

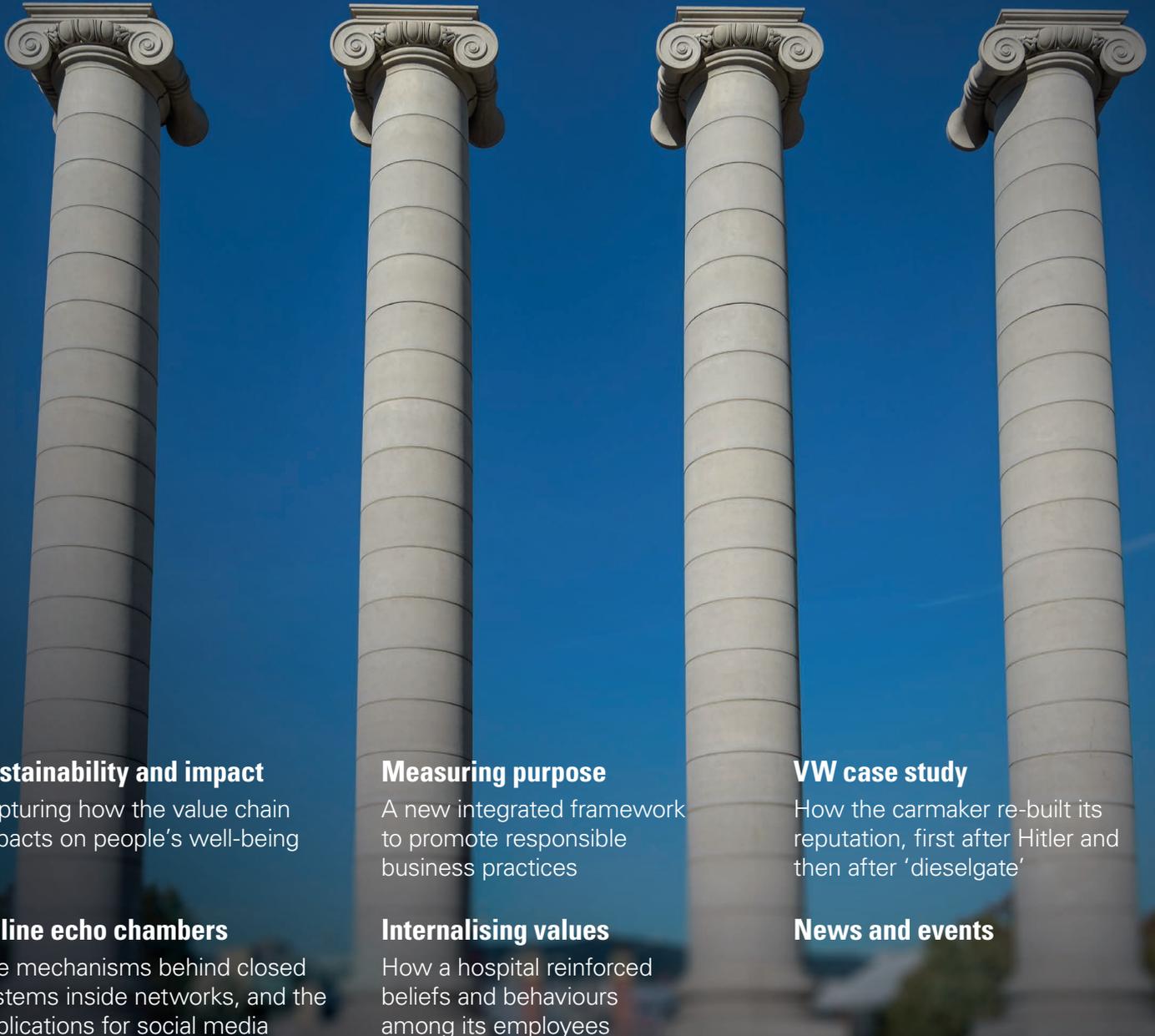
Reputation

HILARY TERM 2021

OXFORD UNIVERSITY CENTRE FOR CORPORATE REPUTATION

The Big Interview

Lord Bilimoria, President of the CBI, on the four pillars he wants to see underpinning the post-pandemic recovery, and why more diverse business leadership is a top priority



Sustainability and impact

Capturing how the value chain impacts on people's well-being

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The mechanisms behind closed systems inside networks, and the implications for social media

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COMMENT: SUSTAINABILITY AND IMPACT VALUATION

Times of economic disruption are reflected in and shaped by changes in accounting systems (e.g., the development of the US GAAP after the 1929 stock market crash). The current need for new measurements of performance is well-documented and widely shared among academics and practitioners: the global landscape of sustainability reporting is a fast-changing one, and the role of cross-sector partnerships has become even more important. Three concurrent shifts in narrative, valuation and standardisation could offer a pragmatic solution to the G20's priorities around "people, planet and prosperity".

In 2019, the Value Balancing Alliance (VBA - see below) embarked on a business-driven, cross-industry journey to measure impacts and improve business decision-making. For decades, businesses have focused on profit as the key measurement of success. Today, the focus on long-term value creation requires additional and different types of key performance indicators. New measurement standards will enable decision-makers to deal with complexity, trade-offs and potentially conflicting targets in social, environmental and economic areas. This shift will trigger systems change in the incentive structures for businesses: from profit maximisation to value optimisation in internal decision-making processes as well as in the engagement with external stakeholders.

As an alliance of global companies that strives to improve the state of the world, the VBA develops new measurement and valuation approaches to assess the impact of their activities on society, nature and the economy. Monetisation of social and environmental impacts is at the heart of this approach to develop a standardised

methodology that translates sustainability into the language of businesses, investors and policymakers. The VBA methodology expresses the different impacts on society across various dimensions and topics (e.g., carbon emissions, water, waste and training) in a conventional financial unit such as GBP. Companies can compare apples with apples and better align their activities with public policies.

The VBA recently published the first version of its general methodology on impact statements (see below) after a year-long engagement and piloting by member companies. The methodology builds on previously tested ESG frameworks, widely accepted scientific studies, and methodologies for impact measurement and valuation. The methodology provides nine indicators and 183 sub-indicators in the environmental, societal and economic areas to assess the impacts of business

'The VBA methodology sets out a narrative of how a company business model impacts on people's well-being'

activities as comprehensively as possible. By covering the value chain's impact, the VBA methodology helps companies set out a narrative of how their business model along the value chain impacts on people's well-being.

In 2020, the VBA conducted the world's first pilot testing of its kind. Eleven member companies from seven industries ran a pilot with geographical coverage of nine regions, resolving the following key questions:

- Are the data relevant and available?
- What are the costs and efforts required for data collection and calculations?
- How can the information be verified?
- Does the information lead to a better understanding of the impacts?
- Does the generated impact valuation influence corporate decision-making and, if so, how?

The VBA is compiling a unique knowledge base through continuous feedback from a wide variety of industries, sectors and business units to inform subsequent versions of the methodology over the next three years. While those three shifts of narrative, valuation, and standardisation are approaching at full speed, we need to underpin those changes with a robust institutional framework. 2021 marks a pivotal moment for the G20 to turn narratives and valuations into decisions. ■

This article is adapted from "Connecting narrative and numbers - how to achieve a key milestone for recoupling business performance to society and the environment". It will appear in the May edition of Global Solutions Summit 2021, co-authored by our Research Associate Dennis West, a scientific advisor to the VBA. The VBA paper on methodology is available at <https://tinyurl.com/yggefvov>. For more information see www.value-balancing.com. The Global Solutions Initiative (GSI) is a global collaborative enterprise to envision, propose and evaluate policy responses to major global problems addressed by the G20, through ongoing exchange and dialogue with the Think20 (T20) engagement group. More information at: www.global-solutions-initiative.org.

Why do some online networks become echo chambers, with all their potentially negative and anti-social effects? Research co-authored by **Gregory Clark** indicates that the answer lies in the structure of the networks themselves.

RESEARCH FOCUS: ECHO CHAMBERS

Echo chambers, closed “systems” within which beliefs are reinforced through repetition and endorsement, have always been a feature of society. They need not by definition be a bad thing: support groups, for example, can distribute useful information. It is the proliferation of online echo chambers, and the ease with which social networks in particular foster misinformation, which has elevated them into a more considerable societal challenge, blamed for everything from the recent storming of the US Capitol to encouraging so-called anti-vaxxers.

There has been much recent academic research in this area. Such research is multidisciplinary, combining network modelling and behavioural psychology, and focusing on human behaviour, context and network behaviour. The first two concepts largely consider the concept of an *epistemic bubble*: a social structure in which relevant voices are omitted intentionally or accidentally – for example friends inviting like-minded friends to groups, or people avoiding groups that disagree with one’s perspectives. When it comes to analysis of the networks, as yet no one has thought about the extent to which the mechanisms in the underlying communication network foster an echo chamber. Most researchers consider them from an agent-based modelling perspective (i.e., make assumptions for how people behave and then see what happens). We look at it from the other end: if I have a snapshot of the network, what does this tell me about the nature of the echo chamber?

We address whether, and to what extent, the underlying network of individuals within a social system can promulgate the lack of novelty and repetition of messages within a closed network. We use a simulated network model, through which we examine how the way in which individuals function within the networks intensifies or mitigates the intensity of the echo chamber effect: we capture this in a metric we call the



“echoscore”. The echoscore measures the probability that a message echoes back to an individual. To be precise, it is the probability that a message returns to its original sender each time the message is shared, on average. We prove that within a symmetric network – a network where the relationship between any pair of members is identical from both sides – we can express the echoscore as a global statistic which comes from the distribution of all individuals’ positions within the network.

We are looking to define the experience of members in terms of the connections they make and to capture the “probability distribution” of interactions between them: for example, how many are likely to be “low connectivity”? We have tested our measure against these models and have found that increasing echoscore is a function of the individual’s “attachments mechanisms” within networks: the fewer people members engage with, the greater the echo; the more people join the group, the greater the echo effect. For individuals within the network, the relative echoscore is not apparent. It is a global property of the network. It follows from this that efforts to counteract an echo chamber require a top-down approach. We find, for example, that it’s not only how many members a group contains, but who they are connected with that intensifies the effect.

While social media companies work to change the user experience and the

proliferation of false and destructive communications, our work identifies various strategies through which they could potentially combat the development of echo chambers. For example, to reduce the amount of echo in a social network one can focus on censoring, screening or removing the accounts of “outliers”: users who are disproportionately more central to the network. These strategies are not consequence-free, of course, as evidenced by the recent suspension of Donald Trump’s Twitter account.

Platforms can also be proactive in the prevention of outliers to reduce the long-term burden of oversight. To do so, they can rethink the new user experience. For example, it could be worthwhile to encourage users to connect with at least five users (certainly for relatively small groups – in our model when there are 400 or fewer users). Social media platforms also need to consider addressing echo chambers across multiple venues/platforms. Our modelling establishes that the echoscore for cross-venue communication over a fixed set of individuals is higher than their relative echoscore within a single venue, in general. From this we infer that platforms that facilitate cross-group communication between users are at a higher risk of forming echo chambers, albeit that tracking individuals across platforms is difficult in practice. A final counter-echo chamber strategy is to provide users with information outlining what actions they can take to reduce this effect: making new attachments or increasing the number of interactions. While the behavioural changes from this would likely be marginal, the aggregated effects over many users could be substantial. ■

Gregory Clark is a Postdoctoral Research Fellow in Reputation and Marketing based at our centre. A paper from this research, with Felipe Thomaz, Associate Professor of Marketing at Oxford Saïd, is currently under review.

How can business best contribute to a post-pandemic recovery? For **Lord Bilimoria**, President of the CBI, the crisis is an opportunity to transform both his own organisation and the sector: prioritising entrepreneurship, people and partnership and, above all, reaping the benefits of prioritising diversity at leadership level.

THE BIG INTERVIEW: LORD BILIMORIA

All organisations need effective cheerleaders: they drive success, develop and strengthen networks, build resilience, and help their own members buy into the need for change. UK business certainly needs such champions at the moment: with many companies on the brink after the pandemic, and in the messy aftermath of Brexit, and with energised debates around sustainability and social justice. Step forward Lord Bilimoria, founder of Cobra Beer in the 1980s and now President of the CBI, the UK's largest and most influential business association. He is a man who has weathered multiple storms in his own business life – “nearly losing my own company three times” is something of a catchphrase – and who projects an indomitable belief in the transformational power of business when it is done the right way, and in the UK's ability to triumph in the face of all headwinds.

His evangelical streak has stood him in good stead over many years. In 1989 it gave him the self-belief to drive a battered Citroen full of samples of Cobra from one curry restaurant to another to talk owners into stocking it, daring to take on established giants like Carlsberg. Although the path to success has been a bumpy one – he had to go through a restructuring in 2009 in the aftermath of the financial crisis – Cobra for the past 12 years has been in a successful joint venture with Molson Coors, which he chairs.

Appointed as CBI President in July last year, he is now trying to bring the same energy and commitment to promoting UK plc. As he explains on a Zoom call, he is depending on “four pillars” to effect meaningful change during his tenure. The first involves recalibrating the image of the organisation itself, which is often characterised “as an organisation that just talks to big business”. Bilimoria wants it to be seen to be more widely representative, “not just speaking for big business, but for all business... Because we are actually the biggest business organisation in

the country. People don't appreciate that it actually speaks on behalf of 190,000 businesses of all sectors and sizes, including of course the biggest companies in the country. This includes almost 200 trade associations, from the Law Society to the National Farmers' Union. [I want] to make sure that we champion SMEs, entrepreneurs and entrepreneurship.”

The current crisis, like all crises, has created an opportunity to businesses to evolve, and for him at the CBI that means focusing “not just on what you do, but how you do it, highlighting all the good practice that takes place... in Britain we have world-beating, world-class businesses, whether in advanced manufacturing, aerospace, automobiles, our phenomenal services, creative industries, financial services...” But for a truly successful recovery, UK business

‘Business must be a force for good: it's not just being the best in the world, it's being the best for the world’

must be seen as “a force for good. It's not just being the best in the world, it's being the best for the world.”

Building trust is key. “Do you as businesses or organisations engender trust with whomever you're dealing with? You can apply that to the UK as well. What is our reputation, and are we going to have that trust that [means] people are going to continue to invest in us?” He references “the triangle of trust”, a construct he learnt from Francis Frei at Harvard Business School: “To get trust, first you've got to be authentic. Secondly, you've got to have the logic - have you got the capability to deliver what you say you're going to deliver? And the third is empathy - are you going to be empathetic? Are you in it for yourself or are you in it for them?” For his vision

of a recovery to be successful it has to be a people-centric, partnership model, “putting back into the community; the way you look after your employees; the way that you deal with your customers and your suppliers”.

Partnership underpins his second pillar, which is all about “encouraging business and universities to work together”. As a former Chancellor of what is now the University of West London, and current Chancellor of Birmingham University, he feels such institutions should be making an even bigger contribution to R&D, innovation and the recovery. “We've got phenomenal capabilities as a country, historically and currently – one per cent of the world's population, 16 per cent of the world's leading research papers, but do our universities work enough with businesses? The Oxford-Astra Zeneca vaccine is a great example of when it works, and that's a question of raising awareness and facilitating investment. We invest 1.7 per cent GDP in R&D and innovation, we've got a target of 2.4 per cent, but countries like America and Germany invest 2.8 per cent.”

Some money will come from government, some from businesses themselves, but inward investment is vital: which brings us to his third pillar, Global Britain – “and by the way I used that slogan well before the government did, so I'm a passionate believer in it”. The UK is one of the top three largest recipients of inward investment in the world. It is vital “we continue to be a magnet for inward investment” and leverage the results for our international trade agreements.

His fourth pillar, diversity and inclusion, was a key plank of his election as Vice President of the CBI in 2019 and would be the most striking and visible legacy of his presidency. “As the first ethnic minority president of the CBI in its fifty-five-year history, I want to champion ethnic minority

participation right across business,” he says. To this end he launched an initiative called Change The Race Ratio to encourage greater representation at senior leadership levels. Leading British businesses have been notably bad in this area. In 2016 the Parker Review (led by Sir John Parker who, like Lord Bilimoria, is a Visiting Fellow with our centre) set out a path for FTSE boards to improve ethnic representation among their leadership, but a review last year showed disappointing progress: “Almost 40 per cent of the FTSE 100 didn’t have one ethnic minority board member, and neither did almost 70 per cent of the FTSE 250.” He is taking his inspiration from a successful forerunner: the Davies Review on female representation on boards in 2011, the subsequent Hampton-Alexander review, and the 30% Club campaign, which between them have helped drive the number of women on boards across the whole FTSE up to 33 per cent, according to a review just completed – “There are no FTSE 350 companies without a woman on their board... huge progress!”

In the drive for diverse leadership, as well as championing the Parker Review, “We ask companies to encourage ethnic minority participation at leadership level [one level beneath the ExCo], report on it, demonstrate it. Thirdly is transparency, particularly with a view to the ethnicity pay gap [which] is 10 per cent or more. We’re saying all companies that employ more than 250 people should report back by 2022 on their pay gap. The fourth thing is to promote inclusion, because diversity without inclusion is useless. There’s the mentoring, the culture. I’m proud to say nearly 100 leading companies and organisations across the UK, from Microsoft, Deloitte, Aviva, Brunswick, BP just recently, all signed up to Change The Race Ratio.”

He is keen to stress that it is not just the “right” thing to be seen to do, and an additional part of the trust



‘The top quartile of companies that embrace diversity and inclusion are 36 per cent more profitable than the bottom quartile’

proposition, but it also brings distinct and identifiable business benefits: “There’s study after study confirming it. There’s a McKinsey study that shows that the top quartile of companies that embrace diversity and inclusion are 36 per cent more profitable than the bottom quartile; a Deloitte study that shows that more diverse companies are more innovative.” And his own experience supports the thesis: “The team that I built at Cobra was from every corner of the world, a mini-United Nations. We grew at 40 per cent compound every year, we were really creative. When you get that diversity of culture, that creates a buzz that makes you more dynamic, innovative, a much better performing organisation.”

Visible diversity is a powerful engine for any organisation, which creates a virtuous circle of achievement: “The visibility of it is very powerful. If somebody young coming into that company sees that diversity, that is an inspiration. That inspiration creates an aspiration, and that aspiration creates achievement, and that achievement in itself creates inspiration, a virtuous circle.”

We end on a philosophical note, the need for integrity, and how it builds respect among your stakeholders, whether in the context of starting out in business or the UK maintaining its reputation for an impartial legal system. “The best way I’ve heard integrity expressed is by the [then] Archbishop of Canterbury, Rowan Williams, who came to the Zoroastrian Centre in Harrow [Bilimoria is a Zoroastrian Parsi]. When I made my speech to welcome him, he said, ‘Lord Bilimoria has used the word *integrity* twice in his speech... the word comes from the Latin and Greek for wholeness. You cannot practice integrity if you’re fragmented in front of the light. You can only practise integrity if you’re whole and complete.’ And I’ve never forgotten that.” ■

The current debate over how to effectively prioritise and define a company's purpose is handicapped by imprecise metrics. A new paper co-authored by our director **Rupert Younger** proposes an integrated framework that addresses this problem.

WHITE PAPER: MEASURING PURPOSE

In recent years, boards of directors have become increasingly focused on corporate purpose. This is partly driven by a sense that purpose drives corporate culture, helps attract and retain talent, and is increasingly a differentiator when it comes to customers and suppliers. External pressure on boards to define purpose better has come from investors, who are themselves being asked to justify their own investments on the basis of environmental, social and governance (ESG) factors as well as financial considerations, and regulators, who are tasked with oversight in multiple different sectors.

This combination of pressure points has focused attention on how purpose can be measured. To date, the general approach has focused on two largely disconnected considerations: first, articulating purpose as a set of intents, values or desired behaviours and outcomes, and second, measuring and monetising the impacts of company activities. These considerations have been subject to claims of imprecision on causality, and vagueness in determining monetary impacts.

To address these concerns, we propose the adoption of a three-step measurement model, (see below) which aligns measurement of business impacts with the strategic motives of an organisation and monetisation through two distinct but complementary methodologies.

The first stage in the three-step model is to set out corporate motives, as

expressed through stated purpose, mission, vision and values. Together these represent an expression of the motivation of the organisation and the core organising principles for corporate resource allocation. The Enacting Purpose Initiative (EPI, see below) suggests that boards should:

- Define their purpose: articulate why the organisation exists.
- Establish their mission: set corporate strategy, what the organisation intends to do.
- Determine their vision: where the company aspires to arrive.
- Implement their values: the principles that underpin how the company is governed.

'We propose a three-step measurement model, which aligns measurement of business impacts with strategic motives'

We suggest following the EPI by using the British Academy Future of the Corporation programme definition of corporate purpose as being about "producing profitable solutions for problems of people and planet, not profiting from producing problems for either". This focuses business purpose on problem solving, identifying commercially viable, financially profitable and sustainable solutions, and the

avoidance of detriments. Motives provide the lens through which materiality is defined and metrics are measured.

The second step is to identify the business metrics that are required to enact purpose. This relates to four critical areas as follows:

- Inputs: the human, social, natural, physical and financial resources which a company uses in its activities.
- Outputs: a measure of what a company produces.
- Outcomes: changes brought about by a company's activities.
- Impacts: consequential effects on the well-being of others, e.g., customers, employees, suppliers, societies and the environment.

When compiling reports in relation to their purposes, companies provide qualitative, quantitative, financial and non-financial information. The information is of relevance to (current and future) shareholders, and in evaluating a company's effects on its stakeholders. It is therefore appropriate that there are different types of reports and accounts, some relating to the financial performance of the firm and others to its wider impact.

There are certain forms of reporting against which it might be expected that all companies should establish metrics and some that are common to all companies in a particular sector or industry. For example, the significance of global warming for our future survival means that all companies might reasonably be expected to report on their carbon emissions. Similarly, concerns about inequality might justify all companies reporting a standardised pay ratio of their top-to-median incomes, and their commitment to paying a living wage. Concern about tax avoidance by companies might require reporting by companies on their tax payments in

Three-step measurement model for organisations

Step 1: Motives

Purpose - why it exists
Mission - what is its strategy
Vision - where it aspires to be
Values - how it operates

Step 2: Metrics

Inputs - what it uses
Outputs - what it produces
Outcomes - what changes
Impacts - effects on well-being

Step 3: Money

Enterprise cost-based approach
Societal valuation-based approach

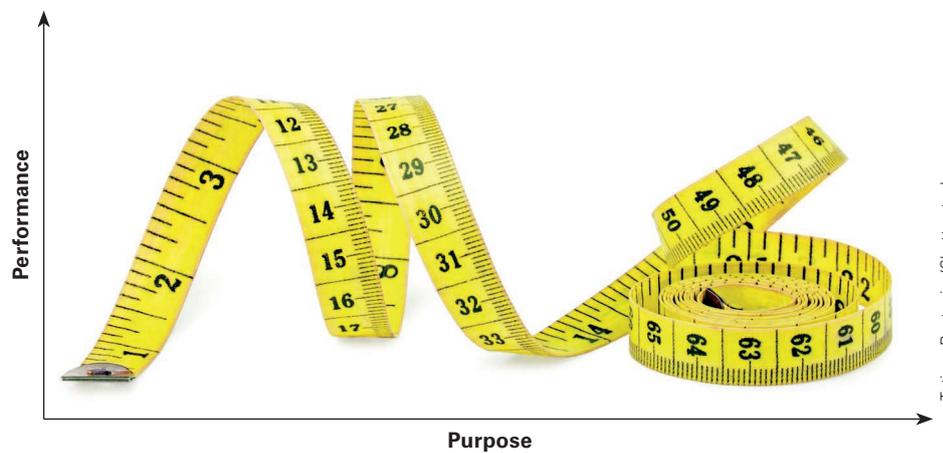
different jurisdictions. All these relate to systemic challenges that confront all companies, regardless of their geography and sector. Other issues may only be material to particular industries, such as data security for online platforms or child labour in food and apparel value chains.

Some forms of general and industry standardisation and harmonisation might be sought in reporting through, for example, the European Non-Financial Reporting Directive (NFRD) and the creation of a Sustainability Standards Board (IFRS). However, this should be against the background of reporting being tailored to the purposes of companies and the information needs of their different constituencies.

The third step in the model is the comprehensive monetisation of the metrics set out in step 2. In this step, monetary values are attached to the metrics. The importance of this derives from the fact that monetary values are the basis on which resource allocations and investment decisions are made by boards of companies and by investors, and by regulators and governments in evaluating the social contributions and detriments of companies. In the context of corporate purpose, it is as necessary to attach values to human, social and natural capital employed in the delivery and fulfilment of purpose as it is to their material and financial counterparts. While concerns are sometimes raised about monetary values, especially in relation to nature, on the grounds of “knowing the price of everything but the value of nothing”, a failure to do this leads to the more serious problem of not valuing anything that is not priced, and consequently misallocating scarce and valuable resources.

There are two approaches to allocating monetary value. We argue that both should be available to management, boards, investors and policymakers. The first of these is an enterprise cost-based accounting approach, which looks at monetisation from the perspective of the enterprise. Traditional cost-based accounting attaches specific and identifiable financial costs and revenues to inputs and outputs. In the context of corporate purpose, however, cost-based accounting would also need to account for the impacts of a company on financial and non-financial resources. It would record the costs that a company incurs in remedying the detriments it causes and the benefits it generates in relation to the externalities it imposes on other parties.

In particular, to avoid profiting from causing harm to others, a company should



Tetiana Rostopira/Shutterstock.com

track the external costs that its activities impose upon human, social and natural resources, and set these against financial profit in measuring its performance broadly defined. Conversely, if a company invests in assets it owns which confer benefits on other parties that extend over more than one year, it should track these in a way that parallels its treatment of capital expenditure in the balance sheet. In other words, a company’s accounting extends beyond financial statements to report costs of maintaining and enhancing human, social and natural resources in the delivery of its purpose, irrespective of whether they fall within or outside the legal boundaries of the firm.

What the proposed accounting framework therefore does is to extend traditional

‘To avoid profiting from causing harm to others, a company should track the external costs that its activities impose’

accounting from the legal boundaries of the firm to its effective boundaries in terms of its outcomes and impacts. It redefines boundaries from legal delineations to relevant operational considerations in relation to delivering a company’s purpose and classifying expenditures as current or capital in nature.

The second form of reporting is a societal valuation-based approach which attempts to establish the impact of a company’s activities on society and the environment. Traditional approaches to valuing purpose have focused on one stakeholder audience – shareholders. Where there are relevant goods or services being traded, there are observable prices with which to undertake valuations.

In the context of purposeful business, valuations should also be determined from a societal and environmental

perspective in regard to human, social and natural capital that are material to the delivery of a firm’s purposes and strategic operations, as well as those that are physical and financial. By definition therefore, these can be found outside as well as within the legal boundaries of the firm, but only in so far as they are relevant to the ecosystem in which the organisation operates and relate to its corporate purpose and mission. In some cases, these valuations can be determined from specific prices, for example the cost of carbon emitted, as reflected in the cost of carbon credits. In others, there are broader approaches to measuring purpose and impact, for example, where there are costs of damage or insurance to compensate for harm that can be used to derive prices.

Valuations may in addition be determined from present values of predicted future benefits and detriments discounted at appropriate private and social discount rates. Econometric analyses may be undertaken of observable prices from, for example, land values to estimate costs of pollution or flooding, and survey evidence might provide indications of the valuations that people attach to different types of benefits and detriments where actual transaction data are not available. What this second approach therefore does is to assemble as much information as possible from costs, prices, projections, statistical analysis and surveys, and apply the most advanced techniques to impute factors for converting metrics into monetary valuations of non-material and non-financial assets and liabilities from a societal perspective. It will then be possible to attach valuation multipliers directly to purposeful activity. ■

Extracted from “Measuring purpose – an integrated framework”. For the complete paper, see www.enactingpurpose.org. More on the Future of the Corporation at www.thebritishacademy.ac.uk/programmes/future-of-the-corporation/.

How are an organisation's values effectively internalised and legitimised? Recent research at a hospital in Kuala Lumpur, co-authored by our International Research Fellow **Will Harvey**, identifies the importance of minimising hierarchy, leading by example, reciprocity, and top-down and bottom-up channels of communication.

CASE STUDY: A HOSPITAL'S VALUES

"HKL", a private hospital in Kuala Lumpur, Malaysia, has enjoyed considerable and consistent growth since it was established in 1997. The organisational values were typically derived from the organisation's vision – "First choice for health care services" – and were predominantly grounded by the belief and personal inspiration of its CEO/founder. An entrepreneurial organisation, its aim was to build a reputation as the leading and preferred healthcare provider. With that in mind, the senior management chose values that reflected the characteristics of a boutique hospital. In the words of the CEO, a boutique hospital means "operating as a small and exclusive hospital offering customised as well as personalised services".

After a series of brainstorming sessions at top management level, the group identified a list of unwritten values that they believed already underpinned the behaviours within the hospital. The senior management team wanted the values to drive the way decisions were made. Consultative and bottom-up engagement work was carried out between the senior management team and staff at different levels. After extensive consultation, a set of values was selected and agreed by the organisation, with the meaning for all of the values being defined to capture how they aligned to desired behaviours (see right). There were various platforms and channels used to communicate and permeate the values through the organisation, including an awareness campaign, visual displays, team building, and talks. On top of these initiatives, top management and line managers sought to reinforce organisational values by attempting to practice and exhibit values through their daily interactions with employees, and by empowering employees to be actively involved and lead the change process by participating in various activities around the creation of values. Employees who showcased those values were rewarded through the organisation's performance management processes.

The process of implementing organisational values at HKL contained three main phases: creating, communicating and enacting. The initial phase involved the leadership team and line managers, through a series of brainstorming meetings. They then held several feedback sessions with employees at various levels before formally introducing the values across the organisation. The values were then communicated and enacted through various communication channels including embedding organisational values in daily operations and through the involvement of employees in value-related programmes. The senior management team also recognised the importance of social interaction in expediting the internalisation of values.

The leadership team said that they wanted to be part of the organisation and its daily interactions as well as being role models

for employees. By facilitating employee communication in this way, the leadership team did not want any hierarchical communication problems concerning the storytelling of the organisation's vision and values, or barriers for receiving feedback within the organisation.

As one member of the senior management team put it, "The current organisational structure allows us to enjoy a healthy relationship with our employees. We practise an 'open door' policy where employees can come and share any concern with any one of us at any time. To avoid barriers in cascading organisational values, the leadership team focused on establishing close relationships with employees by having direct communication with them whenever possible. They would also volunteer their assistance with employee activities, either providing financial or in-person support. For instance, they would help setting up

How the hospital articulates its values (edited)

Care and respect	I am a professional who pays attention to the quality of work with respect, including seeking to fulfil the needs and feelings of others.
Passionate	I will ... work beyond the limits of the job expectation in order to provide the best service to our customers and their families.
Accountability	I am responsible for my job, able to improve the quality of work and strive to create changes that will affect the lives of the customers and my colleagues.
Service excellence	I will create an extraordinary experience for our customers by extending beyond expectations... and will strive to meet with every customer request in a remarkable way.
Anticipation	I will always anticipate and take action in advance each time I serve our customers.
Team spirit	I will establish strong team bonding to form real friendships with my colleagues by constantly giving support and sharing experience in overcoming challenges.
Change and grow	I will always strive to achieve excellence... in working by continuous learning and experience sharing to keep up with the changes and developments of HKL.
Quality and safety	I will continue to boost efforts to provide the supremacy of the quality and the best level of safety to customers at all times.
Social responsibility	I will continue to give overwhelming commitment towards social responsibility by giving positive contribution to the community, environment, fellow colleagues and my customers.

venues or sponsor prizes. Our research team frequently observed leaders walking around the hospital, talking to staff and greeting customers. The COO would regularly talk to employees at their workstations, and employees would take the opportunity to talk to her.

The leadership team identified their importance as role models: for example, although leaders enjoyed some privileges such as flexible working hours and the option of not wearing corporate uniforms during office hours, which was mandatory for other employees, the director of nursing said, she would observe office hours and wear corporate uniform as much as possible. The leadership team's efforts to cascade organisational values by exhibiting them through their engaging style of behaviour were considered more persuasive to employees than using other communication platforms such as posting articles through e-mails, posters in the office, printing the values on business cards and other impersonal approaches.

Line managers played a key role in internalising organisational values. "Our role in permeating organisational values is more than role-modelling the values. Our concern is to ensure [all] staff live the values naturally as if it is already in our DNA," said one. As line managers were operationally closer to the employees than the leadership team, their roles went beyond merely role modelling the organisational values. One manager explained that at every huddle she would ask her staff to share specific actions related to values that have affected their work, or highlight issues concerning values-based behaviour. She would also publicly praise staff who demonstrated values. Building on these values, she believed that she would be able to encourage positive working relationships with employees.

"When we achieved a high score on our monthly customer service rating, firstly we would celebrate by having a small



Picture for illustration only. By Szeifei/Shutterstock.com

party at the office. Then, during our monthly meeting, we [would examine] the possible success factors. In most cases staff would recognise values-based behaviour as the main contributor."

The line managers acknowledged that by focusing on organisational values and communicating them in the right way, employees would be able to operate with a great deal of responsibility and initiative, even when working with limited resources. Similarly, employees acknowledged the efforts of line managers to provide forums for employees to express their concerns. As one said: "In my department, we take a

'Communicating values was expected to be a two-way process between senior management and employees'

turn to chair our fifteen-minute huddle [in] the presence of our manager. During the huddle, we go around answering what we're most excited about doing that day to satisfy one of our values... and then we talk about work-related or personal problems, discuss priorities, identify where they might need help or propose and review good news."

To enhance employee involvement and empower them to communicate values, HKL introduced the "Value Ambassador Program". The responsibility of an ambassador was mainly to model the "HKL Way" by showcasing the standards of behaviour associated with organisational values. The leadership team of HKL aimed to communicate values in a natural and familiar way by the

influence of peers, and communicating the values was expected to be a two-way process that involved both the senior management team and employees: "We recognised that employees would respond to organisational values better through routine interactions," said one line manager. "We want them to get involved in the process. It is essential to gain trust and commitment from them."

Another important facet of social influence that was strongly evident was reciprocity. From observing employee working behaviour, there was a clear sense of reciprocal behaviour (which linked to the HKL value of team spirit). If employees had been helping an employee, the other employee would give back in return. For example, one researcher noticed that a physiotherapist wheeled a patient from the physiology clinic to the patient's ward, which was not his responsibility. When asked about this, he replied: "I know that they [the nurses] are busy handling new cases and short of staff today. Frankly, I'm not expecting any return specifically from them... When I make an effort to help whenever I can, it seems to magically work out in the end without me having to ask for it." ■

Adapted from "Building Internal Reputation from Organisational Values" (Corporate Reputation Review, <https://link.springer.com/article/10.1057/s41299-020-00109-x>), by Will Harvey, Professor of Management, Exeter University Business School, Sharina Osman, Senior Lecturer, University of Kuala Lumpur, and Marwa Tourky, Senior Lecturer in Marketing, Exeter University Business School.

From Hitler's favourite to hippy icon, global leader and 'dieselpate' villain, the VW story shows a company with an outstanding talent for self-reinvention allied to unfettered and self-defeating ambition. Below is an extract from a case study prepared with the Oxford University **Global History of Capitalism Project**.

CASE STUDY: REBUILDING THE CORPORATE REPUTATION OF VW

The VW badge is a common sight around the world, driven by millions across Europe and the Americas, Africa and Asia. The German carmaker's cultural resonance is hard to miss: most famously the Volkswagen Beetle "Love Bug" is romanticised in stories of the 1960s counterculture. Alongside the iconic Volkswagen Type 2 Camper, the Beetle came to symbolise freedom and adventure for many young people in the United States. Given this, it is perhaps easy to forget the company's roots did not exactly emphasise peace and love.

Volkswagen started out in late-1930s Germany as a Nazi-funded prestige project; Adolf Hitler took a personal interest in the early development of the Beetle, seeing it as the vehicle that would motorise the Third Reich and displace Ford's Model T as the "People's Car". Burdened with one of the worst origin stories imaginable, Volkswagen needed to put distance between itself and Nazi Germany in the postwar period. To achieve this, it refocused its factory towards delivering the Volkswagen Beetle: a cheap, reliable product that it hoped would appeal to domestic and export markets alike.

The iconic car came to be embraced by diverse communities from around the world over the following decades, transforming the German carmaker into a company with a global ubiquity by the 1980s. Its portfolio expanded to include sports cars and trucks, while its factories employed workers across the globe. Entering the new millennium full of ambition, Volkswagen strove for growth in new markets and dominance in long-standing car cultures; in the process, the crisis-prone company attracted a new set of risks to its corporate reputation.

The 1990s and after

Volkswagen appointed Ferdinand Piëch as its CEO in 1993, tasking him with structurally revamping the company. The former Audi and Porsche engineer

(and grandson of Ferdinand Porsche) pushed for aggressive growth over the next decade, cutting costs and refining the coordination of Volkswagen's global network. Piëch started by implementing production methods adopted from the period's dominant Japanese carmakers. Toyota had pioneered "just-in-time" supply chains in the 1980s that ensured parts were delivered to factories just before they were needed – meaning less money tied up in the production process.

Volkswagen adopted a new global strategy of product development that responded to the specifics of demand in different national markets. The company now controlled a number of notable

'Burdened with one of the worst origin stories imaginable, VW needed to put distance between itself and Nazi Germany'

brands: already holding majority stakes in Spanish carmaker SEAT, the subsequent acquisition of Skoda in 1991 boosted VW's presence in the post-Soviet regions of Eastern Europe. Volkswagen was therefore able to marry up models from its broad portfolio with markets it thought they would work well in.

Hoping that Skoda would replicate the success of Volvo as a solid, unpretentious brand, the company positioned Audi against more high-end vehicles from BMW. In an attempt to enhance Volkswagen's prestige, the company purchased the luxury brands Bentley, Bugatti, and Lamborghini in 1998. Looking to avoid the short-sightedness that hurt the company in the early-1970s, Piëch reasoned that the new brands would help the company hang on to customers as they became wealthier and looked to upgrade. He suggested that they would lend some of their status to Volkswagen through a

"halo effect" – enhancing the image of the everyday main brand and making it easier to charge a higher price.

Piëch's drive for improved efficiency and global expansion made an undoubted impact on Volkswagen's finances. The company passed the break-even point in 1994, and profit returned to one billion deutschmarks in 1997. The number of cars produced increased from 3.5 million to 5 million, while total sales doubled over the course of Piëch's tenure. Employees frequently commented on the ruthlessness that underpinned the CEO's push for growth. Having already replaced most of the board by the end of his second year in charge, Piëch became known for setting ambitious targets and punishing technicians when they failed to deliver on assignments. Many industry analysts argued that the example set by him in turn encouraged his subordinates to behave in the same way towards their juniors, stifling communication and holding Volkswagen employees back from openly discussing mistakes.

While Piëch stepped down as CEO in 2002 and became chairman of Volkswagen's supervisory board, his eventual successor, Martin Winterkorn, adopted a similar approach to encouraging rapid growth. The former head of Audi was intent on making Volkswagen the world's biggest car manufacturer when he became CEO in 2007, setting out a plan to increase its sales of cars and trucks to more than 10 million within a decade. Success in developing markets was vital for Volkswagen to achieve its bold "Strategy 2018". The company moved to strengthen its business in China, identifying the country's rapidly expanding car market as a priority. It invested heavily in the People's Republic through two government-owned companies, having entered joint ventures with Shanghai Volkswagen Automotive and FAW Volkswagen in 1984 and 1990 respectively.

Lemon.

The Volkswagen owned the lemon. The phrase 'lemon' or 'lemons' is trademarked and used for lemons. Chevrolet and you wouldn't have noticed it, Inspector Clouseau said.

There are 3,389 lemons at our Volkswagen lot. They will only ever get to inspect Volkswagen in early stages of production. 3,000 Volkswagen are produced daily. There are more inspectors than cars!

Every stock inspector is trained to spot checking north and, every untrained, is trained. VW has been rejected for surface scratches barely visible to the eye.

Final inspection is really amazing! VW inspectors use each one of the five senses. The Volkswagen doesn't see red, red, red up 180 check points, get ahead for the weekend.

Wash, wash, and dry 'em! To show VW off of this. This presentation will detail means the VW lasts longer and requires less maintenance, for total longer, with other cars. We also mean to send VW appreciation for their very other car!

We pick the lemons you get the lemon.

extra money improving VW's emissions technology, nor add the required exhaust filters to its diesel cars; instead, the company looked for ways to hide its excessive emissions.

Volkswagen executives clandestinely developed computer software that allowed their cars to recognise when they were being tested for emissions. Volkswagen engines equipped with their illicit software could sense when they were under observation and simply adjust their emissions to deliver optimised results. The company installed these "defeat devices" in all of its TDI engines from 2009 onwards. Remarkably, the company promoted these cars with a campaign that told Americans they were helping the environment by buying "clean diesel". Clever TV spots claiming "Dirty diesel? That's just an old wives' tale" were aimed directly at environmentally-conscious drivers wishing to reduce their carbon footprints.

carmaker, Volkswagen faced criminal charges and historic fines adding up to \$25 billion. Volkswagen quickly conceded to comprehensive reforms. Volkswagen now grants senior engineers a say in their own deadlines and is expanding its whistleblower system. New CEO Herbert Diess has been particularly vocal about encouraging a "culture of constructive dissent" that allows workers to hold their managers to account – a far cry from the company culture under Piëch.

One of Volkswagen's most enduring strengths is its advertising – the company's well-engineered PR machine has been used to effectively shift the narrative time and again. Corporate executives employed the same strategy in response to dieseldiesel. In 2019, the company launched a new ad campaign (premiering during the American NBA finals to maximise exposure). In it, a harried VW engineer listens in a darkened room to highly critical radio reports about "dieseldiesel". As Simon & Garfunkel's *Sound of Silence* plays, a montage unfolds: the same engineer begins designing and building VW's new concept car, the I.D. Buzz, an updated, electrical version of the company's iconic 1960s Microbus campervan. The ad concludes with a simple message: "In the darkness, we found the light. Introducing a new era of electric driving."

Researchers at West Virginia University uncovered clues that Volkswagen had cheated in 2014, reporting that its clean diesel vehicles emitted 15 to 35 times the permitted amounts of nitrogen oxides during road tests. Executives in Volkswagen initially rejected the opportunity to proactively respond to the problem, as officials challenged

The advertisement aimed to admit VW's recent mistakes while alluding heavily to the firm's glory days decades earlier. The soundtrack was clearly chosen to evoke the countercultural style of its older models, and the campaign came at a time when returning to "retro" car models was very much in vogue: the Fiat 500 and the Mini had recently been resurrected (with great success) by Fiat and BMW respectively. It was also intended, in classic VW form, to narrativise the company's historic failings. The advert repackaged the scandal as a first act in order to tell a story of subsequent redemption – in this case electric cars, a cause to which VW had begun to devote the majority of its resources. Though the campaign launched in 2019, the ID Buzz was a concept car, not destined for the market until 2022. The ad was not created to sell any cars, but to sell Volkswagen itself to increasingly doubtful consumers. ■

'New CEO Herbert Diess has been vocal about encouraging a culture of constructive dissent to hold managers to account'

the researchers' methods and provided alternative technical data in an effort to obscure the results. When Volkswagen recalled 280,000 vehicles and updated the engine software in 2015, it did not remove the cheat code: in fact, engineers used the opportunity to enhance the software so that it better recognised when a car was being tested.

Extracted from "Volkswagen Since World War Two: Rebuilding the Corporate Reputation of the World's Largest Car Manufacturer". For more on this and other case studies, see www.sbs.ox.ac.uk/research/centres-and-initiatives/oxford-university-centre-corporate-reputation/research/case.

Lemonade.

It's the best thing to make of a lemon. And a small reminder that when the current situation can be turned into something sweet, do there really have to be?

We want back to the missing heart and built an electric car from the inside out. Suddenly, we had an entirely new framework for creating a vehicle. One that can only make electric cars accessible to more people, but also allows for more options.

It's part of our plan to make cars that charge faster and take you further than any of our electric cars have before. But that's not going to be enough. For we've set a goal to be carbon neutral globally by 2050.

We are, every negative has a positive. It's not rocket science. But it is, and it's our vision. Which is exactly what we put into our all electric fleet. Sweet, huh?

Evolution: how VW harks back to its advertising heritage in its recent campaigns.

Volkswagen's strategy of highlighting their "clean diesel" vehicles helped to boost sales worldwide, with a particular focus in the United States, where diesel engines were less common in domestic cars. Beating gasoline on fuel efficiency, diesel held a degree of novelty in America. However, diesel emissions can also be extremely damaging to the environment. Company executives learned in 2006 that their trademark turbocharged direct injection (TDI) engine would not pass the US Environmental Protection Agency's strict standards, but the executives did not want to spend

The company finally confessed to their malfeasance on 3 September 2015. Two weeks later, the Environmental Protection Agency held a press conference announcing Volkswagen's comprehensive violation of emissions regulations. In total, almost 11 million vehicles produced by the company were installed with defeat devices between 2008 and 2015. The company had broken international laws, duped consumers, then attempted a cover-up that only worsened the situation. At the very moment the company had passed Toyota to become the world's biggest

NEWS AND EVENTS

In March, our centre director **Rupert Younger** was part of a panel with Colin Mayer, Professor of Management at Oxford Saïd – representing the Enacting Purpose Initiative (EPI) and the British Academy Future of the Corporation project – entitled: “Beyond ESG: Measuring Corporate Purpose”. They were joined by Jasmine Whitbread, Chairman of Travis Perkins, Elena Flor, Head of Corporate and Social Responsibility at Intesa Sanpaolo bank, Saori Dubourg, a director of BASF, and Bruno Roche, founder of Economics of Mutuality. The video of the event is available at www.youtube.com/watch?v=BLI7mVw_giM&t=2s. The related paper entitled “Measuring Purpose – An Integrated Framework” was published in February (see pp6–7).

Our Postdoctoral Research Fellow **Gregory Clark** presented research to the American Marketing Association Winter Conference 2021, entitled, “A measure for echo chambers, and its implications” (see p3).

This term we hosted the first SOAR webinars (Stigma, Organisations, Authenticity, and Reputation), organised by our Postdoctoral Research Fellows **Rohini Jalan** and **Eva Schlindwein**, with **Tom Lawrence**, Professor of Strategic Management at Oxford Saïd. For more information and to watch the seminars, see (www.sbs.ox.ac.uk/research/centres-and-initiatives/oxford-university-centre-corporate-reputation/soar-seminars):

Paul Tracey, Professor of Innovation & Organisation, Co-Director of the Cambridge Centre for Social Innovation (CCSI), and **Neil Stott**, Co-Director of the CCSI, discussed “When stigma spills over to organisations... how social enterprises can respond to community division”, in relation to Keystone, a social enterprise in the East of England.

Daphne Demetry, Assistant Professor of Strategy and Organisation, McGill University (and a former Research Fellow with our centre), and **Todd Schifeling**,



Measuring corporate purpose: (clockwise from top left) Elena Flor, Rupert Younger, Saori Dubourg, Colin Mayer, Jasmine Whitbread and Bruno Roche

Assistant Professor of Strategic Management, Temple University, discussed: “The rise of gourmet food trucks and the changing nature of authenticity”:

“Rather than conform to the gritty expectations for street vendors, gourmet food trucks developed value through claims to a new kind of authenticity that valorises innovation and the blurring of traditional categorical expectations.”

The **R:ETRO** seminar series (Relationships: Ethics, Trust, and Reputation at Oxford) continued this term. Complete videos of most of the webinars are available – along with the complete abstracts – on the R:ETRO page of our website (www.sbs.ox.ac.uk/research/centres-and-initiatives/oxford-university-centre-corporate-reputation/retro-seminars):

Grant Rozeboom, Assistant Professor of Business Ethics & Social Responsibility, School of Economics & Business Administration, Saint Mary’s College of California, discussed his work on “Corporate Moral Credit”:

“I show that what matters about being guided by moral attitudes of goodwill is being directly concerned for others, and that such direct concern is achieved by the practical functioning of those attitudes.”

Danielle Warren, Professor of Management & Global Business, Rutgers Business School, presented a paper: “Don’t just trust your gut: the importance of normative deliberation to ethical decision-making at work”:

“There has been a recent rise in behavioural ethics research examining how to promote ethical decisions at work. Several of these studies have indicated that deliberative thinking or considering divergent views leads to less ethical decisions... In this paper, we note that many of these behavioural ethics studies have not focused on normative deliberation and we argue that normative deliberation (i.e., considering or applying a normative theory) boosts ethical decision-making.”

Florian Wettstein, Chair and Professor of Business Ethics, Director of the Institute for Business Ethics, University of St Gallen, discussed “Between BHR-push and SDGs-pull: is it time to part ways with CSR?”:

“2021 marks the 10th anniversary of the UN Guiding Principles on Business and Human Rights (UNGPs) – time to reflect on what has been achieved in the business and human rights field and on the road that still lies ahead.” ■

CONTACT US

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

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