their private guesses in their public predictions. Armed with these insights, perhaps we as the public may be able to generate more accurate private guesses of our own.

Anticipating Corporate Crises

Boards Intensify Efforts to Review Risks and Dodge Disasters

By Joann S. Lublin and Cari Tuna

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This month's meltdown of several financial giants exposed a serious flaw in corporate governance: Many U.S. boards do not cope well with a crisis. But some directors are now ratcheting up efforts to anticipate, and avert, trouble.

Too many boards are stocked with poorly prepared directors, who fail to ask enough tough questions or adequately scrutinize management, governance specialists say.

In the wake of the financial turmoil, more boards will ask themselves, "Are we well prepared for the unforeseen crisis?" predicts Jerry W. Levin, former chairman of retailer Sharper Image Corp. and a director on four public-company boards.

Be Prepared!

Ways that corporate boards can get ready for crises:

- Pick directors with temperament, skills and experience to spot warning signs
- Engage in regular scenario planning
- Choose independent law firm as future crisis adviser
- Create an effective risk-management committee
- Appoint a nonexecutive chairman
- Develop and practice an emergency communications system
- Prepare for special committee to explore crisis's cause and remedies

Few corporate boards are well-equipped to deal with the issues some financial companies faced recently, when storied firms such as Lehman Brothers Holdings Inc. and Merrill Lynch & Co. had only days to seek rescue plans or mergers. But the governance experts say those boards, and others, could have taken steps months ago to spot danger signs.

The issues frequently start with who is sitting in the boardroom. Just three of Lehman's 10 outside directors have direct experience in the financial-services industry. "For an extremely complex financial institution like Lehman, that set of directors probably was not the best group to populate its board – or help prevent its collapse," contends Charles Elson, head of the Weinberg Center for Corporate Governance at the University of Delaware business school. A Lehman spokesman declined to comment.

One common vulnerability is assessing corporate risk. In 2006 and 2007, when Lehman was amassing mortgage-backed securities and questionable real-estate loans, the risk committee of its board met twice each year, regulatory filings show. A person close to the board says risk was discussed at four committee meetings and 25 board meetings in 2008.

Now, more boards may take a bigger role in risk management. During a 9 September roundtable held by the National Association of Corporate Directors, 24 chairmen of audit committees agreed "the whole board needed to be engaged" in monitoring risk, an association official says.

One company where directors actively assess risks is Tyco International Ltd., which survived a scandal earlier in the decade. Soon after former DuPont Co. Chief Executive Jack Krol joined the Tyco board in 2002, the company faced a liquidity crisis following accusations that former CEO L. Dennis Kozlowski and another former top executive had looted the conglomerate of nearly \$600 million.

As lead independent director, Mr. Krol created a risk-assessment process for the board. He and one or two fellow directors visited each business unit once a year. They spent a day with a unit's leaders, reviewing a 10-item checklist of risks and proposed remedies. The full board then discussed their findings.

Among other things, initial visits uncovered a handful of payoffs to foreign officials, which could have led to sanctions against the company. "We were able to nip [it] in the bud," Mr. Krol says. "It could have been a big crisis."

But Tyco appears to be an exception. Mr. Krol says he has tried, without success so far, to persuade directors on two other corporate boards where he serves to embrace similar risk-assessment strategies.

A growing number of boards are creating emergency-communications systems, with secure Web sites, document sharing and online board meetings, says Joe Ruck, chief executive of BoardVantage Inc., a Menlo Park, Calif., company that offers such systems.

Other boards conduct scenario planning to prepare for crises. "You imagine the worst things that could happen," and craft a playbook, explains Fred Crawford, chief executive of AlixPartners LLP, a Southfield, Mich., turnaround firm that often advises companies during crises. Mr. Crawford estimates that a minority of U.S. corporate boards pursue extensive scenario planning.

The board of Reynolds American Inc. takes scenario planning to an extreme. During a mock board meeting in July, directors and executives of the tobacco maker simulated the death of Chairman and Chief Executive Susan M. Ivey in a plane crash.

The company's head of human resources made a presentation about possible internal successors for Ms. Ivey. Maura Payne, vice president of communications, says she distributed mock press releases and other materials to alert regulators, investors and employees about Ms. Ivey's "death" and replacement.

The two-hour simulation exposed gaps in Reynolds's emergency-succession plan, recalls Betsy Atkins, a board member and venture capitalist. For example, Ms. Atkins says, the board had not previously considered whether it would want Ms. Ivey's successor to be both chairman and CEO. Directors also debated whether they would name one of their own as interim chief executive. The board found it easier to air such issues "without the intense emotion of facing the [actual] loss of a CEO," Ms. Atkins notes. "We ended up feeling better prepared."

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