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Reputation

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OXFORD UNIVERSITY CENTRE FOR CORPORATE REPUTATION

Doing the right thing?

A focus on purpose and ethics

UNIVERSITY OF OXFORD

Saïd Business School

Centre for Corporate Reputation

COMMENT: KNOW YOUR PURPOSE

Board directors and investors now expect organisations to have a clearly defined corporate purpose that drives not only its strategic investments and choices, but also its responsibilities to society. Five thematic drivers sit behind this: political and social instability arising from more visible social inequality; global consensus around the need for climate action; new environmental, social and governance (ESG) reporting requirements; the availability of innovative new funding mechanisms, including green bonds; and more E, S and G data.

Consumers are increasingly choosing purpose-led brands when it comes to how they spend their money, and the best employees are choosing purpose-led companies. But the questions still remain: what is purpose? How should corporate purpose be governed? How should we measure and communicate it? Are beliefs, behaviours, and actions aligned to deliver intended impact?

It was in this context that the Enacting Purpose Initiative (EPI) was formed in 2019. The EPI sits alongside other purpose-related initiatives within the University of Oxford, including the Oxford Initiative on Rethinking Performance and the Economics of Mutuality. Specifically, the EPI is focused on how words and commitments can be turned into actions that deliver desired outcomes. The initiative has generated two reports: "Enacting Purpose within the Modern Corporation: A Framework for Board Directors"; and "Directors & Investors: Building on Common Ground to Advance Sustainable Capitalism", which sets out how directors can work with investors to leverage corporate purpose to address societal issues and sustain long-term value creation:

1. Take ownership of their role in corporate purpose. Directors should take a more active role in ensuring that the company's purpose aligns with its strategy and values. Too often boards delegate this to the executive/CEO. Doing this will require them to "take ownership" of their role in corporate purpose and explicitly communicate to management and investors that corporate purpose is a priority for the board. Boards could do this by incorporating purpose into the charters of several board committees.

2. Ensure they are informed about the impact of the company's operations on stakeholders. That starts with ensuring that there is a diversity of backgrounds represented on the board. Boards should also construct their agendas to allow for time to be spent on the alignment of purpose, strategy and values. Boards should ensure that they are getting information from a diversity of perspectives: by asking management how it is embedding purpose into its key strategic decisions as well as by periodically meeting with middle management and external stakeholders.

> 'Investors and boards often seem to be at odds over how to conceptualise and support purpose'

3. Connect corporate purpose to board decision-making. Boards are doing good work reporting on how purpose-led strategies deliver valuable societal outcomes through sustainability and ESG reports. Investors, however, would like to see more evidence of how purpose-led activities deliver shareholder value alongside societal value, and how this is rewarded: more board discussion on how decision-making is driven by corporate purpose, including instances of where decisions have or have not been made as a result of such linkages and how managerial incentives are tied to these decisions. Investors would also like to see more standardisation in how purposeful business translates into greater market capitalisation, ideally with common methodologies being adopted across peer group organisations on capital allocation policies and returns targets.

4. Govern purpose and distinguish it from ESG. There is strong common ground on the need to distinguish between purpose and ESG measures and between purpose and stakeholder engagement. Clarity on these elements will create positive alignment and unlock benefits for investors and companies. Put simply, purpose articulates why an organisation exists; E, S and G commitments articulate how this purpose is enacted in practice.

5. Communicate with investors on corporate purpose. There is common ground that directors should increase both the volume and quality of communication with investors on corporate purpose. Various recommendations emerge from the EPI discussions, including the option of publishing a "Statement of Purpose" signed off by the board that reflects both purpose intent and how it is governed. ■

Rupert Younger, centre director.

See www.enactingpurpose.org.

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Thanks to COVID, we once again had to host our annual Reputation Symposium online and in a shortened form. Even so, we had three days of terrific discussion, ranging from the nature of authenticity to fraud, and the human rights challenge for business. Below is an extract adapted from the last of those sessions.

SYMPOSIUM REPORT: MORALITY, HUMAN RIGHTS AND REPUTATION

Michael H. Posner, *Jerome Kohlberg Professor of Ethics and Finance, Director of the Center for Business and Human Rights, NYU Stern School of Business*

We have a governance gap. When Walmart goes to Bangladesh, when Facebook goes to Myanmar, there's a gap in protection. The question then becomes, if governments aren't going to do this, what's the role of companies? Companies pay a lot of attention to their reputation – often not coincident with trying to change the way they do business – so we've seen an explosion in the growth of corporate social responsibility (CSR). CSR winds up looking at how you protect a brand's reputation, or how you do charity. This should not be about out how you give money away, but how you make money.

How do we move beyond CSR and philanthropy, beyond the Global Compact, the UN guiding principles, the SDGs [Sustainable Development Goals] – all of which are quite mushy in terms of what companies are actually obligated to do – to standards, metrics, and a way to evaluate compliance?

Pearson's Law says that when performance is measured, it improves, and when it's transparent, it improves exponentially. What we have today is too few companies gathering data on their core human rights obligations, and too little attention as to how to hold them accountable.

Grant Rozeboom, *Assistant Professor of Business Ethics & Social Responsibility, School of Economics & Business Administration, Saint Mary's College of California*

I want to diagnose a problem: bluewashing: greenwashing is doing something to signal a commitment for the environment, which seems to mask inaction; bluewashing is a company doing something to signal a concern about human rights. The problem initially arose in connection to the UN Global Compact – [e.g.] Nike was an early member, [while] allowing deplorable sweatshop conditions in its factories. When a company is bluewashing, they're picking and choosing which human rights to uphold or ignore, and which stakeholders' human rights they're caring about. They don't have an overall corporate attitude that takes human rights seriously.

When companies warrant trust, they're inviting stakeholders to see them as partners that deserve admiration. When companies instead just elicit reliance, they're saying, "You can predict that I'm going to do some good things, but there's nothing about my overall orientation or attitude that warrants your trust." If you want to invite people's trust, you need creditworthy attitudes, where you regard others as intrinsically important, and signal that they matter to you.

How can companies cultivate an attitude where they regard people as important in terms of human rights? Are there well-established procedures of tracking potential violations, and information-gathering mechanisms? Is a company poised to issue an apology, and recompense victims of abuses? Are people in the company encultured into talking seriously about human rights?

Judith Schrempf-Stirling, *Associate Professor of Responsible Management, Geneva School of Economics and Management*

Human rights are moral rights. They are pre-political. Joel Feinberg puts it nicely: "Human rights are held to exist before, prior to, or independently of any illegal or institutional rules." They're fundamental. When companies pick and choose their stakeholders, that's not what human rights is. Any type of human rights violation is a disregard of the human being's human quality and dignity. Human rights are frequently violated in the course of business operations. Modern slavery is linked, in large part, to business practices and global supply chains. Supply chain management ultimately relates to the boundaries of a given business: that is, whether it is more efficient for business to produce something itself, or to contract it to another party. From a strategic perspective, businesses are counselled to focus on and internalise the parts of the supply chain for a product or service in which they have an advantage relative to other firms, and then outsource the rest. I'm not saying that businesses cause modern slavery, or human rights violations, *per se*. Yet their business models contribute to a context that creates and maintains human rights violations. It is this social connection that means businesses have a moral and ethical responsibility.

Kendy Hess, *Brake-Smith Associate Professor in Social Philosophy and Ethics, College of the Holy Cross*

Corporations being asked to exercise political power in the sense of governing, of exercising coercive authority over people outside of its own membership in some way, is called political CSR. There are a lot of people advocating for it, for reasons that Michael (above) brought up, about the governance gap. Where things are not provided by governments, often there's a wealthy, powerful corporation able to provide these things.

When corporations are asked to provide these long term, they're non-elected, non-answerable, and non-transparent. That I find really troubling. Should a corporation be respecting their own members' human rights, and protecting them? Yes. But in the supply chains? My concern here is that we're asking that they exercise coercive political power without constraints or protections. ■

This session and the two others – "Authenticity: Enabling or Constraining Individual and Corporate Growth?", and "Fraud, Malpractice, and Reputation" – are on YouTube via our website (below).

The consumer goods giant Unilever has become something of a standard-bearer for sustainable business, and prioritising long-term goals over short-term returns. Its CEO Alan Jope explains how the company's DNA, culture and transparent engagement with its stakeholders give him the confidence and capability to 'do the right thing'.

THE BIG INTERVIEW: ALAN JOPE

For a man with a reputation as a straight-talker, Unilever CEO Alan Jope kicks off his interview with a credibility-stretching assertion: Unilever, he declares, is "not that well known in many corners of the world". Perhaps he is right, and that notwithstanding the billions of consumers of its food, personal and home care products, from Dove to Cif and Ben and Jerry's, operations in 100 countries, around 150,000 employees and £43 billion in revenue (2020), the company has yet to "cut through" absolutely everywhere. That is definitively not the case at Saïd Business School, however: in our increasingly urgent conversations about – and research into – purposeful business and sustainability, Unilever has featured prominently for many years.

It was Paul Polman, CEO between 2009 and 2019 (and the current Chair of Saïd Business School), who set the company on its current path as a standard-bearer for sustainability, centred on its Unilever Sustainable Living Plan (USLP) launched in 2010. This set out a challenging set of priorities, including halving Unilever's environmental impact, helping a billion people improve their health and wellbeing, and sourcing all of its agricultural raw materials sustainably. This was a challenge not only to define and achieve, but also in the efforts to convince some of the investors. Although the general consensus has moved markedly more in step with Unilever over the past decade, this is a highly charged reputational arena where in the absence of universally accepted metrics, Unilever is depending on transparency, authentic leadership and compelling narratives to win the day.

Jope himself is a Unilever "lifer", joining the company in 1985 because "my wife told me to" (she wanted to be based in London, unlike the P&G alternative offer). He has picked up the mantel and refreshed and evolved the priorities established by his predecessor: "We mostly end up doing the right thing, often after exploring every other possible alternative," as he puts it, in his own distinctively self-deprecating and humorous style. Last year the Unilever Board launched the company's Climate Transition Action Plan, including commitments to zero emissions by 2030 and "Net Zero across our value chain by 2039". But the initiatives are firmly couched within a business-driven logic: "Given that we expect emissions to be priced by governments, we believe that early action to drive aggressive reductions in emissions will lead to a more competitive business overall," as a Unilever press release put it.

Purposeful business at the company predates both Jope and Polman. Unilever was created from the merger in 1930 of the British Lever Brothers soap company, known for its extraordinary philanthropy towards its employees, and the Dutch company Margarine Unie. It made for an international and outward-looking organisation, fostering the diversity that research has proven time and again benefits companies' outcomes (see McKinsey's report, *Diversity Matters*)."I think the defining characteristics of Unilever were extraordinarily international," says Jope. "There is no golden nationality. You're as likely to run into a Brazilian, Indonesian or Indian leader as a British [one]. We've got this nice kind of melting pot feel." His experience in a variety of sales, marketing and management roles around the world reinforces that outlook: after London he spent 14 years in the US, and 13 in Asia before coming back to Europe four years ago.

> 'We all believe that sustainability is a pathway to better financial performance, for all kinds of reasons'

The Unilever creed he summarises as, first, "Going beyond making your clothes white, or your hair shine… doing something positive for society or the environment – that's the first and maybe most important thing"; second, "To demonstrate that sustainable business drives better financial outcomes. At the end of the day, we're not an NGO: we're there to deliver economic outcomes and create value for owners. But we all believe that sustainability is a pathway to better financial performance, for all kinds of reasons"; and third, "We want to [be] a beacon for diversity and inclusion."

While Jope jokes about becoming CEO in 2019 "ruining my life", he enthuses about his capacity in that role to make an impact at scale, not only "on the fantastic work in Unilever, but also … in the world". What of the less positive pressures that face CEOs, such as that the average tenure is around five years, and those ever-hovering activist shareholders with their demands for immediate returns?

Unilever's time horizon is of a different order, he says, and its shareholders have bought into a different narrative. "If we wanted to profit-maximise on a short-term basis, there are all kinds of investments that we would not make, cutting back on advertising and R&D, and reducing the head count. But we are valued for the long-term stream of cash flow that we can generate."

And while there has been some negative commentary around Unilever not performing quite as well as some competitors since the low point of the pandemic, this he puts down to the time horizon being chosen and the selective nature of investor narratives. "If you take a 15, 10 or five-year view, Unilever's total shareholder return is top third," he says. "Take a one-year view, we're about two-thirds down the list of our peers." In addition, Unilever's USP among competitors is its strong presence in developing and emerging markets, which are currently at a cyclical low point of growth: "There's going to be more volume growth in Asia, Latin America

and the Middle East over the next 20 years than we see in Western Europe and North America."

Jope's belief in the business case for sustainability, both by what it seeks to achieve for the world and how it positions the company and its brands,is based on four dimensions: "First, we know it drives growth, we know that consumers are increasingly making choices based on social and environmental considerations – our sustainable living brands are growing twice as fast as the rest of our portfolio. Secondly, we believe we've taken 1.2 billion euros of costs, net, out of our business through sustainable sourcing; a lot of it through avoided energy costs and a lot of it through getting early on to green electricity – we now only use green electricity in our operations, and it turned out it got cheaper than fossil-fuel electricity quite quickly. "Third, it definitely reduces risk of all kinds." First, the macro risk – "We don't want to be on a lousy planet" – but also some of the micro risks. Given the lead position Unilever has taken on so many issues, even when the company gets things wrong in the court of public opinion, as Jope concedes it did with some Black Lives Matter issues last year, it reaps the benefits of its reputation capital: "We had such a great relationship with opinion leaders they jumped in and helped us out."

'We recruit fantastic non-executive directors because they want to be associated with a company with values'

The fourth "and most important" thing is, how much the Unilever approach acts as "a magnet for talent – not just young graduates and not just highly qualified MBAs. The reason we can recruit fantastic non-executive directors is they want to be associated with a company that has decent values."

Jope takes heart from the commitment of the company's largest investors, the likes of Fidelity and BlackRock. "We sit down with [them] and the consistent message is, do the right things for the long-term health of the business: 'We like Unilever, because of your steady compounding effect.' That's how we've created enormous value for our shareholders."

The commitment is made all the harder, says Jope, because the sustainability goals – what is broadly grouped under ESG, Environmental, Social, Governance, a heading that he dislikes – have no standardised, accepted measurement, "and if you can't measure it, you can't value it". But he sees growing traction, as well as value, in Unilever's pioneering stance. Take that Climate Transition Action Plan, effectively the decarbonisation of the company, that was first suggested to the board in December last year. "The board was a bit worried about this, because we also suggested putting it to a shareholder vote. So at our AGM in May we asked our shareholders to vote on [it]… we laid out some big goals for 2039 to be net zero, some short term goals in 2025, what are we going to do in our own operations in our value chain and through our advocacy. And we then said, 'How are we going to measure and report on this and what's the governance going to be?' And then, finally, we said, 'There's a few things we don't quite know how to deal with: we're not quite sure how to price carbon, we're not quite sure what carbon markets are going to look like in the future…'" He pauses for the punchline. "It squeaked through with 99.6 per cent shareholder support. What's very interesting is there was very little business case in this other than, 'There will be a price on carbon, and therefore, the less carbon your business is producing, it ought to be an avoided cost.'" As all businesses strive towards some absolute standards, it shows how far a compelling narrative can be used to make up the empirical "shortfall".

There is just room for a reflection on his own leadership and the dreaded "secret of your success" question. His response, like so much of the above, relates to authenticity and reputation: "I'm not religious, but I do believe in some universal Karma, and if you go around being kind to other people, it will come back on you, and if you go around being some giant ass–, it will come back on you." As with your career, so with the planet. ■

The above is adapted from a interview with Thorold Barker of the Wall Street Journal *as part of the launch of Oxford Saïd's 2021 MBA programme.*

The successful fast-fashion firm Boohoo has been publically exposed on numerous occasions for poor working conditions within its supply chain. Steve New examines the impact of the scandal on the company and its operations, its recovery strategy, and the implications for other companies and civil society activists.

CASE STUDY: BOOHOO'S SUPPLY CHAIN SCANDAL

The Manchester-based online retailer Boohoo is one of the UK's most astonishing business success stories. Founded in 2006 by Mahmud Kamani and Carol Kane, the company has grown to become a key player in the so-called "fast fashion" business, primarily targeting young women consumers. The company listed on the London AIM stockmarket in 2014, and has turnover of over £1.7bn and several thousand employees. As bricks-and-mortar competitors have hit the rocks, Boohoo has been active in hovering up many established brands (including Karen Millen and Dorothy Perkins), converting them into online businesses. But Boohoo's triumphant progress has been marred by great controversy, and the story of the firm's fortunes over recent years provides some important lessons and raises some profound questions.

Boohoo's success is undoubtedly founded on extraordinary skills in design, marketing and the use of social media, but its success also has been built on a relatively unusual production model. Over a period of 40 years, the bulk of the global apparel industry has shifted to a globalised model of production in low-labour-cost countries. In contrast, Boohoo, developing an approach pioneered by global behemoth Inditex (Zara), has built a system reliant on a dense network of supplying factories in Leicester, permitting the extraordinarily fast production of small batches of new designs at low cost. This approach enabled the firm to generate designs inspired from the catwalk and the media and get them into customers' hands in a matter of days; an approach that not only increased the appeal to fashion-obsessed customers, but which also allowed a perpetual cycle of market testing and experimentation. By 2019, roughly 40 per cent of Boohoo's products were made in the UK, with the vast majority coming from Leicester.

Leicester – once one of Europe's most prosperous cities – has experienced decades of industrial decline. Within its crumbling factories, however, a resurgent textile industry has emerged, dominated by small family firms, largely representing minority ethnic groups. Over many years, several academic and journalistic investigations have revealed multiple cases of exploitative and unsafe working conditions, including widely discussed Channel 4 *Dispatches* documentaries in 2010 and 2017, and detailed coverage by the *Financial Times* and the BBC. Boohoo – along with other retailers drawing on Leicester's suppliers – had made a variety of claims about its actions to eliminate poor working practices. It was in this context that, in the summer of 2020, Boohoo found itself on the front page of the *Sunday Times*: undercover journalists had been offered work at a wage beneath the legal minimum by a supplier clearly producing for one of the firm's brands.

> 'The firm knew of the high risks of exploitation and poor practice, but didn't take the problems seriously'

Boohoo's response to this scandal – which resulted in a swathe of adverse publicity and a rapid decline in the firm's share price – was very unusual. It rapidly conceded the problem and commissioned an eminent QC, Alison Levitt, to produce an independent report which it committed to publishing in full, and it committed to a programme of supply chain improvement. Several months later the Levitt report emerged and was published as promised. The report – over 230 pages – sought to address several issues: whether the allegations about working conditions and low pay were well-founded; the extent to which Boohoo monitored its Leicester supply chain; the company's compliance with the relevant law; and, what should be done in the future.

It is a remarkable document for several reasons. The first and most striking feature is that it is blistering in its criticism of the firm and of the people at the top of the organisation. It is written in a careful, measured and lawyerly style, but still has passages of eye-watering bluntness. It concluded that Boohoo did not directly engage in illegal practices itself, but its other findings were damning. It shows that not only did the firm operate in a way that engendered poor practices among its suppliers, but any claims that the firm was ignorant of the problems were implausible. In summary, the case is made that the firm knew of the high risks of exploitation and poor practice, but didn't take the problems seriously. For example, the firm was unable to generate a definitive list of its first-tier suppliers, and had little understanding or visibility of the extent of *ad hoc* subcontracting that took place in the production process. This in turn was driven by a culture within the firm in which its buyers were incentivised to exercise brutal commercial power over dependent suppliers, without consideration or understanding of the consequences. Supplying firms, desperate for work, would take on jobs at rates too low to be done with conventional employment costs. Furthermore, suppliers would take on work for which they did not have the capacity, relying on the ability to subcontract the work to the broader Leicester network and beyond. These practices naturally undermine Boohoo's half-hearted approach to factory audit, as they could not know where their production was being undertaken.

The picture painted in the report is of an organisation that had rapidly grown from a small family operation to an international megacompany without developing the systems, procedures and cultures necessary to achieve that scale. Some senior managers are presented as cavalier and disingenuous, and some of the previous claims made by the firm are shown to be unequivocally false. It also, perhaps, conveys a degree of scepticism

Photo: Anthony Harvey/Shutterstock.

Brand under fire: Boohoo's offices in London.

as to whether the firm would in fact be able to improve. Levitt works hard to produce a balanced and optimistic tone, but the overall impression of the report is that she is not won over by Boohoo.

The second remarkable aspect of the document is that, broadly speaking, the firm did not seek to deny the report. Although in subsequent fora (such as parliamentary select committee hearings) Boohoo representatives (including Kamani himself) took a more pugnacious and defensive tone, overall the firm appeared to take the criticisms on the chin. Subsequently, it has taken several actions to follow up Levitt's recommendations: it has appointed another famous lawyer, Sir Brian Leveson, to act as an independent monitor of progress. It has committed to building its own exemplar factory in Leicester, both to act as a beacon for best practice, and to ensure its own buying staff can acquire a better understanding of the practicalities and economics of production. It has also – after a considerable delay – published a global list of first-tier suppliers, substantially reducing the number of UK first-tier suppliers.

Now the dust has settled slightly on this part of the Boohoo story, some important lessons emerge. Firstly, the reputational firestorm faced by the firm was probably only possible because the groundwork had been laid by a steady flow of related, adverse stories in the preceding decade. This meant that people were less likely to write off the incident as an isolated one-off; a fairly minor trigger set off a big crisis because the backstory was already written. In one sense, the drama was a delayed pay-off for the painstaking journalistic work of the *Dispatches* team 10 years earlier.

'Boohoo's actions are perceived by the investment community to insulate the firm from the risk of future scandals'

Secondly, although the scandal had a dramatic impact on the firm's share price (with substantial and immediate drops following both the *Sunday Times* revelations and the publication of the Levitt Report), the effect was temporary. Broadly speaking, the share price is now roughly where one might have expected it to be if one were forecasting before the scandal took hold. This is almost certainly because Boohoo's actions – including the publication of the report – are perceived by the investment community to insulate the firm from the risk of future scandals. Thirdly, the bad publicity appears to have had almost no discernible impact on sales whatsoever: Boohoo's customers appear to remain either ignorant of, or unconcerned by, the supply chain issues.

The story also leaves us with some challenging questions. To what extent will the chain of events result in significant change in Boohoo's business practices? Its new model remains vulnerable to the risks of informal and unmonitored subcontracting. To what extent will civil society actors – activists, journalists, academics – be able to engage with the firm's greater transparency and maintain accountability? And, if the firm does engage in substantial change, will the costs of better practices undermine its characteristic business model? ■

Steve New is Associate Professor in Operations Management at Oxford Saïd. An extended version of this discussion can be found in a recent book chapter written by him – "Ethics in supply chains: an illustrated survey" – in Global Logistics: New Directions in Supply Chain Management, *edited by Edward Sweeney and Donald Waters (Kogan Page).*

The ICC Research Foundation commissioned a study – from a group including our Research Fellow Gregory Clark – aimed at providing a clear managerial framework to adopt AI safely, indentify ethical risks, provide strategies to mitigate them, and show the leadership role that firms can have in this process. Below is an extract.

WHITE PAPER: AI AND ETHICS

We start from the foundational belief that ethical design of AI is intrinsically good for business, and that its application is ultimately good for broader society. Businesses of all sizes, sectors and locations must be empowered to seize the many new opportunities that AI technologies offer. This report provides the necessary guidance to help avoid the pitfalls associated with these technologies and ensure the effective implementation of ethical AI for the benefit of the business, its stakeholders and the wider community.

The term "ethical AI" implies a commitment to verify and ensure that the entire workflow of AI respects ethical principles, that consequently contributes to build trust between users and firms that utilise AI. The required commitment shall cover all the relevant phases and all the aspects surrounding the use of AI, through a so-called "ethical impact assessment". For the purpose of designing a meaningful impact assessment, a first macro-categorisation of areas that need to be considered when assessing ethical risks includes data, algorithm and business use.

Data

Data represents an essential component of AI that provides substance to the use of AI in terms of content. From the training of the AI to deployment, data plays the role of nourishing the AI with the relevant information that will initially provide the AI with actual knowledge and reference, and then contribute in a determinant way to the final outcomes of its deployment.

To provide an example, the AI can learn how to differentiate apples from oranges based on provided data, which can include pictures of oranges and apples and related labels to identify it. Moreover, when the AI is used to practically differentiate apples from oranges, it will be able to do so in relation to images or pieces of information of oranges and apples that it is provided with. As a consequence, the selection of data that the machine is provided with (the so-called data set) represents a potential source of unethical outcomes. For example, if the AI is trained only on a certain type of apples, it will not be able to recognise other types of apples, which will result in discrimination. If the AI is used only in relation to these two types of fruit, it should not be deployed in environments or for purposes that might include other kinds of food.

Hence, data requires a substantial analysis of the selection of information provided to the AI. Such analysis shall be performed in light of the general purpose of the use of AI within the business, the environment of the actual deployment, and the ethical principles identified, and it shall concern all data provided to the AI, from the training phase to the actual use. Moreover, ethical concerns

> 'Data requires substantial analysis of the selection of information to the AI, from the training phase to the actual use'

that specifically arise in relation to the category of data relate to data protection law and the right to privacy. Laws and regulations on data protection shall be carefully assessed and considered not only in relation to the immediately applicable legislation, for example the legislation of the country where the firm is legally based, but also in relation to the geographical scope of operation of the business.

For example, legislation such as the General Data Protection Regulation (GDPR) is also applicable to businesses based outside the EU that process personal data of EU citizens. Consequently, an adequate ethical assessment of AI requires an evaluation of the type of data that is processed by AI in order to evaluate whether it involves information that concerns individuals, whether the individuals are identifiable through the processed information, and whether it concerns sensitive aspects such as health or religion.

Algorithms

The second category, the algorithm, represents the basic component of AI. The algorithm is a set of instructions, and the AI is composed of algorithms that can be changed and adapted based on the intelligent learning of the AI. As such, they do represent a potential source of unethical output as well. The entirety of the lifecycle of algorithms should be monitored. Biases in the AI can result from the phase of development of the algorithm: due to unethical coding influenced by pre-existing biases, coming from social institutions, cultural practices, and personal attitudes perpetuated by the programmer. Additionally, during the development phase, technical biases can be incorporated in the design of the algorithm. Moreover, during its entire lifecycle, the AI can be biased due to emergent biases, since the algorithms that compose the AI can be changed and adapted through the learning of AI. Although certain AI systems, such as neural networks, contain a high number of layers, and algorithms cannot be monitored closely during their deployment due to the so-called "blackbox effect", in such cases appropriate measures should be in place to constantly monitor the ethical deployment of such models.

Business Use

The third category, business use, comprises the purpose and the use of the AI that its owner intends to pursue, and the actual deployment in the real world. The ethical principles set out in relation to AI should be in principle applicable to the business as well. In order to use the "ethical AI" label as described above, adjectives such as "non-harmful" and

Image: ipopba / © stock.adobe.com

"fair" should not only be referable to the AI within a business, but also to the business model employing the AI *per se*. For example, an AI could be well-trained to avoid gender biases, but it will not be ethical if used to monitor employees in working conditions that violate human rights. In this sense, the business use of AI can be a source of unethical behaviours for two main reasons. The first, immediate reason concerns the business goal, as described in the example. If the purpose of the development of AI is the creation of a lethal weapon, the outcome of the AI is foreseeably unethical. The second reason relates to the actual deployment of the AI in the real world. The AI can be built to achieve ethical goals, but it can produce unethical outputs when open to the public. As an example, discrimination or harms can derive from the interaction of users with the AI or between themselves through the AI. A mismatch of values and intentions between the function that the AI is intended to perform and its actual deployment in the real world can result in unethical output and liability issues.

Hence, in order to prevent liability issues and to properly address potential risks deriving from the business use of the AI, a careful consideration of the societal consequences of the use of AI is fundamental. An adequate ethical impact assessment requires an evaluation of the objectives and goals to be achieved with AI, and of the risks associated with the real-world use of the AI to achieve such a purpose.

Practical Implementation

While potentially interesting as a thought exercise alone, we propose that the framework for ethical principles presented in this work is much more impactful in practice if used for the design of an ethical plan for the firm's AI ambitions and for each of its specific applications. Specifically, this approach would require two steps: first, the creation of a general, external-and internal-facing statement or certification of the firm's stance as an adherent of AI ethics. In terms of scope and tone, this document might be seen as analogous to a firm's purpose or mission/vision statement. This initial statement should serve as a blanket declaration that the firm's AI technology is consistent and ethically applied. For the purpose of enhancing transparency, the statement should include the hierarchy of values of the firm (see full report), that are used to address trade-offs. As a second step, we create a set of supporting documents that provide validity to the general statement. Each is an internal application-specific ethical design plan, where the designer carefully audits the AI process, raising questions and flagging risks as well as concerns around data, algorithm, and business use. Once specific ethical concerns and risks are identified, specific controls as well as management and mitigation strategies for each risk can be introduced.

'The evidence of good ethical practices should serve as a competitive advantage over firms that forego such measures'

As part of the supporting documents, the firm should keep a record of decisions concerning trade-offs that should reflect the values indicated in the mission statement, to facilitate external auditing and enhance transparency. The exercise provides the opportunity to carefully consider the sources of ethical tension, depending on the application and context, and to create a manageable control system that increases the likelihood of human-centric, fair, and harmless outcomes; therefore, responsible and more easily accountable processes. For the firm, the first document is a "flight plan". Keeping to the same analogy, the second set of documents provides us with our "flight checklist", or a more precise listing of important safety checks and considerations pre-flight along with processes for in-flight monitoring. While the "flight plan" incorporates the mission statement as a stable long-term trajectory, the second set of documents is dynamic in nature as it evolves with the use of AI. By monitoring the use of AI, new tensions or risks can be identified, and the ethical "checklist" can be updated accordingly with related safeguards and preventive measures.

As a governance process, this approach provides a number of benefits. Broad adoption would legitimise the practice and severely minimise the threat of regulatory force. It should minimise the risk exposure of the firm by identifying, minimising, and mitigating issues before they have an opportunity to become unpleasant and large issues. And lastly, as AI becomes an increasingly strong competitive battleground for businesses, the evidence of good ethical practices should serve as a competitive advantage over firms that choose to forego such measures. ■

The complete white paper, "Ethics for AI in Business", can be found at https://papers.ssrn.com/sol3/papers.

Our Corporate Affairs Academy (CAA) this year was, of course, affected by the pandemic – not just by the way it had to be taught, but also by the concerns that the cohort chose to address: from purpose to activism, this CAA focused on the demands of a world facing existential challenges and having to address radically shifting norms.

CAA REPORT: ENACTING PURPOSE IN STRATEGY

Before the impact of COVID-19, there was already a strong sense – and much discussion in recent times – of a "burning platform" around business and other organisations, with the erosion of decades-old certainties about their roles and responsibilities. These played out in specific ways in different sectors, but with some universally influential externalities: climate change, other negative impacts of human activity, and inequalities dictated by gender, race and geography, to take a few of the most salient and pressing. That feeling of vulnerability amid shifting norms has of course been hugely intensified by the pandemic, and this emerged with even more force thanks to the cracks in the global societal fabric that the pandemic exposed. Out of this has emerged a strong sense that corporations in particular need to identify a purpose that transcends financial imperatives.

This CAA cohort's debates over how to help their organisations address these challenges was divided into analysis and discussion of the relevant elements of the corporate affairs role and function. This included examining how that role might change to make a more rounded contribution to addressing post-pandemic challenges; the importance of narrative in this effort; how to address the need to articulate and enact purpose; and the challenge of activism, both as an external pressure and as part of an organisation's identity.

Activism

Organisations of all kinds have become increasingly used to the pressure exerted by special-interest groups in recent years, both from without and within. COVID-19 has raised the stakes considerably: where are the norms now set in enforcing pre-COVID contracts? How much mitigation of the effects of the pandemic should firms feel obliged to engage in, potentially at little profit to themselves? As the radar and sense-making function, corporate affairs has to interpret the shifting norms and try to steer typically risk-averse organisations into new territory, where they have to accept greater levels of uncertainty and transparency both in dealing with those who challenge them, and in setting out their own activist agendas: to earn the respect of customers and the understanding of regulators, to address their own existential threats – such as climate change – and last, but not least, because it may be the right thing to do.

Purpose, narratives and the challenge of "character" and "capability" reputations unite in this area as nowhere else. In dealing with a more fragmented and multi-channel world, assessing the relative importance and impact of different interests requires a more sophisticated understanding of the dynamics of engagement: who to prioritise, the sometimes misleading nature of volume, and the relative risks of different strategies. Take care of the "noisier" constituencies and there is a danger of missing the newer audiences that are growing quietly in importance over traditional opinion formers.

> 'That feeling of vulnerability amid shifting norms has, of course, been hugely intensified by the pandemic'

Transparency is a key component of the toolkit to engage with activists. Setting a value – and judging performance – against other metrics than financial performance, and capturing it in the annual report, is increasingly important.

> *"Open data reporting will see more businesses needing to evaluate the process through which they produce value, resulting in increased demand for open reporting on financial, intellectual, manufactured, human, and social and relationship capital."**

> *"Inquisitors who feel that you are keeping information from them, or manipulating the information, will be driven to look for other sources of information, and the debate changes from discussing the key points to, 'Which is the truthful source of information?'"*

Narratives

Narratives are an increasingly important component of the corporate landscape, particularly in defining and explaining organisational purpose (see below). Corporate affairs is expected to craft multiple narratives that encompass a clear articulation of purpose, strategy, values, employee value propositions and brand propositions, and that recognise both local and global priorities. This poses a considerable challenge. As network research illustrates, it is not what you do but the stories people tell about what you do that can make the critical difference in social evaluations. Positive behaviour must be reinforced by effective distribution of narratives within the relevant networks, and the way in which those narratives spread – the speed and breadth – reflects the power that they carry with them. A further consideration is the lenses through which observers assess the narratives: in particular, the cohort considered the lenses of "character" and "capability", with their distinctive reputational dynamics.

Internal and external narratives both need careful stewardship, and an awareness of how narratives can be skewed unintentionally by cognitive biases, and intentionally by malign actors or simply by the teller in their own interests, which may not align with that of the organisation.

> *"Every institution has built-in bias about how it talks and sees itself, and we are incredibly reliant on our messengers to tell the story."*

"Often it is a crisis of seismic proportions that shakes the very foundation of an organisation that is needed for a narrative to truly change."

Purpose

In recent times purpose has become firmly positioned as a key priority among organisations, as well as the subject of much research and analysis among business scholars. The Enacting Purpose Initiative (EPI), chaired by our centre director Rupert Younger – who devises and is the lead instructor on the Corporate Affairs Academy – is a partnership project between Oxford Saïd and a number of other global organisations currently working on definitions, frameworks and specific initiatives to show organisations how to embed purpose within their operations. To quote the first of the EPI reports (see *www.enactingpurpose.org*):

"To deliver value for different stakeholders, purpose has to be more than a marketing slogan or a vague set of values. It has to become an organising principle, the reason why an organisation exists. Boards of directors across all sectors today face a growing drumbeat of calls from multiple stakeholders including customers, employees and suppliers for a clearer explanation of their organisational purpose. Recent calls for better articulation of purpose from global investment management firms, together with specific commitments on purpose by asset owners, are accelerating this momentum and elevating it to a critical board issue."

Corporate affairs leaders are in a pivotal position to shepherd this process to meaningful fruition and help devise the metrics by which achievements in this area might be measured.

In the past, purpose has been confined to the role of a cultural tool, drawn on as a framework to convey value and belief systems to employees, but purpose is most effective if embraced as a strategic tool, governed by the board of directors and embedded in the executive management decision-making process.

"If embraced fully, purpose guides strategic choices and trade-offs that must be made by executive management on a frequent basis. It clearly establishes what type of business a company is engaging in as much as it guides which opportunities should not be pursued."

"As corporate affairs professionals, we have the opportunity to advocate for reporting on purpose within the organisation. We need to be considering how to operationalise corporate purpose through measurement, incentivisation and practice, which should lead to wider acceptance among management of purpose as a strategic driver."

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The corporate affairs role

Corporate affairs responsibilities vary enormously between different organisations, and have expanded greatly from the traditional communications role. These days they can include wholly or as an element: government relations, public policy, media relations, corporate brand and marketing, reputation management and communications (external and internal), stakeholder/ community/ investor relations, corporate social responsibility (CSR), regulatory affairs, legal, risk and human resources. Regardless of whether these sub-functions are organised as a single function or dispersed across reporting lines, a contemporary corporate affairs effort requires the collaborative engagement and alignment of professional expertise. Factors to consider when addressing the way that corporate affairs should be positioned and developed, include:

'Organisations of all kinds have become increasingly used to the pressure exerted by special interest groups'

- The culture of the organisation
- Its relationship with its audiences
- The sectors it operates in
- How it can best contribute to strategic priorities

Depending on the attitude of the organisation to corporate affairs, through its understanding of what informs stakeholders' expectations, the function's position within the organisational structure, and its ability to contribute strategically at all levels, the function has the capacity to add considerable value.

As stakeholders focus more and more on an organisation's purpose, rather than simply its profit-generating capacity, creating meaningful value beyond delivering short-term gains is becoming critical to a company's licence to operate and to its ultimate success.

"The commitment to purposeful operations needs to be approached with the same strategic prioritisation and rigorous measurement that we deliver when reporting on financial performance to investors."

"Reputation amongst consumers matters more than it did in the past, with globalisation bringing greater choice, increased connectivity and social awareness." ■

**Quotes in italics are from the 2020/2021 cohort. For the complete report, "Enacting Purpose in Strategy", see* tinyurl.com/2e77ahwu.

NEWS AND EVENTS


The power of story: Guido Palazzo's R:ETRO webinar

Rita Mota, our Intesa Sanpaolo Research Fellow, has had a paper she co-authored with **Alan Morrison**, Professor of Law and Finance at Oxford Saïd, published in *Academy of Management Review*: in "A Theory Of Organizational Purpose", Rita writes: "We claim that the purpose of any organisation is to sustain a corporate mind: that is, a set of intentions and beliefs about the world. The statements that an organisation makes about its corporate mind constitute its meta contract, and corporate governance is concerned with the accuracy of meta-contractual avowals and corporate actions."

In July, **Rita Mota** presented two papers: "Role Coadunation and the Unity of a Life" (at the Society for Business Ethics Annual Meeting"); and "Efficiency Markets, Moral Markets, and Deontic Powers: Institutions and Meanings in New Markets" (at the 37th EGOS Colloquium).

Our Postdoctoral Research Fellow **Gregory Clark** was part of a team that produced a report entitled "Ethics for AI in Business" for the ICC Research Foundation. An extract is in this issue on pp 8-9, and the complete report can be found here: *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3871867*.

Our Research Associate **Dennis West** was part of an interdisciplinary team at Oxford Saïd that wrote the report entitled, "The Decisive Decade: Organising Climate Action", which proposes "a framework and set of strategies for shifting from incremental to catalytic collaboration in the climate action field". It was based on in-depth empirical research, conducted jointly with the Mission 2020 campaign (see *www.sbs.ox.ac.uk/sites/default/files/2021-06/decisive-decade-report_0.pdf*).

In December our Eni Research Fellow **Yuni Wen** presented a paper at the 2021 Conference on Artificial Intelligence, Machine Learning, and Business Analytics, hosted by the Fox School of Business at Templeton University:"How to Manage the Reputational Risks of AI Ethical Failure". Its co-authors are our centre director **Rupert Younger**, and **Matthias Holweg**, American Standard Companies Professor of Operations Management at Oxford Saïd.

We are delighted to have appointed a number of new Visiting Fellows (VFs) – senior practitioners who contribute to our research and teaching: Mark Aedy, Ebs Burnough, Charlotte Cool, Saori Dubourg, Dame Carolyn Fairbairn, Richard Gillingwater, Luigi Gubitosi, Alan Jope, Erika Mandraffino, Jenna Littler, Edward Mason, Kajal Odedra, Anne Simpson and Karin Sode. For the complete list of our VFs see: *https://www.sbs.ox.ac.uk/research/centres-and-initiatives/oxford-university-centre-corporate-reputation/visiting-fellows.*

This term we continued the R:ETRO – Reputation: Ethics, Trust, and Relationships at Oxford – webinar series hosted by **Rita Mota** and **Alan Morrison**. Many of these and previous webinars are available on YouTube (see our website, below):

Sareh Pouryousefi, Assistant Professor, Department of Law & Business, Ted Rogers School of Management, Ryerson University, presented "Empirical and philosophical reflections on trust in groups" (with Jonathan Tallant). She writes: "A dominant claim in the philosophical literature on trust is that we should stop thinking in terms of group trustworthiness or appropriate trust in groups. In this paper we push back against this by arguing that philosophical work on trust would benefit from being brought into closer contact with empirical work on the nature of trust."

Guido Palazzo, Professor of Business Ethics, HEC Lausanne, University of Lausanne, presented: "The power of story in a world on fire: reflections on the transformational power of narratives". He writes: "Postmodern philosophy has deconstructed the idea of truth and the climate emergency has demonstrated the motivational limits of abstract reason(s). How do societies change? How can we actively transform them towards economic practices that are better aligned with the limits of the planet? Societies follow narratives, not reason. If we want to transform society, we have to understand our current (eroding) narrative and examine how we can create a new vison."

Kirsten Martin, William P. and Hazel B. White Center Professor of Technology Ethics, Mendoza College of Business, University of Notre Dame, presented: "Algorithmic Bias and Corporate Responsibility: how companies hide behind the false veil of the technological imperative", in which she "argues specifically that judging AI on efficiency and pretending algorithms are inscrutable produces a veil of the technological imperative which shields corporations from being held accountable."

Denis G. Arnold, Surtman Distinguished Professor of Business Ethics, The Belk College of Business, UNC Charlotte, presented "Care in Management". He writes: "Care has become an increasingly important area in management research. However, an ethic of care is a normative theory that was developed in reference to intimate relationships (e.g., mother and child) and it is unclear if it is an appropriate normative standard in the workplace. We address the questions of if and how care should operate as a normative value in the workplace."

CONTACT US

We welcome your feedback. Please send any comments to: *reputation@sbs.ox.ac.uk*. The Oxford University Centre for Corporate Reputation is an independent research centre which aims to promote a better understanding of the way in which the reputations of corporations and institutions around the world are created, sustained, enhanced, destroyed and rehabilitated.

For full details of our research and activities, and for previous issues of *Reputation*, see: *www.sbs.oxford.edu/reputation*.