Title of Paper: **Corporate Reputation Risks: Gaps in Stakeholder Perceptions**

Conference Track: 3. **Organizational Issues**

Type of Paper: **Workshop**

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## ABSTRACT

*This paper looks at corporate reputation from the different perspectives of stakeholders. A survey of FTSE100 companies, investors and NGOs were carried out to measure the extent of reputation risks facing the companies when gaps in perception and differences in expectation exist. Stakeholders, having different set of expectations of companies, apparently place different criteria to judge performance. Although gaps exist, the survey however indicated that there is growing cross-influences among different interests and many companies are not adjusting to this change. The survey reveals some of the practices of highly regarded companies and current primary concerns.*

**Keywords:** *Expectation, Perception, Reputation, Risk, Stakeholder*

## INTRODUCTION

Marketing and management literatures are replete with research into issues regarding company image, brand values, corporate personality and identity. All these are inextricably linked to corporate reputation, a subject of increasing importance. Corporate reputation is most commonly identified by chief executives as an intangible asset which provide strategic and competitive advantage for increased performance (Hall, 1993, Hall, 1992). Companies with strong reputation attract higher caliber employees (Dutton, Dukerich, & Harquail, 1994), charge premium to their products (Brouillard, 1983), attract investment (Fombrun & Shanley, 1990), are trusted by their peers (Marshall, 1923), and respected by the general public (McIntosh, Leipziger, Jones, & Coleman, 1998). Companies are therefore motivated to build and maintain good reputation with key stakeholder groups. However, maintaining a balanced view of internal and external perceptions is difficult and may lead to gaps in expectations which pose threats to their corporate reputation (Corley & Gioia, 1999, Post & Griffin, 1997). Due to changing business environment and multiple stakeholder demands, even a well intentioned reputation initiative may be perceived differently from the external observer. The gap in perception is potentially a heavy risk shouldered by companies which invest heavily to win stakeholder attention. One way to measure the extent of this gaps is through a survey of key stakeholder perceptions. Thus, by working backward from perception to internal and external factors, we focus on high risk areas and priorities which brings about the gaps. At this point, a survey was conducted in preference to other methods to get a brief overview of current business situation. Other more precise approaches such as case studies will be designed based on findings of this survey.

The corporate reputation survey was carried out on the top 100 Financial Times companies (FTSE100) and major institutional investors and reputable NGOs. These were influential members of their own stakeholder groups and were anticipated to have large impact not just to the business but also to each others' interests. Twenty five organizations were selected to participate in the survey: fifteen companies, five NGOs and five investors. NGOs and investors were chosen to provide the highest contrast in external perception towards companies. Effectively, there are four groups of interest: the internal stakeholder from the company, the peers from other FTSE100 companies, the investors, and the NGOs. Gaps in perception between the internal and an external stakeholder indicate differences in expectation and constitute risks in the company's reputation. Gaps among external stakeholders show the differences in emphasis on what are the characteristics of a good company.

## STAKEHOLDER PERCEPTION

Freeman's (1984) review of stakeholder concept which he proposed as a strategic management approach of an organization, traced the practice to SRI International around 1963 where stakeholder theory was an important functions to its corporate planning process. The term stakeholder then was a generalized notion of the stockholder. The business environment in the modern times, more so in the US, are dominated by neo-classical economics where business profits is the prime end and other stakeholder matters such as the customers interests are the means to this end (Friedman, 1970). However, industry crises which littered the last couple of decades demonstrated strong influences on companies from other players within and external to the business environment such as the government, partners and activists. Exxon Valdez oil spill in 1989 and Nike's implication to labor abuses in the mid 90's are just a sample of events which had posed threats to the environment and the society. A recent study even claimed that public interest groups are more effective opinion leaders than financial analysts due to their broader reach to the general populace

(Brown & Logsdon, 1999). Each stakeholder now merits it's own claim, calling for response which eventually shape the company's reputation.

The question remains on who and what are key stakeholders. (Peters, 1999) stakeholder approach generalizes them into five main groups: customer, employee, partners and co-players, shareholders and society. Yet, within each, the definition can be as narrow as those having explicit contract such as investor or customer, or as broad as families, friends, and up to the entire sun-earth system. Identification of stakeholders are debated from several perspectives: quality and character of members, relative criticalness of the relationship, probability and impact of occurrence (Clarkson, Starik, Cochran, & Jones, 1994), cooperative potential and competitive threat (Freeman, 1984), power and legitimacy, geographical and temporal proximity, strategic utility, management preference (Carroll, 1993), human, non-human, and non-living entities such as past or future generations (Starik, 1993). Mitroff (1983) added that the psychological states of the mind also have effect on the company and therefore proposed mental archetype as a possible stakeholder. Indeed, a complex relationship around the company with multiple stakeholders is easily possible. Each of these stakeholder group have its own set of interests and expectations from a company (Freeman, 1984) and complication occurs when multiple interests conflict. Different management styles, industry concerns, internal culture and corporate structures further exacerbate the management of stakeholder interests. For that, a measure of the perception of corporate reputation serves as an indicator of performance on top of all these complexities.

When approached from a perception point of view, the stakeholder concept is a natural choice to study corporate reputation. Perception exists in the minds of people. Our case of stakeholdership is therefore limited to people. Another closely related concept and more established in marketing is the corporate image. Corporate image is temporal and is an individual phenomenon and therefore is not a property of the company itself (Cohen, 1963). Corporate reputation, on the other hand, is a cumulative effect over time and which involve both internal and external stakeholders (Fombrun & Rindova, 1996). Images are strengthened by consistent messages generated directly by multiple channels of the company, such as advertising, annual reports, public relations, or indirectly such as by the media (Rindova, 1997). Inconsistency weakens the image and results in nebulous reputation. People will question what lies behind the inconsistencies, as they become more sophisticated and aware of corporate issues when information is readily exchanged (DiMaggio & Powell, 1983) or as they become members of different stakeholder groups, for example an employee can also a become a customer, a shareholder and a member of the society. It is therefore important for companies to maintain a coherent front across multiple stakeholders and across time to build a solid reputation.

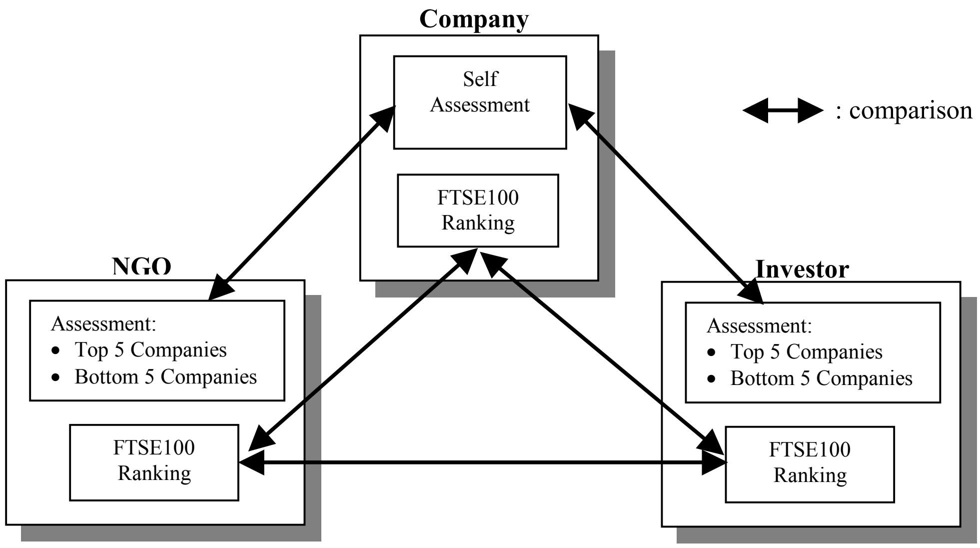
## METHODOLOGY

The survey targeted the top 100 companies on Financial Times index (FTSE100), institutional investors and non-governmental organizations (NGOs). FTSE100 companies have influence over large stakeholder groups as well as having profound impact to the society and environment where they operate. Institutional investment is the largest form of shareholding in the UK and those selected have substantial funds invested in the FTSE100 companies. NGOs are proxies of the social and environmental interests and we have chosen those which deals with a range of issues including ethics, transparency, environmental protection, consumerism, community welfare, health and safety. Questionnaires to companies were all sent to the CEOs and were passed on to relevant persons who oversee the overall management of the reputation, or who may provide an overall strategic view of the company.

Questionnaires to investors and NGOs were sent either to heads of the organizations or to officers in charge of corporate matters of major UK companies.

The questionnaires sent to these three groups were designed to collect information of their perceptions on issues of the same interest, thus enabling the measurement of gaps in perceptions. In addition, the survey to companies included a self-assessment to gain insights on the practice of reputation management in the company. This assessment covers four major areas: strategic, operational, communication and external influences with regard to the management of reputation. Surveys to investors and NGOs mainly gathered their opinions on the overall reputation of FTSE100 companies as well as assessment on strengths and weakness of the highest and lowest regarded companies of their choice.

**Figure 1 Survey Framework**




In addition to the questionnaire, further data were collected from company reports and websites of participating companies and institutions. Comparisons on the responses were made to measure the gaps in perception on group and individual bases. Further collation of data enable the identification of best practices and drivers of reputation.

## FINDINGS

Respondents from companies belonged to different departments as follows, indicating who are primarily involved in reputation management:

| Position | Number of Companies |
|---|---|
| Chairman | 1 |
| CEO | 1 |
| Head of External Affairs | 3 |
| Head of Corporate Reputation | 2 |
| Head of Communications | 3 |
| Head of  Corporate Affairs | 2 |
| Head of Brand Management | 1 |
| Head of Media Relations | 1 |
| Group Policy Advisor | 1 |

'Head' can be either a vice president, a director or a group head in charge of the particular function. The profiles apparently indicate a high degree of importance on corporate reputation which largely revolves around communication and external functions. The followings are the main questions and percentage of responses fielded.

*How would you rank the following stakeholders in order of importance to the overall corporate reputation?*

A basic question we asked to companies, NGOs and investors was how they regard each of the FTSE 100+ companies on a scale from 'Exceptional' to 'Poor'. The intention is not to make any judgement or comparison on their performance but to measure the perception of companies by their peers and external stakeholders. This perception, considered a spontaneous and natural choice, is a culmination of many occasions which the respondent had experienced, read or heard, and which underpinned his or her decision process.

**Figure 2: Corporate Reputation of FTSE100+ Companies by Peers, NGOs and Investors**

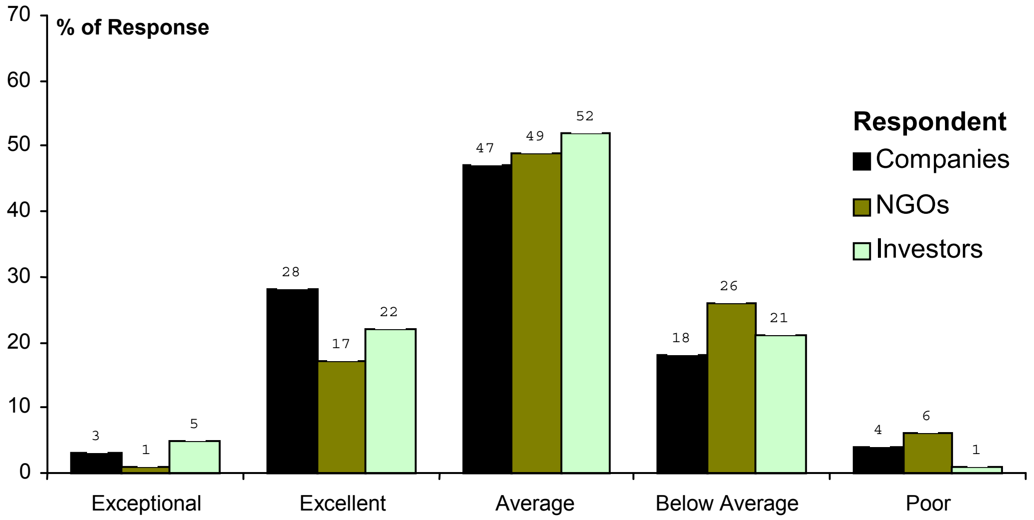
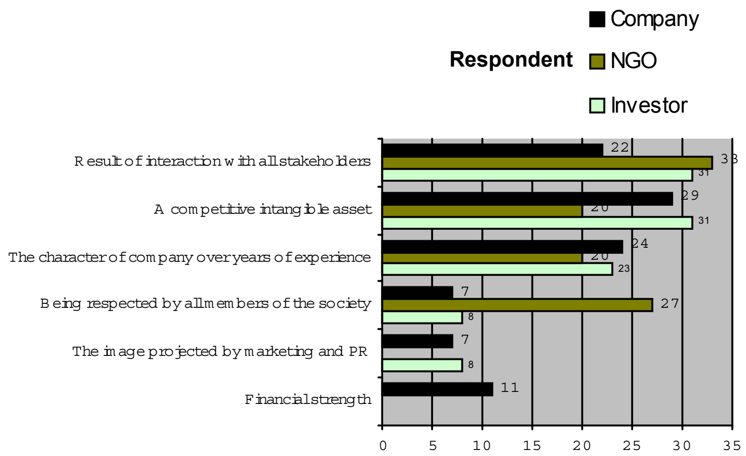



Figure 2 shows the result of this survey. Investors tend to view companies more positively than NGOs as indicated in categories 'Exceptional', 'Excellent' and 'Average'. There are higher responses from NGOs in the lower categories, i.e., 'Below Average' and 'Poor Performers'. 79% of investors voted the companies as being average and above, compared to 67% of NGOs. The different views apparently come from the fact that most NGOs exist to defend the rights of certain groups or interests while investors try to encourage investment in these companies. However, many of these companies have demonstrated admirably in the face of crisis, despite the adverse nature of their business. Some of these companies are highly regarded consistently by companies, investors and NGOs alike. On the other hand, we receive mixed reactions on poorly reputed companies where financial returns and socio-environmental track records are in conflict. Examples include financially sound companies in the tobacco and defense industries as having poor reputations.

*How would you define corporate reputation?*

**Figure 3 Definition of Reputation**




About 30% of companies, NGOs and investors consider 'Interaction with all stakeholders over time' as a defining factor, compared to less than 10% for the old notion of the 'image' being projected by public relations and marketing and forces. Between 20% and 30% of respondents also believe that reputation is a competitive asset to the company. This indicates that mere communication through publicity is insufficient in establishing a good name. Interestingly, only a few companies, not even the investors in our sample, claim financial strength as contributable to reputation.

*How would rank the following stakeholders in order of importance to your overall corporate reputation?*

**Figure 4 Stakeholder Priorities**

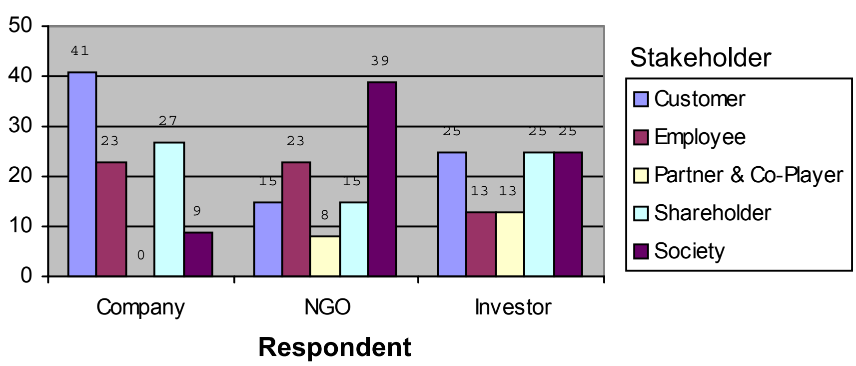


Figure 4 shows the response rate of the first choices. Most companies chose ‘customer’ (41%) and most NGOs chose ‘society’ (39%). This is evident from the emphasis given by companies to focus on increasing shareholders’ and customers’ satisfactions and to improve on financial bottom-line profits. NGOs’ emphasis is predictably on social and environmental concerns. In general, there is a strong negative correlation between the priorities given by companies and that of NGOs towards stakeholders. Interestingly, investors indicated a high degree of importance on social issues, comparable to that of financial factors. This indicates the increasing importance of non-financial factors in investment decision making. Further findings also showed that most respondents relegate partner & co-player as the least important among the stakeholders.

*How are effective are the communication channels?*

**Figure 5a Communication between Company and NGO**

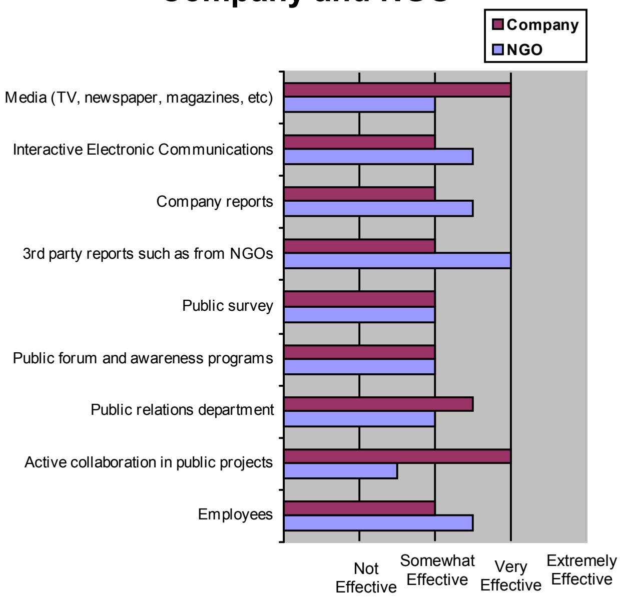
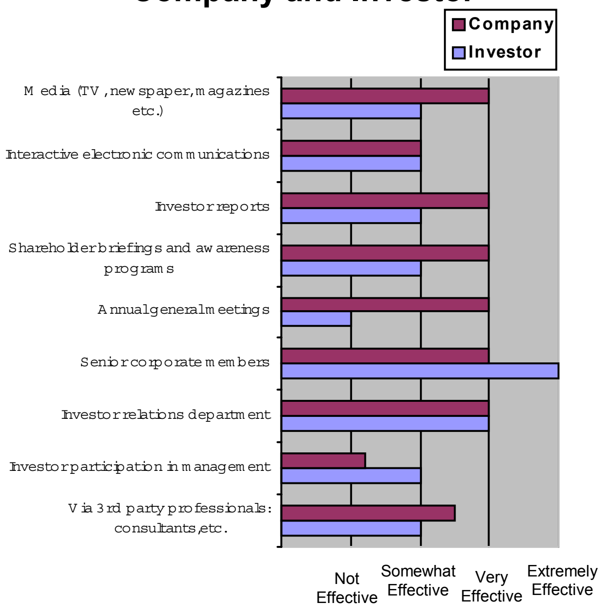



**Figure 5b Communication between Company and Investor**

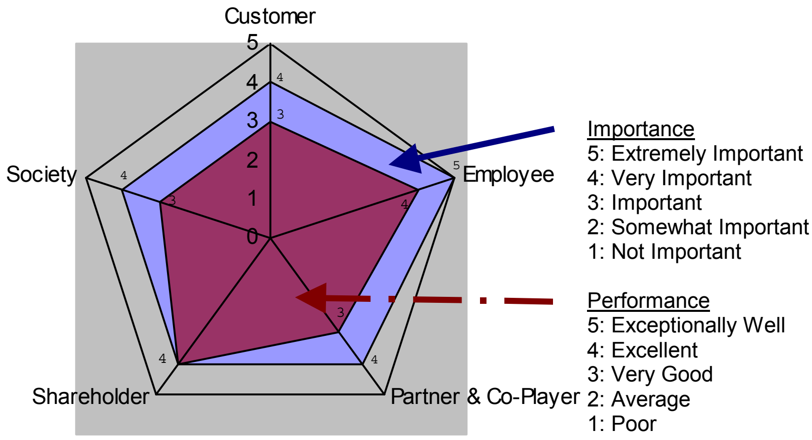



Figures 5a and 5b showed the effectiveness of communication channels to society and shareholder, respectively. In this case, the common responses from companies, NGOs and investors fall into three categories, i.e. 'Very Effective', 'Somewhat Effective' and 'Not Effective', which counts towards 80% of the total response. Overall, companies cited the media (TV, newspaper, magazines etc.) and newsletters as among the more effective means of communication to all stakeholders. This view is however not strongly shared by investors and NGOs. From Figure 5a, NGOs find reports from their peers as most useful followed by employees and the Internet. Surprisingly, collaboration in public projects, although viewed as constructive by companies, is deemed not as effective by NGOs. In Figure 5b for investors, AGMs do not provide ample opportunity to find out about companies, on the contrary to what companies themselves claim. Instead, investors prefer to interview senior management to gather information. Additional findings also note that interactive electronic medium such as the Internet is not very much exploited by most companies. Since these main findings are between 70% and 80% of the total response and reveal some major opinion discrepancies, there are risks that communication breakdown and failure to utilize effective channels may stall efforts for reputation management.

*How responsible are companies to stakeholders?*

Companies were inquired on how they felt about the importance of different stakeholder interests and how they have performed in serving these interests. For each stakeholder, a range of issues and interests was being queried. Figure 6 below indicates the aggregate score for all stakeholder interests in terms of their importance and company performances.

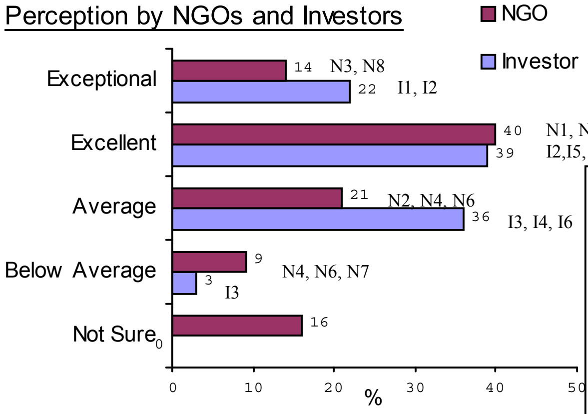
**Figure 6 Responsibility to Stakeholders: Company Self Assessment**




From this survey, companies find themselves most responsible to their employee, followed closely by customer. Most companies felt they have performed well in addressing the interests of employees and shareholders, particularly on labor rights, employee development, and the management of company finance and assets. Apart from shareholders, most respondents felt that there is room for improvement as suggested by the gap in importance vs. performance. Main concerns include healthy and safe working condition for employees, transparency, environmental concerns and respecting the law and culture of local community.

In addition, NGOs and investors were asked on five of the highest regarded and five of the poorly regarded companies on their responsibilities to society and shareholders. The feedback indicated the areas in which these companies have significantly contributed and in other areas which can be improved on.

Figure 7a: Highly Regarded Companies - Perception by NGOs and Investors




Responsibility to Society
N1: Respect culture and law of the local community
N2: Promote human rights whenever the opportunity arises
N3: Contribute to local economies by investing in the local community
N4: Promote fair trade that is sensitive to the needs of local economies
N5: Being responsible for the health and safety of the local community
N6: Show sensitivity in dislocation towards local communities
N7: Protect the environment where the company operates
N8: Disclose any information which is of concern to the society

Responsibility to Shareholders
I1: Ensure a competitive return to the shareholders
I2: Conserve, protect and increase assets of the company
I3: Promote environmentally sustainable investment
I4: Fosters investment in healthy and safe practices, procedures, products and services
I5: Provide truthful and timely information to shareholders
I6: Respect significant request made by shareholders

Figure 7b: Poorly Regarded Companies, Perception by NGOs and Investors

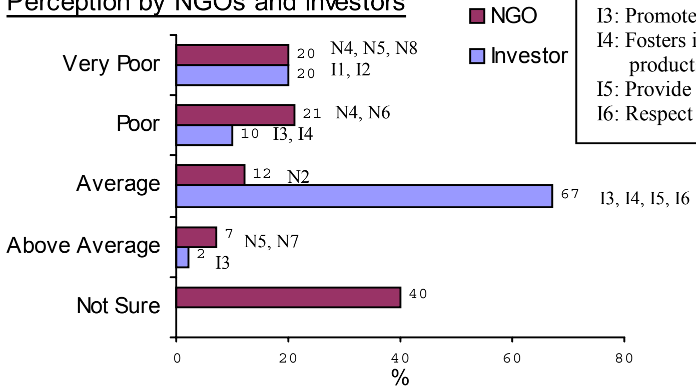



Figure 7a illustrates the response from NGOs and investors for the highly regarded companies and Figure 7b is for poorly regarded companies. As shown in Figure 7a, top companies exhibit strength above the others in areas concerning transparency, and various social welfare programs which improve the economic and social conditions of the local communities. However, as do most other companies, top companies also need to improve on the protection and sustainability of the environments where they operate. Bottom performing companies are inflicted by a host of corporate maladies. Of concern is the sensitivity to the trade, health and safety of the local community, as well as transparency, management of their assets and finance for shareholder returns. Interestingly, quite a high percentage of response from NGOs falls under the ‘Not Sure’ category, an indication of low awareness of many corporate issues among NGOs.

*How Extensive Is Your Reputation Management and Awareness Levels?*

Two questions, i.e. cross-functional and functional, were fielded to gather information on how much reputational elements are embodied in different corporate areas. The two perspectives will indicate the breadth and depth of reputation management initiatives.

**Table 1a Extent of Reputation Management**

| | |
|---|---|
| Vision & Mission | 22 % |
| Corporate wide strategy | 18 % |
| Operations, systems, procedures | 16 % |
| Communication programs | 16 % |
| Specific reputation policy and plans | 14 % |
| Corporate culture and awareness | 14 % |

**Table 1b Extent of Reputation Management in Corporate Functions**

| | |
|---|---|
| Public relations and communications | 16 % |
| Human resources department | 16 % |
| Legal department | 12 % |
| Finance department | 12 % |
| Risk/Crisis management team | 12 % |
| Production & operations | 8 % |
| IT management | 8 % |
| Customer services and marketing | 8 % |
| Research & development | 6 % |
| Purchasing department | 4 % |

From Table 1a, the drive for improvement on corporate responsibility leading to strong reputation is generally viewed as coming from the top management and eventually rests on the employees. Reputational elements are most established in the vision and mission statement (22%) and least established in the awareness among employees throughout the company (14%). From functional perspective, the reputation management is most established in corporate functions such as the public relations, communications and human resources departments, and least in the operational sectors such as production, customer services, R&D, and purchasing where direct contacts occur with the stakeholders on a day to day basis. This is apparently a concern since interaction with stakeholders primarily occurs among employees at operating levels.

This is further supported by another finding where low awareness is among the major barriers to the success of reputation management (Table 1b). Other major barriers include difficulty in integrating the corporate plan, and quantifying the success and returns on reputation given its complex and intangible nature. These difficulties are compounded by the fact that large companies such as those in FTSE100s consist of multiple businesses operating in many different economic, financial and political environments.

*What Resources Are Allocated for Reputation Management?*

In the survey, we asked the companies on the type of resources allocated to the management of areas which count towards the company reputation, either directly or indirectly. In the first instance, human and financial resources are allocated at the corporate level to actively manage the overall corporate reputation. In our findings, 80% of the companies have a designated group to oversee the overall reputation of the company, and of these, 67% of them report directly to the CEO while others report either to the board of directors or a senior group manager. This implies that there was common strategy that applies throughout the company. 86% of the companies have at least 1 Million pounds at their disposal to carry out tasks such as policy development, monitoring and control, and stakeholder relations. Table 2 shows all the areas involved. Although the budget maybe small compared to their annual revenues, the importance is evident from its reporting structure. The other 20% of companies without any dedicated resource delegate these duties mostly to the corporate public relations, communications and finance department.

**Table 2 Functions Reputation Management**

| | |
|---|---|
| Monitoring and reporting | 16 % |
| Policy development | 16 % |
| Stakeholder relations | 16 % |
| Advisory/Consulting | 11 % |
| Audit | 11 % |
| Control | 11 % |
| Research | 9 % |
| Facilitation | 7 % |
| Administration | 5 % |

*What Are The Triggers and Barriers to Reputation Management?*

Certain events took that took place during the corporate lifetime may trigger an increased effort in reputation management. Table 3a shows what companies believe to be most common to them. On the other hand, Table 3b shows the kind of barriers to these efforts.

**Table 3a Reputation Management Triggers**

| | |
|---|---|
| Senior management | 15 % |
| Business environment changes | 14 % |
| Leadership changes | 12 % |
| Employee motivation | 12 % |
| Marketing and client drives | 8 % |
| Redefinition of vision and mission | 8 % |
| Corporate restructuring | 7 % |
| Regulatory changes | 7 % |
| Shareholder drives | 7 % |
| Crisis | 5 % |
| Business trends | 3 % |
| Activist groups | 2 % |

**Table 3b Reputation Management Barriers**

| | |
|---|---|
| Difficult to integrate plans | 25 % |
| Difficult to quantify success/returns | 21 % |
| Low awareness of stakeholder concerns | 18 % |
| There are other pressing priorities | 14 % |
| Unfavorable media coverage | 11 % |
| Conflict of interests from different stakeholders | 7 % |
| Not enough experienced people to hold responsibility | 4 % |

As shown in Table 3a, the most common trigger factor, i.e. senior management at 15%, reinforces previous findings that reputation management follows a top down approach. The top drivers, apart from the external business environment changes, are internal and people initiated: leadership, managers and employees. Commitment from every personnel is crucial particularly to large companies such as the FTSE100s which consist of multiple businesses operating in many different economic, financial and political environments. Results from Table 3b confirm the difficulty of integration (25%) of such initiatives. The next two major barriers, quantification (21%) and awareness (18%) are characteristic of the interdependent and intangible nature of reputation. At the operating level, for instance, the challenge is to increase awareness among employees on the implications of their operations to the consumers, shareholders and society.

## DISCUSSION

Several gaps in perception are evidenced in the survey results. Generally speaking, NGOs have less favorable outlook towards companies compared to investors. Peers lie somewhere in between. However the difference between the extremes are not significant, only around 10% to 15%. This could tie in with the increasing interest within the investment community in the areas of corporate social responsibilities, health and safety and ethics where benefits are not obvious, quantifiable nor immediate. However, this development is not reflected in most companies where immediate financial gains still remains priority. We observed only three companies which are successful in balancing the interest of all stakeholders to increase shareholder value. Perhaps closely related to this is how companies communicate to and from external stakeholders on current business interests. Communication is complicated by various means of conveyances including management, employees, product, brand and the media. Our findings show instances of disagreement on the best means to carry information, potentially resulting in communication breakdown. In addition, some companies with excellent mechanism to communicate, and even admit its efficiency, yet are poor in the eyes to stakeholder simply because the messages do not appeal to their emotions. Top companies, however, effectively use employees to communicate with external parties. In this survey we observed three companies which deployed performance contract to binds all levels of management and employees to social and environmental targets which are reviewed annually. In addition some of these companies designate regional managers who are familiar with the local condition, to devise and carry out social activities that address local concerns. These two approaches were found to be effective in overcoming the low awareness among employees of stakeholder concerns, and reflected in the higher rankings of these companies. Consistently, we observed that top companies demonstrate sensitivity and commitment from both managers and employees, far above their peers in the industry.

Apart from the gap, we observe agreement in some other areas. Participants across the board agree that reputation goes beyond the traditional notion of marketing and public relations. This calls for broader scope in areas of responsibility when it comes to dealing with reputation. Although communications leads other functions, other departments have been quoted which include finance, marketing, IT, HR and even the board where broad strategies are devised. However, most of these companies admit the extreme difficulty in putting the plans down the operational levels.

Other general concerns are noteworthy. What strikes most is an apparent admission to poor management in even established areas such as health, safety and transparency in the internal operations. Average and poor companies suffer different degrees of complacency and flawed optimism of their own achievements. The effect is even more pronounced when a network of organizations is left to flout standard regulations. As shown in the survey, there is the lack of emphasis across the board on the role of industry partners & co-players to help build good reputation. All three respondent groups, i.e. companies, NGOs and investors, regard partner & co-players as least important. This is a potential area to be explored in an economy where a company is increasingly dependent on suppliers, distributors and all sorts of outsourcing agents, yet the reputation still remain with the company.

## CONCLUSION

In conclusion, the survey confirm that perception gaps, therefore reputational risks, exist among the three participant groups. Some interesting findings which stem from these gaps led us to believe that reputation management is increasingly of interest to major companies which view reputation as more than pure marketing and public relations pitch. On the other hand, different external stakeholders recognize the multiple concerns of each other and seek to understand and apply pressure for a long term and sustainable existence of companies within a social context. Gaps exist due to differences in priorities, poor understanding of external concerns, and ineffective communications between internal and external players. Top companies who are admired by different stakeholder groups, however, exhibit commitment and sensitivity above their peers in addressing multiple stakeholder concerns which brought about these gaps.

Surveys of this kind have its limitation but there are plans to design a more focused study based on available results. The design of the questionnaires is such that tight coupling of the three groups of participants is required to measure gaps in perception. We regret that some interesting cases cannot be analyzed in more detail due to inadequate information from any of the participant groups. Furthermore, the solicitation of one person to represent the entire organization in such a vague area of reputation is arguable. However, some of these findings are consistent with previous works. Regardless of these limitations, the approach in looking at gaps provides an attractive alternative and further survey to cover other stakeholders is suggested. A regular survey of this kind is useful to track the changing business and social environment in which reputation is defined.

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