

# Defining Your Organization's Risk Appetite, Securing Funding, and Getting Stakeholder Support



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**The CSO Security CONFAB**  
**April 15, 2012**

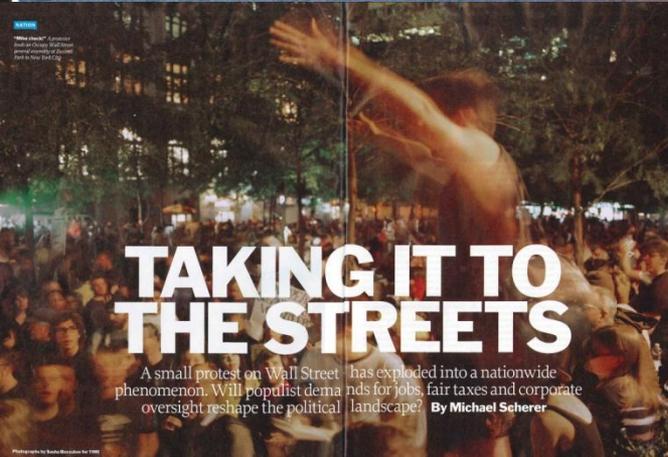
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- Reputational Challenges in the Current Business Environment
- The Opportunities and Threats that Develop from Reputational Risk
- From Risk to Crisis
- Reputation & Risk Scenario

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# Today's Business Environment



# The New York Times

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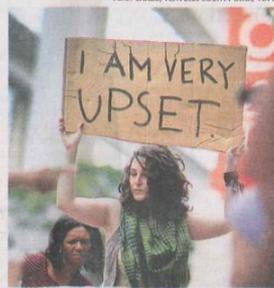
JUAN CARLO/VENTURA COUNTY STAR, VIA AP



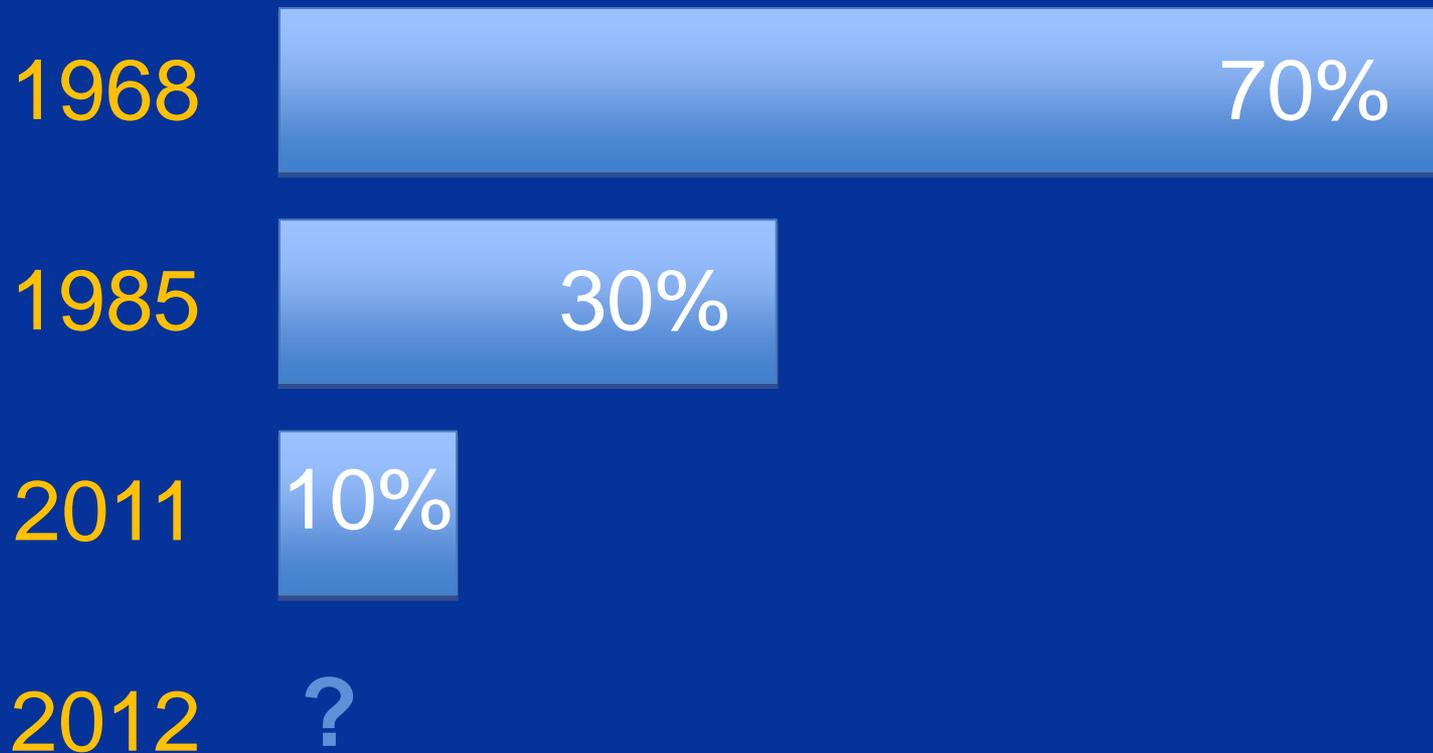
J. PAT CARTER/ASSOCIATED PRESS



JUAN CARLO/VENTURA COUNTY STAR, VIA AP

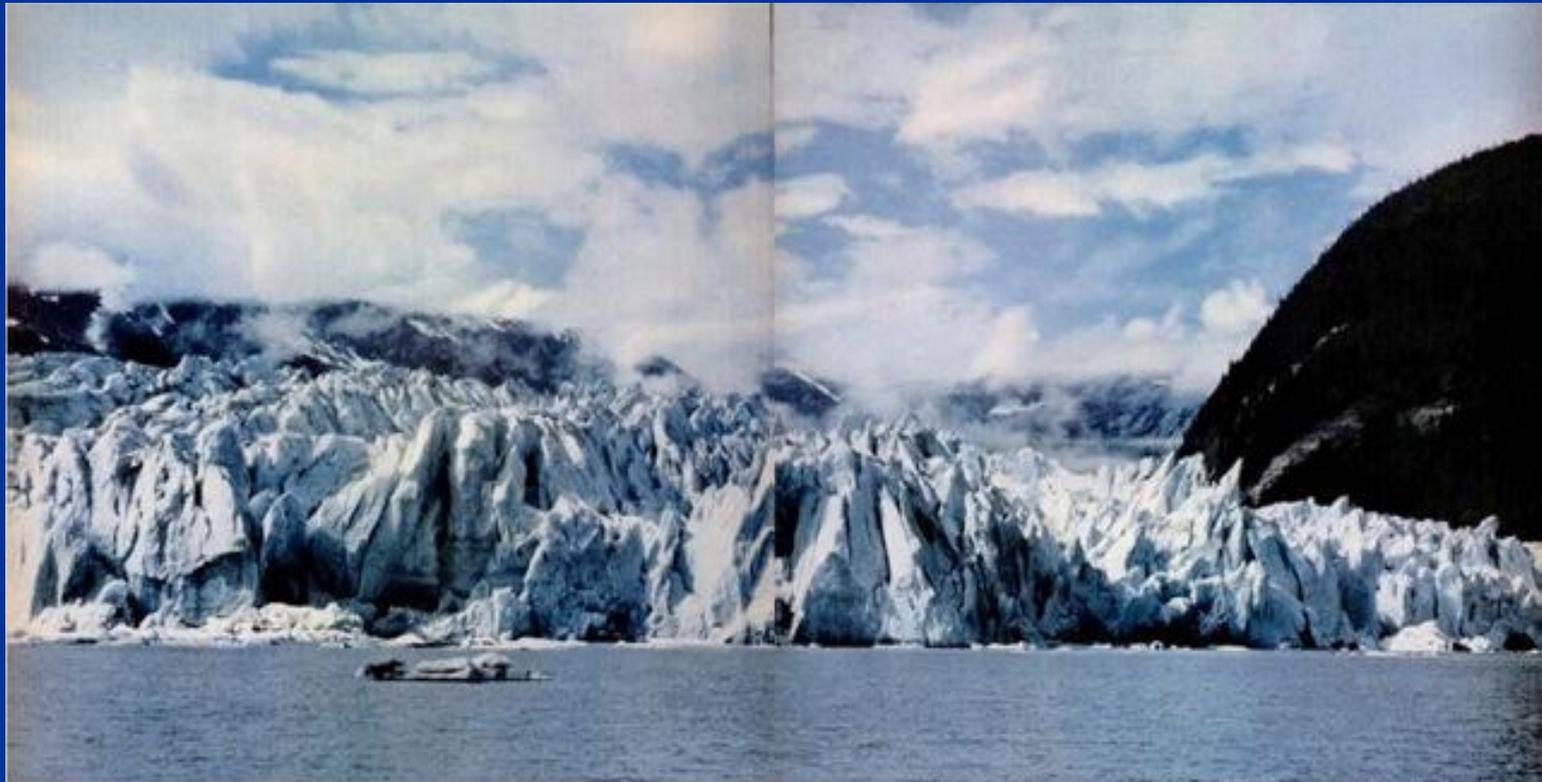


# Does Business Act Responsibly?



Source: Yankelovich & CNN/USA Today/Gallup Poll

# Corporations Have a Long History of Bad Communications



**EACH DAY HUMBLE SUPPLIES ENOUGH ENERGY TO MELT 7 MILLION TONS OF GLACIER!**

This giant glacier has remained unmelted for centuries. Yet, the petroleum energy Humble supplies—it converted into heat—could melt it at the rate of 80 tons each second! To meet the nation's growing needs for energy, Humble has applied science to nature's resources to become America's Leading Energy Company. Working wonders with oil through research, Humble provides energy in many forms—to help heat our homes, power our transportation, and to furnish industry with a great variety of versatile chemicals. Stop at a Humble station for new Enco Extra gasoline, and see why the "Happy Motoring" Sign is the World's First Choice!

**HUMBLE**  
OIL & REFINING COMPANY  
America's Leading Energy company



Enco  
Happy Motoring

# Trust in Institutions to Operate in Society's Best Interests\*

Armed forces	+43%
NGOs	+27%
Education system	+26%
Health system	+17%
Trade unions/labor	+2%
Legal system	-2%
Global companies	-9%
Large national companies	-10%

\* Net rating = % trust - % distrust

# Collapse of Trust

Collapse in confidence of the markets directly extended to a **collapse in confidence in business**

**Today's most trusted  
spokespeople**

Academics,  
Peers

**Today's least trusted  
spokespeople**

Corporate executives

People need to hear or see something **3-5 times**  
from multiple sources to believe it

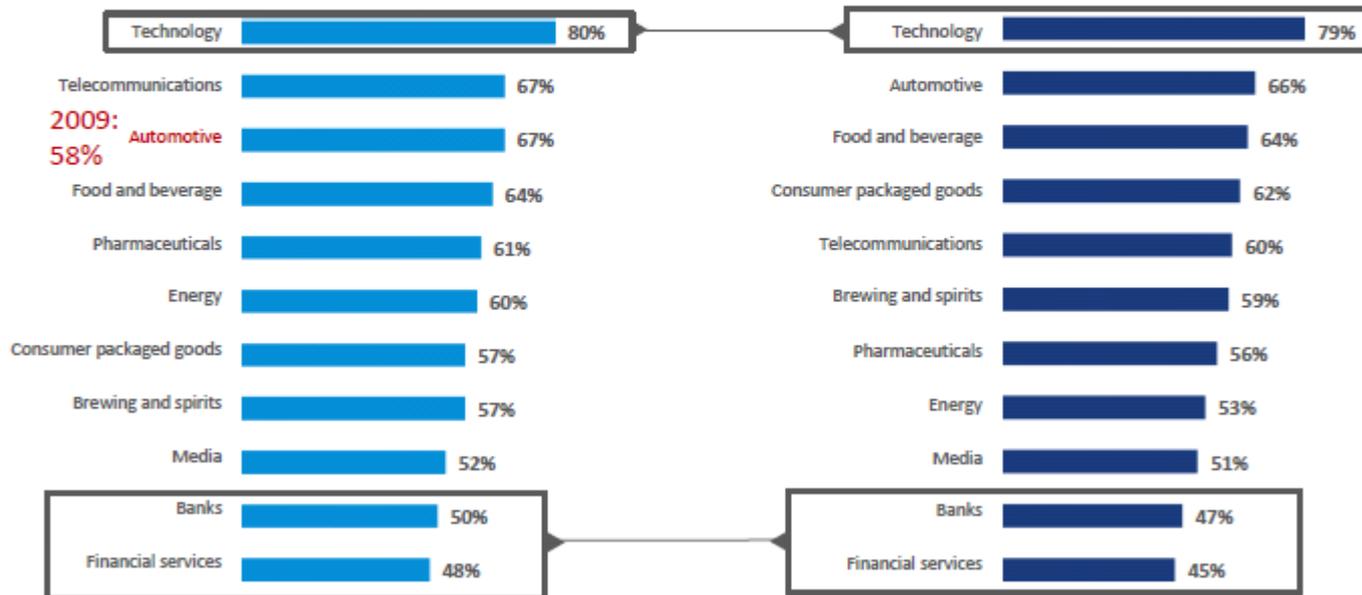
# Trust by Sector

Technology remains on top in all markets, finance sector still at bottom

TRUST IN INDUSTRIES – GLOBAL

2011

2012



2009: 58%

2008 Trust in Banks: 56%      2012 Trust in Banks: 40% -16

# When Companies Forget Responsibility

- Enron misrepresents reality and its values



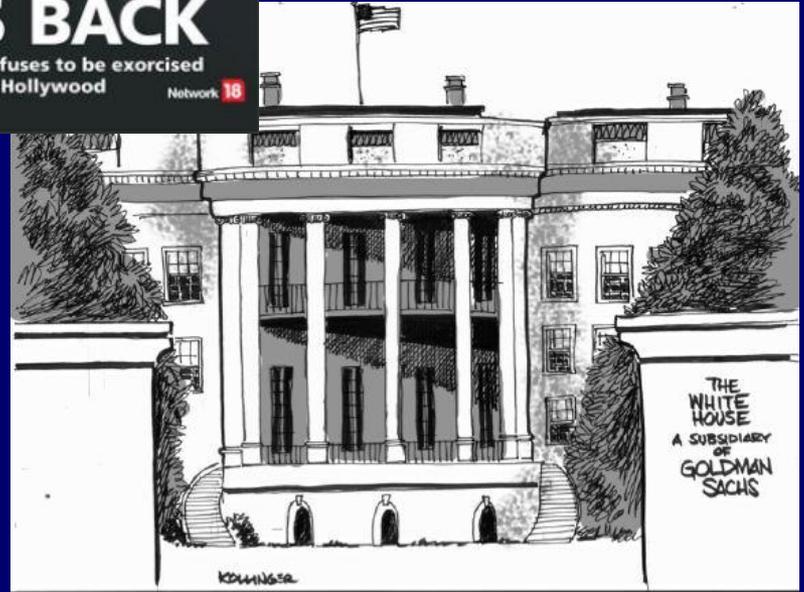
## When Companies Forget Responsibility

- Enron misrepresents reality and its values
- Toyota recalls 9 million vehicles globally due to safety issues and is accused of cover-up after leaked documents shows that the maker staved off a full investigation by the US in a bid to save money



## When Companies Forget Responsibility

- Enron misrepresents reality and its values
- Toyota recalls 9 million vehicles globally due to safety issues and is accused of cover-up after leaked documents show that the maker staved off a full investigation by the US in a bid to save money
- The seven largest Wall Street banks pay out over \$150BN in bonuses in 2012, despite the recent fall of two storied investment firms, a global financial crisis, a bailout, and regulatory reform



# Google Mini Case

FEBRUARY 20, 2006

www.time.com AOL Keyword: TIME

WHO'S BEHIND THE CARTOON MAYHEM? • BEING OBAMA

# TIME

CAN WE TRUST



WITH OUR  
SECRETS?

An exclusive inside look  
at the \$100 billion empire  
that is dominating  
the Internet  
BY ADI IGNATIUS

Google honchos,  
from top,  
Larry Page,  
Eric Schmidt and  
Sergey Brin





# Google Case

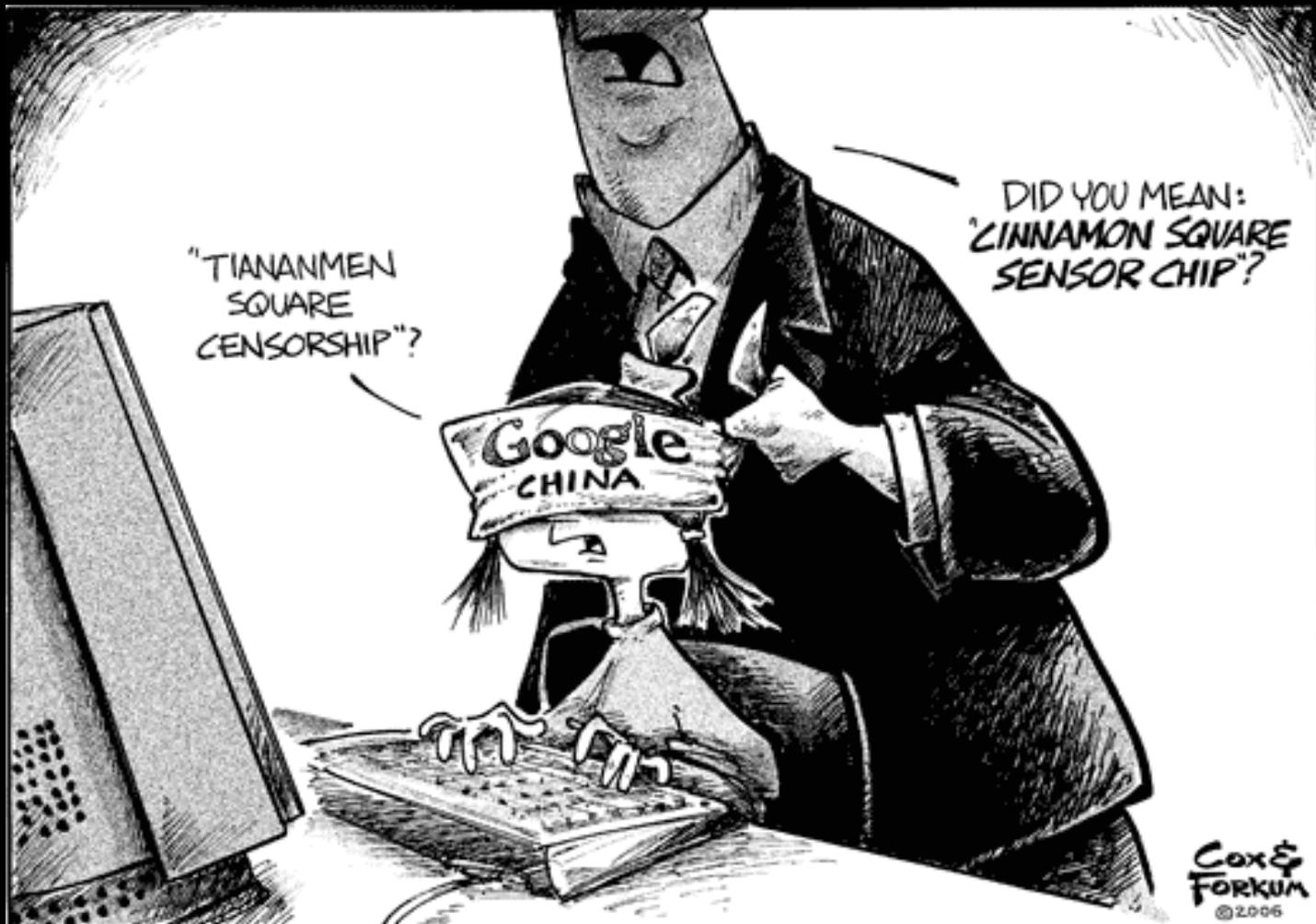
- What were the key problems Google faced entering China?
- Where was Google most vulnerable from a security standpoint?
- How does the changing environment affect Google's ability to communicate?
- What advice would you have given them?



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Google in China... search no evil?



"TIANANMEN  
SQUARE  
CENSORSHIP"?

DID YOU MEAN:  
'CINNAMON SQUARE  
SENSOR CHIP'?

Cox &  
Forkum  
©2006

# Update on Google in China

- **January 2007:** Google admits that its decision to launch Google.cn, a Chinese-censored version of Google.com, has damaged the company after a series of attacks from Web users
- **March 2009:** China blocks access to YouTube and Google News amid Tibet riots
- **June 2009:** Google.com, Gmail and other Google services experience widespread access issues across China; A Chinese official accuses Google of spreading obscene content a day later
- **September 2009:** Kai-Fu Lee, widely admired by Chinese youth and in its tech community, steps down as Google China head in a surprise move



# Update on Google in China (cont.)

- **January 2010:** Google makes its strongest statements yet in an open blog post, stating it is no longer willing to censor searches within China and may pull out of the country

- **March 2010:** Google puts a halt to its China search engine, redirecting the site to its search site based in Hong Kong which is uncensored

- **August 2010:** Chinese officials announce plan to create a government-controlled search engine



# Google Faces Continued Challenges Outside of China

2007

- Criticized for opening multiple “top secret” data centers around the country
- The F.T.C. opens an antitrust investigation into Google’s planned \$3.1 billion purchase of DoubleClick
- The EU launches an investigation set off by concerns over how long Google stores user information
- Google Map’s “Street View” raises continued privacy concerns

2008

- Google’s Head of Online Ad Sales and VP of CorpComm depart for Facebook
- Google Health launched with much heat - technology achievement or privacy disaster?

# Google Faces Continued Challenges Outside of China

2009

- Ends attempt to sell print and radio ads, a major setback for ambitions to expand its advertising business beyond the Internet
- Authors and publishers protest Google's plan to digitize millions of books from libraries and make them available in its Book Search service, calling the effort a violation of their copyrights; Justice Department conducts antitrust investigation

2010

- Clashes with European lawmakers and regulators on issues like privacy, copyright protection and the dominance of its search engine
- Critics fire at Google's new "Buzz" service, saying it invades privacy
- Google reverses its long-standing position on net neutrality, by working with Verizon on a proposal for how Internet service should be regulated ; Severely criticized in the media

# 2011: The Year of the Cyber Dragon

- Last year, hackers attacked America's defense establishment, preeminent companies Sony, Google and Morgan Stanley, along with security giant RSA.
- In a business environment where trust is already a key issue, this raging cyber-war has risen to the forefront of America's imagination.

VANITY FAIR

## Enter the Cyber-dragon

Hackers have attacked America's defense establishment, as well as companies from Google to Morgan Stanley to security giant RSA, and fingers point to China as the culprit. The author gets an exclusive look at the raging cyber-war—Operation Aurora! Operation Shady RAT!—and learns why Washington has been slow to fight back. *Related: [Michael Joseph Gross goes inside Operation Shady RAT.](#)*

Michael Joseph Gross • Illustration by Brad Holland



September  
2011

*“Data breaches aren't necessarily crises, but an increasing proportion of crises are data breaches.”*

– Karen Doyne, Leader US Crisis Practice, Burson-Marsteller

**What are potential reputational risks that your organization faces? The security function/industry?**

# Defining Your Organization's Risk Appetite, Securing Funding, and Getting Stakeholder Support

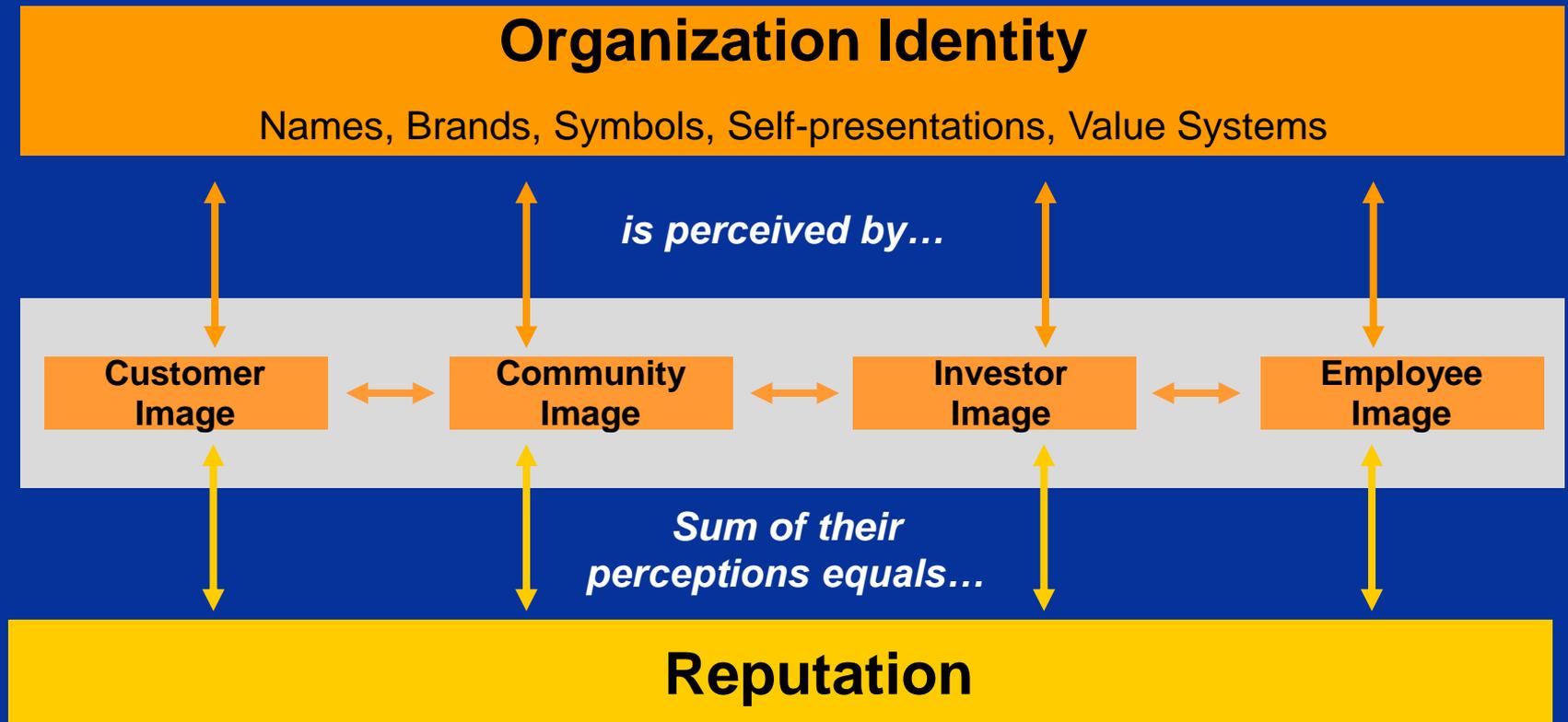
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**"When written in Chinese, the word 'crisis' is composed of two characters—one represents danger, and the other represents opportunity."**

**—John F. Kennedy**

**Who shapes your organization's reputation?**

# Brand, Identity and Reputation



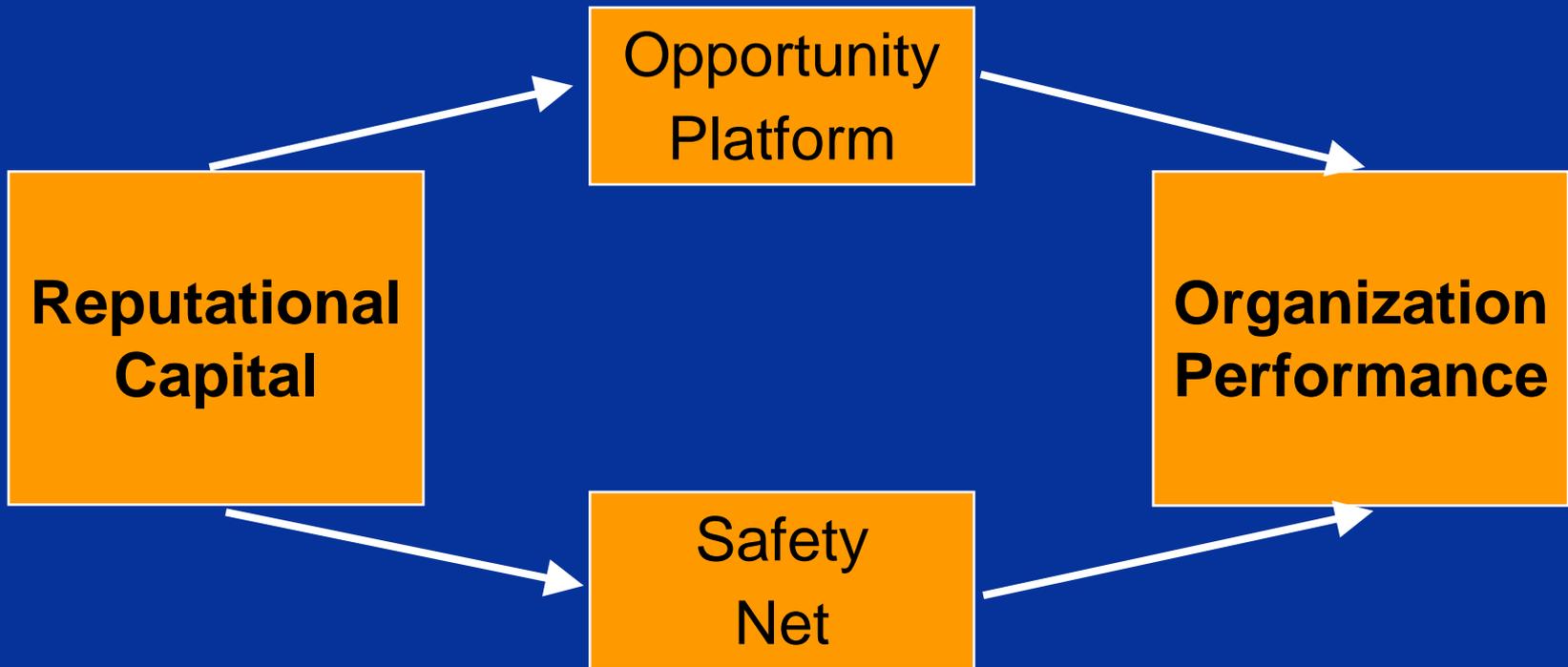
# Reputational Capital and Risk

- The fluctuating value of the company's reputation is its **reputational capital**

# Reputational Capital

- Provides a platform from which other investment opportunities may arise—similar to R&D in this respect:
  - **Upside example:** Sound corporate citizenship improves relations with stakeholders and provides a holistic approach to implementing strategy
  - **Downside example:** Loss of reputational capital includes rogue behavior by employees, defection by partners, and the threat of legal action by regulators

# Reputational Risk Management Cycle



## Organizations that Manage their Reputations Successfully....



**Adopt a common model for reputation management across organizational functions**



**Align corporate messaging and reporting activities with key drivers for their stakeholders**



**Monitor reputation with different stakeholder groups against relevant competitors**



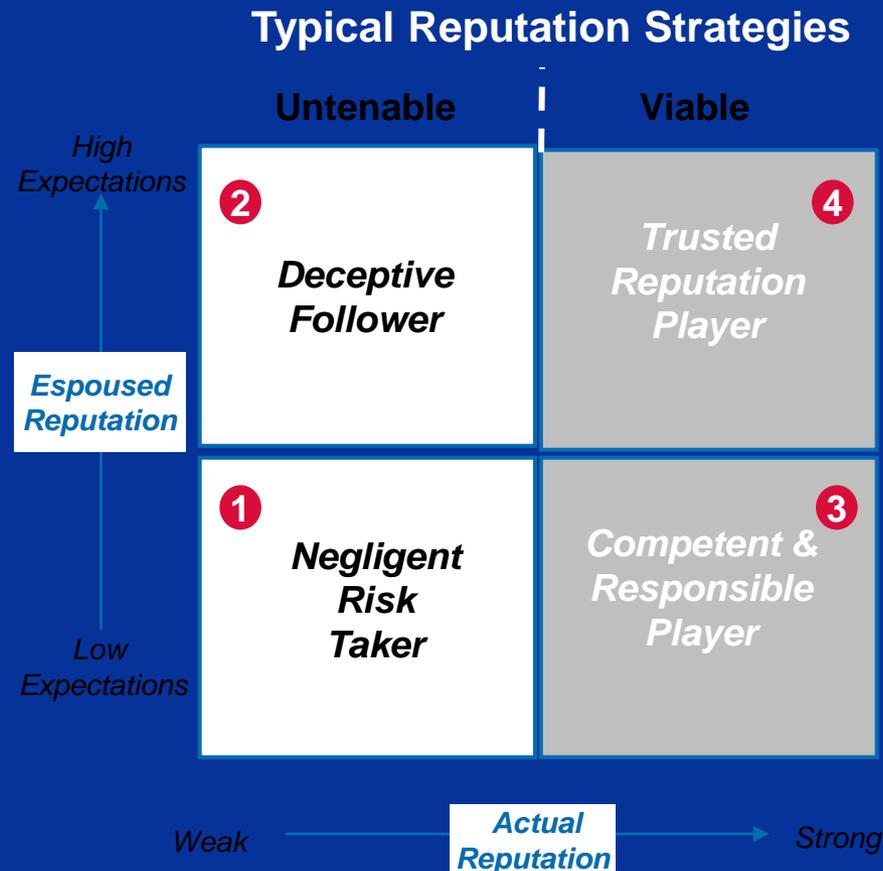
**Integrate reputation management into their business planning process**



**Create a cross-functional reputation team or committee to ensure coherent corporate action**

# Choosing the Right Reputation Strategy

Only 2 of 4 possible strategies adopted by companies are now viable



**What companies are good examples for each bucket?**

**Which strategy does your company use?**

# Reputational Capital and Risk

- The fluctuating value of the company's reputation is its **reputational capital**
- **Reputational risk** is the range of possible gains and losses in reputational capital for a given firm

# Reputational Risk

- *Commercial Bank Examination Manual* defines reputational risk as:  
“The potential that negative publicity regarding an institution’s business practices, **whether true or not**, will cause a decline in the customer base, costly litigation, or revenue reductions...can also cause liquidity constraints and significant depreciation in market capitalization.”

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**How do you know when you are in a crisis?**

## Crisis or Drama?

- Can you still implement your strategic plan?
- Will it affect your reputation with more than one constituency?
- Is a key employee or group of employees involved?
- Has more than one media outlet picked up on the incident?
- How big is the scale, what is the potential impact on business, and how long will it take to resolve the situation?

# Common Crisis Characteristics

- A rude awakening
- Rapid speed and event escalation
- Presence of panic
- Tendency to act irrationally
- Chaos in management communications
- Omnipresent media

## Corporate Crises in Recent Years

- Google self censors in China leading to questions in 2008 about its “Do no evil” values statement
- AIG pays out millions in bonuses in 2009 despite receiving \$170bn in federal bailout money
- In 2010, BP talks green in its advertising but is responsible for one of the biggest oil spills in history
- 2011: Netflix creates havoc with a pricing strategy

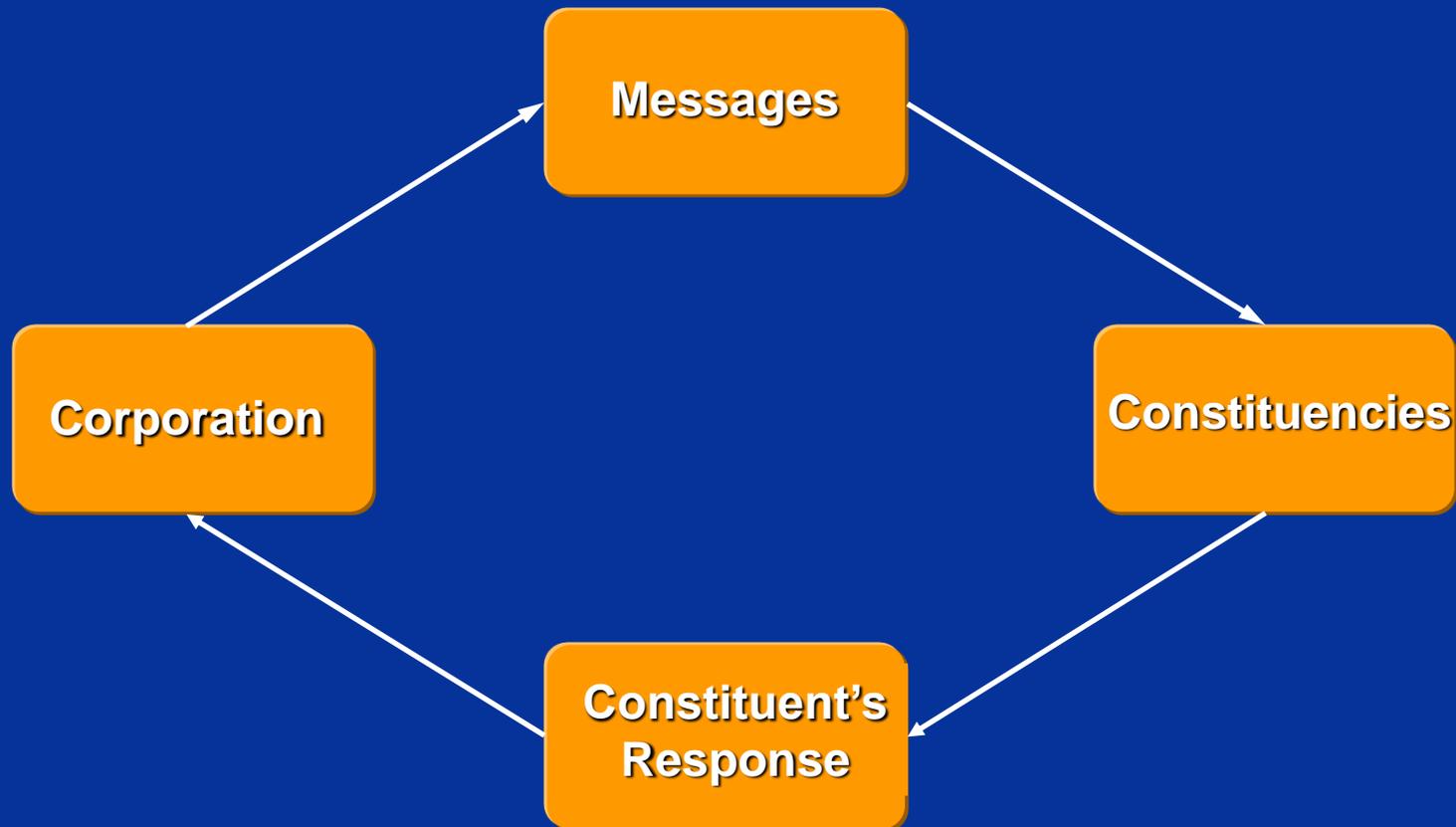
# How to Prepare for Crises

- Assess organizational risk
- Set communication objectives for potential crises
- Analyze channel choice
- Assign different teams to each crisis
- Plan to centralize
- Create a formal plan

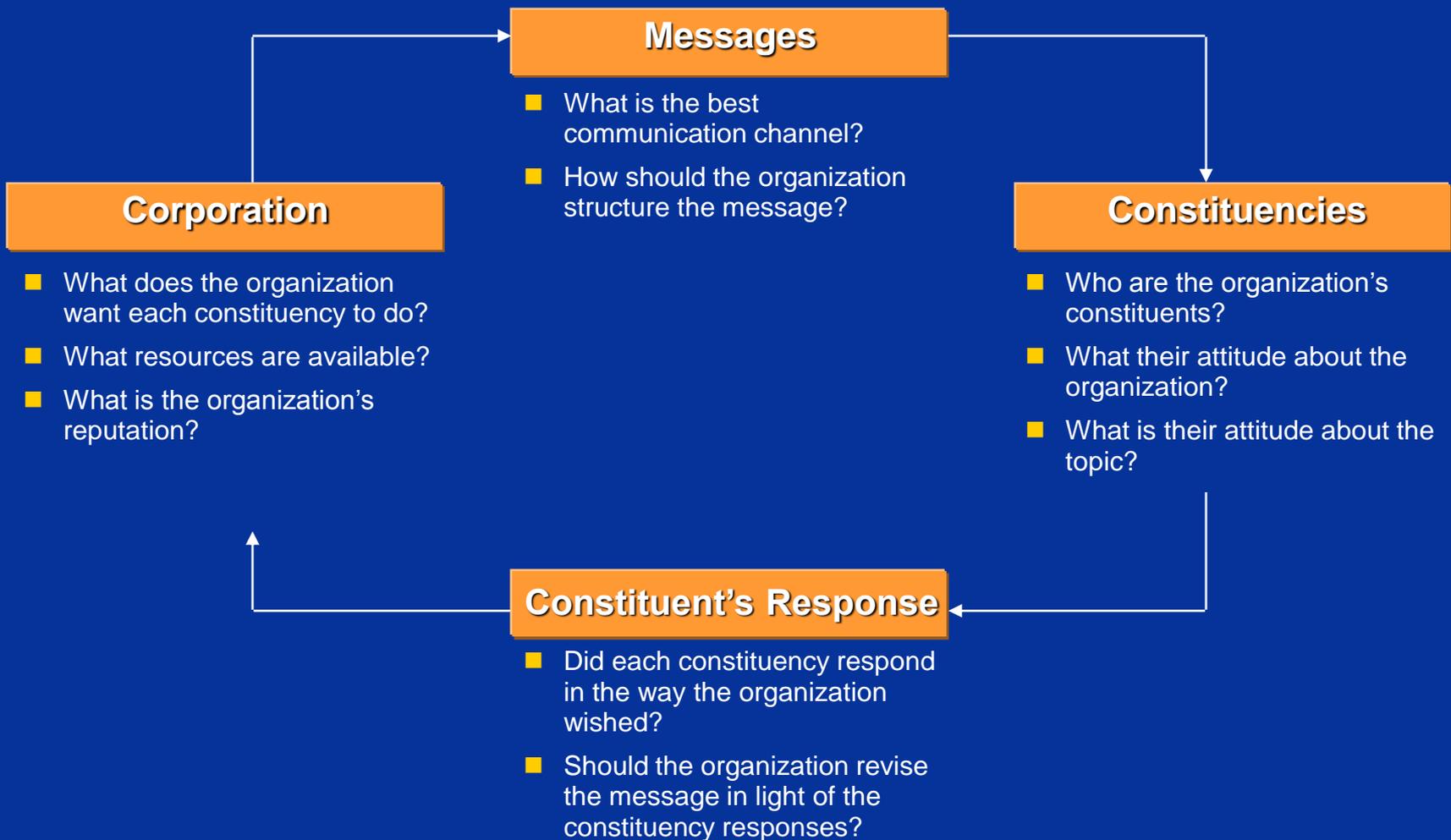
# How to Communicate During a Crisis

- Define the problem
- Gather relevant information
- Centralize communications
- Communicate early and often—both inside and out
- Get inside the media's head
- Communicate directly with affected constituencies
- Keep the business running

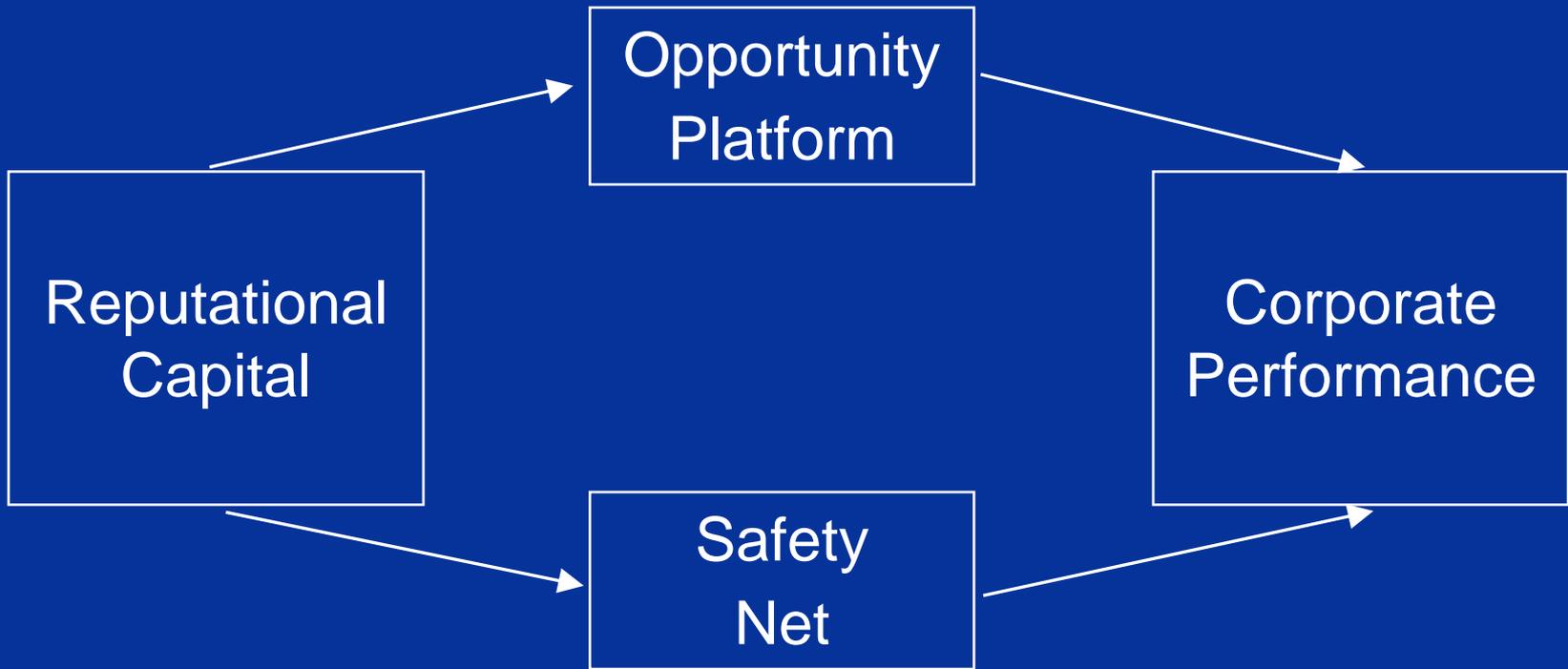
# Corporate Communication Strategy Framework



# Corporate Communication Strategy Framework



# Reputational Risk Management Cycle



# Starbucks and Global Exchange





**THEY WANT YOU  
TO THINK  
COFFEE IS COFFEE.  
WELL, IT'S NOT  
JUST COFFEE.  
IT'S STARBUCKS.**

Nowadays, coffee has become a catchall phrase for whatever they have in the coffee pot. But real coffee is about everything that goes into the coffee and the company behind it.

33 years ago, Starbucks set out on a mission, born from a love of coffee, not from "corporate strategy." We wanted to source, roast and serve the best-tasting coffee in the world.



We start by choosing from the top 1% of beans available.

We have a full-time team of

dedicated buyers looking for

great coffee beans in 33 countries. The

relationships they develop with

farmers ensure they get the best

beans. Once we find them, we

batch roast them, until they pop

twice, to achieve our signature

bold flavor. It takes countless

sample roasts and tastings to

arrive at the proper "roast serve" for each

new coffee. We won't subscribe to the "one-

roast-fits-all" notion popular with some

other companies. And, you won't find us stealthily outsourcing anyone step in our bean roasting process.



We don't rest on our burley bags when the beans are perfect. We also hand select our people. These are trained baristas, not counter help. People who can custom build over 87,000 beverage combinations, like superior coffee architects. Try us. If your coffee isn't exactly the way you like it, we'll make it again. That's not "limited-time only."

That's us, every day, holding ourselves accountable for what we serve.



We don't just under-

stand coffee. We cultivate coffee

culture. That's why our stores are designed to encourage deep-breath reading and

general mental downtime with comfy chairs

and the soft hiss of the espresso machine as

your soundtrack.

They would love you to think our coffee is just

like another. But, once you know all that goes

into ours, their coffee just might end up sitting

around longer than it already has.

**IT'S NOT JUST COFFEE. IT'S STARBUCKS.**

*Every day, we go to work hoping to do two things: share great coffee with our friends and help make the world a little better. It was true when the first Starbucks opened in 1971, and it's just as true today.*

# Creating Opportunity: Morgan Stanley Embraces Social Media



- In May 2011, Wall Street brokerage powerhouse Morgan Stanley made a bold investment decision: within the year, all of its 17,800 financial advisors would be tweeting on Twitter and connecting on LinkedIn:
  - For a sector slow to adopt, Morgan Stanley positioned itself as a leader; embraced the risks *and* benefits of social media
  - Received enhanced media attention and stimulated a debate over social media's role and marketability in the financial industry
  - Decision served as the imprimatur for the entire financial services industry to enter that space

*"This (strategy) will be a significant competitive advantage."*

- Andy Saperstein, Morgan Stanley Head of U.S. Sales

# Wachovia used twitter to answer customer questions about their merger

The screenshot shows the Wachovia Twitter profile page. The header includes the Wachovia logo and the text "A Wells Fargo Company". Below the logo are two profile pictures of Jay and Ian. The main content area displays three tweets:

- @sandyjohnson** Yes, statement will come from WFC, but payment options remain the same. Check blog – <http://bit.ly/tUIZt> #WFCWachovia ^IM  
about 4 hours ago from CoTweet in reply to sandyjohnson
- @Baibe2** Is there something we can help you with, Margo? Please follow @Wachovia and send us a Direct Message (DM). We're here 2 listen. ^JR  
about 4 hours ago from CoTweet in reply to Baibe2
- @metajungle** Please let me know what you find out. Thanks, ^IM  
about 4 hours ago from CoTweet in reply to metajungle
- @illogikal** Wachovia doesn't have an iPhone app. To bank on the go with Wachovia, surf here: <https://www.wachovia.com/mo...> ^JR  
about 4 hours ago from CoTweet in reply to illogikal

The right sidebar shows profile information for Wachovia: Name Wachovia, Location Charlotte, NC, Web <http://www.wachov...>, Bio Do you have a question about your Checking, Savings, or Online Banking account? Ask us! We're here to help: M-F, 9-5 EST, 4,882 following, 5,141 followers, 720 Tweets, and a list of users being followed.

- As Wachovia is absorbed into parent company Wells Fargo, the legacy division at the bank still continues social media not only to service Wachovia customers but to answer questions about the status of the merger

# Sony Comes Under Attack



- In April 2011, Sony was attacked by hackers intent on seeking user data; was forced to shut down its PlayStation Network for a week, disconnecting 77MN accounts globally
  - Sony suffered in an environment where criticism was already leveled towards Japanese companies
  - Week-long delay before Sony advised customers their credit card information was compromised; speculation built and spread like wildfire online
- Should have taken **immediate** and **proactive** steps to quell crisis

What else could Sony have done to reassure customers?

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## Reputation & Risk Scenario

*The following scenarios will draw from what you learned in the sessions today. We will divide into two groups for this exercise with multiple teams in each group.*

*You and your team will have 30 minutes to read and work through the scenario. Each team will pick someone to present the findings. The elected person will have 10 minutes to present.*

## Key Takeaways

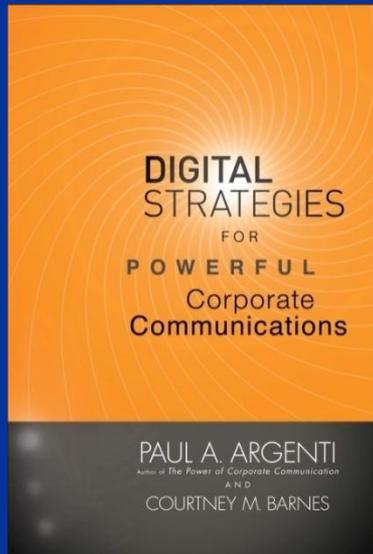
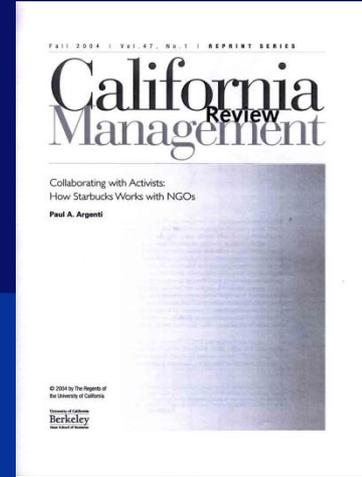
- Organizations need to measure reputational risk in the same way they do financial and operational risk from a security standpoint.
- Funding for risk should be based on likelihood of possible crisis in the future.
- Getting stakeholder support requires using communication strategy and measurement effectively
- Be able to distinguish between crisis and drama to know where to put your resources

**Strategy tells you where to go.**

**Communication inspires people to go there  
with you.**

**It's the only thing that ever does.**

***- Andrea Jung, CEO, AVON***



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