activeNETWORK™ | starcite

Business Solutions

Powering Events. Engaging Communities.

Bridging the Gap

MITIGATING MEETINGS RISKS BEGINS WITH AWARENESS AND CONTINUES THROUGH CONSISTENT PROCESS

Whitepaper Contents:

Introduction

Meetings are associated with great benefits, but they also come with some risk. That's a fact that every corporation must face. But how much risk is inherent in an individual meeting and how well it is managed are variables that every corporation also has the opportunity to control.

Among the most critical meetings-related risks are:

- **Regulatory Risk** – Enforced by industry or state/federal government regulators
- **Contractual Risks** – Due to lack of legal foresight or knowledge
- **Branding & Public Image** – Without proper oversight, companies may discover meetings activities that do not correlate with current corporate messaging or that are inappropriate altogether, either from a financial or content perspective
- **Payment** – Subject to human error and/or intentional fraud
- **Safety & Security** – From natural disaster to political uprisings, conditions can arise that demand crisis preparedness

Risk mitigation begins with corporate awareness, but for many organizations, this is one of the biggest hurdles to overcome. According to a 2008 survey by StarCite, now a part of the Active Network, less than 50 percent of companies maintain a centralized meetings department with professional meeting planners. Even those that do rarely traffic all meetings through that department. Instead, responsibility for at least some portion of meeting planning is diffused throughout the organization as an ancillary task for employees at all levels of seniority. This organizational conundrum makes it difficult for executives to locate active meetings centers, much less practice an appropriate amount of oversight and/or control.

"Without corporate awareness of meeting planning activities and without consistent controls placed on the planning process, a company increases its exposure to multitudes of risk factors—and they may not even know it until something goes very wrong," says Kevin Iwamoto, vice president of enterprise strategy for Active Network, Business Solutions. "Depending on the company and the business, the seriousness of the risk varies. But when meetings are not regulated, corporations have a hodge podge of risky scenarios." To mitigate them, an organization must determine how to control the meeting planning process and maintain meetings data that will protect its interests.

In this white paper, brought to you by StarCite, now a part of the Active Network, procurement, travel and other interested executives will learn about what types of risk are inherent in meetings and how a strategic meetings management program can mitigate potential problems and avoid the corporate financial losses often associated with them.

The cautionary tale

Failures to manage meetings risk circulate regularly through the meeting planning community. Experienced planners hear about these failures at professional industry conferences, while trade publications continually explicate the need to review contracts and protect the buyer's interests. But relying on industry awareness to protect a corporation's financial stability is a laissez-faire approach to risk management at best and an all-out disaster at worst. For example…

Planning responsibility for a large meeting for a technology company based in the Southwestern United States was delegated to inexperienced planners. The company had no meetings management policies in place, but had provided the planners with a budget. The planners sourced a property, negotiated a room block, agreed to food and beverage terms and all seemed in order.

Unfortunately, the company was forced to cancel the meeting. When the hotel enforced cancellation penalties of hundreds of thousands of dollars, corporate executives were shocked. Why hadn't any protections been stipulated in the contract? Why were terms so beneficial to the suppliers?

While the deal appeared good and within budget, it was negotiated by planners who had little knowledge of meetings contracts. The corporation had not offered or required legal support for the planning effort, and the planners did not seek it. Because the annual meeting had never been cancelled in the past, the planners probably did not even consider it a possibility and left the company at risk. Had the corporation exercised more oversight and guided the planning effort through policy and process requirements, it could have minimized the damages.

If the company had enterprise-wide visibility into planning activities, it likely could have booked another program with the same property, paying little or even no penalty depending upon the contract.

In another case, a group of financial services advisors in a branch office held a series of 40 small meetings over the course of eight years with employees of a client company to advise them about wealth management and retirement issues. The advisors encouraged many employees to retire early and reinvest their pensions, supporting their recommendations with meeting handouts they created on their own.

Unfortunately, none of these meetings were approved by the corporate headquarters office—and neither were the meeting handouts. NASD (now, FINRA), the regulatory body that investigates and penalizes finance companies that fail to live up to ethics standards, reviewed the materials and found them to contain exaggerated and unwarranted projections of future earnings without fully explaining the risks involved. The parent company was fined more than $15 million for failure to adequately supervise its brokers.

These are just two of many cautionary tales to be extracted from the meetings industry. Variables to meetings risk are many, from natural disasters and pandemic scares to regulatory misses. And it's not just the ad hoc planners who aggravate the issue. Professional planners, working on multiple meetings simultaneously and with more demanding time schedules, can be prone to human error that adherence to a structured planning process could help address.

Without consistent controls placed on the planning process, a company increases its exposure to multitudes of risk factors—and they may not even know it until something goes very wrong.

Understanding the variables

Regardless of the planner's experience level, it is ultimately the corporation's obligation to know what meetings are underway and to provide both meetings policy and process parameters that will support planning activities and protect the corporation's interests. To do that, travel and meetings executives must understand the different ways meetings expose the corporation to risk.

Regulatory Risk – Regulatory risk has become an increasingly sensitive topic for the c-suite in recent months. Bailout companies, pharmaceutical and financial companies and other industries have been heaped with public scorn for unmanaged expense surrounding meetings and events. While the majority of companies are not likely to participate in the type of lavish meetings spending exhibited by these few—and often what seems lavish in a vacuum may be a legitimate expense for an incentive program or other VIP event—the increased scrutiny now focused on this spend category has re-invigorated efforts to subject meetings to regulation.

The federal government has done its part to regulate meetings expenses for companies that use public monies. Although not specific to meetings, Sarbanes-Oxley regulations that went into effect in 2002 apply to publically traded companies and require a bidding process and documentation when hiring any type of third-party supplier to perform business functions for the company. Because meetings use a variety of third-party suppliers, SOX is a serious consideration for meeting planners. While the law does not require a company to accept an offer from the lowest bidder, it does require documentation of why the specific supplier was chosen. For meetings, such reasons might include better service, recently renovated guests rooms, technology offerings that ultimately keep costs down or that are more in line with meeting requirements, etc.

SOX also puts the kibosh on the exchange of gifts and favors between suppliers and clients in a way that influences decision-makers. If financial mismanagement does occur, SOX regulations help to pin responsibility directly on corporate executives. If nothing else, the latter should be reason for the c-suite to increase its awareness of meetings in general and of sourcing/purchasing processes specifically.

More recently, the United States Congress has taken on meetings and event expenses specifically, targeting these in regulations for companies taking government bailout monies, also known as the Troubled Asset Relief Program (TARP). New TARP regulations tag meetings and events as items that are potential "excessive and luxury expenditures," and as of August 2009 required companies that took TARP money to publish an excessive and luxury expenditure policy on their websites, create and follow a defined approval process for any expenditure in question and identify a process for enforcing the rules. It also requires companies to mandate accountability for adherence to the policy. The task force that established this legislation also created a new "Office of the Special Master for TARP Executive Compensation" to review compliance to new corporate governance rules.

Regulatory bodies are not limited to the federal government. Depending upon the industry, meetings, event and gift exchange regulations can come from a private corporation like the Financial Industry Regulatory Authority (FINRA) that advises the Securities and Exchange Commission and governs the financial industry, state governments that create rules for such publically regulated industries as pharmaceutical and finance, or member associations that are dedicated to maintaining ethical practices within their respective industries. These bodies not only set regulations but also govern penalties when companies do not adhere to the rules. The penalties can be steep: from thousands to even millions of dollars in fines, depending upon the magnitude of the offence. In some industries, infractions could even lead to criminal penalties

Process + Policy – Whether a company is publically traded, private, a TARP recipient or a member of a strong industry association that governs ethical practices, meeting planning policies should be implemented around the following:

- Budget approval – Especially in excess of a defined amount per attendee. A multi-level approval process should be implemented and enforced, specifically in large companies where visibility can be exceedingly difficult. For small and mid-size business, management approval is a must. For both, standardized documentation of budget approval is vital and should be stored for reference in case of audit.

- Gift giving and receipt – Items or services of value can easily be seen as bribes or attempts to influence corporate decision-making often for personal gain. Corporations should define within their meetings policies what constitutes a gift from a supplier. A free night at the resort? Spa treatments for the planner? If the free night is part of a sponsored site visit to get the company's meetings business, it is clearly not a personal perk. In general, if the "gift" or "favor" benefits the company rather than the planner, it is likely to be acceptable. Where a company decides to draw that line may depend on corporate culture.
- Sourcing processes – Sourcing multiple bids for third-party suppliers is a widely accepted business best practice. The planning process should include a minimum number of RFPs submitted to the marketplace and should require planners to provide a rationale for choosing the winning bidder. This data and documentation should be stored for reference or in case of audit.

Lack of meetings oversight allows people to commit hundreds of thousands of dollars they aren't authorized to commit to that kind of liability.

Contractual Risk – Negotiating contracts is often the trickiest part of the meeting planning process. Some suppliers have been known to take advantage of inexperienced planners, building lopsided agreements that extract harsh non-performance penalties. On the other hand, when a corporation lacks oversight for meetings, says Iwamoto, "it allows people to commit hundreds of thousands of dollars they aren't authorized to commit to that kind of liability."

There are four prime areas where corporations must ensure strong protection clauses.

- *Cancellation* – Cancellation clauses are generally built on a sliding scale that will apply increasing penalties as the meeting date approaches. For example, the buyer may be expected to pay 40 percent of the room rate if cancellation occurs more than 180 days before arrival. At 90 to 179 days before arrival, the penalty may increase to 50 percent and so on. Hotels may include partial payment for other revenue categories, as well. Food and beverage is a likely candidate. Smart negotiators will insist that penalties are assessed on lost revenue rather than total cost. Industry estimates put room revenue at 70 percent of the rate and f&b food and beverage revenue at 40 percent of the rate.

  Cancellation clauses should not protect the supplier only. Corporations should enumerate the conditions under which the group is permitted to cancel without penalty (e.g. change in supplier ownership/management, invasive construction, damage to the property, etc.). Buyers should also negotiate terms under which damages are mitigated by booking future business with the supplier or if the supplier is able to book a different piece of group business over the same dates.

- *Attrition* – When a meeting planner books a hotel, he is required to reserve an entire block of rooms. The rate is often based on the size of the room block. A good contract should allow the planner some leeway to alter the size of the room block within a reasonable amount of time before the event without incurring penalties. Penalties kick in at a specified date and, like cancellation fees, may increase as the event approaches. Failure to release rooms before the cut-off date is the first round of attrition penalties; the second round may occur after the event if the group still fails to fill the room block. Attrition penalties may becalculated on room rate, expected food and beverage costs, alcohol consumption, etc. The same rule applies here: Damages should be based on lost revenue rather than cost.

- *Force Majeure* – Also known as the "Act of God" clause, force majeure covers uncontrollable conditions that prevent either the supplier or the buyer from delivering on contract promises. Traditionally, this clause applies to natural disasters, war and failure of a third party to perform contractual agreements to one of the contracting parties. But corporations should specifically define other terms to be considered "force majeure," such as threat of pandemic disease, terrorist threat or even a plunging economy. The expanded categories might not protect the corporation from all penalties, but could define situations in which partial penalties would apply.

- *Indemnification* – Fundamentally, an indemnification clause states that a buyer is only liable for the damages it causes and the supplier is liable for the damages it causes. Many corporations have a standard indemnification clause that is required in all third-party contracts—but the planner may not know it and, therefore, would not include it.

Process + Policy – To reduce contractual risk, a corporation must drive at least a portion of the contract process. One approach is to provide a support structure for planners as they negotiate meeting particulars. This would likely include some standardized contract language to cover major risk factors for meetings, plus a go-to contact within the procurement or legal department to review individual agreements that are specific to each meeting. Policy should state that an internal contract review is required and the procurement or legal department should be prepared to field the appropriate volume of meetings contracts.

A second approach requires a strategic sourcing model* in which the corporation identifies preferred partners and pre-negotiates contract terms with them for meetings. Pre-negotiated contracts should include as many standardized protections as possible and might include other specifics, such as room rate, food and beverage minimums and added-value items. Aggressive corporations negotiate set meetings packages for their planners in order to streamline the process and minimize individual negotiations. In either case, meetings policy would state that modifications to prenegotiated contract language must be approved by a manager and an approval process should be identified.

Branding & Public Image – A corporation can spend decades building a trusted brand name that is supported by a strong public image. But even established brands can be undone by a badly executed meeting that invokes media scrutiny and public outcry. Even small meetings that suffer from unjustified extravagance or larger programs that publicize a message that is inconsistent with established brand values can cause significant damage. Companies can spend years not only rebuilding an image but also suffering from loss of sales and/or consumer confidence in the interim. Recent cases of warranted and unwarranted media scrutiny have cast a bright public light on the meetings industry. Some companies may need to keep a low profile overall to avoid unnecessary attention.

Policy + Process – Awareness of meetings and consistent approval processes are the first steps in mitigating branding and public image risks. Especially for companies subject to regulatory bodies, review of meetings materials

* SPECIAL NOTE: For a guide to strategic sourcing for meetings, click here to access Active Network's companion white paper "Partner Perfect: Strategic Sourcing Key to SMMP Efforts."

for branding and messaging may be necessary. In a time of financial uncertainty, oversight of budget and aligning spend with the objective of the meeting has become very important. If media scrutiny has become an issue for the company, meetings policies can include guidelines for how to maintain a low profile for events, such as not exhibiting logos or displaying public signage at the meeting venue, can assist in these efforts. Explaining and enforcing these policies will be vital.

Payment – For many companies, a look into payment for meetings will reveal a tangle of unmanaged processes. Corporations may find meetings purchases on travel and entertainment credit cards, purchasing cards, individual purchase orders and maybe even on a meeting planner's personal credit card. Failure to exert control over payment processes is likely to result in one or more of the following:

- Overpayment or duplicate payment of vendors
- Additional fees tacked onto original charges due to late or non-payment
- Outright fraud

Lack of financial transparency caused by unmanaged payment processes also dooms corporations to never getting a comprehensive view of their meetings spend. This can prevent the company from negotiating better discounts and/or contract terms with preferred suppliers, which means the corporation will continue to leave money on the table for meetings.

Process + Policy – There are tools in the market to help corporations with controlling the meetings payment process. A meetings credit card, for example, can be assigned to an individual event for all purchases associated with that event. The meetings card will break down purchases into line items and help present data in an organized way. Meetings cards can be integrated with other meetings management tools to help automate payment processes, ensure adherence to budget and track enterprisewide meetings spend.

Whether a corporation chooses to use a meetings card or another form of payment should be determined by the company's individual needs. Whatever the decision is, policy must specify what payment mechanism to use for meetings, define the payment process and push that information to all planners. Consistency is the key to getting and maintaining control over meetings spend—and preventing the risks associated with lack of payment oversight.

Safety + Security – Of all the risks inherent to meetings, safety and security could be the highest profile. Natural disasters, political unrest, communicable disease and terrorist activities have all affected meeting groups in recent months and will continue to do so. In addition, all meetings are subject to safety measures of transportation companies, hotels even third-party tour operators. Corporations and event organizers must partner with suppliers they trust with attendee safety, and they must review crisis management plans with them regularly. In time of crisis, companies will be called upon to locate each and every one of their personnel and secure them out of harm's way.

Process + Policy – Companies should not rely completely on their partners to ensure safety and security when it comes to meetings. Every corporation should have its own crisis management plan in place that includes a communication imperative and action plan to move a meeting group to safety. Corporations should also endeavor to avoid having to use this crisis plan. It is a best practice to imbed restrictions within meetings policies that will help to keep groups and attendees out of danger, limiting the impact and liability of potentially catastrophic conditions. For example, companies can restrict how many employees are permitted to travel on the same flight or train together should an emergency situation arise. Another common policy is to avoid certain destinations during seasons when weather disturbances are common: hurricanes, tornados, flooding, etc. The corporation should also stay up to date on travel notifications released by the government. Meetings scheduled to occur in areas of severe political unrest, sudden terrorist activities or outbreak of disease should be cancelled and rebooked.

Of course, none of these precautions will apply to meetings that fly under the radar of a meetings management process. Mandating meetings registration is perhaps the most important first step in mitigating safety and security risks since timely communication with planners and attendees can either avert a crisis situation entirely or facilitate action should a crisis occur.

The role of technology

It is hard to overstate the role technology can play in mitigating meetings risk. "Meetings management technology enables the whole process," says Iwamoto. "In every strategic meetings management model, technology creates the backbone upon which every management element can be fleshed out." When it comes to risk management, consider the following capabilities that a meetings management technology platform can bring to the table:

- Meeting registration capability allows a corporation visibility of all events taking place, to track approvals, planning progress as well as the final details of every meeting in the system
- Budgetary tools can manage and drive adherence to budgets.
- An electronic RFP sourcing capability makes consistent, competitive bidding possible for every meetings program
- Meeting planners can be guided to preferred partners with pre-negotiated meetings contracts and/or packages
- The technology can be configured to drive contract terms and conditions across the board as well as the approval process for individual meetings contracts
- Attendee management capability allows the corporation to access information about every attendee should an emergency occur and report on attendee expenditures
- Integration with a meetings card can drive adherence to budget and automatically reconcile expenditures to that budget within a tolerance defined by the company
- A technology system with business intelligence capabilities serves as a defensible data warehouse and documentation archive that can provide visibility and facilitate audits

"It's all about consistency and raising awareness. Meetings management technology can house a living meetings policy and drive meetings processes to ensure consistent planning. Applying these practices to every meeting is the first step in mitigating risk."

– **Kevin Iwamoto**, vice president of enterprise strategy, Active Network, Business Solutions

ADOPTION MANAGEMENT

"Risk mitigation requires change, and people don't like change," says Active Network, Business Solutions' Kevin Iwamoto."It's just human nature." Still, for a corporation to protect its interests, it must ensure adoption of policies, processes and tools that help to oversee meeting planning activities. Here are a few strategies to drive adoption :

- Communicate the dangers of exposing the corporation to risk
- Encourage planners to participate in the SMMP planning process
- Position new tools and policies as resources
- Train users on new tools and processes
- Create consequences for noncompliance
- Get feedback from stakeholders
- Communicate success stories and recognize great performance

Conclusion

Even with the help of technology, risk mitigation through enterprise-wide meetings management still poses a challenge. "There are a couple things that can really stymie a meetings management effort," says Iwamoto. "The first is job protection. Previously unmanaged planners—or even unmanaged meetings managers—don't want other people coming in and telling them what to do. They may have a hard time seeing the macro level of meetings and get bogged down in personal interest and turf wars. They may not care if a new process is more efficient or provides more protection for the company."

The other obstacle is the simply getting the effort started. "For many companies, meetings management looks like a hydra with eight heads," adds Iwamoto. "SMMP champions and executive supporters may often wonder if they really have the manpower and resources to tame the beast. What they really need to ask themselves is if the existing status quo is acceptable; because the answer to that is no, which means changes must take place."

It's a challenge that every corporate executive should consider carefully. While meetings remain an essential element of conducting business with employees, business partners and consumers, a single planning misstep can cost a company dearly in reputation, financial stability and, in certain instances, human resources. Risk management is not an area to be taken lightly, and a strategic meetings management program can go a long way toward providing clear oversight and workable solutions.

In every strategic meetings management model, technology creates the skeleton upon which every management element can be fleshed out—including risk mitigation.

INDUSTRY INSIGHTS

Financial and pharmaceutical companies are highly regulated and can be subject to crippling fines should they disregard regulations surrounding meetings and events. New regulations are being proposed an implemented on a consistent basis, whether by state or federal governments or industry-specific regulatory bodies. Following is a summary of meetings, entertainment and gift regulations being considered or newly implemented for both industries.

Pharmaceutical

- Physician Payments Sunshine Act – Requires annual federal reporting of physician payments of more than $100. The federal legislation would override many current or pending state regulations.
- Massachusetts – Department of Public Health regulations require pharmaceutical and medical device manufacturing companies by July 2010 to annually disclose sales and marketing activities and payments in excess of $50 to healthcare professionals who practice in Massachusetts. The first reporting period covers July 1 through Dec. 31, 2009.

Financial

- FINRA Rule 3220 – This rule began its life as NASD 3060 and was expanded by interpretive material (IM) in June 2007. It was adopted wholesale in 2008 by the Financial Industry Regulation Authority (FINRA), which formed when National Association of Securities Dealers (NASD) merged with the New York Stock Exchange regulation committee. The regulation governs business entertainment and gift giving. While gift giving is limited to items of less than $100, ordinary business entertainment (e.g. social event, hospitality event, sporting event, entertainment event, meal, leisure activity) is less prescriptive. The IM states that such entertainment cannot be "so frequent or extensive as to raise any questions of propriety." It also cannot be deemed to have the effect of influencing a company representative to act in a manner that is inconsistent with the best interests of the company.

About Active Network:

Active Network (NYSE: ACTV) is on a mission to make the world a more active place. With deep expertise in activity and participant management™, our ActiveWorks® cloud technology helps organizers transform and grow their businesses. We do this through technology solutions that power the world's activities and through online destinations such as Active.com® that connect people with the things they love to do. Serving over 50,000 global business customers and driving over 80 million transactions annually, we help organizers get participants, manage their events and build communities. Active Network is headquartered in San Diego, California and has over 30 offices worldwide. Learn more at ActiveNetwork.com.

About Active Network, Business Solutions

Active Network, Business Solutions division powers customers of all sizes—including small businesses, enterprise corporations, associations, tradeshows and expos—with a single technology suite for their entire event management needs. The Active Network, Business Solutions technology suite includes ActiveWorks | Conference™ for large flagship conferences, RegOnline™ for attendee management solutions, StarCite SMM for strategic meetings management and event expense management, and the StarCite Supplier Marketplace to connect events with suppliers. Visit www.activeevents.com to learn more about our suite of solutions or engage with us on Twitter: @ActiveBusiness, @RegOnline, @StarCite.

America

Corporate Headquarters
10182 Telesis Court
San Diego, CA 92121
Phone: 1-888-351-9948

Europe

Westbourne House
14-16 Westbourne Grove
London, UK, W2 5RH
Phone: +44 (0) 207-313-5742

Asia

145b Telok Ayer
Singapore, 068605
Phone: +65 63279880

Scan here to access more information on SMM and Active Network