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**The Regulatory Power of the Corporate Reputation:
Corporations Confront Anti-Corporate Activism in an
Era of Globalisation**

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The Regulatory Power of the Corporate Reputation: Corporations Confront Anti-Corporate Activism in an Era of Globalisation

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Introduction

It is hard to imagine a world without multinational corporations.¹ They provide much needed goods and services, undertake valuable research and development, and are responsible for most of the world's trade and investment. Without them, it would be impossible to telephone family and friends, travel to new and exciting destinations, watch global events on television, or indulge in life's many luxuries. If multinationals did not exist, life would be truncated, localised and, in all probability, quite harsh. But when they spill toxic chemicals in our rivers, defraud investors, are linked to mercenary groups and wicked dictatorships, and are implicated in the overthrow of democratically elected governments, critics are right to ask whether the costs outweigh the benefits.

When attacked, corporations have often claimed that their sole purpose is to maximize shareholder value. As Milton Friedman once expressed it: “[t]here is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”² But, as critics have tirelessly pointed out, these organisations have invariably sought to maximize shareholder value by playing outside the rules of the game, or by operating in, what Peter Schwartz and Blair Gibb call the “grey area.”³

¹ A multinational corporation is a company that has operations in two or more countries. The difficulties with this definition are well-known. But the term continues to have currency in the international relations literature and will be used throughout this paper. See Griffiths, M., & O’Callaghan, T.F., (2001), *International Relations: The Key Concepts*. London Routledge, pp.199-200. Gill, S., & Law, D., (1988), *The Global Political Economy: Perspectives, Problems and Policies*. London: Harvester Wheatsheaf. Gilpin, R., (1987), *The Political Economy of International Relations*. Princeton, New Jersey: Princeton University Press.

² Friedman, M., (1970), “The Social Responsibility of Business is to Increase its Profits,” *New York Times Magazine*, September 13, p.126.

³ Schwartz, P., & Gibb, B., (1999), *When Good Companies Do Bad Things: Responsibility and Risk in an Age of Globalisation*. New York: John Wiley & Sons, p.59.

In recent years, multinationals have come under increasing pressure to improve their performance on social, political and environmental issues. Governments have shown a willingness to punish corporations for criminal breaches. Activists have become adept at mounting powerful and embarrassing protest campaigns. The global media, too, have shown a willingness to highlight corporate failure, despite themselves being large corporations. As Schwartz and Gibb note: “[w]hen the heat is turned up on social responsibility, the international media now stoke the flames originally lit by NGOs.”⁴ Consequently, most large corporations have been on something of a crusade to “reinvent” themselves as socially responsible and environmentally friendly actors. New corporate images and logos, ethical codes of conduct, targeted philanthropy, citizenship programs, community activities, employee development programs, and new social and environmental reporting initiatives are just some of the most popular strategies employed by corporations to improve their reputation in the community. For example, UNOCAL, one of America’s most notorious energy and resource development companies, has changed in website banner from “UNOCAL: A New Breed of Energy Company” to “UNOCAL: Improving People’s Lives Wherever We Work.” It did this after years of protest and litigation because of its association with Myanmar’s military junta.

No company has been more pro-active in this regard than Royal Dutch Shell. After numerous service station protests associated with its operations in apartheid South Africa, accusations of complicity in the execution of a group of Nigerian community activists, and a long running battle with Greenpeace over the sea-dumping of the Brent Spar oil storage facility, Royal Dutch Shell realised that their reputation had suffered serious damage. Since the late 1980s, they have spent tens of millions of pounds repairing their

⁴ *Ibid.*, p.142.

tarnished image. For example, they set up a non-profit foundation devoted to sustainable energy and other socially-oriented projects. The initial fund for this was £30 million pounds.⁵

Kevin Jackson argues that we are witnessing the emergence of a new paradigm in international business. At the heart of this paradigm is what he calls the *business integrity thesis*. The thesis suggests that while investors and stakeholders want to see financially profitable enterprises, they must also adhere to values such as fair play, environmental and social responsibility, and good conduct.⁶ Essentially, people are expecting corporations to be both profitable and ethical. According to him, the engine driving this new paradigm is corporate reputation.

Critics of corporate behaviour remain highly sceptical of the motives behind these initiatives and question whether they are little more than “green wash” designed to hoodwink a gullible public. Murray Dobbin, for example, argues that corporations are unable to act in a socially responsible manner. It is not in their nature. To talk about corporate behaviour in the same breath as ethics is oxymoronic. Thus, regardless of the process of reinvention, of becoming “ethical” and socially responsible, most critics remain unconvinced, pointing to the riots in Seattle, Washington, Prague, and Genoa as proof of this scepticism. Maude Barlow and Tony Clarke, two well-known activists, even go as far as to suggest that a “global showdown” is looming between activists and corporations.⁷

⁵ For a summary of the success of this program see Morley, M., (2002), *How to Manage Your Global Reputation: A Guide to the Dynamics of International Public Relations*. New York: Palgrave, p.109.

⁶ Jackson, K.T., (2004), *Building Reputational Capital: Strategies for Integrity and Fair Play That Improve the Bottom Line*. New York: Oxford University Press, p.21.

⁷ Barlow, M., & Clarke, T., (2001), *Global Showdown: How the New Activists are Fighting Global Corporate Rule*. Toronto: Stottard. On the anti-corporate movement see Starr, A., (2000), *Naming the Enemy: Anti-corporate Movements Confront Globalization*. NSW: Pluto Press. The recent G8 meeting in

The goal of these activists is to curtail the largesse than has been ceded to multinational corporations by international institutions such as the World Trade Organisation and the International Monetary Fund, as well as by national governments. They have, according to the activists, let the proverbial genie out of the bottle. Hence their well-documented antipathy towards globalisation and those that defend it.⁸

Defenders of globalisation argue that it is a progressive force, bringing peoples and countries together. It promotes the efficient use of resources, increased productive capacity, technology transfers to the less-developed world, and has stimulated economic growth. This has improved the overall economic performance of the developed world and has helped to narrow the gap between rich and the poor countries. According to David Dollar and Aart Kraay, for example, countries that opened up their economies to international trade during the 1980s increased their GDP and this has had a positive impact on domestic poverty levels. As they note, the “experience of the post-1980 globalizers show that the process can have great benefits, contributing to rising incomes and falling poverty and enabling some of the poorest countries in the world to catch up with richer countries.”⁹

Despite evidence such as this, critics see globalisation, and the power it gives multinational corporations, in a very different light. As David Korten puts it:

With globalisation, once beneficial corporations and financial institutions have been transformed into instruments of market tyranny that is extending its

the USA attracted very few protestors, leading some media commentators to ask what had happened to the globalisation activists.

⁸ David Held and Anthony McGrew define globalisation as “the expanding scale, growing magnitude, speeding up and deepening impact of transcontinental flows and patterns of social interaction. It refers to a shift or transformation in the scale of human organisation that links distant communities and expands the reach of power relations across the world’s regions and continents.” Held, D., & McGrew, A., (2002), *Globalisation/Anti-Globalisation*. London: Polity, p.1

⁹ Doller, D., & Kraay, (2001) “Trade, Growth, and Poverty,” *Finance and Development*, September 2001, Vol.38, No.3, pp.6-7.

reach across the planet like a cancer, colonizing ever more of the planet's living spaces, destroying livelihoods, displacing people, rendering democratic institutions impotent, and feeding on life in an insatiable quest for money.”¹⁰

The concern of Korten and others is that globalisation is paving the way for the ultimate dominance of corporations over all aspects of human existence.¹¹

Because they operate in multiple jurisdictions and are critical to national economic growth, they are increasingly able to impose their will upon states eager to attract investment. This leverage is putting them beyond the control of governments. As a consequence, individuals, workers, even whole communities are losing their capacity to make strategic decisions about the nature of their societies and their economies. As Richard Barnett and Ronald Muller powerfully asserted some years ago, “[b]y what right do a self-selected group of druggists, biscuit-makers, and computer designers become the architects of the new world.”¹² As a result, these activists and critics seek to pressure governments and institutions to regulate these organisations and deliver greater social benefits to the communities in which they operate. In other words, corporations should be servants and not masters.

Opponent of corporate power have been around since the time of the British East India company. What distinguishes the latest wave of anti-corporate activism is, according to Glen Peters, a strategy of undermining the corporate reputation. As he argues: “[t]he Velociraptor was among creation's most ferocious predators, and its killer instincts live on in the form of well-intentioned but deadly activist groups

¹⁰ Korten, D., (1995), *When Corporations Rule the World*. Connecticut: Kumarian Press, p.12

¹¹ On the impact of globalisation on small and medium enterprises (SMEs) see Kapstein, E., (2001), “The Corporate Ethics Crusade,” *Foreign Affairs*, Vol.80, No.5.

¹² Barnett, R., & Meuller, J., (1974), *Global Reach: The Power of Multinational Corporations*. New York: Simon & Schuster, p.361.

ready to shred and devour your company's reputation."¹³ Peters is one of a number of business advocates who have recently highlighted the risks that corporations face from anti-corporate activists.¹⁴ Judy Larkin argues, for example, that activism "is an established feature of modern day society and must be factored into reputation risk planning."¹⁵ While Robert Alsop bluntly tells us that "[i]gnoring activists can be dangerous."¹⁶

The common theme in many of these works of advocacy is that reputations are valuable commodities that need protection. Unfortunately, most managers have not always given their reputation the importance it deserves. As Alsop explains:

Long before the scandals broke, I had senses that companies were beginning to understand how important – but neglected – their reputations were. Whenever I wrote an article for the Wall Street Journal, I received calls and emails from managers hungry to know more about the subject... They didn't understand how to define reputation, how to measure it, or more important, how to manage it.¹⁷

This view is supported by a number of surveys. A Deloitte Touché survey, conducted in 1999, for example, put reputation risk behind a number of other "risks" such as the failure of major projects and a failure to innovate.¹⁸ A more recent survey of FTSE 500 companies conducted by the Institute of Chartered Accountants for the United Kingdom and Wales also appears to confirm Alsop's

¹³ Peters, G., (1999), *Waltzing With the Raptors: A Practical Roadmap to Protecting Your Company's Reputation*. New York: John Wiley & Sons, p.1.

¹⁴ See also Morley, M., (2002), *op. cit.*, pp. 94-134. See also Neef, D., (2002), *Managing Corporate Reputation and Risk*. Butterworth-Heinemann.

¹⁵ Larkin, J., (2003), *Strategic Reputation Risk Management*. London: Palgrave, p.18.

¹⁶ Alsop, R.J., (2004), *The 18 Immutable Laws of Corporate Reputation: Creating, Protecting, and Repairing Your Most Valuable Asset*. New York: Free Press, p.45.

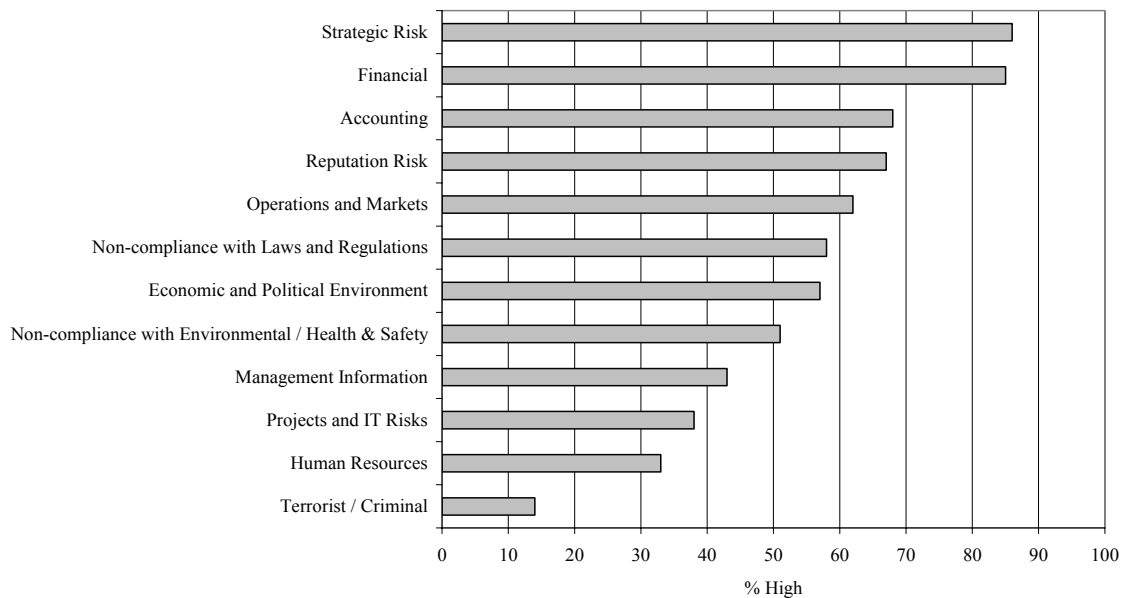
¹⁷ *Ibid.*, p.x.

¹⁸ See Appendix One.

view.¹⁹ While most respondents to the survey placed reputation risk as the most important risk their organisations faced, the actual time engaging in reputation risk management was less than other elements of their business activity. This is evident in the graph below.

¹⁹ Institute of Chartered Accountants of the United Kingdom and Wales, (2002), *Risk Management Survey, 2002: Report of a Study Amongst FTSE 500 Companies*.

Engagement with Reputation Risk Management



The rationale, then, for the spate of literature on reputational risk management, is primarily to help companies put in place strategies to manage their reputation. Put differently, their purpose is to show corporations how to avoid getting devoured by well-meaning activists.

Interestingly, then, both activists and advocates see the “global showdown” as being fought out on the terrain of corporate reputation. Activists want to undermine the reputations of corporations as a means of getting governments and individuals to see that they cannot be left to operate without government and institutional regulation. On the other hand, advocates are keen to provide a bulwark against activist machinations by offering instruction in reputation risk management.

Both advocates and activists have a rather simplified understanding of the nature of the modern corporation and the issue of reputation, however. First, all corporations are treated as identical, regardless of national origin. But Japanese, American and European

corporations have very different characteristics, organisational structures, values, and attitudes to business, investment, and research and development. Does this affect how they understand their reputation? Second, is there a connection between the attention to reputation and the explosion in levels of foreign direct investment moving around the world? Are there any industry specific factors feeding into the corporate concerns about reputation? Do all corporations perceive anti-corporate activists in the same way? Most important, in the context of this paper, what impact is the growing value of the corporate reputation having on the performance and behaviour of corporations?

According to Stelios Zyglidopoulos, reputation is in the process of becoming an enforcement or regulatory mechanism, moderating corporate behaviour.

We can see that the reputation of a multinational corporation, because it transcends national boundaries, can act as an international enforcement mechanism in matters of social and environmental responsibility.²⁰

Zyglidopoulos uses a case study of Royal Dutch Shell to argue that self-regulation is an “international reputation side-effect.”²¹ This paper seeks to explore this argument in more detail. If reputation is becoming a self-regulatory mechanism, then it may be that in a globalised risk environment, reputation is functioning as a market mechanism constraining corporate behaviour. If this is the case, activists may be backing the wrong horse in trying to get governments effectively to regulate corporations. After all, it is these same governments that let the genie out of the bottle in the first place.

²⁰ Zyglidopoulos, S., (2002), “The Social and Environmental Responsibilities of Multinationals: Evidence from the Brent Spar Case,” *Journal of Business Ethics*, Vol.36, p.,146.

²¹ *Ibid.*, p.146.

The Global Context and the Study of Corporate Reputation

The study of corporate reputation has a long history in the marketing and public relations literature. Yet it has never been exclusively studied within these disciplines. As John Balmer notes, accountants, sociologists, and economists have also shown an interest in the subject matter.²² Of course, each field has a different focus and rationale for doing so. Accountants are interested in how to give a financial value to the corporate reputation, while marketing specialists want to know how reputation affects customer preferences. Interestingly, one traditional discipline not mentioned by Balmer is political science. This is curious given the long-standing acknowledgement among academics of the link between politics and markets. It is also curious because governments are a key stakeholder group. A company that becomes embroiled in a reputation crisis event will undoubtedly find itself under scrutiny from government regulators.

In another sense, however, it is quite understandable. Political scientists have largely confined their attention to higher order sets of phenomena such as forms of government, rights and duties, democracy, power and authority, and justice.²³ Accordingly, corporate reputation is regarded as, at best, epiphenomenal, and, at worst, completely irrelevant.

This viewpoint is no longer sustainable for a number of reasons. First, corporate reputations are value constructs that reflect the way corporations are perceived by stakeholders. As such, the inter-relationship is a social, political, and cultural one. Second, maintaining a good reputation is a key element of corporate success. The collapse of

²² Balmer, J.M.T., (1998), "Corporate Identity and the Advent of Corporate Marketing," *Journal of Marketing Management*, Vol. 14, p.971.

²³ See Heywood, A., (1994), *Political Ideas and Concepts*. New York: St. Martin's Press.

major corporations has significant social and political repercussions. Investors lose money, governments are forced to manage the fallout, and regulators seek to punish corporate wrong-doers. The study of effective reputation risk management is as much about understanding the social and political processes involving corporate success and failure as anything else. Third, because reputation-building and management is about behaving well and earning the respect of stakeholders, it places this subject squarely within the orbit of political science. As Susan Strange notes, multinational corporations are

political institutions, having political relations with civil society. These political relations are even more important than their political involvement with other firms or with governments. They are important at every stage of production when firms act as technical or organisational innovators, as consumers of others' goods and services, as producers and sellers, and as employers.²⁴

Fourth, a good reputation gives a corporation a comparative advantage in its various market and this translates into an improved bottom line. But this marketplace is becoming increasingly competitive. Consider the following data. There are now around 65,000 corporations, 850,000 affiliates, employing almost 80 million people. The combined sales totals US\$11 trillion dollars.²⁵ In the mid 1990's, UNCTAD estimated that there were around 56,000 corporations operating around the world. In a period of 8 years, the number of corporations has increased by roughly 12.5%. Developing a good reputation, then, is one way to stay ahead of the pack. Finally, the idea that any phenomena in the social and political world can be fully explored within the confines of a single discipline is gradually falling out of favour among social scientists. In international relations, for

²⁴ Strange, S., (1996), *The Retreat of the State: The Diffusion of Power in the World Economy*. London: Cambridge University Press, p.44.

²⁵ United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2003*. New York and Geneva, United Nations.

example, a strong case has been made for treating international relations as an interdisciplinary field of study. As Griffiths and O'Callaghan note "the inherently interdisciplinary nature of IR - and all the social sciences for that matter - cannot be constrained in a way that justifies a rigid academic division of labour between itself and other areas of study within political science."²⁶ Much the same argument is now being made within the study of international business, where the global political context has often been overlooked.²⁷ This is something that John Dunning, a well-known commentator on multinational corporations, noted a few years ago.²⁸

Within the field of political science, that area of inquiry most able to contribute to the study of corporate reputation in an era of globalisation is international relations. International relations can be defined "as the academic study of the consequences of, and possibility for modifying, a world divided among sovereign states."²⁹ It is concerned with phenomena, issues, and problems that affect the state system. These include war and peace, security and power, political economy, systemic change, regional social and political dynamics, international organisation, the role of political leaders, and the role of non-state actors. Multinational corporations are the most important of these. Indeed, outside of international business, multinationals are most closely studied and debated

²⁶ Griffiths, M., & O'Callaghan, T., (2001), "The End of International Relations?" in Crawford, R., & Jarvis, D., (eds.), *International Relations - Still an American Social Science? Toward Diversity in International Thought*. New York: SUNY Press, p.189.

²⁷ On this topic See Jarvis, D., (2004), "International Relations and International Business: False Dichotomies, Constitutive Identities or Antithetical Interests?" Working Paper, Department of Government, University of Sydney. It is worth noting in this context that a leading marketing professional has argued that "If you decide to study for a bachelor's degree in public relations, or a closely allied field such as journalism or communications, your second degree should be in...international affairs, business administration, political science or languages of the countries in which you are interested." See Morley, (2002), *op. cit.*, p.5.

²⁸ Dunning, J.H., (1993), *The Globalization of Business: The Challenge of the 1990's*. London: Routledge. Dunning, J.H., (1997), *Governments, Globalization, and International Business*. Oxford: Oxford University Press.

²⁹ Griffiths, M., & O'Callaghan, T., (2001), *op. cit.*, p.188.

within international relations and its sub-field international political economy.³⁰ It is in understanding the interactions between large corporations, states, and other non-state actors, that the field can contribute to the study of corporate reputation and reputation risk.³¹

Corporate Reputation: Value at Risk

When Enron, America's largest energy trader, filed for bankruptcy in 2001, it earned the dubious distinction of becoming the largest corporate collapse in U.S. history. What makes this collapse distinctive, however, is not so much the size of the debt, although this was breathtakingly large, but that it destroyed the reputation of one of the world's top five accounting firms.³²

Initially, Arthur Andersen sought to lay the blame for Enron's plight squarely at the feet of the Board; a tactic that was greeted with a certain degree of opprobrium by financial analysts and media commentators. But allegations that staff at Arthur Andersen shredded important documents relating to Enron's business dealings only compounded their woes. Not surprisingly, the company lost its major accounts and eventually filed for Chapter 11.

According to one report, the directors of Arthur Andersen considered cutting ties with Enron the previous year, but decided that the lucrative earnings from the affiliation

³⁰ Two well-known examples of this literature are Vernon, R., (1971), *Sovereignty at Bay: The Spread of U.S. Enterprises*. London: Longman. Vernon, R., (1977), *Storm Over Multinationals: The Real Issues*. London: Macmillan.

³¹ See Morley, M., (2002), *op. cit.*, chapter 1. The title of this chapter is "The Global Village: Its Here." Given that the concept of the global village is over 20 years old, it would seem that marketing professionals have only just realised this fact.

³² Ironically, Arthur Andersen were involved in developing a report on ethical behaviour in business and the benefits to the corporate reputation. Arthur Andersen, (1999). *Ethical Concerns and Reputation Risk Management: A Study of Leading UK Companies*.

outweighed the risks of continuing the relationship.³³ The consequence of this error of judgement was the destruction of their reputation; something that had taken decades to nurture and develop. As Al Bows, a retired senior partner at Arthur Andersen noted at the time, “we worked hard to get all these clients and it just breaks my heart they’re gone.”³⁴

Arthur Andersen is not the only company to learn this lesson the hard way. In the early 1970s, A.H. Robins, a well-known and well-respected pharmaceutical company, marketed a new contraceptive product called the “Dalkon Shield.”³⁵ Within a short period of time, the product became the best selling device of its kind on the market. Despite its early success, evidence began to emerge that the product could cause serious infection in the women who used it. It took a full three years and the death of two women before the product was finally withdrawn from sale. By 1975, 15 women in the United States had died and a class action suit was levelled against the company.³⁶

Robins’ behaviour is disturbing for a number of reasons. First, even before the device went on sale there was evidence to suggest that it had the potential to cause serious infection. This evidence was ignored. Second, even after the product was recalled in the U.S., the firm continued to sell it overseas, mainly to women in the less-developed world. Third, although the product was recalled in 1975, and despite mounting evidence of the danger they posed to women’s health, it took the firm another 5 years to recommend that doctors remove the device from women still using it. Fourth, the company deliberately set about shredding documentation relevant to the case. Finally,

³³ Rafkin-Sax, H., (2002), “Reputation Risk,” *The Deal.com*, March 16, 2002. According to Enron’s financial reports, this work amounted to about US\$52 million dollars annually.

³⁴ Dugan, I., (2002), “Auditing Old-Timers Recall When Prestige Was the Bottom Line, - Andersen’s Al Bows Relished Going Over the Books: CEO Brought to Account,” *Wall Street Journal*. **DATE**

³⁵ For a more detailed analysis see Sobol, R.B., (1993), *Bending the Law: The Story of the Dalkon Shield Bankruptcy*. Chicago: Chicago University Press. Hawkins, M.F., (1997), *Unshielded: The Human Cost of the Dalkon Shield*. Toronto: University of Toronto Press.

³⁶ Schwartz, P., & Gibb, B., (1999), *op. cit.*, p.56.

Robins' senior management dealt with the crisis in a less than sensitive manner, claiming that the plaintiffs had been promiscuous and that this had been the source of their infection.

By the mid 1980s, Robins' stock had fallen by more than 50% and the crisis had cost the company US\$2.45 billion dollars. In August 1985, the company filed for bankruptcy and was eventually sold off at a fire sale price.

Robins' decision not to recall the product was clearly made for financial reasons. As one judge noted during the trial, "in the name of humanity, lift your eyes above the bottom line."³⁷ Yet, in the end, this tragedy destroyed the company's ability to be a profitable enterprise.

These two examples highlight just how fragile corporations are. As the Asian Business Review observes, "[b]uilding and maintaining a reputation...takes careful thought, meticulous planning and constant hard work over years. And it can be lost overnight."³⁸ No corporation is so secure that a crisis will not undermine its profitability and standing in the market place. Of course, this has always been the case. But two factors have increased the risks. First, globalisation has fundamentally changed the commercial landscape. Corporations are confronted by different political and judicial systems, regulatory and operating environments, levels of development, corruption and crime, and a diversity of cultural and religious practices. It is not homogeneity that confronts globalising companies today, but heterogeneity. No two operating environments are the same and levels of risk exposure vary from place to place, province to province. Managing corporate reputations is now a transnational activity and this

³⁷ *Ibid.*, p.57.

³⁸ Cited in Larkin, J., (2003), *op. cit.*, p.1.

extends the scope of the risks that can potentially affect a company's image. Second, corporate reputation has become a valuable corporate asset. The potential loss of reputational capital can be significant. Taken together, these two factors make corporate reputations volatile commodities. Globalisation may increase the commercial opportunities available to corporations, but it also makes them much more vulnerable to rumour, misperception and shifts in attitudes and values.

Elements of a Corporate Reputation

A good reputation is undoubtedly a precious commodity. As Thomas Mowbray points out to Richard the II: "My dear dear Lord, the purest treasure mortal times afford is spotless reputation; that away, men are but gilded loan and painted clay." This is as true today as it was in Shakespeare's time. Having a good reputation elevates the bearer above his or her peers. When one thinks of an individual with a "spotless" reputation, words like trust, honour, and respect come to mind.

It is no different with large corporations. Those with good reputations are well-respected, trusted, and have an ethos which identifies them as exceptional, if not unique. Reputation is also a measure of the confidence that the public have in a particular company.³⁹ This is why the Fortune 500 list has become so important to American corporations. It is a measure of their respectability.

Charles Fombrun is regarded as a leading authority on corporate reputation.⁴⁰ His well-received book, first published in 1996, is the first full-length study on the subject.

³⁹ To use word such as "respected" and "trustworthy" when referring to corporations, however, may give the impression that these organisations are equivalent to the Red Cross, Medecins sans Frontiers, or Friends of the Earth. This would be to stretch the meaning of these terms of esteem beyond what is reasonable. The goal of all corporations is, after all, to be a profitable and successful enterprise.

⁴⁰ Fombrun, C., (1996), *Reputation: Realising Value from the Corporate Image*. Boston, Massachusetts: Harvard Business School Press. See also Fombrun, C., & Van Riel, C, (2003) *Fame and Fortune: How Successful Companies Build Winning Reputations*. New York: Prentice Hall.

According to Fombrun corporate reputation is “the overall estimation in which a company is held by its constituents. A corporate reputation represents the “net” affective or emotional reaction - good or bad, weak or strong - of customers, investors, employees, and the general public to the company’s name.”⁴¹ This “affective reaction” derives from the values and principles that the company espouses.

Fombrun places these values and principles under the heading of corporate identity. By this, he means “the set of values and principles that employees and managers associate with a company.”⁴² These values and principles are what make up a company’s self-understanding. In this sense, it is the “articulation of what the organisation is, what it does and how it does it, and is linked to the way an organisation goes about its business and the strategies it adopts.”⁴³ This is why he believes that names, images, designs and logos are so important. They are the means by which company’s convey their self-understanding to stakeholders. But it is not just any values or principles that are important in this regard. A company that advocates values that its stakeholders find offensive will never develop a good reputation. Nor will a company that uses obviously duplicitous or fraudulent means to make itself attractive to stakeholders. These values and principles need to be meaningful and easily identifiable to stakeholders.

According to Fombrun, the key values and principles that help define company’s reputation are reliability, credibility, trustworthiness, and responsibility to stakeholders. The better a company performs under each of these headings, the greater is the likelihood that it will be regarded highly by stakeholders.

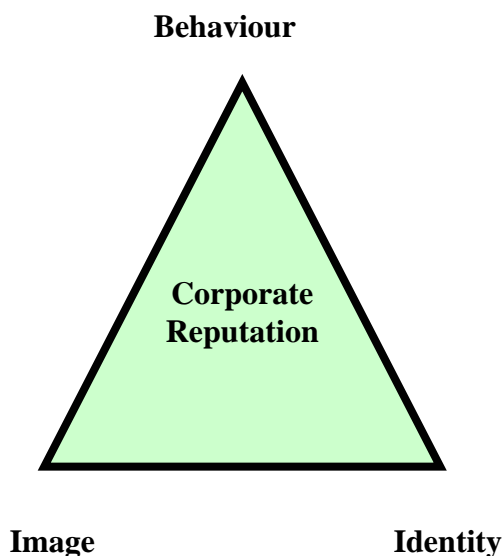
⁴¹ Fombrun, C., (1996), *op. cit.*, p.37. See also page 72. Compare Dowling, G., (2002), *Creating Corporate Reputations: Identity, Image, and Performance*. Oxford: Oxford University Press, p.20.

⁴² *Ibid.*, p.36.

⁴³ Markwick, N., & Fill, C., (1995), “Towards a Framework for Managing Corporate Identity,” *European Journal of Marketing*, Vol. 31, No.5/6, p.397.

What is clear from Fombrun's analysis is that developing a good reputation is as much a moral or ethical enterprise, as it is a commercial one. Where his work is valuable is in acknowledging that the key to understanding corporate reputation is the behaviour of the company itself. By behaviour, I mean what companies do, how they act, how they handle crises, and how well they treat stakeholders. As Judy Larkin argues "[r]eputation in a corporate context is based on perceptions of the characteristics, performance and *behaviour* of a company."⁴⁴ Corporations that pollute the environment, abuse human rights, engage in corrupt practices, exploit workers, and ignore community concerns about their operations will suffer reputational loss. Where corporate behaviour is concerned, then, actions really do speak louder than words.

Figure 2: The Corporate Reputation Pyramid



While image and identity are important in reputation-building, Jackson is right to caution against conflating the three ideas. Reputation is a "value-based composite."⁴⁵ Like Dowling, he likens reputation to the traditional Chinese idea of "face."⁴⁶

⁴⁴ Larkin, J., (2003), *op. cit.*, p. The italics are mine.

⁴⁵ Jackson, K.T., (2004), *op.cit.*, p.41.

There are two senses of face: *lian* and *mian-zi*. *Lian* stands for society's confidence in the integrity of one's character. A person or firm can't operate successfully in the society if they have lost face. *Mian-zi* denotes distinction earned from having achieved success in life. Having attained high status, one acquires dignity, and deserves respect.⁴⁷

The corporate reputation pyramid captures the distinction between the three ideas. It recognises that, in an age of globalisation, reputations are won and lost by the way a company acts. There is only so much a high-priced sport's star like Michael Jordan can do for a company's image. If that company behaves poorly, the value of image-building exercises is squandered.

This is not to undervalue the importance of a company's self-understanding or the value of imagery and emotion in its success. This shift toward branding in the 1980s demonstrates this quite clearly.⁴⁸ It simply highlights the fact that the way a company behaves, or is perceived to behave, has the potential to make or break its reputation. Nothing will sever the emotional link customers feel towards a company quicker than an environmental disaster or suspected criminal breach.

(b) The Value of a Reputation

There is no doubt that corporate reputations are valuable assets, both in financial, as well as non-financial terms. In financial terms, reputations benefit a company in two ways. First, it improves the value of goodwill. Between 1980 and 1990, for example, Charles Fombrun argues that goodwill increased from US\$45 billion to around US\$400 billion in the United States alone.⁴⁹ Some estimates put the figure at well over US\$1.5

⁴⁶ Dowling, G., (2002), *op. cit.*, p.19.

⁴⁷ Jackson, K.T., (2004), *op.cit.*, p.41

⁴⁸ See Kapferer, J-N., (1997), *Strategic Brand Management: Creating and Sustaining Brand Equity Long Term*. 2nd. Edition. London: Kogan Page.

⁴⁹ Fombrun, C., (1996), *op. cit.*, p.86. Goodwill is the difference between the price a company pays to purchase another and the net value of that company's assets. In a sense, it is the value of the intangible assets a company possesses.

trillion dollars today. Often the goodwill component is as much as 70% or 80% of the sale price. Nestle, for example, is reputed to have paid 83% of the purchase price of Rowntree as goodwill.⁵⁰ Corporations have seen that if they have and develop good reputations, the value of their goodwill increases and this can lead to a higher sale price.

Consider the levels of impaired goodwill. This is the goodwill that companies write down each year. According to UBS Warburg figures, US\$182.5 billion dollars of goodwill was written off (impaired) during the first three quarters of 2000.⁵¹ In some of the most spectacular write-downs in corporate history, AOL wrote down US\$54 billion in goodwill from its merger with Time Warner, JDS Uniphase wrote down US\$45 billion, Qwest US\$22.5 billion, and Dupont US\$2.9 billion. Across the Atlantic, Dutch company ING wrote down £6.5 billion pounds in impaired goodwill. These staggering sums of money are testament to the value of a company's intangible assets and the willingness of company's to pay a premium for quality companies. Even to the point of overestimating their net worth.

The second way that a good reputation benefits a company is through improved share price. Michael Morley suggests that shareholder value can be improved in companies that have good reputation. As he notes, “[s]hareholder value can be measurably improved. Corporate reputation and the confidence it inspires in investors will lead to a higher stock price for one company than for others that appear to be equal in all other respects but neglect the care of reputation.”⁵²

⁵⁰ Gilmore, F., (1999), *Brand Warriors: Corporate Leaders Share Their Winning Strategies*. London: Harper Collins, p.2.

⁵¹ Maiden, M., (2002), “Tech-Wreck has Forced Goodwill into the Accounting Limelight,” *The Age*, April 8.

⁵² Morley, M., (1999), *op. cit.*, p.11.

But there are also non-financial benefits from having a good reputation. Grahame Dowling offers a comprehensive list of the ways in which a company can benefit from a good reputation.

Figure 3: Non-Tangible Benefits of a Good Reputation.⁵³

<ul style="list-style-type: none"> • Adds psychological value to a product. 	<ul style="list-style-type: none"> • Supports new product introductions.
<ul style="list-style-type: none"> • Helps reduce the risks customers perceive when buying a product. 	<ul style="list-style-type: none"> • Acts as a powerful signal to competitors.
<ul style="list-style-type: none"> • Helps customers choose between products. 	<ul style="list-style-type: none"> • Provides access to the best professional service providers.
<ul style="list-style-type: none"> • Increases employee job satisfaction. 	<ul style="list-style-type: none"> • Provides a second change after a crisis.
<ul style="list-style-type: none"> • Provides access to better quality employees. 	<ul style="list-style-type: none"> • Helps raise capital in equity markets.
<ul style="list-style-type: none"> • Increases advertising and sales force effectiveness. 	<ul style="list-style-type: none"> • Enhances bargaining power in trade channels
<ul style="list-style-type: none"> • Acts as a performance bond in contractual relationships 	

Companies with a good reputation, then, are likely to out-perform their competitors, have happier employees and investors, and be admired by their stakeholders. Charles Fombrun, Naomi Gardberg, & Michael Barnett stress the opportunities that are available to companies that are able to develop a good reputation, especially when reputation-building is linked to social responsibility. “Sustained corporate citizenship

⁵³ Dowling, G., (2002), *op. cit*, pp.12-13.

creates reputational capital and so provides a platform from which other opportunity may spring.”⁵⁴

Equally important is the value of a reputation in managing a crisis. Companies that are widely respected (and act appropriately) are likely to make it through a crisis with their reputations intact. It is thought, for example, that Johnson and Johnson weathered the Panadol tampering crisis in the United States so well because the company had built up a good reputation among its consumers over many years.

(b) Reputation Risk

Corporations deal with all kinds of risks in their day to day operations. Project risks, risks that emanate from a failure of strategy, and legal and tax risks. They also face a myriad of political and economic risks, including corruption, civil war, changes in the regulatory environment, and so on.⁵⁵ Each of these risks has the potential to weaken a company’s performance and impair the value of existing investments. War can make an investment worthless overnight. New governments are notorious for changing the regulatory and prudential framework without consultation with the business sector.⁵⁶ Between 1990 and 1998, for example, 65 countries introduced regulatory changes to foreign direct investors or introduced capital controls to reduce the liberality of capital transfers; 8 Asian and Latin American countries experienced capital flight; and 2 Asian

⁵⁴ Fombrun, C.J., Gardberg, N., Barnett, M., (2000), “Opportunity Platforms and Safety Nets: Corporate Citizenship and Reputational Risk,” *Business and Society Review*, Vol.105, No.1, p.90.

⁵⁵ See Jarvis D., (2004), “Political Risk in International Relations: Empirical Experiences and Conceptual Approaches.” Working Paper. School of Economics and Political Science. The University of Sydney. See also Desta, A., (1993), *Forecasting Political Risk: Assessment for Foreign Direct Investment and International Lending Decisions*. Needham Heights: Ginn Press. Robock, S.H., (1971), “Political Risk Identification and Assessment,” *Columbia Journal of World Business*, Vol.6, No.4, pp.6-20. Moran, T., (1998), *Managing International Political Risk*. Oxford: Blackwell.

⁵⁶ A long-standing complaint from foreign investors in China is the government's lack of consultation about the regulatory changes that affect business operating conditions. See American Chamber of Commerce, People's Republic of China, *2002 White Paper*.

countries experienced civil unrest with one verging on revolutionary action - all with direct repercussions for the success of investment projects, portfolio investment and institutional investments in foreign jurisdictions.

It is arguable that the risks associated with corporate reputation have the potential to do the most damage. There are a number of reasons for this. First, reputation risk can damage an entire organisation. One or two bad investment decisions may see the corporation's share price fall in the short term, but it is rare that this will jeopardise the survival of the entire organisation. In contrast, reputation risks can have transnational consequences. The product recall crisis that enveloped Coca-Cola in Belgium is a good example. Thirty one students from northern Belgium became sick after drinking Cokes that had come from the Antwerp bottling plant. A few days later, other drinkers complained that they had become nauseous after drinking Coke. After a large number of complaints, the Belgium government announced that it was banning the sale of Coke products until the problem had been rectified. Following the Belgium announcement, the French, Dutch, and Luxembourg governments also banned the sale of Coke.

Coke's response to the crisis probably made the situation worse. The important point, however, is that the share price of Coke on the New York Stock Exchange fell. As a Washington Post reporter noted at the time:

The events last week show that the value of Coca-Cola's brand, built up over more than a century, can be shaken as suddenly and capriciously as the Thai Baht... This is what globalisation means. Companies, like currencies are vulnerable to instantaneous flows of rumour. American multinationals are often in the driver's seat in this global marketplace, but they can occasionally get crushed under the wheels, too.⁵⁷

⁵⁷ Ignatius, D., (1999), "A Global Marketplace Means Global Vulnerability," *Washington Post*, June 22.

Second, reputation risks are vastly more expensive to deal with and overcome. The Belgium Coke product recall cost the company well over US\$100 million dollars. One can only speculate how much Royal Dutch Shell has spent on trying to restore its tarnished image. Third, reputational problems can contaminate an entire industry. As Larry Parnell, Director of Global Public Relations at Ernst & Young notes in relation to the Enron/Andersen fiasco: “It has obviously called into question the entire industry's credibility and reliability.”⁵⁸

Broadly speaking, then, reputation risk refers to a range of “threats” that have the potential to undermine a corporation’s ability to function as a commercial enterprise and impair its standing in the community. These risks can be divided into two broad categories: risks that are social and political in nature and those that are commercial or business-related. Those in the first category relate to community standards of behaviour and are external to the organisation. They include such things as environmental standards, exploitation of labour, indifference to health and safety issues, abuse of human rights, and a lack of concern for local community issues. Business-related reputation risks include litigation from stakeholders, product recall, service failure, senior management infighting, poor decision-making, and bad behaviour. They are internal to the corporation itself. Should any one of these problems become chronic and lead to a crisis, the company will find its reputation under threat through the negative publicity that is generated. Indeed, negative publicity is the acid that eats away at the credibility and integrity of an organisation. It puts companies under a public microscope which, in turn, fuels criticism

⁵⁸ *PR News*, (2002), “Public Relations in Reputation Rescue Mode in Accounting Industry,” Vol.58, No.28, July 22nd.

from stakeholders and raises the suspicions of government. Organisations that are adversely affected by reputation risks typically see their customer base contract and their share price fall. In extreme cases, they may suffer from acute liquidity problems, depreciation in market capitalisation, and, as we have seen, even bankruptcy.

Figure 4: Elements of Reputation Risk

Social and Political	Commercial
<ul style="list-style-type: none"> • The environment 	<ul style="list-style-type: none"> • Product failure/recall
<ul style="list-style-type: none"> • Exploitation of labour 	<ul style="list-style-type: none"> • Poor advice and service
<ul style="list-style-type: none"> • Indifference to the health and safety of workers 	<ul style="list-style-type: none"> • Fraudulent activities
<ul style="list-style-type: none"> • Cultural and religious insensitivities 	<ul style="list-style-type: none"> • Poor governance and decision-making
<ul style="list-style-type: none"> • Race and gender 	<ul style="list-style-type: none"> • Intervention by regulatory authorities
<ul style="list-style-type: none"> • Complicity in human right abuses 	<ul style="list-style-type: none"> • Litigation by stakeholders
<ul style="list-style-type: none"> • Lack of concern for local issues 	<ul style="list-style-type: none"> • Unethical behaviour towards competitor
<ul style="list-style-type: none"> • Inappropriate or inadequate response during a crisis event 	<ul style="list-style-type: none"> • Infighting/disarray of the Board of Directors
<ul style="list-style-type: none"> • Indifference to human suffering 	<ul style="list-style-type: none"> • Security related issues
<ul style="list-style-type: none"> • Corruption and bribery 	<ul style="list-style-type: none"> • Poor policy or strategic decision-making

Reputation risks, then, can be very costly. The Exxon Valdez spill, for example, had an enormous impact on the company. The clean up costs alone were nearly US\$1.5 billion dollars. Settling the civil suits cost the company almost US\$10 billion. Moreover, almost US\$3 billion dollars was wiped of the stock price in the two week period after the accident. At one point, the share value dropped by over US\$5 billion dollars. Only a company of Exxon Mobil's size would have been able to weather such a controversy and manage to absorb the costs.

Because reputation is an intangible asset, it is difficult to determine exactly what the total loss might be in the event of a reputational crisis. Even if Arthur Andersen's reputation had survived Enron, how much would the scandal have cost the company over a ten, twenty, or fifty years period? What about the loss of morale among employees, knowledge capital flight, and lost clients who would never again trust Arthur Andersen with their accounts. And, as was pointed out above, what is the cost to the industry as a whole? We do not know enough about reputation risk, how to measure its value, what the mechanisms are that link it to behaviour, or how consumers and investors react when a crisis occurs. But one thing seems clear. Like finance and knowledge, reputation is a form of capital. It can be accumulated and it can be squandered.

The Politicisation of Corporate Reputation

In order to maintain a healthy reputation, companies need to develop good reputation risk management procedures. This is not, at first blush, easy to achieve. There are no calculations or formulas such as are available to credit and financial risk managers, and most of the extant instructional literature on reputation risk is so general in nature that it is difficult to apply in specific circumstances. Heavy industries such as engineering,

chemicals and electrical generation have very different reputation risk management issues to contend with than the financial services sector or the computer industry. This is one of the problems that corporations seeking to develop effective reputation risk management strategies have to wrestle with. Contrary to the assumption in much of the literature, one size does not fit all. What is clear, however, is that effective reputation risk management strategies will need to take seriously the emerging anti-corporate movement.

Signs of the growing power of this movement are everywhere. On the streets, in the direct action websites, in newsgroups, in the writings of “counter culture” figures such as Naomi Klein, in the Zapatismo, in cyberpunk, even at some investor meetings of large global corporations. This is a diverse movement. Its members include socialists, anarchists, environmentalists, human rights activists, land reform groups, labour unions, women’s groups, gays and lesbians, farmers, intellectuals and writers, right-wing religious groups, even animal rights activists and musicians. So diverse is this latest wave of protest that Nick Crossley questions whether it is appropriate to call it a movement at all. Instead, he suggests that it is better described as a “protest field.”⁵⁹

It is also a more flamboyant and creative movement than the counter culture of the 1960s and 1970s. One writer described the Seattle protests as a “costume ball.”⁶⁰ Pictures of sea turtles and Santa’s starring down riot police, irreverent parodies of U.S. presidents, and puppetry add a sense of theatre and art to the movement. It also gives it spontaneity and vibrancy.

Most of all, it is a truly global movement. This movement is globalisation’s child. It is the first totally “wired” protest movement in history. Indeed, it is precisely the global

⁵⁹ See, Crossley, N., (2002), “Global Anti-Corporate Struggle: A Preliminary Analysis,” *British Journal of Sociology*, Vol.53, No.4, p.674.

⁶⁰ Boyd, A., (2000), “The Birth of a Movement,” *The Village Voice*, July 19-25.

nature of this movement that is unique and makes it a force to be reckoned with. These activists have unprecedented access to information and are able to communicate and disseminate it around the globe. As Naomi Klein explains:

...we are not anti-globalisation. In fact, we have been going through our own globalisation process. And it is precisely because of globalisation that the system is in crisis. We know too much. There is too much communication and mobility at the grassroots for the gap to hold. Not just the gap between rich and poor but also between rhetoric and reality. Between what is said and what is done. Between the promise of globalisation and its effects.⁶¹

Similarly, James MacKinnon, argues that: “[t]he error is in naming the enemy – which is neither trade nor globalisation. The real target is corporate rule.”⁶² These activists claim that corporations are “predatory” in nature and liken the institutional architecture that legitimates this behaviour to 18th and 19th century colonialism. Unlike the colonialism of the past, however, this latest manifestation does not rule with imperial governors and pliant local elites, nor does it use fixed bayonets and foot soldiers to conquer virgin territory and peoples. Instead, the World Bank, the World Trade Organisation and the International Monetary Fund have become the new imperial policy makers and the multinational corporations the governing elite. Naomi Klein writes, for example, that corporations have become so big that they have superseded governments and complains that “we lack the mechanisms to make them answer to a broader public...”⁶³

Amory Starr distinguishes between three “tactical positions” within the latest anti-corporate movement. The first she calls “contestation and reform.” The defining characteristic of this group of activists is a desire “to regulate corporations, constrain their

⁶¹ Klein, N., (2003), *Windows and Fences: Dispatches From the Front Line of the Globalisation Debate*. London: Flamingo, p.83. See also Klein, N., (2001), *No Logo*. London: Flamingo.

⁶² Cited in Starr, A., (1999), *op. cit.*, p.48.

⁶³ *Ibid.*, p.65.

abuses and deliver social benefits.”⁶⁴ The second mode, following Richard Falk, is “globalisation from below.” This is a view that attempts to create a set of shared world order values, including “minimizing violence, maximizing economic well-being, realising social and political justice, and upholding environmental quality.”⁶⁵ The third, and most radical mode of protest, is one that advocates that people opt-out or “delink” themselves from the global economy and relocate power in communities and small groups. Starr sees this tactic in groups as diverse as anarchists, defenders of small business, and religious nationalist movements.⁶⁶

It is difficult not to have sympathy for some of these arguments. The WTO, IMF and World Bank do lack a level of public accountability and transparency. As Joseph Nye argues, “[r]ather than merely rejecting the arguments of the protesters, defenders of international institutions should experiment to improve accountability. Transparency is essential.”⁶⁷ Moreover, the history of multinational corporations is not a pleasant one. The “Dalkon Shield” tragedy, the death of almost 4000 people at Union Carbide’s chemical plant in India, the role of International Telephone and Telegraph (ITT) in the overthrow of the democratically elected president of Chile in the 1970s, and the Exxon Valdez oil spill show that the actions of corporations have the potential to cause great harm.⁶⁸ Indeed, it is hard to find a large corporation that has not at some time or other been condemned for its activities and the effect its operations have had on the environment and the social world. Moreover, insensitive statements from corporate

⁶⁴ *Ibid.*, p.xi.

⁶⁵ *Ibid.*, p.130. See also Falk, R., (1999), *Predatory Globalisation: A Critique*. London: Polity Press, pp.127-136..

⁶⁶ Starr, A., (1999), *op.cit.*, p.xi.

⁶⁷ Nye, J., (2000), “Take Globalisation Protests Seriously,” *International Herald Tribune*, Saturday, November 25th.

⁶⁸ See Sampson, A., (1972), *The Sovereign State: The Secret History of ITT*. London: Coronet. Lapierre, D., & Moro, J., (2002) *Five Past Midnight in Bhopal*. London: Simon & Schuster.

leaders do little to allay the fears of an already sceptical public. A comment from Monsanto's Director of Corporate Communications illustrates the point. "Monsanto should not have to vouchsafe the safety of biotech food. Our interest is in selling as much of it as possible. Assuring the public safety is the Fed's job."⁶⁹ Given the community concern - real or imagined - about the possible dangers of GM foods, such a rash statement does nothing to enhance Monsanto's reputation as a responsible company or improve the public perception that the corporate world is mercenary and prone to irresponsible behaviour.

Like many other writers on the subject, Debra King suggests that the distinctive feature of the latest wave of anti-corporatism is that it focuses on the corporate reputation. This form of protest is "based on the principle of 'shaming' and/or decreasing profitability through influencing consumer and investor behaviour."⁷⁰ Drawing on the literature on stakeholder activism, she argues that there has been a "politicisation" of the corporate reputation.⁷¹

The contest over corporate reputation includes, but goes beyond issues surrounding the implementation of technology and workplace reforms to incorporate business ethics, environmental sustainability, community involvement, corporate governance and community development. It is a contest that has stimulated the rephrasing of questions about the responsibilities of business in society: What are corporations for? What is the extent of their fiscal, social and environmental responsibilities? To who are corporations accountable?

This means that reputational capital is put at risk wherever, and whenever, a company falters and comes under the scrutiny of activists.

⁶⁹ Cited in Starr, A, (2000), *op. cit.*, p.9.

⁷⁰ King, D., (2000), "Stakeholders and Spin Doctors: The Politicisation of Corporate Reputations," *Working Paper Series No 5*, Hawke Institute, University of South Australia, p.2.

⁷¹ *Ibid.*

These activists are able to take advantage of the vulnerability of corporations in a number of ways. The most significant of these is by highlighting the risks to the public from particular corporate activities and industries. The Social Amplification of Risk Framework (SARF) offers a theoretical account of how this process operates.

SARF is a framework for understanding how risks are communicated across societies and institutions. At its heart is the idea of social amplification, a concept adopted from communications theory. SARF shows how risk events have the potential to create ripple effects. These may have secondary and tertiary impacts that grow beyond the original risk event and “interact with a wide range of psychological, social, institutional, or cultural processes in ways that intensify perceptions of risk and its manageability.”⁷² It may also have unintended consequences for unrelated technologies and institutions.

The strength of SARF is its ability to describe how risk signals, in the form of images, signs, and symbols, are received and transmitted to a range of social agents. These signals pass through so-called “amplification stations” which filter and interpret the information that leads to particular responses from participants in the social system. Amplification stations include an array of individuals and groups within society, including activists, government agencies, communities, and politicians. However, SARF regards the media as the primary amplifier.

The authors use the example of a stone dropping in a pond to demonstrate the ripple effect of social amplification. “The ripples spread outward, first encompassing the directly affected victims or the first group to be notified, then touching the next higher

⁷² Kasperson, J., Kasperson, R., Pidgeon, N., & Slovic, P., (2003), “The Social Amplification of Risk: Assessing Fifteen Years of Research and Theory,” in Pidgeon, N., & Kasperson, R., & Slovic, P., (eds.), *The Social Amplification of Risk*. New York: Cambridge University Press, p.13

institutional level (a company or an agency), and, in more extreme cases, reaching other parts of the industry or other social arenas with similar social problems.”⁷³ The result of the amplification process is generally calls for institutional change, greater regulation, the loss of trust in decision-makers, or the stigmatisation of a community, industry, or product.⁷⁴

Activists and NGO’s have become adept in the communication of risks. Whether through direct action, letter drops, staged confrontations, legal challenges, or lobbying politicians, they are able to gain maximum exposure for their cause in the various media.⁷⁵ The media, then, are used as the primary amplifiers of the real or perceived risks. The ripple effects of amplification travel across borders and around the world and stigmatises a company, and has the potential to taint entire industry sectors.

Despite the fact that corporations have extensive know-how, managerial skills, and an abundance of capital, they are sometimes politically naïve, as the statement from the Monsanto executive highlights. In other words, they are weakest where activist groups are the strongest. Activists are by nature political animals. They are socially, politically, and culturally aware and have no trouble in outflanking unthinking corporate managers.

Marketing and public relations professionals have traditionally been employed to help grow corporate reputations. While these individuals are exceedingly good at mounting slick advertising campaigns, undertaking valuable market research, and

⁷³ *Ibid.*, p.14.

⁷⁴ On the concept of “stigma” in the social sciences see Link, B., & Phelan, J., (2001), “Conceptualising Stigma,” *Annual Review of Sociology*, Vol.27, 363-385.

⁷⁵ The confrontation between Royal Dutch Shell and Greenpeace is one example of the social amplification of risk. See Mannheim, J., (2002), *The Death of a Thousand Cuts: Corporate Campaigns and the Attack on the Corporation*. New Jersey: Lawrence Erlbaum.

building brand equity, their understanding of social forces is less well-developed. There has been long-standing criticisms of their sensitivity to race and gender issues, as well their approach to environmental issues.⁷⁶ To be an effective reputation risk manager today, however, requires, not just a degree in commerce and business management, but a well-developed understanding of the social, political and cultural world in which corporations operate. One needs to be a specialist in international relations and political science.⁷⁷

Reputation as Self-Regulation

The recent literature on corporate reputation management - that which I have termed the advocacy literature - shares something in common with their anti-corporate adversaries: an “us and them” approach to understanding the relationship between corporations and their role in the economy and in society. One is either an advocate of the corporation or its enemy. It is interesting that both sides use the term “predator” to refer to their opponents. For Peters, activists are described as “predators” waiting to pounce on the reputations of wayward corporations, while activists use the term to describe the behaviour of *all* corporations. The imagery is suggestive and powerful. It is also ideologically loaded and leads to something of a conceptual quagmire, with each side trading blows and counter blows. Moreover, once corporations are viewed through this dichotomous lens, we lose sight of arguably the most important aspect of the corporate reputation in a globalising world.

⁷⁶ Catterall, M., MacLaran, P., & Stevens, L., (2000) *Marketing and Feminism: Current Issues and Research*. London: Routledge. Lumby C., (1997), *Bad Girls: The Media, Sex and Feminism in the '90's*. St. Leonards: Allen & Unwin. Valdivia, A.N., (1995), *Feminism, Multiculturalism, and the Media: Global Diversities*. California: Sage. See Greer, J., & Bruno, K., (1996), *Green Wash: The Reality Behind Corporate Environmentalism*. Penang: Third World Network. Stauber, J., & Rampton, S., (1995), *Toxic Sludge is Good for You: Lies, Damn Lies, and the Public Relations Industry*. Monroe, ME : Common Courage Press.

⁷⁷ See Michael Morley’s comment Footnote 27.

Thus far, I have argued that corporate reputations have become exceedingly valuable commodities and are threatened by activists keen to constrain their power and freedom. Essentially, they seek to pressure government and global institutions to rethink their neoliberal strategy of unfettered markets. In other words, they want states to once again regulate the market. In a global economy this is difficult. As these activists are well aware, corporations and capital are footloose and putting the genie back in the bottle would cause considerable economic upheaval to both developed and developing economies alike. Moreover, governments are unlikely to be pressured into greater levels of regulation because this will impact on domestic employment levels and annual growth forecasts, not to mention voters keen to see fiscal rectitude.

While activists have seen the growing significance of the corporate reputation, they have, I believe, missed the regulatory implications of reputation. Corporations that want to build and maintain a good reputation are beginning to self-regulate. Indeed, it is likely that reputation is a more effective means of constraining corporate behaviour than government intervention.

The first point that needs to be made is that while globalisation may provide companies with a degree of operational freedom, it is also leading to the creation of global norms of behaviour in areas such as human rights, global environment policy, labour conditions, and so on. Corporations are not immune from these developing norms and are moderating their behaviour accordingly. In other words, corporations are being conditioned by emerging social norms. Second, corporations learn from each other. The point made above about the way a crisis can taint an entire industry is valid in this context. The response from the other major accounting firms when news broke of Arthur

Andersen's plight was to instigate procedural reviews and issue statements to investors about their impartiality. Both these factors are also impacting on the behaviour of corporations. So much so, that it can be argued that the underlying dynamic of the new business paradigm Jackson refers to is corporate self-regulation. What evidence is there to support this hypothesis? Before looking at the evidence, it is necessary to define what is meant by self-regulation.

Corporate self-regulation can be defined as the voluntary adherence by a corporation to a set of objective rules, norms, or standards. These can be institutionally derived, such as by adherence to the ISO 14000 environmental management standard.⁷⁸ These standards can be developed by industries, such as the Chemical Manufacturers Association's Responsible Care Program. Or, they can derive from an individual company's philosophy. In each case, corporate self-regulation means acceptance and on-going monitoring if it is to be meaningful.

It is important to distinguish two kinds of self-regulation. Weak self-regulation occurs when corporations set an objective standard of behaviour, such as adopting voluntary codes of conduct, new reporting initiatives, and attempt to live up to the standards implicit in them.⁷⁹ Corporations that are strong self-regulators are those that appear to be running ahead of existing institutional and national regulatory standards.

The evidence that many corporations are self-regulating in the weak sense is substantial. Levi Strauss's program to ensure that underage children do not work in the factories of affiliates, Johnson and Johnson's well-known code of conduct, and

⁷⁸ This is an environmental management standard, launched by the International Standard Organisation in 1996.

⁷⁹ See also Rees, J., (1997), "The Development of Communitarian Regulation in the Chemical Industry," *Law and Policy*, Vol.19. Ostrom, E., (1990), *Governing the Commons: The Evolution of Institutions for Collective Action*. New York: Cambridge University Press.

Timberland's monitoring of labour conditions at the factories of its overseas contractors are just three well-known examples.

In the field of environmental management, research suggests that corporations are also beginning to self-regulate, often to a higher standard than is required by national governments. According to research conducted by Petra Christmann and Glen Taylor, for example, the environmental performance of foreign corporations operating in China invalidates the activist view that corporations move heavy polluting industries to countries with weak regulatory environments.⁸⁰ Not only do they argue that the environmental performance of foreign corporations exceeds that of local Chinese companies, but that globalisation is actually promoting strong corporate self-regulation.

These firms face institutional and customer pressures for environmental protection from abroad, and these pressures contribute to self-regulation of the firm's environmental performance. While globalisation may provide opportunities for firms to take advantage of cross-country differences, globalisation also increases institutional pressures for environmental self-regulation from abroad, which reduce firm's benefits from taking advantage of these opportunities.⁸¹

While a 1999 UNCTAD report on cross-border environmental management in multinational corporations argues that more research is required on the environmental management practices of corporations, they conclude that there is evidence to suggest that cross-border environmental management is becoming a "discipline within corporate management [and] rapidly in the process of being formalised and standardised."⁸² Three empirical studies cited by the report show little difference between the environmental

⁸⁰ Christmann, P., & Taylor, G., (2001), "Globalisation and the Environment: Determinants of Firm Self-Regulation in China," *Journal of International Business Studies*, Vol.32, No.3, p.4.

⁸¹ *Ibid.*, p.9.

⁸² Hansen, M.W., (1999), *Cross-Border Environmental in Transnational Corporations: An Analytical Framework*. Occasional Paper No.5, UNCTAD and CBS.

management practices between home country operations and those in the developing world.⁸³ Indeed, one survey found that many respondents had an explicit statement to “meet or exceed US laws overseas when foreign law is less stringent.”⁸⁴

Another industry where there is evidence to suggest that corporations are beginning to self-regulate is the automotive industry.⁸⁵ Car-makers have abandoned anti-environmental lobby groups and invested heavily in ways of lessening the impact of automobiles on the environment. In addition, the industry is producing annual environmental reports and earned the praise of the United National Environment Program for its improved commitment to environmental management.⁸⁶

It is important not to over-emphasize the significance of these views. The report also points to contrary research, especially from United Nations Centre on Transnational Corporations (UNCTC) which provides a more muted picture of levels of environmental self-regulation.⁸⁷ While UNCTC findings are now twelve years old and somewhat dated, the conflicting reports do highlight the fact that a great deal more research is required to understand the corporate self-regulation. Moreover, the increasing value of the corporate reputation needs to be factored in; something that was not done in the initial survey. However, a *prima facie* argument can be made that corporations are moving towards a self-regulatory model. A partner with the law firm Freshfields Bruckhaus Deringer

⁸³ Rappaport, A., et al., (1991), *Multinationals and the Environment: A Survey of Global Practices*. MA: The Centre for Environmental Management. Ruud, A., (1995), *Corporate Environmental Decision-making*. Working Paper Two, Centre for Development and the Environment. University of Oslo. Brown, H., et.al. (1993), *Corporate Environmentalism in a Global Economy: Societal Values in International Technology Transfer*. Connecticut: Quorum Books.

⁸⁴ Hansen, M., (1999), *op. cit.*, p.9

⁸⁵ International Automobile Manufacturers, (2002), *Industry as a Partner for Sustainable Development*.

⁸⁶ See the research on the automobile industry by Mikler, J., (2004), “A Comparative Analysis of the Regulatory Environment in the US, EU and Japan.” Unpublished Paper. Department of Government, The University of Sydney.

⁸⁷ UNCTC, (1992), “Transnational Corporations and the Environment,” *World Investment Report 1992: TNCs as Engines of Growth*. New York: The United Nations

highlights the significance of this changes in a recent commentary in *The Financial Times*. According to Lucille Barale, companies that are now investing in China are committed to principles of corporate social responsibility. This is not because they are being forced to comply with Chinese regulatory standards. On the contrary, it is because of the poverty of those standards and the difficulties of operating in the China market that is leading companies to act in more socially responsible ways. “But business ethics is the area where we see more companies finding the need to go beyond the standard corporate rules and practices they imported when they set themselves up in China.”⁸⁸

Zyglidopoulos describes the efforts of corporations to move toward a self-regulatory model of behaviour as “international reputation side effects.” He argues that the reason why companies are beginning to self-regulate is because they are operating in multiple jurisdictions. While a company may comply with local rules and practices and suffer no reputational loss in the host country, its multi-jurisdictionality means the reputational loss may be felt elsewhere, especially in countries where individuals are more sensitive to social and environmental concerns. This is forcing corporations to, as it were, lift the bar. As he argues, “[t]herefore, multinationals will have to operate at the highest level of social and environmental responsibility if it does not want to damage its reputation in any of the countries it operates in.”⁸⁹

The notion of a self-regulating corporations sound counter intuitive, especially in light of the nefarious past of some of these organisations. And I would not want to make any idealistic and outlandish claims about “born again” corporations becoming involved in conflict resolution and peace-making as some writers have. These are commercial

⁸⁸ Barale, L., (2004), “Newcomers Set Social Agenda,” *The Financial Times*, Wednesday, March 31.

⁸⁹ Zyglidopoulos, S., (2002), *op. cit.*, p.147.

actors with commercial goals and stepping over the line into the “gray area” will occur from time to time. But it is precisely because of these same commercial pressures that self-regulation makes sense to corporations. It is a market response to an increasingly competitive market environment. Those corporations who do not understand this are likely to be “devoured” by anti-corporate activists.

Conclusion

The evidence that corporations are beginning to self-regulate is quite strong. However, there is a need for a more systematic research into the role of reputation as a driving force behind this shift in corporate thinking before we can conclude that a new business paradigm is emerging. And although many of the writers looked at in this paper offer a range of views as to why corporations are beginning to self-regulate, the causal links between reputation and behaviour also needs further investigation. However, the implications of this research for anti-corporate activism is clear. It may be that the reputations activists so eagerly seek to “devour” may actually be functioning as a market mechanism constraining the behaviour of corporations.

Appendix One

The Results of the 1999 Deloitte Touche Survey.

Types of Risk	Average Score
Failure to Manage Major Projects	7.05
Failure of Strategy	6.67
Failure to Innovate	6.32
Poor Reputation and Brand Management	6.30
Lack of Employee Motivation and Poor Performance	6.00

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