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

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The CSO Security CONFAB
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Defining Your Organization’s Risk Appetite, Securing Funding, and Getting Stakeholder Support

- 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

SPILL, BABY, SPILL

TAKING IT TO THE STREETS

A small protest on Wall Street has expanded into a nationwide phenomenon. Wall Street demands jobs, fair taxes, and corporate accountability. By Michael Scherer

The New York Times

NEW YORK, TUESDAY, OCTOBER 18, 2011

END THE FED

STOP WARS

REFORM CORPORATE WELFARE

Young, Educated, and Unemployed

I AM VERY UPSET

The Week

Wall Street on the run

Does the 99% percent movement have a legitimate grievance?
Does Business Act Responsibly?

- 1968: 70%
- 1985: 30%
- 2011: 10%
- 2012: ?

Source: Yankelovich & CNN/USA Today/Gallup Poll
Corporations Have a Long History of Bad Communications
## Trust in Institutions to Operate in Society’s Best Interests*

<table>
<thead>
<tr>
<th>Institution</th>
<th>Net Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armed forces</td>
<td>+43%</td>
</tr>
<tr>
<td>NGOs</td>
<td>+27%</td>
</tr>
<tr>
<td>Education system</td>
<td>+26%</td>
</tr>
<tr>
<td>Health system</td>
<td>+17%</td>
</tr>
<tr>
<td>Trade unions/labor</td>
<td>+2%</td>
</tr>
<tr>
<td>Legal system</td>
<td>-2%</td>
</tr>
<tr>
<td>Global companies</td>
<td>-9%</td>
</tr>
<tr>
<td>Large national companies</td>
<td>-10%</td>
</tr>
</tbody>
</table>

* Net rating = % trust - % distrust

Source: Accenture *The Business of Trust*, World Economic Forum Voice of the People Forum
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.

*Source: 2012 Edelman Trust Barometer*
Trust by Sector

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

TRUST IN INDUSTRIES – GLOBAL

2011

2012

Technology 80% 79%

Telecommunications 67% 64%

Automotive 67% 66%

Food and beverage 64% 63%

Pharmaceuticals 61% 62%

Energy 60% 60%

Consumer packaged goods 57% 57%

Brewing and spirits 56% 54%

Media 52% 49%

Banks 50% 47%

Financial services 48% 45%

Source: 2012 Edelman Trust Barometer
When Companies Forget Responsibility

- Enron misrepresents reality and its values
Burned!

How Greedy Execs and Clueless Accountants Left Enron Bankrupt and Little Guys in the Lurch

By Allan Sloan
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
Were problems swept under the mat?

Total worldwide recall
8.5 million

190,000 vehicles in the UK (about one in every eight Toyotas on British roads)

- Jan 21, 2010
  Another 2.3m cars in the US were subject of a recall concerning sticking accelerator pedals

- Feb 8, 2010
  In addition more than 300,000 hybrid cars in Japan, the US and Europe are to be the subject of a recall concerning brake failure

- Nov 25, 2009
  4.3m cars in the US were the subject of a recall concerning foot mat "entrapment"

- Jan, 29 2010
  A further 1.8m cars in Europe are the subject of a recall concerning sticking accelerator pedals of which 190,000 are in the UK

Sources: Reuters

All the models affected

<table>
<thead>
<tr>
<th>Entrapment US</th>
<th>Sticking accelerator US</th>
<th>Sticking accelerator Europe</th>
<th>Brake failure</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-2010 Sienna</td>
<td>2009-2010 Corolla</td>
<td>2009-2010 Avensis</td>
<td>2009-2010 RA44</td>
</tr>
</tbody>
</table>
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
GREED IS BACK
The spirit of Gordon Gekko refuses to be exorcised from Wall Street or Hollywood

FORBES INDIA
200 Best Under A Billion
The Biliary MineField
The Cult of Rajinikanth
The Legend Continues
Network. 18

PROGRESS
NOT PROFIT

THE WHITE HOUSE
A SUBSIDIARY OF GOLDMAN SACHS
Google Mini Case
WHO'S BEHIND THE CARTOON MAYHEM?  BEING OBAMA

CAN WE TRUST Google WITH OUR SECRETS?

An exclusive inside look at the $100 billion empire that is dominating the Internet

BY ADI IGNATIUS
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?
Google in China... search no evil?

ARE YOU FEELING LUCKY?
“TIANANMEN SQUARE CENSORSHIP”?  

DID YOU MEAN: “CINNAMON SQUARE SENSOR CHIP”?
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.

*Source: BBC.com, Huffington Post, New York Times*
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

Source: BBC.com, Huffington Post, New York Times
## Google Faces Continued Challenges Outside of China

<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
</tr>
</thead>
</table>
| 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

<table>
<thead>
<tr>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ends attempt to sell print and radio ads, a major setback for ambitions to expand its advertising business beyond the Internet</td>
</tr>
<tr>
<td>• 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</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Clashes with European lawmakers and regulators on issues like privacy, copyright protection and the dominance of its search engine</td>
</tr>
<tr>
<td>• Critics fire at Google’s new “Buzz” service, saying it invades privacy</td>
</tr>
<tr>
<td>• 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</td>
</tr>
</tbody>
</table>
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.

“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?
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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

Organization Identity
Names, Brands, Symbols, Self-presentations, Value Systems

is perceived by...

Customer Image  Community Image  Investor Image  Employee Image

Sum of their perceptions equals…

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
Organizations that Manage their Reputations Successfully...

- Adopt a common model for reputation management across organizational functions
- Align corporate messaging and reputing 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.

Typical Reputation Strategies

- **High Expectations**
  - Espoused Reputation
  - Low Expectations

- **Low Expectations**
  - Actual Reputation
  - Strong

1. **Negligent Risk Taker**
   - Untenable
   - Weak

2. **Deceptive Follower**
   - Untenable
   - Strong

3. **Competent & Responsible Player**
   - Viable
   - Weak

4. **Trusted Reputation Player**
   - Viable
   - Strong

Only 2 of 4 possible strategies 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

- Messages
- Corporation
- Constituencies
- Constituent’s Response
Corporate Communication Strategy Framework

Messages
- What is the best communication channel?
- How should the organization structure the message?

Corporation
- What does the organization want each constituency to do?
- What resources are available?
- What is the organization's reputation?

Constituencies
- Who are the organization’s constituents?
- What their attitude about the organization?
- What is their attitude about the topic?

Constituent's Response
- Did each constituency respond in the way the organization wished?
- Should the organization revise the message in light of the constituency responses?
Reputational Risk Management Cycle

- Reputational Capital
- Opportunity Platform
- Corporate Performance
- Safety Net
Starbucks and Global Exchange
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

• 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