Teaching reputational risk management in the supply chain

Fred Lemke
Department of Marketing, University of Strathclyde – Business School, Glasgow, UK, and
Henry L. Petersen
Management Department, University of Wisconsin – La Crosse, La Crosse, Wisconsin, USA

Abstract

Purpose – In the supply chain context, professionals manage various risks that have the potential to disrupt supplies. Surprisingly, one kind of risk is often overlooked: reputational risk. It is critical to recognise the risk potential that impacts on the reputation of the organisation. Furthermore, managers require an appropriate tool set to control it. The present paper aims to have a twin focus: first, it will lay out the basic premises behind corporate reputation, reputational risk, and corporate social responsibility (CSR). Second, the practical implications will be addressed that lead to a substantial teaching component.

Design/methodology/approach – The present paper is based on two research stages. Initially, the authors adopted the "reflective practitioner" philosophy that aimed at discovering the common beliefs in practice that explain working processes and management thought. In particular, they explored the foundation of CSR, reputation and risk management with specialists in dedicated workshops (electronics, energy, life sciences, telecommunications and defence industries, located at different stages of the supply chain). To gain more insight, the authors subsequently conducted in-depth interviews in these topic areas with key informants. The combination allowed them methodological triangulation.

Findings – Reputation can be created and controlled as soon as its nature is fully understood (Reputational Owner). Interestingly, it is a transceiving business phenomenon that crosses organizational boundaries. Spillover effects can thus be observed at all stages of the supply chain by mere business association (Reputational Borrower). Reputation can range from positive to negative extremes and needs to be managed. The results of the authors' exploratory work are presented as quotations to provide the substance of the current and relevant subject.

Research limitations/implications – The present work is exploratory in nature. Quantitative research methods are now required to validate and substantiate the findings.

Practical implications – CSR is a contemporary foundation to mitigate reputational risk throughout the supply chain. The authors outline the reputational risk factors in this context and the ways of managing those.

Social implications – In the market place, reputation is a reflection of the supply chain offering (products, services), communication (promotion, PR), and action (behaviour and views expressed). Consumers adopt supply chain reputation as a yardstick when making purchase decisions. It is therefore critical to manage reputational risk in the supply chain and this paper outlines the cause and effect relationships that this topic entails in modern society.

Originality/value – This paper discusses the importance of reputational risk in the supply chain. It also explains the ways it can be mitigated via CSR. This is the management baseline that adds tremendous value for theory builders and present and future managers. Having the education of Master students in mind, the authors outline three specific teaching units that bring the conceptual underpinnings alive in an interactive learning environment.

Keywords Reputational risk, Corporate social responsibility, Teaching, Supply chain management, Market offering, Communication, Social responsibility, Risk management

Paper type Research paper

Introduction

Most professionals are fully cognizant of the risks that have the potential to disrupt supplies. Minor design problems, machinery breakdowns or major natural global disasters represent risks that supply chain managers must consider when mitigating against disruptions. However, one kind of risk is often overlooked in supply chain management: reputational risk. A recent example can be seen with Apple Inc., the American multinational computer corporation. In September 2011, *The New York Times* posted that the company was adding to the pollution of China because of its suppliers (Barboza, 2011). In January 2012, Apple Inc. was again in the headlines for the human costs associated to the manufacturing of the iPad (Duhigg and Barboza, 2012). The safety of Apple's suppliers came under scrutiny. Two months later, Apple Inc. was yet again pointed out for the poor labour practices of its suppliers (Duhigg and Greenhouse, 2012). Although the risk mitigating practices of the company have minimized disruptions, the risks to their reputation, as a result of their supply chain, were ignored.

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In general terms, reputational risks are not disruptive to resources, which partly explains why the associated costs are often very difficult to determine. Given the delicate nature of reputation, they may be beyond valuation.

The present paper has a twin-focus: First, it will lay out the basic premises behind corporate reputation, reputational risk, and corporate social responsibility (CSR). After "unpacking" the theory, these areas will be blended in a supply chain setting. Second, having the theoretical foundation covered, the practical implications will be addressed that lead to a substantial teaching component in the main body of this paper. Having the education of Master students in mind, we will discuss three specific teaching units that bring the conceptual underpinnings alive in an interactive learning environment. The concluding section will highlight the implications for theory builders and practitioners in the supply chain environment.

Corporate reputation

Having a firm listed on a "Who's Who" survey, such as *Fortune Magazine*'s annual report on reputation, will have positive effects on the organisation's performance (Ang and Wight, 2009). A positive corporate reputation has been found to mitigate the negative impact of a crisis (Vanhamme and Grobben, 2009), be a fundamental source of competitive advantage (Dierickx and Cool, 1989; Flatt and Kowalczyk, 2011), attract capital and close contracts (Soppe *et al.*, 2011), and influences consumer behaviour (Dowling, 2001). Thus, corporate reputation is a valuable resource (Iwu-Egwuonwu, 2011) and the significance to manage it, indicates the need to understand its dimensions.

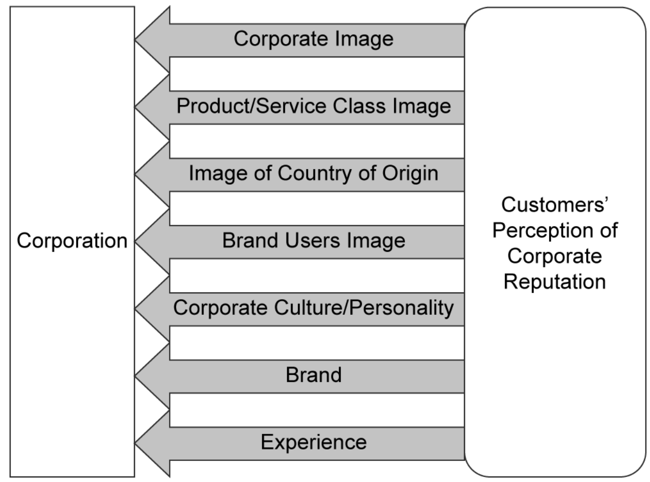
A review of the literature shows that definitions of corporate reputation stem from the seminal work of Fombrun (1996) who identified three foundational elements:

1. reputation is based on perceptions;
2. it is the aggregate perception of all stakeholders; and
3. it is comparative.

Individuals derive an impression of who and what an organisation represents by the way a company manages its assets (Reese and Kossovsky, 2011) as well as on individual experiences (Lloyd, 2011). So, each stakeholder develops their impressions through a multitude of different avenues such as the media, their personal experience with the product or service being offered, their interactions with employees, or their history with accounts payable and so forth. The concept, however, considers an accumulation of unique experiences – or collective impressions – of all stakeholders. It is relatively stable, can be positive or negative, and it is durable. These elements allow managers to observe and evaluate the reputation of corporations over time – at least on theoretical grounds – which makes its management that much more plausible.

Considering that the dimensions of corporate reputation can be expansive and complex, Figure 1 outlines the experiences that are a derivative of interactions and impressions customers have with the brand, the image of the firm, their experiences with the products/services, their perceptions of the class image of the products and services, the brand users image portrayed, the image of the home

Figure 1 Dimensions of corporate reputation



Source: Based on Worcester (2009)

country where the firm originates from and lastly the culture/ personality of the organisation (Worcester, 2009).

Each dimension is vital to understand as corporate reputation can be easily damaged (Dowling, 2004; Hamilton, 1995), particularly when not developed, managed, and protected in a timely and appropriate fashion (Casado-Díaz *et al.*, 2009; Reese and Kossovsky, 2011). Hence, protecting it, or rather mitigating the risks that threaten it, is considerably more complex than what would be prescribed for basic risk management practices.

Risk and reputational risk management

When it comes to managing risks, organisations have to assess three aspects: the probability of the event occurring, the total social cost if the risk were to be realized, and lastly, what portion of the burden the organisation would have to incur. Then, four generic decision options are available:

1. risk avoidance;
2. loss prevention and control;
3. risk transference; and
4. risk retention (Bodie and Merton, 1998).

Each option has to be critically analysed in a given situation. For instance, in hindsight, BP's cost for the Gulf oil leak is estimated to be US$192 billion (Juhasz, 2012). This figure represents the tangible costs that the accident has had on the firm, but BP seeks a far lower figure of US$15 billion for settlement with US authorities (Chazan and Crooks, 2012). What any of these figures fail to capture are the intangible costs like the impact on BP's reputation. Risk avoidance entails the elimination of all activities that expose the organisation to the risk. In BP's case, they may choose to avoid all offshore drilling and therefore, eliminate the possibility of experiencing another deep well accident. Loss prevention and control is about managing the impact if the risk is realized. In this case, BP may invest in practices that rectify a deep well blowout or better clean-up technology. Transferring the risk shifts responsibilities to a third party via insurance policies and lastly, the organisation may retain the

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associated costs of the risk and assume all responsibilities and costs if something were to happen.Risks to a corporation's reputation, however, are well beyond the basic risk management practices discussed. First, estimating the probability, social burden and cost to the organisation is plausible but not straightforward. A physical event and the physical damage as a result of it may be estimated, but the impact of an event on the psyche of consumers is not directly assessable. The effect on brand awareness or the image generated around a product because of a negative event is simply irregular and largely unpredictable.

There are a number of different types of reputational risks resulting from the activities of an organisation or its partners. Table I is exclusively populated with examples of specific activities, communications or characteristics of product offerings that pose a risk to the different dimensions of an organisation's reputation.

Companies shape market perceptions through their offering, communication, and action and Table I indicates and gives examples of the problem zones on all reputational dimensions. For instance, offering a product that contains conflict minerals may have an impact on the organisation's corporate image (refer to "corporate image/offering" intersection of the table). Arrogance and poor customer service will impact customer experience and so forth. Hence, the options for managing the risk, for which the probability and cost are unknown, are limited. Risk retention is the most viable option, although we would suggest that organisations opt to avoid the risky behaviour altogether via corporate social responsibility.

Corporate social responsibility

In a traditional stakeholder's view, business' sole responsibility should be wealth generation, resulting in a profitable return-on-investment. To include responsibilities that extend beyond wealth creation are considered pilfering of shareholder money (Friedman, 1970). However, unethical and irresponsible corporate behaviour gave rise to the development of corporate social responsibility (CSR), which was meant to guide organisations on what their responsibilities should be (Davis, 1973). Viewed in this way, responsibilities of business should involve more than just creating wealth.

Today, CSR is a concept that enjoys much popularity in the literature as well as among practitioners, largely explained by its direct correlation with financial performance (see Inoue and Lee, 2011; Jo and Harjoto, 2012; Orlitzky *et al.*, 2003; Petersen and Vredenburg, 2009a, b). Given its historical background and the contemporary interest, it is surprising that the concept remains ill-defined (Freeman and Hasnaoui, 2011). The predicament can be explained by the variety of views on what businesses are responsible for (Franz and Petersen, 2012) and may very well be impacted by the discrepancy of "what firms think" about CSR (cognitive), "what firms say" (linguistic), and "how firms tend to behave" (conative), according to Basu and Palazzo (2008).

A number of educational textbooks utilize Archie Carroll's (1979) seminal work on defining CSR in which he identifies four areas of responsibility: economic (profitability), legal (obey the law), ethical (obligation to do what is right), and discretionary (voluntary activities). Carroll (1991) takes this reconceptualisation further and later presents the responsibilities in a pyramidal structure with economic responsibilities serving as its base. Thus, if the firm could not survive financially, nothing else mattered.

Although some theoretical and empirical work utilize Carroll's definitional construct (e.g. Clarkson, 1995; Joyner and Payne, 2002), the greatest challenge with CSR is its lack of clarity (Hillenbrand *et al.*, 2012; Taneja *et al.*, 2011), resulting in a multitude of contradictory definitions (Dahlsrud, 2008; Freeman and Hasnaoui, 2011) as well as different expectations and values among stakeholders (Franz and Petersen, 2012; Jamali, 2008). As a normative construct, CSR is shaped by the activities of the firm, the environmental situation, and the perceptions of respective stakeholders. In this sense, it is essentially unique to each business. Building from specific works that have defined and identified stakeholder expectations (Carroll, 1979, 1991; Epstein and Roy, 1998, 2001; Franz and Petersen, 2012; Petersen and Vredenburg, 2009b), we settle on the following four spheres.

(1) Governance

The multitude of different social structures and state-industry relations for business worldwide requires corporate governance (Fairbrass and Zueva-Owens, 2012). It describes how organisational resources will be deployed (Daily *et al.*, 2003) and depicts the kind of interactions the organisation will have with its stakeholders (Turnbull, 1997). In essence, it addresses the effective management of resources and relationships, which is at the heart of corporate social responsibility. CSR is important to institutional investors (Petersen and Vredenburg, 2009b) and they tend to view the management of firms with CSR as being competent (Cox and Wicks, 2011), effective at managing social and environmental issues, employing good risk management practices (Kiron, 2012; Schwering, 2011), and signalling that they were proactive rather than reactive (Du *et al.*, 2007).

With respect to the other stakeholders, consumers were found to hold a more favourable attitude towards a company that had incorporated CSR (Becker-Olsen *et al.*, 2006), which positively influenced their purchasing behaviour (Groza *et al.*, 2011). Consumers were also found to be more loyal (Peloza and Shang, 2011), and willing to pay premium prices for products from socially responsible firms (Du *et al.*, 2007). Even employee attitudes and their performance outcomes were positively affected by organisations that had defined and developed their social responsibilities (Hansen *et al.*, 2011). In that same vein, CSR affects recruitment and increases the organisational attractiveness of firms to candidates seeking employment (Kim and Park, 2011).

Overall, how the corporation is governed, the specific activities of the firm, and how they perform them, matter the most and will have the greatest impact on all stakeholders (Bravo *et al.*, 2012; McShane and Cunningham, 2012) including shareholders.

(2) Ethics

Given that there are multiple interpretations of what social responsibility means (Matten and Moon, 2008) CSR has come to represent what a business is willing to be responsible

Table I Reputational risk factors from a market perspective

Reputational dimension	Offering (products, services)	Communication (Promotion, public relations)	Action (behaviour, views expressed)	Examples
Corporate image	Offering products and services that are associated with illegal activities, damaging the environment, low quality, and symbolising social class differences	Openly denying publicly available claims, reports, facts, opinions that are relevant for consumers of the products and users of the service	Not rectifying or ignoring damaging environmental, social, and quality issues and continuing with the same process and procedures Openly emphasising unsocial, racial, discriminating opinions Dumping toxic materials in the environment Engaging in illegal activities	High-powered and high-consumption luxury cars
Product/ service class image	Offering a product range that cannot be recycled or reused Offering services with single-use products and/or materials	Highlighting customer's benefits that are disproportionately low to the burden of factory workers and to the harm of the society at large for manufacturing the goods and delivering the service	Displaying the products while acting irresponsibly against the environment and society	Tobacco advertisements on Formula One cars
Image of country of origin	Sourcing materials and/or product parts from countries that do not comply with human rights and/or fight against religious beliefs and/or defeat political views and/or suppress freedom of opinion	Promoting products, services, partnerships, suppliers, associations from countries that do not comply with human rights, etc Highlighting the profits generated by sourcing in low-cost countries	Collaborating in any discriminating or illegal activities in third world countries	Fashion ware (jeans, T-shirts, etc.) from a grocery discounter, sourced from specific suppliers based in India
Brand users image	Offering products and services that used to be fashionable (to traditional market segments), but are now associated with unsocial, unsustainable, etc., aspects	Placing users of the products and services in an unsocial light in advertisements, marketing material, etc.	Misrepresenting the views of consumers on public events Using the products of a particular brand when engaging in illegal activities	Real fur coats in Europe
Corporate culture/ personality	Manufacturing parts, final goods, and delivering services by treating employees unfairly Having a product-oriented culture that does not understand the needs and interests of consumers (nor having the appreciation why this may be relevant)	Emphasising exclusively the product and service benefits and ignoring (and/or not understanding) the customer benefits when using the products and services Pointing out the high working standards and pro-social behaviour within the workforce and actually not fulfilling those claims	Supporting business and labour practices in other countries that are not up to standard in the home country (including child labour and discrimination of women in the workforce)	Outsourcing manufacturing processes to other countries in order to bypass legal obligations in the home country
Brand image	Offering a range of products that have toxic ingredients Offering services that ham the environment	Making branded gifts to public figures that are negatively perceived by the public	Publicly announcing support in the name of the brand for governments, co-operations, associations, and interest groups that follow philosophies and ideologies that are anti-social, environmentally harmful, etc.	Supporting a celebrity with branded goods that engaged in illegal activities, that later has been put to trial, and convicted
Experience	Offering products and services that do not work or do not fulfil the expectations or promises	Emphasising false claims of products and services (including environmental or social aspects, "greenwash") leading to mistrust	Being arrogant and publicly insulting customers Engaging in activities that customers disagree with	Stating in a press release that customers would unquestionably buy everything the company produces, no matter how useless of senseless the new products and services may be

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for (Perrini, 2006). Although ethics could run throughout or within corporate governance, it should remain as a separate sphere of responsibility (Carroll, 1979, 1991). Organisations may be governed in many different ways but whether they are ethical or not is a metric that stands on its own. Ethics or rather the ethical expectations of stakeholders, defines the behaviour that is expected from business, its employees, and its partners. It is culturally embedded, not reliant on structures or resources and is action oriented. It entails cheating, lying, forging, embezzling or purposefully causing harm as opposed to going over and above the bare minimum. It may be about being transparent, honest, forthright and true. As stated already, ethics is culturally defined and its nature will ultimately depend on the context. Thus, what is considered ethical behaviour in one country, cultural region, industry sector, etc. may not be the same in another country-culture-industry setting.

(3) Environment
The Brundtland Commission's report (Brundtland, 1987) appeals to business to assume environmental responsibility and to protect, preserve, and restore the natural environment. Processes and procedures have to be in harmony with the environment, so that resources are preserved for future generations. The ultimate goal is for business to strive towards sustainability. Practices entail natural resource magnification, a natural systems approach, biomimicry, engaging in a service and flow economy, cradle to cradle manufacturing, reuse, recycle and reduce. By contrast, damaging or negatively impacting the natural environment is unacceptable and business must internalize these costs as part of their responsibility.

(4) Social
From a societal perspective, business development and wealth creation have served a dynamic purpose in the western world. However, social ills continue to plague all nations, including developed nations. Whether we are dealing with poverty or human rights atrocities, business should contribute to and participate in the efforts to increase the quality of life of the communities that it serves. Although one could make a reasonable argument that business' economic contribution is sufficient in and of itself, it is widely accepted that business must play a larger role in alleviating societal problems. Community involvement is required to solve social issues such as poverty, hunger or slave trading. In many cases, philanthropy has been the primary avenue for business with donations going to societal institutions to meet societal needs. Today, however, more organisations are starting to contribute their expertise and give their employees opportunities to serve the society at large with time and energy.

In conclusion, business has a responsibility to all of their respective stakeholders. This includes inculcating exceptional corporate governance, so that stakeholders are managed well and all resources are protected, nourished and developed, and not wasted. They should meet and exceed ethical expectations, protect the environment and assist society in alleviating problems as community partners. By defining the spheres or responsibilities of business, we can then identify how implementation and risk mitigation may occur in the supply chain.

Significance to practitioners

We conducted research in the spirit of the "reflective practitioner" (Schön, 1995) and discussed CSR, reputation, and risk management with Directors and Managers responsible for these management areas in dedicated workshops. The workshops aimed at discovering the common beliefs in practice that explain working processes and management thought (Dewey, 1910). The participants were highly interested in understanding the theoretical underpinnings of their management responsibilities that leave an impact beyond the boundaries of their individual organisations. Practitioners came from the electronics, energy, life sciences, telecommunications and defence industries, were not direct competitors, and the organisations were located at different stages of the supply chain.

Working with practitioners represented a critical step to learn "how managers think" (Dewey, 1910). In order to validate the importance and makeup of the dimensions, we complemented the events with six interviews; key informants (Campbell, 1955) were purposefully selected. By discussing what CSR and risk management means for their individual organisations and how both aspects are relevant for the entire supply chain, we were able to add "critical depth" as well as "critical breadth" to the teaching module presented here (Thompson and Thompson, 2008).

Interviews took approximately 20 minutes on average (180 min. in total) and followed a semi-structured guideline, centred on CSR and risk management. Given the exploratory nature of the study, coupled with the scarce number of empirical work in the supply chain context, Carson *et al.* (2001) recommend a sample size of six to 12 for conducting interviews. Taking our initial work with practitioners as the conceptual foundation that allows us methodological triangulation (Yin, 2009), we validate these with the interviews. The results of our exploratory work are presented in the following as quotations. These are purposefully inserted to provide the substance of the current and relevant subject.

Reputation and social responsibility in the supply chain

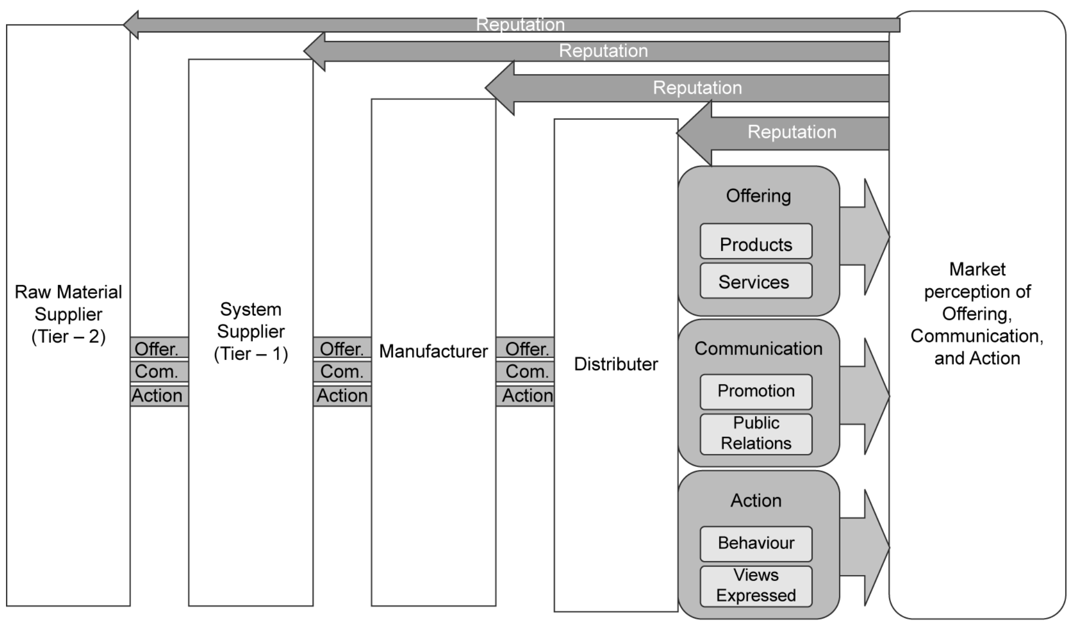
Within the supply chain context, reputation is an interesting concept. On the one hand, it is multi-facetted and corporations develop and exhibit unique reputations, as discussed earlier (refer to Figure 1). "Its [reputation] our biggest risk… our name is everything" (Manager, electronics company). On the other hand, certain aspects of reputation can be borrowed by entering into memberships or joining associations. In a supply chain context, this means that certain reputational aspects become transferable from one party to another (Fiol *et al.*, 2001; Kotha *et al.*, 2001) – these are reputational spill-over effects among supply chain members. It is important to understand what reputational dimensions are transferrable across corporations and to what extent. By the same token, knowing what dimensions remain with the party that essentially earned it in the public view (i.e. the reputational owner) is key for understanding reputation holistically.

When analysing this concept on a broader scale and assessing the chain from a market-point of view, one has to realise that not all supply chain members earn the same kind and the same level of reputation. "There are things that happen in the tech sector, but it is not a direct impact to us. We are a part of the supply chain, so it is not a huge correlation. But we are involved" (Director, electronic wholesale distributor). With regards to corporate image, for instance, supply chain members closer to the market are able to leave an impression on the end-consumer and receive a reputation in this regard. However, the entire supply chain gains positive as well as negative reputational effects as it is an accumulation of reputational additives by its members on various dimensions. Figure 2 illustrates the principle.

Note that the figure shows a cascading and linear source-make-deliver process of the supply chain, indicating that the pool of suppliers may be greatest at the beginning of the chain, i.e. raw material stage, but becomes reduced the closer the supplier is located to the manufacturer. A "system supplier" is listed in tier-1, but it could also be a "component supplier" within a particular chain. The figure only displays two supplier tiers. In reality, the manufacturer may work with a greater number. The figure also considers the distributor stage. The structure may vary in different industry sectors and the manufacturer will assume the responsibilities of the distribution channel, if the delivery to the end-consumer is direct.

The supply chain earns reputational capital, based on the market offering, the communication that occurs, and the actions of supply chain members. End-consumers will attribute different reputational dimensions to individual supply chain members. "If our suppliers come up on somebody's list as being involved in conflict minerals, slave trade or armed conflict going on in Congo, where the mines are involved, then that looks bad on us" (Manager, electronics company). The figure differentiates between reputational owners (ROs) and reputational borrowers (RBs) – borrowing takes place. It is interesting to note that manufacturers are able to earn reputation on all dimensions directly.

Figure 2 Supply chain reputation: the market, generators, and borrowers



Reputational Dimension	Raw Material Supplier (2nd Tier)	System Supplier (1st Tier)	Manufacturer	Distributor
Corporate Image	RB	RB	RO	RB
Product/Service Class Image	RB	RB	RO	RO
Image of Country of Origin	RO	RB	RO	RB
Brand Users Image	RB	RB	RO	RB
Corporate Culture/Personality	RB	RB	RO	RO
Brand Image	RB	RB	RO	RB
Experience	RB	RB	RO	RO

RB = Reputational Borrower
RO = Reputational Owner
Com. = Communication, consisting of promotion and public relations
Offer. = Offering, consisting of products and services

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Distributors may acquire a reputation with regards to product/service class image, corporate culture/personality, and the experience. Suppliers in isolation may hardly earn any reputation by end-consumers, because these supply chain members do not influence how the product is offered, delivered, or packaged. Therefore, suppliers typically borrow reputation on almost all dimensions from manufacturers based on affiliation – the "image of country of origin" generated by raw material suppliers being an exception. In short, reputation crosses organisational boundaries and manufacturers/distributors (or retailers) may own the most of it. "People have protested in front of our company here for something that was three or four layers down the supply chain that we knew nothing about. And that hurt our reputation much more than it hurt theirs" (Director, energy company).

In the supply chain setting, the negative side of social responsibility poses a risk, as it can result in a negative reputation for all supply chain members. It is due to its transceiving nature that reputational risks can present themselves from all sides. Manufacturers and distributors can have the greatest exposure.

Both are typically reputational owners and consumers will associate both directly with pro-social behaviour or wrongdoings. For instance, violations of human rights or the abuse of ethnic minorities can have negative consequences for all members of the chain but be magnified for the distributor. Home Depot, the US retailer for building material and home improvement products, for instance, require all of their materials sourcing policies to be certified by environmental interest groups (Rondinelli and London, 2003). In most instances, the activities are affiliated to a value laden issue, which in turn can have consequences on corporate legitimacy, the legitimacy to operate, to survive and continue to serve society.

Since social responsibility and reputation interactions affect stakeholder perceptions (Lii and Lee, 2012), CSR is a viable mechanism for managing the supply chain's reputation and mitigating the risks associated with it. Table II illustrates the connection between both concepts from a market perspective.

Table II outlines the socially responsible landscape in which the global supply chain operates today and highlights the activities that end-consumers may notice. "Overtime hours, that is a big issue for us. Not having people work 80 hours a week on the factory floor. That is just bad PR" (Director, electronics company). All of these activities are woven together with their direct reputational effects per supply chain member to produce the fabric of reputation.

To start with, reputational risk puts the supply chain under spotlight in gradations because not all members are equally responsible in the public view. The supply chain participants located closer to the market carry the greatest risk. This explains why manufacturers as reputational owners have to justify unsustainable or antisocial behaviour of a supply chain partner who is located further up-stream in the chain. The same goes for distributors as reputational owners, if this channel is used. Every chain has enablers and barriers when it comes to implementing and following universal guidelines (see Walker and Jones, 2012). In order to control the potential risk, manufacturers may instil their set of social values into or onto the supply chain.

> Recently, there was a strike and shut down of the Foxconn plant in China that was covered in the media...these connections between the contract manufacturer and the brand name manufacturer leave the brand name manufacturer more exposed than before. It is kind of expected from the brand manufacturer to have a program to responsibly work with their supply chain (Director, consumer electronics manufacturer).

This is a formal (and often contractual) process, rather than purely based on a social partnership, which can be loose (see Wilson *et al.*, 2010). However, similar to social partnerships, the impression of the market is shaped by the entire chain as a collective rather than by single firms that operate in isolation. Microsoft, for instance, requires from all suppliers a diverse workforce (Taylor, 2007). These are the directives under which the supply chain operates and suppliers who are not compliant will be managed at arm's length and will eventually be replaced; suppliers that adopt and share the same value-set may become vertically integrated so that a close partnership can transpire over time.

> When you go into a negotiation for a bid, you review the RFPs [Requests for Proposals]. Everything is weighted and as the contracting officer, your opinion of the past performance of different companies is a weighted value. So, even though they may not be the most efficient, cost efficient, company when awarding contracts, their reputation definitely goes into the subjective side of awarding a contract (Procurement Officer, government).

CSR principles, and associated practices, in conjunction with products, services, communication, and actions, are suitable for mitigating long-term reputational risks in the supply chain and this approach goes beyond those found in conventional risk management practices. Risk mitigation can occur through ethical sourcing, for instance, which is the process of identifying and partnering with organisations that engage in specific ethical practices. Starbucks Corporation, the international coffee manufacturer, is a good example of an organisation that utilizes this approach – a successful strategy when suitable alternative suppliers are at hand (Anonymous, 2012a). Another approach would be to invoke a code of conduct for all supply chain members. Nike and Apple adopt this principle and describe the acceptable and unacceptable behaviour of suppliers. They threaten to replace suppliers if they are not in compliance (Anonymous, 2012b).

A third approach, one which we recommend, would be to develop corporate social responsibility (CSR) throughout the supply chain (Andersen and Skjoett-Larsen, 2009; Vaaland and Owusu, 2012).

> On the surface, CSR activities hopefully contribute to building a strong positive reputation in some way. But if you dig a little bit deeper, our CR report is an annual accounting of data. And that data can be compared from year to year. Folks can look at performance on safety or on greenhouse gas emissions and whatever and they could reach their own conclusions...it is pretty transparent and so, I think that it's a way of communicating risks. And because we are communicating those risks, it forces us internally to maybe mitigate them with a little more focus(Director, energy company).

Building on the notion of greening a supply chain (e.g. Björklund *et al.*, 2012; Xie and Breen, 2012), imparting CSR into the supply chain serves to guide members with incentives and tools. This is structurally more sound than invoking rules and having to monitor member performance. This, as can be seen with Apple Inc.'s code of conduct, does not mitigate the risk entirely. Figure 3 outlines the relevant management steps.

Supply chain social responsibility (SCSR) entails a coordinated effort to assess all supply chain members'

Table II Social responsibility and reputation in the supply chain (market perspective)

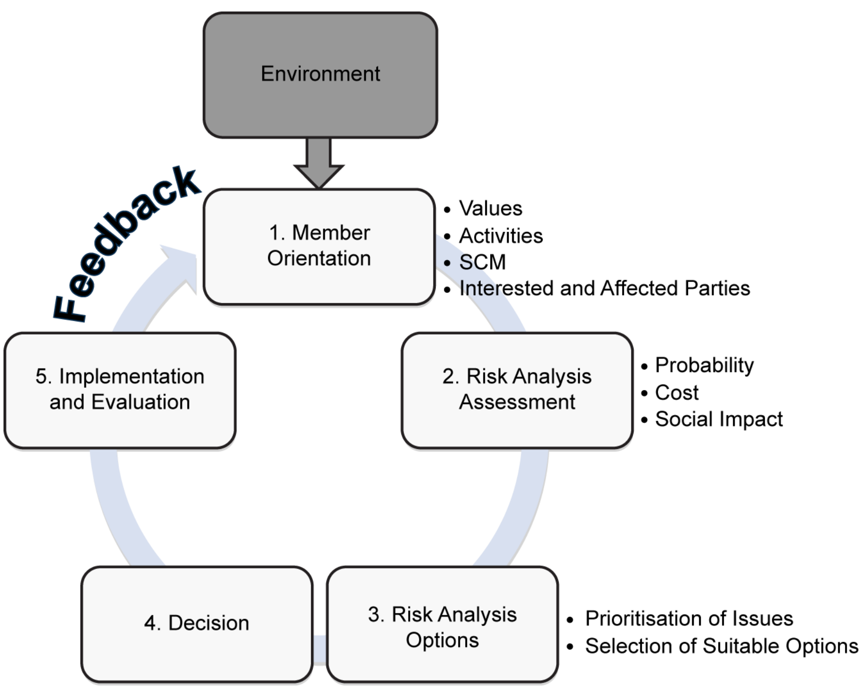
	Supply chain partner			
Reputational dimension	**Raw materials supplier (2nd tier)**	**System supplier (1st tier)**	**Manufacturer**	**Distributor**
Corporate image	G: Legally compliant	G: Legally compliant	Et: fair trading practices; working practices G: Legally compliant En: Reuse, recycle, remove S: Promoting human rights; promoting and supporting the alleviation of relevant societal problems	G: Legally compliant En: Reuse, recycle, remove S: Promoting human rights; promoting and supporting the alleviation of relevant societal problems
Product/service class image			En: Reuse, recycle, remove Offer: Product Offer: Service Com: Promotion	
Image of country of origin	G: Responsible resource management; legally compliant; transparent processes and procedures En: Reuse, recycle, remove		G: Responsible resource management; legally compliant; transparent processes and procedures En: Reuse, recycle, remove	
Brand users image			S: Promoting human rights	S: Promoting human rights
Corporate culture/personality	Et: Working practices S: Promoting human rights		Et: Working practices S: Promoting human rights	
Brand image			Et: Fair trading practices En: Reuse, recycle, remove; natural systems approach, cradle to cradle S: Promoting human rights; promoting and supporting the alleviation of relevant societal problems Offer: Product Offer: Service Com: Public relations	Offer: Service
Experience			S: Promoting human rights; promoting and supporting the alleviation of relevant societal problems Offer: Product Offer: Service Com: Promotion and public relations	Et: Judeo Christian perspective En: Reuse, recycle, remove S: Promoting and supporting the alleviation of relevant societal problems Offer: Service Com: Promotion and public service

Notes: Et = Ethics (social responsibility dimension); G = Governance (social responsibility dimension); En = Environment (social responsibility dimension); S = Society (social responsibility dimension); Com. = Communication, consisting of pormotion and public relations; Offer = Offering, consisting of products and services!

commitment, actions, and surrounding policies. Figure 3 shows the six-step management process – it is as follows:

1 *Member orientation.* The process begins with the gathering of information from supply chain members. This entails their responsibility/sustainability statement, an analysis of their policies and procedures, corresponding performance, the quality of their metrics, and their connections to other business parties. This procedure would make the supply chain transparent (Doorey, 2011) and creates a platform where knowledge-sharing, learning, developing a sense of shared meaning and values, etc. is encouraged (see Hernández-Espallardo *et al.*, 2010). Other efforts, such as conducting a lifecycle analysis on their products, would assist in identifying opportunities to mitigating environmental issues, human rights problems or disruptions to supplies, for example. Scanning the environment for issues (i.e. regulatory matters, public policy issues, and societal trends) associated to the specific activities an organisation engages in will assist in identifying and navigating through potential risks. This also includes regulatory non-compliance or awards[1] Ensuring that interested and affected parties are taken into consideration, identifying risks early on will assist in mitigating stakeholder issues at a later date.
2 *Risk analysis.* Assessment begins with the characterisation of the risks. Probability, impacts, social burden and cost to the organisation are conducted here. Prioritisation should occur to determine which risks should receive immediate attention. Nevertheless, capturing and detailing the risks, based on accurate and relevant information, will lead to better decision-making. For instance, the lifecycle analysis will identify whether any supply chain member uses conflict materials in the production process or perhaps detail the carbon footprint of their product or service. It will also indicate the risk type perceived by each stakeholder group.
3 *Risk management options.* Risks should be prioritised and then categorically assessed for how the organisation should manage them. The result will point to management options determined by whether the activity leading to the risk could be eliminated, and thereby eliminating the risk; reducing the impact of the risk if it is realized, and selecting the best management practice while managing the cost.
4 *Decision.* Selection of the best option should lead to reducing or eliminating the risk. Management's approach must be collaborative. Reducing or eliminating the risk is in the best interests of all supply chain members, but more so with those that have more to lose. By developing the managerial competencies of all parties in the analysis, recognition and decision-making, the chain becomes stronger and leads to a competitive advantage. Selection of the options are contingent on ensuring that there is a collaborative approach that considers the needs of the decision, the intensity of the effort required and the parties that are affected.
5 *Implementation and evaluation.* Implementation involves the development of the appropriate policy, establishing goals and metrics, identifying roles and responsibilities, acquiring the needed resources and starting the implementation programme. Collecting the data and assessing the performance for effectiveness ensures that management practices are measured and that will allow for continuous improvement. This is the evaluative part of this step.
6 *Feedback.* After the data is collected and performance is evaluated, the loop must be closed. Performance

Figure 3 SCSR and the assessment and management of reputational risk



evaluation data is fed back in at the front of the loop and the risk analysis process begins once again.

If all members of the supply chain commit to the same CSR policies, the probability of reputational risks would be reduced. Hence, this is an added incentive for supply chain members to work together whereas those members that are inactive or obtuse would be replaced over time.

> The whole idea around supply chain CSR is relatively new on the indirect side. So, we have the direct side, which says we are going to buy plastic material from you. And we are going to put it into our next products and for that we have a specific program, which has been established since that incident happened over in Europe…all of our direct suppliers must comply with it. Not if – they have to! On the indirect side, it is touch and go. We are getting better with it. We are trying to focus on our top suppliers…we put extra scrutiny on the top five (Manager, multinational electronics company).

Ultimately, only the socially responsible supply chain truly fulfils the requirements of the modern consumer and will earn positive reputation on all dimensions. This principle leaves vital lessons to be learned and thus, is relevant for educators of existing as well as future managers.

Teaching lessons for educators

Social responsibility is critical in mitigating reputational risk in a supply chain context. In this paper, we first outlined both aspects under a corporate lens individually, before discussing the interplay in a supply chain setting. With regards to teaching the vital lessons to Master students, we recommend following the same structure. This topic is ideally suited in a business-to-business (B2B) marketing core class as well as in a supply chain management (SCM) elective. Given the appeal of the subject to students specialising in marketing, management, and strategy, this topic can be considered in various Master curricula. However, basic knowledge of SCM (Vallet-Bellmunt *et al.*, 2011), supplier management and partnerships (Wagner, 2011), supplier selection (Wathne *et al.*, 2001), as well as, elementary principles of consumer behaviour, including consumer decision-making process (Solomon, 2011) is essential. Contingent on this pre-knowledge, the suggested teaching plan covers three units (see Table III).

Table III lists the main topic per unit, along with the teaching activities, recommended time allocation, and resources required. The three topics are as follows:

1. Teaching Unit One: what is corporate reputation (CR) and what risks are associated with it?
2. Teaching Unit Two: what is corporate social responsibility (CSR)?
3. Teaching Unit Three: adopting supply chain social responsibility (SCSR) for mitigating supply chain reputational risk (SCRR).

Teaching Unit One is dedicated to corporate reputation (CR) and the instructor could start with a theoretical assessment of the concept, along with risk behaviour and risk management (45 min. max.). Crucial aspects to highlight are the variety of risks that companies face and the strategies that they employ for mitigating those. For setting up the subsequent practical-oriented part, we would suggest two options – involving a risk manager as guest speaker (Option A) or solving a multi-layered case study (Option B). The decision will be based on company access, teaching style, and class time allocated to this topic.

Option A makes use of a guest speaker in the risk management area which is a fruitful approach to introduce the class to the latest industry knowledge (Hoek *et al.*, 2011). Given that CR is one of the key business challenges today, a guest speaker could cover the topic from a B2C angle or from a pure B2B point-of-view. The focus should be placed on CR and reputational risk, but could cover other risk aspects as well, subject to the risk management scope of the company (75 min. overall, including discussion). Depending on the areas covered by the guest speaker, the instructor could conclude this unit by linking the theoretical underpinnings of CR to the presented business practice and / or to additional up-to-date business examples, based on their own consultancy projects or printed in the business press. If required, the time can also be used to refresh the relevant information on SCM and consumer behaviour (CB) – we would reserve about 45 minutes overall for the concluding part of this unit.

Option B is based on solving a business case and external sources offer excellent and up-to-date material in this regard (e.g. the European Case Clearing House, Harvard Business Publishing, or Ivey Publishing). The critical aspect is that students will have to read and prepare the case prior to this teaching unit (Erskine *et al.*, 2003) and the syndicate session, i.e. group work, will require about 90 minutes to solve the problem at hand. The goal for the groups is to present their solution in a 15 minutes presentation in a plenum, which will enhance students' learning from "individual preparation", "small group discussion", to "large group discussion" (Mauffette-Leenders *et al.*, 2001). Again, the instructor will need to engage the entire class in the final discussion (up to an additional 30 min.) and will need to link the case solution to the theoretical underpinnings covered in the first part of this unit.

Teaching Unit Two should start with a historical development of the CSR concept. For Master students, some pre-reading is required and we would recommend Davis (1973) and Carroll (1979, 1991) for this purpose. The instructor highlights the classical CSR roots as well as the business requirements and established processes at the time, explaining why this concept became relevant for managers to discuss in the early 1900 s. Key issues to highlight are the sole focus on creating wealth, public unrest caused by potential abuses by companies, and an increased interest in ethical behaviour. The initial teaching part should not be longer than about 30 minutes, outlining the classical dimensions supported with examples, indicating that an increasing number of CSR aspects have been added over the years. CSR is an area that is all around us and students will have strong views about corporate communication, actions, etc. In line with McKeachie's (2002) approach to "active learning", syndicate-based peer learning is ideal for following up on the historical path of CSR, taking the concept into the present. The group may explore the leading question: "What are the responsibilities of business today?" Two options are suitable for exploring the topic and the choice will depend on the skillset of students and how this topic is embedded in the structure of the Master Programme overall.

Table III Social responsibility and reputational risk in the supply chain: teaching plan

Teaching unit	Main topic	Activities	Time (in mins)	Resources
One	What is CR?	a) Overview of the theoretical aspects of the CR concept, including different risk types and risk management practice b) Practical part: Option A (guest speaker plus break); Option B (case analysis, including break) c) Discussion in plenum (and group presentation, Option B)	a) 45 b) 90 c) 45 = 180	Providing access to business case (Option B) and to articles (pre-reading and after class) Booking syndicate rooms (Option B)
Two	What is CSR?	a) Exploring historical roots b) Syndicate session c) Group presentations(s) d) Discussion in plenum	a) 30 b) 90 c) 10-20 d) 20 = 150-160	Providing access to articles (pre-reading and after class) Booking syndicate rooms Option A), providing focus group materials) pens, sticky notes, flip charts) Option B), providing printed materials for analysis (journals, newspapers, etc)
Three	SCSR and SCRR	a) Leading student presentations b) Taught part on key concepts c) Syndicate session/case analysis d) Group presentation and final discussion in plenum	a) 45 b) 60 c) 60-90 d) 45 = 210-240	Providing access to business case (pre-reading) and articles (reading after class) Booking syndicate rooms

Option A. In case students completed a research methods class, the instructor may like students to run individual focus groups. Each group will need a main moderator as well as a facilitator (i.e. co-moderator) who observes the process, takes notes, and keeps an eye on time management. Six to ten participants explore the question in an exploratory fashion, guided by the moderator. If moderators gained some experience with focus group work in the past, they could let participants write their initial thoughts and ideas on paper and could work towards prioritising – or weighting – the identified CSR dimensions in terms of "importance to society" or "importance to consumers". The latter aspects would turn the focus group into a nominal group (Churchill *et al.*, 2010; Lloyd, 2011) and moderators will assume more control in the process.

Option B. Students will work in a group from four to eight peers and will explore the leading question in newspapers, general business magazines, and specialised practitioner journals. Students will need to highlight aspects in business news, commentaries, company portraits, etc. that they find relevant in a CSR context. Ideally, each group has a project manager who summarises and organises the impressions of group members.

The goal of the syndicate session is to present a short 10 minute presentation on the key CSR dimensions (labels and definitions) in class, supported by examples. The syndicate session – Option A or B – is about 90 minutes and depending on the size of the class, one or two groups will present their findings in the plenum. We typically select presentation groups by random and the instructor will need to engage the entire class for adding CSR aspects to the outcome of the presentation(s). This part is highly interactive and the instructor should eventually contrast the class outcome against the current literature in the field.

Teaching Unit Three takes both concepts, CR (including risk management) and CSR into the supply chain context. This unit could kick off with some student presentations on today's challenging issues of SCM as well as of CB. We recommend students to read and analyse 3* or 4* journals in this area (according to the ABS Ranking System;, e.g. *Supply Chain Management: An International Journal*, Industrial *Marketing Management*, *Journal of Operations Management*) in order to answer the following questions in their ten minutes presentations: What is the focus and the main argument of the article? What is the conceptual approach or research design of the study? What is the conceptual model or key findings of the investigation? What are the lessons learned – any surprises? What are the future trends in this area? A Question-and-Answer session should follow each presentation and the instructor is flexible with regards to time allocation. We would recommend about 45 minutes maximum for the initial part, before the instructor takes over. It is now crucial to build on the presentations, to summarise the key schemes, and to blend those with the aspects that the instructor would like to emphasise. Schemes of the taught part could be managing, accessing, and selecting suppliers (Prajogo *et al.*, 2012), organisational relationships and partnerships (Kim *et al.*, 2010), network analysis (not covered in the present paper, Ford *et al.* (2006)), purchase behaviour of consumers (Wesley *et al.*, 2006), consumer perception and customer experience (Lemke *et al.*, 2011), branding (Fournier, 1998), marketing strategy (Slater *et al.*, 2010), etc. These areas offer a natural fit with SCSR and SCRR and 60 minutes should be reserved for positioning one or more essential topics in the focus of this unit. The instructor is flexible in setting the focus, but issues to highlight are:

- SCRR is a risk that concerns all supply chain members.
- SCRR has a transceiving nature and crosses organisational boundaries in a positive as well as negative form (i.e. from the reputational owner to reputational borrowers).
- Organisations leave an impression in the market place via the offering, communication, and action and SCRR is directly associated with the perception of consumers.
- SCSR can be used as a mitigating strategy to control SCRR.

However, supply chain members have to carry unequal shares in terms of reputation as well as social responsibility.

At this point, we would recommend analysing a business case in the supply chain context, which students will have to read beforehand. Again, exciting and relevant case material is available from external sources. Student groups should explore questions, such as: What are the fundamental SCRR dimensions that supply chain members got wrong in the particular case (think about the offering, communication, action, and other aspects that you feel go beyond it)? What SCRS measures should have been (or should be) employed and by whom in order to mitigate the reputational risk of supply chain members? Depending on the complexity of the actual case, the syndicate session may require 60-90 minutes to solve and to prepare a 15 minutes presentation. Tables I and II can be adopted as evaluation and analysis instruments in blank form. The instructor has to involve all students into the final debate (about 30 min.) in order to populate the tables with as much information as possible and to highlight the appropriate course of action for the focal company of the case. Students could read the papers by Svensson and Wagner (2012) and Lee and Kim (2009) after class as a basis to self-reflect on the social responsibility and reputational aspects in order to consolidate the learning outcomes of this teaching unit.

Discussion and conclusion

Our intention is to make the subject matter accessible to modern managers in the supply chain context and we thus specifically elaborated on the implication for educators. The concluding part outlines the implications for theory developers as well as practitioners.

Implications for theory developers

This paper analysed reputation, the risks associated with it, and social responsibility as a mitigating risk strategy on conceptual grounds. Blending both in a supply chain context illuminates an exciting research area that may lead to institutionalising the assessment of supply chain social responsibility in an international arena. Against this background, vital research questions to explore are linked to supply chain members and the market place. For instance, what is the impact of each dimension of supply chain social responsibility on supply chain reputation from the customer's point-of-view? Qualitative research, e.g. in the form of in-depth interviews, could be employed to explore additional social responsibility aspects and to determine the perceived influence of each supply chain member.

Our study originated from working with managers, following the "Reflective practitioner" approach, and we completed our investigation with a limited number of interviews with experts in the field. This highlighted the significance of the topic to practice and thus, to management education. However, our work is exploratory and the sample size does not permit us to generalise our findings beyond our sample of industry experts. Although in the present paper, we were looking for exploratory insights, deeply rooted in practice, we would encourage future researchers to pursue this path in a quantitative research mode. Along these lines, social responsibility as well as reputation are perceptional constructs and thus, largely context specific. Future research could determine the contribution of each supply chain member on social responsibility in different industry sectors and in different countries. Working with our conceptualisation in different settings would elevate the discussion on a global level – what are the cultural differences when assessing social responsibility? This is a key question, given that supply chains typically operate on a global scale and are thus crossing cultural boundaries. In this light, what are the barriers for raw material suppliers located in developing economies or in former soviet countries to enter global supply chains and what is their perception of social responsibility? What and how can they contribute to social responsibility and do they see any value in doing so? Qualitative and exploratory research may clarify the open issues inherent in an international arena.

Manufacturers are typically dominating the supply chain. We argued from a reputational owner perspective and see that manufacturers instil their value-set into the supply chain. To this end, does the supplier selection process reflect social responsibility in different industry sectors today? Further research has to investigate where the balance lies between investing in and improving on social responsibility and the return-on-investment for the supply chain.

Implications for practitioners

The conceptual discussion highlights implications for all supply chain members. First, they must identify and understand their exposure to all of the risks in a supply chain and these extend beyond those associated to disruptions. Reputational risk, emphasised here, is but one type of risk that managers should mitigate. Removal or mitigation of the risk can be accomplished through the implementation of supply chain social responsibility (SCSR).

In line with a holistic commitment to fulfil the modern responsibilities, individual members would need to analyse how their social responsibility principles tie into those of others in the supply chain. Differing parameters have the potential to increase the exposure of members to reputational risk with the manufacturer and distributor bearing the greatest degree in the supply chain.

SCSR implementation would involve the development of a series of principles that any organisation and their partners commit to. Identifying current practices, goals and objectives, managerial tactics and the appropriate metrics will allow for members to identify and mitigate the risks. This would impact both supplier performance and the supplier selection process in the supply chain.

Analysing the competitive landscape with a social responsibility focus would provide managers with an appreciative vantage point to position their offering more favourably in the B2B market. Collaborating with suitable partners can only be done when the set of supplier selection factors becomes updated with social responsibility measures.

The same can be said with regards to selecting the best market channel and distributors. Manufacturers need partners that have the ability to control the reputational risk since they are positioned at the "supply chain market interface". Distributors need to understand that they will have to emphasise the SCSR aspects that the customer needs to know and will also have to assess their individual reputational risk and their own mitigating practices. This will inform the discussion with manufacturers that are looking for suitable partners delivering the SCSR performance created by all members.

Final remarks

In the literature, corporate social responsibility has often been discussed for its "do good" qualities. Somewhat misaligned with the popular view, and at the risk of simplification, we adopt a very narrow focus in using it solely for its risk mitigating properties. In this light, social responsibility is a cutting of the Gordian knot of the reputational risk problem. Thus, our conceptualisation may shift practitioners into a more creative and frame-braking mode of thinking than they might otherwise be able to achieve when managing reputational risk. SCSR is such a pinpointing line and when not managed well, getting off is easy in the supply chain. This lesson cannot be ignored.

Note

1 Source 44, a small start-up enterprise in the USA have developed a platform to assist organizations in their management and/or monitoring of supply chain members. Similar to what is conducted by identity theft protection, one of Source 44's services are to scan the internet for compliance issues and they can alert customers to a supply chain member's non-compliance.

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Corresponding author

Fred Lemke can be contacted at: fred.lemke@strath.ac.uk