ISSUE 31

Reputation

TRINITY TERM 2021

OXFORD UNIVERSITY CENTRE FOR CORPORATE REPUTATION

New Research Initiative

Social Evaluations Research Priorities – a report and discussion forum to link key research questions and practitioner challenges

Global Corruption
How new laws, robust regulation and a reputation for integrity can combine to combat an international scourge

The Big Interview
Former diplomat Lord Sedwill on a new model of engagement to foster sustainable economies and security

Purposeful Business
The second Enacting Purpose Initiative report – Building on Common Ground to Advance Sustainable Capitalism

Celebrity CEOs, Country Reputation
Newly published pieces of research developed by scholars at our annual Reputation Symposium

Risk Assessment
Perceived threats and priorities – from our latest Oxford-GlobeScan survey of corporate affairs leaders

News and Events

UNIVERSITY OF OXFORD

Saïd Business School

Centre for Corporate Reputation

COMMENT: FIGHTING CORRUPTION WITH A REPUTATION FOR INTEGRITY

The fight against corruption has shot to the top of the international agenda again. In June, the UN General Assembly held a special session on corruption, the G7 made it a major concern, and the Biden administration proclaimed fighting corruption to be a "national security priority", launching a host of new laws to tackle kleptocracy. This is a welcome development, but whether or not laws change behaviour also depends on how potential offenders perceive the likelihood of being caught, the harshness of the penalty, and the reputational risk.

In the UK, this year marks the tenth anniversary of the Bribery Act. It was intended to reduce bribery in international business and it is, on paper, tougher than its US counterpart, the Foreign Corrupt Practices Act. The Bribery Act provides for longer prison sentences for individuals and, unlike the FCPA, does not exempt small routine bribes. But 10 years on, has the Bribery Act had any impact on how many bribes are paid? The UK's Serious Fraud Office has a feeble budget, struggles to attract and retain the best people, and has had a number of embarrassing failures. In the US, the Department of Justice and Securities and Exchange Commission have much more clout and success, and are much more feared as a result. Partly in response, the UK authorities have started to resolve cases through out-of-court Deferred Prosecution Agreements, a practice also common in the US. It's better for companies because, while they still have to pay a fine, they avoid the reputational hit – and potential debarment – that comes with prosecution; and it's good for the authorities, which avoid the risk of failure, pass some costs onto corporations, and can chalk up successes.

In this world of settlements, reputation can be really important for a company's negotiating power. The enforcement authorities have discretion to treat a company leniently if it convinces them that it had a good corporate compliance programme in place, cooperates fully, and makes a credible commitment to reform. A company's ability to make that case depends to a large extent on its reputation. If bribery is found, it needs to convince regulators that it was the action of a rogue bad apple and that the barrel is not rotten. This approach might be effective in reducing bribery. It makes it worthwhile for companies to recruit good compliance professionals and "walk the talk". So even without a robust enforcement record, the Bribery Act might be having a positive impact on corporate conduct through changing attitudes towards governance. Foreign firms and investors argue that they simply cannot do business in some places without paying bribes, so have to withdraw. This led me to me wonder how local companies manage corruption risks, and to research why and how some local SME entrepreneurs in high-corruption African contexts are trying to build a reputation for integrity. Without the benefit of big compliance departments or the leverage that comes with being a well-known multinational, it might be even harder for them to take a stand.

> 'In Nigeria and Ghana I found heads of successful SMEs who use social shaming to resist bribes'

In Nigeria and Ghana I found heads of successful SMEs who use social shaming to resist demands for bribes, either through Twitter or by "making a scene". They leverage popular dissatisfaction with corruption to shame bribe-requesters. That strategy is useful for low-level officials, but high-level corruption requires a different approach. One CEO of a large family business in a post-conflict environment explained that his company negotiates with government officials over a long period, sometimes making deals to withdraw from certain markets in exchange for securing fair access to others. He claims that a long-standing reputation for refusing to pay bribes gives him the credibility to pursue this strategy.

Most of this research has made me optimistic that business norms are changing, even in difficult contexts, but my contacts in Africa also report a negative trend: Chinese investment is threatening the progress made in recent years. Some Chinese investors engage in bribe-paying so openly that public officials are coming to expect payments more frequently and in larger sums. Notwithstanding this development, the growing international recognition that corruption fundamentally threatens liberal democracy and free markets is a welcome step. The G7 ministers now need to be as brave as those African entrepreneurs, standing up for their values even through tougher times. ▪

Liz David-Barrett

*Professor Liz David-Barrett is Director of the Centre for the Study of Corruption at the University of Sussex (*tinyurl.com/duv3rb3p*), and a former Research Fellow with our centre.*

Reputation is a termly magazine published by the Oxford University Centre for Corporate Reputation, Saïd Business School, Oxford OX1 1HP. Tel: + 44 (0)1865 288900. Enquiries to: reputation@sbs.ox.ac.uk. Website: *www.sbs.oxford.edu/reputation*.
©2021 Saïd Business School. No part of this publication may be reproduced or transmitted in any form without the prior permission of the publisher. Cover image: iStock/imaginima.

Our latest initiative, the Social Evaluations Research Priorities (SERP) report, seeks to identify the most pressing current research questions in our area, as identified by our network of senior scholars and leading practitioners. We hope it provides research direction, practical insights, and a forum for future discussions. Below is an extract.

RESEARCH INITIATIVE: SOCIAL EVALUATIONS RESEARCH PRIORITIES

This report draws on the expertise of three groups of people: our practitioner Visiting Fellows; the community of corporate affairs leaders who are members of the Oxford-GlobeScan Corporate Affairs Global Council; and our International Research Fellows. Ten themes emerge from this first report, which we organise under two groups: "alignment challenges" and "practice challenges". Research questions emerging from these themes capture issues from the perspective of organisations, stakeholders, and perspectives emanating from the interaction between them.

Social evaluations

Social evaluations are critical to organisational success. Perceptions have long played an important part in facilitating commercial relationships between trading partners. Today, perceptions also mediate the relationship between employers and the talent they seek to attract and retain, shape regulatory oversight, influence supply-chain dynamics, and drive investor valuations.

We aim to focus on research questions as they relate to five principal social evaluations: legitimacy, image, status, reputation, and trust. Organisations and their leaders spend a significant amount of their time – around a quarter, according to a recent study by McKinsey (see below) – managing these assets through their stakeholder engagement strategies. And they matter: a January 2020 study by Jonathan Knowles (see below) concluded that intangible assets today account for 70 per cent of the global enterprise value of the 10,000 most valuable publicly traded companies in the world. There is considerable value in connecting academic research with business practice in these areas.

Legitimacy

Legitimacy refers to perceptions or assumptions that the actions of an organisation are proper or appropriate, according to socially constructed norms. It is important because it underpins an organisation's licence to operate. Modern research in the field started to grow in the latter half of the 20th century, reflecting its importance but also its conceptual ambiguity. A more recent review of research in the subject has identified three main streams of legitimacy research: legitimacy as property (an asset or resource); legitimation as process (how it is constructed and maintained); and legitimacy as perception (as an assessment or judgement).

Image

Image refers to the positioning of an organisation. There are at three principal ways to approach the study of image: intended image, perceived image, and construed image. Intended image refers to the organisational attributes and characteristics selected by the organisation as a representation of what they want stakeholders to focus on. Perceived image, by contrast, refers to how stakeholders actually view the organisation. And construed image refers to how the organisation *believes* stakeholders view the organisation. It is important to note that these three dimensions are interdependent. Research in this area has focused on how image both derives from and influences organisational identity, and ways in which different stakeholders connect and interact with organisations.

Status

Status refers to a position in a social hierarchy. It is important because it functions as a signal of quality and circumscribes organisational behaviour. On the positive side, high status has been found to confer enhanced pricing power, facilitate the formation of productive business partnerships, and provide preferential access to policy makers and decision-making forums. On the downside, high status has been found to attract a greater volume of activist attacks and to contribute to accelerated or over-heightened expectations. Status research focuses historically on the antecedents and consequences of status, whereas recent status research focuses on status mobility, status inconsistency, and status loss.

Reputation

Reputation refers to what others believe about an organisation, as expressed through perceptions. Reputations are important because they inform stakeholder perceptions about the capability and character of organisations. Reputations are multidimensional – organisations have different reputations *for* something *with* someone. Research in this area has evolved from a focus on generalised perceptions to specific dimensions of reputation and their impacts on specific stakeholder decisions including customers, employees, suppliers, investors and regulators. A deep and rich strand of research continues to emerge on reputations within crises and scandals.

Trust

Trust is defined in the Oxford English Dictionary as a "firm belief in the reliability, truth, or ability of someone or something". Scholars have focused on trust as a fundamental ingredient within, or lubricant of, business activity, focusing on three dimensions that, when seen together, produce trust – ability, benevolence, and integrity. There has been much focus recently on rebuilding trust in business. One of the most interesting recent strands of academic and public debate concerns the question of whether there is in fact too much trust in business, as opposed to too little.

The Five Alignment Challenges

Alignment challenges address themes relating to the way that business orients

Continued overleaf ➜

Continued from previous page

itself to meet new and emerging societal issues. The key themes in this section are:

1. Organisational purpose, particularly the role of purpose as a guide (a north star which stakeholders can aspire to be a part of) or as a guardrail (shaping choices and investment decisions made by organisational leaders);

2. Governance including ESG, focusing particularly on how organisations act in environmental, societal and governance terms and how they choose to report, engage and communicate these actions;

3. Formal/Informal law and regulation, especially the boundaries where social approval assets should play a dominant (soft) regulatory role and the interaction of social approval and legal strategies;

4. Performance outcomes, with a particular focus on the way in which different reputations and trust contribute to organisational success/ failure, expose/mitigate business risk, inform key performance indicators ("KPIs") and enhance returns on investment ("ROI");

5. Stigma and crisis, focused on how organisations can differentiate themselves within stigmatised sectors and how they manage crises in increasingly fast-paced, hyper-connected VUCA ("Volatile, Uncertain, Complex, Ambiguous") societies.

The Five Practice Challenges

Practice challenges address themes relating to the adoption and deployment of business activities that pose both opportunities and threats for organisations and how they are perceived by key stakeholders.

1. AI and the adoption/use of new technologies, the success of which relies on perceptions of both the capability of the technology and the ethical frames that underpin its governance;

2. Activists and activism, with organisations keen to understand how to respond effectively to activist attacks as well as some more proactive guidance on how to advocate for change as activist actors in their own right;

3. Media systems and fake news - both strategies to handle fake news attacks and also how organisations can communicate effectively in polarised and distributed media systems;

4. Building aligned and motivated cultures, especially productive and supportive internal stakeholder engagement strategies;

5. Political engagement, with a focus on corporate policy engagement, corporate access and lobbying strategies, corporate donations and wider political funding. ■

To read the complete SERP report, go to socialevaluations.org. *The McKinsey study referenced is at* tinyurl.com/m49c5vk4*; the intangible value study by Jonathan Knowles is at* tinyurl.com/6pw8c7ux.

Alignment challenges

Alignment challenges address themes relating to the way that organisations orient themselves to meet new and emerging societal issues. To do this effectively, organisations need stakeholder engagement and approval, but there is a recognition that it is the responsibility of the organisation to take the first step, defining long-term principles and then applying them in everyday practice.

Organisational purpose

Organisational purpose has become a critical area of debate and discussion within business and between business and its different stakeholders. Purpose articulates *why* an organisation exists. In this respect, it differs from mission (*what* an organisation chooses to do) and values (*how* an organisation acts). Properly constructed, purpose discussions at the board should be anchored on long term strategies and planning horizons, acting as a directional "north star" as well as a "guide rail" to help board directors make choices on where to invest corporate resources. Correctly devised and executed, organisations with a clear purpose can use this to better allocate scarce resources, unite different publics, and drive efficiencies and performance over the longer term.

As purpose has become elevated within organisational discourse, so too have questions about how organisations can align all its assets and resources behind its stated purpose, how it confers organisational value, whether pursuit of purpose comes at the expense of financial performance, and how it can be measured. In addition to this lie foundational questions on how organisational purpose should engage with the most important intersectional challenges that affect us all: racial injustice, deepening economic inequality, migration and poverty, and the destruction of the natural environment. This broader frame opens up questions about the role of business in society, capturing what stakeholders now expect organisations to contribute towards or solve.

Key questions around purpose:

- What is corporate purpose, and how can it guide corporate action?
- How is organisational purpose different from organisational mission, strategy, and vision?
- What is the relationship between corporate purpose, ESG and CSR?
- What is the relationship between organisational identity and organisational purpose?
- What is the relationship between corporate purpose and corporate strategy?

Alignment issues:

- What happens when there is a misalignment between organisational identity (who we are) and organisational purpose (why we exist)?
- How can organisations align their purpose with their actions?
- What happens when an organisation's purpose and reputation diverge?
- What happens when an organisation's purpose is not action-guiding (e.g., in a crisis)?

The annual Oxford-GlobeScan survey of corporate affairs leaders provides revealing insights into how businesses and other organisations are calibrating post-pandemic priorities, including by geography and sector. Below is an extract.

REPORT: OXFORD-GLOBESCAN CORPORATE AFFAIRS SURVEY 2021

To set the scene for this year's analysis, respondents were first asked for their views on the most pressing risks that businesses are likely to face globally over the next two years. Of the 20 thematic areas listed, the top three critical risks cited were ESG performance (46%), pandemic responses (32%) and geopolitical risk (31%). While ESG performance has become the number one priority this year, it is the unsurprising arrival of pandemic management (up from 17th to 2nd since our last report) that has shifted the atmospheric emphasis towards more human concerns, such as social inequality, and away from the broader, perhaps longer-term, issues of macro-economic risks and regulation.

When viewed regionally, the order of these top three concerns is reflected in responses from Europe and the Americas, but shifts in both Africa and Asia-Pacific where ESG is followed by geopolitical risk (31% and 44%, respectively), perhaps reflecting China's sphere of influence, ahead of concern around pandemics (24% and 28%, respectively). Unique to Africa, regulatory pressures (28%) rate slightly higher than pandemics.

In sectoral terms, the highest levels of concern relating to ESG performance are seen in energy, extractives and manufacturing (50%) and food, agriculture and forestry (49%), as these industries review their business strategies to take account of greater social scrutiny. Pandemic concerns are most visible in ICT, media and entertainment (39%) followed by energy, extractives and manufacturing (37%), and food, agriculture and forestry (36%). When it comes to geopolitical risks and uncertainty it is no surprise that NGOs, research, IGOs and foundations view this as their most pressing issue (57%), but consumer goods and retail sector are also concerned (38%) as trade flows are adjusted and renegotiated.

The degree to which stakeholders trust a company is a significant driver of behaviour and a critical datapoint for corporate affairs strategy. This year's survey is an opportunity to judge how that has changed over the last 12 months of the pandemic. Other larger surveys on this topic abound, but what is distinct about the Oxford-GlobeScan analysis is that it looks more broadly at whether companies are trusted to operate in the best interests of society and respondents are exclusively from predominantly large, global companies.

Generally, popular opinion holds that multinational companies are faced with a lack of trust, but the results of both this and last year's surveys and those conducted separately by GlobeScan in the preceding three years show a different picture. This year, 41 per cent of corporate affairs leaders believe that stakeholders trust their companies to serve the best interests of society, a figure that has increased dramatically since last year (26%) and is now almost double what it was in 2016 (21%). This acknowledges the way in which companies have acted at pace and at scale in response to the Covid-19 pandemic. This figure is highest in Europe (48%) and in the consumer goods and retail sector (50%), while at the other extreme, the energy, extractives and manufacturing sector reports a much lower level of high trust (20%).

> 'The degree to which stakeholders trust a company is a significant driver of behaviour, and a critical datapoint'

Despite this significant increase in perceived trust, the broader context shows that companies remain well behind other institutions. GlobeScan's 2020 Radar public opinion survey shows that the most trusted are science and academic institutions (72%), followed by NGOs (40%), large charitable foundations (32%), and even government, albeit at a much lower level of perceived trust (15%).

As indicated in last year's survey and elsewhere, addressing ESG issues is now firmly established as an executive and board priority, and this year's analysis puts it firmly at the top of concerns to be addressed by the corporate affairs function. Delving deeper, the top three components of ESG this year are climate change (68%), net zero emissions (43%) and social inequality (30%). Companies appear to be more trusted than in the past and it will be interesting to see how responses on this metric evolve as the impacts of the pandemic begin to wane. What is driving trust in large global companies? The top drivers are integrity and honesty (59%), effective stakeholder relationships (52%) and committed and influential CEO leadership (49%). These are all elements that, as last year, speak to the character of an organisation.

Change to the integrity and honesty category driver is equally weighted across every geographic region, and stakeholder relationships are particularly important in Europe (60%). This driver is important in the NGO, research, IGOs and foundations sector and in the energy, extractives and manufacturing sector (86% and 61%, respectively). Committed and influential CEO leadership is an important driver of trust in all regions (50%), apart from Latin America where only 17 per cent see this as a key driver, and where community engagement initiatives are instead seen as more significant builders of trust (56%). Financial and professional services lead among all sectors on this driver (56%). The least significant drivers are philanthropy and charitable support in Europe (5%) and supply chain human rights in Latin America (6%). ■

For the complete survey see globescan.com/report-oxford-globescan-global-corporate-affairs-survey-2021/.

Lord (Mark) Sedwill is one of the UK's foremost experts on international affairs, as a former Ambassador to Afghanistan, National Security Adviser and Cabinet Secretary. At the recent G7 in Cornwall he chaired a panel on global economic security, and has been talked of as a possible future Secretary General of NATO. Here he sets out his new model of diplomacy to support sustainable economies and security, mindful of the need to enhance others' national reputations.

THE BIG INTERVIEW: LORD SEDWILL

For three gloriously sunny days in June, the UK played host to prime ministers and presidents from the G7 – the world's leading democracies of Canada, France, Germany, Italy, Japan, the UK and the US – to provide a "catalyst for decisive international action to tackle the greatest challenges we face". This year, that list included beating coronavirus, tackling climate change, and ensuring that people everywhere can benefit from open trade, technological change and scientific discovery. The UK also invited the leaders of Australia, India, South Africa and South Korea to join the summit, building on the idea to create a new and expanded group of democracies (what UK Prime Minister Boris Johnson called the "Democracy XI"). A particular focus of this year's meeting was on environmental responsibility, with Johnson establishing a clear link between the G7 and the UK's hosting of the COP26 UN Climate Conference in Glasgow in November.

It is an important year for the G7. Political, economic and diplomatic relations between some of the world's leading economies have become increasingly strained in the face of resurgent nationalism, populism and polarisation, and workable solutions and partnerships ever-more pressing. "In an era of climate action, demographic imbalances, disruptive technology and the requirement to rebuild global economies, productive co-operation and positive discourse between the world's leading democracies has never been more critical," as Sedwill puts it.

He is used to bridging gaps and building consensus. His early diplomatic career, after completing an MPhil in Economics at Oxford, saw him learn Arabic and build a professional specialism in the Middle East and South Asia. His initial postings were in Egypt, Syria, Jordan and Pakistan before he took on his first leadership post as UK Ambassador to Afghanistan in 2009. He built productive and close ties with other international institutions during his years in the Foreign and Commonwealth Office (FCO), becoming a UN weapons inspector in Iraq and later the NATO Senior Civilian Representative in Afghanistan. A security specialist at heart, he then returned to Whitehall, where a combination of his exceptional analytical speed and ability to focus on practical solutions saw him made Political Director at the FCO and then Permanent Secretary at the Home Office. It was from there that UK Prime Minister Theresa May appointed him first as National Security Adviser and then, in addition to this role, as UK Cabinet Secretary.

He is ideally suited to the G7 role that he has just completed. "My focus more broadly is on how national security must encompass defence, economic and democratic security, the rebuilding of the western alliance, and a more intelligent approach to handling the ambitions and activities of Russia and China," he says. His approach draws on the "fusion doctrine", an approach to global security that he created as part of the UK government's 2018 National Security Capability Review, which sets out a strategy to "deploy security, economic and influence capabilities to protect, promote and project our national security, economic and influence goals". Through this approach, Sedwill seeks to promote joined-up thinking, using soft skills and relationships alongside the hard levers of policy in achieving consensus on key global issues.

> 'Global security today rests as much on perception as it does on any underlying or objective facts'

"Global security today rests as much on perception as it does any underlying or objective facts. National pride, a sense of being on the right side of history, and projecting the right image are critical to national reputations and to the political careers of world leaders," he says. "Smart diplomacy understands this and seeks to establish pathways for negotiating partners to achieve the reputation capital they need – both at home and abroad."

The G7 economic resilience agenda reflected this. "When it comes to climate change, regional security, and post Covid-19 recovery, building resilient relationships requires a focus on shared wins," says Sedwill. It is not hard to see what he means. It would have been easy to imagine that the economic fallout from Covid-19 might have undermined efforts to improve governmental and corporate ESG (environmental, social and governance) initiatives. In fact, the opposite has happened. In 2020, ESG assets managed by registered investment companies rose by nearly 20% since the start of the pandemic, reaching $3.1 trillion according to US SIF, a global forum for sustainable and responsible investment. Meeting commitments on ESG targets requires integrated thinking – on economic, political and social levels.

"We operate today in a world where everything is connected," he says. "It is no longer sensible to conduct national security or economic policy separately from political, environmental or social agenda issues. I have argued for a new model when it comes to our relations with other governments. Diplomacy isn't just about talking to your friends. We need a consistent, coherent and comprehensive allied consensus in our new relationships with China, Russia and other large economies around the world. Put bluntly, the West needs to find a better path than lurching between 'Project Kowtow' and 'Evil Empire' approaches to international engagement. We need to contest bad behaviour when it disrupts global security or breaks international trade rules, but cooperate on climate change and the other big global social challenges of our time.

You could call it détente, but with different characteristics."

Within this context, it is not hard to see why Sedwill is rumoured to be a possible candidate for the next NATO Secretary General. While he himself will not be drawn on the rumours, it is clear that he already has powerful backers in both the US and in certain European capitals. Key to this is his ability to cut through complexity and build unity around immediate priorities. One such example of this was on display in Cornwall. His Economic Resilience panel put forward the idea of a new "Cornwall Consensus", an update to the collection of the US-led free market ideas and views heretofore referred to as the Washington Consensus. This was not just a slogan. The advisory memo that accompanies this set out an "ambitious agenda to build forward better from the pandemic", including broader thematic priorities alongside some concrete proposals such as a "Data and Technology Board" to govern the internet and a "CERN for climate technology".

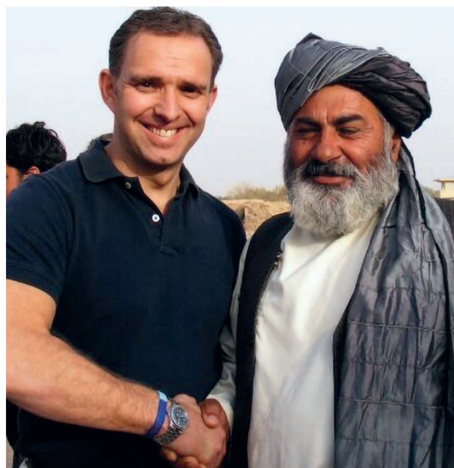
Stoltenberg will be a hard act to follow. He has done an outstanding job in his eight years in the role, building the integrated thinking required to achieve the global security and stability that NATO exists to protect. The support of the US is a critical element of the

'It is not sensible to conduct national security policy separately from political, environmental or social agenda issues'

appointments process. Traditionally, the military command of NATO sits with a four-star US General while the Secretary General post falls to a European. Sedwill has strong links with the US, particularly with the White House, Pentagon and State Department. It is partly because of these strong US links that he was appointed in 2019 to chair the Atlantic Futures Forum, an annual defence, security, technology and trade summit set up by the United Kingdom and US to discuss security issues and deepen the historic alliances and ties between the two nations.

Sedwill, like others coming out of senior government posts, has been in strong demand from other institutions and organisations. So far, he has been highly selective in what he has taken on – to date, a senior adviser role with Rothschild & Cie and an unpaid board trustee position at the HALO Trust, a non-political and non-religious British registered charity which removes debris left behind by war, in particular land mines.

For now, he is keen for the G7 discussions and commitments to be delivered and is looking forward to the UK's hosting of COP26 in November. "2021 is a big year for the UK, and one where we can really showcase our international standing and expertise. The G7 brought together the leaders at a critical moment for the world's leading democracies, reminding us all of the important role we have to play at a time of division, retrenchment and nationalism. We now have the potential to build on this at COP26, adding some much-needed additional new momentum behind global climate responsibilities. Building a new democratic consensus behind some of the biggest challenges of our time, starting with the environment, showcases what a leading international democracy like the UK should be prioritising." ■



Diplomacy in action: Lord Sedwill during his time in Afghanistan.

Lord Sedwill is a Visiting Fellow with our centre.

The second report from the Enacting Purpose Initiative, co-chaired by our director Rupert Younger, gives a US perspective on the growing recognition of the importance of sustainable and inclusive capitalism, and sets out how directors can work with investors to leverage purpose to address societal issues and sustain long-term value creation.

REPORT: BUILDING TO ADVANCE SUSTAINABLE CAPITALISM

Increasingly, stakeholders are asking companies to articulate and operationalise a corporate purpose that accounts for their impact on society and the environment. We start our report by summarising the context for these developments across the business, investor, legal and political domains. We then address the debate around the definition of purpose, drawing out examples of best practice, and outlining a new approach to measuring purpose developed by an interdisciplinary team of academics and practitioners. We hope this will prompt renewed engagement and build consensus among stakeholders.

The main body of the report captures insights from directors and investors. We set out the views of directors representing companies across different sectors in North America, or those who have significant operations there. These insights focus on the power of purpose as a driver of organisational value and alignment and capture the growing recognition that demonstrating purpose-led activity is no longer optional but an intrinsic board responsibility.

We then set out investors' views on purpose. Investors are increasingly focused on the value of purpose and seek to understand how companies and boards leverage purpose for competitive advantage as well as for meeting their environmental and social responsibilities. We identify an emerging consensus in several practical areas, which we set out in the section entitled "The Common Ground".

It initially seemed to us that directors felt they were doing all they could to communicate purposeful activity to investors. However, they found many investors to be uninterested unless it related to short-term profits. Likewise, we heard an initial view from investors that directors were not providing them with the information required to demonstrate a clear commitment to purpose or to undertake a proper assessment of whether such activities deliver shareholder value. However, as the discussions developed, we were encouraged to see common ground emerging across five areas: how purpose is owned; how directors and investors can ensure that they have the right information; how purpose informs and guides decision-making; how purpose is governed; and how purpose can best be communicated between directors and investors.

A "perfect storm" of developments increasingly requires that companies articulate and operationalise a corporate purpose that accounts for the impacts of their business on society and the environment. The business community is embracing the momentum behind a stakeholder-oriented view that aligns corporate purpose with broader societal interests. In August of 2019, the Business Roundtable renounced its decades-long commitment to shareholder profit maximisation by declaring that a corporation's purpose is to serve "all stakeholders", including employees, consumers, and communities. In January 2020, the World Economic Forum unveiled the *Davos Manifesto*, and declared its allegiance to "stakeholder capitalism". And, of particular salience to this report, the Enacting Purpose Initiative is a multi-institution partnership that includes over 60 corporate directors globally, reflecting the director community's commitment to corporate purpose. These developments reflect a shift in the business community that has been accelerated by employees, who are increasingly asking that their employers serve a purpose that is broader than profit maximisation.

> 'Employees are increasingly asking that their employers serve a purpose that is broader than profit maximisation'

The investor context

Due in part to the rise of index investing, capital is increasingly concentrated in large asset managers – sometimes referred to as "universal shareholders". Compared to less diversified investors, universal shareholders own stock in companies across the entire market, have long-term investment horizons, and are more sensitive to systemic risks like climate change, which can impact their entire portfolio. Universal shareholders perceive companies that neglect stakeholders as threats to the long-term sustainability of the global economy as well as their own value prospects. Thus, the more a company externalises its production costs onto society, the less tolerance universal shareholders have for systemic risk. This phenomenon has led them to take a more engaged stance, called "stewardship", that implores externality-generating companies to account for their impacts on stakeholders through purpose-driven governance. Investment managers are also responding to empirical evidence suggesting that management of risk and return requires considering the wider societal impact of corporate operations.

The legal context

Just a few years ago, it was common for the general counsel at even the most purpose-driven companies to advise against public proclamations of an expansive corporate purpose. Today, however, the changing expectations of investors and stakeholders have altered this legal risk calculus. A client memo drafted by the law firm Wachtell, Lipton, Rosen & Katz aptly sums it up: "The salient question has shifted from whether a board of directors should take into account the interests of stakeholders other than shareholders, to how a board should do so." Although directors are no more legally obligated to carry out their duties than they were before this paradigm shift, the law does not operate in a vacuum, and the changing priorities of investors and

other stakeholders have cast such duties in a new light.

One significant outcome of the shift toward stakeholder governance has been increased liability for boards of directors. Lawsuits against directors and officers for their failure to oversee and/or disclose environmental and social risks are on the rise, and boards are responding by turning to corporate purpose as an organising principle for effective risk oversight.

It also bears noting that, in the US, there is growing interest in new corporate forms such as the Delaware Public Benefit Corporation or the California Benefit Corporation that explicitly create a fiduciary duty to consider stakeholders. The Delaware General Corporation Law defines "public benefit corporation" as "a for-profit corporation… that is intended to produce a public benefit… and to operate in a responsible and sustainable manner. To that end, a public benefit corporation shall be managed in a manner that balances the stockholders' pecuniary interests, the best interests of those materially affected by the corporation's conduct, and the public benefit or public benefits identified in its certificate of incorporation."

2020 was a breakthrough year for public benefit companies: Lemonade and Vital Farms, both public benefit corporations, had "blockbuster" IPOs and did better than most of their traditional counterparts. Veeva also became the first public company to transition from a traditional Delaware Corporation to a Delaware Public Benefit Corporation, with over 99% of voting shareholders supporting the company's proposal. Institutional investors including BlackRock, State Street and ISS were among those who supported Veeva's conversion.

There are also many international changes taking shape that could impact the US legal context. For example, the British Academy's Future of the Corporation initiative has proposed, among other reforms, aligning British corporation law to create an affirmative fiduciary duty of directors to implement a corporate purpose that does not profit from negative externalities.

Breakthrough year: in 2020 Veeva became the first traditional Delaware corporation to transition to a Delaware Public Benefit Corporation.

The political context

While we are mindful that we cannot predict what the Biden-Harris administration can, or will, do in announcing his economic plan, President Biden offered a rebuke of shareholder primacy: "The idea that the only responsibility a corporation has is with shareholders: that's simply not true. It's an absolute farce. They have a responsibility to their workers, their community, to their country. That isn't a radical notion." The Biden administration has further emphasised that climate change, income inequality, and racial injustice are systematic risks that must be addressed to "build back better". As a result, many predict that the Securities and Exchange Commission (SEC) will implement mandatory disclosure of social and environmental risks and the Department of Labor will reverse its admonition that trustees disregard environmental and social issues as "non-financial".

> 'Lawsuits against directors and officers for their failure to oversee or disclose environmental and social risks are on the rise'

These predictions are already being borne out. In February 2021, acting SEC Chair Allison Lee issued a statement directing SEC staff to enhance their focus on climate-related disclosure and stressed the need to establish a climate change disclosure framework. In March 2021, the SEC created inaugural climate and ESG Task Forces.

These developments reflect a new political will to create a regulatory framework that incentivises companies to define their purpose in a way that is accountable to their impact on society and the planet.

Consistent with the findings in our first report, we continue to hear confusion about what purpose is and how it differs from values, mission and vision. Therefore, the first challenge that directors must address is defining purpose. We reiterate here the clarity that we put forward in our first report.

Purpose sets out why an organisation exists. The purpose of an organisation should be durable and relatively stable, lasting well beyond the tenure of any one leadership team. An organisation's purpose informs its mission, vision and values. More flexible than purpose, mission is what an organisation does, and it evolves as management changes their views on how to operationalise strategy. Values, by contrast, speak to "how" organisations act, and may include things such as transparency (when it comes to sharing information), courage and innovation (how employees aspire to perform), respect (with and between colleagues), or integrity and accountability (to customers and to other stakeholders). Finally, vision refers to where the organisation is heading. It articulates what successful delivery of purpose – orchestrated through the mission and delivered by the values – will produce. ■

To read the second EPI report, "Directors & Investors: Building on Common Ground to Advance Sustainable Capitalism", see www.enactingpurpose.org.

While we are still unable to host our usual annual Reputation Symposium in Oxford, we are delighted to see several pieces of work published this year that acknowledge the contribution of our community of scholars at previous symposia. Below left,

RESEARCH FOCUS: THE PUSH AND PULL OF CEO CELEBRITY

Over the past two decades, researchers have shown great interest in understanding the consequences of chief executive officer (CEO) celebrity. Defined as the degree to which a CEO elicits positive emotional responses from a broad public audience, CEO celebrity engenders considerable personal benefits for CEOs in the forms of increased pay, board seats, and protection from dismissal. At the same time, though, these CEOs' firms tend to suffer. Celebrity, it seems, pays off for CEOs but can cause combinations of complacency, risk-taking and hubris that harm firm performance.

Given that CEO celebrity has substantial effects for CEOs and their firms, it is essential to understand its determinants. However, researchers have paid relatively little attention to identifying the antecedents of CEO celebrity. This void may be due to an assumption that celebrity logically accrues to the best-performing CEOs, as journalists fall prey to the romance of leadership. Such an assumption, though, is at odds with the reality that company performance is only a minor predictor of CEO celebrity. As such, it is essential to ask: why do some CEOs become celebrities, while others with seemingly equal accomplishments do not? Boards, investors, employees, and even CEOs themselves stand to benefit from improved understanding of the factors leading to CEO celebrity.

CEO celebrity is relatively rare. The vast majority of CEOs, even of major firms, are unknown beyond their firm's immediate constituencies; a few are moderately known and admired by the general public; and fewer still are well known and admired by the broad national public. Drawing on the concept of media routines, which is the set of processes that media workers – especially journalists, the traditional gatekeepers in the celebrity-making process – use to do their jobs, we develop and test a theory that traces CEO celebrity to two intersecting considerations confronting journalists: 1) some story subjects hold much more appeal for audiences than others, and 2) some story subjects are much more helpful in the journalistic production process than others.

We refer to our framework as a push-pull theory of CEO celebrity attainment. Journalists tend to feature business leaders whom audiences will find intriguing, captivating, or at least comprehensible. Some CEOs make for better stories than others. As a result, journalists pull these CEOs and their stories to the fore. On the other hand, individual CEOs may or may not be eager participants in the media game. Some try to stay out of the spotlight, some are relatively neutral about media attention, and some avidly seek media attention.

> 'Journalists tend to feature business leaders whom audiences will find intriguing, captivating, or at least comprehensible'

In our theory, then, attaining celebrity is due to: a) the presence of appealing pull factors, b) the CEO's own use of push tactics, and c) combinations of the two. We argue that journalists are drawn to CEOs whose business actions are non-conformist – that is, distinctive, novel, or otherwise unusual. Thus, we hypothesise that CEOs who pursue non-conformist strategies relative to their industries are more likely to be cast as heroes in the media's dramas. Second, we posit that CEOs who are themselves unusual, or rare among CEOs, will capture journalists' attention – who, again, seek to feature unique stories. Thus, we hypothesise that demographically atypical CEOs, specifically women and racial minority CEOs, have heightened chances of becoming celebrities.

We also argue that CEOs' self-promoting push tactics will be useful to journalists, who face considerable time and information constraints. As a result, a CEO who engages in self-promotion is likely to receive higher levels of favourable media attention. We finally hypothesise that a CEO's use of push tactics in tandem with each of our pull factors further boosts their positive effects. We conceptualise celebrity as an ordinal construct with discrete gradations (i.e., A-list celebrities, B-list celebrities, non-celebrities), rather than as a simple binary phenomenon. We envision that most CEOs are relatively unknown on the national stage; a few are moderately known and admired; and fewer still are well known and admired. We test our theory using a novel CEO celebrity measure. Consistent with the definition of celebrity, we account for both the volume of media attention paid to a CEO and its positive resonance.

Our study's most immediate practical implications pertain to CEOs and their boards. For CEOs who aspire to achieve celebrity, our findings suggest that self-promotion efforts and distinctive strategic actions have some effect, but not nearly as much as the effect that comes from CEOs' distinctive personal attributes. For boards, who have ample reasons to be concerned about the darker consequences of CEO celebrity, vigilance is warranted in proportion to the CEO's self-promotion efforts and individual distinctiveness, or when CEOs pursue extreme and unconventional strategies. As such, our study helps to identify certain conditions where boards should be alert to the prospects of their CEOs attaining celebrity – and all that goes with it, including major risks for their firms – and when boards can be more sanguine about such possibilities.

*"The Push and Pull of Attaining CEO Celebrity: A Media Routines Perspective", by Jeffrey B. Lovelace, Jonathan Bundy, Timothy G. Pollock – all International Research Fellows with our centre – and Donald C. Hambrick (*Academy of Management Journal*, May 2021 -* journals.aom.org/doi/10.5465/amj.2020.0435*).*

Jeff Lovelace et al examine the antecedents and implications of CEO celebrity, while below right, Chenguang Li et al identify the effect of differentials in country reputations on investors' assessments of international acquisitions.

RESEARCH FOCUS: COUNTRY REPUTATIONS AND ACQUISITIONS

What means can market investors rely on to help them evaluate international acquisitions? We propose that investors rely on a country's reputation, which refers to the general perception of a country. More specifically, we argue that country reputation differentials, i.e., the directional difference in country reputation between the home countries of the acquiring and target firms, affect the perceptions of market investors due to social identity processes. This occurs since firms often are strongly associated with their home countries, whose traits frequently imprint on their firms. Thus, we expect investors to compensate for their limited knowledge via the reputations associated with the firms' home countries and then use these to help them evaluate acquisitions.

A large literature in strategy and finance finds that the more superior the acquirers' managerial and organisational capabilities are as compared to those of the targets', the more likely takeovers will be successful, as the acquirers are more readily able to identify mismanaged assets and take advantage of synergies by improving the combined firms. While exceptions to this rule of thumb exist, market investors generally assume that gains are highest when well-managed firms take over badly managed firms.

We build on social identity theory, which suggests that individuals classify objects into different social categories, to postulate that country reputation differentials affect the way investors

Refining ideas: Chenguang Li at our 2019 Reputation Symposium

evaluate international acquisitions, as countries are highly salient categories and a country's reputation allows investors to infer the capabilities of firms. In particular, firms from home countries with better reputations are perceived as having superior capabilities than firms hailing from countries with worse reputations. Moreover, acquirers from more reputable home countries likely face less opposition from targets from less reputable countries, as the latter are more willing to accept directions from the former and adopt a common identity, strengthening the favourable perception of such an acquisition. We further propose that additional information on the merging firms, including news media coverage, analyst reports, and the acquirer's prior takeovers, moderate the relationship between country reputation and market reaction, as they drive de-categorisation and lower the degree to which investors rely on country reputation.

> 'Investors will use the perceptions they have of a country to infer about the underlying traits of the country's firms'

Country reputation refers to a country's general perception shared by members of the public. It is based on personal experience and information received through public knowledge and recognition of the country and its attributes via international news coverage, tourism, expatriation, immigration, and exposure to cultural and physical goods, among others. During these interactions, an impression of the country's individuals, organisations and characteristics is formed. These impressions tend to be relatively homogeneous amongst different observers, due to social categorisation processes. Individuals subconsciously create classes of objects based on traits these objects seem to have in common. As individuals and firms from the same home country often share similar traits, nationality has become a natural and particularly salient classification category. Hence, we suggest that country reputation affects investors' evaluation of international business transactions, because investors will use the perceptions they have obtained of a country to infer about the underlying traits of the country's firms as a result of social identity processes.

While a multitude of factors can determine a country's reputation, prior work consistently shows that an advanced economy is a critical contributor to a country's reputation. Other dimensions of country reputation, such as a country's government and natural environment, relate to its economic development and the quality of its organisations, as economic success often stems from effective governments that provide the institutions for firms to thrive, while a beautiful environment can result from advanced technologies that prevent (excessive) pollution and waste. Therefore, firms with advanced technologies, capable management and workforces and, more generally, superior overall firm capabilities, significantly contribute to the reputations of their countries. In turn, firms from countries with good reputations will be viewed as having better capabilities than those from countries with bad reputations. Practitioners understand that organisations are embedded in environments that can significantly shape the way external stakeholders view their organisations; however, they may not always be tuned to the perceptions and reputations that stakeholders may have of their environments – such as home countries – when conducting business. ■

Extracted from "How Country Reputation Differentials Influence Market Reaction to International Acquisitions", by Chenguang Li, Oded Shenkar, William E. Newburry and Yinuo Tang (Journal of Management Studies, onlinelibrary.wiley.com/doi/abs/10.1111/joms.12706*).*

NEWS AND EVENTS

R:ETRO online: (from top left) Daniel Effron, Rita Mota and Alan Morrison

"Real-Time Brand Reputation Tracking Using Social Media", the culmination of research supported by the CCR, was recently published in *Journal of Marketing (journals.sagepub.com/doi/abs/10.1177/0022242921995173)*. It was co-authored by a team including **Gillian Brooks**, our former Eni Research Fellow, led by our International Research Fellows **Roland Rust** and **Ming-Hui Huang** (the data behind the paper are available from our website, below)**.**

In April, our director **Rupert Younger**, gave a presentation entitled "The Power of Yes, And…" at an online event organised by Joule, the business school of ENI, the Italian energy company. He also spoke on "Trust and Institutional Communication in Uncertain Contexts" in a seminar organised by Rome's Pontifical Holy Cross University as part of the webinar series Inspiring Trust.

In April our centre co-hosted a two-day event with partners including World Commerce and Contracting, entitled "Relational Contracts: Theory and Practice" – through our International Research Fellow **Lisa Bernstein**, Wilson-Dickinson Professor of Law at the University of Chicago Law School. Leading academics and practitioners participated, including Nobel Economics laureate **Oliver Hart** and **Ugur Sahin**, CEO of BioNTech Group.

Research by **Kevin McSweeney**, Postdoctoral Research Fellow at our centre – with Oxford Saïd colleagues Chris Moos, Michael Smets, and Tim Morris – was featured in a piece in *Forbes* in April: "Football, Fans And Finance: How UEFA Got The Super League Sent Off" (*www.forbes.com/sites/mattsymonds/2021/04/26/football-fans-and-finance-how-uefa-got-the-super-league-sent-off/?sh=34246df565bd*).

The last in the current SOAR (Stigma, Organisations, Authenticity, and Reputation) webinar series – convened by our Postdoctoral Research Fellows **Rohini Jalan** and **Eva Schlindwein**, with Professor **Tom Lawrence** – took place in April. **Kisha Lashley**, Assistant Professor of Commerce, and **Christi Lockwood**, Assistant Professor of Commerce, discussed "Contending with Janus's two faces: Managing history to preserve organisational reputation", with reference to their institution, the University of Virginia, and its efforts to contend with its relationship to slavery and to its founder, Thomas Jefferson. To read abstracts and view videos of SOAR webinars, see *www.sbs.ox.ac.uk/research/centres-and-initiatives/oxford-university-centre-corporate-reputation/soar-seminars*.

The R:ETRO (Reputation, Ethics, Trust, and Relationships at Oxford) webinar series continued in Trinity term, convened by our Intesa Sanpaolo Research Fellow **Rita Mota** with Oxford Saïd's Professor of Law and Finance **Alan Morrison**. See complete abstracts and videos at *www.sbs.ox.ac.uk/research/centres-and-initiatives/oxford-university-centre-corporate-reputation/retro-seminars*.

Nien-hê Hsieh, Professor of Business Administration and Joseph L. Rice, III Faculty Fellow, at Harvard Business School discussed his work on "Everyday Business Ethics" (with Rosemarie Monge)".

Celia Moore, Professor of Organisational Behaviour, Imperial College Business School discussed "When a Finger in the Dike Floods the Plains: Closing Loopholes Can Increase Subversion of the Law", using a simulation model "to show how closing avenues through which individuals and firms circumvent the law (use 'loopholes') can backfire, sometimes spectacularly so."

Daniel Effron, Associate Professor of Organisational Behaviour, London Business School, discussed "The Moral Psychology of Misinformation", examining the risk that in our arguably post-truth world, surrounded by fake news, "that people will sometimes judge misinformation morally permissible even though they do not believe it" and will share it as a result.

Kendy Hess, Brake-Smith Associate Professor in Social Philosophy and Ethics, College of the Holy Cross, discussed "Avoiding the Blame Game: Moral Responsibility in Corporate Contexts", considering the "question that always arises in the aftermath of corporate wrongdoing: 'Who's responsible?... I focus on the complexities of the 'who': does it include collective agents, like firms? If we hold the collective agents responsible, do we thereby hold their members responsible for too much, or too little? How are they responsible at all?"

In July, the centre launched our **Social Evaluations Research Priorities (SERP)** initiative, to help both researchers and practitioners identify important and relevant areas for future scholarship (see pp3-4). We also co-authored two reports, extracts from which are in this issue: the second report from the **Enacting Purpose Initiative**, co-chaired by our director Rupert Younger, "Directors and Investors: Building on Common Ground to Advance Sustainable Capitalism" (see pp8-9, and *www.enactingpurpose.org*); and the second Oxford-GlobeScan survey of corporate affairs leaders (see p5 and *globescan.com/report-oxford-globescan-global-corporate-affairs-survey-2021/*).

CONTACT US

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

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