Why and how leaders can navigate reputation among multiple stakeholders

William S. Harvey, University of Exeter Business School

Abstract

Over the past decade, there has been a steady trend towards broadening the purpose of organisations and leaders widening their engagement with different stakeholders. This chapter focuses on the multi-stakeholder challenges that leaders face in managing their personal reputations and the reputations of their organisations. Leadership engagement with multiple stakeholders is accelerating because of shifting expectations and because of the speed that news is shared among large populations through social media and social media influencers. What leaders show to stakeholders through their actions and how they engage with them will have long-term implications on their reputations. Hence, it is timely for leaders to understand why and how they can navigate reputation among multiple stakeholders.

Stakeholder engagement

In the last few decades there has been a slow shift away from agency theory to stakeholder capitalism. Agency theory stems from the 1970s when some information economists referred to the agency relationship between one party (the principal) who delegates work to another party (the agent) (Eisenhardt, 1989), using the example of a contract to illustrate problems of cooperative effort (Ross, 1973; Jensen and Meckling, 1976). This body of literature has morphed into debates around the relationship between leaders and shareholders (Hill and Jones, 1992) and has been applied more broadly to the argument that leaders and boards should primarily focus on shareholder value (Bower and Paine, 2017).

There has been a wider acknowledgement of the contractual relationships that organisations have with a broader group of stakeholders such as employees, customers, suppliers, creditors, communities and the wider public (Hill and Jones, 1992). Each stakeholder provides the organisation with some kind of resource and in exchange they expect their interests to be satisfied (March and Simon, 1958). Shareholders, for example, provide the organisation with capital through buying shares and in return they expect a favourable return on their investment. Employees, on the other hand, provide organisations with their time, skills and expertise, and in return they expect a fair wage, good working conditions and positive career prospects. Hence, organisations need to carefully consider their exchange relationship with multiple groups.

Stakeholders differ in the size of their stake in the organisation (Hill and Jones, 1992). Each person within a stakeholder category holds a unique exchange relationship with the organisation depending on their investment in specific assets (Williamson, 1984). The stake of employees, for example, is high when their skills are not easily transferred to another organisation (e.g. a manager developing a niche product or a consultant working with a specific client base), compared to employees whose skills are more easily transferable (e.g. a factory worker on an assembly line or a receptionist in an office). Leaders play a particularly important role in exchange relationships because they are connected with all stakeholders (e.g. board members, senior managers, employees, investors, regulators and unions) and have strong control over the decisions of the organisation. The consequence of this is the actions and behaviours of leaders have a major impact on the reputation of the organisation, which I define as:

> *The multiple perceptions of an organisation made by different stakeholders, based on their evaluations of the past capabilities and character of the organisation, and their assessment of its ability to provide future contributions.*

In short, while agency theory is important for explaining the agency relationship, leaders must recognise why and how they can manage a wider set of relationships.

Purpose

The recent historical primacy towards the corporate shareholder has started to receive significant attention. The Business Roundtable (2019), an influential body that represents the chief executives of 181 of the largest companies in the United States, modified its principles on the purpose of the corporation in 2019, in particular moving away from shareholder primacy to a commitment to all of its stakeholders. The year before across the Atlantic, the British Academy (2018) published an influential report on *Reforming Business for the 21st Century*, which called for a reemphasis towards the purpose of the corporation, which should come before discussions of profit:

> *"Corporate purpose is the reason why a corporation exists, what it seeks to do and what it aspires to become. Profit is a product of the corporate purpose. It is not the corporate purpose" (British Academy, 2018: 8).*

The emphasis on purpose has been emphasised in a wide-range of outlets, from Gast et al.'s (2020) article in *McKinsey Quarterly* on a 'company's core reason for being', to Malnight et al.'s (2019) article in *Harvard Business Review* highlighting the importance of businesses placing purpose at the core of their strategies, to *The Economist* (2019) asking 'what companies are for'. These articles and many more that are too numerous to cover here are questioning what the purpose of organisations is, how this should be decided and by whom.

However, let us assume that organisations have identified a noble purpose, how can this translate into desirable values and behaviours? The purpose may be something that is determined by the structure of an organisation, its governance code or its membership of a formal network. This may make it more difficult, but not impossible, as the example of the Business Roundtable statement above shows, to change the attitude of organisations. However, uplifting statements are not the same as action on the ground, which I now turn to.

What are businesses doing on purpose?

The Triple Bottom Line (TBL) is a fashionable concept that was allegedly coined by John Elkington in 1994. Elkington (1997) argues that the TBL agenda is not only about the economic value, but also the environmental and social value that organisations add or destroy. This is not new and has similarities to stakeholder theory (Freeman et al., 2010).

Norman and MacDonald (2004: 247) argue that many people who talk about the TBL are essentially referring to corporate social responsibility (CSR) because the emphasis is taking environmental, social and financial issues seriously, rather than measuring, calculating and reporting on the social bottom line. The authors suggest that there is an absence of using data to calculate a social bottom line and question whether it is even possible to calculate a meaningful social bottom line for an organisation. They recognise that however flawed its inclusion, drawing-on accountancy language has been important for gaining legitimacy among certain business circles compared to the perceived fuzziness of other concepts such as CSR and sustainability. Notwithstanding some scepticism around the TBL, prominent events such as the Me Too movement, Black Lives Matter, UN Climate Change Conferences (known as COP), extreme weather events, new patterns of living and working during the coronavirus pandemic have started to question the actions of organisations and to formalise and codify a commitment towards economic, environmental and social issues.

Certified B Corporations (B Corps) are arguably an example of how people, planet and profit are starting to work in tandem. B Corps are a community of certified businesses that are purpose-driven. B Corps are expected to meet the “highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose” (B Corporation, 2021: np). B Corps consider profits and growth as important vehicles for supporting a wider group of stakeholders, including employees and members of the community. There are many prominent examples of B Corps, with perhaps the most notable being Patagonia, the outdoors company, which in the 1980s imposed a 1% earth tax on itself to donate to grassroots environmental organisations. 70% of its products are made from recyclable materials, with the goal to be using 100% renewable or recycled materials by 2025. In 2019, the company received a UN Champion of the Earth award, which is awarded by the United Nations Environment Programme for putting sustainability at the heart of its successful business model (UN Environment Programme, 2019). While the B Corps movement and the example of Patagonia are positive steps, they need to be placed within a wider sector context of some questionable labour practices, including Boohoo's recent supply chain malpractices (Eley and Provan, 2020).

Another example of people, planet and profit coming together is through the UN's 17 sustainable development goals (SDGs). These SDGs are a call for action for countries and organisations to work in global partnership to address some of the world's largest challenges (UN, 2021). Importantly, businesses are starting to engage in the SDGs, from the coffee and tea producer, Grosche, funding safe water in developing countries through basic and natural bio-sand filters, to the telecommunications giant, Telus, creating a network of outreach clinics and affordable internet and mobile phone plans for marginalised and vulnerable Canadian communities (Klar, 2019). While cynics may just cite such examples as greenwashing where businesses are providing false or misleading information to manage external impressions around their operations and products, there are examples of where the rhetoric is transforming into action. PwC (2018: 3), for example, found that of the 700 global companies that they surveyed, 72% of them mentioned SDGs, 27% included them in their business strategy and 19% were mentioned in CEO or Chair statements around business strategy, performance or outlook. This shows that although there is a huge amount of improvement required to ensure more of the larger corporations are engaging meaningfully, big businesses have at least started to engage more deeply with the SDG agenda. Given the climate and biodiversity emergency, clearly this needs to gain rapid momentum. One way of achieving this is to demonstrate that business models that invest in social and environmental good can in fact lead to significant financial value generation, which has been a hallmark of the Ellen MacArthur Foundation and the circular economy movement.

A final example of where businesses are focusing more on purpose is the circular economy (CE). The CE aims to redefine growth, focusing on positive societal benefits, with three core principles: designing out waste and pollution, keeping products and materials in use, and regenerating natural systems (Ellen MacArthur Foundation, 2021). The CE movement has gained significant traction among business in the last decade because of four factors (Hopkinson and Harvey, 2019: 69). First, the strong vision of the benefits of moving from a linear economy to a circular economy that can bring economic, natural and social value. Second, a prominent and influential leader (Ellen MacArthur) who has gained respect and legitimacy among business and political leaders. MacArthur's accomplishments as a world-record breaking sailor, leading to a Dame Commander of the Order of the British Empire (DBE) and a Chevalier of the French Legion of Honour, has provided her with a solid mandate to launch the Ellen MacArthur Foundation. This combined with her strong oratory skills, from talks for TED to the World Economic Forum, have helped her to gain further notoriety and to engage with wider sets of stakeholders. Third, partnering with key organisations from different sectors (e.g. BlackRock, Google, Ikea, Unilever and Renault) and with organisations that have significant influence with the business and political elite (e.g. McKinsey & Company and the World Economic Forum). Fourth, visualising the movement through the Ellen MacArthur Butterfly has helped organisations to understand the concept and see how other businesses are applying it in their own contexts. One organisation that is seemingly embracing the CE is BioPak, a packaging company whose mission is to "produce packaging that puts the planet first and our ultimate goal is a waste-free world" (BioPak, 2020). BioPak makes foodservice packaging from renewable plant-based materials, alongside providing a collection and composting service, ensuring that its packaging and food is composted to produce healthy soils (Ellen MacArthur Foundation Case studies, 2021). This illustrates an organisation that has a clear purpose which is supported by its actions.

In order to understand how an organisation's purpose can translate into actions and behaviours, we need to look at how values are created, communicated and enacted. Leaders play a central role in connecting the higher level purpose of an organisation, with its values and behaviours. The following case study from research I conducted with colleagues in a Malaysian hospital (Harvey et al., 2021) explains the important process of internalising values. A leader who fails to embed meaningful values within their organisation is likely to face a disconnect between their organisation's purpose and the behaviours of its employees.

Case Study: creating values in a hospital

We researched a hospital that was setup in the mid-1990s in Malaysia. Initially the founder and CEO played an instrumental role in creating the hospital values, which stemmed from its purpose of delivering premium quality healthcare with a personalised experience. It was thought by communicating and rationalising these values that hospital staff would buy-in to them and use them to guide their behaviour. As an aside, Malaysia scores 100 on power distance by Hofstede Insights (2021: np), meaning that "people accept a hierarchical order in which everybody has a place and which needs no further justification." However, it was telling that hospital staff did not initially accept these values imposed on them by the CEO and senior leadership team. The reason was because they did not understand how the values related to them and their work. This rejection of values led to the leadership team recognising that they needed to truly engage and consult with their employees around the hospital's values. This is an important lesson for leaders who consider creating organisational values as a tokenistic exercise.

The engagement of employees included workshops, consultations and working groups to ensure that there was alignment between the purpose and strategy of the organisation and the identities and behaviours that were required by staff to carry out their duties in the hospital.

This was neither top-down or bottom-up, but a diffused approach that engaged with staff at all hierarchical levels and across different functions of the hospital. The values that were co-produced included care and respect, passionate, accountability, service excellence, anticipation, team spirit, change and grow, quality and safety and social responsibility. Each value also had a set of corresponding value-based behaviours. Here it is less important understanding *what* the values are because every organisation has its own set of relevant values. More important is understanding the process of *how* values can be internalised because this determines whether they are for show or for real.

The engagement of staff at all levels was essential for empowering them to create these values. In addition to *creating* values, there were two further important steps: *communicating* and *enacting* the values. With communicating the values, leaders took an open office approach and also ensured that they were visible around the hospital to answer any questions around the values and to role model their own behaviours in relation to the values. With enacting values, line managers reinforced positive behaviours in huddles, meetings and events so that individuals and groups were aware and praised for behaviours that reinforced the values.

The outcome of this extensive process of internalising values was a positive impact on the reputation of the hospital among internal and external stakeholders. Internally, staff told us that they thought the values were both relevant and important, and recognised how their behaviours were aligning with their actions. Externally, when we spoke to in-patients and out-patients, they not only spoke highly of the hospital, but gave many examples of how they had personally experienced and benefited from behaviours that aligned to the values.

Recognising that every organisation has its own unique structure and culture, how can others learn from this case study? We created a model to help guide organisations to internalise values to build their reputation. We find that leaders, managers and employees all play a role in internalising the values of an organisation. Leaders are important for role modelling behaviour and engaging others, managers are important for embedding and reinforcing behaviours, and employees are important for empowering and promoting reciprocal behaviours. As I have discussed above, the process of internalisation has three parts: creating, communicating and enacting those values. This diffusion process of people at all levels within the organisation internalising the values is essential for generating positive beliefs about the organisation's values, employee behaviours that correspond to those values, and ultimately positive perceptions internally and externally of the organisation. Hence, when internalised effectively values can be an important point of connection between the purpose of an organisation that a leader identifies and the desirable behaviours that are expected from employees. This has important implications for the reputation of the organisation which is another major consideration for leaders.

How can leaders manage reputation?

I started out by arguing that we are witnessing a slow but steady trend towards stakeholder capitalism, which Schwab and Vanham (2021: np) from the World Economic Forum define as: "a form of capitalism in which companies do not only optimize short-term profits for shareholders, but seek long term value creation, by taking into account the needs of all their stakeholders, and society at large." This is important for leaders to be aware of because it requires them individually and their wider leadership teams collectively to engage with a broader set of stakeholders. This creates added complexity for managing internal activities and for how to present themselves externally. Apple Inc., for example, in the last decade has witnessed strong iPhone sales and 13 fold growth in its share price. It is considered a good place to work by recruitment agents such as glassdoor and Reed. However, with such large volumes of electronic products being sold, this has also raised questions around the data privacy of the users of its products. Critics have also argued that Apple needs to address its environmental footprint in both the production and disposal of its products. Finally, some of the poor labour practices have been well-documented by certain suppliers. With these examples, there are different stakeholders to consider: investors, analysts, customers, employees, recruiters, unions, NGOs and governments, to name only a few, all of whom Apple need to engage with around multiple issues. The growing pressure for all organisations to take wider responsibility for their actions on people, society and the environment, which links back to my starting point around the growing salience of stakeholder capitalism, means that it is more difficult for them to ignore or brush off.

Leaders need to ensure that the purpose and values of their organisations are mirrored through both *what* products and services they provide and through the process of *how* they deliver them to different groups. This is why identifying purpose and values is so important and why they need to be reflected for wider groups in their products and services. Social influencers and other intermediaries have an uncanny ability to make large populations aware of any dissonance between what organisations are claiming (the rhetoric) versus what other groups experience (the reality). If the gulf between an organisation's identity (how it sees itself) and its reputation (how others perceive the organisation) is so large then the organisation has a crisis (Harvey et al., 2017). Fortunately, most leaders do not face such crises, although there are plenty of examples, from Boeing's 737 Max disaster to Facebook's management of fake news. However many more leaders who are seeking to build or change their business will experience large gulfs between the claims they make and the receptiveness of those claims by others, without them necessarily being a crisis. Political leaders face a similar challenge with public reports, speeches and interviews being closely interrogated before intermediaries and the wider population are satisfied that the rhetoric is sufficiently aligned with the reality. Typically, if that gulf continues then this will force leaders to U-turn on their policies, which undermines their credibility. This is why meaningful engagement with multiple stakeholders is so important for the long-term reputation of organisations of all shapes and sizes. This is heightened further because of the role of social media.

Social media and social influencers

Multiple stakeholders and wider expectations mean more noise for organisations to address. In the past, leaders could influence their reputation in the media through pre-packaged stories, corporate communications and the threat of lawsuit. However, content today is now being created online at breakneck speeds by a much wider group of people, including social media users, which can be posted, shared, refracted and subverted to unprecedented numbers of people (Etter et al., 2019: 59). The implications are that good and more often negative news stories about organisations can spread very quickly to large volumes of people. In addition, social media influencers place further pressure on organisations through their reach.

Most sectors have social media influencers who work across many platforms, including Instagram, YouTube and TikTok, regularly commenting on daily life and experiences, and providing insights on products, services and societal issues. Anna O'Brien, for example, is known as @glitterandlazers on social media and has 7.5 million followers on TikTok as well as operating across other social media platforms such as YouTube and Instagram. She has quickly become popular for posting fun and funny clothing videos which have captured the interest of large audiences. This fame has meant she has gained brand deals with organisations such as Target and Kool-Aid. Through regular posts, social influencers such as O'Brien can capture the attention of large audiences, impacting on how people perceive not only individual products and services, but also their organisations and leaders. This is significant because whether leaders like what social influencers say or not, they need to be aware of their wider influence. In other words, they are another kind of intermediary (see Deephouse, 2000; Harvey et al., 2018) that shape the reputations of leaders and organisations.

Conclusions

I started this chapter by highlighting the emerging importance of stakeholder capitalism. Leaders are particularly important to consider in this context because unlike other organisational members, they hold relationships with multiple stakeholders, which will have significant implications on their own reputations as well as the reputations of the organisations they lead.

We have witnessed a strong movement towards the purpose of organisations, from the Business Roundtable to the British Academy, with coverage from influential outlets such as Harvard Business Review, McKinsey Quarterly, The Economist and the World Economic Forum. In the words of Mayer (2020: np) corporate purpose should be: "to produce profitable solutions to the problems of people and planet, and not to profit from producing problems for people or planet". But if purpose is a function of stakeholder capitalism then how does it translate into action? I have given some examples of wider movements and organisational action that relate to, but are not entirely the same as, stakeholder capitalism. Although far from an exhaustive list, the TBL, the B Corps, SDGs and the CE illustrate that organisations are starting to act even if some of their actions are still at a nascent stage.

To understand how an organisation's purpose can translate into actions and behaviours, we need to look at how values are embedded. I have shown through an example from a Malaysian hospital of how purpose can be internalised in organisations. This is a difficult and timely process, and requires acceptance from people at all levels.

In summary, stakeholder capitalism is a phenomenon that leaders of organisations cannot and should not ignore. The proliferation of social media and social influencers is shining an even brighter spotlight on the wider activities of organisations. What products and services organisations provide and how they are presented to multiple stakeholder groups needs to align with the purpose and values of those organisations. There also needs to be alignment between what organisations say (the rhetoric) and what they do (the reality). If a gulf persists then leaders will likely be forced to change direction, undermining their credibility. Coming back to the premise of the chapter, this is why leaders must navigate the reputations of their organisations among multiple stakeholders with adeptness.

References

BioPak (2020). Why choose BioPak. Packaging that puts the planet first. Url: https://www.biopak.com/uk/about/why-choose-biopak

Bower, J. L., and Paine, L. S. (2017). The Error at the Heart of Corporate Leadership. *Harvard Business Review*, 95(3), 50-60.

B Corporation (2021). About B Corps. Url: https://bcorporation.net/about-b-corps

Business Roundtable (2019). Our Commitment. Url: https://opportunity.businessroundtable.org/ourcommitment/

British Academy (2018). Reforming Business for the 21st Century. A Framework for the Future of the Corporation.

Deephouse, D. L. (2000). Media reputation as a strategic resource: An integration of mass communication and resource-based theories. *Journal of Management*, 26(6), 1091-1112.

Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of Management Review*, 14(1), 57-74.

Eley, J. and Provan, S. (2020). Boohoo has ‘significant issues’ in its supply chain, review finds. Financial Times. Url: https://www.ft.com/content/3cc4acc9-3f8a-4fb8-90e5-9a70116df7d4

Elkington, J. (1997). Cannibals with Forks: The Triple Bottom Line of 21st Century Business. Capstone, Oxford.

Ellen MacArthur Foundation (2021). Concept. What is a circular economy? A framework for an economy that is restorative and regenerative by design. Url: https://www.ellenmacarthurfoundation.org/circular-economy/concept

Ellen MacArthur Foundation Case studies (2021). Biopak. Closing the loop on single-use food packaging. Url: https://www.ellenmacarthurfoundation.org/case-studies/closing-the-loop-on-single-use-food-packaging

Etter, M., Ravasi, D., & Colleoni, E. (2019). Social media and the formation of organizational reputation. *Academy of Management Review*, 44(1), 28-52.

Freeman, R. E., Harrison, J. S., Wicks, A. C., Parmar, B. L., & De Colle, S. (2010). *Stakeholder Theory: The State of the Art*. Cambridge University Press, Cambridge.

Gast, A., Illanes, P., Probst, N., Schaninger, B. and Simpson, B. (2020). Purpose: Shifting from why to how. *McKinsey Quarterly*. Url: https://www.mckinsey.com/business-functions/organization/our-insights/purpose-shifting-from-why-to-how

Harvey, W.S., Morris, T. and Müller Santos, M. (2017). Reputation and identity conflict in management consulting. *Human Relations*, 70(1) 92-118.

Harvey, W.S., Groutsis, D., & van den Broek, D. (2018). Intermediaries and destination reputations: Explaining flows of skilled migration. *Journal of Ethnic and Migration Studies*, 44(4), 644-662.

Harvey, W.S., Osman, S. and Tourky, M. (2021). Building internal reputation from organisational values. *Corporate Reputation Review*.

Hopkinson, P. and Harvey, W.S. (2019). Lessons from Ellen MacArthur and the Circular Economy on How Leaders can Build and Sustain Transformation? *The European Business Review*. March-April 2019, 65-69.

Hill, C. W. and Jones, T. M. (1992). Stakeholder-agency theory. *Journal of Management Studies*, 29(2), 131-154.

Hofstede Insights (2021). What About Malaysia? Url: https://www.hofstede-insights.com/country/malaysia/

Jensen, M. and Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, 11, 5-50.

Klar, D. (2019). Corporate Knights. The Voice for Clean Capitalism. 50+ Real World Examples of Private Sector SDG Leadership. Url: https://www.corporateknights.com/?sponsors_post=50-real-world-examples-private-sector-sdg-leadership

Malnight, T. W., Buche, I., & Dhanaraj, C. (2019). Put Purpose at the Core of Your Strategy. *Harvard Business Review*, 97(5), 70-78.

March, J. G. and Simon, H. A. (1958). *Organizations*. New York: Wiley.

Mayer, C. (2020). It's time to redefine the purpose of business. Here's a roadmap. World Economic Forum. Url: https://www.weforum.org/agenda/2020/01/its-time-for-a-radical-rethink-of-corporate-purpose/

Norman, W. & MacDonald, C. (2004). Getting to the bottom of "triple bottom line". *Business Ethics Quarterly*, 14(12), 243-262.

PwC (2018). From promise to reality: Does business really care about the SDGs? And what needs to happen to turn words into action? Url: https://www.pwc.com/gx/en/sustainability/SDG/sdg-reporting-2018.pdf

Ross, S. A. (1973). The economic theory of agency: The principal's problem. *American Economic Review*, 63(2), 134-139.

Schwab, K. and Vanham, P. (2021). What is stakeholder capitalism? Url: https://www.weforum.org/agenda/2021/01/klaus-schwab-on-what-is-stakeholder-capitalism-history-relevance/?utm_source=sfmc&utm_medium=email&utm_campaign=2740992_Agenda_weekly-29January2021&utm_term=&emailType=Newsletter

The Economist (2019). What companies are for. Competition, not corporatism, is the answer to capitalism's problems. Url: https://www.economist.com/leaders/2019/08/22/what-companies-are-for

UN environment Programme (2019). US outdoor clothing brand Patagonia wins UN Champions of the Earth award. Url: https://www.unenvironment.org/news-and-stories/press-release/us-outdoor-clothing-brand-patagonia-wins-un-champions-earth-award#:~:text=US%20outdoor%20clothing%20brand%20Patagonia%20wins%20UN%20Champions%20of%20the%20Earth%20award,-Pixabay%20%2F%2024%20Sep&text=24%20September%202019%20%2D%2D%20US,of%20its%20successful%20business%20model

UN (2021). Department of Economic and Social Affairs. Sustainable Development. The 17 Goals. Url: https://sdgs.un.org/goals

Williamson, O. E. (1984). Corporate governance. *Yale Law Review*, 93, 1197-230.

Biography

William S. Harvey is Professor of Management and Associate Dean at the University of Exeter Business School. He is an International Research Fellow at the Oxford Centre for Corporate Reputation and Chair of the Board of Libraries Unlimited. Will advises leaders on reputation, talent management and leadership. His work has appeared in Harvard Business Review, Journal of Management Studies, Human Relations and the British Journal of Management, and has been featured in the Financial Times, Institute of Directors, Bloomberg and Wired. Will received a first-class degree from the University of Durham, an MPhil with distinction and PhD from the University of Cambridge.