ISSUE 35

Reputation

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OXFORD UNIVERSITY CENTRE FOR CORPORATE REPUTATION

The court of public opinion

New research exposes the reputational and ethical pitfalls for organisations relying on public attitudes to guide policies on human rights

Opportunity dividend

Why financial inclusion is so important for fostering personal resilience, innovation, and global growth

The big interview

Acclaimed poet Sophia Thakur evangelises for empathy – both in her art and her work with the likes of Unilever and MTV

A pivotal function

Corporate Affairs Academy report 2022: with a focus on mis/disinformation, ESG, advocacy/activism, leadership alignment

The Russia dilemma

How better preparedness could have helped companies deal with the question of whether to cease Russian operations

Reputation Symposium

From reputation laundering to the unethical upper classes, presentations from our first in-person symposium since the pandemic

News, events and appointments

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COMMENT: THE DIVIDENDS OF FINANCIAL INCLUSION

As Mitsuhiro Furusawa, former Deputy Managing Director of the International Monetary Fund, once put it: "Financial inclusion is the bridge between economic opportunity and outcomes." Today's financial system is more complicated, technical and interconnected than it has ever been. As we in mature economies try to navigate our way out of a low-growth, high-inflation world, we will need the leaders of tomorrow to have a firm understanding of how finance works. Financial institutions that address the current deficit in this area both fulfil their societal obligations, and can benefit from a considerable reputational dividend.

It is tempting to think that financial inclusion is no longer an issue in mature economies. Indeed, according to the World Bank, over the last decade, 1.2 billion previously unbanked adults gained access to financial services. But if we define financial *exclusion* as a lack of universal access to reasonably priced financial services, then billions of people are excluded. In the US, for example, nearly half the American population can be defined as underbanked. Mastercard recently surveyed 25,000 Americans and found that half of them said that if they lost their job, they would be unable to cover their expenses for more than two months. In the UK, according to The Inclusion Foundation, one in four adults will experience financial exclusion at least once during their lifetime, and that not having access to banking costs £500 per individual. All this was before the recent global inflationary spikes in energy costs and basic foodstuffs.

Financial inclusion has traditionally focused on giving people access to the financial system and, more recently, the digital economy, but that should only be the first step. The ultimate goal must be a world where individuals achieve financial "wellness": resilience and savings to be able to manage when faced with the unexpected.

Financial inclusion plays a vitally important role in three areas: flexibility, opportunity and fairness. Improving financial inclusion through early education can help the move towards more flexible forms of working for young people. A recent McKinsey Global Institute report estimates that between 20 and 30 per cent of Europeans work in the gig economy – up to 100 million people. There is no reason why gig economy workers should be financially vulnerable, but often they are, and one cause of this vulnerability is a lack of finance expertise.

> 'The ultimate goal for financial inclusion must be a world where individuals achieve financial wellness/resilience'

Helping women enter and stay in the workforce also relies heavily on more innovation around flexible working. The UN Capital Development Fund (UNCDF) – which makes public and private finance work for the poor in the world's 46 least developed countries – ensures that suitable financial products (savings, credit, insurance, payments and remittances) are available at a reasonable cost and on a sustainable basis to female entrepreneurs in particular. UNCDF data shows growing evidence that access to savings leads to particularly positive economic outcomes for women.

But women find it harder to access finance in developing countries, too. A 2022 report by the Institute of Chartered Accountants in England and Wales (ICAEW) found that female entrepreneurs attracted less than 12 per cent of the total number of investments made in 2021. Even worse, female entrepreneurs attracted only 0.1 per cent of UK private equity investment and 0.5 per cent of UK venture capital investment. A 2019 report by Alison Rose, now CEO of NatWest, found that if women scaled businesses at the same rate as men, then up to £250 billion of value could be added to the UK economy.

Financial inclusion really is a gateway to growth, especially in mature economies. According to the European Commission's statistics, SMEs – small and medium-sized enterprises – represent 99 per cent of all businesses in the EU. These small businesses – unlike their larger peers – cannot afford to hire large teams of finance professionals, nor can they invest in the advanced technology that is available to larger enterprises. The key to their success is to be competent when it comes to financial planning. Financial inclusion is also a key element of no fewer than eight of the UN's Sustainable Development Goals, from eradicating poverty to supporting industry, innovation, and infrastructure, and reducing inequality. It therefore sits right at the heart of our drive to build a fairer world. ■

Rupert Younger, *centre director*

Adapted from a speech to mark the launch of a new financial inclusion initiative by Intesa Sanpaolo bank and Assogestioni, the Italian association of asset managers, in Milan in October.

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Kish Parela examines why some companies remained in Russia after its invasion of Ukraine, despite the conflict with the values of their stakeholders.

RESEARCH FOCUS: REPUTATIONAL FACTORS IN THE RUSSIA DILEMMA

In the wake of the Russian invasion of Ukraine, media outlets and other organisations identified and publicised company responses to the invasion. They specifically focused on whether companies chose to "stay in or leave" Russia through decisions to postpone new investments or projects, close their stores, suspend operations and so on. The Yale School of Management (SOM) took it a step further by grading companies based on these responses. The Yale SOM database provided an A grade to "companies totally halting Russian engagements or completely exiting Russia". In contrast, companies received an F grade for "just continuing business-as-usual in Russia".

This database caught media attention, increasing the publicity that companies received for their "stay or leave" decisions. It is also possible that the reputational consequences of these decisions may have impacted company financial performance. But aside from questions of impact, corporate managers should focus on two questions:

- Why did some companies leave Russia while others remained?
- How can these explanations improve a company's crisis preparedness?

In a recent paper entitled "Corporate Self-Sanctions" (see link below) I explain company "stay or leave" decisions with reference to demand and supply factors. Demand factors refer to pressure imposed by corporate stakeholders to do, or refrain from, certain acts in response to the Russian government's conduct. Consider consumer use of social media to threaten boycotts against companies that refuse to leave, or public demands made by civil society actors that companies comply with their responsibilities under international guidelines. Governments also pressured companies through sanctions.

All of these groups pressured companies to "take a stand" on the Russian invasion by suspending or terminating their operations. But these demand factors alone cannot explain "stay or leave" decisions, because companies subject to similar stakeholder pressure still made different decisions. For example, some fast food chains immediately suspended their operations while their competitors stayed open. It is hard to believe that these differences arose because consumers of the former company cared more about the invasion compared to those of the latter.

'Decisions to stay or leave are influenced by supply side factors that inhibit the ability to comply with consumers' values'

Instead, many of the decisions to "stay or leave" are influenced by supply side factors that facilitate or inhibit a company's ability to comply with the values and preferences of its consumers and other stakeholders. These factors include business model, contract design, board governance, political risk insurance, investment dispute resolution mechanisms, and organisational preparedness.

The business model can inhibit company decisions to exit a crisis: for example, following the Russian invasion some companies explained that they were unable to scale back or terminate their business in Russia because they chose to participate in the Russian market through a franchise model. This decision-making is further limited when contract design does not afford a company sufficient flexibility to respond to a crisis. Board governance is also critical and can leave a company in a reactive position when the board has not sufficiently identified conflict-related risks.

The Russian invasion reminded companies of the reputational risks associated with developing a plan in the wake of a crisis. Corporate managers faced significant pressure from many sources to announce a response, usually on a short timeline, and while consumers cared about whether a company stayed or left Russia, surveys suggest that consumers also care about how a company exits, such as providing assistance to affected employees.

What can corporate managers do today to prepare for the next crisis and its associated reputational risks? My analysis of demand and supply factors suggest the following:

- Evaluate the business model on the allocation and centralisation of crisis policymaking regarding business suspension, termination and exit.
- Evaluate contracts for flexibility in responding to a crisis, including the ability to suspend performance obligations. Contract design is particularly important if a company chooses to keep a business model that can create problems in a crisis, such as franchise agreements.
- Evaluate board governance for identification and allocation of oversight for all significant conflict-related risks, including reputational risks associated with crisis response.
- Invest in strategic partnerships with domestic or international humanitarian aid organisations to improve company crisis-preparedness. ■

To read the complete article see our blog site at: https://socialevaluations.org. *Kish Parella is Class of 1960 Professor of Ethics and Law, Washington and Lee University School of Law, and an International Research Fellow with our centre. "Corporate Self-Sanctions" is at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4223298.

The award-winning poet **Sophia Thakur** evangelises for the benefits of honesty, empathy and diversity, from her writing to her TED Talks, the classroom to the boardroom, and in crafting messaging for the likes of Unilever, MTV and Samsung.

THE BIG INTERVIEW: SOPHIA THAKUR

"The entire world changes when someone becomes their bravest self and decides to give their heart a pen." So says the award-winning performance poet Sophia Thakur in one of her TEDx talks, and it is a theme she returns to frequently in her work (the title of her first book of poems is *Somebody Give This Heart A Pen*). She is an evangelist for the rewards of emotional commitment, and self-exposure, both for the person making that commitment and as a catalyst for positive societal outcomes.

She is also happy to bring that message of emotional engagement into the boardroom and other business arenas, deploying her talent for organisations that share her priorities and beliefs. MTV, Nike, Samsung and Facebook are among those that have asked her to contribute to their messaging and internal initiatives. Last year Unilever chose Thakur to articulate its commitment to sustainable business, with a much-feted spoken word film "There Is No Finish Line".

This willingness to engage across varied audiences also made her a compelling choice for closing keynote speaker at the launch of this term's MBA programme at Oxford Saïd, where she made a powerful case for prioritising sincere and authentic communication in the workplace, and lauded the power of engaging narratives as a key part of the "toolkit" for successful leadership.

Her strong sense of the power of words and storytelling comes from her background, as a Londoner with two highly aspirational Gambian parents, in a culture "where storytelling and words are central to how a child grows, how you teach a child religion or how to behave well. With my mum and my dad, it was never just 'don't do this, do this': it was 45 minutes of all the reasons why you shouldn't do this, why historically this is bad, culturally this is good."

However much that informs her art, bringing that into the corporate sphere is not always straightforward, she readily admits. "I don't think people care about poetry until they realise how central it is to the art of communication. I couldn't tell you how many rooms I've walked into, especially the finance space, and I hear people dragging their feet: 'Oh, what's this going to be about? Poetry, who needs poetry?' But it's just the art of connecting with someone through words. And that's what we do every single day."

If connecting is the aim, what are the key elements that make that happen? "I remember watching my dad with a newborn baby for the first time," she says. "He was talking to the child the same way he might talk to an adult. 'Don't cry, there's no need to cry right now.' And you can't really have a conversation with a child like that. I say there's a baby inside every story and there's a human inside every story." Take that Unilever campaign, for example: "When I first got the brief, it was a lot of trigger words: sustainability, climate change.... And I just thought, none of these rhyme with each other. How am I going to create a poem for these words? And then I thought, the most powerful thing I can do is be honest, and think about my relationship with climate change [and] the environment. Everyone escapes to nature at some point in their life to run away from people, from the things that we do to each other. You run to a sunset, you run to the beach, you stargaze, go hiking, you do all of these things to feel more human. And I thought, actually, if that is something that means so much to me, why don't I talk about how all of that stands to disappear?"

'Poetry is just the art of connecting with someone through words, and that's what we do every single day'

Good poetry taps directly into shared experience in ways that few other things do, says Thakur. She cites one particular poetry workshop she ran for a vast auditorium full of 15-to-16-year-olds –"set on not being vulnerable, not showing any weak side" – as revealing the power of poetry to connect us all. In a similar way, in the context of the workplace, "if we do strip back the layers, [we] realise it's people that come into [it]." She sees COVID, terrible as it was, as an agent of stripping back and mutual revelation, re-humanising and potentially helping us bond: from "your kid running into a Zoom call four times in a day" to all the other shared challenges of home working. "The person that you would otherwise just share a lift with, you now share living rooms with."

Given her own cultural awareness, how does she reflect on the inability of some leaders of global organisations to find the way to talk to people in unfamiliar cultural contexts, and how can they fix this? She references the iconic black American writer James Baldwin who "had this idea that the problem is so much bigger than we think because the problem's internal. He said, 'Start inside and then go out.' I tend to agree with him, but in this instance, starting outside of yourself is probably the best thing to do... Sometimes you have to step outside of what you think other people need from you, and what you think other people will want from you, and actually learn the language of the country you're going into. That's why I love books and literature so much, because there's some things you'll only learn about a culture and a group of people from a novel because that person has lived inside their skin… realising sometimes you need to pull your tongue back into your mouth, embrace someone else's tongue and learn how to harmonise instead of sing on top of something because they're the people you're trying to reach. Reading books on where they're from, listening to the music, engaging in the culture is a really good first step to doing that."

Not rewriting history for your own convenience is another key element of authentic engagement. "Toni Morrison has this idea that you have to write what will be remembered, you have to write what people will also forget." She mentions a campaign she was asked to contribute to for a private healthcare company that was meant to be a celebration of nurses, but which she didn't do, conscious of the period when there was not enough PPE and precious little support for some of those on the front line.

Similar reality checks are required around diversity initiatives where, although things may have improved over the past couple of generations, there is still the ever-present danger of going through

'Human emotion is a spectrum. It's not unlimited. A lot of the time our response sits inside the same space'

the motions and box ticking. "I was so frustrated [when] a company that I did some consultancy for on diversity and inclusion, two years later asked me to do the exact same thing. So I said, 'Great, what do your figures look like now?' And they looked worse than two years before. And I just thought, I don't think what you need is poetry right now. You need something a lot more serious."

Such a critique is often not what businesses want to hear, given that much traditional corporate storytelling is structured around success. Is there a place for stories of failure? "Yeah, definitely," she says. "The range of human emotion is a spectrum and it's not unlimited. A lot of the time our response does sit inside the same space. If someone who's been really passionate about a business idea fails and someone else who's passionate about a business idea feels like they're about to fail, they have something in common. But that thing they have in common is how they respond to failure. They have to be honest if either of them wants to grow. When we talk about things, we open them up and when we open them up, we allow more people in. And don't get me wrong, I've been in situations where I can be a bit of an over-sharer. I've been in situations where I started telling a story thinking loads of people are going to relate and everyone's looking at me like, 'you and you alone sis'. Sometimes it goes bad. But you don't lose anything by being honest, ever. And actually, if someone looks at you funny for you being honest, that tells you more about the person than it does about yourself."

To the question of how best to develop your "personal brand", she responds:

"What I'd say is, find the thing you really care about, not what you think you should care about. I remember once, [there was a] cause I thought I should be all-in fighting for. And I did for a while. One day I stepped back and I just thought, I know this is important, but I don't think this is my battle. Everyone's passion and their purpose and that mark they're meant to leave on the world, it's all in there somewhere – even if you still need to discover parts of it, you have an inkling of the thing that you're most passionate about. And for me, the best advice I can give is try to close that gap between the thing you are interested in and the thing you're spending most of your time doing. And when you close that gap, you realise that passion and that purpose will make so much space for you, more space than you can even imagine." ■

Photo: Chantal Azari

While public opinion can be an effective tool to push companies to avoid involvement with human rights abuses – often in the hope of a positive reputational dividend – new research by **Matthew Amengual, Rita Mota** and **Alexander Rustler** suggests that this mechanism can often be insufficient for effectively aligning incentives.

RESEARCH FOCUS: THE COURT OF PUBLIC OPINION

Despite the known *moral* and *practical* shortcomings of relying on a "business case" to justify doing the right thing, many organisations continue to act as if bottom-line profits – rather than ethical concerns – must drive all business decisions. In particular, some leaders have argued that the court of public opinion creates a reputational (and thus financial) cost to working with governments or business partners that may have committed human rights abuses. These financial motivations are sometimes implicitly treated as a stand-in for other mechanisms – such as legal requirements – to ensure that businesses respect human rights.

This argument hinges on the idea that customers and other stakeholders will punish companies associated with human rights scandals, and so companies will thus be naturally incentivised to either persuade their partners to stop committing violations and remedy any harm done, or to avoid entering or cease relationships with partners that commit abuses. And this may sound plausible – but our recent research suggests that when it comes to protecting human rights, the court of public opinion may not always be an effective mechanism to align decision-making with legal and ethical standards.

To explore how the public judges different kinds of involvement in human rights violations, we asked 2,420 American adults to react to a series of hypothetical situations, yielding a total of more than 12,000 responses (of course, while American views are not necessarily representative of global sentiment, this analysis still offers substantial insight into one of the world's largest markets). All the scenarios we used would be considered unacceptable according to the United Nations' widely recognized *Guiding Principles on Business and Human Rights*, and yet we found that 40 per cent of the time, the participants in our study felt that the business had not been involved in a human rights violation. What drives this substantial disconnect between whether people see a business as involved in human rights violations and that business's actual behaviour?

We designed the hypothetical scenarios to include a number of different contextual factors that might affect public perceptions, including the type of relationship the company has with the perpetrator, the types of human rights violations involved, whether the company conducted due diligence, the company's size and industry, and whether the local community condemns the activity. By investigating the degree to which these factors influenced participants' responses, we were able to explore how the public opinion functions – and where it may fall short.

People react more strongly when companies have closer relationships with perpetrators.

First, our participants were much less likely to feel that a company was involved in a violation if its relationship to the entity that committed the violation appeared to be somewhat distant. For example, people were seven percentage points less likely to judge a company as being involved in a human rights violation if the perpetrator was a supplier than if it was a subsidiary.

This effect was even more pronounced if the perpetrator was a government entity. Our participants were 10 percentage points less likely to feel that a company had done anything wrong if state forces abused human rights in a manner that helped the company, for example by violently repressing protests, than if a company's subsidiary committed similar offences – and they were 19 percentage points less likely to see a company as being involved in human rights violations if it remained silent while unrelated abuses happened in a country where it was operating.

People are more forgiving if companies have conducted due diligence.

Next, we found that people were more likely to react positively if a company had attempted to conduct due diligence – that is, to conduct impact assessments, take action to address negative impact, and monitor the effectiveness of those actions – regardless of whether they ultimately succeeded in preventing abuses. When a company identified a potential abuse and tried to prevent it, people were 15 percentage points less likely to judge the company as being involved in a human rights violation than in cases where the company did not even try to identify potential abuses (despite the abuse still occurring in both cases).

That said, people were seven percentage points more likely to judge a company as involved in a violation if it had identified risks but failed to act on the information than if it had never sought the information in the first place. In other words, proactively seeking to identify human rights risks improves public perceptions, but only if the company makes an effort to address the abuses it's uncovered.

People react differently to different kinds of human rights abuses.

We also found that the American public is more sensitive to certain types of abuse. Our participants were most likely to view companies associated with child labour as involved in a human rights violation, while associations with partners that failed to pay a living wage, contaminated a community's land, or engaged in discrimination were less likely to be seen as involvement in a violation. Interestingly, violent repression of protesters was one of the least likely abuses to trigger perceptions of involvement in a human rights violation (despite it clearly violating citizens' fundamental civil and political rights), and the abuse for which participants were most forgiving was the destruction of a sacred site (again,

Photo: Adapted from © jStock – stock.adobe.com

despite this being a clear violation of cultural and indigenous rights).

Company size and industry have minimal impact on people's perceptions.

While one might expect the public to hold larger companies to a higher standard, we found that company size had a minimal impact on participants' reactions: A large conglomerate and a small start-up were judged only marginally differently, despite having drastically different resources and structures. Similarly, people did not differentiate at all between companies in industries with better or worse reputations for protecting human rights. For example, renewable energy companies were judged to be similarly involved in abuses as oil extraction companies, despite these industries' dramatically different human rights records.

People hold companies to their own standards – not local ones.

Finally, our participants were not particularly sensitive to local views of what constituted acceptable behaviour. Even if participants were told that local communities thought it was okay for companies to employ children in certain situations, for instance, their judgments only changed modestly.

The court of public opinion relies more on individual reasoning than reference to law.

After reading and reacting to the hypothetical situations, we asked our participants to explain their reasoning. Their responses indicated that people are far more likely to appeal to their own moral compasses, or lay definitions of human rights, than to any external reference for what constitutes a human rights abuse. In fact, only 6 per cent of the time did people mention legal frameworks such as those provided by the UN, or even the idea of human rights law, relying instead on their individual feelings and reasoning. And importantly, while people's own judgments often aligned with widely established definitions of human rights, they did not always.

For example, one respondent judged a company implicated in the contamination of a community's land as not being involved in a human rights violation because they felt that the incident was "not crossing any major lines". Similarly, another stated that "destroying a sacred site does not involve human rights", despite the fact that this clearly violates well-established standards for cultural and indigenous rights. And even opinions that lined up with legal standards often were not framed as such. As one participant explained, "I think it's morally reprehensible that companies use any type of child labour," illustrating the role of individual moral positions in driving people's opinions regarding corporate involvement in human rights abuses.

To be sure, there is certainly a place for individual reasoning. Especially in an area as complex as human rights, in which experts themselves continue to debate legal guidelines, it's not a bad idea to consider public opinion alongside established frameworks. In fact, our research demonstrates that public opinion regarding human rights can sometimes be highly demanding of companies. However, it's also important to remember that public sentiment is not a stand-in for internationally accepted standards – and the court of public opinion can be an inconsistent enforcer of human rights. In particular, the American public is less likely to judge companies negatively when they are involved in certain types of abuses, or when they are more distantly connected to perpetrators, meaning that it may fail to push companies to adhere to international guidelines.

As such, leaders need to carefully consider the factors that may influence how their organisations will be judged in the court of public opinion. While they should certainly pay attention to the public, they must not rely on public opinion alone to guide their decision-making. After all, standing up for human rights can sometimes come with a reputational advantage or financial rewards – but it doesn't always. It's leaders' responsibility to do the right thing either way.■

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After a two-year hiatus thanks to the pandemic, we were delighted once again to host our annual **Reputation Symposium** – the 11th edition of the event, with all its customary energy and insight. Below are summaries of some of the presentations.

CONFERENCE REPORT: REPUTATION SYMPOSIUM 2022

This year's Reputation Symposium encompassed three days of keynotes, presentations, panels and discussions covering the customary broad swathe of interdisciplinary subject matter, with an outstanding programme assembled by Alan Morrison, Professor of Law and Finance at Saïd Business School, and Michael Jensen, Professor of Strategy at the Stephen M. Ross School of Business at the University of Michigan, and an International Research Fellow with our centre.

An undoubted highlight was a moving keynote from Bill Browder, founder of Hermitage Capital Management, one of the largest investors in Russia until the early 2000s, when Vladimir Putin's displeasure at Browder's exposure of corruption at the highest level led to him having to flee the country, and to the torture and murder of his Russian lawyer, Sergei Magnitsky. This prompted Browder to become a campaigner for a mechanism to punish those who benefit from such corruption as they seek to employ their wealth abroad. The Global Magnitsky Act has now been the basis of over 500 cases brought worldwide.

The theme that he ignited was picked up later by a sobering panel on "reputation laundering": how those who have benefited from corruption seek to create a veneer of respectability in the wider world through various PR and "philanthropic" initiatives, from sport to education. The panel focused principally on wealth of Russian origin – with Elisabeth Schimpfoessl, Senior Lecturer in Sociology at Aston University and John Heathershaw, Professor of International Relations, University of Exeter, and Tena Prelec, a Research Fellow at the University of Oxford – but Ricardo Soares de Oliveira, Professor of the International Politics of Africa at the University of Oxford, set out how such mechanisms were exploited by rich Angolans, exploiting the opportunities in Portugal, their former colonial master.

Below are some brief summaries of some other sessions we enjoyed in the course of the symposium, some of which were based on already published research, but many of which are at an early stage – including the essential contribution of young scholars, who participate in our professional development workshop.

After the Turing Test: The Participation Game as a New Assessment of Artificial Intelligence Capabilities and Implications for Social Theory

Following Turing, we ask, "Can machines think?" To raise the bar for assessing artificial intelligence (AI), we pose the participation game, an exercise that asks machines to join humans in a creative, playful, competition that calls for bending and stretching the categories humans use to understand and order the world. After defining the game, we explain the practical and theoretical basis for raising the bar on AI and discuss implications for social theory. Specifically, we argue that having machines join reality-making processes requires re-thinking social theory that deals with influence, legitimacy, and agency—constructs that underlie important theories of teams, organisations and societies.

Mark Kennedy, Associate Professor, Imperial College London

Grand Challenges and Female Leaders: An Exploration of Relational Leadership

Managing grand challenges demands relational leaders who can communicate and collaborate with various stakeholders. However, the uncertainty and complexity of tackling a grand challenge can also trigger stereotypical impressions of leaders, including how their gender influences perceptions of their effectiveness. This presents important consequences for leaders' career outcomes and their ability to mobilise stakeholders to address a grand challenge. Given the alignment of relational leadership attributes (e.g., collaborative, open, and trustworthy) and female gender stereotypes, we theorise that female leaders have an advantage in how stakeholders perceive their effectiveness at addressing grand challenges."

Abbie Griffith Oliver, Assistant Professor of Commerce, UVA McIntire School of Commerce.

Trust and Cooperation Beyond the Network

Network theory provides a general prediction of where trust should be strong within a network. However, much of network theory is only loosely relevant to reputation because network theory is clearest about trust within a network and reputation is largely about trust in people beyond the network. We here use network theory about trust within the network to make general predictions about trust and cooperation beyond the network. The predictions are well supported by network and behavioural data on probability samples of Chinese entrepreneurs.

Ronald S. Burt, Charles M. Harper Leadership Professor of Sociology and Strategy at the Booth School of Business, University of Chicago, and University of Bocconi

Reputation is Dead; Long Live Reputation! Exploring Signalling Theory, Fake News, and Corporate Reputations

As the market has globalised and become more complex, corporate reputation has become more important because corporate capabilities and characters are increasingly difficult to observe first hand. At the same time, fake news has spread, garbling the true nature of firm behaviours and destroying trust in these signals In this era of fake news, is corporate reputation still able to

Back in business:: (clockwise from top left) Bill Browder at the Oxford Union; Elanor Colleoni presents with Naomi Gardberg on fake news and reputation; symposium co-organiser Michael Jensen with Brayden King, organiser of our professional development workshop; Nick Mmbaga presenting on stigma and payday loans

distinguish good from bad firms? In this paper, using experimental design, we empirically assess whether core conditions of signalling theory hold true in the face of fake news.

Naomi Gardberg, Associate Professor, Baruch College, Zicklin School of Business, and Elanor Colleoni, Assistant Professor of Corporate Reputation, University of Milan IULM

Hurts So Good: Stigma Balancing in the Payday Loan Industry

We explore how a core stigmatised industry can leverage the enduring benefits of its core stigma while limiting its constraints, and how this process evolves over time in response to environmental changes and the actions of its stigmatisers. We conducted an inductive field study employing grounded theory and participant observation techniques to explore how the stigma-balancing process unfolded in the payday loan industry, whose practices, customers, and outcomes are stigmatised. We find that the industry was able to manipulate its power imbalance and mutual dependence with the industry's stigmatisers by altering perceptions of its practices and customers, even as the stigmatised outcomes worsened, and while reinforcing its core customers' stigma to maintain their resource value.

Nick Mmbaga, Assistant Professor of Entrepreneurship, Lacy School of Business, Butler University

Product Conflation and Supply Chain Transparency in Ethiopia's Coffee Trade

We examine the equilibrium effects on sellers and buyers when a "products" definition is de-conflated. In this context, a trading platform changed interactions between agricultural producers and buyers in the trading of coffee. The arrival of the trading platform by design made buyer-seller transactions anonymous. While an exchange solves the search and contracting frictions, concurrently it gave rise to a new set of issues for commodities whose precise quality and supplier origin matters to buyers.

Ameet Morjaria, Associate Professor of Managerial Economics & Decision Sciences, Kellogg School of Management

The Contaminating Effect of Social Capital: Upper-Class Networks Increase Unethical Behaviour

Having friends in high places is often considered necessary to achieve success. Indeed, having connections with upper-class individuals offers instrumental benefits, from better jobs to higher salaries. Despite the tangible benefits that upper-class network contacts offer, we find that these networks have a dark side: the increased potential for unethical behaviour. We propose that because upper-class individuals are less constrained in their behaviour, individuals with many upper-class contacts will perceive their network contacts as having looser social norms. As a result, individuals with upper-class network ties will view morality as more relative and will be more likely to engage in unethical behaviour.

Aharon Cohen Mohliver, Assistant Professor of Strategy and Entrepreneurship, London Business School

Reputational Rifts: Exploring the Effects of Political Polarisation on Firm Media Reputation

The effects of a firm's media reputation on firm performance have been well documented in management research. However, in a fragmented, politically polarised media ecosystem, some firms may have developed polarised media reputations. Although political polarisation has captured the attention of researchers in many fields, including political science and media studies, management and strategy research has largely overlooked the effects of increasing political polarisation on firm reputation, strategy and performance. To further our understanding of the effects of political polarisation on firms, I analyse firms' reputations among major media outlets in the United States segmented along partisan lines.

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For the complete symposium programme see our website, below, under Events.

Our **Corporate Affairs Academy** (CAA) applies the capabilities of this increasingly pivotal function to the evolving priorities of business and society. The focus this year was on leadership and alignment, misinformation/disinformation, advocacy and activism, and ESG. Below is an extract from the report based on those discussions.

PROGRAMME REPORT: CORPORATE AFFAIRS ACADEMY 2022

We presented this year's cohort with four focal areas around which initial conversations could coalesce. These were ESG (environmental, social, and governance); advocacy and activism; misinformation and disinformation (the challenge of fake news and false narratives, both deliberate and inadvertent); and the practical challenges facing corporate affairs leaders, how to execute strategy and ensure alignment with the executive team and future-proof the function.

At the end of the academy four different groups would each address one of these topics, having had the chance to discuss the subject through the week and reflect on some of the concepts and research elements to which they had been introduced, every aspect of the discussion naturally feeding into the future development of the function. The report captures those presentations, but also other discussions and interactions throughout the week, with quotes from participants.

ESG

The rise of ESG (environmental, social and governance) concerns, and the focus of regulators and investors in this area – and the intensifying quest for objective metrics – creates rich potential for the corporate affairs function: how better to blend reputational and operational priorities at an early stage, and contribute to an organisation's strategic priorities? Where an organisation's purpose is clearly articulated and operationalised, this can be the case, but for many this is still a distant aspiration. Which of E, S and G are being prioritised (and which not at all)? What are the best mechanisms for inculcating ESG into strategy – does the corporate affairs function's horizon-scanning capabilities give it special insights? How to adjust for global and cultural variations in expectations given some overarching benchmarks such as the UN SDGs?

Advocacy and activism

Expectations around what responsibilities and obligations companies and organisations should acknowledge publically have changed hugely, not least given the pervasive post-pandemic aura of vulnerability. There is a strong sense that the old boundaries tied to firm performance and the simple impact of operations no longer apply, amid rapidly shifting norms. Advocacy and activism are loaded words from which many organisations that do not have a pro-social purpose at their core shy away, but they pose inescapable questions; not least because it is often employees who are leading the charge, interrogating how far an organisation should press for an 'activist' agenda within its own policies, and respond to outside pressures. Given the current battle for talent, organisations ignore this at their peril.

Misinformation/disinformation

The power of narratives in a 24-hour news cycle, social media world is well appreciated by those working in corporate affairs. However, this is still relatively new territory and always evolving, whether through the medium of delivery, or which elements of narratives have particular salience at any given time, and the evolving attitude to different types of risk in different sectors. Once you add the proliferating mischief of misinformation, disinformation and fakery, it is a priority to test old assumptions and to consider new strategies to address new realities: how do you penetrate the echo chambers where fakery and negatively impacting assumptions have traction, and should you engage or not with the unhelpful 'noise'?

Corporate affairs leadership – alignment, resources, authenticity

The opportunities and frustrations facing the corporate affairs function are reflected in every section of this report. On the one hand reputation, and the boosting of its component mechanisms – behavioural scrutiny, narratives and networks – have rocketed up the agenda of all organisations and their leadership. On the other, the function is often among the first to feel the pinch when times are hard, as today, and to see long-nurtured strategic goals that potentially make the best case for its added-value contribution put on the budgetary bonfire. The need for robust metrics for corporate affairs to illustrate the value it adds is a pressing one, and the function will have to make the case louder than ever for resources to guard against the negative impacts of poor reputation and against damaging short-termism.

ESG

The importance of ESG in the direction of travel of any organisation is now well established. "In financial markets, ESG has become almost the dominant conversation in the last couple of years," as one CAA participant put it. It is increasingly the key to both purpose and gneerating trust in organisations: how those within the business understand the way things are done; and how those outside decide to judge whether the organisation cares about more than serving its own interests. The cohort identified seven key reasons to focus on ESG – four linked specifically to business objectives, and three to risk mitigation:

- For business advantage: the opportunity to establish consumer/customer preference and enter new markets
- As an enabler: helping bring purpose and strategy to life
- Strengthening communities: supporting environmental sustainability; building resilient economies
- For business value: successfully managing increasing investor interest and expectations
- To manage regulatory, social and reputation risk:

Best practice: participants in the 2022 Corporate Affairs Academy

- Rising stakeholder expectations outpacing government policy: consumer activism, environmental activism, socially responsible investment (SRI), community and employee activism
- The need to manage increasing regulatory risk and reporting burden

Corporate affairs leaders see themselves as a "key enabler" in the area of litigation risk, with five key tasks to fulfil this potential:

- Gather insights from a credible and diverse set of sources (networks)
- Understand both business and external context
- Identify relevant and strategic partners for action
- Develop transparent, authentic and credible communications and engagement plans
- Commit to continuous improvement to help build trust

Excellence in this space is made more difficult to achieve by a variety of stakeholders in different jurisdictions judging ESG by different criteria and expectations.

> "I'm struggling with the term best practice, because I think depending on where you are in the world, best practice might mean something different."

> "Every business is going to have a different roadmap in terms of what you look like versus what I look like versus what somebody else looks like."

Organisations need to be prepared to organise in a nimble way to deal with ESG requirements, given how often expectations and requirements change.

Corporate affairs is well placed to catalyse these areas of continual improvement.

> "I think one of the things to think about is how you equip to that continual improvement requirement? And that's intertwined with the how do you operationalise ESG effectively? Every year expectations get higher. When you look at the rankings and the ratings, it's not like you're being rated against what you did last year; you're having to run at times just to keep up or to even stand still."

> "It's also emerging issues and how you horizon scan: for example, deforestation is being started to be talked about here in the UK by ministers as the next big issue, which could potentially have a reporting framework around it as well."

If you have access to global resources, use them – but with discrimination according to the needs of individual stakeholders.

> "The data and intelligence required is largely dependent on the needs of the stakeholder. It makes sense to be in direct contact with them and have a conversation about that, if possible. Within [X] we operate on a global scale. We approach sustainability issues globally. I have the luxury that I can tap into global data."

Be mindful that your stakeholders have a local perspective, and your focus needs to reflect them.

> "The challenge is answering the question I get from my local stakeholders: 'That's great, that's what you're doing on a global level, but what are you doing right here? Yeah, you will be doing great stuff in the US and in Asia, but we want to know how you reduce your footprint here.'"

Narratives are important, and corporate affairs has been instrumental in unleashing their unifying and energising power within organisations, but it is vital to encourage other functions to organise around the new ESG challenges, too. The two have to go hand in hand.

> "I'm getting the stories out of each of the functional areas and setting up all those capabilities. It is so much work because everybody wants to tell us the story, not accepting the accountability. It's hard work for us if they don't have a way that they can be organised about each of their goals and projects and things that they're working on and communicate them."

Work on accessing the full value chain to make an impact on ESG in a way that ensures your organisation can bear scrutiny, and that "wins" are not undermined by non-performing partners.

> "To be able to execute your strategy, you have to work with your other partners in that whole full value chain. Do you get data and information from them that helps you with your ESG work?"

Environmental may lead in ESG, but there are important benchmarks and commitments in the S (social) and the G (governance) spaces and it's important to direct attention in that direction.

> "When people think ESG, they're very much focusing on the E. And people are starting to say, 'Well what about the S? And what's that going to look like in terms of the issues that we should all be focusing on?' I think people at the moment are conflating [that] ESG equals environmental."

> "I think the reason we led with environmental [is] because the rest is a harder nut to crack."

> "On the E side, it's become pretty much zero carbon, and the other aspects are now often ignored." ■

For more information about the Corporate Affairs Academy, and to read the complete report, see tinyurl.com/287njfrv.

NEWS AND EVENTS

We were delighted to once again welcome scholars from around the world to our annual **Reputation Symposium** for three days from 30 August. For more details, see pp8-9.

The symposium included our regular awards for **Best Published Paper** and **Best Dissertation**, 2019-2021. The former went to Patrick Haack, Dirk Martignoni and Dennis Schoeneborn for "A Bait-and-Switch Model of Corporate Social Responsibility" (*Academy of Management Review*, July 2021); the latter went to Anna Jasinenko for "Public Value: Opportunities and Challenges to Capture the Organizational Contribution to the Common Good". For more information see our website, below, under "Annual awards".

Our Postdoctoral Research Fellow **Dize Dinckol** presented two papers at the Academy of Management (AOM) Annual Meeting and the Strategic Management Society (SMS) conference (as well as SMS Extension Oxford) in August/September: "AI-Driven Entrepreneurship in Data Sensitive Markets: A Study of UK Fintechs" (nominated as Best Paper for the STR – Strategic Management – Division at AOM) and "Regulatory Standards and Consequences for Industry Architecture: The Case of UK Open Banking" (nominated for the SMS Best Conference Paper Prize).

Our centre director **Rupert Younger** gave a speech on the importance of financial inclusion, in Milan in October, at the launch of an initiative by Intesa Sanpaolo bank and Assogestioni, the Italian association of asset management companies (see p2).

Our Postdoctoral Research Fellow **Kevin McSweeney** co-authored "Passion drove me here: Exploring how types of entrepreneurial passion influence different entrepreneurial intentions", in *Journal of Business Venturing Insights,* in November (*www.sciencedirect.com/science/article/abs/pii/S2352673422000506*).

Our Postdoctoral Research Fellow **Ximeng Fang** presented papers at two recent conferences: "The roles of social norms and economic reasoning in shaping support for carbon pricing", at the North American meeting of the Economic Science Association (*www.esa2022.com*); and "Goal-Setting and Behavioral Change: Evidence from a Field Experiment on Water Conservation", at the European Winter Meeting of the Econometric Society, in Berlin (*https://berlinschoolofeconomics.de/insights/european-winter-meeting-of-the-econometric-society-2022*).

APPOINTMENTS

Our Postdoctoral Research Fellow **Eva Schlindwein** is now also working as Senior Researcher at the University of Applied Sciences, Bern, on a research project on CSR implementation in the Swiss banking industry. Our former Intesa Sanpaolo Research Fellow, **Rita Mota**, has taken up her post as Assistant Professor at the Department of Society, Politics and Sustainability, ESADE Business School, Barcelona, and has also been appointed as one of our **International Research Fellows** (IRFs), the global scholars who contribute so much to our centre. We have recently appointed five other IRFs:

Alex Bitektine, Associate Professor of Management, John Molson School of Business, Concordia University. His research interests include the effects of institutions on entrepreneurial activity, social evaluations of organisations, sustainable development and CSR, non-market strategies, and microfoundations of institutions.

Michael Etter, Reader in Entreprenership and Digitilization at King's Business School, London: interests include the construction of social evaluation of new and established firms, such as organisational reputation and legitimacy, in the new media landscape, and legitimacy in the new media landscape, shaped by new information and communication technologies.

Witold Henisz, Deloitte & Touche, Professor of Management, the Wharton School, University of Pennsylvania. Research interests include political and social risk identification and management, materiality of environmental, social and governance (ESG) factors, stakeholder engagement, business and socio-political conflict, project management, and the rise and fall of neoliberalism.

Kish Parella, Class of 1960 Professor of Ethics and Law. Her research focuses on the transnational regulation of corporate conduct, with a particular focus on corporate human rights compliance in global supply chains; and "negligent contracts", and the responsibilities of contracting parties for negative externalities that harm third parties.

Laura J. Spence, Professor of Business Ethics in the Department of Human Resource Management and Organisational Studies, Royal Holloway, University of London. Her research interests include CSR, small business social responsibility, and supply-chain sustainability.

For the complete list of IRFs, see our website, below, under "Our people".

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 ways in which the reputations of corporations, institutions and individuals are created, sustained, enhanced, destroyed and rehabilitated.

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