Part VI: How Should Reputations be Managed in Good Times and Bad Times?

Reputations rise and fall. In this Part of the **Corporate Reputation Review** ***attention focusses on companies whose star is waning. The presentations made at the Stern School of Business conference and now published below comprise a distillation of the insights gained by a senior crisis-management practitioner, as well as three case studies and three more empirically-oriented crisis communication studies. Included in panelists' presentations are theoretical frameworks which seek to explain the behavior of managers and opponents during crisis situations.***

Managing in times of crisis

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CHARACTERISTICS OF A CRISIS

This article divides itself rather neatly into two parts. The first describes the characteristic of crisis. It is true that every corporate crisis is unique; that is to say, the underlying circumstances are unique, the individuals who are involved are unique to that company or to that organization, the facts, the timing and anything else going on in the marketplace, are all unique. Therefore, every situation has to be managed on its own terms. When looking over the history of a host of corporate crises, you begin to see certain characteristics, or patterns, that emerge time and time again. Understanding those characteristics before the crisis besets an organization will help management be much more effective, shorten the duration of the problem, and shorten the time it takes to recover.

I want to consider serious crises that have sudden and severe impact on the organization. Let me illustrate the point with an example from Philip Morris. The variety of anti-smoking initiatives they encounter in markets around the world are serious business issues, but they are not crises *per se*. However, just before Memorial Day weekend, 1995, Philip Morris discovered a problem with an ingredient that was used in the filter material for the cigarettes they made in the USA. They launched a recall which brought back some 8bn cigarettes from around the USA within a week. That was a crisis. That is the kind of event this article focusses on, and the defining characteristic, in those cases, is the notion of surprise.

Surprise

Surprise creates the most dislocation. It is the thing that precipitates the behaviors that tend to compound the problem and make it more difficult for the organization to extract itself. Perrier, ironically enough, learned about the contamination that ultimately led to the largest consumer recall in history, after a public health inspector whose job it was to test municipal water supplies, used a sample of Perrier to calibrate his testing equipment. He reasoned that Perrier was the purest water he could find, and intended to use it as the base line against which he measured all other water samples. Instead, he discovered the benzene contaminant. Consequently, his agency went to the FDA, who then went to Perrier in the USA; Perrier in the USA went to Perrier in France and, within six days, the leading bottled water in the world was off the shelves, globally. That is what I mean by surprise.

Lack of information

The second characteristic that executives find most dislocating in our experience, is the lack of reliable information. Executives today, more than ever before, are used to working in an information-rich environment. Early on in any crisis, it is a lack of information they find most frustrating. It is the phenomenon that leads them to conclude that, 'because we do not know everything about this situation, we cannot say anything about it'. Consider TWA's initial responses to the questions about what happened on Flight 800. It is the lack of information that slows communications, and thereby compounds the difficulty of the underlying situation.

Escalating pace of events

One illuminating piece of news coverage about an unfolding plant disaster was from CBS Evening News reporting on emergency response procedures at Kerr-McGee. There was a toxic leak in one of their facilities in Oklahoma. That night, Dan Rather led his story by saying that the company was at fault, in part, because no one notified emergency services for 20 minutes after they became aware of the situation. Think in terms of how fast 20 minutes goes in an unfolding emergency, and yet that was the standard that Dan Rather chose to apply to Kerr-McGee. One of the things Exxon found most frustrating about the early hours of the Valdez disaster involved this sense of the escalating flow of events. They complained, for example, that even before their own communications command center was operational, several government and environmental groups were on the scene and had already held press conferences, defining a complete agenda for what they would consider to be an adequate response to this disaster. This occurred, before the people at Exxon had even arrived on site and made their own determination about how much oil was on the water and what action to take.

Intense scrutiny

The last of the external characteristics which impose most of the dislocation is this sense of intense scrutiny from outside. The idea is that in the normal course of business, key decisions are made largely on the basis of research, extensive consultation, careful deliberation, and then privately, within that organization. Executives are not prepared to deal with the intense scrutiny early on in a crisis where every single decision is subject to immediate assessment from outside. The feedback loop is instantaneous. Criticism, praise or anything else comes back instantly. Consider any of the major initiatives executives normally take when it comes to managing or enhancing corporate image or reputation. They expect to see results weeks, months, sometimes even years after the initiative has been mounted. In a crisis, the feedback is instantaneous, and there is no mechanism for internalizing and evaluating the feedback. If that is how the outside world responds to an organization in crisis, it is worth taking a look at what kind of behaviors those phenomena tend to lead to within the organization.

LOSS OF CONTROL

The first and the most consistent complaint from executives after a crisis is that, very early on, a sense took hold that they had lost control; that someone outside of the organization was defining an agenda for them, and they were merely responding. Once that sense took hold, it was very hard for them to organize and think strategically about the problem. Consider the Exxon example. There were different press conferences, different agendas and articulated solutions fully explained in the media, before Exxon was even on site. Not surprisingly, in that kind of environment, a certain amount of siege mentality tends to prevail.

SHORT-TERM FOCUS

Decision making in this kind of environment tends to narrow itself down to the shortest possible time frame. Before Perrier announced their intention to recall their product from around the world, they had made and had to retract three different explanations for the cause and the scope of the problem. Their credibility was very low. They had undertaken what was then, and is still now, the largest recall in its history; no one had ever done anything like it before. Critics from around the world were saying the product was dead; that it would never come back. The Perrier people tell a story of a meeting in Paris on the seventh day. The entire crisis management team was listening to a detailed presentation by a hydrogeologist, a woman who was expert in how the water and gas permeates the rocks under the famous Spring; a highly-detailed presentation far beyond the technical expertise of almost everybody in the room, and yet she had their undivided attention. What they engaged in was a dramatic foreshortening of their focus, preoccupying themselves with that which is understandable. Rocks move very slowly. Hydrogeology is a very static subject, and also there is a lot of information, or at least expertise, at the front of the room. Much better to focus on that kind of presentation than to try and figure out how they were going to bring the product back. What they were manifesting was not only a short-term focus, but a panic.

A panic is not necessarily characterised by screaming and arm waving. Panic can manifest itself in any number of different ways. In the Perrier example, it was an inability to do anything other than focus on the most minute, but most understandable, aspects of the problem.

KEY PRINCIPLES OF CRISIS MANAGEMENT

The next logical question ought to be, 'What does one do in that kind of environment?' Before considering that, there is one very important caveat. I have chosen the word 'principles' carefully. There are far too many experts in the crisis management field who are willing to propound rules that must be followed in every situation. We have found, in our experience, that those 'rules' tend to be very difficult to apply in real-life situations. At best, I think there are principles, some of which, taken together, can suggest a framework forward.

The subject of crisis management is not nearly as simple as applying a set of rules for a way out of the problem. It should not be too surprising that common sense is one of the rarest commodities available to most executives early on in a serious crisis situation.

Define the real problem

The first principle is to make sure you are addressing the real problem. Too often, crisis management, at least in the eyes of most executives, tends to resolve itself across a very simple spectrum that runs from Johnson & Johnson, Tylenol on the good end to Exxon Valdez at the other end. Their job is to get their company somewhere closer to the Tylenol end of the crisis management success spectrum. Unfortunately, it is not that simple. The analysis fails to take into consideration the underlying circumstances of each of those situations. When I hear someone say Exxon did not do a good job, the first question has to be: what would have been a good job, given the fact that they owned the boat, they owned the oil, and employed the captain who ran the boat up on the rock and spilled the oil. What constitutes good crisis management, under those circumstances?

Set your own goals and define your strategy accordingly

What do I mean by defining strategy? We have considered the Exxon Valdez case already. Their response was dictated by plan, which they followed to the letter. T hey got on scene, set up a command center, held press briefings and answered questions as they were asked. They put out background statements and held briefings several times a day. What they did — in essence — was pour millions of words on top of the thousands of gallons of oil that were already on Prince William Sound. Yet none of the talking, none of the background papers, none of the briefings were powerful enough to overcome the strength of the visual image of oil-soaked otters and birds who dominated the media throughout that crisis. So what could they have done? With the benefit of hindsight, it is worth noting that Exxon, immediately after the spill, became the largest employer in the State of Alaska. They hired hundreds of people and boats to clean up the beaches, and collect the oil on the water. They spent a billion dollars in the clean-up itself, and yet nowhere, in that effort, was there any visual identifier that it was Exxon behind the clean-up effort.

Consider for a moment, whether out that billion dollars, some amount of money could have been carved out to put Exxon jackets on the people on the beaches or Exxon signs on the boats gathering up the oil. Would it have made people think better of Exxon? Probably not, but it might have begun to associate them with the clean-up, as much as they were already associated with the spill. The same point could be made about the outbreak of 'mad cow' disease in the UK in 1996. Nothing that the British government, the Health Ministry or opposition MPs said about the problem was powerful enough to allay the concerns generated by the poor deranged cow shown on BBC and CNN and television networks around the world. It was a visual problem, and the government solution was verbal, which is why the British people went off beef overnight. So much for customer loyalty in a crisis.

Manage the flow of information

I have already noted the immediate feedback loop. Executives are simply not positioned to evaluate adequately the information and reactions that flood in early on in a crisis. Often when a company has convened its crisis management team, they are quickly surrounded with the video reports and all the news clips of the unfolding story as it has been reported so far. By the end of the first day, the management team — which is supposed to be evaluating the situation — has watched or read the news reports eight or ten times, and they begin to adopt the vocabulary and the set of facts as it is reported in the media. Anyone who has been involved in a media story knows there are always things in that story that are wrong. Yet in these situations, people adopt the media fact pattern. That is just one way they fail to manage and assess the information coming in.

However, most companies miss a source of information that can be extraordinarily valuable. While they are deciding what they can and cannot say to the media, they typically take a young secretary and tell him or her to sit at the phone, take names and numbers and not say anything at all. Unfortunately, in cases where the company has become aware of the crisis from outside, those outsiders have more knowledge of the situation than the company does. Very often reporters' questions contain bits of intelligence which can suggest new areas of consideration for the team; and yet, all they do is put a secretary on the phone with instructions not to say anything. The secretary is not equipped to listen to the questions for the information that may be implicit therein and very often opportunities are completely missed.

Adopt the team approach

It is common sense to pre-assign responsibilities. In the TWA case in summer 1996, it was fully 16 hours before the TWA Chairman and CEO was able to be on site in eastern Long Island, at the TWA command center and, until that time, nobody was speaking effectively from a leadership position at TWA. That was the source, more than anything else, of the criticism that TWA faced afterwards. By the time their CEO had returned from London, New York Mayor Guiliani, and Governor Pataki had already been to Kennedy Airport, met with the families of the victims, attempted to address their concerns, and aimed criticism at TWA for being insensitive. Something in the TWA plan should have provided for the possibility that their principal spokesperson might not be able to be at the scene for as long as 16 hours.

Plan for the worst case

Over a year ago New York went through the worst blizzard in 50 years. The commuter railroad in New York City had spent most of the first day of the blizzard reassuring commuters that everything was fine, that they had a plan in place to clear the tracks, and the trains were almost on schedule. Tens of thousands of people went out to the train stations and got on trains that quickly stalled in the snow. They spent hours in freezing, dark, powerless trains. It was a major fiasco for the Metropolitan Transportation Authority, and so on the front page of *The New York Times*, one of their senior executives said, 'There is no question we put together a plan that was overly optimistic. We underestimated how bad it would be.'

Plan on the situation getting worse

Be very, very careful about categorical statements earlier on in a crisis. Understand the media's mission. It is amazing how little effort goes into understanding what motivates the prime driver of most crises: the media. Think about the amount of energy and time that goes into understanding what drives customer motivations and what drives competitor motivations. Entire departments are set up to analyze and understand what drives a customer, what drives a competitor, and yet when it comes to understanding the media, companies are almost completely reactive.

In order to help executives understand what drives the media, it is important to recognize that reporters work in one of the most intensively competitive industries in the world today. Each of them, individually, lives in constant fear of being beaten to the real story, of being misled by a corporate spokesperson, of losing their job. They are very much accustomed to the crisis environment in a way that executives are not. In fact, there is a certain common experience between news reporters and the emergency services people who are featured most frequently in a news coverage of unfolding crises. When a news reporter arrives for work in the morning, it is rare that he or she knows what they are going to be working on late in the afternoon; the same is true for police and ambulance personnel. They are accustomed to the surprise and the lack of information. They are accustomed to the rapid flow of events in a way that executives never are. As such, they have a distinct edge over executives. Reporters are looking for a good story. If there are victims, if the story can be rendered quickly in terms of white hats and black hats, and if it is visual, the media will be on it. The idea of packaging a good story is not lost on media savvy activist groups. This quote is from a wrap-up story on Brent Spar, the offshore oil platform operated by Royal Dutch Shell. Note the quote from the Greenpeace person: 'The whole point is to confront. We try to get in the way. Confrontation is critical to get the coverage in the press to reach the public in some other way.'

Confrontation is anathema to corporate executives. Corporate executives who think in terms of budgets for communications programs will find this quote interesting: 'Greenpeace spent a million dollars in two months in connection with Brent

Spar'. Annualized, that is a $6m corporate communications effort. That compares very well against the kind of budgets that most large corporations spend on their own corporate image or reputation.

DIRECT COMMUNICATIONS

Direct communications to affected constituencies is one of the things that companies often overlook during a crisis, especially when it come to things like site security. Site security staff are very often retired law enforcement officers. The media are attracted to them. More than once, we have encountered gate guards giving their own impromptu press conferences during a major emergency. Another external constituency who shape perceptions are the 'experts'. One of the things that helped Perrier relaunch their product after many weeks of being out of the market in the USA, was an effort that they made to get back to each of the self-described marketing experts who, at the time of the recall, said their brand was dead. They carefully recorded the names of all those people, and before they announced their recall intentions, they sent the press kit on the repackaging to all those individuals, with a note that said, 'thought you would like to see this.' They knew that reporters are creatures of habit. The reporters got good quotes from these people before, so when Perrier announced their relaunch plan, the reporters went right back to those sources and the universally negative opinion they received before, turned around to neutral, and in some cases actually positive. Remember the role outside experts can play in shaping perceptions.

TECHNOLOGY

There are technologies today that allow organizations to communicate directly to affected constituencies as fast as the media. Yet, the morning of a crisis is not the time to find out how to run a satellite teleconference or how to add material to your web page. Finally, always measure. It is vital to measure consistently and continuously to know that you are saying what your constituencies need to hear, not necessarily what you want to say. Omnibus surveys, select polling and focus groups can be accessed and implemented quickly, so that you generate real data about what the real world is thinking, seeing and hearing about your problem as soon as 48 hours of its unfolding.

CONCLUSION

In summary, understand the environment. Be aware of those who would prescribe rules for you; at best, there are only principles. Define a strategy in terms of the problem that you are trying to solve, not an artificially imposed standard of good or bad crisis management. Manage the flow of information, and understand that the situation is going to get worse. Preassign responsibility, so that you are not in the position of TWA, waiting 16 hours before the one person who can speak gets on site. Understand the media the way you would understand the customer and competitors, but do not rely exclusively on the media to deliver your message. Communicate directly with the best available technology and measure what you are achieving or what you are failing to achieve regularly throughout the process.

Dow Corning's breast implant controversy: Managing reputation in the face of 'junk science'

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INTRODUCTION

This case examines Dow Corning's breast implant controversy in the light of current research on reputation management. It includes an overview of the company, the controversy, the corporate communication function; the rise, fall, and rebirth of Dow Corning's reputation, and questions for the future.

Founded in 1943, Dow Corning became successful due in large part to its development of silicones. Corning brought the basic silicone technology to the venture while Dow offered both chemical processing and manufacturing capabilities. By the mid-1990s, Dow Corning had grown dramatically into a company with projected sales for 1995 to $2.5bn, employing 8,300 people, with 8,700 products used by over 45,000 business customers worldwide, representing virtually every major industry.

In 1995, Dow Corning filed for Chapter 11 bankruptcy protection to deal with the onslaught of pending litigation as a result of challenges to its breast implant products. Dow Corning's slide into bankruptcy occurred as a result of mismanagement of its reputation rather than weak management or financial problems. How did this develop?

Going into the breast implant controversy, Dow Corning had low credibility (Munter, 1997). First, as many academics have pointed out over the last five years (Argenti, 1994; Barton, 1993; Fombrun, 1996) the business environment has grown increasingly negative and hostile, especially for big business (Roper, 1996). Secondly, the company's reputation suffered a bit because of its connection with Dow Chemical, best known as the company that dumped Napalm and Agent Orange on Vietnam in the 1960s. Thirdly, most of the top management came from engineering or scientific backgrounds with a rather insular and narrow view of the external environment. Finally, Dow Corning had done little to try to build awareness for itself until after the breast implant controversy was well underway.

Dow Corning was, however, highly regarded throughout the 1970s and 80s for its corporate ethics programs and its Business Conduct Committee. Its code of ethics outlined the company's responsibilities to its employees as well as its employees' responsibilities to the company. The guiding spirit behind the ethics effort and a permanent member of the Business Conduct Committee was John Swanson, a long-term executive at Dow Corning who had worked in communications for most of his career. By the late 1980s, the committee was completing as many as 40 business ethics audits a year worldwide. As a result of the company's unique emphasis, ethics had become a key part of the corporate culture and was widely regarded both internally and externally. The company's ethics program was even the subject of a series of popular Harvard Business School cases (Goodpaster, 1989a; 1989b; 1989c).

THE BREAST IMPLANT CONTROVERSY

Two Houston plastic surgeons came up with the idea of designing a breast implant made of silicone in 1961 and approached Dow Corning to collaborate on the project. The implants consisted of a rubbery silicone bag containing the silicone gel. Dow Corning had the breast implant market to itself for many years, but soon competitors appeared with innovations designed to deal with some of the problems women were experiencing with breast implants. As the market matured, Dow Corning was still selling 25 per cent of all implants, but supplying all of the silicone for other implant manufacturers.

The product was left relatively unscathed until a sensational report appeared on 'Face to Face with Connie Chung' in 1990, which was the first to present the case for a connection between autoimmune disease and breast implants. Within a year, a federal jury in San Francisco awarded what was, at that time, the largest verdict ever in a breast implant case — $7.34m. The prosecuting lawyer urged the FDA to review the documents he had found at Dow Corning. Dow Corning released over 800 pages of documents to the public after pressure from the FDA. According to experts, such as Dr Marcia Angell, executive editor of the prestigious *New England Journal of Medicine*, the significance of the documents was unclear, since the experiments had little in common with the ordinary use of breast implants in women.

Soon after the release of these documents, and following another sensational program on the topic on Jenny Jones's show, the FDA announced a ban on silicone breast implants in April 1992. Following the FDA ban, a wave of litigation hit the federal and state courts. More than 16,000 cases were filed by over 1,000 lawyers in a two-year period. Lawsuits against Dow Corning went from around 200 in 1991 to 10,000 the following year.

In 1994, implant makers and plaintiffs agreed on a settlement fund that would pay $4bn to plaintiffs over a 30-year period, almost half of this bill to be paid by Dow Corning, with the rest coming from other major manufacturers. Several months later, 145,000 women had registered for the agreement despite growing scientific evidence from researchers at Harvard Medical School that found no link between implants and connective tissue disorder. In 1995, Dow Corning entered into bankruptcy. Chairman and CEO Richard Hazelton claimed that the company had filed for bankruptcy primarily because it was embroiled in an endless sea of lawsuits and litigation (Hazelton interview, 1996). The company claimed that hundreds of multi-million dollar judgments could result from the suits brought against the company. At this time, over 400,000 women were in the class action suit with separate suits still pending against Dow Corning. The judge realized that the money set aside would not be enough to meet the demand.

With over 20 per cent of all women with breast implants involved in the litigation and Dow Corning in bankruptcy, the class-action suit that had led to the agreement began to fall apart. All claims against Dow Corning would now be settled by a bankruptcy court. Down Corning's communications department would now be responsible for helping to shape the company's reputation as never before.

CORPORATE COMMUNICATIONS AT DOW CORNING

When Barie Carmichael joined Dow Corning in 1990, she was the first communications professional to head the function; before her appointment, communications had been run by a series of chemical engineers. Carmichael was not completely satisfied with her appointment because there were two layers of management between her and the CEO.

John Swanson, the company ethicist, applied for the new director of communications job, but ended up remaining in an internal communications position reporting to Carmichael. Carmichael found the formal internal communications function at the time in, as she described it, the 'dinosaur era'. The main source of corporate communications was, as she said: 'an unwieldy set of company magazines that were unapproachable and untimely. There was no sense of an internal audience', said Carmichael, 'just a set of pass-throughs'. (Carmichael interview, 1996). In addition, the company held sparsely-attended management forums in a large local theater at night.

Carmichael sought to change the employee communications environment by using Dow Corning's computer network for press releases and employee bulletins; streamlining *Update*, a company newsletter created to inform employees of w hat was going on in the company more quickly; and setting up more formal employee forums that were less structured, in which employees could talk with senior management (like the President and CEO) in the cafeteria.

While the company clearly realized its problems on the internal side, it seemed less interested in the area most companies focus on — dealing with external constituencies. 'We were naive,' said Carmichael. 'This is a company in the middle of a cornfield in Michigan. We were not publicly traded and didn't have to answer to public stockholders. And, we were naive about politics and did not fully appreciate how Washington, DC worked, or how politics could affect the company. Not only that, but most of management saw the implant issue as a scientific issue, not one of communications.' (Carmichael interview, 1996).

Carmichael brought in public relations experts to help, began to conduct focus group research on the issue, set up a 1-800 line to handle questions, and participated in an 'implant team' including the chief counsel, head scientists, and the head of the breast implant business.

In February of 1992, Keith McKennon took over as Chairman. He had been labeled 'the fireman' for his ability to put out fires related to Dow controversies during his 37 yeras with the company, such as Agent Orange, dioxin, and Benedictin, a morning sickness pill made by Merrill-Dow that allegedly caused birth defects. Immediately, he changed the reporting structure, and had corporate communications report directly to him. By putting a high-profile executive like McKennon in charge of Dow Corning and moving the corporate communications function into the ranks of senior management, the company was in a better position to deal with the growing controversy over implants.

JOHN SWANSON'S ROLE IN THE CONTROVERSY

At the same time, internally, another controversy was brewing. John Swanson's wife, Colleen, had received implants years earlier. Almost immediately following the operation, Colleen's health began to decline. She suffered from migraine headaches, lower back problems, numbness in her arms and hands, extreme fatigue, a burning sensation in her chest, and unbearable pain throughout her body. Her weight fell to a low of 89 pounds. Although she had been examined by countless doctors and had received extensive medical tests, the cause of her problem was never identified. Colleen was convinced that she had discovered the cause of her health problems. As a result of his wife's experience and what he later described as his own 'crisis of conscience', Swanson decided in September of 1991 to confront management and take himself off any work connected with breast implants (Byrne, 1996).

In 1993, Colleen settled a lawsuit against Dow Corning out of court for an undisclosed sum; Swanson retired from the company. By this time, the new CEO was in place and Barie Carmichael was now a vice president of corporate communications reporting directly to him.

To make matters worse, in 1994 John Byrne, a senior editor at *Business Week* and author of several books, approached Dow Corning about a book on the controversy, 'Informed Consent'. Byrne's paid source was John Swanson. After several months of deliberation, the company decided not to participate in the book as a result of its non-scientific orientation. Swanson stated that the science on the breast issue was irrelevant, which 'flew in the face of Dow Corning's core values,' according to Carmichael. 'We did not want to legitimize the book by putting Down Corning's support behind it. So, in September we refused to be interviewed for the book.'

In 1995 'Informed Consent' was published. Its cover included a sentence in large type stating; 'A story of personal tragedy and corporate betrayal . . . inside the silicone breast implant crisis.' The book had also been excerpted in a *Business Week* cover story a few weeks earlier. Publicists for the book were eager to get the controversy back on center stage once again and Barie Carmichael was approached by the producer of the Oprah Winfrey show to put on CEO Hazelton with the Swansons and author John Byrne.

Carmichael and Hazelton made a controversial decision to go on the Oprah Winfrey show in October 1995. Women with complaints against the manufacturer as well as supporters turned out for what Winfrey said was the first appearance by a CEO on her program in ten years. According to Hazelton, he decided to go on the program to support breast cancer patients whose story had been largely ignored. He felt that those women would be more likely to tell their story — one that was more supportive of the company — if Dow Corning's CEO were present to support them publicly. In addition, Dow Corning employees were also eager to hear top management's position on the book in a public forum.

DOWN CORNING'S REPUTATION BEGINS TO RISE

Hazelton's performance on Oprah, although less than perfect, was the first of many proactive attempts by the company to rebuild and reposition its reputation among key constituencies. Following the Oprah show, '60 Minutes' did a pro-Dow Corning piece that essentially supported the company's position by referring to several studies that had been published in highly-regarded academic circles — especially the *New England Journal of Medicine*. A piece ran soon after on 'Frontline' that also supported the company's case against what was now being publicly referred to as 'junk science', developed and supported by attorneys fighting against the company. In addition, employees collected $2.50 voluntarily from thousands of employees. They asked each employee who gave money if they wanted to sign a statement reading: 'To Dow Corning Executive Management, Your Employees Are Behind You 100%!' The signatures were placed as an advertisement in the *Midland Daily News*.

Over the next year, *The Wall Street Journal*, *Fortune*, and the *New York Times* all began to support the notion that Dow Corning was essentially free of blame in the breast implant controversy. It was depicted as a pawn in a game being won in the courts by a highly greedy group of lawyers working together with weak scientists paid off by the lawyers; all working for women who were innocent bystanders seeking explanations for sicknesses that had nothing to do with their breast implants.

Dr Angell's book, 'Science on Trial' (1996), was a tremendous reputation booster to the company because of the prominence of the author and her position that the breast implant controversy was based on 'junk science' rather than the clear and valid scientific evidence published by reputable academic researchers. Angell slammed the reputation of the 'junk scientists' throughout the book with comments referring to scientific testimony.

With these academic studies on their side, in 1996, Dow Corning announced that it had filed its Plan of Reorganization to come out of bankruptcy. Under the Dow Corning $3bn plan, anyone with an allowed claim would be paid in full. The plan included $1bn to compensate commercial claims, and $2bn to compensate product liability claims. One of the more ingenious parts of the plan was a provision for up to $1.4bn in a contingent fund that depended largely on the outcome of a causation trial on whether breast implants caused disease.

The reorganization forced the hand of the 'junk scientists' to prove their claims in court before the company would agree to any settlement. As a prelude to moving out of bankruptcy, Dow Corning's move was a brilliant strategy to rebuild its reputation and put its opponents on the defensive in terms of reputation management. After close to a year of rebuilding its reputation and managing its way slowly out of bankruptcy, Dow Corning's reputation was once again under attack in late 1996. Lawyers for the opposition formed a group which created a road show that included John Swanson, scientists willing to argue the other side of the case, and others. By December of 1996, the road show had toured several cities in the northeast and articles critical of the main-line scientists began to appear in the national press, including *The Wall Street Journal*.

THE FUTURE OF DOW CORNING'S REPUTATION

Dow Corning must try to use the principals that grow out of current research to set a course for the future. Early books in the field, such as Olins (1989), Garbett (1988), and Chajet and Schachtman (1991) focus on a narrow definition of image and identity rooted in the world of logos and design rather than the strategic approach to the area redefined in the term 'reputation'. More recent books, such as Fombrun (1996), show how critical a role reputation plays in the overall success of organizations from business schools to large companies like Dow Corning. Dow Corning, like most large industrial firms, failed to consider its reputation as a strategic tool until after the crisis developed. Going forward, the company must now consider its reputation as a 'potentially powerful means of measuring [its] overall performance in a marketplace made up not only of customers but of employees, investors, suppliers, distributors, and other observers' (Fombrun, 1996). Its very existence depends on its ability to manage its reputation.

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Fanning fires: Mitsubishi Motors and the EEOC

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This study examines the recent crisis that Mitsubishi faced following charges that the company allowed a pattern of sexual harassment and discrimination to persist in its US subsidiary. The company's highly publicized denials is a strategy that many large companies have followed in recent years when faced with a crisis situation. The strategy seems myopic and self-defeating from the standpoint of communicating with primary and secondary stakeholders. It has provoked increased coverage and controversy.

Considering Texaco and Mitsubishi Motors of America, one would be hard pressed to find a better set of contrasting communication strategies for an organization to take, in the face of governmental and media scrutiny. Confronted with a similar set of accusations, these corporations embarked on markedly dissimilar strategies. With Texaco's response came the clear signal that its senior management would portray itself as participants of a potential solution. As the crisis played out, the press coverage began focussing on the process of conciliation and settlement — far less dramatic than the initial scenario with the revelation of tape recordings and accusations of systemic discrimination within the organization.

By comparison, the spectacle of angry Mitsubishi managers posed to fight back governmental lawsuits provided the press with an inescapably meaty opportunity for further coverage and investigation. In essence, we can see with Mitsubishi and Texaco contrasting models for managerial response to crises as they are played out in the public eye through the catalyst of media. Management can:

— counterattack, using the media to retaliate with an inherent threat of reverse legal suit, or
— portray itself as a constructive party to the solution of the crisis.

MITSUBISHI: A CASE OF COUNTERATTACK GONE AWRY

In April, 1996, the Equal Opportunity Commission (EEOC) filed suit against Mitsubishi Motors of America, charging the company with allowing a pattern of sexual harassment and discrimination to continue against female workers over a period of years at its principal manufacturing plant in Normal, Illinois. Unlike Texaco — which faced charges of a similar sort — Mitsubishi retaliated fiercely: it loudly denied the allegations, enlisted the participation of plant workers and bused them to EEOC offices in downtown Chicago.

The strategy was quite transparent in its intent: reverse the thrust of the accusations and portray government as the villain. With the initial response, Mitsubishi's major player was Gary Schulz, who was both the general counsel and manager of public relations for the United States subsidiary of Mitsubishi Motors. His inspiration for such aggressive tactics seems clearly patterned after General motors's actions in 1993 when it challenged MBC over its Dateline program's depiction of the exploding pick-up truck gas tank.

In that scenario, a new approach to crisis management response was crystallized: come out aggressively with a counter story, fight hard, stay in the limelight and threaten an enormous legal suit. Communication strategy and legal posturing became linked. It was not just 'sue them', but stand up in a news conference, speak passionately and let the viewing public know *why* you were going to sue them. General Motors's major player was also its legal counsel, Harry Pierce, who was rewarded with a very senior position and also maintains control over corporate public relations. In terms of reputation management, one must wonder whether these two functions are best combined in one office.

In the case of Mitsubishi Motors, the strategy backfired and the linkage of adversarial posturing with communication strategy provoked even more coverage and inquiry, but not of a sympathetic sort. New accusations followed as workers from the Normal plant claimed they were forced to participate with company sponsored public responses. More stories about discriminatory practices surfaced.

Three weeks after the initial story broke, Jesse Jackson entered the picture in the first week of May, 1996 and along with Patricia Ireland of the National Organization of Women (NOW), threatened a consumer boycott of Mitsubishi cars and trucks. Thus the controversy also positioned the more than 40 major companies and 100 smaller ones that share the Mitsubishi corporate name into a reputational quandary — they too became associated with the EEOC charges and counter charges. The parent Japanese corporation also became a target for news investigation.

With the possibility of a possible consumer boycott lead by Jackson, the Japanese ambassador to the United States, Kunihiho Saito, worried out loud that the image of Japanese companies in the USA could suffer as a result of the harassment suits filed against Mitsubishi. 'Although this is an American company, subject to its laws, it has the name of Mitsubishi . . . so naturally people will associate this incident with Japanese companies and it may have a negative effect on the image of Japanese companies.' (Chicago *Sun-Times*, May 3, 1996).

The events transpiring in Illinois received a great deal of media coverage in Japan. In many respects, given the consolidation of Japanese media outlets compared to American sources, the coverage was proportionally far more grievous to Mitsubishi. The situation became, in the words of an Inter-Press Service writer, a 'cause célèbre in Japan'. (Inter-Press Service, May 16, 1996). From the daily *Asahi Shinbun* of

May 15, 1996,Kanji Ishizume, an attorney specializing in international affairs wrote: 'Mitsubishi must cooperate with the EEOC immediately and pay compensation to the women suing the company. This is the best way to stop the situation from getting out of hand, and would help save its international image.' In Tokyo, the Japanese Prime Minister Hashimoto chided the US Mitsubishi unit: 'I have not overheard them say such things as "our company has taken adequate measures to prevent such a problem from arising." (Agence France Presse, May 16, 1996).

The Japanese reaction spurred a 180 degree reversal of strategy from Normal, Illinois. Clearly overruling general counsel Schulz, the chairman and CEO of Mitsubishi USA, Tsuneo Ohinouye, announced in mid-May that Lynn Martin, former congresswoman and Secretary of Labor in the Bush cabinet would investigate the issues and by implication, come up with a means to address the problem from within the company. From that moment, the nature of the media coverage altered — stories began to assess the potential for change and Martin's ability to affect the nature of the automobile plant's culture. The focus moved from repeating and expanding the allegations to examining the company's sincerity and motives for switching its direction. Martin's experience with the media served the company well: she was accessible, and kept the media relatively well informed of the progress being made in her investigation.

On July 22, 1996, Martin announced preliminary measures she would recommend to Mitsubishi Motors to improve minority hiring among dealers and to improve the working climate at the Normal, Illinois, plant. That same day, Jesse Jackson was in Tokyo, holding a news conference in which he threatened Honda as well as Mitsubishi with a consumer boycott. He had come a week earlier to engage Japanese executives in American-style 'jawboning' on minority hiring practices. Though his presence generated a good deal of coverage in Japan, it was barely noted in the United States. Though he derided Martin's package of measures as 'a pre-emptive strike [that] did not involve the aggrieved parties' (*Automotive News*, July 22, 1996), the reaction did not resonate.

From the date of the Martin announcement until November of 1996, media coverage of Mitsubishi's problems declined precipitously. While nearly 1,000 printed articles can be found between April 15 through July 22 in a Lexis/Nexis search, from August through the end of October, the company is effectively not the subject of media interest. I would argue that to a large extent, the company's reversal of strategy worked in its favor. It is also important to note the effect of timing on such events and subsequent press interest: from the end of July until the first week of November, the Presidential elections supplanted most issues as the source of media focus. Not until the elections were over and Texaco found itself in the harsh glare of media inquiry (note that the first stories on Texaco appeared in the *New York Times* on November 5, 1996), did Mitsubishi return to the pages of America's publications.

Jesse Jackson's threatened boycott never materialized — without a 'news opening' to provide publicity about such a boycott, its success would most likely be minimal. In January, 1997, Jackson ended his *pro-forma* boycott.

However, the initial, aggressive strategy seems to have had a residual, negative effect. From the *Washington Post* of December 1, 1996, we hear from Richard D. Recchia, executive vice president and chief operating officer of Mitsubishi Motor Sales of America — the company that markets Mitsubishi cars in the United

States: 'Our image among opinion makes has certainly diminished. This was a terrible thing from an image standpoint. [He] acknowledges that the sexual harassment suit against the sister company has damaged the overall Mitsubishi name in the United States.' The Post also reported that 'Mitsubishi car sales through October, 1996 had declined 7.2 per cent from the previous year.' By year's end, figures revealed a 6 per cent drop while 'auto makers over all reported a slight sales increase.' (*New York Times*, January 16, 1997)

In the course of events that followed Lynn Martin's appointment, it is worth observing that the general counsel and public relations manager, Gary Schulz, disappeared from view. Clearly this was no coincidence. However, his influence and presence in the media limelight for nearly a month also speaks to an important factor in the relationship between Japanese subsidiaries and their parent management.

In many Japanese companies with US subsidiaries, general management is run by a Japanese who is assigned to the USA for a definite span of time. This person may or may not be bilingual or possess the feel for US social dynamics. Typically, Japanese managers of subsidiaries are either given a good deal of leeway, based upon their understanding of the market, or they are given almost none — they simply carry out strategy determined from the home office in Japan.

When the EEOC lawsuit first became a subject of media attention, Mitsubishi Motors' chairman, Tsuneo Ohinouye, flew to Tokyo to confer with home headquarters. 'Why did I leave at such a critical time? Mitsubishi Japan was very concerned, and wanted to manage the situation themselves.' (Nikkei Business Wire, July 1, 1996) Interestingly, he also averred that 'had I known that criticism of Mitsubishi would spread so rapidly, I would never have left. Our failure to start public relations in that first week proved disastrous.' (Nikkei Business Wire, July 1, 1996).

What Ohinouye perhaps meant in hindsight is that a 'bridging' strategy would have been more appropriate. Certainly, Mitsubishi's actions were indeed a form of public relations, practiced in an aggressive, conflictual mode. It would seem instead that Ohinouye relied upon the judgment of the American general counsel, aided and abetted by a small public relations firm that had never dealt with a crisis situation (JSH&A of Downers Grove, Illinois, a seven-member firm with a practice in marketing publicity (Chicago *Sun-Times*, April 23, 1996), and guided by the model of General Motors in their spat with NBC, drove down a wrong-way street. Company reputation was affected in a detrimental sense.

Like Texaco, Mitsubishi Motors' long-term problem will involve maintaining positive relations with stakeholder groups (women, minorities) whose perception of the company may affect their choice as customers. Unlike Texaco, Mitsubishi's initial strategy and tactics simply spurred more inquiry and investigation. While it may have felt good for a while, the effects of the hangover no doubt will not.

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Increasing effectiveness of managing strategic issues affecting a firm's reputation

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INTRODUCTION

From a managerial point of view, a key question is how companies can become more effective in dealing with strategic issues affecting their reputation. Academic literature provides a variety of contributions that explain and predict decision making of corporate management and their external opponents in crisis situations. Building on these contributions stemming from different disciplines such as public relations, strategy and marketing, we suggest an integrative framework (see Figure 1) analyzing both strategic issues characteristics and the characteristics of management and organizational and communication processes determining corporate response to strategic issues and a firm's reputation. Based on this framework we suggest ten propositions as depicted in Table 1. These

A preliminary integrative framework *Figure 1*

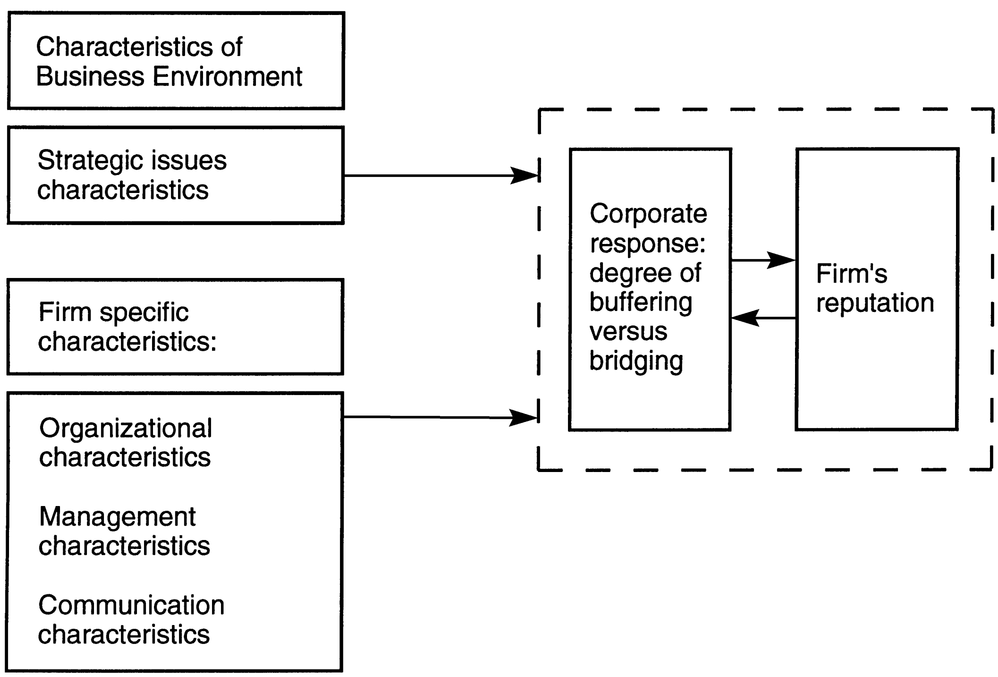

Table 1: Propositions explaining corporate responses to strategic issues

1 External stakeholders will react more negatively on corporate statements if (1) the crisis is unusual, (2) avoidable, (3) there is no clarity in decision making, (4) perceived unfairness in decision making and a low degree of caretaking for (future) victims, (Brockner et al, 1990).
2 Media coverage will be higher if an issue (1) is promoted by actors with a high degree of source credibility, (2) provides attractive pictures for television and newspaper use (Galtung, 1965, McCombs, 1979, Wember, 1976, Neulle-Neuman, 1977).
3 Actions on the original issue become increasingly more difficult to take if a third party intervenes in a conflict (Conlon and Fasalo, 1990, Dutton and Jackson, 1987, Sethi, 1979).
4 The propensity to buffer can be explained by 'organizational size' and the 'importance of resources' controlled by a firm; a collaborative attitude of a firm's top management is the most important determinant of bridging strategies (Meznar and Nigh, 1995).
5 The organization's tendency to follow a bridging strategy will occur if (1) the developments in the business environment are perceived as threatening by the firm's dominant coalition (2) the communication managers are part of the firm's dominant coalition, and (3) the organization culture is characterized by participative decision-making (Grunig, 1992, Dutton and Jackson, 1987).
6 Underestimation of issues impacting commercial processes of a firm negatively, can be explained by distortion of acquired and processed information by the dominant coalition within an organization (Larson and King, 1996, Bettis and Prahalat, 1995, Sinkula, 1994.)
7 Firms with an open attitude towards external stakeholders will be led by managers with backgrounds in output functions (like marketing, research and product development), who have longer tenure and have spent more years in the organization, prior to the attainment of their current position, than their counterparts in less open firms (Thomas and Simerly, 1994).
8 Outsiders (external stakeholders) socially construct shared views based on universal criteria of how to assess and compare target organization outputs. Insiders (ie, managers) have less appreciation for this broader range of expectations. They assess the process details that must be managed to deliver the output the outsiders desire (Dunbar and Ahlstrom, 1995).
9 Commitments to insiders' views at the exclusion of outsiders' views are associated with assertions of unique insider knowledge of practice that outsiders do not appreciate and denials that such knowledge and contributions can be assessed adequately in terms of universal effectiveness, efficiency, and fairness measures (Dunbar and Ahlstrom, 1995).
10 Effectiveness of corporate responses depends highly on consistency in communication, both within the firm and between internal and external messages (Grunig, 1992, Van Riel, 1995).

propositions deal partly with characteristics of the strategy issues and partly with firm specific characteristics. Next, these propositions will be illustrated with key events and developments in the Brent Spar case, dealing with the controversial proposal of the Royal Dutch/Shell Group to sink an oil storage and loading station into the sea. This case illustrates how analytical frameworks can help both managers and researchers to gain more insight into the factors that may determine decisions regarding whether to use buffering (defensive approach) or bridging (two-way symmetric communication) strategies in comparable future cases.

THEORETICAL BACKGROUND

Table 1 summarizes relevant academic publications in ten 'propositions', providing explanations for managerial decisions of actors directly involved in comparable situations as in the Brent Spar case.

BRENT SPAR CASE

When in 1991 the oil storage and loading station Brent Spar was decommissioned by Shell Expo (a joint venture between Shell and Exxon), an extensive investigation was initiated by many companies, in order to find alternative solutions for removal. The final conclusion was clear: after the cleaning and removal of as much of the waste and loose materials as possible, sinking the Brent Spar in the ocean was the safest, cheapest, and least environmentally damaging method of removal.

Greenpeace, the environmental activist's organization, decided after lengthy internal discussions to attack Shell's decision to sink Brent Spar. According to Greenpeace, the Brent Spar contained more than 100 tons of oil sediment and over 30 tons of low-level radioactive deposits, and it asserted that this mixture of poisonous, non-degradable chemicals and heavy metals would be a serious threat to the sea environment. Further, Greenpeace suggested that the sinking of the Brent Spar into the ocean would establish a precedent for the other 416 fixed oil platforms in the North Sea, and that the permission by the British government to sink the Brent Spar in the sea, had been given on the basis of limited and one-sided information.

Greenpeace's thesis that dumping the Brent Spar would establish a precedent was rejected by Shell. The granted permit clearly indicated that sinking in case of the Brent Spar was the best option, but that all other cases need to be judged separately. According to Shell, the Brent Spar was difficult to dismantle. Greenpeace did not believe Shell's statements and decided to start public actions aimed at altering Shell's decision. Following the lead of other environmental interest groups, it called upon consumers to boycott Shell's products. 'You do not throw anything into the sea' became the general feeling, and rational arguments for sinking the Brent Spar into the sea no longer mattered.

In June 1995, the campaign escalated against Shell's Brent Spar plan, due particularly after prominent politicians publicly admitted that they were avoiding Shell stations. The interventions of well-known politicians increased media attention enormously. When Greenpeace decided to place an emotionally-loaded advertisement with the slogan 'The sea is not a garbage can', Shell chose for an 'advocacy' advertisement, but again did so with an insiders' view. The company placed a full-page advertisement in all main Dutch newspapers. A survey revealed this effort had little success in changing the views of Dutch citizens. A substantial decrease of sales in Germany forced the company to place an advertisement in German newspapers as well with a heading 'Wir werden uns andern' (We will change).

Decision not to sink the Brent Spar

Shell's top management was confronted with increasing internal controversies. In line with company policy, Shell UK, as an 'autonomous' Shell company, was in charge regarding the decisions to be made about the Brent Spar. Shells' top managers outside Great Britain started to be openly concerned about sinking the Brent Spar. These internal controversies made it extremely difficult for top management to justify the original plan to the public. These controversies between Shell UK on the one hand and the German, Dutch and Scandinavian country companies on the other hand, increased the pressure within Shell against sinking the Brent Spar. On June 20, 1995, Shell's Group top management decided not to sink the Brent Spar, but take it apart on land. After this decision Shell UK asked a well-known verification organization to conduct some independent research regarding the contents of the former oil storage and loading station. This research indicated that the Brent Spar possessed far less poisonous material than suggested by Greenpeace. Greenpeace was prepared to admit this and to offer its apologies in public to Shell at the beginning of September 1995.

Since the decision not to sink was made, remarkable changes in strategy, or at least contrasting with the direct past, can be observed regarding Shell. Shell changed its communication style completely from purely buffering towards bridging. Shell's CEO Mr Herkströter publicly admitted that the company had to increase the communication efforts, both internally and externally, and had to place a new emphasis on listening and exchanging views (Herkströter, 1996).

ILLUSTRATING THE PROPOSITIONS WITH THE BRENT SPAR CASE

In this section we will confront the briefly described Brent Spar case with our proposed framework and propositions. The figures in brackets refer to the propositions in Table 1.

(1) All four statements seem to be applicable in the Brent Spar case. Sinking an oil rig is unusual, in the eyes of the public, the sinking of it is avoidable (and preferable), there is a perceived low degree of caretaking for the future environment (you don't throw anything into the sea) and there is no clarity in decision making.

(2, 3) Proposition 2 states that the media coverage will be higher if the issue is promoted by a credible source and the issue is attractive for television use. In the case of the Brent Spar, Greenpeace is a credible source: it has no commercial interest in this case. The issue is also easy to visualize (a professional television studio was installed by Greenpeace at the Brent Spar) resulting in high media coverage. The role of a third party in Proposition 3, in this case prominent politicians, escalated the intensity of the conflict: it was no longer a conflict between two parties and Shell came under enormous pressure.

(4) Size and the importance of the resources controlled by a firm are two important determinants for explaining the choice of a buffering strategy. In this case Shell, as one of the largest global operating companies, with one of the most important products in the Western economy, has a strong propensity to a buffering strategy. The impact of the changed attitude of top management will be discussed below.

(5) If the developments in the business environment are perceived as threatening by the firm's dominant coalition, the organization is inclined to follow a bridging strategy. In the Brent Spar case the pressure from outside became so intense that the managers of different Shell corporations no longer agreed with the decision to sink the Brent Spar. Over time the pressure was perceived as threatening by the dominant coalition of the Shell Group. Consequently, the decision not to sink was taken.

(6, 8 and 9) The underestimation (through 'denial') of the negative impact of a strategic issue is due to the commitment to the insiders' views (they have detailed information) at the exclusion of the outsiders' view (who only have a 'universal view'). As a consequence, there is often (unintentional) denial of what comes 'from the outside'. Shell was committed to their insiders' view and could not really listen to outsiders' views. Afterwards, Shell's CEO Mr Herkströter publicly admitted that the company had to place new emphasis on listening and exchanging views: 'What appeared to be the best opinion in the UK was not acceptable elsewhere'.

(7) The majority of Shell's management has a functional background in 'input' functions (finance, technology); as a consequence the dominant communication at the beginning of the conflict appeared to be buffering oriented.

(10) Public controversies between Shell's country management (UK versus Germany, etc.) originated through lack of consistency and, as a consequence, lack of efficiency in Shell's communication. The changes in Shell's communication style after the decision not to sink the Brent Spar seems, on the other hand, to increase both consistency and credibility of the company's messages.

CONCLUSIONS

Based on an integrative framework, this article has suggested ten propositions. These propositions have been illustrated with the corporate responses to strategic issues in the Brent Spar case. This illustration resulted in an increased insight into the explanation of Shell's initial buffering strategy, followed by a dramatic shift in corporate response towards a bridging strategy. Two important company-specific determinants, namely the importance of the product and the size of the company seem in particular to influence Shell's original tendency to a buffering strategy.

As is suggested in Proposition 4, the key factor in explaining the recent choice for a bridging strategy, as opposed to the discussed buffering strategy in the Brent Spar case, is clearly top management. In future research, however, it seems important to pay attention to both the influence of the type of corporate level strategy on this factor (Porter, 1987 and Goold, Campbell and Alexander, 1994) and the process of strategy formation in large companies as well. Such research efforts could create more insight into the influence of organization and management processes on this key factor. Follow-up research along these lines could show that, although top management is and remains primarily responsible for the choice of the corporate response to strategic issues, existing organizational communication and management processes can indeed make such a choice very difficult in the short run.

The Shell's most recent Annual Report, in line with the Speech of Herkströter of October 1996, top management refers to the rejection of the proposed deep-water disposal of Brent Spar and concludes: 'We learned in 1995 that we need to have greater external focus if we are to create a better acceptance of the Group's business among varied audiences. Group companies must consult, inform and communicate better with the public. In such a dialogue they will need to point out the complexity of the issues and always balance human, environmental and economic considerations.' (Annual Report 1995, 1996, p. 2). On the basis of the presented framework, this can be considered as an indication of a form of a bridging strategy initiated by Shell's top management. The meaning of firm specific characteristics regarding the organization, communication and, in particular, top management for the dynamics in bridging versus buffering strategies of companies, is once more highlighted.

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Corporate environmental reputation: comparing two industries

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INTRODUCTION

Firms construct their reputations — and have it constructed for them — in ways that reflect assumptions about what is important. For instance, Spence (1979, p.234) defines reputation as 'the outcome of a competitive process in which firms signal their key characteristics to constituents to maximize their social status.' Such an approach to understanding corporate reputation, however, presupposes firms' knowledge of the important dimensions of social status. In many arenas of organizational life today, these dimensions may be subject to considerable uncertainty.

In such uncertain environments, the determinants of corporate reputation must evolve, as companies search to find the behavior that is rewarded by their constituents. This evolution may differ according to the industry in which a corporation operates, as the expectations of stakeholders regarding financial performance, innovation, and social responsibility need not be uniform across industries.

What happens when firms seek to maximize social status in a changing, ambiguous setting with multiple constituencies and multiple demands? We begin to address this question here by examining one aspect of overall corporate image — environmental reputation.

We believe that the environmental arena provides a compelling example of how uncertainty affects firms' attempts to build their reputations. The determinants of environmental reputation are unclear to researchers and managers alike. There is some agreement that reporting and self-disclosure of environmental issues is of importance (Deloitte Touche Tohmatsu, 1993), but the exact form that the reporting should take is still very much in question (see, for example, Poltorzycki and Hedstrom, 1994; Rose, Brownlie and Simpson, 1996).

To date, firms have managed this uncertainty in a variety of ways, such as by forming industry groups to define shared orientations towards the environmental practices and reporting (the now-defunct Public Environment Reporting Initiative, for instance), by subscribing to voluntary standards of disclosure put forward by governmental and non-governmental agencies (such as ISO standards and ideas put forward by the United Nations Environment Program), and by hiring consulting firms.

These observations frame the research questions we address in this article. Have such potential mechanisms for standardization resulted in similar approaches to environmental management? Or, are there instead substantial differences in the ways in which firms in different industries represent their orientation towards the physical environment?

The next section of this article will describe the sample of firms we have chosen, and our research methods. In the third section, we outline the theoretical perspective with which we will examine the firms' environmental approach. The last two sections of the article describe our results and the implications for this exploratory research.

SAMPLE AND METHODS

We chose to observe companies in two industries: chemicals and oil. In studying chemical and oil companies, we examined firms that are similar in many respects. Both are mature, process industries characterized by a few very large firms and many smaller competitors. Both are also seen as prime environmental culprits. A poll of Canadians in 1991, for example, rated the chemical and petroleum industries as the most environmentally damaging sectors of the economy (*Oil Week*, 1992).

Thus, we have reason to suspect that the environmental experiences of chemical firms are similar to those of oil companies. Both industries, for example, have had high profile disasters — the Exxon Valdez and Bhopal — that could be expected to raise both public concern over their environmental impact and management awareness of that concern.

However, the industries have approached their environmental troubles in different ways. Responding to crises like Bhopal and to heightening public concern over their very products, leading companies in the chemical industry (eg Dow, Du Pont, Monsanto) pressed for self-regulation to avert future chemical disasters that might threaten the continued survival of the industry. In 1988, this culminated in the adoption by the Chemical Manufacturers Association of 'Responsible Care' — a statement of environmental principles and codes of management practices that included provisions for pollution prevention and community involvement.

The oil industry, by contrast, has been slow to respond to environmental pressure. While the Exxon Valdez accident in 1989 provided some basis for public pressure, it failed to engender the same level of fear or concern over threats to human life that the chemical industry has evoked. Unlike the chemical industry, self-regulation has been slower to develop with the first industry initiative (Strategies for Today's Environmental Partnerships — STEP) coming only in 1993.

Our intent, then, is to determine if the companies in these industries construct their environmental reputations in the same ways. In order to ensure that our samples of firms from each industry are comparable, we have selected the six firms in each industry with the best environmental reputations, as represented by the most recent *Fortune* ratings (Table 1 lists the six companies from each industry, along with their respective *Fortune* ratings). While the validity of this rating system has come under question, it is the most widely recognizable reputational rating available. Also, since we are not trying to explain differences in reputation, we do not need the ratings to be able to distinguish between the firms in our sample, but only to provide a benchmark for which firms are considered to have the best environmental images in the two industries.

In order to assess a company's environmental perspective, we performed content analysis on its most recent Corporate Environmental Report (CER). These reports have become increasingly common in the past decade and each of the 12 companies in our study has produced at least one CER.

These reports capture only how the firms *choose* to represent their environmental strategies and may differ from the *actual* emphasis they place on the different activities. The choice of what to emphasize in the CERs is instructive, however, as it indicates which of its environmental activities the firm feels are most important to communicate to the public, shareholders and employees (UNEP, 1994). In fact, in the context of investigating corporate reputation, the CER's emphasis on what the company feels is important to its key stakeholders may be more important than the actual activities that the company undertakes.

Table 1: Results of Corporate Environmental Reputation (CER) Coding

Company	*Fortune Environmental Rating*	*Differentiation*	*Integration*	*Anticipation*
Du Pont	7.73	3.54	5.42	2.71
Dow Chemical	7.29	1.88	6.67	5.21
Monsanto	6.99	2.92	6.04	6.04
Bayer	6.63	3.13	2.50	1.25
PPG industries	6.56	3.75	4.38	1.67
BASF	6.44	1.25	6.04	3.33
Chemical mean	**6.94**	**2.74**	**5.17**	**3.37**
Amoco	7.00	5.00	1.67	1.04
Shell Oil	6.98	4.58	2.92	0.83
Chevron	6.87	4.79	3.54	2.71
Mobil	6.85	4.17	4.17	1.46
ARCO	6.70	1.67	2.50	0.63
Phillips Petroleum 2.92	6.66	4.79	5.00	5.00
Oil mean	**6.84**	**4.17**	**3.30**	**1.60**

THE THEORETICAL FRAMEWORK

While our study is exploratory in nature, we can draw on an existing model of corporate environmentalism for a framework for analyzing and comparing the organizations. This model is useful in developing a holistic characterization of each company's environmental approaches, rather than checking off specific attributes of the report.

ENVIRONMENTAL MANAGEMENT: DIFFERENTIATION, INTEGRATION, AND ANTICIPATION

Several authors have noted the distinction between a reactive versus proactive approach to environmental management (eg, Hunt and Auster, 1990; Smart, 1992; Walley and Whitehead, 1994). A reactive approach involves waiting for regulation or public pressure to define what is required for the firm to do, while proactive environmental management requires the firm takes the lead in identifying and implementing solutions to environmental problems.

By allowing regulation to dictate strategy, reactive firms have traditionally depended upon defensive tactics (eg, liability set-asides, risk reduction, and specialized environmental staff) and pollution control (ie, 'end-of-pipe' treatment, compliance audits, and capital expenditure on mandated control technologies) as their primary vehicles of environmental management. Unfortunately, such approaches are costly and add little value since they occur as add-ons to existing production processes and product designs. Reactive approaches thus lead to differentiation of environmental management practices from business practices (see Table 2).

Table 2: Environmental Management Categories

Differentiation	
Defense Tactics	Pollution Control
– Risk Reduction (contingent liabilities and set-asides)	– Pollution Control
– Outsourcing Decisions	– Compliance-US
– Remediation	– Environmental Capital Expenditures
– Fines/Penalties	– Environmental Staff
Integration	
Pollution Prevention	Product Stewardship
– Pollution Prevention Program	– Design for the Environment (DfE) Program
– Environmental Management System (EMS)	– Product Development
– Energy Efficiency	– Lifecycle Thinking
– Materials Management	– Buyer-Supplier Relationship
Anticipation	
Clean Technology	Sustainable Leadership
– Clean Technology Program	– Mission/Vision
– Competency Development	– Stakeholder Communications
– R&D Investment	– Management Commitment
– International Emerging Markets	– Future Opportunities

A proactive approach, on the other hand, offers the potential to actually benefit the firm's core business processes by intervening further 'upstream' during strategic planning, product development and process design. In an effort to capture these potential benefits, Hart (1995; 1997) developed a typology consisting of four proactive environmental management strategies: pollution prevention, product stewardship, clean technology, and sustainability vision.

Through such efforts as waste reduction, energy efficiency, and materials management, a *pollution prevention* strategy focusses on minimizing or eliminating waste before it is created. Much like total quality management, pollution prevention strategies depend upon continuous improvement efforts to reduce waste and energy use. Unlike pollution control, prevention strategies are driven by a compelling logic: pollution prevention pays.

Product stewardship focusses on minimizing not only pollution from manufacturing, but also all environmental impacts associated with the full life cycle of a product. As a company moves closer to zero emissions, reducing use of materials and production of waste requires more fundamental changes in underlying product and process design, through such tools as design for environment (DfE), life cycle analysis, and supply-chain management.

Pollution prevention and product stewardship deal with 'today's' products and processes. In this sense they are strategies that seek the integration of environmental management with business processes. Companies with their eye on the future, however, can also begin to anticipate and invest in tomorrow's technologies. *Clean technology* is characterized by a fundamental change in core competence that results in a dramatic reduction in the use of harmful material or processes. Clean technology programs involve resource allocation decisions in which environmental factors are incorporated as part of the R&D and technology development processes of firms. This strategy requires a completely new way of designing or manufacturing a product and, as such, offers the potential to overtake the competition, especially in emerging markets where large, new capital investments are required.

Finally, *sustainable leadership* is necessary to give purpose and direction to proactive environmental strategies. A vision of sustainability is like a road map to the future, sowing the way products and services must evolve and what new competencies will be needed to get there. Through stakeholder communication, management commitment, and articulation of future opportunities, top management recognizes that sustainable development can become a core part of the company's intent or long-term vision. Taken together, clean technology and sustainable leadership foster anticipation of tomorrow's opportunities by positioning the firm to capture the products and markets of the future.

In sum, differentiation is the degree to which the firm treats business and environmental goals as separate; integration is the degree to which the firm recognizes the interconnected nature of environmental and business goals, and anticipation is the degree to which the firm sees future opportunities in managing for environmental sustainability.

RESULTS

The results of the CER analysis are presented in Table 2. We rated each of the reports along the dimensions described above, then constructed scores for the companies' differentiation, integration, and anticipation by aggregating the categories that characterized each dimension. The scales that we developed appear to have measured the constructs as we had hoped, as indicated by the correlation between differentiation, integration, and anticipation.

In general, companies that score highly on measures of differentiation have low scores in both integration and anticipation. Anticipation and integration are positively correlated, which is in keeping with our earlier definitions of the constructs, both of which indicate a company has progressed beyond end-of-pipe environmental solutions.

The six firms in the chemical industry exhibited much lower average differentiation than their counterparts in the petroleum industry. This supports our belief that the chemical industry has moved beyond the end-of-pipe mentality, while the petroleum industry lags behind in this regard. We also observe a much stronger degree of integration in the chemical firms. Their average score on this construct was over 50 per cent higher than the oil companies' score. Also, the chemical industry's integration score was nearly double its differentiation score, while the petroleum companies had, on average, higher differentiation results.

If we look more closely at the results within the industries, another interesting story emerges. For the chemical companies with the 'highest of the high' environmental reputations (Du Pont, Dow and Monsanto), the configuration of environmental strategies was even more striking. Each of these companies had an integration score that exceeded their differentiation score by at least 50 per cent. In the petroleum industry, the top three reputation forms (Amoco, Shell, and Chevron) had the lowest integration scores in their industry.

CONCLUSION AND DISCUSSION

We explored the link between the management stance that firms take and their corporate reputation, using the example of environmental management. We found visible differences in the way environmental management practices were represented by the most highly-reputed firms in the chemical industry compared with their counterparts in the oil industry.

Why should strong environmental reputations be built differently in chemical versus oil companies? One hypothesis is that the context and expectation surrounding the issue of environmental management varies considerably from one industry to the next. Earlier, we discussed the more proactive stance that chemical firms took relative to the oil companies; this difference was reflected in the clear pattern we observed in the CER analysis, where we found chemical firms taking a more integrated stance than their oil industry counterparts.

Consistent with Granovetter's (1985) embeddedness theory, we therefore expect the environmental management strategies adopted by firms in these two industries to differ because of the social and institutional contexts they face. Industry context is expected to affect significantly the strategies deemed appropriate to address firms' environmental reputation challenge, as the people within an industry share experience, work collectively to solve problems, and respond to stakeholders that place demands on the industry as a whole. Industry-wide groups charged with setting policies and standards and policing violators provide evidence of the shared nature of firms' responses to environmental pressures in both these industries.

Institutional theory offers further explanation as to why firms in a given industry should act similarly; not only are organizations shaped by the context in which they are embedded, but when faced with uncertainty — a key feature of environmental issues in both industries — organizations tend to look to others for models of how to respond to problems (DiMaggio and Powell, 1983). Mimetic isomorphism results in such cases: unsure of what to do in the face of a new problem, one organization's decision makers seek an apparently successful organization in their industry and emulate its practices.

We have become accustomed to thinking of reputation management as occurring at the firm level, and much reputation research is concerned with identifying a link between reputation and firm performance (Fombrun and Shanley, 1990; Roberts and Dowling, this issue). Our preliminary results, however, suggest that the link between reputation and performance may be more complicated than we had previously believed. If firms' strategies are constrained by industry context, then a high reputation may not automatically result in strong financial performance. In the present example, we believe that the integrated perspective holds cost advantages over the differentiated strategy. Thus, in the long run, we would expect to see the chemical firms with strong environmental reputations perform better relative to their industry average than their counterparts in the oil industry.

As we have stressed throughout this article, our results are preliminary. Much work must be one to explain the way industry context shapes environmental reputation management. Our findings, however, suggest that the industry effect is powerful; firms construct reputations according to the expectations of their stakeholders, and these expectations differ from industry to industry. In future research, we will explore the robustness of these findings and discover how such constraints affect the link between reputation and financial performance.

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Two-way mirroring: identity and reputation when things go wrong

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INTRODUCTION

The names Union Carbide, Texaco, Mitsubishi, and Exxon evoke images of organizations whose reputations have been challenged. A look behind the organizational wall may also reveal a similar fate to their identities. Both reputation and identity are definitions of organizations from the perspectives of outsiders and insiders respectively. What is the relationship between them? How does the endurance of one affect the relative endurance of the other?

This article studies the interactive dynamics between reputation and identity when an organization commits a discrediting act and has been stigmatized. Historically, researchers have tended to view these external and internal definitions as separate phenomena. More recent research is beginning to cross traditional boundaries and explore the dynamic relationships between them. For example, Dutton and Dukerich (1991), in their landmark study of the Port Authority of New York and New Jersey, describe how insiders underwent a shift in their identity in response to perceptions of changing external stakeholder demands. Elsbach and Kramer (1996) in their study of organizational responses to changing *Business Week* rankings, describe the methods used by business schools to manage these challenges to their identity. Fombrun (1996) also acknowledges the linkages between reputation and identity by describing identity as the 'backbone' of reputation. However, even such recent attempts to examine internal and external interactions have not gone far enough in fully describing the cyclical and reciprocal processes that link them and influence their definition and redefinition.

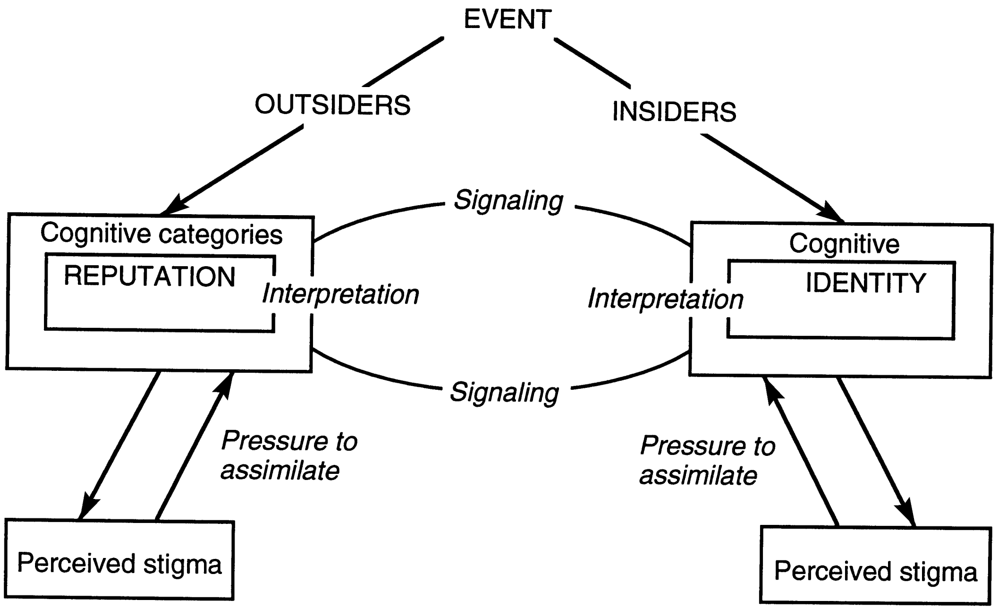
The aim of this article is to push back the boundaries historically separating research on organizational identity and reputation in order to understand better the interactions that shape both forms of organizational definition. It focusses on these interactions during times when organizational definitions are challenged. It also explores the conditions that lead to more or less endurance of these definitions and how changes in one affect the endurance of the other. The underlying argument is that identity and reputation are inextricably linked in a two-way mirroring process that is especially activated when either or both are challenged.

The theoretical model, shown in Figure 1, describes how, once a discrediting event occurs, cognitive categories of the perceivers influence the intensity and pervasiveness of stigma they attach to the organization. The intensity and pervasiveness of perceived stigma creates more or less pressure to alter an organization's identity and reputation. In this context, internal and external definitions collide and shape each other. They collide through the projection, interpretation, and assimilation of organizational images. Each element of the model is discussed below.

PRESSURES TO CHANGE EXISTING REPUTATION AND IDENTITY

Pressures to change organizational definitions arise from numerous sources including new product or market penetration,

Figure 1 *Interactive Dynamics Between Reputation and Identity*



changing stakeholder expectations, transitions in organizational life cycles, and unexpected performance patterns. This article focusses on pressures that arise from stakeholder perceptions of stigma when an organization is associated with a discrediting event. The event provides new information about who the organization is and what it stands for. The event and communications about the event signal that the organization is capable of committing unfavorable acts or handling situations in unfavorable ways. Perceptions of stigma by stakeholders creates a pressure to incorporate such information into existing definitions.

Stigma is the mark of societal disapproval given to those who are perceived to be physically or socially inferior (Page, 1984). Stigma allows societies to define what is normal and acceptable versus abnormal and unacceptable. Such definitions are important as they create social order and stability, which are important for the reduction of anxiety and the perception that the world is a safe place in which to operate (Berger and Luckmann, 1967).

Stigma varies on the dimensions of intensity and pervasiveness. Intensity refers to the depth of disapproval of the event felt by critical stakeholders. Pervasiveness refers to the breadth of stakeholders who perceive the stigma. The actors or stakeholders involved in the perception of stigma are both internal and external. Internal stakeholders include top management and organizational employees. External stakeholders include suppliers, financiers, governmental agencies, customers, activist groups, and the public at large.

A number of factors potentially influence the level of intensity and pervasiveness of stigma. For example, the characteristics of the discrediting event *per se* clearly have an impact. This article, however, takes a cognitive view of stigma development and its impact on organizational definition and redefinition. We argue that individuals view the event through societal, organizational and personal filters. Moreover, it is these filters that enable individuals to assign meaning to the event.

COGNITIVE FILTERS

The same discrediting event may look very different to different audiences, depending on how they 'filter' the event. Filtering occurs through the use of cognitive categories that all of us apply to situations and events around us all of the time to determine what is 'right' or 'wrong', 'expensive' or cheap', 'young' or 'old', and so on. Though often unconscious of it, we fragment the world into cognitive categories in order to simplify and make sense of it (Bruner, 1957; Corter and Gluck, 1992).

Organizational stakeholders use societal, organizational and personal filters to view a discrediting event. Societal filters enable perceivers to determine how discrediting an event is, based on widely-held social norms. Organizational filters of prior reputation or identity enable individuals to assess the consistency between present and past behaviors, leading to differing perceptions of stigma. Finally, the extent to which perceivers use existing definitions of an organization to define themselves, results in different levels of stigma attached to an event. For example, one would expect top management to minimize stigma when their personal reputations are tightly coupled with the organization.

INTERACTIVE DYNAMICS BETWEEN REPUTATION AND IDENTITY

As stigma develops, internal and external definitions collide and shape each other. This occurs as insiders and outsiders signal, interpret, and assimilate organizational images. The article examines these processes as they occur in the interactions between insiders and outsiders, though the processes also occur between insiders and between outsiders.

Signaling Images

Signaling between insiders and outsiders increases in intensity during times of upheaval. As a result, after a discrediting event, the intensity of signaling increases as outsiders express their disapproval and insiders seek to manage perceptions of stigma. Outsiders express their disapproval primarily through various forms of sent stigmas (Page, 1984). These signals can take the form of denigration, decreased participation or rejection (Sutton and Callahan, 1987). Such signals communicate to insiders how outsiders perceive the organization.

Insiders signal to outsiders through stigma management and impression management techniques in order to present themselves in the best possible light (Goffman, 1963; Page, 1984; Sutton & Callahan, 1987). In this process, the existing identity of the organization cognitively constrains the types of signals that are sent. For example, an organization that has an identity as a caring place, in the context of employee deaths from a plant explosion, may intentionally highlight its history of caring for its employees to explain that it would not have jeopardized their safety. Organizations, through their actions, may also unintentionally reveal how they perceive themselves. For example, the New York and New Jersey Port Authority, by involving more police to manage the homeless problem, signaled that they did not perceive themselves as being in the social service business (Dutton and Dukerich, 1991). Thus, the images that are projected by organizations, even though they are similar attempts to frame the organization in the best possible light, reflect the different ways the organization perceives itself.

Interpreting Images

Though images are 'out there' as concrete and external manifestations of people's mental pictures, they are subject to interpretive processes. Images of organizations can be interpreted numerous ways — much like the interpretations of discrediting events — again depending on people's cognitive filters. Both insiders and outsiders will use societal filters to assess the appropriateness of signal content and intensity. Also, cognitive filters will influence the extent to which the perceiver will be open to acknowledging the signaled stigma. Finally, the perceiver will turn to existing organizational definitions to assess consistency and relevance. Those signals that are consistent with what the perceiver already believes about the organization will be viewed with credibility. Those signals that pertain to those attributes of the organization that are neither central nor distinctive will be discounted.

Assimilation of Images

The signals and their interpretations communicate to insiders and outsiders the perception of the other. The extent to which such information will be assimilated is dependent on two factors: the extent to which it confirms existing definitions, and the intensity of perceived stigma. Information that is perceived to be consistent with existing definitions will not be resisted, because it is perceived as credible. Thus, organizations with negative reputations will incorporate negative attributes more readily and those with positive reputations will resist assimilation of the stigma.

However, even organizations with positive reputations are vulnerable in situations of intense stigma. This is because perceivers who view the organization with stigma signal intensively and strive to reduce ambiguity about the intentionality and role of the organization. As the ambiguity is reduced and stakeholders begin to accept the validity of the stigma, their prior definitions can no longer resist the pressures, and assimilation begins. As insiders and outsiders assimilate the signals sent by the other, they incorporate the content of the other's definition into their own. It is in this way that reputation and identity shape each other.

Assimilation can change the structure and content of existing definitions in a number of ways. For example, the structure of organizational definitions can change either in the birth of new definitions or in the fusion of existing definitions. Also, the content of existing definitions can be changed either in providing greater definition to existing definitions or in redefining the content.

The relationship between signaling, interpretation, and assimilation is cyclical and reciprocal. Signaling and interpretation processes provide new information about the organization. The assimilation of this information may result in changes to existing definitions which, in turn, influences future signaling and interpretation. Signaling will continue until both parties feel that further signaling serves no purpose.

IMPLICATIONS FOR RESEARCH AND MANAGEMENT

Researchers have tended to study reputation and identity as separate phenomena. This article describes the interactive dynamics between them, illustrating how essential one is for understanding and managing the other. The most fundamental contribution of this study is the underlying proposition that reputations and identities are shaped by each other. This has important research implications. First, it means that a focus on one or the other in isolation can only provide a static snapshot of one moment of organizational definition. Secondly, focussing separately on how insiders or outsiders define an organization leads to an understanding of a label that is the outcome of a negotiated process. It says little about the forces that led to such a definition. If the aim of the research is to understand better the reasons for particular organizational definitions and their changes, it must address the manner in which reputation and identity interact.

This study also has a number of implications for practice in terms of preparation for, containment of, and recovery from, a discrediting event. The most important implication is that the management of stigma begins long before stigmatization occurs. Since things will 'go wrong' at some point, it is critical that managers consciously prepare for the eventuality by consistently signaling strong and positive images of themselves.

In terms of stigma containment, managers need to pay close attention to the signaling, interpretation, and assimilation processes that occur. Also, in recovering from a stigmatized event, organizations that have had their definitions most changed in terms of structure and content will have to invest in recovery activities in terms of rebuilding both internal and external commitment to the organization.

CONCLUSION

In conclusion, both reputation and identity are important definitions of organizations. They remain loosely coupled in times of stability and become more tightly coupled in times of upheaval. Reputation and identity are two sides of the same coin. Acknowledging one definition and ignoring the other leaves one blind to the deeper dynamics that influence these definitions.

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Corporate reputation and its effect on organizational actions: How reputations are managed

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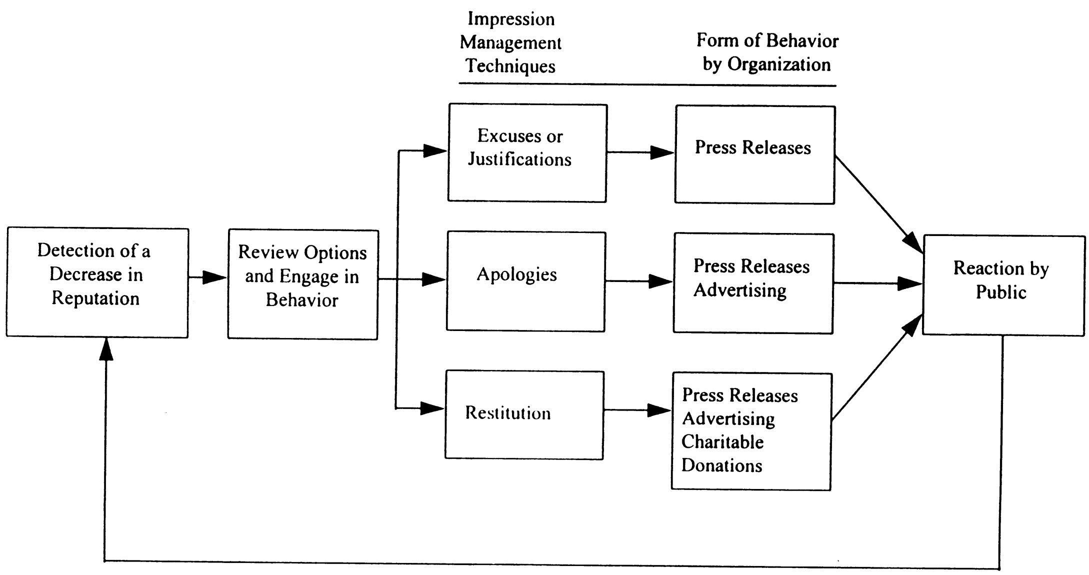
INTRODUCTION

Firms compete for reputational status on a daily basis. Certainly not every firm can win this fight, and consequently, many firms find that their reputations sometimes suffer. How do organizational members react when their firm is confronted with a downturn in reputation? Using insights gained from impression management literature, we present a model that attempts to predict how members of an organization will act in response to a decrease in the firm's reputation, in order to manage future impressions of the firm. We argue that a decrease in corporate reputation, for whatever reason, is likely to motivate organizational members to manage their organization's image differently than they would otherwise deem necessary. That is, if the organization has a decrease in reputation, organizational members may feel a strong need to improve this image through the use of defensive reputation management actions. The available impression management techniques may result in observable organizational behavior in the form of press releases, advertising, or contributions to charitable organizations (Fombrun and Shanley, 1990; Russ, 1991). Figure 1 illustrates a causal model of a firm's potential tactical-defensive behaviors.

Figure 1 *The Process of Tactical-Defensive Behaviors in Organizations*



SPECIFIC ACTIONS TAKEN BY THE ORGANIZATION

Press releases

Elsbach and Sutton (1992) found evidence that Earth First! and ACT UP spokespersons tended to use tactical-defensive actions such as denying, justifying, and then later apologizing if necessary, to justify actions under scrutiny by the public and to improve the legitimacy of their organizations. It appears that organizational members attempt to change the public's view of the firm's reputation by relying on press releases to the public that attempt to justify or excuse the organization for its actions. If these justifications are not accepted by the public, the firm may focus its press releases on disclaimers or apologies (Tedeschi and Melburg, 1984). On the other hand, organizations with positive reputations have no need to act defensively, thus, press releases are unnecessary mechanisms for enhancing reputation.

> **Hypothesis 1:** Organizations that have undergone recent downturns in their reputations will increase the number of press releases (as compared to the previous year) more than those organizations with unchanged or improved reputations.

Advertising

Firms have used advertising successfully when attempting to apologize for undesirable actions. We predict that organizational members will attempt to use advertising to enhance corporate reputation and this will be more likely if the firm has had a recent decrease in reputation, because this unfavorable reputation is an impetus for action.

> **Hypothesis 2:** Organizations that have undergone recent downturns in their reputations will increase their advertising expenditures (as compared to the previous year) more than those organizations with unchanged or improved reputations.

Charitable Contributions

If management's attempts to deny or apologize prove ineffective to managing the organization's reputation, they may attempt to use other tactics. A possible alternative for the organization would be to attempt to compensate for its perceived negative behavior by restitution. For example, Dow Corning, in a concerted effort to save its reputation during the silicone breast implant crisis situation, offered additional money for research and financial support for women interested in removing the breast implants (Power, 1992). Another possible method for providing restitution is to donate money to charitable organizations that may be particularly concerned with the actions of the organization. The impression management literature suggests that organizational members in firms with falling reputations may attempt to reduce the negative aspects of their firm's reputation by restitution tactics, such as contributing to charitable causes.

> **Hypothesis 3:** Organisations that have undergone recent downturns in their reputations will increase their charitable contributions (as compared to the previous year) more than those organizations with unchanged or improved reputations.

METHODOLOGY

In order to test the hypotheses developed in this article, it was essential to find a sample that allowed us to directly measure corporate reputation and changes to reputation over time. It was determined that *Fortune's* Most Admired Survey provided such information because this survey is conducted and presented annually and the results are widely circulated and cited in the popular press. A sample of 119 firms over a four-year period from 1989 to 1992 was selected, resulting in 476 firm-year data points.

Definition and measurement of variables

The reputation score reported in *Fortune's* issue of the Most Admired firms was selected for our analysis because it is a widely-known measure of reputation and is therefore likely to be the strongest indicator of changes in reputation management activities. Two control variables were used: size of firm, measured as the logarithmic transformation of total sales lagged by one year, and industry, divided into four economic sectors.

The dependent variables include change in advertising expenditures, charitable contributions, and press releases. A measure of the number of press releases a firm issues in a given year is based on the number of press releases reported by the two major sources of wire services, PR Newswire, and Business Wire as reported on LEXIS/NEXIS. COMPUSTAT was used to collect advertising expenditure data. Data for charitable contributions were obtained from 'Corporate 500: Directory of Corporate Philanthropy' (Public Management Institute) and the 'TAFT Corporate Giving Directory' (Taft Group, Inc.).

ANALYSIS AND RESULTS

In order to determine if significant differences existed between firms with favorable and unfavorable changes in reputations on the variables of interest, pooled cross-sectional time-series analyses were conducted. Table 1 contains the regression models predicting change in press releases, advertising and charitable contributions.

Change in press releases

Hypothesis 1 predicted that firms would increase their use of press releases if their reputation decreased. As Table 1 shows, first of all, there was a significant positive relationship between press releases and the previous period's reputation. That is, high reputation firms tend to issue more press releases than low reputation firms on average. However, the effect of change in reputation on change in press releases was significant and in the predicted direction ($p < .0.5$). That is firms that have had a decrease in their reputation tend to increase their use of press releases. Thus, Hypothesis 1 was supported.

Change in advertising

Hypothesis 2 was concerned with advertising expenditures. As indicated by Table 1 again, high reputation firms tend to use advertising to a greater extent than low reputation firms. The relationship between change in reputation and advertising was again in the predicted direction, but in this case was not significant. Therefore, Hypothesis 2, while providing evidence that the relationship as hypothesized may exist, was not supported.

Change in charitable contributions

Hypothesis 3 dealt with charitable contributions. As indicated by Table 1 and consistent with the other models, high reputation firms tend to donate more money to charities than do low reputation firms. However, the change variable was found to be positive and significant — opposite the direction predicted in Hypothesis 3 ($p < 0.5$). That is, it appears that positive changes in reputation are associated with increases in future charitable contributions. Therefore, Hypothesis 3 was not supported.

DISCUSSIONS AND IMPLICATIONS

The finding that high reputation firms tend to utilise more impression management techniques, in the form of press releases, advertising and charitable contributions, is consistent with earlier findings (Fombrun

Table 1: The Impact of Change in Reputation on Change in Reputation Management Activities

Variable	*Press Releases*	*Advertising*	*Charitable Contributions*
Press releases$_{t-1}$	0.871***	0.760***	0.641***
	(0.037)	(0.045)	(0.059)
Sales$_{t-1}$	0.093**	0.326***	0.410***
	(0.037)	(0.075)	(0.092)
Industry 1	0.207	–0.994**	0.572
	(0.172)	(0.376)	(0.517)
Industry 2	0.014	0.408*	0.039
	(0.101)	(0.169)	(0.179)
Industry 4	–0.155	0.229	–0.008
	(0.154)	(0.195)	(0.220)
Reputation$_{t-1}$	0.058**	0.087*	0.220***
	(0.028)	(0.041)	(0.056)
Change in reputation	–0.141*	–0.162	0.304*
	(0.084)	(0.129)	(0.141)
Constant	–0.719*	–2.640***	–2.039**
	(0.387)	(0.643)	(0.718)
Adjusted R^2	0.766	0.928	0.800
Change in R^2 from control model[a]	$F_{(2, 271)} = 5.21$***	$F_{(2, 143)} = 6.56$***	$F_{(2, 137)} = 5.14$***

Nonstandardized regression coefficients are shown. Standard errors in parentheses.
*$p < 0.05$; **$p < 0.01$; ***$p < 0.001$; all one-tailed test. [a]Control model includes lagged dependent variable, previous sales, and industry variables.

and Shanley, 1990) that constituents find these activities to be important to the establishment of a good reputation. What our research adds, however, is empirical support that reputation changes provide organizational members with incentives to change the organization's reputation management activities. First of all, the finding that decreases in reputation leads to an increase in the number of press releases supports the notion that organizational members may try to justify, excuse or apologize for the organization's recent negative changes. The prediction that negative changes to reputation would increase advertising was not supported, although the coefficient was in the predicted direction. Our lower sample size for this model, due to lack of data on advertising expenditures, could have limited our ability to find significant results with this model.

Finally, the finding of a positive relationship between change in reputation and change in charitable contributions suggests that firms may consider a donation to charity as a strategic rather than a tactical action. It is possible that firms do not consider that a negative change in reputation can benefit from an immediate increase in charitable contributions. It may be the case that the funding typically used for charitable contributions is funneled off to other defensive type activities, which may have a more immediate effect on the firm's future reputation. Future research should attempt to examine longer-term strategic responses available to firms to enhance their reputation. Many of the responses, such as increased efforts to improve product quality through higher research and development funding, are particularly critical to the formation of a corporate reputation and its stability over time.

CONCLUSION

This article has explored potential actions taken by members of an organization due to its current corporate reputation. These actions may take different forms depending on the reputation held by the organization. Whether tactical or strategic, actions taken to either maintain or improve the corporate reputation of the firm are a signal to the public of a firm's need to establish or enhance its reputation. This research is an attempt to gain a better understanding of how elements of corporate reputation may affect actions taken by members of an organization.

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