



Season 1, Episode 4, Out of the Breach, July 27, 2021

Paulino do Rego Barros: If you look at what's happening to this industry, data is a very valuable asset. You're not talking about 10 kids in a garage in California. You're talking about army-prepared people in a room with 300 people, 24 hours a day trying to do that. You're going to have attacks, there's no question about it. How you managed it. How you intercept. How do you stop it? This is armies that become more sophisticated and therefore it is a race, and the industry needs to be aware, resourced and prepared.

Kurt Greenbaum: From Olin Business School at Washington University in St. Louis, I'm Kurt Greenbaum and this is *On Principle*.

Paulino do Rego Barros: So, my name is Paulino do Rego Barros Jr. and I'm an executive, retired executive, but now fully functional as a president of PB&C Global Investments LLC, which is a company that I started in 2008. And the current position, I'm sitting on three boards, two in Brazil and one in US. Which I call my early retirement process.

Kurt Greenbaum: I was just going to say it doesn't sound like you really know how to retire.

Paulino do Rego Barros: I tried twice. It hasn't worked yet.

Kurt Greenbaum: Do you have any credit cards? Have you ever bought a house or a car? Maybe you've rented an apartment? If you answered yes to any of those things, chances are you've been touched by a company called Equifax. And in this episode of *On Principle*, we're talking to that guy who doesn't really know how to retire.

In each episode of *On Principle*, we try to get inside the minds of decision makers and leaders who are faced with a pivotal moment in their business. For Paulino do Rego Barros Jr., that pivotal moment came on September 26, 2017, when the Equifax board tapped him to be interim CEO for the company.

Weeks earlier, hackers had breached the company's computer systems, stealing personal data — data involved in tracking individual creditworthiness affecting as many as 147 million consumers. That case was widely reported to be among the largest such breaches of individual personal credit data in history. As you can imagine, customers and consumers were angry, and Paulino's challenge when he walked into the executive suite?

Restore trust in a 120-year-old company that sits at the center of a fundamental engine of the economy: the ability to get credit.

I have to wonder, I mean, it must have been a tough decision to agree to take the reins of the company at that time. How did that happen? Why did you agree to that?

Paulino do Rego Barros: Well, it's interesting. At that time, I'd been in a company a bit over seven years and I knew how the company operated. I knew the level of integrity of the management team. The decision actually was ... was automatic. I got home, that actually it was the first dinner that we were having him in my house in Sydney, with proper silverware on plates for the first time, actually, we had ice cream in the refrigerator, and I talked to my wife and ... and she looked at me and said, "Have you started packing?" And said, "I want to know if you want to go back." I ... I ... she looked at me, and said, "What do you think you're going to do? Of course, you're going to go back. You know that." Two days later I was on my way to the airport and that was it.

Kurt Greenbaum: Let's back up a minute. Can you tell us a little bit about Equifax? What is its business? Where did it come from? How do we understand its business today?

Paulino do Rego Barros: Well, Equifax is a global data analytics and technology company. We play essential role to support the financial system, supporting people to have access to financial instruments throughout your life. And every time you have a point where you need some financial support, the financial system, we use a company like Equifax to make sure that they provide the necessary data for them to make a decision about lending you money or having you access to money. So, we — throughout this process ... Equifax is 122-year-old company — have evolved significantly, adding not just the financial data, but other data that augment their credit file. And therefore, we believe that we have a unique position in most of the markets that we participate that enhance the decision-making process of these financial institutions.

Kurt Greenbaum: This is the data Paulino and I are talking about. Data that four hackers, hackers who were backed by the Chinese military, stole from Equifax in 2017. The US Department of Justice announced an indictment against those hackers back in February 2020. So, as I recall, you were named the interim CEO on September 26 that year, 2017. What was that like? What was your first day on that ... on the job like?

Paulino do Rego Barros: Well, fortunately, it's a 14-hour flight from Sydney to Atlanta, so it give me ... gave me a lot of time to think on the things we need to do. And I had some understanding of what happened. Of course, I knew about the breach, I knew the actions. The situation was very complex, and it was going to become even more complex by having me coming in as the new CEO. And when you get here, you see the ... the issues that actually are not reported, right. We

had ... we had people being attacked publicly ... every time ... people avoiding to mention the fact that they work for Equifax. The media was created such a noise around it. We are in the media every day.

We had letters and letters and letters of several government representatives. We are dealing with FBI. You're dealing with regulators. So, this disturbs ... essentially, this is not what you do the normal day — right? — when you're running a company. This is a ... a 1% of what you do in terms of running a company. So, all of a sudden that becomes 90% of what we did at that time, dealing with first, dealing with fixing the problem, the short term and then establishing the long term and the renewal process of the company again.

So, the first thing I had in mind, my first step was actually to make sure that I had my people with us. I needed to have Equifax people together, that I had everybody in the same boat again, rowing — that ... I used to say that: We could go back to the boat, start rowing again. The first thing I did actually was this, we had recorded a video talking. It was transmitted to all the employees of Equifax, saying exactly that: Go back to your principles, go back to the company principles, to our values. And you see that we didn't benefit at all out of this ... of this problem. But we ... we were hacked, and we will be back to doing what we do. And we will fix that, and then we move forward.

Kurt Greenbaum: So, you've talked about ... sort of this message that you put out to employees by video to try to encourage them to try to get them to sort of get centered back on the corporate values and the idea that we've been through something, but we're going to come back from that. Was there a time that you sort of sat down and articulated those principles to everybody specifically?

Paulino do Rego Barros: Yes, a few times. And ... and these things form, right? Based on ... the background is one that I explained before. I knew the company; I knew there was no mal-doing in the company at all. That I knew that we were vulnerable, or left something open and someone got in. But I had to bring them to this ... back to focus on ... and we need to regain the confidence of our stakeholders. Employee was Number 1. So, the first was the employees. Then with the consumers, making sure that we have ... that they would trust, again, our systems to come in and check and we'll make a phone call and have an answer ...

Kurt Greenbaum: These are, again, those individual consumers?

Paulino do Rego Barros: Individuals, right? For instance, my neighbor. Or grandma. I need to make sure that my grandma from Ohio is able to get on the phone, make a phone call, and they would talk to her. I actually had them testing the system for me. So, they would be the ones that I would call. And I asked them to call my system to see if they were getting the right direction from ... from my folks in the call centers, which I end up visiting several of them and being on the phone with consumers, trying to understand what they're saying, trying to see the issues. And

every time I went to one of these call centers, I put a phone on. I start engaging in a conversation with consumers and then the starting of the apology process. Right?

Kurt Greenbaum: So, you're actually on the phone with consumers?

Paulino do Rego Barros: Yes. And I want to make sure that I would see what was happening from the fields, not from the reports and ... and how much time would take for a phone call to be answered. Right? How much time will take for ... if the answer was correct or wrong, see if the script was ... was ... was ... was right, if they have an issue, how they would handle the issue. So, this was a good background for me to start forming the principles. But one of them was clear, that we need to regain the confidence.

Kurt Greenbaum: I recall within a day or two of you taking the reins of the company at that time, you had written an op-ed in *The Wall Street Journal* with a full-throated apology and making sure everybody understood that you ... you ... that you and the company was going to ... were going to take responsibility for this. Can you talk a little bit about how that came about, that communication?

Paulino do Rego Barros: Yeah, it was the same principle that we have. Once we have the employees on board. And we need to make sure that we have and we're listening to them. We're listening to the consumers. Right? It was important to say, yeah, we have a problem, we had a problem. And that we apologize for that, I think is we ... we ... we kind of broke this trust that you had with us. We failed. And ... but we have been a very responsible company and we'll fix it. And we'll fix it, and we will fix it for the long term. You'll be able to reconcile and trust us again.

So open communication, getting control, communicate to stakeholders, and focus and execution — this was the basis thing. This was week one, right? CEO boot camp. And then start laying down the principles. How are we going to turn the problem into an opportunity? And this ... this ... this ... this whole process is started with ... with a simple statement that we'll do what's right. We don't have any problem to do what's right.

But the important thing here is this renewal process. Right? Which we started with the transformation of the company and making sure that we just not have a patch to the problems that we had. Because it was ... this could be an easy solution. Just fix the problems that we had, right? Just put a Band-Aid on it. Right? And move on, say, "Oh, well, come and test us! We are good!"

This is not what we ... we ... we did. And this is not ... Mark has continued to invest significant amount of money and make sure that we rebuild this whole system to be the state of the art of a technology and analytics and data company.

Kurt Greenbaum: So, let's take a second to recap. At this point, we know Paulino has called for all hands on deck in the drive to get on top of the situation and begin

to restore the trust of Equifax customers and consumers. That started with the company's employees. He shared a video message with them, acknowledging the anger they faced and ensuring them that the company was working on the recovery. But also, that he needed all of them to be part of that process, to return to the company's values and to help row in the same direction.

Early in his tenure, Paulino also published an op-ed in *The Wall Street Journal*. "I want to express my sincere and total apology to every consumer affected by our recent data breach," Paulino wrote. "We know it's our job to earn back your trust."

Not only that, Paulino said he even sat down next to his call center representatives from time to time and took consumer calls himself. And in the meantime, the company was investing in the systemic changes necessary to fix the problem for the long term. For Paulino, it was about four principles: open communication, getting control of the situation, engaging with all the company's stakeholders, and focus and execution throughout the process.

And this was not inexpensive. The number I've seen is \$1.5 billion.

Paulino do Rego Barros: That's correct.

Kurt Greenbaum: And what did ... what did that investment do for the company? Can you talk about that?

Paulino do Rego Barros: That investment changed the entire architecture that we have in the technology side and security side. In data analytics, it's a combination of things. It's going to the cloud, right, where the security is much better managed instead of when you have old systems like we had before. Security is just kind of bolted on the devices because you have so many devices and so many legacy systems it's almost impossible to refresh everything at once.

When you're in the cloud, you can do ... you can push a button to refresh, and all your devices are refreshed. Like, Google does that today. You don't see it, right? So, this is kind of a ... simplified the direction ... way simplifying the direction of what are we doing in a global basis with ... with this investment that had been mentioned — \$1.5 billion.

Kurt Greenbaum: So, that ... that \$1.5 billion has gone to upgrading technology and security, moving some of your data into the cloud, reimagining what your staffing at an executive level and below needs to be in order to maintain all of this.

Paulino do Rego Barros: Yeah, and different skillsets, right? Again, this is why the transformation had this different elements of it, addressing different stakeholders of it, right? And ... and with different areas. One was technology and security, which was side by side, but at the same time, human capital that had to be renewed, and then including management, which was done to make sure that we understand

this new environment and how to operate in this new environment — and not just in US, but operating in a global basis, because this was going to be a transformation for the future of the company being a global company.

Kurt Dirks: Well, one of the things which I found just really, really interesting was his discussion of stakeholders and the need after a situation like this to ... to think not just about the customer or the consumer in a situation like this, but how they were very thoughtful about establishing trust with ... with or reestablishing trust with every stakeholder, starting with your employee.

And I thought that was a really brilliant insight. The employee in a situation like that is the person who has to be on the front line carrying the message about, you know, why your organization is trustworthy, should be trusted, and also to execute the plan. And so, I think that was a really brilliant insight to start there, even though perhaps at first glance the most important stakeholder is the ... the consumer.

Kurt Greenbaum: That is Kurt Dirks. He wears several hats at Washington University in St. Louis. Chiefly, he's the vice chancellor of international affairs for the university. He's also a member of the faculty at Olin Business School, where he is the Bank of America Professor of Leadership and an expert in organizational behavior. Kurt has done extensive research in the areas of trust, team dynamics and workplace ownership. He has a vast list of published research work, which he's presented at conferences around the world. And do you recall hearing about that data breach in 2017?

Kurt Dirks: I do. And I remember actually two things when I heard that. My first ... my first thought was, "I wonder if I was affected," like almost every customer. But that was as a ... as a consumer. But then also as a ... as a faculty member who does work in this area, I thought, you know, that response was a very thoughtful and impressive response. And so those are my ... my two reactions from the different parts of myself.

Kurt Greenbaum: What response are you speaking of specifically? Is there something you recall about it?

Kurt Dirks: Yeah, when I when I heard it and I heard their response that they had given, I think it was an op ... opinion piece or an editorial in *The Wall Street Journal*. And I had read that and I thought that was a ... that was a very well done, well-thought-out approach to how to start this process.

Kurt Greenbaum: Can you talk a little bit about what it was about that communication specifically that struck you and what value you thought it brought to the conversation?

Kurt Dirks: You bet. I think one of the things that they did very clearly was to own it and to own that this was something that happened and that they were going to take

all steps to fix. And I thought it was a very thoughtful and at least worded in a way which was very sincere, which we know, obviously, is very important in these situations.

The other ... the other piece we've done a little bit of research on what types of responses tend to work best in an apology or ... or recognition, and we really find three pieces of it. There's all kinds of different things you can put in these. In fact, if you look at what different people and companies do in ... in response to these, you see a wide variety. And we find three pieces tend to ... to be critical in starting that trust repair process.

That first piece — and there are three R's — the first is a sincere statement of regret. The second is reform, which is you're committed to fixing whatever caused this and then resolve to demonstrate how you're going to act differently in the future. And ... and those seem to show up very clearly in their response.

Kurt Greenbaum: You say this ... these ... this sort of pattern or this sort of approach to addressing a situation is ... is ... is something that's emerged in the course of your research. Can you reflect on what ... what you observed as you went through this interview in terms of the way the company responded to its stakeholders?

Kurt Dirks: You bet. I think there are two things which I found important in what they did, which we also see in our ... our research. When some type of incident like this happens, you know, there's the potential for trust to be long ... damaged long term or permanently damaged or to be rebuilt. And there are really kind of two factors which can cause trust to ... to not be rebuilt for over a long period of time or to be permanently damaged.

And one is the emotion, the emotional aspect and how that is dealt with. And then the second is how the actual breach, the cause of the breach is seen.

One of the things that we have found is ... is very important on whether trust, whether an act festers or not in someone's mind, is whether they ... the anger that is incurred by that act is ... is addressed or not. And so, when that ... when that emotion or anger is not released, that tends to stick in people's mind. And when they reflect on that the next time or see something that reminds of them, that ... that anger comes back up and ... and it causes that trust to stick there.

So, I think one of the things that they did very well — and the apology helps to do that as well as other things — is to really help deal with the emotional reaction that people have and to release that ... or at least, try to release that emotional reaction. Now, in a situation like this, emotion not only affects someone internally, but today we also see how it plays out in social media.

So ... so, the need to release and deal with the emotion really is important both for what the psychological aspects as well as the ... the socio ... sociological aspects these days. So, that's one factor which I think is ... is really critical that we find is important for long-run success.

The second issue that we find is also important is just how the breach itself is seen or the act itself is seen. In many situations, people could make two different attributions for why something happened. One attribution might be that this was caused by someone's lack of ability or competence, a mistake because they didn't have the knowledge, perhaps, or skill to do something.

A second attribution, however, can be it's something about that person's character or their values. That happened because that person was trying to profit from me. That happened because that person was trying to take advantage of me. What we find is that when an attribution is made to character, that our brains tend to see that as something which is hardwired into us. And therefore, it's something that cannot be changed then and causes a permanent damage in trust. However, issues related to competence or ability are something which our brains tend to believe is fixable or changeable. That is something that we can correct over time.

Kurt Greenbaum: I love the distinction Kurt makes here. Research shows that if customers perceive the failure of an organization or an individual is the result of poor moral character or malicious intent or some other breach of values, well, that's very hard to come back from.

On the other hand, if the failure was caused by a mistake or an unanticipated fault of some sort — well, there's a path forward. And in this case, Paulino made it clear, this was not a breach of the company's values. The company didn't gain anything from this. This was a breach of its systems.

Kurt Dirks: And so, it's this notion of being able to very quickly and clearly manage the perception of why this was caused, which is ... is really critical. This was a really fascinating description by Paulino, and it was, I think, a clinic for people who go through these types of situations on what type of steps to take and also importantly, the mindset that was important to ... to go through this. A very positive and non-defensive mindset, I think is what you heard from him. That and how it was important that he take this on as a leader for his way to set the future of Equifax straight.

Kurt Greenbaum: So, how would you characterize the ways Equifax has evolved since this incident four years ago?

Paulino do Rego Barros: Well, we are executing a plan, right? I think that the crisis is way gone behind us. I think that the methodology that we use for phase one have successfully been executed and we stabilized the system. But I think it's important to emphasize that even though today we have more than 600 professionals and with a very sophisticated skillsets in the company in the security area — they lead the

corporation, but security is a responsibility of every employee of the company. It's a culture change that we need to have, because you can have vulnerability in ... a ... by someone leaving a ... a computer open somewhere or leaving a door open somewhere that someone can break in ... into a security system. Or the way you manage your passwords, right?

And the way you ... you respond to phishing emails and how ... how you deal with that. And so, we had actually to correct all that and transform the company to be the employees of this corporation called Equifax — on a global basis, to be the owners of security, not just the owners of customers, not just the owners of investors, not just the owners of technology, but to be responsible for this entity in all of these aspects.

So, this is the biggest cultural transformation, one of the biggest cultural transformations that Mark and the team are doing is to make sure that this ownership-led security, but security there, but also to make sure that this ownership of the company is in place.

Kurt Greenbaum: It seems to me that these sorts of incidents are becoming disturbingly frequent. And I guess I'm wondering, is this going to be an arms race that we're never going to be able to escape from?

Paulino do Rego Barros: I think that it is interesting that you say that. I think that my answer is yes, right, because of the political environment — you just saw the issues with ... during the elections, right? You just recently in US, the Pent ... the Pentagon got hacked, right? These people, the bad people could be — in the case of like the DOJ announced was the Chinese army that hacked our Equifax — you have people with different agendas, right? This makes companies like Equifax, for instance, or companies on the data side very vulnerable and therefore have to be very resilient and very forward-looking to understand, how can they preclude that?

Kurt Greenbaum: The distinction Paulino is making here is obviously very important. A breach on the scale of what Equifax experienced is way beyond the individual attempts at fraud we read about so often, where criminals are working to coax people to part with their credit card numbers or other personal information. No, this is theft at an enterprise level.

And for Equifax customers and consumers, the good news is, no one has seen any evidence that any of this personal data has been used for nefarious purposes or been exposed publicly.

What is it ... what are the takeaways that you think are important from this episode that other business leaders, executives, entrepreneurs should take to heart?

Paulino do Rego Barros: You never quit. You trust your values, trust your principles. Trust your instincts, right? And ... and do the right things for the business.

So, if you ... if you listen around you, what's happening and make sure that you you're confident that ... that you're fighting for the right cause, it's ... it is a difficult battle, but it's not an impossible battle. This was a great experience ...

Kurt Greenbaum: ... because you were able to make a difference, a real, very tangible difference.

Paulino do Rego Barros: Yeah. And make a 15,000-people organization that time to make that difference together. I don't want to say that was always fun, but it's a very motivating, focused and engaging moment in anyone's career at least, it was for my career. It was definitely the summit of this eight months — where I stayed as the CEO — was definitely the ... the highest moment of my career.

Kurt Greenbaum: And that's all for this episode of *On Principle*. Thank you for joining us, and thank you to Paulino do Rego Barros and Kurt Dirks for lending their experience and their insights to this story. *On Principle* is a production of Olin Business School at Washington University in St. Louis. I welcome your feedback and story ideas, so feel free to drop us a line by email at olinpodcast at wustl dot edu. That's Olin podcast at W-U-S-T-L dot E-D-U.

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As dean of WashU Olin Business School, Mark Taylor provides support for this podcast, which is the brainchild of Paula Crews, senior associate dean of strategy and marketing for the school. Once again, I'm Kurt Greenbaum, your host for *On Principle*. Thanks for listening.