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Opportunity Platforms and Safety Nets: Corporate Citizenship and Reputational Risk

CHARLES J. FOMBRUN, NAOMI A. GARDBERG, AND MICHAEL L. BARNETT

Why do managers regularly allocate corporate resources to 'doing good'? Doing good is costly, and the expenditures of public companies come under extensive scrutiny from investors and analysts. What justifies managers in allocating a company's scarce resources to these elective activities?

Recent discussions of 'corporate citizenship' propose a fusion of two arguments.[1] On one hand, a citizenship portfolio helps to integrate companies into the social fabric of local communities by strengthening the social bonds between the company, its employees, and the local community.[2] On the other hand, a citizenship portfolio helps a company build reputational capital, and so enhances its ability to negotiate more attractive contracts with suppliers and governments, to charge premium prices for its products, and to reduce its cost of capital.[3]

Both of these benefits are consistent with a view of corporate citizenship as a strategic tool that managers can use to cope with the *bi-directional risk* that companies face. By doing good, managers generate *reputational gains* that improve a company's ability to attract resources, enhance its performance, and build competitive advantage.[4] Citizenship programs also mitigate the risk of *reputational losses* that can result from alienating key stakeholders.

Charles J. Fombrun, Naomi A. Gardberg, and Michael L. Barnett are at the New York University Stern School of Business. The authors wish to gratefully acknowledge the many helpful comments and suggestions of the editors of this special edition.

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Thus, we argue that no simple correlation can be established between 'corporate social performance' (CSP) and 'corporate financial performance.'[5] The activities that generate CSP do not directly impact the company's financial performance, but instead affect the bottom line via its stock of 'reputational capital'—the financial value of its intangible assets.[6]

Recent statements by senior executives of several prominent companies[7] describe five complementary motivations for pursuing citizenship activities:

- Build community ties and maintain a license to operate

  Chris Marsden, former Coordinator, British Petroleum: *The benefits to BP come in many different forms but they can all be categorized as reputation enhancement (including what we call license to operate), staff benefits in terms of morale and personal development, and creating a healthy economy in which our business can prosper.*[8]

- Increase morale and attachment of current employees

  Walter Haas, Jr., Chairman, Levi-Strauss: *I believe that if you can create an environment that your people identify with, that is responsive to their sense of values, justice, fairness, ethics, compassion, and appreciation, they will help you be successful.*[9]

- Prepare and attract potential employees

  Arnold Langbo, Chairman, Kellogg Company: *More than ever, the success of business is directly related to the success of societies, families and communities in preparing a competent workforce. We consider it good business to view corporate philanthropy not only as charity but as a wise and strategic investment in our future.*[10]

- Develop potential customers

  Sir Allen Sheppard, Chairman, Grand Met: *The long term continued success of our business depends on the existence of prosperous consumers to buy those products. Our involvement in the community is genuinely business driven, even if measuring the returns is not that easy.*[11]

- Enact an environment where the company can prosper

  Charles Fettig, Senior Director of Marketing, Merck: *We're a very successful company because we make a lot of money and we do a lot of good things. There's not a direct return on it, and I*

> *don't know that there will be any. Maybe this will help governments accept our products, but no one really knows. But it does make us a company worth dealing with. . . .*[12]

In these statements, executives describe a relationship between company and society captured well in terms of reputation and reciprocity, social integration and economic performance. Executives justify corporate citizenship as *investments* in community or society rather than as expenses—even if they concede that measuring the returns from those investments is seldom attempted.

We suggest that corporate citizenship programs can be designed to help companies address reputational threats and opportunities —to achieve reputational gains while mitigating reputational losses. To that end, in the pages that follow, we introduce the concept of *reputational risk*, examine how corporate citizenship modifies reputational risk, and support the integration of citizenship with other managerial activities.

REPUTATION AND RISK

A corporate reputation is a cognitive representation of a company's actions and results that crystallizes the firm's ability to deliver valued outcomes to its stakeholders.[13] When these expected outcomes are not delivered, the damage to the company's reputation manifests itself in impoverished revenues, decreased ability to attract financial capital, and reduced appeal to current and potential employees. These negative outcomes translate into lessened economic returns and shareholder value. The fluctuating value of the company's reputation has been termed *reputational capital* and calculated as the market value of the company in excess of its liquidation value and its intellectual capital. It constitutes the *residual value of the company's intangible assets over and above its stock of patents and know-how.*[14]

A company's reputational capital is therefore the value of the company that is 'at risk' in everyday interaction with stakeholders. Reputational capital fluctuates in the equity markets as stakeholders convey or withdraw support from the company. Reputational capital is created when managers convince employees to work hard, customers to buy the company's products or services, and investors to purchase its stock. It grows when managers induce

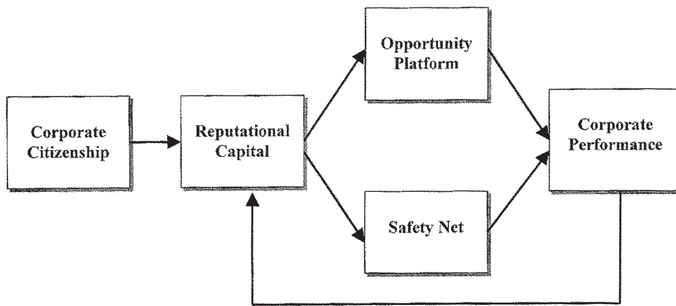
analysts and reporters to praise the company and recommend its shares. It is destroyed when stakeholders withdraw their support because they lose confidence in the company's managers, its products, prospects, or jobs.

Research suggests that managers view risk principally in terms of the *potential for loss*. Focusing solely on potential losses, however, ignores the *potential for gains* from risk. We therefore define **reputational risk** as *the range of possible gains and losses in reputational capital for a given firm.*[15] Thus, we examine here how corporate citizenship helps manage both the upside and downside components of reputational risk. Since reputational capital depends on stakeholder support, each stakeholder group is a source of reputational risk to be managed. A key task for executives is to manage the risks that come from the company's dependency on those stakeholder groups.[16]

Consider giant retailer Wal-Mart. Investors applaud its profitability; employees cherish its family-like culture; and customers welcome its quality at a low price ethic. However, communities and the media often deplore the arrival of a new Wal-Mart store. To counter negative sentiments and build reputational capital, Wal-Mart has developed an extensive portfolio of citizenship activities that targets its key stakeholders. These initiatives seem to be effective, as evidenced by Wal-Mart's tremendous levels of capital. Between 1990 and 1993, the company's reputational and intellectual capital averaged $51 billion, some 3.5 times that of rival Sears Roebuck, and equivalent to 90% of all other retailers combined.[17]

Figure 1 suggests that corporate citizenship is an integral part of a cycle through which companies generate reputational capital, manage reputational risk and enhance performance. Companies invest in citizenship activities that generate reputational capital. In turn, stocks of reputational capital serve a twofold purpose. On one hand, reputational capital builds a platform from which future opportunities may spring. On the other hand, reputational capital safeguards the existing assets of the firm, serving as a buffer against loss. As we suggest in a later part of the article, achieving consistency across programs and throughout the cycle is crucial to fully managing reputational risk. In the next two sections, we examine the reputational risk management cycle in more detail by unraveling the role that corporate citizenship plays in maximizing reputational gains and minimizing reputational losses.

FIGURE 1. The Reputational Risk Management Cycle



BUILDING AN OPPORTUNITY PLATFORM THROUGH CORPORATE CITIZENSHIP

Effective citizenship programs heighten stakeholder support that savvy firms then utilize to enact new opportunities. J. P. Morgan serves as a case in point. In the early 1990s, Morgan's portfolio of citizenship activities included community development programs, charitable grants, volunteering, and donations. These programs contributed to the large stock of reputational capital the company enjoyed, particularly in its New York home base. In 1991, when several large non-profit organizations in New York City needed an underwriter, they turned to J. P. Morgan. The bank underwrote a $20 million financing package for the National Audubon Society in New York City, as well as another $54 million for the renovation of Manhattan's Guggenheim Museum. In short order, Morgan realized the potential to capitalize on an untapped source of synergy between its line activities and its citizenship activities. To do so, the bank created a not-for-profit group to market its asset and liability management services to nonprofit agencies and assist philanthropists in structuring trusts and foundations. The group quickly became a large profit center for the bank.[18]

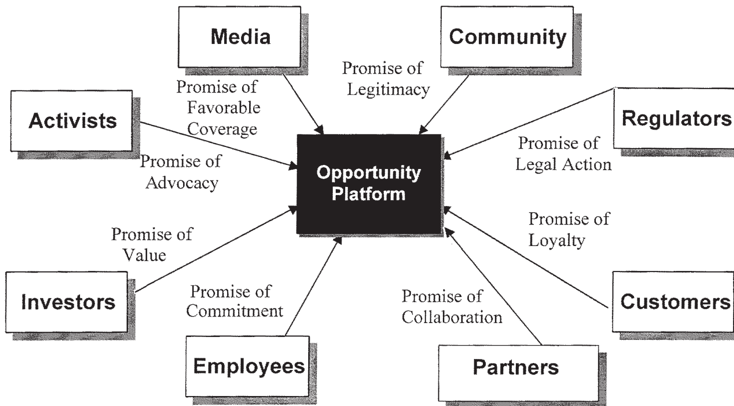
Citizenship programs like those of Morgan create the potential for gains by increasing the *real options*[19] available to a company. The premise is simple: Sustained corporate citizenship creates reputational capital and so provides a platform from which other opportunities may spring. The supportive social relationships that a company builds through its citizenship programs today put it in a more favorable position to take advantage of opportunities that emerge tomorrow. In contrast, companies that fail to invest in corporate citizenship today may lack the relationships and reputational capital that they need to exploit emerging opportunities tomorrow.

In this way, Morgan's citizenship programs can be viewed as platform investments from which new paths for growth arise.[20] These platform investments derive value not from direct income creation, but from indirectly creating potential for future gains. On the upside, therefore, corporate citizenship programs are comparable to R&D and training: They are platform investments whose value partly lies in unlocking future growth opportunities for companies.

Furthermore, citizenship programs are boundary-spanning activities that sensitize employees to environmental conditions and help companies adapt to changing circumstances.[21] 'Hands on' corporate volunteerism and community development typically expose employees directly to the diverse needs and perspectives of multiple constituencies, thereby fostering increased awareness and understanding of stakeholders and their expectations. Some companies treat community involvement as a 'leadership laboratory.'[22] Through 'action learning', managers develop "a broader repertoire of cultural, relational, and self-leadership competencies."[23] Through community involvement, employees learn valuable information about the environment that enhances the company's adaptability. In turn, personal understanding increases corporate opportunities for profit making, and makes it more likely the company can capitalize on those opportunities.

Figure 2 suggests that citizenship programs increase a company's potential for gain by increasing support from the company's eight stakeholder groups, which then leads to cooperation in the execution of corporate initiatives designed to achieve strategic objectives. Each stakeholder group offers a specific promise of support that fosters the growth of reputational capital.

TABLE 2. Managing the Upside of Reputational Risk



From Employees: The Promise of Commitment

Employees have the highest potential impact on a company's reputational capital. The quality of their work influences the quality of the products and services offered to customers. When they interact with customers, colleagues, neighbors, and friends, they convey the merits of the company they work for, and so help to diffuse more or less favorable word-of-mouth about the company. Most employees approve of citizenship programs, even if only a small proportion of them participate.[24] Companies benefit from resulting increases in both participant and non-participant motivation, teamwork, morale, and commitment, thereby decreasing hiring and training costs, and increasing the company's appeal to new recruits.[25] For example, to generate employee support, Wal-Mart provides employee health benefits that are often superior to those provided by local businesses and also offers part-time income to local senior citizens.[26]

From Customers: The Promise of Loyalty

The principal promise from customers is loyalty that generates repeat purchases and recommendations. Citizenship programs act

much like advertising in promoting an attractive image of the company. A growing body of evidence suggests that some customer segments favor the products and services of companies that demonstrate corporate citizenship, and willingly pay a premium price for the products of these companies. Johnson & Johnson, which is renowned for its attentiveness to customer needs in a quality-sensitive yet highly competitive industry, benefits from intense customer loyalty. As one customer in a recent survey noted, "There's this comfortability, familiarity level. When I'm faced with 45 products on the drug store shelf, I'd gravitate to theirs."[27]

From Investors: The Promise of Value

Investors enhance reputational capital when they speak favorably of a company, purchase shares, and instigate an upward spiral in the company's market value. Companies that 'do good' can create positive word-of-mouth, increased share purchases, and ultimately higher market value. A staggering $1.4 billion of investment dollars has moved into mutual fund portfolios that include only companies screened for their social responsibility.[28] Citizenship may even help to lower the cost of capital and so enhance economic returns by inducing favorable recommendations from buy-side analysts.[29] Ben & Jerry's is the seminal example of a corporation gaining investment dollars by 'doing right' in the community. Many of Ben & Jerry's investors prefer social responsibility over high returns. Though returns are often below industry average, Ben & Jerry's is still able to obtain adequate capital.[30]

From Partners: The Promise of Collaboration

Citizenship programs can create opportunities for partnerships to develop as well as enhance the trust between existing partners by increasing familiarity and social integration. Corporate volunteer programs, for instance, often bring together employees of potential partners. These encounters heighten collaboration and are often said to have indirect benefits for the alliance. Good corporate citizens are also more likely to attract high-caliber partners. Dealers and suppliers expect fewer disruptions in the supply chain from disgruntled customers or employees; joint venture partners are less

concerned about stakeholder threats. For instance, J. P. Morgan's employees, through off-site citizenship interactions, developed a network of potential business clients that proved useful in developing investment opportunities. Its school liaison program evolved into community development and investment opportunities in New York City's Harlem.[31]

From Regulators: The Promise of Favorable Regulation

Anecdotal evidence suggests that legislators and regulators will react more favorably to companies that 'do good.' Legislators are elected by local constituents, and insofar as those voters speak favorably of a company, they reduce the likelihood of the company being reviled and made prey for regulators. Moreover, regulators themselves are community members and are more likely to grant the benefit of the doubt to strong corporate citizens. Firms with strong regulatory relations may be able to shape zoning laws in their favor, reduce stringent regulations, and otherwise create favorable conditions for business.

Firms expanding globally often employ citizenship programs to overcome nationalistic barriers and enhance perceived legitimacy.[32] Through corporate citizenship activities, firms ingratiate themselves with the local community and with local regulators. In countries with restrictive practices for foreign companies, those firms with active citizenship portfolios can increase opportunities to expand into and within profitable markets.

From Activists: The Promise of Advocacy

Purchases of many consumer products and services can be substantially swayed by the endorsements of activist groups. In a highly competitive marketplace, the added advantage of an activist group's seal of approval may directly translate into improved sales. The recent consumer emphasis on recycled goods led to premiums for those products that carried the recycling seal. Honors bestowed upon select firms for safety, pollution prevention, philanthropy, equal employment opportunity, and so forth, make the company more visible to consumers and provide a way to distinguish themselves from the pack. The Council on Economic Priorities, for

example, publishes a best-selling book *Shopping for a Better World*[33] that identifies the corporate parents behind many popular brands to better inform consumers which products to buy and which to avoid.

From the Community: The Promise of Legitimacy

Although most companies perceive local communities as passive stakeholders, occasionally some communities mobilize and act. Local communities may act to attract new investments or protect local companies that share their values and interests. Companies that participate in local communities benefit from community protection when threatened by insurgent groups of stakeholders. In early 1999, when the Coca-Cola company was slapped with a race-bias suit by a group of disgruntled employees, the company received support from black community leaders who pointed to the company's strong record of sustained citizenship in favor of black colleges.[34] The resulting publicity stands to enhance the visibility of Coca-Cola's citizenship programs and thereby generate favorable regard for the company.

From the Media: The Promise of Favorable Coverage

The media magnify a company's actions for other stakeholders, and so influence how they come to regard a company. The media also seek out attention-getting stories. To do so they selectively filter from a company's initiatives those more likely to draw readers and viewers, potentially creating or destroying corporate reputations. Insofar as citizenship programs are unexpected and often involve interactions between wealthy companies and less privileged sectors of local communities, they are likely to attract the attention of reporters and generate favorable publicity for the company. Johnson & Johnson's extraordinary handling of the Tylenol tampering crises in 1982 and 1986 garnered such positive press coverage that its market share and stock price rapidly recovered.[35] This positive media coverage continues today.

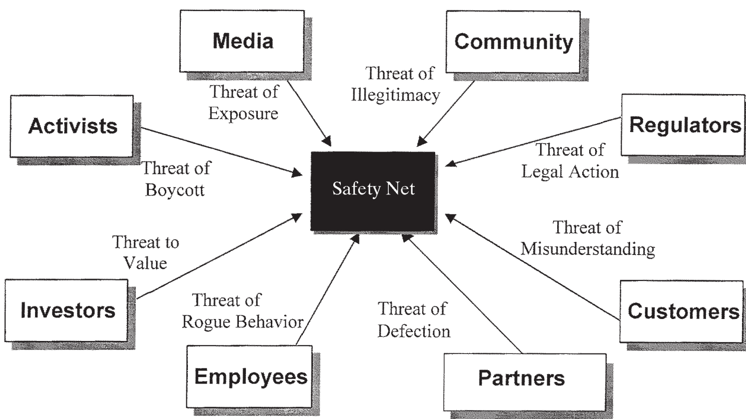
BUILDING A SAFETY NET THROUGH CORPORATE CITIZENSHIP

Companies must also manage the downside risk associated with potential loss of reputational capital. Figure 3 suggests that the downside of a company's reputational risk is rooted in threats from its eight stakeholder groups. Citizenship initiatives help companies buffer themselves against the downside risk of reputational loss by mitigating these threats.

From Employees: The Threat of Rogue Behavior

The principal downside risk from employees is the threat of rogue behavior. Rogue behavior refers to actions that are in the employees' self-interest but are inconsistent with corporate policies and are not in the long-term best interests of the company. At a minimum these actions can create negative publicity; at a maximum they can bring the company to its knees. Companies victimized by rogue employees abound, none more visibly perhaps than in the financial services industry, where small infractions of rules by zealous employees virtually bankrupted such well-regarded institutions as Barings Brothers and Salomon Brothers.

FIGURE 3. Managing the Downside of Reputational Risk



Key factors that determine a company's vulnerability to rogue behavior are its corporate culture and its associated control systems. Strong cultures that emphasize internalization of corporate objectives and teamwork are less likely to experience rogue behavior because they produce close alignment between individual self-interest and the collective good. Similarly, companies with extensive monitoring systems, intensive recruitment practices, formalized training, and team-based compensation systems are less likely to experience rogue behavior than companies that glorify individual 'stars.'[36]

In addition, citizenship activities can help companies defend their reputational capital by strengthening the bonds between employees and hence the corporate culture. Volunteerism and community projects also foster altruism and dampen individualism, thereby reducing the potential for purely self-interested behavior that heightens reputational risk.[37]

From Customers: The Threat of Misunderstanding

The principal threat to reputational capital that comes from customers is the threat of misunderstanding. The more complex, important, and costly the products that customers buy from a company, the more likely customers are to depend on the company for guidance in how to use those products, and so the more vulnerable the company is to possible misunderstanding by those customers.

Consider pharmaceutical companies. Their prescription products are often complex, important, and expensive to their customers. To reduce the reputational risk from customers, pharmaceutical companies try hard to clarify the appropriate applications for their products by performing extensive testing, passing regulatory hurdles, and releasing detailed guidelines that describe side effects and interaction effects involved in their use. In so doing, they demonstrate their concern for customers. Pharmaceutical companies often rely on citizenship initiatives to reinforce their reputations as companies that care for the well-being of their customers. Product donations have been particularly effective acts of generosity for pharmaceutical companies: Merck's donation of Mectizan to people infected with 'river blindness' who could not afford to buy the drug reinforced the company's reputation as a concerned partner in the promotion of human health.[38] With such citizenship programs,

managers signal their concern for customers, convey favorable images of their companies, and reduce the chance that customers will misuse or misunderstand their products and services.

From Investors: The Threat to Value

Investors threaten reputational capital when they speak badly of a company, call in loans, and sell off their shares, thereby sparking a downward spiral in the company's market value. Investors assess value based on two criteria: the company's past performance, and its future prospects for growth. The higher and less volatile the company's past profitability has been, the greater its value. The greater the estimates of future cash flows generated from the company's core business, the more favorably investors assess the company's future prospects.

Managers routinely reduce the potential for loss of reputational capital by maintaining 'transparency' in their interactions with investors and analysts. Extensive disclosure, openness, and frequent contact with analysts and the media induce favorable perceptions of a company's quality and so enhance valuations.[39] Citizenship programs can help reduce the threat to value from investors by increasing the visibility and transparency of the company to investors. Companies that involve themselves in community activities become 'neighbors of choice'[40] and stand to benefit from enhanced assessments of their future prospects by activist institutional investors.

For example, during the introduction of its Pentium computer chip, Intel learned of a flaw that it considered insignificant. The company ignored criticism and denied the importance of the flaw. The public disagreed causing an uproar that threatened the firm's future prospects and reduced its stock price. Intel's inappropriate initial response tarnished its reputation—decreasing its reputational capital. However, within weeks Intel altered its strategy by creating a dialogue with the public and investors that renewed confidence that the company would do the right thing to resolve this situation and act appropriately in the future.[41]

From Partners: The Threat of Defection

When partners defect, they threaten the company's performance and reputation by ending crucial flows of products, services and resources. For example, Delta Airlines ended a strategic alliance with Korean Airlines (KAL) when the latter was cited for safety violations. Delta's defection reduced KAL's access to the valuable U.S. market.[42]

Reputation also spills over from one partner to the other.[43] Use of child labor by Asian subcontractors, for instance, has tarnished the reputation of sporting goods manufacturers Nike and Adidas. Companies often try to reduce that risk by nurturing local responsibility, sharing business risk, and investing in local citizenship initiatives. They can also enlist support from another stakeholder group. Williams-Sonoma (WS), the mail order company, is a case in point. WS relies on its Memphis neighbor Federal Express (FedEx) to ship all of its customer orders. In 1998, when a pilot strike threatened FedEx, WS worked closely with the shipper to develop alternate means of transporting products. During media interviews, WS became an advocate by proclaiming its confidence in FedEx's ability to handle the potential crisis. WS thus assisted FedEx in defusing the situation and restoring other stakeholders' confidence.[44]

From Regulators: The Threat of Legal Action

Regulators threaten a company's reputational capital by setting reporting requirements, and by initiating investigations and legal action. Vulnerability is greater in highly regulated industries and in industries that provide vital, dangerous, or life-threatening products or services. Nonetheless, firms in every industry in the U.S. have some degree of threat from regulation, stemming from enactment of the 1991 Federal Sentencing Guidelines for Organizations.[45]

Under these guidelines, organizations convicted of certain criminal activities can be fined up to $290 million. The definition of crime is quite broad, allowing organizations to be held responsible for the criminal acts of rogue employees, even when such behavior is in direct violation of company policy. A firm's best defense to such charges is imposition of effective compliance programs that impart to employees the importance of ethical corporate behavior.[46]

Corporate citizenship activities help to relay such information, aiding in building a corporate atmosphere that not only mitigates the risk of rogue behavior, but also lessens the risk of conviction and the imposition of heavy penalties if and when such behavior does occur.

From Activists: The Threat of Boycott

Activists threaten a company's reputational capital by calling attention to corporate policies that they deem socially irresponsible. They do so principally through press releases, marches, and boycotts that are intended to draw media attention and public support. Activists instigate their actions to depress corporate revenues, and thereby bring pressure to bear on the company to change its policies. In the early 1990s, a reported 18 percent of Americans participated in boycotts.[47] Many observers believe that activist boycotts will increasingly affect American companies as consumers refuse to buy a branded product or class of products to achieve some social outcome.[48]

Companies are more vulnerable to activists: (1) when their products and services can potentially harm the environment or human health; and, (2) when their actions can be perceived as damaging social values. Recent examples include Disney and Phillip Morris. Disney's granting of domestic partner benefits to gay couples has enraged conservative activists, bringing undesired controversy to this traditional epitome of family values.[49] Actions against Phillip Morris' cigarette lines have spilled over into boycotts of unrelated product lines within the product portfolio such as Kraft foods.[50]

Research shows that boycotted companies experience significant decreases in market value in the 60-day period following boycott announcements.[51] Negative information about one product from a multi-product company also proves contagious in inducing negative perceptions of other brands from the same company.[52]

Companies generally counter the threat of boycotts by building relationships with activist groups, and encouraging an open dialogue about contentious issues. Citizenship programs can help reduce corporate vulnerability to boycotts by promoting favorable images of the company through its involvement in social programs.

From the Community: The Threat of Illegitimacy

Public opinion plays an important role in setting standards of acceptable corporate behavior.[53] When communities mobilize and act, it is generally because they perceive a company to be undermining the welfare of the community—failing to live up to community expectations or challenging local values. Four factors contribute to a company's vulnerability to illegitimacy: social distance, unattractiveness, deviance, and uniqueness.

Social distance refers to the difference between a company's beliefs and those of the local community. Attractiveness describes a company's emotional and economic appeal to community residents. Deviance refers to behavior that is inconsistent with prevailing community norms. New and unique companies are those that have no track record of dependability, and so are poorly understood. Socially distant, unattractive or deviant firms often find themselves victims of not-in-my-back-yard (NIMBY) campaigns.

Wal-Mart is a case in point. In recent years, the giant retailer with operations in all 50 states has found domestic expansion in the U.S. increasingly difficult as local grassroots groups from Vermont and Massachusetts to Georgia and Colorado protest new stores due to its reputation for hollowing out small towns. Community opponents claim that Wal-Mart displaces small, locally owned enterprises, destroys the character of Main Street by replacing quaint store fronts with generic boxes, creates traffic and environmental problems, and diminishes the quality of life in local communities. They describe the company's expansion as "corporate colonialism . . . organizations from one place going into distant places and strip mining them culturally and economically."[54]

Companies can reduce their vulnerability to threats of illegitimacy by reducing the social distance and perceived deviance of their values and activities from those of the local community. Citizenship programs can help companies do so and thereby dampen community protests and fend off threats to the legitimacy of their operations. Economic assistance, volunteerism, grants for local schools, and investments in much-needed community infrastructure are some of the ways Wal-Mart has invoked support for its operations. The company initiates many of these programs even in advance of opening a store in a host community. In a recent survey of corporate reputations in America, Wal-Mart ranked sixth

overall and fourth in social responsibility.[55] Clearly these citizenship initiatives help to reduce perceptions of the company as a predator and thereby reduce the company's vulnerability to loss of community support.

From the Media: The Threat of Exposure

A company's reputational capital is vulnerable to media exposure about its activities. The level of vulnerability to media exposure is influenced by four factors: (1) The company's uniqueness; (2) the quality of its interactions with the media; (3) its earnings volatility; and, (4) its advertising visibility.[56] Media exposure increases when a company develops and promotes new and unique product or service offerings. Frequent interaction with reporters increases familiarity with the company and enhances the probability that the company will be featured. Unusually high returns and volatility draw media attention. Finally, a company with a large advertising presence is more likely to be targeted by reporters than less visible companies. Hence, the more newsworthy a company and the more it draws attention to itself the more media coverage it receives.

Royal Dutch/Shell was heavily impacted by media magnification of activist boycotts and community protests. News shots of an ugly platform buzzed by Greenpeace helicopters conveying determined volunteers were instrumental in giving the activists a media victory against a company that was portrayed as huge, powerful, and uncaring.[57]

Companies reduce the threat of exposure from the media by nurturing their media relationships. Some avoid media exposure altogether—an introvert position that shelters the company in the short term, but exposes the company to increased risk when a crisis develops. At that point, reporters starved for information indulge in a feeding frenzy about the 'unknown' company they seek to expose, and often do far more damage to the company's reputational capital than was warranted.

Citizenship programs can help reduce a company's vulnerability to exposure by increasing the familiarity of the media with the company, its employees, and activities. Corporate affiliation with philanthropic and charitable organizations such as Habitat for Humanity or the American Cancer Society provides the media with positive corporate images to broadcast. Familiarity also reduces

the potential for misrepresentation and increases the likelihood that the company will be given the benefit of the doubt when discrepant information comes to the fore.

CONCLUSION

In this paper, we have argued that corporate citizenship is a strategic tool that companies can use to manage reputational risk from stakeholder groups. Citizenship initiatives facilitate execution of corporate strategies and enrich opportunities while buffering firms from loss of reputational capital, all of which enhances performance. To reap these benefits, care must be taken in designing and implementing citizenship activities.

Efforts at quickly building an image as an upstanding corporate citizen generally fail. The time to build a stock of reputational capital is before a firm is struck by a crisis. Reputations form over time as observers interpret the patterns of corporate actions and, once formed, are resistant to change even in the face of discrepant information. Knee-jerk responses lack believability and may be seen as self-serving, leading to a loss of reputation instead of the intended gain.[58]

A consistent and sustained message requires continuous investment in and commitment to citizenship activities, despite the difficulty in directly quantifying the gains. This 'difficult to quantify' aspect of corporate citizenship makes it a hard sell to many firms. Without numbers, many firms may not see the link between citizenship and profitability, and thus may underinvest in citizenship. Were firms to view citizenship through the real options lens, they might overcome these myopic tendencies. We have presented a strong framework in which to consider the bi-directional nature of risk as it relates to corporate citizenship. Investments in corporate citizenship build a hedge against downside risk while creating a platform from which future opportunities for gain may spring. By considering upside potential along with protection from loss, firms may more easily justify investments in corporate citizenship programs.

We therefore encourage a deeper investigation of the complex relationship between citizenship activities, reputational risk, and the process through which companies build reputational capital

and competitive advantage. Future research should examine not only how companies use corporate citizenship to manage reputational risk, but how they link citizenship initiatives to complementary reputation management activities such as advertising, public relations, and related communications functions.

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