REPUTATIONAL RISK

AS A LOGIC OF ORGANIZING IN LATE MODERNITY

Michael Power
London School of Economics and Political Science, UK

Tobias Scheytt
Helmut-Schmidt-University – University of the Federal Armed Forces, Hamburg, Germany

Kim Soin
King's College London, UK

Kerstin Sahlin
Uppsala University, Sweden

Abstract

This paper argues that it is useful to regard 'reputational risk' as a pervasive logic of organizing and organizational attention. First, we suggest that the risk management agenda has expanded from its roots in technical analysis to become a cornerstone of good governance and responsible actorhood. We illustrate this claim in the context of English universities. Second we suggest that this expansion in the reach and significance of risk management has increased organizational orientations to reputational risk and to more defensively and legalistically framed forms of asset management. Specifically, organizations are responding to the growth of external bodies which evaluative and rank, and thereby generate reputational risk. In the context of universities, we argue that this leads both to specific transformations in organizational practices in response to ranking systems, and also to an increased generalised concern with reputational risk, which is a symptom of late modern insecurity.

Keywords:

RANKING, RISK MANAGEMENT; REPUTATIONAL RISK; LATE MODERNITY; REGULATION; UNIVERSITY

Introduction

The conditions of late or 'liquid' modernity have been much debated (Bauman 2007; Giddens 1991). Variously characterized as an 'information' society, a 'post-industrial society', a 'network' society, and a 'risk' society, views differ on the timing, extent and significance of key changes. Such consensus about the nature of late modernity that does exist refers to increased ambiguity and uncertainty at the level of individuals and a problematization of trust in, and legitimacy of, institutions and experts in an interconnected world. This may be overstated as an epochal claim, but is broadly consistent with regulation theories which point to a shrinking state, the rise of agency relationships and the growth of multiple forms of self-regulation and norm creation by organizations (Shapiro 1987; Mörth 2004). Institutional theory also contributes indirectly to late modern analyses of individualization by suggesting that organizations must define, elaborate, manage and coordinate their identities, purposes and relationships within fluid transnational networks without any obvious central steering mechanisms (Drori 2006) And the expansion of formalized management knowledge (Sahlin-Andersson and Engwall 2002), arguably part of these broad developments, is also accompanied by critique and doubt about 'illusions' (Langer 1975) and fantasies (Clarke 1999) of control, about the transitory nature of management fads and fashions, and about the paradoxes of societies and organizations awash with highly mediatised forms of information.

These broad sensibilities frame our current focus on risk management and its expanded global significance as organizational practice in the past 10-15 years. We are agnostic on the 'realistically' framed question as to whether contemporary advanced societies are or are not more 'risky' than previous ages (Beck 1992), preferring to focus more on how an expanded institutional concern with risk and risk accountability, and increased social and political

demands for mechanisms of risk processing, are consistent with the mood of late modern theory. Our analysis draws substantially on arguments developed in Power (2007) and focuses on the manner in which organizations routinely process external demands for the rational management of risk, and the consequences of these processes. Not least among these consequences is the contribution of risk management to changes in behaviour, cognition and communication. Specifically, and drawing mainly on the example of universities, we advance two arguments.

First, we suggest that the adoption of standardized risk management designs has become a benchmark of being a legitimate organization. Second, we suggest that the recent emergence of 'reputational risk' as an increasingly explicit managerial category is both a specific symptom of late modern intensification of organizational and individual concern with appearances, and also plays a performative role in shaping managerial behaviour. We also argue that reputational risk differs in its social construction from other risk categories by being a purely 'man-made' product of social interaction and communication. We illustrate this idea by drawing, again, on the example of universities as knowledge organizations which operate in institutional environments which observe, rank and evaluate them via a variety of instruments and metrics. We argue that not only do such instruments for measuring organizational reputation transform and constitute it as a managerial object (Schultz et al. 2001; Espeland and Sauder 2007), but also that significant ranking systems come to be perceived and articulated as a source of reputational risk.

Taking these two arguments together, our underlying emphasis differs markedly from asset-creation and maintenance approaches to reputation which characterize longstanding debates in marketing and management more generally. Rather, we conceptualize an abstract notion of 'reputational risk' as a significant aspect of expanded discourses of risk management. While, there is an extensive literature on organizations and reputation, and a

considerable body of work has been concerned with the dynamics of reputation building of different kinds (e.g., Mahon and Wartick 2003), we argue that this abstract category of 'reputational risk', which has taken hold as part of enterprise risk management (ERM) agendas, represents a critical change. Specifically, organizations are now responsible and accountable for managing reputational risk as part of their risk management more generally, and this is a change in register for existing practices of reputation management.

The arguments that follow have an empirical referent, but are mainly intended to suggest a fruitful direction for theory development and for further empirical work. Reference is made to the higher education sector because it exhibits a number of characteristics particularly relevant to the broader significance of reputational risk being suggested. First, such organizations are a class of knowledge organization whose asset base is predominantly intangible. Reputations of different kinds have always been a pervasive concern in organizations like this, dedicated to the production of 'symbolic capital'. Second, formal designs for risk management have become a regulatory requirement for universities in many countries. Third, these organizations and the units within them, operate in changing evaluatory environments which produce metrics and league tables of various kinds for teaching and research, which may not be easy to avoid or exit.

In the next section, we provide our working definition of risk and risk management and demonstrate how abstract 'whole-of-enterprise' risk management designs have been imported into higher education organizations. In the second section, we deal with previous work on the nature of reputation and argue that the category of 'reputational risk' has emerged relatively recently. Fundamentally, we suggest that it may be more fruitful to regard 'reputational risk' as reflexive category which has the potential to permeate managerial belief systems, rather than as a discrete risk management practice speciality. This feature of reputational risk reflects the fact that it is anchored within institutionalised processes of communication among

different actors in a social field and has no referent outside of that. In the third section, we address the complex ways in which organizations and organizational agents relate to, and are governed by, external representational systems like league tables, rankings and metrics. In common with others, we suggest that such instruments do not merely reflect pre-existing perceptions but become part of a reflexive sense-making dynamic for at least some actors, which shapes perceptions and defines both organizational and individual academic attention to reputation. Overall the analysis argues for more investigation of the constitutive role of generalised concerns with 'reputational risk' in managerial belief systems, especially where organizations operate in dense evaluatory networks.

The Nature of Risk and Risk Management

We take it as a given that 'risk' is not a first order 'thing' (Garland 2003: 52) but is the product of specific social, organizational and managerial processes by which various objects get recognized and described as risks. This is consistent with Ewald's (1991: 199) famous, if elliptical, statement that "nothing is a risk in itself; there is no risk in reality. But on the other hand anything can be a risk; it all depends on how one analyses the danger, considers the event." This conception frames our attention to the routine management systems and instruments, including definitions and categories, for representing contingent outcomes as risks. From this point of view, the oft-cited Knightean (Knight 1921) distinction between 'uncertainty' and 'risk' is transformed from a questionable analytic distinction, in terms of the availability of probabilistic information, into an interesting sociological distinction between forms of institutional attention. Put another way, contemporary organizations are often called upon to plan for, represent, manage and be accountable for a range of 'risks' which in epistemic character are like Knightean uncertainties i.e. they lack historical frequency data

that might guide probability judgements. In Knightean terms, a great deal of risk management is really uncertainty management of one kind or another, not least being issues of reputational risk.

This understanding of risk as a conceptual 'object' within institutional space suggests that risk management is in an important sense a practice of risk description and communication (Power 2004; 2007) which may have substantive consequences. Borrowing from Hacking's (1986) theory of 'dynamic nominalism', we suggest that new management categories, such as 'operational risk' and 'reputational risk', do not only describe risk but also *perform* it by introducing of new and disturbing understandings of responsibility, accountability and decision making. Theorists as different as Luhmann (1993) and Douglas (1992) have articulated the tight links between discourses of risk and of responsibility; in broad terms a danger or vulnerability or opportunity is transformed into a risk when it is articulated as a social fact, as a 'risk object', to be managed and made into the responsibility of an organization or organizations (Hilgartner 1992).

The institutionally stable communication of risk 'facts' is difficult to construct but sticky once in place: the risks of smoking were known for many years before a powerful network of opposition could be constructed. This broad socio-technical conception of the links between risk, responsibility, decision and management characterises, as it suggests, more than a calculative conception of risk analysis, although this is very much included. In an important sense it also defines normative conceptions of organizational identity and responsibility (Power 2007). Arguably late modernity is burdened by the transformation of events which might have been regarded as 'natural' or 'acts of God' into risks to be managed (Bernstein 1996) and accounted for. For example, if man can be regarded as innocent (at least for the purposes of this argument) in causing earthquakes, the human distribution of impacts

can be traced in part to socio-technical factors such as the degree to which building regulations are enforced, or the role of scientists at early warning facilities.

The management of risk is nothing new within organization studies. Indeed, the study of organizations over the last fifty years is to a large extent defined by the problem of how they process and manage uncertainty (e.g. Thomson 1967; March and Shapira 1987), although accounts of the relationship between organizations and their uncertain environments can vary considerably (Davis and Powell 1992). A prominent part of this literature focuses on the analysis of disasters, both natural and technical (Perrow 1984; Turner 1976) and there is significant recognition of the normalized sources of organizational risk inherent in management practice as 'sense-making' (Gephart 1984; Vaughan 1996; Starbuck and Farjoun 2005). Even the events of September 11th 2001 have also been attributed to risk management and regulatory system deficiencies, namely the failure of security agencies to exchange information, and weak passenger control procedures at airports (National Commission on Terrorist Attacks 2004). This transition of focus in the literature, from disasters to their sources in routine management systems, is paralleled in practice by the rise of risk management designs, templates and norms.

The period since 1995 has seen an explosion of efforts to codify and formalize principles of risk management (Power 2007). This follows a pattern visible in the development of management knowledge in general (Sahlin-Andersson and Engwall 2002), namely that organizations must apply rational standards of knowledge, and frame what they do in these terms, in order to maintain legitimacy (Meyer and Rowan 1977). Hence, the circulation of generic risk management standards and principles creates isomorphic pressures on organizations to conform to these models and to apply them: a 'good' organization is one which manages risk in accordance with established frameworks. English universities provide a useful example of this emergence of risk management as an organizational norm.

Risk management and universities

A certain kind of 'cultural capital' (Bourdieu 1988) or reputation has for centuries been a cornerstone of the status of elite universities. Recent times have witnessed, in the UK and elsewhere, a challenge to this status from a wave of reforms directed at the improved performance and manageability of higher education. Much has been written on the tension between the 'indeterminacy of knowledge' that is typical of knowledge work (Sewell 2005), and the pressures for change in universities experiencing a public redefinition of their license to operate. The nature and impact of these changes – the so-called 'new public management' – has been widely debated (Hood 1995; 1998; Brunsson and Sahlin-Andersson 2000) and a recent aspect of this change agenda concerns the requirement for English universities to adopt risk management 'best practices'.

In the English higher education system the body charged with overseeing the demands for increased accountability for the use of public funds and good governance is the Higher Education Funding Council for England (HEFCE), which was originally established as an intermediate organization responsible only for the distribution of funding. In recent years HEFCE has acquired regulatory functions and has defined rules, regulations and 'best practice'. In this dual capacity as a 'funder-regulator' HEFCE combines standard-setting functions with financial considerations in order to exercise a new form of external control. In particular, HEFCE requires that each higher education institution adopt a risk-based approach to internal control, namely a risk management system that can identify, analyze and control a wide range of risks and is subject to review on a regular basis.

Consistent with the generalized expansion of 'soft rules' (Mörth 2004) in regulation, HEFCE provides guidance which draws on "good practice in the higher education sector and elsewhere, providing practical guidance to higher education institutions on enhancing and embedding their risk management processes" (HEFCE 2005: 2). The intention is to ensure that universities move from 'technical' compliance with HEFCE requirements to create 'embedded' risk management systems. In 2000, at an early stage of the process, HEFCE sent a letter (HEFCE 2000) to Vice-Chancellors and Principals of universities informing them how risk management systems should operate while acknowledging that "each individual institution will have its own system of corporate governance tailored to its own particular objectives and management processes". However, in a subsequent letter (HEFCE 2002), HEFCE takes a stronger line: "We recently commissioned KPMG to analyze institutions' progress on risk management. The results of this analysis suggest that only about one-third of institutions are on target to meet the requirement for an interim statement of internal control to be included in financial statements for the year ending 31 July 2002. It is therefore important that this circular letter be brought to the attention of governing bodies, audit committees and other interested parties as a matter of urgency." Furthermore the 2002 letter and its appendices are highly prescriptive in trying to impose risk management on universities, suggesting the 'hardening' and standardization of previous soft guidance.

HEFCE's policy is largely based on the private sector approach to risk management and, in particular, the principles embodied in the Combined Code and the Turnbull Report (ICAEW 1999). Drawing on the concept of 'best practice', the risk management regime defined by HEFCE is based on guidance on internal control which "directs the governing body towards a high level, risk-based approach to establishing a sound system of internal control, covering all types of risk, and reviewing the effectiveness of the process on a regular basis" (HEFCE 2001a: 1; see also HEFCE 2001b). Furthermore, the growing impact of

professional expertise on the development of this risk management regime is visible. At an early stage, professional organizations only had the role of advisors in this process (for example by analysing an institution's progress on risk management), but the current guideline on risk management (HEFCE 2005) was designed by PriceWaterhouseCoopers.

These developments create a specific kind of reputational risk for higher education institutions, namely their reputation with the funder-regulator HEFCE. Deephouse and Carter (2005) distinguish between legitimacy and reputation, arguing that the former emphasises social acceptance while the latter is relational. However, in the case of organization-regulator relations, legitimacy and reputation are overlapping. Having a recognizable risk management system satisfies a minimum benchmark for acceptance by a regulatory body. Without this the organization would be subject to sanction, and possibly refusal of the 'license' to operate. Once the system is in place, the regulator is in a position to rate and rank, formally or otherwise, different organizations as a basis of its own risk-based approach to the field. As the regulator matures and learns over time, the status of the risk management system shifts from being a legitimizing necessity to being a relational matter – a reputational resource around which the behaviour of both regulator and regulated is modulated.

The new emphasis on risk management is embodied in the creation of high level risk and audit committees which are intended to provide oversight of the process. Such committees for English universities did not exist ten years ago and now they have extensive agendas, enrol experts and inspect risk registers. These developments are no doubt variably coupled to other parts of the organization, such as academic departments. However, it is clear that universities, for a mixture of coercive and normative isomorphic reasons, as well as beliefs in improved functionality, adopt and disclose standardized principles of risk management and internal control which are visible in the private sector (e.g., HEFCE 2001a; 2001b; 2005; Huber 2008). This development is part of a more general process of

rationalization and standardization of universities within a socio-technical network consisting of HEFCE, universities, administrators, academics and consultants all working to construct 'best risk management practice'(Ramirez 2006: 241). Indeed, risk management is part of a broader set of transformations of universities from being ungovernable and idiosyncratic collections of individuals to being accountable organizations with clear missions, formal structures, professional management and an 'appetite' for risk (HEFCE 2005; Krücken and Meier 2006). The rational management of risk in conformity with established world level principles is a benchmark of organizational actorhood, and may even constitute model of a new kind entity – the 'risk university' (Huber 2008) - which is increasingly preoccupied with its reputation.

'Reputational risk' as a category of practice and logic of organizing

There is an extensive literature on reputation within organization studies. The concept also has a significant history within economic analysis (Klein 1997) and an even longer one within the field of moral philosophy. Social and economic actors rely on proxies of quality to gain assurance about the likely future performance of people, products and organizations (Podolny 1994). Like trust, reputation is a complex relational concept – a quality of social actors' perceptions, and perceptions of perceptions. Perceptions may or may not be true, but they are social facts which generate actions and reactions.

Numerous prescriptive monographs have been published on the subject of reputation management since the mid-1990s (e.g. Alsop 2004; Balmer and Greyser 2003; Dowling 2002; Fombrun 1995; Fombrun and Van Riel 2003; Gaines-Ross 2002; Haywood 2002; ICAEW 2000; IPR 2003; Jackson 2004; Morley 2000) and *The Corporate Reputation Review* provides a dedicated focus in addition to general management journals. These textual developments

both react to, and seek to shape, how organizations know and measure their reputations as valuable assets. Yet scholarly interest also reveals the multifaceted nature of reputation as a construct, its different sources and 'languages' (Fombrun and Van Riel 1997; Deephouse 2002) spanning *inter alia* marketing, human resource management and accounting. Within marketing analysis reputation is often understood in terms of customer perceptions and product loyalty. Reputation is also closely associated with the management of brands as assets and the construction of organizational images and identities. Interest has grown in this specific facet of reputation as 'intangibles' have grown as a proportion of corporate value; the difference between accounting value and market value has been taken as a yardstick for the value and significance of reputation.

Fombrun and Shanley's (1990) study of firms' signalling strategies positions reputation management as a critical strategic resource for organizations. It is argued that reputation as intangible value is the outcome of "creating an account of an organization, embedding that account in a symbolic universe, and thereby endowing that account with social facticity" (Rao 1994: 31). Since reputation is understood as a strategic resource and a complex construct, it also poses measurement challenges both to those who would manage it and those who would study it. Deephouse (2000) conceptualizes 'media reputation' as the overall evaluation of a firm presented in the media, drawing on mass communication theory to construct a measure and evaluate its effects on performance. Carter (2006) argues that organizations modulate their reputational management activities e.g press releases, according to their perceived visibility among different stakeholder groups, although these activities are also correlated. Greenwood et al. (2005) relate changes in reputational concerns to client dependency in professional service firms. Studies like this tell us a great deal of the specific sources of variation in attention to reputation, such as across top management groups with different educational backgrounds or client portfolios. A particularly important variable in this

attention process is the occurrence of mediatised events, such as high profile disasters and accidents, which contribute to general discourses of reputational risk.

The Bhopal disaster and the Exxon Valdez spillage highlighted, in very different ways, issues of corporate power and neglect, and the corporations involved suffered considerable reputational damage as well as financial loss as a consequence. However, it is the case of Shell in 1995 which European commentators regard as a transformative event, in the sense of broadening the practical and mainstream reputational management agenda to encompass social responsibility issues. The case is well known: Shell planned to dispose of the Brent Spar oil container in the North Sea following a lengthy environmental impact assessment of the different options. However, the company adopted a technological conception of the problem and were surprised by the strength of public attitudes to water-based disposal, and by the capability of Greenpeace in mobilising opinion. There was extensive boycotting of Shell products and outlets, particularly in Germany, and consequent financial loss and negative publicity (Lofstedt and Renn 1997). Shell's approach failed to take into account public perceptions of risk and the 'organized outrage' at their actions. The company undertook an internal reorganization programme as a response to this experience (Fombrun and Rindova 2000) and the theme of reputational risk began to assume a more explicit role within corporate risk management discourses from this time onwards.

While the concept of the stakeholder predates this expanded interest in reputational risk, the Shell event catalysed the idea of stakeholders as sources of risk to be managed. Scholars have analysed the growth of 'social responsibility organizations' with varying degrees of activism (Boli and Thomas 1999; Boli 2006) and most recent texts on reputation assume an imperative of engagement and communication with these groups (e.g. Larkin 2002), and the significance of issue framing (Mahon and Wartick 2003). Yet, there is a tension which runs through this management agenda. On the one hand, reputation is constructed as the outcome

of a more open organization, based on democratic engagement with, and recognition of, the rights of external groups (Friedman and Miles 2006). On the other hand reputation is conceptualised instrumentally as an asset to be managed, a source of excess returns which may be at risk (Freeman 1984; Fombrun et al. 2000). It is not a big step from this point of view to conceptualise stakeholders as a threat to reputation.

Although risk is often implicit and sometimes explicit in reputational management discussions (e.g. Bezuyen 1994), the term 'reputational risk' as a category in wide use in practice is relatively recent. There is likely no single origin of the use of the term 'reputational risk' but an important source is the Basel 2 operational risk debate. The Basel 2 banking regulations excluded 'reputational risk' from the formal definition of 'operational risk', but in doing so helped to institutionalise the category and its increasingly prominent articulation in formal risk 'maps' within organizations of all kinds. Textbooks and papers which explicitly appeal to the concept of 'reputational risk' are also relatively recent (e.g. Larkin 2002; Neef 2003; Rayner 2003; Eccles et al. 2007) and it has come to be represented in practitioner texts as a risk category in much the same way as other specific risks (market, credit risk etc.): "reputation is a major risk for all organisations and needs to be *considered alongside* all the other major risks such as operational, strategic and financial risks" (CIMA 2007: 1 – emphasis added). However, we emphasise that reputational risk is not a first-order risk object like 'the impact of CO2 emissions on climate change' or 'the likelihood of death from cancer'. It is a distinctive 'secondary' kind of risk object with two specifically interesting properties. First, reputation risk potentially pervades *all* organizing activity in such a way that it can be regarded as the purest man-made risk of organizing as such, namely the risk of how one is perceived by others. Second, because reputation is a communicative construct beyond the direct control of the organization, often embedded in media friendly external measures

such as ranking and ratings, then 'reputational risk' poses distinctive management issues, not least being that it defies traditional accounting conventions of materiality.

Organizations operate in institutional environments in which there are greater and more diverse demands for accountability and transparency from the media, regulatory bodies, activist groups and so on (Backer 2001; EIU 2005). If so, then we would expect more management energy, aided by advisers, to be focused on how the organization is, or might be, perceived by different groups who have a capacity to amplify or attenuate issues (Dukerich and Carter 2000; Mahon and Wartick 2003; Pidgeon et al. 2003; Rothstein 2003). Consistent with the analysis of Scott and Walsham (2005), we suggest that 'reputational risk' is not only a strategic management category to which there may be a variety of specific organizational responses and dynamics, but also an important cognitive frame and reflexive *orientation* as such. Organizations and agents reflected upon how they were perceived well before the appearance of the category of reputational risk. However, that category as a key component of the expanded risk management agenda discussed earlier is performative in so far as it enables and solidifies new descriptions of practice by organizational agents. As Hacking (1986: 231) puts it "if new modes of description come into being, new possibilities for action come into being in consequence".

What is the range of consequences which follow from the rise of 'reputational risk' as a category of practice in this way? Scott and Walsham (2005) suggest that an increased focus on external perceptions may lead to productive challenges to organizational boundaries in knowledge-intensive industries. We maintain that there is also a reflexive component to this which increases within the frame of risk management, namely the *internalization of concern about how activities might be regarded.* We suggest that, in addition to analysing how specific organizations think about specific reputational risks, it is useful to understand how these variations in response are also mediated by a generalized orientation to 'reputational

risk' in the abstract. Further, dynamic nominalism and similar viewpoints suggest that the widespread circulation and diffusion of the category of 'reputational risk' itself contributes to organizational beliefs in the potentially adversarial nature of organizational environments and of the possibility, however remote, of being held to account for actions which fail.

This conception of reputational risk as part of a defensive dynamic at the cognitive and behavioural level contrasts with the asset building emphasis of many other approaches. It may also reflect a systemic shift towards asset *protection* as a defining feature of mature organizations in late modernity. This risk management lens on reputation is also strongly influenced by the emergence of 'legal risk' as another discrete risk management category. In some organizational fields, particularly finance, reputational risk is increasingly defined as an outcome of legal risk, itself an outcome of defective operations (McCormick 2006). The emergence of a legalized conception of reputational risk also challenges traditional dualities between first and second order risk effects. Take the example of a safety notice about a slippery floor in a supermarket. As a matter of first-order risk management, the notice is there to protect the public. As a matter of defensive, secondary risk management, the notice is there to protect the organization in the event of legal action should someone slip over i.e. to communicate that reasonable steps were taken to inform the public. Yet, the labels 'first' and 'second' order are now analytically dubious. What is the first or primary risk being managed by an organization is a matter for empirical enquiry rather than definition. The example of the safety notice symbolizes 'legalized reputational risk' as a potentially defining feature of late modernity in which there is increasing duality between abstract organizations as bearers of duties and individual human beings as bearers of rights and potential claims against organizations.

It is worth noting that regulatory organizations, like HEFCE discussed above, are not immune from the perceived need to manage their own reputational risks – in this respect they

are organizations like any other. Designed to deal with primary risks facing society, regulatory agencies themselves face 'institutional' risks to the legitimacy of their operations as this is judged by different publics (Rothstein et al. 2006).[1] Thus, regulating social (first order) and institutional (second order) risks become intertwined in a process of governing which can become increasingly preoccupied with its own reputation. From this point of view, the emergence of risk-based approaches to regulation may have less to do with the substance of assessment techniques and is more part of the management of legitimacy and political reputation.

Legalization and related forms of organizational and individual defensiveness are not themselves new – and reach back to Weber's analyses of bureaucracy (Edelman 1990; Sitkin and Bies 1994). It is well known that anticipation of legal sanction reinforces a defensive focus on due process and, in particular, on the production of documentation and audit trails of decisions which in principle can be used as evidence (Van Maanen and Pentland 1994). What is new is the role of risk management designs in mediating and amplifying these concerns under descriptors like 'legal risk' and 'reputational risk'.

In summary, we suggest that 'reputational risk' has grown to become a distinctive and pervasive risk category which is not merely descriptive but also reactive and performative; it is the 'purest' of socially constructed risks. This view builds on, but departs from, studies of reputation specificity and the dynamics of reputation building to be seen in both scholarship and prescriptive texts. Reputations have, of course, always been 'at risk' – the product recall literature reminds us of that. But 'reputational risk' as a recently visible feature of risk management, embodied and formalized in risk registers, and managed via dedicated practices of external perception tracking, seems to be part of a more constitutive and dynamic process, shaping a form of rationality itself which knows no limits and is expandable to everything (Power 2004). This is the essence of our claim that 'reputational risk' is becoming a pervasive

logic of organizing. One particular area where this is evident is the role of reputational constructs, like indicators, rankings and scores, and it is to them that we now turn.

Rankings and reputational risk management

The last 15 years have witnessed a rapid growth of evaluative and standard setting organizations at the world level in a number of different areas, representing a new space of transnational governance (Djelic and Sahlin-Andersson 2006; Boli 2006). These bodies organize contests "to evaluate products or firms and rank order participants according to their performance […] victories in certification contests are small fortuitous events that create a reputation that becomes magnified by positive feedback." (Rao 1994: 32). There have been many programmes to build calculative instruments and metrics for reputation. Many of these instruments were developed by employing factor analysis techniques which are used for brand valuation. For example, Fombrun and Van Riel (2003a) construct an organizational 'reputation quotient' which scores business, social and psychological drivers of reputation. For our purposes, the critical significance of this and other metrics is the fact that they are calculated and communicated by agencies *external* to organizations. Such agencies may use information provided by the subject organization but they employ independent assumptions and weightings to combine them in calculations to yield an aggregate index. We suggest that these dense, often single-figure, calculative representations of reputation constitute a new kind of performance metric and are a growing source of man-made, institutionalised risk to organizations as they acquire increased recognition in fields.

One of the most cited examples of a powerful ranking system is the survey of 'most admired companies' conducted by *Fortune* magazine in the USA. This model has been widely diffused and replicated in other countries (e.g. Schultz et al. 2001). For example, the *Sunday*

Times newspaper in the UK ranks 'best employers'. Ranking systems and the league tables to which they inevitably give rise now exist for many aspects of organizational performance in both public and private sector. They are also increasingly relevant at the world level: Governance Metrics International (GMI) ranks companies and countries in terms of good governance and Transparency International is famous for its corruption index for countries, but we should also remember that organizations which rank can face their own reputational issues, as the large credit rating agencies have experienced in 2008 (Sinclair 2005). In short, while world-wide rankings and league tables have been a normal part of the institutional environment of organizations for many years, if not decades, they are also expanding into new areas (Fombrun and Shanley 1990; Schultz et al. 2000; Deephouse and Carter 2005; Wedlin 2006).

The opportunities to contest a position in a league table or the process by which indices are constructed may be limited, especially as managerial attention to the internal drivers of the components of an index may increase their status as an internal fact. Indeed, organizations have incentives to support legitimated evaluators by supplying the component information and in so doing they can come to internalize, to a greater or lesser extent, the elements of the metric as performance variables. Reputational metrics and rankings are 'reactive' or performative by generating self-reinforcing behaviours and shifting cognitive frames and values over time (Espeland and Sauder 2007). In this way, league tables, rankings and indices which may start life as meaningless and unimportant to internal management measures of performance have the potential to shift motivations and missions by constructing self-reinforcing circuits of performance, particularly where small changes in relevant variables can have large effects on rank position. Because of this 'winner takes all' feature of ranks, and the direct and indirect resource implications they have grown to have, organizational performance

indicators for internal purposes come to be reactively aligned with those which inform an evaluation or ranking system.

Reputation, as a perceptual construct may be one component of a ranking metric in the first instance, but the rank itself come to influence the perceptions of key constituencies, such as clients. In this way, reputation is produced by the very systems which measure it (Schultz et al. 2001). Ranking systems necessarily simplify, rationalize and commensurate measures of performance, which are then re-imported by organizations for internal use. They perpetuate the internal organizational importance of externally constructed reputation and give it a new governing and disciplinary power within organizations (Espeland and Sauder 2007). Nowhere is this more evident than in the case of universities and their sub-units.

Reputational Risk as a Logic of Organizing in Universities

Universities have, to a greater or lesser extent, always been concerned with the maintenance and production of reputation. Yet, such reputation-focused activities as have existed in the past have had less to do with universities *as organizations* and more to do with individual professors and the role of universities in licensing state elites (Krücken and Meier 2006; Huber 2008). These traditional dynamics of reputation formation were not 'managed' in the sense in which would understand that term today. However, as public sector reform processes in different countries have evolved with a greater accent on governance and administration, issues of university reputation have become more visible and have come to be registered in a changing managerial space which is increasingly populated by the techniques and processes of evaluation. The remit of university management has expanded beyond traditional controls over conditions of admission for both faculty and students. The rise of national and transnational evaluations and rankings in the university sector has further accelerated the

discourse of universities as global actors over and above their faculty, and reputation is being shifted from the level of specific individual scholars to be articulated as an *active* management and organization-wide issue.

Evaluation of one kind or another has always been a feature of research culture. The judgement of peers engaged in sceptical challenge and refutation is regarded as a defining feature of good science. However, the institutionalization of research assessment exercises (RAE) in UK and elsewhere signifies a transformation in the field-specific governance of research quality, with implications for universities as organizations. As the RAE has evolved since the mid-1980s, many universities have increasingly oriented internal processes towards it, recognizing both financial and reputational advantage of doing well. In the last exercise, the RAE system was internalized by many universities to the extent of having rehearsals and risk analyses of individuals whose research record might threaten the institution's overall performance. The UK RAE, which has led developments in many other countries, is an example of how evaluation systems come to play a significant disciplinary role in an organizational field and how they contribute to identity formation at the individual and institutional level. As Mills et al. (2006: 511) conclude in the Canadian context, "the educational choices of thousands of students, the economic viability of business schools, and the academic careers of faculty are now deeply tied to the identity construction and sensemaking of university administrators, parents and students who struggle to make sense of recent statistical data".

Much has been written on the side-effects of the RAE in changing academic behaviour and motivations over the years, leading to an emphasis on publications rather than problems, and to a normalization of the moderately interesting which threatens innovation (for example, see Elton 2000; Trowler 1998; Willmott 1995; Williams 1998; Talib 2001). The RAE and similar systems elsewhere are primarily about research *performance* measurement and

evaluation (cf. Prichard and Willmott 1997). Yet, the resulting ordinal scores for different subject areas lend themselves naturally to ranking, and small changes in the interpretation of methodology can introduce volatility into the rank, leading to some definitional competition among the most highly ranked universities.

Research performance is one aspect of the general evaluation and rankings of institutions. Two of the most well known international rankings are the *Times Higher Education Supplement* (THES) ranking and the Shanghai Jiao Tong University academic ranking of world universities[2]. While they use different metrics (the Jiao Tong ranking is largely based on received nobel prizes and top citations, and THES puts more emphasis on reputation measures) their lists exhibit many similarities. When in 2004 the THES began its worldwide ranking of universities, benchmarked against Harvard in first position. Senior staff at Berkeley, ranked second in the survey, were highly sceptical about the arbitrary nature of the methodology, giving rise to potential volatility in the rank. Yet, notwithstanding these doubts, they also accepted the reality of needing to pay heed to such rankings, especially as they affect the decisions of prospective students and staff: "every admissions cycle is another test of our reputation".[3] This duality of orientation is acutely reflected at the subject specific level, particularly in globalized fields such as law and business education where competition for students and faculty is intense (Kirp 2003; Mills et al. 2006; Espeland and Sauder 2007). Drawing on a qualitative study of European business schools, Wedlin (2007) argues that rankings have proliferated into the international management education field both in terms of shaping practices and as indicators of status and reputation. These effects can result in re-definitions of core strategies. For example, in some business schools the MBA is "considered important for the overall visibility and reputation of the business school……..participating in international rankings is seen as a way to establish a prominent position of the MBA programme" (Wedlin 2007: 30). In the case of US Law Schools Espeland and Sauder (2007)

demonstrate how rankings are reactive and performative technologies which are perceived as more valid measures of performance as they begin to permeate institutions, shaping both behaviour and motive, and redefining tasks and accountabilities for both academics and administrative staff. Ranking systems also magnify marginal differences between institutions, and shape external perceptions to which organizations must respond.

Ranking systems generate a 'primary risk' (Hirschhorn 1999) for universities by challenging the relationship between core and peripheral activities and values. Ranking systems which begin life as external, marginally significant evaluations, decoupled from core activities, come to play a central, constitutive role which challenges existing notions of performance and generates strategic behaviour and gaming of variables (Espeland and Sauder 2007; Bevan and Hood 2006) despite, and sometimes with the help of, auditing processes (Free et al., forthcoming). Such systems of evaluation and ranking also standardize and 'normalize' representations of research and teaching, making arguments for local specificity and uniqueness harder to advance (Espeland and Sauder 2007). Weights and factor loadings may be disputed, but organizations in a global field are at risk if they do not provide base data returns for the purpose of being ranked. Organizations are often unable or unwilling to contest public perceptions of their actions because they have already internalized these perceptions A rare exception in the field of education is the recent initiative by a growing number of US-American college and university presidents to withdraw participation from the *U.S. News and World Report* reputational survey and to refuse the use of any ranking as indication of the quality of the college or university.

Not all evaluative systems play such a fundamental role as the RAE does for English universities, and not all universities will be equally preoccupied with managing their ranking. Traditional universities whose mangers already understand themselves as part of an 'elite' will be concerned to establish and maintain this perception in any system of ranking (Martins

2005). Furthermore, once established by a ranking system, reputation will tend to be 'sticky' despite changes in the metric, since the latter favour incumbents (Schultz et al. 2001). Other lowlier institutions or newcomers may have less at stake in matching rank and reputation but also little opportunity to make inroads. A few will see ranking systems as an opportunity to make inroads into traditional hierarchies. Despite these inter-university differences, the growth of external metrics and evaluation platforms in the university field demonstrates how institutional reputation is socially constructed over time by the multiple efforts to make it measurable, visible and auditable, and how such institutional measures become internalized by organizational actors and permeate practice to varying degrees (Martins 2005). Methodological doubts about evaluation and rankings co-exist with acceptance of the powerful facticity they generate and towards which management effort must be directed. These concerns certainly pre-existed the rise of formal designs for organization, but they have been amplified by generalized discourses of 'reputational risk' across different fields, creating a new register and frame for the rational management of reputation as part of an expanded 'academic risk' management agenda (Raban and Turner 2003).

Universities, like any other organization type, have always faced the risk of reputational and legal damage from staff misconduct, such as plagiarism, the imagination of 'data' and scientific fraud. These events are relatively rare 'disasters', but have led to increased management attention to quality control and ethics as one would expect. In contrast, calculations of reputation which lead to rankings and league tables have become governance mechanisms and routinized sources of risk to be actively managed (Ramirez 2006: 235). In the UK, the HEFCE initiatives in the space of risk management, requiring the articulation and disclosure of risk management policies, has provided a new medium for framing concerns with reputation and new advisory opportunities in academic risk. Universities must now articulate, like banks, their risk appetite (HEFCE 2005: 10-11) and must evaluate the

‘reputational impact’ of key risks. A typical example is that of Portsmouth University in the UK who published a risk management policy in December 2007 which refers to ‘reputational risk’ explicitly and responsibilities for its mitigation. At the London School of Economics reputational risk as "threat of the brand" is defined as one of the core risks[4].

Some universities in the UK define the monitoring of league tables as a core method of managing reputational risk. For example, the University of Hull defines the optimisation of league table positions as a way to counteract the risk of “failure to meet home recruitment targets”[5]. Bath defines in its risk register "regular monitoring of league tables positions" as the key control to mitigate "Failure to manage implications of changes in performance relative to key competitors."[6] Other similar examples can be found in the risk registers of institutions as diverse as Loughborough and Cambridge, and several universities emphasize that "active" management of league table positions is a cornerstone of strategic development. In a memo of the University Management Committee of the University of Strathclyde, it is mentioned that the league table position should be improved by “designing data”. It also refers to the destinations of graduates and suggests that league table position could be improved by ‘designing numbers’[7] Outside the UK, there are interesting examples such as the quality management department of the University of St. Gallen/Switzerland which defines “ranking management” as one of its core activities.[8] In the United States, the COSO (2004) ERM framework has been used explicitly by the Office of the President of the University of California since 2006 and identifies ‘reputational risk’ as one category among others.[9] Naturally, consultants are also important contributors to the diffusion of risk management templates, and the abstract category of ‘reputation risk’, within the university field.[10]

All these examples suggest how rankings participate in the progressive construction of universities as organizational actors which must articulate strategic missions, and actively manage risks to those missions. Risk management designs and ranking systems have a

mutually constitutive effect in generating the allocation of management resource to reputational risk, with new agents and units charged to measure and track changes in the perceptions of key constituents, such as alumni and prospective students (Espeland and Sauder 2007). Reputation used to be grounded in the social capital of individually licensed professors. Yet, once reputation for the organization as a whole and its sub-units came to be problematized, calculated and made visible, and the possibility of comparisons with other units emerged, then it shifted from the level of individual aspiration to that of active management. And as risk management has come to provide an integrative narrative for universities as organizations, then 'reputational risk' becomes both a practice category and a distinctive logic of organizing which increasingly permeates the management process.

Conclusions

Late modernity has been defined in terms of the much discussed mega-trends of globalization, individualization, (re-)regulation and privatization, and also in terms of a gap between social demands for control and security, and the capacity for systems of rational management and administration to satisfy these demands. Such a performativity gap has been characterised as a 'legitimation crisis' (Habermas 1976), and under such conditions we would expect to observe, as we do, the intensification of a distinctive source of 'man-made' risk for organizations, namely organized practices of evaluation and critique conducted by a wide variety of other bodies speaking on behalf of diverse groups. It is in this sense that we our partial characterization of the condition of late modernity in terms of an increase in the *institutional* production and communication of reputational risk contrasts with Beck's (1992) thesis about the industrial production of risk as hazard. We further suggest that, while organizational preoccupations with reputational risk may take specific forms in specific cases, there is also a

more pervasive and reflexive character to discourses of reputational risk. For example, we do not observe the discrete institutionalization of reputational risk expertise in the same way as, say, accounting, law or financial management. Reputational risk resists and overflows ownership by public relations or marketing units because of its multiple sources and effects. Reputational risk is the organizational label for diverse institutional pressures for visibility and accountability, but it has an abstract unity in the form of generalized beliefs and tropes, for example in the often stated view that there is 'no hiding place' for large formal organizations.

This pervasive reputational risk agenda is closely related to the phenomenon of 'legalization', by which organizations mirror legal models of due process in their internal procedures (Sitkin and Bies 1994). Despite widespread rhetorics of opportunity and enterprise which surround contemporary risk management practice, and arguments for the reputational upside of engagement with stakeholders, this pervasive risk orientation is defensive, precautionary and potentially adversarial. The category of reputational risk encompasses a complex space of diverse issues but it also describes and inscribes a generalized sense of organizational vulnerability to formal and informal frameworks for accountability, blame and performance assessment.

We began by defining risk as a conceptual object and argued that the explosion of risk management designs has created new accountability conditions for organizations and a source of isomorphic pressure. We illustrated this idea in the context of the rise of risk management in English universities. The adoption of world level risk management principles has become a badge of both benchmark legitimacy and a source of reputational variation with regulatory bodies. We then turned our attention specifically to the concept of reputational risk at the intersection of longstanding concerns with organizational reputation and the relatively new wave of widely diffused risk management standards since the mid-1990s. From this point of

view ‘reputational risk’ may be both a specific construct relative to particular complexes and issues, and also a generalized and pervasive practice and cognitive category orientated to the risk of being blamed or criticised in some way. We illustrated this idea of a generalised orientation to reputation by considering the role of rankings and related metrics produced beyond organizational boundaries. There is strong evidence that rankings can be reactive i.e. lead to behaviours which are self-fulfilling. Again, the example of universities, and sub-units within universities is provided to suggest how reputational risk, defined as the anticipated negative consequence of falling in a ranking system that matters, leads to changes in practices and cognitive frames amongst key organizational actors and to the reconstitution of management and organizational objectives in the shadow of reputational risk.

Taken together, these arguments suggest that, rather than viewing reputation primarily as a discretely measurable object or ‘asset at risk’ in the sense which dominates debate in scholarship and practice, we suggested that it is also theoretically useful to regard it as logic of organizing as such, leading to an intensification of focus on possible reactions to and perceptions of organizational conduct, and how this might affect key external metrics and rankings. This is a more defensive posture than is to be found in the majority of scholarship on reputation because reputational concerns are positioned as part of a more general ‘legalization’ of organizational processes in the face of organized environments which evaluate and (potentially) blame. The defensive character also reflects a degree of managerial powerlessness in the face of reputation effects which can travel in accidental and contingent ways, and which can affect entire fields. As the purest form of socially constructed risk, reputational risk challenges capacities for rational management and suggest significant limits to the normalization of reputational management in indices and rankings.

More work is needed to find ways to measure the intensifying generalized concern with reputation hypothesised in this paper. In addition, more work is needed to explore the variety

of possible consequences of such generalized concerns in different fields, a task which might profitably revisit previous studies by way of meta-analysis. Certainly, a society of agents and organizations concerned with how they are perceived, and who shape what they do to anticipate and manage how they are perceived, is likely to be one where innovation is increasingly problematic, where risk aversity is normalized and where expensive 'audit trails' and due process pervade the texture of organizational life. Such a society will be one where ex post measures of performance, as they become reputationally significant, will be transformed into ex ante targets, and then gamed for private interest. If there is some prima facie plausibility to these ideas, then the further investigation and diagnosis of reputational risk as a logic of organizing is one of the most pressing and important issues of our late modern age.

Notes

[1] A notable example in September 2007 has been the public criticism of the Bank of England and its governor over its role in the financial crisis at Northern Rock.

[2] See http://www.topuniversities.com/worlduniversityrankings/ and http://www.arwu.org/

[3] See http://berkeley.edu/news/berkeleyan/2004/12/01_rankings.shtml (accessed July 3rd 2008).

[4] See the LSE see strategic plan 06-11, p.16 http://www.lse.ac.uk/collections/planningUnit/pdf/Stratplan06.pdf (accessed July 15th 2008).

[5] See risk 05/3 in the risk register at http://www.hull.ac.uk/policyregister/policies/risk_register.html (accessed July 15th 2008).

[6] See http://www.bath.ac.uk/vc/coredocs/riskregister.htm (accessed July 15th 2008).

[7] Although the memo is 'confidential', it is publicly available at: http://www.mis.strath.ac.uk/Secretariat/pdf/umg/25-09-07.pdf; see issue #174 (accessed July 15th 2008).

[8] See http://www.rankings.unisg.ch/ (accessed July 15th 2008).

[9] See http://www.ucop.edu/riskmgt/erm.html (accessed July 15th 2008).

[10] See Marsh's document on reputational risk at http://global.marsh.com/documents/CM_Higher_Ed_7-2007.pdf (accessed July 15th 2008).

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Michael Power Michael Power is Professor of Accounting and Research Theme Director of the ESRC Centre for the Analysis of Risk and Regulation (CARR) at the London School of Economics. Educated at Oxford and Cambridge, he has been a visiting fellow at the Institute for Advanced Study, Berlin and at All Souls College, Oxford. He is an associate editor of *Accounting, Organizations and Society* and his research and teaching focus on regulation, accounting, auditing, internal control and risk management. His book *The Audit Society: Rituals of Verification* (Oxford University Press, 1997) has been translated into Italian, Japanese and French; *Organized Uncertainty: Designing a World of Risk Management* was published by Oxford University Press in May 2007.

Address: Department of Accounting, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, UK.
E-mail: m.k.power@lse.ac.uk

Tobias Scheytt Tobias Scheytt is Professor of Management Accounting and Control at Helmut-Schmidt-University – University of the Federal Armed Forces, Hamburg, Germany. He held previous positions at Witten/Herdecke University, Germany, where he also earned his PhD, and at Innsbruck University, Austria. His main research interest lies on dynamic aspects of organizing, particularly on the ways in which systems of control, governance, regulation, evaluation and risk management inform organizations. His work is published in German, English, and Japanese books and journals, among them *Organizational Research Methods, Higher Education Quarterly, and Critical Perspectives on Accounting.*

Address: Department of Management Accounting and Control, Faculty of Economic and Social Sciences, Helmut-Schmidt-University, Holstenhofweg 85, D-22043 Hamburg, Germany.
E-mail: scheytt@hsu-hh.de

Kim Soin Kim Soin is Senior Lecturer in Management Accounting in the Department of Management at King's College London. She held previous positions at Sheffield Hallam University, where she also earned her PhD, and at UMIST, UK. Her research focuses on analyzing risk management, regulation, and compliance practices; analyzing management accounting change in organizations; and the (inter)relationship between culture and control. Her work has appeared in journals such as *Organizational Research Methods*, *Management Accounting Research* and *European Accounting Review.*

Address: Department of Management, School of Social Science & Public Policy, King's College London, Franklin-Wilkins Building, London SE1 9NH, UK.
E-mail: kim.soin@kcl.ac.uk

Kerstin Sahlin Kerstin Sahlin is Professor of Management at Uppsala University. She earned her PhD from Umeå University and held positions at Stockholm University, Stockholm School of Economics, Sweden, and Åbo Akademi, Turku, Finland. Her research interests include transnational governance, transformed public-private relations, governance of health care and universities, and the travels of management ideas. She recently edited *The Sage Handbook of Organizational Institutionalism* (Sage, 2008, with Royston Greenwood, Christine Oliver and Roy Suddaby), *Transnational governance: Institutional Dynamics of Regulation* (Cambridge University Press, 2006, with Marie-Laure Djelic) and *The Expansion of Management Knowledge: Carriers, Flows and Sources* (Stanford University Press, 2002, with Lars Engwall). She serves on editorial boards of a number of leading journals, for example *Organization Studies,* and is currently Deputy Vice-Chancellor of Uppsala University.

Address: Department of Business Studies, Box 513, S-751 20 Uppsala, Sweden.
E-mail: kerstin.sahlin@fek.uu.se