Marketplaces on the dark web
How trust works in the land of the fake

Viewpoint – does being good pay?
Perspectives from sustainable investing and CSR research

Country reputations
How perceptions of a nation’s firms are affected by terrorist atrocities, what influences the level of impact, and the buffering effect of promotion strategies

Keeping it real
From craft beer to crowdfunding, why authenticity means such different things to different people

News and appointments

The Big Interview
Kumi Naidoo, Secretary General of Amnesty International, on how to make corporations (including Google) do the right thing
WHAT’S THE MOTIVATION?

Google

Google (“Don’t be evil”) and parent company Alphabet (“Do the right thing”) are having some difficulty convincing their staff of their good intentions. Earlier this year the corporation ditched Maven, an AI project to aid the targeting of US military drones, in the face of an employee revolt. Now comes Dragonfly, a controversial censorship-enabled and user-identifiable Android search app that the company has been developing with the approval of the Chinese government. Last month the company’s employees signed up in their hundreds to an open letter that declared: “We refuse to build technologies that aid the powerful in oppressing the vulnerable, wherever they may be”, and pledging their support to the Amnesty International campaign against the project.

For Kumi Naidoo, Secretary General of Amnesty International and this issue’s Big Interview (see pp6–7), employee power is a vital brake on objectionable corporate behaviour – whether or not you agree that the above qualifies as such – and something he expects to see grow, as stakeholder relationships begin to make an increasingly tangible contribution to an organisation’s viability: “Once upon a time, when we said capital, you just thought of conventional capital. Today I would argue that reputational and relational capital – how you relate to the communities where you draw your labour, where you site your factories and so on – has become significantly more important.”

Naidoo, previously head of Greenpeace, thinks this will intensify as “doing the right thing” becomes more urgent in the face of the existential threat of irreversible climate change – particularly given the recent 12-year warning from the United Nations. That threat is already creating some interesting “bedfellows”. In this issue Andrew Parry of Hermes Investment Management (see p4), explains how Hermes is trying to put sustainability and good governance on the agenda of public companies, with the added benefit that it can pay to do the right thing.

Both were attendees at our Activist Congress in August, which sought to explore where practitioners and activists might find common ground in addressing the questions facing humanity. A particularly striking recent example is Shell, which – with some reluctance from its CEO – has just signed up to a pioneering series of commitments through engagement with a coalition of investors under the umbrella of Climate Action 100+.

‘Today I would argue that reputational and relational capital has become significantly more important’

Shell has committed to some benchmark-setting emissions targets and to a truly challenging set of reporting proposals, including tracing the carbon footprint of its own activities, suppliers and end users along the whole of the value chain. It is also the first energy company to link remuneration of the business’s leaders to its performance against this set of environmental goals.

Although the commitments are couched in the form of proposals, the combination of reputational risk exposure, shareholder and regulatory pressure – through the cumulative obligation to fulfil such targets once they are formally announced to investors – is likely to see Shell striving to perform as promised. Doing the right thing is not going to get any easier, but the cost of being seen not to try are getting higher.

AUTHENTICALLY YOURS

The current focus on authenticity in business promises much: to enable consumers to access goods that reflect their values; even to embed pro-social motivations into businesses and economies. Trust academics to spoil it all: on p10 the winner of our latest Best Published Paper award, Justin Frake, examines the inexact processes behind assumptions of authenticity. On p11 our International Research Fellow Brayden King analyses how people looking for authenticity in the context of crowdfunding can take it to mean entirely different things and yet act in concert.

This sometimes misplaced group buy-in can nevertheless act as a powerful reputation endorsement mechanism, with a strong potential downside. A good example is the recent crowdfunding efforts by the challenger bank Monzo, which has a Community forum hosting tens of thousands of committed users. When commentators started to point up a potential conflict of interest, in that Monzo could lend money to crowdfunding supporters, the pushback from its affronted community was loud and concerted.

But was it all from disinterested users, asked a number of commentators including the Financial Times, or were some players exploiting the commitment of fellow members for their own commercial ends? As Felipe Thomaz points out (opposite) in his fascinating work on dark web marketplaces, the construction of online identities is a hall of mirrors. That applies to authenticity, too (see pp10–11). If you can fake it – to misquote the legendary comedian George Burns – you’ve got it made.
RESEARCH FOCUS: REPUTATIONS ON THE DARK WEB

The dark web provides refuge for extraordinary and illegal marketplaces where billions of dollars change hands every year. If it were a country, it would be the 16th largest economy on the planet. Reputation is at the heart of everything that happens on them, but it works in very particular ways.

The basic question is: how can this illicit system possibly work? By virtue of how the dark web operates and privacy mechanisms, names are transient and entities you trust today might not exist tomorrow. Sellers try to build a name, a brand and a reputation associated with a persona that they have created, but the time and opportunities to do so are limited.

The threat of authorities intervening is constant. The game is managing the perception of that persona for buyers, so that you’re manipulating the system to support beliefs that advance your goal. You could, for example, suggest that you’re “an effective hacker”, even though you might know nothing about coding. The lack of stable institutions and validating information makes confirmation of claims difficult, for better and for worse.

The ecosystem relies on ratings, recommendations and discussion forums to establish reputations, but the entire system is built on a recursive problem: somebody will trust you because they trust me, but why do they trust me? It’s because someone else told them I was trustworthy. If you pull that particular logic string enough, you find it’s built on one first-person’s gamble.

There are two tiers of players: knowledgeable experts with more information, and newcomers who not only have less information but also don’t know how to weigh sources of information and reputational cues properly. There is a likelihood that these naive players believe in and behave according to the rules created by the knowledgeable set, and while the knowledgeable set actually trust no one, they do profit from the resulting behaviour of these newcomers. After all, you do need some level of trust for money to leave somebody’s pocket and end up in somebody else’s. If I’m a smart, full-information player, I can rig the system to generate trust between naive players in a way that ensures I will ultimately pocket the money.

The naive players believe themselves to be competent, but they overvalue information and fall prey to common heuristics. They might see a shop with 5,000 apparent transactions and believe this to be a true representation of its activity. They might go into a forum and find people who will vouch for a seller, without any way to validate that forum or those users’ reputations. A whole narrative is created around believability without an ability to validate any of the statements being made, nor their sources. These naive buyers accumulate enough evidence to convince themselves of the likelihood of a positive outcome: that they are likely to get what they paid for, and not get their money stolen or be arrested for their activities.

The majority of deals actually happen, but research shows that this ecosystem behaves like a perverse lottery. The experts need the transactions to take place because it builds the lottery pool. Every time you transact, you expose yourself to this lottery risk: you might get what you bought, but you might not. One day, you will find that the market is gone, and so is everyone you thought you knew, and so is your money.

The better, knowledgeable players are not exposed to that risk because they determine when the lottery collapses, and their pay-outs are taken from the combined pool of appropriated “naive money”. The game resets with a new marketplace, and a new lottery pool starts. The naive buyers are certain that this time will be different, and that this new black market is honest. They have been told as much.

The implications of the network effects are important, too. We understand that privacy changes behaviour. These illicit communities avoid connectivity and rely on a few central organisers for coordination. This results in very tight communities, and on the dark web this minimises the threat of exposure. But beyond this darker environment, with the interconnectivity of social media for example, we see that the average distance to any other person on the network is getting much smaller, and our own “audiences” are getting larger.

Marketing research has shown that for certain people, the greater an audience you have, the more likely you are to actually stop talking, because the associated reputational risk is too high (none of us like making public mistakes or looking foolish). In business, these growing and interconnected networks are also governance mechanisms, as they create consensus, increasing coordination and similarity of behaviour. In the concentrated communities of the dark web, that serves to augment privacy with an abundance of lookalikes, but on the everyday surface, the reduction of voices is likely to have different consequences.

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WWW.SBS.OXFORD.EDU/REPUTATION
This may be effected through tailoring Sustainable Development Goals (SDGs). The focus is on making corporate engagement more purpose to target clear outcome-orientated objectives, where necessary introducing external parties such as NGOs, social enterprises or other companies, to help catalyse progress and support the implementation of a strategy. This involves new budgets, processes and relationships – as well as the data-gathering to measure and report on the resultant benefits.

Corporate engagement is shifting its purpose to target clear outcome-orientated objectives rather than solely seeking information or requesting establishment of policies and processes. It is being more “activist” in its pursuits and acknowledging that partnerships between multiple stakeholders – governments, regulators, NGOs, academics – are critical to success.

The Volkswagen emissions scandal illustrates the cost of bad governance and culture. Establishing when poor governance tips over into brand impairment and shareholder value destruction is not a precise science. “There is no leading source of ESG data,” as our report “ESG Investing” (2018) makes clear. “The lack of standardised data on ESG matters means that ratings providers often use a company’s sustainability report as an information source, thereby relying on information that companies voluntarily disclose… We use research from more than 10 different data vendors, which allows us to strengthen our conviction when assessing specific ESG practices. As well as incorporating a wide range of research from leading providers – Sustainalytics, Trucost, Bloomberg, MSCI, FactSet, ISS and CDP – we draw on the insights of Hermes Equity Ownership Services.”

Studies by Hermes show that there is a systematic cost in share price performance from investing in companies in the bottom decile of governance scores: “We found that companies with good or improving environmental, social or governance characteristics (those in the top decile) have on average outperformed companies with negative characteristics (those in the lowest decile). This is being driven by the strength of their corporate governance and, for the first time since our investigation began in 2014, social metrics.”

The rise of social media and, more latterly, large data sets are changing the way investors acquire information that relies less on disclosure and takes us into an era of discovery. Such approaches should worry boards that risk to reputations is growing, as sustainable investing expands and regulatory scrutiny increases.

Andrew Parry is Head of Sustainable Investing at Hermes. The centre is currently working with Hermes, researching the role of asset managers as active shareholders.

The views and opinions contained herein are those of the author and may not necessarily represent views expressed or reflected in other Hermes communications, strategies or products.

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**VIEWPOINT: DOES IT PAY TO BE GOOD?**

Hermes was originally founded as the in-house investment manager of the BT Pension scheme in 1983. This heritage imbued us with a long-term perspective on investing, going beyond producing attractive risk-adjusted returns to considering the wider social and environmental impact of our behaviours and those of the companies in which we invest.

We actively exercise voting rights and engage with company management and boards to challenge poor ESG (environmental, social and governance) performance. Impactful engagement does not rely solely on the size of the stick that you wield, although the larger and broader the voting rights you represent, the easier your initial access to a company. The strength of your argument is far more potent for catalysing corporate change. Extensive board-level dialogue is central to delivering an effective message, with appropriate escalation where necessary, including collaboration with other investors and AGM appearances and, in certain circumstances, shareholder resolutions.

Corporate engagement is shifting its purpose to target clear outcome-orientated objectives rather than solely seeking information or requesting establishment of policies and processes. It is being more “activist” in its pursuits and acknowledging that partnerships between multiple stakeholders – governments, regulators, NGOs, academics – are critical to success.

The recent launch of the Hermes SDG Engagement strategy is an example of how corporate engagement can be used to target specific outcomes related to societal need. The focus is on making small-to-mid-capitalisation companies aware of how they can support the UN Sustainable Development Goals (SDGs). This may be effected through tailoring or creating new markets for products, through more impactful employment models, or indirectly through the influence they can exert down the supply chain. Here we work directly with boards and senior executives to give them the confidence and the breathing space to be bold and imaginative in considering opportunities for developing more mutually beneficial relationships with stakeholders.

We subsequently help formulate specific objectives, where necessary introducing external parties such as NGOs, social enterprises or other companies, to help catalyse progress and support the implementation of a strategy. This involves new budgets, processes and relationships – as well as the data-gathering to measure and report on the resultant benefits.

Some academic research suggests that engaged companies generate higher returns and that successful engagement leads to a reduction in downside risk. While the central objective of any engagement is to improve the long-term wellbeing and success of a company, it is also about recognising that successful engagement is about improving the overall quality and resilience of the system. Such benefits are diffuse and not easy to attribute to any specific engagement, yet they nonetheless are a cornerstone of the benefits of good stewardship.

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The rise of social media and, more latterly, large data sets are changing the way investors acquire information that relies less on disclosure and takes us into an era of discovery. Such approaches should worry boards that risk to reputations is growing, as sustainable investing expands and regulatory scrutiny increases.

Andrew Parry is Head of Sustainable Investing at Hermes. The centre is currently working with Hermes, researching the role of asset managers as active shareholders.

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Because the corporate bottom line is not firmly connected to corporate behaviour, the business case does not motivate firms to consistently behave in socially responsible ways. That’s a shame, because the business case offers such an easy, win-win path to widespread corporate social responsibility, one in which there’s no need for heavy-handed formal regulation.

The argument is that if we just let the market have at it, firms will become more socially responsible as they doggedly pursue their own self-interest. After all, if they don’t make nice, they know that they will suffer in the marketplace. You may be familiar with Warren Buffett’s famous quote: “It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently.”

But how does the market actually enforce its discipline on firms? How is a firm’s behaviour linked to its financial performance? This is where stakeholders enter the picture. The market is not some soulless, shapeless monolith. It is composed of myriad sapient beings – stakeholders – who, by giving and rescinding their support, alter the standing of these firms.

If a firm opens a daycare facility to ease the burden on working parents, it may be rewarded with increased loyalty from current employees and improved recruitment yield from potential new employees. If a firm releases toxic pollutants into a stream, it may be punished by members of its community, who block licenses for new facilities, and by activists through protests and boycotts. The reputation and market value of the firm changes in accordance with changes in the favourability of the relationships the firm has with these and other stakeholders. I compare it to alchemy, a process by which a substance like lead magically transforms into gold. The stakeholder is the alchemical agent required for a firm’s good acts to transform into something valuable to the firm; likewise, when a firm does something bad, it takes a stakeholder reaction to cause the firm to feel the pain.

Recognising the role of stakeholders as the agents that make the business case work is an essential step forward. The next essential step is recognising that stakeholders are fallible. Most of the time most stakeholders have no idea what is going on at most firms. As Sohvi Leih and I showed in a paper published in Business & Society in 2018 (“Sorry to (Not) Burst Your Bubble” – [https://tinyurl.com/ybb6x78g](https://tinyurl.com/ybb6x78g)), cognitive constraints affect not only how stakeholders deal with firm misconduct but how they deal with firm behaviour in general. Lacking the ability to directly observe what is going on at all firms at all times, stakeholders rely on intermediaries for information about firm behaviour.

We sought to better understand how people use media to assess firms, particularly in comparison to other information they may have about these firms. In an experimental study, we found, as expected, that rankings did shape what people thought about firms. But there is some nuance. This influence was strongest when the ranking was congruent with other information one had about the firm and this other information was negative. However, if one was already aware of negative information about a firm, seeing a favourable ranking had little influence on assessment.

People are loath to challenge their established beliefs, instead discounting or ignoring disconfirming information. Reputations can thus be sticky. It seems that Warren Buffett may have overstated the case for reputational fragility, as firms can rest on their laurels for a while before reputation catches up to reality. In consonance with Buffett’s logic, though, this also suggests that it is harder to fix a damaged reputation than it is to maintain it. Clearly the link between how a firm behaves and how its stakeholders relate to it is a loose one. But as I point out in another paper in Business & Society (“The Business Case for Corporate Social Responsibility...” – [https://tinyurl.com/y72aes3q](https://tinyurl.com/y72aes3q)), the link between firm behaviour and social welfare may be outright broken.

Over time, the literature has confused attending to stakeholders with attending to the needs of society. Sure, managing a firm to be responsive to the demands of its stakeholders is an important step forward from the days of firms focusing solely on shareholder issues. However, prioritising the allocation of a firm’s limited resources according to stakeholder power, as the business case prescribes, is unlikely to guide firms toward tackling many of society’s pressing problems.

Those in society who struggle the most are least likely to have power adequate to garner priority from firms seeking to more efficiently allocate their scarce resources. Thus, as the business case guides firms to focus on actions that maintain and improve stakeholder relations, it seems to also be guiding firms away from involvement in many important social issues.

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Kumi Naidoo, Secretary General of Amnesty International, has honed his understanding of what makes businesses tick over many years as a prominent activist. He believes that changing the way we assess the behaviour of businesses and influencing how they relate to the world is the only way to avert an existential catastrophe for all of us.

THE BIG INTERVIEW: KUMI NAIDOO

Organising a meeting with Kumi Naidoo is no easy feat. The recently installed Secretary General of Amnesty International has been flying back to back around the world for many weeks. It’s not surprising given his packed in-tray: from state-sponsored assassinations to civilian casualties in war zones (he recently returned from Raqqa in Syria), gender discrimination, sexual rights… The Amnesty website homepage is a daunting read.

Reputation comes, rightly, some way down the pecking order, especially since it is our second bite of his time: last August, shortly after he took on his new role, he joined us in Oxford with other activists, business practitioners, academics and media for an Activist Congress. It turned out predictably to be a fleeting visit, as he was only able to join for our concluding Oxford Union debate. We wanted to know more of what he made of the proposition behind that event, inspired by our director’s Activist Manifesto reworking of the communist original (see activistmanifesto.org): namely, that businesses and activists might find common cause in solving the ever-more urgent questions facing the world. How would this proposition sit with a man who in his previous role as head of Greenpeace was renowned for headline-grabbing acts of confrontation with global corporations (most notably being arrested for scaling an oil platform in the Arctic in 2011)?

“I think [the Congress] was a very innovative, thoughtful effort,” he says. “Some of the drivers of what led to the Communist Manifesto are still with us]. The descriptions of the factories in northern England are like today’s factories in Bangladesh.” However, he is immediately at pains to emphasise what a mistake it would be to demonise all business in that way: “It is critically important for activists that one should not homogenise the business community. One needs to understand the gradations and the diversity of what is happening.”

On climate change, for example, “I would say you’ve got about 10 per cent of people in the business community [who get it], largely organised around the B Team and We Mean Business. On the other end you’ve got people who are still in denial, but even the fossil fuel industry now acknowledges the science of climate change to a large extent, [although] they want a much slower transition from a fossil fuel economy to green energy.”

In the middle is the majority, “who want to appear to be doing the right thing on climate, inequality, poverty and so on”. However, big business, like many consumers, has a systemic affliction: “Affluenza… where people have been led to believe that happiness – and even your identity – comes from obscure levels of consumption.”

Given this failing and others that arise from it, such as the global concentration of capital in the hands of a few, and the huge pay disparity between the top and bottom of many organisations, “When businesspeople ask themselves: ‘What is the right thing for us to do?’, that’s not an easy question for them to answer.”

He seems nonetheless eager to engage with those at whom his organisation aims its brickbats (Amnesty has headline campaigns against Google, Twitter and Shell, among others). “I am very sensitive to the leadership in the business community, who I’ve interacted with and disagreed with very openly and respectfully over the past 20 years.” He recounts an apparently genial meeting with the CEO of Shell at a recent conference: “I was saying, ‘We’ve got nothing against energy companies. We have a problem with [them] generating dirty energy, which is driving us to climate catastrophe. We don’t want to put Shell out of business, we want to put fossil fuels out of business.’”

What business cannot do, he says, is drag its feet in the face of such challenges and say that when the regulations change, then we will all change, as if they were passive players simply fulfilling global demand. Their contribution has been actively negative: “The fossil fuel industry falsified the science, confused the public debate, using billions of dollars for advertising, particularly in the US media, lobbying and so on.”

He cites a favourite quote from Martin Luther King: “‘There are certain things in our world that are so immoral, unjust and unethical, that good decent people should refuse to be well-adjusted.’ I would argue that this is a thousand times more valid today. The business community has adjusted to all sorts of abnormalities – but you can’t paint them in a benign way, because they lobbied for the system that they have right now, with minimising regulations, environmental protections and social protections.”

The rise of increasingly globalised corporate players to become de facto government in many parts of the world feeds into more sinister narratives, in his view. He cites the infamous warning by President Eisenhower in his Farewell Address in 1961 against the military-industrial complex. Referencing the US bombing of Raqqa, Naidoo says: “If Al Qaeda didn’t exist at the end of the Cold War, the US would almost have had to create it.”

Given his analysis of its systemic failings, it is clear that Naidoo wants more from business than it is currently going to be prepared to give. Global equality is a “red line”: “We don’t want to change dirty energy to clean energy and keep the economic system as it is. We need a green, inclusive economy.” Which leads us back to the central question, what chance is there of meaningful engagement, let alone common ground? Naidoo’s answer turns out to be a carrot
and stick affair. For the stick, he gives me an example from his early days as head of Greenpeace, at the World Economic Forum at Davos. Previously, as Secretary General of Civicus World Alliance for Citizen Participation, he had been unable to get CEOs even to acknowledge his emails. Once at Greenpeace, “There were so many CEOs coming to me seeking meetings. I remember being late for one and saying, ‘Sorry, previously you guys never wanted to talk to me –’, and he said, ‘I guess we’re desperate to get you at the table, because we hope we won’t be on your menu.’”

The carrot is a somewhat bitter one: the common reality “that we are talking about the survival of humanity on this planet, which is fundamentally in business’s own interests. If there’s no people, there’s no business.” He sees a parallel with South African business towards the end of apartheid, where as a teenage campaigner he earned his stripes. “Basically, they had to adapt to survive.”

The campaigning approach of Greenpeace, and now Amnesty, has also had to be adapted to address new realities: in the past, the classic manoeuvre was to pick two or three companies prominently implicated in an issue, go after them and, if successful, hope for a sector-wide spillover effect. “We don’t have time today,” he says, “and there are too many companies that engage in climate-negative activities.” Instead, “given that companies have to borrow money, we follow the money. Campaigning against 1,000 financial institutions rather than 50,000 corporates, you get more bang for your buck, as our American friends would say.” For that reason, governments and regulators are more in his sights than ever given the “lack of political will of those that control the policy-making process”.

Some optimism in the quest for cross-sector alliances comes from a simpler source: our common humanity. “I do not think that a CEO of a big multinational loves his or her child less than the CEO of Amnesty,” he says. “At Greenpeace my success rate in negotiations with a CEO of a big company with young kids was significantly greater.” He recounts the time he asked his assistant to find (publicly available) information on a CEO’s children. He turned to him in their subsequent meeting after all the business strategies had been picked over and said: “In 20 years from now, your daughter Sarah is going to ask you ‘Dad, when the scientists said we need to act on climate change, why did you not do anything?’” The interaction was a successful one.

Furthermore, consumers increasingly want to buy from companies that do the right thing, and employees want to work for those companies. One of Amnesty’s latest campaign “hits” illustrates this: when last month Google employees in their droves signed an open letter endorsing Amnesty’s campaign against the company’s Dragonfly censorship-enabled search app for the Chinese government (see p2).

The growing importance of reputational and relational capital are key drivers of this change (relational being “how you relate to the communities from where you draw your labour and where you site your factories”). “Once upon a time, when we said capital, you just thought of conventional capital. Today I would argue that reputational and relational capital have become significantly more important, in a changed media environment.”

The trouble is that the structures and processes of business resist the appetite for change – like the “curse” of quarterly reporting and the short-termism and skewed leadership incentives it encourages. “These structures were designed by humanity – they can be dismantled by humanity,” says Naidoo. “What’s called upon from the business community, the political leadership and civil society is unprecedented levels of communal courage. We cannot continue with an obsession to growth.” Given that if everyone consumed at US levels we would need half-a-dozen-or-so Earths to sustain the consumption “the business community must recognise that incremental tinkering, baby-steps in the right direction, just doesn’t cut it”.

He finishes with an appeal to the disrupters in business, which might also be taken as a call to join forces. “The business community probably has the greatest ability to secure humanity’s future on this planet, because they don’t have to play by the rules. They can make some tough choices to do the right thing.”
Mehmet Canayaz and Alper Darendeli examine how the overseas activities of companies suffer in the wake of terrorist attacks in their home nation.

**RESEARCH FOCUS: COUNTRY REPUTATION**

Recent decades have witnessed a sharp increase in activity around nation branding. Governments now launch country promotion agencies and invest in “brand management” in the same way as corporations. Their objective is to apply corporate branding techniques to their countries, which will ultimately assist in the promotion of their home country firms in foreign markets.

Having a bad country reputation or none at all is a serious handicap for a country seeking to remain competitive in the global arena, and consistent with this view, the total number of country promotion offices around the globe has steadily increased from 58 in 1990 to 122 in 2000, and to 236 in 2018. Amid the rush, however, much of what we know about nation branding today, especially its net impact on economies, is based on case studies and intuition, not systematic empirical evidence.

Our paper provides the first large-scale empirical evidence on the causal effects of country reputations on firm performance and corporate activities overseas. We use a unique identification methodology. Specifically, we exploit the variation in nationalities of foreign victims in local terror attacks. This variation allows us to identify unprecedented shocks on country image. For example, when a foreigner dies tragically at a domestic terror event (for example, a terror attack that targets Turkish citizens but also impacts a German citizen in Turkey), it causes damage to the reputation of the local country (Turkey) in the foreigner’s country of citizenship (Germany).

We investigate the effects of these adverse events on country reputations by utilising detailed consumer surveys carried out by BAV Consulting (BAV) between 1993 and 2014 across 42 countries. BAV’s data allow us to analyse countries’ image characteristics in multiple ways. First, we study the strongest image attribute of each country. The United States, for example, has its highest score in the image attribute “progressive”, India in “traditional”, Italy in “friendly”, Finland in “trustworthy”, and the United Arab Emirates in “upper class”. We call these attributes nation brands. Second, we study each of BAV’s image attributes separately. For example, we study Italy’s scores in “progressive”, “traditional”, “trustworthy” and “upper class” individually. This allows us to identify specific image characteristics that are most affected by terror events. Armed with this data, we show that terror attacks depreciate nation brand scores of local-target countries by 9.78 per cent.

We conduct four supplementary analyses on country image. First, we find that terror-related casualties significantly escalate the effects of terror attacks on nation brand scores. In particular, if a foreigner dies in a local terror event, the nation brand score of the local-target country drops by 14.53 per cent.

‘Our paper provides the first large-scale empirical evidence of how country reputations affect firm performance’

Second, we inspect whether distances between local-target and foreign-victim countries matter for our results and show that they hold across different restrictions. Third, we provide a placebo test in which we examine effects of terror events on the closest neighbouring country to that of the foreign victim. If, for example, a Swiss citizen is hit by a terror event in France, we study France’s reputation in Austria (i.e., the closest neighbour of Switzerland) rather than in Switzerland. In this placebo test, we do not find significant effects on the neighbouring countries.

Fourth, in addition to examining nation brands, we also run tests on all BAV image attributes individually. In so doing, we find the image attributes “friendly”, “kind”, “fun”, “charming”, “gaining in popularity”, “trendy”, “traditional” and “down-to-earth” are significantly affected by terror events. Countries such as Ireland, Greece, and Turkey have particularly high scores in these attributes and are therefore particularly prone to reputational losses after terror attacks.

To provide a channel through which terror attacks impact country image, we also inspect how foreign media coverage of local countries changes around terror attacks. We show that terror-related media coverage of local-target countries in foreign-victim-country media outlets increases persistently by up to 50 per cent after the terror events, and wider coverage of terror events in foreign media outlets is associated with incremental reductions in nation brand scores.

After identifying country reputation as a potential channel through which a firm’s overseas activities might be affected, we examine firms’ foreign segment sales. In particular, we compare firms’ foreign sales between foreign-victim country segments and unaffected foreign country segments. For example, if a German citizen gets killed in a terror attack that targeted the police in Turkey, we study Turkish firms’ sales in Germany against their sales in unaffected foreign countries before and after the attack. We find a 17.75 per cent decrease in segment sales and a 21.18 per cent decrease in segment assets after terror attacks.

The reduction in segment sales is particularly large after terror events with casualties. Furthermore, using hand-collected data on terror-related news and country promotion agencies, we show that wider coverage of terror events in foreign media outlets is associated with incremental reductions in foreign segment sales. Finally, we compare the effect for countries that increase their promotion efforts by opening more agencies against countries that do not, and find that country promotion efforts just before terror attacks help alleviate negative effects on foreign sales.

Next, we use firm names as a
supplementary identification strategy. To the extent that firm names remind foreign consumers of product country-of-origin, they are correlated with country image. Firm names therefore allow us to study how “guilt by association,” i.e., the association of firms with their countries of origin, affects corporate activities. As firm names are costly to change and almost no firm in our sample made significant alterations to its name during our sampling period, this provides us with stable treatment and control groups.

To measure firm name and country-of-origin association, we use an open-source script called NamePrism. It allows us to compute “predicted nationalities” for local-target-country firms. Using these, we examine whether having a firm name that sounds like a name from the local-target country distorts segment sales incrementally. We find that high firm name to local-target country resemblance decreases sales to foreign-victim countries by up to 25 per cent relative to the sample mean. This result highlights the significant impact of country image and firm-level associations with it on corporate activities.

‘Overall, our results show that reductions in country reputations have long-lasting effects on corporate activities’

Does terrorism impact the overall well-being of local-target-country firms? To answer this question, we examine effects on valuation, asset growth and profitability. We find that firm-level terror exposures depreciate market-to-book ratio by 4 per cent, asset growth by 2 per cent and profit margin by 1.33 per cent.

Overall, our results show that reductions in country reputations have long-lasting effects on corporate activities. These effects are statistically significant and economically impactful. What can governments do to prevent deteriorations of their country image overseas and its negative effect on corporate activities abroad? In contrast to how the issues are framed in media debates and among policymakers, we do not advise limiting media coverage of terror events. Rather, we provide evidence in support of proactive country promotion shielding firms against the damaging effects of terrorism.

Mehmet Canayaz, formerly a doctoral student supported by the centre, is now Assistant Professor of Finance at Smeal College of Business, Pennsylvania State University. Alper Darendelis, a former Oxford MFE (Masters in Financial Economics) student, is now Assistant Professor of Accounting at Nanyang Technological University. “Guilty by Association: The Effects of Terrorism on Country Reputation and Corporate Activity” can be viewed at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3224538. The authors have recently been awarded a Tier-1 research grant from the Singapore Ministry of Education.

Back in business: police patrol the Memorial Church Christmas market in Berlin that was the site of a terrorist attack in 2016

PHOTO: REX SHUTTERSTOCK
While authenticity is a quality keenly sought after by both organisations and consumers, what it means to different people and how it is acquired and lost are poorly understood. Below, Justin Frake, winner of our annual award for Best Published Paper, charts how specific ratings connection between authenticity and organisational outcomes. One difficulty in identifying a relationship between authenticity and audience evaluations is that inauthentic behaviour may impact audience evaluations through a variety of mechanisms – such as through an objective impact on product quality.

The theoretical mechanisms that explain why audiences value authenticity are also difficult to tease apart. One mechanism suggests that when audiences are unable to perfectly assess product quality, they will rely on other observable characteristics, like acts of (in)authenticity, to make quality inferences.

This study provides the first causal evidence, outside a laboratory setting, that organisational authenticity affects audience evaluations. It is also the first study to investigate the consequences of inauthentic behaviour by organisations previously considered authentic, and the first to empirically demonstrate that acts of inauthenticity affect the symbolic value attributed to the inauthentic organisation’s products, independent of product quality or perceptions thereof.

My study was made possible through an arbitrary website design difference between the two most influential and comprehensive sources of beer ratings data: ratebeer.com and beeradvocate.com. Both allow users to create individual profiles and record tasting notes, ratings and reviews. They contain millions of reviews and tens of thousands of products, but while ratebeer.com displays the corporate owner’s identity on product ratings pages, beeradvocate.com does not.

I exploit this variation in the knowledge that a consumer has of the craft brewers’ corporate ownership to identify the effect of inauthenticity on audience evaluations. My focus is Matilda, a beer produced by Goose Island after acquisition by Anheuser-Busch InBev, as rated on ratebeer.com.

I put forward two hypotheses: first, that audiences will perceive goods from inauthentic producers to be lower quality (controlling for actual product quality); and second, that audiences will perceive goods from inauthentic producers to have lower symbolic value, independent of actual or perceived product quality.

The research demonstrates that when authentic organisations behave inauthentically, they are punished by audience members who are made aware of their inauthentic behaviour. Users on ratebeer.com reduced their overall ratings significantly in the post-acquisition period compared to those on beeradvocate.com. I further show that acts of inauthenticity affect symbolic value, but do not seem to significantly impact audience perceptions of quality. My research provides the first causal evidence from the field of an inauthenticity discount.

“Selling Out: The Inauthenticity Discount in the Craft Beer Industry” by Justin Frake, Assistant Professor at the Ross School of Business, University of Michigan; https://tinyurl.com/y7u4kxy6.
sites influence the reactions of craft beer fans to the purchase of a leading independent brewer; Brayden King unpacks different understandings of authenticity in the context of crowdfunding, and how these can become so influential to potential investors.

Our study begins with two simple questions: 1) what do people mean when they say that an organisation is authentic; and 2) how does this affect their evaluation of that organisation? The context is non-equity crowdfunding, in which individuals “pitch” their ideas for entrepreneurial or social projects to a dispersed online community, hoping to obtain support from backers in the form of voluntary donations. We conduct three studies, using online surveys and an experimental setting, applied to projects on the crowdfunding platform Indiegogo.

Through analysis of the responses, we build empirically on previously proposed characterisations of authenticity as a multi-dimensional construct with four types of authenticity: moral, type, idiosyncratic and craft, finding evidence for the first three. Moral authenticity originates from a philosophical perspective and describes the extent to which individuals are genuine in their beliefs and principles rather than captive to social expectations. Type or categorical authenticity captures how characteristic or representative an entity/experience is of a recognised category. Idiosyncratic authenticity is seen as an expression of an actor’s moral commitment to a particular – unique/quirky – set of beliefs common to moral authenticity. The more unique something is, the more idiosyncratically authentic it becomes.

Building on the psychology of evaluation, we argue that “likeability” is a critical mechanism that underlies the relationship between authenticity and audiences’ support of an organisation. Likeability indicates a personal connection to the organisation, which may be especially important when audiences lack extensive experience with the organisation or product in question. Once individuals deem an organisation to be authentic, this perception creates a psychological connection to it, ultimately leading to greater support for the organisation net of other qualities.

Our study leads us to the conclusion that people may not always mean the same thing when they find an organisation to be “authentic”. Nevertheless, regardless of what they mean by authentic, seeing an organisation as such leads individuals to support the organisation, namely by making it more likeable and thereby creating a personal connection. Despite agreement that audiences seek out authentic products, services and experiences, scholars often disagree about what authenticity actually is. Because authenticity is inherently in the eyes of the beholder, individuals may have different conceptions of what makes something authentic.

Entrepreneurs are assumed to be simultaneously driven by non-economic rewards such as autonomy, achievement, passion and commitment to a cause and by the potential financial and social success of their projects. External audiences must both assess the motivations of entrepreneurs to deliver what they promise and evaluate their chances of success. The need to actively project authenticity may thus be particularly strong in nascent ventures, as one cannot simply rely on an organisation’s past record.

Psychologists have identified two features that consistently matter to evaluations of groups and individuals: warmth and competence. Individuals rarely trust someone if they perceive that individual to be unlikeable. Because warmth is inherently difficult to observe without direct experience (as with crowdfunding) audiences may, instead, rely on the visible cues of an organisation’s authenticity.

We surmise that when motives or reputations are unobservable, individuals will rely on judgments of authenticity to decide whether a nascent venture is likeable and worthy of their support. Authenticity thus creates a form of personal connection to an organisation with which an individual has little or no previous experience.

Together, our various studies suggest that organisational scholarship can advance the “quest for authenticity” by paying more attention to the underlying dimensions within the concept and recognising that people may, in fact, mean different things when referring to an organisation or object as authentic. Our results suggest, instead, that organisations may achieve authenticity in multiple ways, including seeking to demonstrate commitment to intrinsic values (i.e., moral), demonstrating uniqueness relative to peers (i.e., idiosyncratic), and being a highly typical representative of a particular category (i.e., categorical).

Notably, perceptions of moral, idiosyncratic, and categorical authenticity are not highly correlated. However, there is a positive correlation between the different dimensions and an overall rating of authenticity. Thus, when people say that something is (in)authentic, they may actually rely on different evaluative dimensions, convey entirely different meanings, and speak past each other.

The second contribution of the study is to show a common underlying psychological mechanism that links individuals’ assessments of an organisation’s authenticity with their support of it. Regardless of why individuals find an organisation to be authentic, this perception makes audiences evaluate the organisation as more likeable, positively influencing their support. Competence, in contrast, does not have the same mediating effect. ■

“To Whom are You True? Audience Perceptions of Authenticity in Nascent Crowdfunding Ventures”, by Nevena Radovnovska and Brayden King is forthcoming in Organization Science. Brayden King is Professor of Management & Organizations at the Kellogg School of Management, Northwestern University, and an International Research Fellow with the centre.
NEWS

In July, our Research Fellow KEVIN CURRAN presented a paper at the EGOS Colloquium in Estonia entitled, “In or out? exploring effects of being ranked for high reputation”.

In August, the CCR hosted the Activist Congress for invited academics, practitioners and activists, developing ideas put forward in the recently published Activist Manifesto, by centre director RUPERT YOUNGER and International Research Fellow FRANK PARTNOY.

KEVIN CURRAN delivered a paper at the Academy of Management Annual Meeting in Chicago, entitled, “Simply the best? Exploring organizational hubris”.

In September, RUPERT YOUNGER presented CCR research to OMERS, the Leading Canadian Private Equity & Investment Firm, at their Annual Investment Conference in Toronto. He also joined the inaugural roundtable on non-executive directors’ roles and responsibilities hosted by the Non-Executive Directors’ Association (NEDA). See more here: https://www.nedaglobal.com/news-and-events/reputation-in-the-boardroom-a-roadmap-for-neds.

We hosted our annual Reputation Symposium at Said Business School. The full programme is available from our website (below) under “Past Events”.

In October, the centre hosted the second session of the CORPORATE AFFAIRS ACADEMY, the two-part programme for corporate affairs leaders that we run with Executive Education at Said Business School. More information: http://www.sbs.ox.ac.uk/programmes/corporate-affairs-academy.

Our Research Fellows RITA MOTA and ELLEN HE were contributors to a report entitled, “Leading Integrity: Towards an organisational ethics”, published by Warwick Business School, which considers how and why unethical behaviour occurs in the workplace. See: https://tinyurl.com/y8tczvqw.


In December, our Research Fellow NATALIA EFREMOV was invited to Montreal to present her work on soil moisture prediction using satellite imagery, in the WiML Workshop held at the 32nd Neural Information Processing Systems Conference.

APPOINTMENTS

EVA SCHLINDWEIN is to join the centre as a Research Fellow. She is working with Tom Lawrence, Professor of Strategy at Oxford Said, on the application of institutional theory to problematic yet taken-for-granted aspects of social life, such as the legitimacy of coercive forms of social control in US drug policy. Her research interests include the application of organisation and management theories to diverse challenges for both business corporations, public and non-profit organisations.

Her main focus in her work at the centre will be on the challenge for non-profit organisations to build and maintain favourable reputations while scaling up in size and scope. This includes applying an institutional work perspective in a case study on a non-profit organisation which experiences significant growth due to the refugee crisis in Germany. Its expansion taints existing reputations with cooperation partners as the organisation turns into its competitor in one field of activity while remaining a cooperator in another. Her aim with this work is to inform both academia and non-profit organisations about how organisational reputations can be managed when stakeholder relationships are conflicted.

Eva holds a Master’s degree in Business Administration and a PhD in Organisation and Management Theory from the Friedrich Schiller University of Jena. After obtaining her PhD degree in 2016, she worked as a researcher and lecturer at the business as well as the arts faculty, teaching strategic international management, research methods, and various business communication courses to undergraduate and graduate students.

Since starting her PhD in 2012, Eva has also been working with a non-profit engaged in with children and young adults in Germany with migrant backgrounds, including their education. For instance, a recent project in cooperation with a federal state and the European Social Fund (ESF) focused on preventing dropping out from school through innovative teaching concepts.

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