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## The strategic management of corporate reputation:

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Abstract:

## *The Strategic Management of Corporate Reputation: the Leadership Challenge in Managing the Triple Bottom Line*

The paper puts forward a new Strategic Management framework which is designed to balance and integrate social, environmental and financial priorities. It emphasizes the relationship between certain critical managerial functions and leadership roles in building a positive, enduring reputation with major stakeholder groups. The model is based upon a study of a cross-section of local and international companies over the past 15 years.

There is now an abundance of evidence that reputation is the most valuable business asset. Recent corporate scandals around the world have demonstrated the high cost of a damaged reputation. It is argued in this paper that corporate reputation is the CEO's most important challenge. However, companies continue to treat it as a serendipitous side effect rather than as a performance accountability. The experience of Enron, Martha Stewart, Parmalat, AMP and National Australia Bank shows that this view can no longer be sustained.

An important feature of the new model is that it avoids the 'add-on' superficiality of most CSR programmes and the incomplete, unrealistic corporate sustainability prescriptions proposed by well-meaning commentators and critics. Instead, it provides an integrated performance accountability framework which attends to short-term business imperatives and long-term reputation-building fundamentals. The challenge for the CEO is to systematically ensure that the aspirations of the corporate mission become the realities of stakeholder perception.

Through a series of case studies, the paper explores the practical steps by which the leader and his/her team facilitate long-term adaptation without compromising short-term efficiency. Whereas conventional management functions centre on competitive strategy, organization structure and bottom-line performance issues, the critical leadership roles are about

communications, relationships and culture change. Moving beyond the work of Porter, Hamel and Prahalad, the paper provides a mechanism for creating and implementing a values-driven model of Strategic Management.

A starting point is the work of Mintzberg. He has argued that, just as effective corporate leaders perform a critical and multi-faceted role in defining the purpose and direction of the organization, so also do they play a vital part in establishing a consistent pattern of activities, practices and behaviours to achieve its objectives. If the aim is to build a successful and enduring organization, strategy cannot be viewed as a one-dimensional, unchanging pattern, plan or thread. At its best, it is a dynamic framework of integrated assumptions, ambitions, priorities, competencies and critical decisions about how to create and deliver value competitively and, if possible, uniquely. Looked at from this perspective, well-developed and effectively managed strategy should be evaluated in terms of the quality of the aspirational business mission and value-creating model and how well they are aligned with a compelling medium-term 'stretch' goal and related structural design, core competencies and corporate culture. In taking this approach it becomes apparent that there is no simple mechanism for measuring organizational performance. Ultimately, the truest performance measure is the extent to which the organization's vision and mission aspirations and values have become its reputation; that is, the strategy becomes the brand.

Reputation is difficult to define and measure but it can be an extremely valuable asset. Trusted and respected product brands have been shown to command significant price premiums and leading corporate brands are typically valued above US \$50 billion. Similarly, being perceived to have the necessary potential knowledge and competence to create innovative *future* brands and respected business enterprises can also have a major influence upon the valuation stakeholders place upon a company. The point has been severely driven home by recent corporate scandals and the world-wide stockmarket slump which directly confirmed the cost-benefit nexus between reputation and wealth. However, there continues to be a pervasive view, more likely bias, that one should only manage what can be measured easily and conveniently.

A sophisticated example of those who eschew qualitative approaches to corporate performance measurement is a recent article by Norman and MacDonald (2004). They highlight the way in which the rhetoric of what they call 'the 3BL' movement has masked the 'stunning omission' of its

practitioners to develop a methodology for measuring social and environmental performance. After pointing out this serious ‘academic lacuna’, they go on to argue the impossibility of providing a bottom line for what, after all, are value judgments. Furthermore, they assert that the uncritical assumption that ethics and social responsibility are ‘necessarily aggregative’ cannot be sustained because ‘you are not more ethical or responsible by making and keeping ten promises than you are by making and keeping one promise’. Norman and MacDonald conclude that, while acknowledging that there are firms genuinely committed to the principles of ‘3BL’, there is a serious danger that many will use it simply as a convenient smokescreen or public relations tool, as has been the case with many codes of ethics.

Although Norman and MacDonald have exposed some important obstacles to integrating corporate social responsibility into the mainstream of corporate performance management, they overstate the difficulty and ignore the deficiencies of the existing quantitative performance measures. From a strategic standpoint, all performance evaluation is subjective. Traditional financial, marketing and management performance data can be extremely superficial, short-term and misleading. What is a good budget? How do you decide whether a profit is satisfactory? Should a company have invested in a new market or expanded an existing one? Does the reduction in an organization’s payroll send a positive or a negative signal? The reality is that no bottom line performance indicators are a substitute for good managerial leadership and strategic thinking. In an environment of ever-increasing complexity, turbulence and uncertainty, the necessity for foresight, innovative capabilities and ‘both-and’ strategies has become incontestable.

The establishment of the Global Reporting Initiative (GRI) in 1997 was belated but powerful confirmation that an organization’s ability to win and retain the trust and respect of all its stakeholders is its most valuable asset. An international not-for-profit foundation, GRI’s mission is ‘to provide a mechanism that makes reporting on the economic, social and environmental performance of an organization as consistent, comparable and widely-used as financial reporting’. In advancing the cause of what it calls ‘sustainability reporting’, GRI has already made a significant impact with its Sustainability Reporting Guidelines, which have been adopted by over 250 leading organizations around the world. However, the major weakness of GRI, as the recent scandal involving Shell (one of its leading

players) demonstrated, is the failure of its 'Technical protocols' to address adequately the problems inherent in seducing top management to *sustain* an existing business model when their strategic priority should actually be business model innovation.

Recent moves within the chartered accounting profession have not only endorsed the general GRI stakeholder approach but have begun to address the need for an integrated corporate performance model which better accommodates economic and financial rationality. For example, PriceWaterhouseCoopers have recently undertaken extensive research on the creation, communication and perception of value. Based upon this research they have focused upon 'value' as the critical performance variable. The findings indicate that there is a consistent gap between management's view of a company's value and that of the market. This is due to an endemic failure by companies to provide reliable information on what the market considers to be key performance indicators. Among the neglected ingredients for reputation-building, and realizing the company's full potential value, are factors such as strategic direction, quality of management, intellectual capital, learning capability and brand management. A similar position is taken by another global accounting firm. According to Michael Bray, one of KPMG's most senior partners, the traditional reporting model, based on traditional accounting standards and financial statements, fails to communicate the sort of information about corporate strategy and its implementation that stakeholders require today. He stresses the need to address the proliferation of separate special purpose reports dealing with non-financial issues which are now appearing. They are not only difficult to handle but they also confuse the performance picture. In a recent paper published under the auspices of The Institute of Chartered Accountants in Australia, Bray argues for a comprehensive 'flagship report', including KPIs aligned to the interests of the various stakeholders, because 'A move from a regulated reporting model to a performance communications model is required to keep pace with business trends, facilitate the efficient allocation of economic resources and demonstrate the inter-relationship between business, environmental, social and macroeconomic performance'.

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