

# Reputation

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BANK

## The Big Interview

Gian Maria Gros-Pietro, chairman of Intesa Sanpaolo, on banking, leadership, and the pros and cons of a strong personal reputation

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## BUSINESS AND HUMAN RIGHTS

Barely a week goes by without a fresh news story about business involvement in human rights violations. Shell is currently on trial in The Hague, accused of being complicit in the hanging of Nigerian activists who protested against oil pollution in the Niger Delta region in 1995. In the wake of the Brumadinho dam collapse, a group of civil society organisations has requested that the Brazilian mining company Vale be excluded from the United Nations Global Compact, a voluntary initiative on sustainability and human rights.

Facing legal action and/or reputational and financial losses, some companies have significantly changed their policies – and so have the organisations that fund them. At the beginning of March, JPMorgan announced that it would not be financing companies involved in private prisons in the US, in the wake of widespread concern at the immigration policies of the Trump administration.

As it stands today, international human rights law applies to states and not to companies. At the same time, domestic law is often ineffective in the face of corporate human rights abuses. The UN has been trying unsuccessfully to regulate business conduct since the 1970s. More effective regulation is surely coming, and negotiations are underway at the UN to secure a legally binding agreement on business and human rights. For the time being, we rely upon a patchwork of non-binding legal instruments of varying degrees of effectiveness and, critically, upon the social responsibility of businesses.



If anything is likely to induce a corporation to change its ways, that thing is money. Banks can turn off the tap: they have the responsibility to lead on this critical issue. They can do this in two ways: first, by embedding human rights questions in the due diligence process; second, if already invested,

by using their influence to effect remedies, with the threat of divestment if no action is taken. Most banks have already expressed a commitment to human rights; the best will actually act. Banks that do so will exhibit real moral leadership. They are also likely to reap reputational benefits.

**‘Most banks have already expressed a commitment to human rights; the best will act’**

There is growing international consensus that banks have explicit human rights responsibilities. This is reflected in a wide range of intergovernmental, institutional, and private initiatives (such as the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, and the Equator Principles), which clearly affirm such responsibilities. It is also reflected in the way that civil society has been holding banks accountable. One example of that is the international campaign calling on banks to stop financing fossil fuels (climate change is also a human rights issue). The campaign has already attracted the

support of over 200 organisations, in addition to thousands of individuals. It is only one among the many petitions and protests demanding that banks stop financing harmful companies and projects.

A number of financial institutions, like JPMorgan, are already taking steps in this direction. In 2017, ABN AMRO, Nordea, BayernLB, ING, DNB and BNP Paribas divested from the Dakota Access Pipeline, due to the threat that the project represented to the Sioux tribal nation’s sacred burial grounds and to local water quality. ING reported that it fruitlessly attempted to use its leverage to influence the companies involved in the pipeline prior to divesting. Also in 2017, the World Bank Group announced that after 2019 it would no longer finance upstream oil and gas, while BNP Paribas committed to a faster transition to clean energy. In December 2018, HSBC declared to campaigners that it was divesting from an Israeli arms manufacturer over human rights concerns. In January, Norway’s sovereign wealth fund excluded a Chinese company from its portfolio due to human rights violations. Such examples are becoming more frequent. They need to become the norm.

The 2008 financial crisis seriously damaged the reputation of the whole financial sector. A large part of society now views banks as untrustworthy moral reprobates. Banks have a chance to resuscitate their reputations by grasping the nettle on human rights abuses. Tighter regulation will eventually force this action, but banks that act only after the regulation is passed will be mere compliers; those that enforce human rights now will be leaders. ■

**Rita Mota** (see p3)

A new paper from our Intesa Sanpaolo Research Fellow **Rita Mota** explores how far banks bear responsibility for the societal impact of the businesses they support.

# RESEARCH FOCUS: BANKS AS HUMAN RIGHTS ENFORCERS

The impact that businesses can have on human rights (HR) has attracted high levels of attention in the last decade, but the legal framework remains confusing. HR have traditionally been construed vertically as a shield protecting individual citizens from actual or potential harm inflicted by states, rather than corporations or other non-state actors. Corporate HR responsibility is currently governed by a puzzle of soft law instruments of questionable efficacy, and attempts at regulating business conduct under international HR law have invariably failed. The current HR obligations imposed upon businesses by existing legal frameworks are therefore very poorly constructed.

That is not to say that businesses are completely exempted from HR responsibilities and domestic regulation of corporate activities, such as, *inter alia*, criminal law, labour law, and environmental law, which undoubtedly affect HR. In addition, several jurisdictions regulate business conduct abroad through rules of extraterritorial application. However, international HR law largely ignores the responsibilities of businesses, thus often allowing them to operate with virtual immunity.

Under the traditional, state-centric, construction of international HR law, states rather than corporations, are held vicariously liable for business actions that have an adverse impact on individuals' HR. In fact, under international law, host states have the primary duty to protect HR against abuse by third parties, including businesses. This duty imposes an obligation on host states to exercise due diligence in the form of appropriate policies, legislation, regulations and adjudication to ensure that the activities of private parties do not impinge on the enjoyment of internationally guaranteed HR of individuals and groups within their jurisdiction. In reality, however, host states are often unable or unwilling to control corporate behaviour, either because multinational enterprises (MNEs) wield

significant power or because host states' regulatory powers are restricted by international treaties, such as international investment agreements.

Although many recognise the need for a legally binding instrument to impose HR obligations on MNEs, that need is still a long way from being met. Laudable efforts are being made to create such an instrument. However, its viability is questionable. The countries that opposed the establishment of the UN working group with that mission include the United Kingdom, the United States, and several other Western countries; therefore, it is reasonable to question

**'The current human rights obligations imposed upon businesses by existing legal frameworks are poorly constructed'**

whether this instrument will ever see the light of day.

In light of the above, alternative ways to enforce HR standards should be explored. Specifically, existing tools can be harnessed to influence investor behaviour and contribute to the development of a more responsible investment environment. Banks are uniquely positioned to influence investment projects by incorporating specific HR requirements into finance agreements, in which their relationship with clients could shape foreign investment in a way that improves social and environmental outcomes.

In line with these remarks, activism by civil society organisations and non-governmental organisations has created a climate in which banks are



increasingly expected to act on HR issues. Traditionally, banks assessed and managed their legal, reputational and market risks primarily from the perspective of their shareholders; however, recently the international community has started to emphasise the risks to which banks expose other stakeholders.

Societal expectations of banks' conduct have become impossible to ignore, yet there is still significant uncertainty regarding the role they have in protecting and promoting HR.

In this article, I do not discuss whether or why businesses in general, and financial institutions in particular, should be subject to international HR law. I assume that an appropriate binding international legal regime is necessary. A binding regime does not currently exist and is unlikely to emerge in the near future; therefore, I examine alternative, pragmatic solutions to the problems of HR in MNEs. In particular, a variety of soft law instruments apply to banks in the HR context. I map the most relevant intergovernmental, institutional and private instruments and show through a close examination of their key features that there is significant international consensus as to the HR responsibilities of financial institutions.

Moreover, I argue that banks can and should play the role of HR enforcers, and thus contribute significantly to closing the governance gaps created by globalisation, as long as the hardening of the principles contained in these instruments is achieved in a meaningful way. ■

*"Banks as human rights enforcers? A comparative analysis of soft law instruments" is published in American University International Law Review – <https://tinyurl.com/yxrxqw6s>.*

From academic to government adviser and banker, the chairman of Intesa Sanpaolo has navigated his way through some of the most taxing organisational challenges. Here he reflects on the qualities needed by leaders, and how important it is to distinguish between personal and institutional reputations.

## THE BIG INTERVIEW: GIAN MARIA GROS-PIETRO

How do you navigate to the very top of three very different sectors – NGOs, as a government advisor and in business – and yet still have the demeanour of someone to whom it has all come as a bit of a surprise?

“I got responsibilities far beyond my expectations,” is how the very genial Gian Maria Gros-Pietro, the chairman of Intesa Sanpaolo, Italy’s largest retail bank – “and one of Europe’s most solid financial groups” – reflects on his multifarious achievements on a visit to Saïd Business School in February. “I did not make a plan for my life. I wanted to do what was my main interest.”

Trained as an economist, he was driven above all by curiosity, he says – so much so that he was warned that his early research into the links between different Italian companies was both somewhat indiscreet and not particularly good for his career prospects. “Research fascinated me, and the fact that I was not heading for an academic career helped me because I did research with methods that were used in the business community,” he explains. He was warned that he would not earn the academic kudos to get to the top of academia because he did not reference the leading professors at the time (a reflection of the contribution of networks to reputation within academe). “I was not worried,” he says. “I told them I wanted to become a business consultant.” In the event he did both and more, rising to be the director of a research centre within the National Research Council, and later finding that his work had a ready audience among the financial institutions who wanted to understand the fabric of Italian business (and were happy to double the salaries of his researchers to find out).

Given the breadth of his experience, does he consider there is a blueprint for successful leaders? “There are some elements that are common to leadership,” he says. “In an organisation... you have to build a system of goals which can aggregate

the support of the majority of people in the organisation. First you have to be able to build a coalition. This means that leadership is made first of all with empathy.”

Leadership also requires courage: in particular, the ability to set out goals for organisations and navigate the inevitable setbacks and changes of direction that are then required. This is often badly handled, he says, and he has seen senior leaders misunderstand the basic tenets of strategic planning: “A business plan is not a prophecy,” he says. “It’s a project of doing something that is coherent, between goals, policies and tools. And when the external situation is different from the one that you imagined, you have a machine that gives you what you have to change.” There is reputational capital at issue here, too: research co-authored by our former

**‘You have to build a coalition. That means leadership is made, first of all, with empathy’**

Research Fellow Basak Yakis-Douglas identifies the reputational capital involved in clear declarations of strategy, particularly early on in a CEO’s tenure. “Leadership is made of reputation, because reputation is essential for cooperation, to have success,” says Gros-Pietro.

It is interesting in the light of the above how he considers his own reputation over the years. “I paid more attention to personal reputation when I was a [academic] researcher,” he says, “because in that profession, it is important what you think: your hypotheses, your theses, your proposals – you have to make them known and make them accepted widely.”

By contrast, he considered what he is happy to call a non-reputation as

extremely useful when he started on what he calls “the first really important” job, working for the Italian government on the privatisations of various state-owned enterprises, under the government’s Committee for Privatisation. “It was not important to have a strong personal [exposure],” he says, although when pressed he identifies instinctively a key distinction that we like to highlight at our centre: the difference between capability and character reputations. His neutral character reputation was an asset, when the case for privatisations was being carried by the politicians who were answerable for them. Had he had a strong personal profile it would simply have got in the way. However, his capability reputation – for efficiently managing complex financial analysis and engineering – was vitally important among an informed group of stakeholders.

His profile inevitably grew when he moved to become chairman of the energy company Eni, Italy’s largest business, which is 30 per cent owned by the Italian government, but again he had a very particular sense of the reputational implications of the role: “The chief executive runs the company, the chairman runs the board. The chief executive should be embedded in the company, or the company should be embedded in the chief executive. The chairman should have a stronger reputation as a person and not as [the] company. He is a guarantee, and to be a guarantee you should be independent.”

One area where perfect alignment was absolutely necessary was in the messaging: “When there are two sources of communication, it is always possible that there is misunderstanding. You use a different adjective, and immediately speculations start – ‘Why did they say what they were saying slightly differently? There’s a meaning!’”

Taking on the chairmanship of Intesa



Sanpaolo in the wake of the financial crisis required even defter handling. “Remember that Italy lost 10 per cent of GDP and 25 per cent of industrial production.” On top of the constant challenges of liquidity, non-performing loans and the like, was the challenge of preserving the reputation of a major player in such a troubled sector. The leadership of Intesa Sanpaolo (as regards chairman and CEO) are complementary but different in essential ways, he says: “In terms of culture [CEO Carlo Messina and I] are very aligned, although with different histories. He is a manager and I am an economist. So, we agree, but we see all the questions from different points of view. What I try to do is to shine a different light on the same object, so that you get the whole, round shape of the object.”

The ownership of company purpose, its DNA, is very much the domain of the CEO, but the chairman has an important role in how it is monitored. Intesa Sanpaolo, the amalgamation of over 200 different banking and lending organisations since the 19th century, has a heritage built on the foundation of various savings banks that were established as philanthropic organisations. The social purpose of the bank is still a differentiator, but he concedes that it may not be as well communicated as it could be.

“We do it because we think that it is right,” he says, “and maybe we should communicate it more.” One of the chief difficulties is settling on the metrics that others should judge you by. “When a

### ‘When you say we want to make enough profit *and* be socially responsible, you no longer have one measure’

company says, ‘We want to maximise profit,’ it’s easy for the board to monitor whether you’re reaching your objective or not. But when you say, ‘We want to make enough profit *and* be socially responsible,’ you no longer have one measure – profit – you have a system of goals. And so the role of the chairman is essential, because this complex of goals has to be built by the board with long discussions.”

That philanthropic obligation, and other obligations such as the reskilling of employees in the tech-driven revolution in banking, have to be made into KPIs by which the senior leadership is judged. One area where Intesa Sanpaolo could undoubtedly do better, Gros-Pietro concedes, is the proportion of women in senior management: “If we look at

the top management, we have very few women, so we have put a qualitative indicator which is the ability of each top manager to promote women in [his] management line. We have to [increase the number of] women from level to level. And we have put a qualitative KPI on this.”

As fintech transforms banking, the reputation of established banks and their relationship with their customers will need to be more finely managed than ever: “The future is in confidence and trust,” he says. “We have to offer our customers a service which is easy, simple and cheap. Technology can offer all this, but social networks can offer the same service with a lower cost than the bank.” The cost to customers may even be nothing in monetary terms – they will pay instead in personal data, he contends. With the growing disquiet around the way this has been exploited by the likes of Facebook, he considers that the banks have a potential advantage in how these relationships are built. “Where [insurance], savings, the construction of pensions are involved, nobody should accept that these very delicate questions can be submitted to a social network or to a fintech company that uses the data for different aims.” It promises to be one of the most compelling corporate reputational battles of our times. ■

This year's report from our **Corporate Affairs Academy** programme focused on three themes: a framework for reputation; activism and campaigning; building the skillset for the future of the function. Below is an extract.

# REPORT: EMBEDDING CORPORATE AFFAIRS IN BUSINESS PERFORMANCE

## THE REPUTATION FRAMEWORK

An appreciation of reputation risk is now firmly established as a priority in any sentient organisation, given the acknowledged damaging (and even fatal) potential of a negative "hit". However, appreciating the opportunities generated by positive reputations, including those from competitive advantage, is something that is beginning to be more widely accepted, but is not yet as embedded.

A successful framework links clearly prioritised analysis and proposals to KPIs of the business itself, and uses them to connect in a granular way to operations. An example where such a framework becomes especially powerful is when it moves from being effectively a risk register to helping to define a road map to value-adding initiatives.

**"We're actually shaping how the business positions itself, makes investment decisions, and all of that adds to the core of how we operate as an organisation."**

Defining the business impact of a corporate affairs initiative and linking to KPIs should be systematically identified at the outset.

- **The business impact of helping to manage the policy environment would probably be around time to market.**
- **The ultimate KPI for that would be that the policy was changed.**
- **What is the business able to do because you helped change the policy? That's the business indicator."**

A framework can help corporate affairs gain traction in leadership conversations, which then empower the function to spread the word further down the organisation, where there is often more embedded resistance.

**"We are looking at reputation end to end on the value chain... translating it to general managers, them owning it and putting budget behind it as part of their strategic plans, that's going to be the tougher bit."**

It is useful to consider reputations for different things as a function of behaviours, how they are reported (narratives), and the networks of stakeholders to whom they are of particular significance. Linking these to KPIs is a powerful crystallisation of the corporate affairs purpose, but the picture within organisations is often confused.

**"The board members and senior management are less interested in our reputation as an X company, and more interested in defining what an X company of the future is going to be. That's where the energy is. That's where they want our reputation as an innovator, as a transformational leader."**

For a framework to be of use, it has to be very visible to the business, not just something that is kept at a strategy level and doesn't get percolated down the business. It has to address the important questions within the organisation, both on performance and values.

## BUILDING THE CORPORATE AFFAIRS SKILLSET

Corporate affairs offers capabilities that no other function within organisations offers, which are particularly applicable to a fast-moving, disruptive, uncertain and ultra-accountable world. However, its leaders need to develop the function further to make corporate affairs entitled to credibility on a broader front.

An organisation locked into a strategy often will not take enough account of the evolving landscape beyond its control. Agility and reactivity are essential components of the necessary new mindset, and corporate affairs should be ideally placed to apply those. Uncertainty

necessitates different approaches, and is an opportunity to leverage the function's USP of instincts and networked intelligence. All of this is increasingly driven by the activism and campaigning we have examined and by the need for corporate affairs to become a proactive business partner.

**"For the strategy guys it's, 'Let's plan from X to Y and then we'll review'. The world works like that internally when you can own things, but when you can't own things and other people are doing things, it gets messy."**

Corporate affairs should lead on building networks of intelligence for due diligence, which again helps the function to make a meaningful early contribution to strategic conversations on new business, and means that the organisation is also prepared and informed where there is future negative fallout.

**"We have a three-level traffic light: Google search first; second, build the network of 'sense-check agents'. We have a rule that one of the sense-check people must be the ambassador to a [target] country. The third is then an external group such as Kroll."**

Really embedding reputation concerns into the organisation requires in many cases a remaking of the culture, and helping to fashion the mechanisms that make that a reality.

**"We have made it that 50 per cent of remuneration goes with the values... some of those sitting in judgement have an interesting take on that, but it is progressing... it comes up in reviews, technical aptitude with ESG, transparency and so on. It's taken us a couple of years to get the buy-in."**

The above will likely drive demand for specialist capabilities in moulding and supporting values programmes; productive partnership with other

functions is becoming more vital as aims coincide and methods overlap.

**“Last night I got a great email from strategy showing me their where-to-win strategy. It outlines, from all the research we are doing: here are the portfolios we’re going to go after, here are the markets.”**

The investor focus is beginning to zero in on sustainability and trust. This is driving the shift from reputation as defence and compliance to anticipating the pinch points in the organisational model.

**“If trust is where someone is going to take a bigger risk with us, will our reputation sustain that?”**

## DIGITAL CAPABILITY

Given the growth of AI, the proliferation of tools for measurement of performance and sentiment, and how much of the information ecosystem now exists on internet platforms and social media, it is no surprise that digital expertise has moved from highly prized to necessary. This throws up a number of issues:

- Resourcing the function where resources are scarcer than before
- Choosing the right digital tools in a sea of promised “magic bullets”
- Ensuring digital tools are aligned to business aims, not just corporate affairs targets
- Recruiting relevant talent
- Bridging the deficit in understanding between older business leaders and the younger incomers (and audiences and stakeholders)

Digital capabilities can deliver on many fronts, but it is important to match expectations and projections to the organisation about the potential of digital with the resource that you have available.

**“We need to make a much better business case for the investment than we do at the moment.”**

Corporate affairs needs to systematically assess the expertise of those within the function to see if it is fit for purpose.

**“We’re in the process of speaking to people externally to test everybody across corporate affairs to see how digitally savvy they are, and therefore what skills are required to then fill in the gaps: what are the skills; how do people think about it; how do they use it already in their jobs.”**

Corporate affairs has the key responsibility for bridging the gap between younger and older generations, both within the business, where corporate affairs can play a lead role in ensuring an organisation’s values support the right culture, and between younger consumers and business leadership. Digital expertise has a key role in that.

**“There’s a big education gap: our younger members of staff are totally engaged with our internal portal, they’re listening to our podcast; but it’s the older ones, it’s the dinosaurs that you’re trying to convince of the value of this.”**

The new demands of digital have to be kept in perspective. A greater data capability is just one of the tools that corporate affairs needs to develop.

**“Knowing how to interpret data, having the language of the organisation and being able to translate what you do into business speak is becoming hugely important.”**

Partnership with other functions is driven sometimes, and in part, by the overlap around digital platforms, and can be a useful benefit. This can be seen both internally, where HR data can benefit values communications, as well as externally with customer-facing functions.

**“Social media is becoming more and more commercialised... you find you’re going from basic engagement on social media to more promoted content – which then costs much more, in the marketing comms area, which perhaps then has a much closer alignment with the consumer PR team.”**

There are opportunities within operations to garner more useful reputation metrics and proxies, for instance during the recruitment process.

**“One thing we’re doing to try and create a bit of a data lake is when you get down to a shortlist of candidates for a role, that they’re sent as part of their application process an anonymous questionnaire where we ask them very open questions about [our] reputation.”**

Influencers are a key component of using digital. There is a growing market for these digital intermediaries.

**“We’re launching [a marketplace] for online influencers. If we have a particular campaign, rather than us going out to the influencers they**

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**come in and bid to be a part of that campaign. It comes into a central hub and it's all done there and it's almost like a trade is done."**

## ACTIVISM AND CAMPAIGNING

The impact of activism should be an area of considerable interest and concern for corporate affairs. Activists have an impact on operations at all levels once they target a company: through the reactions of regulators and investors, the attitude of employees and potential employees, relationships with suppliers and so on. Judging when, whether and how to engage with activists is a key responsibility and capability of the function. Engaging with activists can be a double-edged sword. It can foster useful new relationships and give you credibility with third parties applying a critical eye to your operations, but it can also open you up to negative pressures once you have opened the door. However, aside from being on the receiving end of activism, organisations can also take a proactive stance and use these techniques themselves. Discussions this year focused heavily on this: corporate campaigning as a strategy for supporting commercial objectives.

Activists come in many forms. For example, interactions with regulators and other authorities is evolving, in both push and pull ways, depending on sectors and regions. Corporate affairs should be driving new approaches to this engagement. It can build coalitions with other businesses across sectors and regions. It can speed up reactivity, broaden the intelligence base, and create a united front that buffers organisations against accusations of self-interest. It can also be cost-efficient, sharing resources and efforts.

However, the case against regulation and interference must be made increasingly carefully and with antennae attuned to the perceptions of the regulators in different regions. Corporate affairs needs to guide such initiatives.

**"You can't just go it alone... particularly in emerging markets where you don't have the footprint or credibility. Often governments will have an industry view... [so] we drive a lot through the trade associations."**

When looking to build coalitions, making common cause across different sectors can build credibility among governments and regulators.

**"It's having the creativity to identify other groups that have a similar interest in an issue; so for example on Brexit, [we first] focused on what we were doing, what the industry is doing, and then there was a sort of a lightbulb moment of let's talk to [company X] and a few others, and then I was in a meeting with four cabinet ministers."**

The requirements laid down by governments and regulators is often influenced by pressures they are under from another quarter. Understanding these pressures is a key responsibility of corporate affairs and can contribute to a better strategic understanding of where to target campaigns and build coalitions.

**"As corporate income taxes go down [governments] are looking at more consumption taxes, combined with the global health agenda. Excise on duty is such an easy excuse."**

The campaigning approach and mindset that corporate affairs would see in dealing with activists can be a useful, impactful and energising proactive tool, galvanising alliances across sectors and regions to effect positive business outcomes. Campaigning approaches can break down silos within corporate affairs, as well as throughout the organisation.

**"My team is communications, internal and external, sustainability, foundation, government affairs, thought leadership and the events team. And we identify some core integrated campaigns as a team to**

**create a constant tempo that's a much more holistic approach to the topic."**

Campaigning can free up resource and bring in complimentary expertise as other areas of the organisation realise there are benefits-in-common to be shared, and from different organisations joining forces.

**"When [corporate affairs realises] the breadth of resources they have access to when they think about the campaign mode – other businesses, other functions, other countries, regions [etc.] – it's starting to gain some traction."**

As an alternative to trade association-based coalitions, innovating with "pop-up" coalitions and campaigns can be a more nimble, effective and cost-effective choice, but they have to be properly understood, supported with the right expertise, and have clear terms of engagement. This goes all the way down to where they are positioned and branded.

**"We're probably using traditional trade associations last, and pop-up coalitions more, so you come together on one topic, you put money on the table, and you hire the people you need."**

Campaigning requires a fundamentally different set of "always on" skills, of the kind developed in activism or the NGO sector. Corporate affairs has to look to recruit those with the relevant background to develop this capability and reskill to meet the new demands of the role. This also has a bearing on how you structure the function, and how you introduce a campaigning element within the existing function.

**"Campaign techniques are very different. You're constantly on the campaign. It demands a different level of resilience and energy... and building the networks." ■**

*The complete report from the 2018 Corporate Affairs Academy can be found at [www.sbs.ox.ac.uk/programmes/corporate-affairs-academy](http://www.sbs.ox.ac.uk/programmes/corporate-affairs-academy).*

The latest paper co-authored by our International Research Fellow **Cynthia E. Devers** frames how a firm's different types of reputation can affect the way its managers behave.

# RESEARCH FOCUS: FIRM REPUTATIONS AND MANAGEMENT DISCRETION

Despite the established benefits of a good reputation, recent research has elucidated the burdens and liabilities it can bring about, particularly following a crisis or stakeholder disappointment. However, managers spend much of their time avoiding such extreme events rather than responding to them, and we know very little about how reputation influences managers' everyday decisions. We address this issue by offering a theoretical framework to explain how reputation shapes managers' perceptions of their discretion as they attempt to navigate stakeholder expectations. In doing so we clarify and elaborate two forms of reputation – those rooted in a firm's behaviours and those rooted in a firm's outcomes, as well as two forms of discretion: managers' perceived latitude of actions, and their perceived latitude of objectives.

A series of food poisoning incidents at burrito chain Chipotle highlights how the combination of behaviour-based and outcome-based reputations can severely constrain managerial discretion. Chipotle had built and maintained a strong outcome-based reputation for food quality and a strong behaviour-based reputation for using locally sourced, organic ingredients and preparing fresh food with minimal processing.

In 2015, however, Chipotle food was identified as the source of multiple norovirus, Salmonella and E. coli outbreaks across the United States. Many observers linked these outbreaks to Chipotle's ingredient sourcing and food preparation practices, noting that Chipotle's decentralised supply chain and in-store food preparation increased the difficulty of controlling the quality and safety of their ingredients. Chipotle suffered a significant stock depreciation and drop in sales as a result of the outbreaks, but while another restaurant chain might have altered their sourcing and food preparation procedures to avoid repeat outbreaks, Chipotle announced they would simply increase food safety testing and

require additional employee and supplier food safety training.

Their behaviour-based reputation for local food sourcing and in-store food preparation prevented them from altering their practices in order to repair and protect their outcome-based reputation for food quality, which the outbreaks had severely damaged. As a columnist on the *Wall Street Journal* observed, "A true breakthrough would be if Chipotle were to announce that, to keep serving fresh, raw, unprocessed food, it would adopt irradiation in all its kitchens. It won't – not for safety reasons, but because it would conflict with the... marketing message Chipotle has worked so hard to instill." As this illustrates, possessing both strong behaviour-based

**'Managers feel compelled to remain true to behaviours or performance outcomes even when circumstances may warrant change'**

and outcome-based reputations can yield significant competitive advantage. At the same time, however, this also limits managers' latitude of actions and latitude of objectives, because they feel compelled to remain true to the behaviours or performance outcomes tied to those reputations, even when circumstances may warrant change.

That is, the possession of a high outcome-based reputation does not meaningfully alleviate scrutiny of managers' actions if a firm also possesses a high behaviour-based reputation, because that behaviour-based reputation draws its own scrutiny toward the behavioural tendencies associated with the reputation and engenders expectations for those particular behaviours to continue. Similarly,



when a firm possesses a high behaviour-based reputation, even the firm's careful adherence to the pattern of behaviours associated with that high behaviour-based reputation does not lead to a decrease in stakeholders' scrutiny of the firm's achieved outcomes if it also has an outcome-based reputation.

This outcome-based reputation would have its own discretion-constraining influence on the managers' perceived latitude of objectives. This suggests that when a firm possesses both a high behaviour-based reputation and a high outcome-based reputation, the associated pressure to perpetuate those related patterns of actions and outcomes reduces managers' perceived discretion in terms of both their latitude of actions and latitude of objectives.

Reputation scholars have long argued that a good reputation is a beneficial asset. However, recent research has shown that a firm's reputation may be a burden as well as a benefit. We expound on how this liability manifests, in the form of reduced discretion as perceived by managers, and on one additional reason why reputation is path dependent: although stakeholders' expectations may perpetuate a firm's reputation to some degree in their own minds, top managers' perceptions of stakeholder pressure also shape their perceptions of their own discretion to deviate from a firm's reputational path(s). ■

*Cynthia E. Devers is Lawrence E. Fouraker Professor in Business and an Associate Professor of Strategic Management in the Mays Business School, Texas A&M University. Extracted from "How Firm Reputation Shapes Managerial Discretion" (Owen Parker, Ryan Krause, Cynthia E. Devers, Academy of Management Review – <https://journals.aom.org/doi/10.5465/amr.2016.0542>).*

The first of our historical case studies produced in partnership with the Oxford University **Global History of Capitalism** project examines how societal connections, expert buying and canny marketing combined in a 300-year wine and spirits success story. Below is an extract.

## CASE STUDY: BERRY BROS. & RUDD

Reliant on a business model based on their ability to establish themselves as the mark of quality, the Berrys may have struggled to find a foothold in the spirits market before 1860. The market then belonged to port and to its British shippers. For political reasons, port was protected by tariffs, and thus became the drink of the day. Due to French enmity and Portuguese alliance, it was lauded as “the Englishman’s wine”, its presence at the dinner table a symbolic shot across the French bow. Jonathan Swift wrote that any true British patriot would “bravely despise champagne at court, and choose to dine at home with port”. Light wine’s treasonous reputation was so pervasive that the only way the 1707 French vintage could be sold in England was if merchants advertised it as the spoils of war, looted from defeated French ships. This was rarely the truth, though it does show that a demand for lighter wines still existed.

Port presented certain challenges, not least due to the poor standing of merchants. Wine merchants were described as the “most rotten set in London” by a member of the port trade: “No branch of trade is prone to the practice of more chicanery and fraud than that of wine dealing,” they insisted. Port held a deserved reputation for fraudulence and toxicity, and all but the most established blends might contain dangerous ingredients. Furthermore – due in large part to the importance of letting Port mature – its quality was extremely hard to discern for all but the most informed of experts, merchants included.

Sellers of port had little choice but to emphasise its shippers’ names (for example, the famous Sandeman blend) as the mark of quality. This presented a problem for upscale merchants: those that preferred Sandeman’s blend might purchase it wherever it could be found, leaving the port consumer far less reliant on the reputation of merchants than purchasers of fine wines. In a supply chain that subordinated the merchant and prioritised the shipper, it would have been

difficult for Berry Bros.’ particular brand – always asserting their own authenticity and prestige – to flourish.

In 1860, the situation changed. Britain’s new peace with France – and the Cobden-Chevalier Treaty – led Chancellor of the Exchequer William Gladstone to cut the duties on light wines (predominately French in origin) from a maximum of five shillings and 10 pence to one shilling per gallon. Port’s heyday – and the heyday of its shippers – was at an end: by 1870, English consumption of light wines had tripled, though this was its peak.

The wine supply chain operated very differently to that of port. Where port emphasised the shipper, conscientious wine consumers relied on the reputation

**‘No branch of trade is prone to the practice of more chicanery and fraud than that of wine dealing’**

of English merchants. Berry Brothers & Co (Rudd’s involvement still lay far in the future) excelled: their status and standing provided security for a commodity that was, in many ways, prone to extraordinary uncertainty. Not only is wine expensive and easily forged, its quality is often very difficult to discern for any but the most informed consumer. Forgery was not only a financial issue: those merchants more endowed with creativity than moral scruples were known to mix their wines not in Bordeaux but in London’s East End, and the ingredients included were often dangerous – a savvy consumer might detect hints of sulphuric acid alongside the more expected earthy tones. To purchase from a disreputable merchant might not only endanger one’s social standing, but also one’s eyesight. Still, official measures of quality were being established: in 1855, Napoleon III introduced a classification system defining the First Growth Wines of Bordeaux, a profitable product for those

merchants that could align themselves with the Bordeaux vineyards.

Though largely resistant to technological developments, wine experienced a certain degree of modernisation in the 19th century. In 1860, it began to be sold by the bottle. In the 1870s, twin disasters struck: an attack of mildew tainted Bordeaux’s wine stock, and the Phylloxera bug decimated French grapes. Solutions were at hand: winemakers blended slaked lime and copper sulphate to eliminate mildew, used sulphur as a disinfectant, and introduced egg whites to their wines as a natural fining agent. These threats heightened consumer awareness of the potential dangers of making cheap purchases: the market advantage belonged to those agents with a history of responsible business practices.

It was a market dynamic that allowed Berry Bros. to flourish. A study of the firm’s price list reveals that the partners had established a policy of stocking mainly traditional wines of the Englishman’s table – sherries, madeiras, ports, brandies and liqueurs, and wines from the classic regions of France and Germany – all products in which they had a high degree of confidence.

Walter Berry’s purchasing excursions to France became famous: he wrote and published an account of the trip in 1935, called *In Search of Wine*. As one historian wrote, “His flair for buying wine, and the travels of Francis in overseas markets, did more than even the firm’s fine reputation to build up the business.” Promoting the story behind the bottle was a shrewd branding move. Consumers could rest assured that they were buying more than just a wine: they were purchasing a whole narrative, one expertly-packaged for delivery over the dinner table – and perhaps just a little of Berry’s own expertise.

It was not only royalty and aristocracy that liked to shop along St James’s Street. By virtue of its association with high society, the neighbourhood became fashionable

Royal neighbourhood:  
the Berry Bros. & Rudd  
shop on St James's  
Street in London



among the aspirational middle-class – a demographic undergoing unprecedented expansion in the 18th and 19th centuries as a result of the Industrial Revolution. Maxine Berg, in her study of the development of the English middle class – *Men and Women of the Middling Classes: Acquisitiveness and Self-Respect* – argues that across the second half of the 18th century, the bourgeoisie grew from 15 per cent to 25 per cent of the population. Then, as now, the middle class was particularly well-represented in London.

It was these new consumers that provided Berry Bros. with the bulk of their sales. The Berrys were experts at aspirational marketing, a technique similar to that used by the legendary potter and businessman Josiah Wedgwood, who built his own empire by providing fine china at low prices to the nobility.

The aspirational marketing practiced at Berry Bros. has long been reinforced by its aspirational location. George III's sons were frequent visitors to the shop, and the sight of the young dukes sauntering in and out to be weighed was likely quite a spectacle for the up-and-comers that liked to frequent the neighbourhood. In the 20th century, to be a dominant in

## 'The American public was so impressed with the Cutty Sark whisky that it became known as the Real McCoy'

the wine business required breaking into the American market – not least because Gladstone's light wine revolution had come full-circle. By 1914, wine consumption in England had dropped back to pre-1860 levels. Wine merchants were experiencing the bust that follows so many booms – especially within the tragic context of the First World War. Although Berry Bros. was insulated by the deep pockets of its Old World clientele, the Berrys recognised the strategic need to diversify.

In 1921, one year into American Prohibition, Francis Berry visited Nassau, in the Bahamas. Nassau was an important stop along any self-respecting smuggler's route, and one where Berry Bros. products had become particularly (perhaps even suspiciously) popular. The firm erred on the side of caution – leery of getting too personally involved with liquor-running, they elected to sell their products (no questions asked) to various agents in

Nassau. That said, the Berrys saw the opportunity to begin selling whisky to the American market: Berry and McBey (a Scottish artist) took both the name and the image of the Cutty Sark (a famous clipper ship that had recently returned, with great fanfare, to British shores), and – without owning distilleries – blended a whisky intended for sale in the Americas.

In order to underpin their reputation in a new market, where their name was not yet made, they sent the blend across the Atlantic with a shipper renowned for dealing with high-quality spirits – a seafaring, bootlegging legend named Captain William McCoy. The American public was so impressed with the Cutty Sark whisky that it became known as the "Real McCoy", confirming McCoy's reputation – and by association that of the Berry brothers. In 1936, after Prohibition's repeal, 80,000 cases of Cutty Sark were exported; by the 1960s, it was America's most popular whisky. ■

*The complete Berry Bros. & Rudd case study can be found in the case study area of our website (below). To request a free copy of any of our cases please email [reputation@sbs.ox.ac.uk](mailto:reputation@sbs.ox.ac.uk).*



Our good friend and colleague **AMANDA MOSS COWAN** died on 20 February. She was a Research Fellow with our centre and at Saïd Business School from 2012 to 2015, when she took up the post of Assistant Professor of Management at the College of Business Administration, University of Rhode Island. She continued to work on projects with colleagues at Saïd Business School, and our Dean, Peter Tufano, wrote a short tribute to her and her work which can be found here: [www.forevermissed.com/amanda-moss-cowan/#lifestory](http://www.forevermissed.com/amanda-moss-cowan/#lifestory). ■

In December our Eni Research Fellow **ELLEN HE** gave a talk to a delegation from Shandong province in China on "UK fund management and corporate governance".

In January our director **RUPERT YOUNGER** was interviewed by the BBC for a piece in response to the latest Gilette advertising: [www.bbc.com/capital/story/20190118-how-socially-charged-adverts-could-become-the-norm](http://www.bbc.com/capital/story/20190118-how-socially-charged-adverts-could-become-the-norm).

Intesa Sanpaolo Research Fellow **RITA MOTA** published her latest article in the *American University International*

## APPOINTMENTS

**ROHINI JALAN** has joined the centre as a Postdoctoral Research Fellow, working with Tom Lawrence, Professor of Strategic Management at Oxford Saïd. Her research interests lie at the intersection of Organisation Theory and Science and Technology Studies. She is particularly intrigued by the way technological artefacts and practices reveal, reinforce and alleviate socioeconomic inequality. This leads her to examine the intended and unintended consequences of technological innovation and the politics of access. She employs ethnographic methods to examine such phenomena through the lens of organisational fields and identity.

Rohini examines how organisations respond to tensions arising from a perceived gap between the stated goals of a social movement and its outcomes. She does so in the context of the Maker movement, focusing on local organisations such as makerspaces, which strive to provide open access to tools and technology in a shared community setting. Findings from a comparative ethnography reveal that makerspaces employ various strategies to mitigate what they perceive as the perpetuation of socioeconomic inequality by the Maker movement. She draws on the lens of organisational fields to unpack these outcomes and their organisational implications.



Rohini holds a bachelor's degree in Business Administration (major in Finance and Operations) from Jadavpur University and a master's degree in Human Resources and Industrial Relations from the University of Illinois at Urbana-Champaign. She completed her PhD in Organizational Behavior from the ILR School at Cornell University in December 2018. During her PhD Rohini served as the chairperson of a non-profit makerspace in Buffalo, NY, and provided research insights on organisational design, strategy and technology programmes. She has also served as a facilitator for the Intergroup Dialogue Project (IDP) at Cornell, in which capacity she helped enhance dialogue across differences (e.g., race, gender, socioeconomic status) through workshops for graduate and professional students.

Congratulations to two of our Research Fellows: **ELLEN HE**, who has been appointed as Presidential Fellow (Research) at Alliance Manchester Business School (see more about her work here: <https://sites.google.com/prod/view/ellenhe>); and **KEVIN CURRAN**, who has been appointed Assistant Professor of Innovation and Entrepreneurship at the University of Amsterdam Business School (see more about his work here: [www.sbs.ox.ac.uk/about-us/people/kevin-currant](http://www.sbs.ox.ac.uk/about-us/people/kevin-currant)). ■

*Law Review*: "Banks as human right enforcers? A comparative analysis of soft law instruments" (see p3).

In February **RUPERT YOUNGER** was the keynote speaker on Reputation Strategies

at the Anglo American Corporate Relations Summit, held near Luton. He also joined a panel to discuss "Lies: The business of lies and the lies of business" at UCL's Institute of Advanced Studies in the Humanities and Social Sciences, London. ■

### Contact us

We welcome your feedback. Please send any comments to: [reputation@sbs.ox.ac.uk](mailto: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](http://www.sbs.oxford.edu/reputation).