REPUTATION

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CAN THE UK SECURE A REPUTATION FOR DELIVERING A GREAT OLYMPIC GAMES? OR HAVE MEGA-EVENTS BECOME TOO RISKY?

OXFORD UNIVERSITY CENTRE FOR CORPORATE REPUTATION

COMMENT

SHAREHOLDER SPRING

John Maynard Keynes once observed that the businessman is "only tolerable so long as his gains can be held to bear some relation to what, roughly and in some sense, his activities have contributed to society". His words remain as poignant and relevant today as they were some 75 years ago. From an initial focus on bankers, the executive pay revolt has spread to mainstream executives and has sparked what ironically has been termed the "shareholder spring". On 20 June, the UK decided to act, with Business Secretary Vince Cable announcing a series of reforms aimed at empowering shareholders and reconnecting the link between pay, performance and societal value.

Recent research shows up some interesting facts. Bosses pay in the UK has risen from 50 times employees average earnings in 1998 to 140 times in 2011. And in 2011 the average compensation of a FTSE 100 CEO rose by 12 per cent compared to an average wage rise of 1.4 per cent. It is easy to see why the popular press portrays austerity and hardship as factors applying only to the workforce at large rather than leaders.

The arguments against pay policy restraint rely on an assumption that talent is globally mobile. The best will choose to move to places where their talents can be rewarded properly without the shackles of government policy or public opprobrium. There is little evidence to suggest that this is the case. Senior executives, especially in global companies, can in theory be infinitely mobile, but it seems more the case that factors such as culture, embedded family ties, and a desire to maintain consistency in schooling for children make executives far more reluctant to up sticks and move.

The Government is rightly concerned about the reputation of the UK as a place to do business, and it has had to balance that against a political requirement to show that it can be tough on excess during these hard times. Vince Cable's new policy relies on shareholders taking their responsibilities more seriously. Recent data from Manifest, a proxy voting agency, casts doubt that this is happening despite growing societal revulsion on excessive pay. It shows that the average level of dissent on pay to date this year has been 11.7 per cent, up from last year but less than the 16 per cent recorded 10 years ago. Until shareholders act as share owners rather than share traders – an excellent distinction drawn recently by Lord Myners – then the reforms proposed by Vince Cable look set to become an exercise in box ticking rather than an opportunity for shareholders to help reconnect business with the society in which it acts. R

THE REPUTATION OF EUROPE...

One of the more intriguing recent reports produced by Transparency International is its report of 6 June on corruption risks in Europe. The report concludes that perceptions of corruption are undermining confidence in national institutions and contributing to a sustained economic crisis.

The report says that three quarters of Europeans consider corruption a growing problem in their societies, and that 'gaps in governance continue to plague European countries' attempts to pull the region out of its ongoing economic crisis'. Specifically it points to policies on political governance ('19 of the 25 countries surveyed have not yet regulated lobbying, while currently only ten ban undisclosed political donations') and freedom of information ('four-fifths of the states covered in the report present obstacles to citizens seeking access to information'). The report highlights the Czech Republic, Hungary and Slovakia as having 'rolled back positive progress' on anti corruption measures since joining the EU.

The stakes could not be higher. As the crisis in the Eurozone looks set to continue, ECB President Mario Draghi has argued persuasively for a more integrated political union involving "a system where the citizens will go back to trusting each other and where governments are trusted on fiscal discipline and structural reforms".

Perceptions of national integrity underpin confidence in the overall European project that is the EU. Europe's reputation within its member states will depend on the political elite persuading the rest of us that Europe together will be stronger than Europe apart. This is proving hard to achieve – not helped by the different reputations of countries for different levels of political, economic and social governance. R

...AND THE REPUTATION OF THE UK

We are having quite a time of it here in the UK this summer. Following last year's wedding of Prince William in glorious sunshine we had the launch of the Queen's Diamond Jubilee year this summer in the more traditional setting of a downpour. As we enter the final preparations for the 2012 Olympics, staged in London in July, the weather forecasts are as varied as our Olympic sporting prospects. Sir Keith Mills, deputy chairman of LOCOG comments in his article in this magazine (see Viewpoint) that his focus in the last seven years has been to build a reputation for competence – a theme that people can unite behind irrespective of individual views on the specific elements of the Games.

Sir Roger Carr, President of the CBI, highlighted at a recent dinner another UK reputation, this time within the business world: fairness. He points out that the attractiveness of the UK as a place to do business is underpinned by a reputation for fair play, whether it be business or in the rule of law underpinning business. In thinking about the multiple reputations of the UK, fairness and competence is a pretty powerful starting point. Let's hope that we can also add sporting prowess as a third reputation come August. R

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ANALYSIS: REPUTATION IN STRATEGIC COMMUNICATIONS

Companies can construct and renew their reputations with stakeholders through the deliberate management of communications, rhetoric and discourse. Good reputations can, in turn, enhance the power of those communications. Yet little is known about the nature of corporate communications, particularly voluntary ones. Research by Duncan Angwin, Basak Yakis-Douglas and Maureen Meadows explore how companies engaged in mergers and acquisitions can enhance the power of reputation in their strategic communications.

Scholars have long recognised that communications from organisations can influence stakeholder opinions. In particular, announcements of large strategic commitments can make a substantial and positive difference to share prices. Some researchers claim that stock prices are influenced more by investor perceptions than fundamental values (Fombrun 1990, 1996), so different aspects of communications have greater effects than others. These communications can be of critical importance during major strategic initiatives such as a merger or acquisition. The failed bid by Deutsche Boerse AG (DB), owner of the German stock exchange in Frankfurt, for the London Stock Exchange (LSE) was blamed on the lack of timely and effective communications after the deal's announcement. DB shareholders interpreted this as signalling that DB management were indifferent to their views and refused to sanction the deal. DB had to withdraw its offer for the LSE, and the CEO, Chairman of the Board and other board members of DB resigned. In this instance, lack of communications and poor timing had a significant negative effect on the financial markets.

A corporation's reputation can mean the difference between a message being accepted at face value or simply being ignored. The firm may have built up significant experience over time, and the markets may be aware of how well or poorly its earlier M&A initiatives have performed. If the firm's experiences have been good, there is likely to be a positive reputational effect upon subsequent M&A communications. The credibility of M&A communication may also be affected by high-status intermediaries such as investment bankers. The use of an advisor with a distinguished reputation in M&A transactions may influence the credibility of the communication even if the protagonists themselves have little M&A experience. This effect may vary by geography, as institutional conditions and the roles and reach of advisors may differ among regions or countries.

Voluntary corporate communications may move share prices, but little research has been done on what elements of corporate communications make a difference to markets, and the role reputation plays. To answer these questions, we analysed stock price responses to voluntary communications carried out during M&A deals from 2000 to 2010. Using a dataset of all 13,546 M&A deals and 5877 communications in the UK, and 42,792 deals and 22,414 external communications in the USA, we calculated abnormal returns and used control variables for factors that were likely to impact on market reactions, such as the recession and specific deal and industry characteristics.

"A CORPORATION'S REPUTATION CAN MEAN THE DIFFERENCE BETWEEN A MESSAGE BEING ACCEPTED AT FACE VALUE OR SIMPLY BEING IGNORED."

The results of our analysis demonstrate that voluntary communications matter during M&A. Companies who communicated substantially reduced investor uncertainty, compared to companies who did not communicate. We did not find any significant differences associated with the timing or frequency of communications, but we did find evidence that investors are becoming more receptive to communications, especially since the start of the financial crisis. Investors reacted more strongly to communications carried out by target companies than those carried out by bidders.

Acquiring a reputation for making M&A deals is recognised positively by the markets. Investors also care whether organizations employ high-reputation financial intermediaries such as investment banks. There was no significant share price reaction associated with "magic circle" lawyers or white-shoe consultants, probably because investors expect all organizations to employ lawyers and consultants during M&A deals, and these advisors are generally paid on the basis of time rather than performance. There were differences between the US and the UK, with much stronger overall reactions in the US market. Organizations operating in the US market may have a more established practice of external communications and therefore are more likely to have mastered the skill of communicating to their investors. Or, investors in US markets may simply pay more attention than UK investors to the M&A process.

Strategic communications can positively influence investors and share prices. Reputation that is built from prior transactions greatly improves the positive effect of communications, but it is possible to achieve a similar effect through the appointment of high-status financial advisors. All of these observations hold for the UK and US, although the effects are more marked in the US. M&A specific reputation therefore counts in strategic communications. Companies aiming to make future acquisitions would do well to communicate their prior M&A reputational experience (if it exists) and to consider employing a high-status financial advisor to positively influence investors. R

Angwin, D., Yakis-Douglas, B. and Meadows, M. (2012). "Signaling strategic commitment for organizational transition: How to manage potential M&A through voluntary disclosures."
For copies of this working paper, please email basak.yakis-douglas@sbs.ox.ac.uk.

THE BIG INTERVIEW

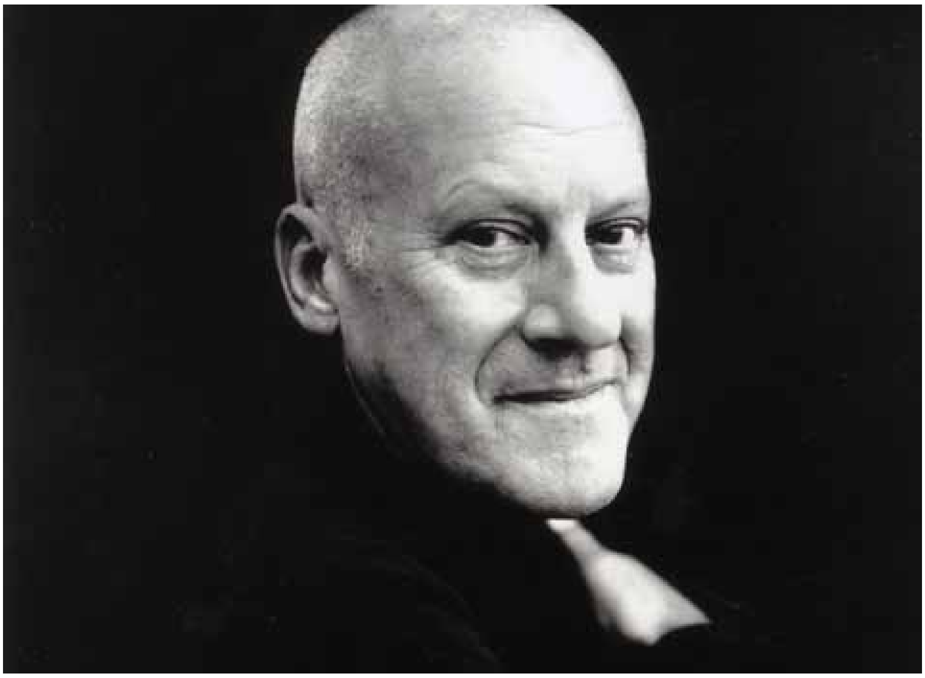


PHOTO: CAROLYN DJANOGLY

The Victorians gave Britain its reputation for engineering excellence. They had the vision and courage to build for the future. Can the UK recapture this reputation? Can it build an infrastructure (air, rail, energy, communications) that would position it as the European hub of the 21st century and beyond? Reputation talks to one of the UK's architectural visionaries, Lord Norman Foster.

Tracking down Lord Foster of Thames Bank takes perseverance. Famed for his iconic buildings all over the world - including Beijing International Airport, the Reichstag in Berlin, and 'the Gherkin' in London - he divides his time between his five offices in London, New York, Madrid, Abu Dhabi and Hong Kong.

Lord Foster is a busy man. His focus – or perhaps more accurately his passion - is to help Britain create an infrastructure hub fit for the twenty first century. It is an important subject, and one that focuses on London and the South East as a gateway to the rest of the UK. But in a time of austerity, is the spending of over £20bn on a new hub airport in the Thames estuary a priority?

"It is vital. We need to put the physical connections in place and demonstrate Britain's willingness to trade with the rest of the world. Studies show that the UK economy loses something in the region of £1.2 billion each year to continental European airports. The Thames Hub would reverse this trend and connect Britain to the emerging economies that will drive growth. South America is a key market, but currently only three of its cities are served directly from London. Two-thirds of the world's airports are being built in China, but Heathrow lacks capacity to serve them. That needs to change if Britain is to maintain its position. Incidentally a third Heathrow runway (and a short one at that) is not a long term solution – more in the band-aid tradition."

His energy and commitment to this important project is unquestioned. In early July, he and his team outlined a proposal to counter concerns about funding. In an article in the Financial Times, Lord Foster outlined a funding model they claim would raise £33bn, principally through landing charges and the closure and redevelopment of Heathrow. He will need the support of the UK Government, regulators, and Spain's Ferrovial who are the owners of Heathrow Airport to turn this into a reality, and it looks set to be a long fight.

Norman Foster was born in Manchester in 1935. In his early years, he was fascinated by engineering and the process of designing, perhaps influenced by his father who was an engineer at the Metropolitan Vickers Company formerly known as British Westinghouse.

"I have always been passionate about architecture, even before I knew I was going to be an architect. As a boy I would cycle to see interesting buildings whenever I could. I recall visiting nineteenth-century mill towns in the north of England and being awed by their extraordinary vernacular industrial architecture. That was really the beginning. Then working in Manchester when I was still young, I spent every spare minute wandering around buildings in the city. Some buildings – Barton Arcade, for instance the Rylands Library, or the Daily Express building – seemed to be more beautiful than others and so I gravitated to those, but I was never thinking 'one day I am going to be an architect, therefore I should be doing this'. Travel and the lessons from studying buildings and cities are still as important to me now as then."

His first job was as an office junior in the treasurer's department in Manchester Town Hall. But while this was not something he ever saw as a career, it was there that he met a fellow clerk, a Mr Cobb, whose son was studying architecture and which led to him to consider joining the profession. After National Service in the RAF, he returned to Manchester where he got a job as a trainee in a local architectural practice. While there he won a place at the University of Manchester School of Architecture

"INFRASTRUCTURE AND BUILDINGS ARE MORE THAN JUST PHYSICAL ASSETS. THEY ARE ICONIC SYMBOLS THAT HAVE AN INFLUENCE ON THE REPUTATION OF A CITY OR A COUNTRY AS A PLACE TO WORK, A PLACE TO LIVE, AND SOURCE OF NATIONAL PRIDE."

and City Planning where he combined studies with various part time work as an ice cream salesman, bouncer at a nightclub, and a night shift worker at a local bakery.

But his talent for design was clear, and in 1961 he won the Henry Fellowship to the Yale School of Architecture, a hugely important influence on him and also where he met his future business partner Richard (now Lord) Rogers.

"[Yale's] influence was more than stylistic – I have always rejected styles. My time at Yale and the people I was exposed to there, in particular Paul Rudolph, Serge Chermayeff and Vincent Scully, had a great impact on me and have influenced my practice. Rudolph created a studio atmosphere which was highly creative, competitive and fuelled by a succession of visiting luminaries. The studios of our practice like those at Yale during term time, are open twenty four hours, seven days a week. The way we work is close in spirit to a school of architecture which thrives on a jury system of outstanding critics united by a consistent code of design ethics. This is blended with the model of an international consultancy, driven by a belief in the importance of research. "

Foster and Rogers returned to London in 1963 and formed a practice called Team 4 with two sisters, one of whom (Wendy Cheesman) he later married. Team 4 quickly earned a reputation for high tech industrial design.

"London was the natural place for us to start, because our work was mainly in the UK. But it rapidly expanded out and in the first few years we opened a studio in Oslo. Then in the early 1980s during the design and construction of the Hongkong and Shanghai Bank, we came close to closing down in London and moving entirely to Hong Kong because so many of our clients were based there. As the studio has grown, so has the geographical spread of our projects. Today our London studio is one of a network around the world. We always have a local presence for any project, wherever it may be."

London has a strong reputation when it comes to architecture and design. The UK today retains a strong creative and design sector, but in the world of engineering and industrial design it has been a leader ever since the Great Exhibition of 1851. It is a heritage that Foster is proud to be a part of.

"We owe a great debt to our Victorian forebears. In a small nation they were never afraid to think big. The legacy of the likes of Brunel, George Stephenson and William Henry Barlow – the canals, railways, sewers, tunnels and bridges – they are still in use. But they are creaking under the strain of today's population. That is why Britain needs a new era of invention. We must recapture their spirit to tackle today's complex infrastructure and energy challenges. "

Infrastructure and buildings are more than just physical assets. They are iconic symbols that have an influence on the reputation of a city or a country as a place to work, a place to live, and source of national pride.

"Buildings and public spaces certainly inspire civic pride, but the most important aspect here is quality. Before the 'iconic' dimension of our work, our fundamental concerns are the pursuit of quality, sustainability and creating spaces for people. Irrespective of its scale, every project is in its own way a landmark and catalyst for change.

"The cupola of the Reichstag is a good example. It is a beacon on the Berlin skyline – it symbolises a democratic forum and a commitment to public accessibility, as well as the building's rigorous environmental agenda. But infrastructure can be an equally powerful symbol of place. In Bilbao, the distinctive curved canopies of the metro stations are as unique to the city as the Art Nouveau Metro entrances are to Paris. I am particularly proud that the 'Fosteritos' as they are affectionately called have become such a much-loved symbol of Bilbao."

And London is at the heart of this cultural renaissance, growing a reputation for dynamism and modern design that has inspired and helped shape international perceptions of the UK. The Cool Brittania movement of the 1990s owes much of its parentage to this renaissance.

"The history of London is the history of change – each age produces its own vocabulary and makes it own mark, whether in architecture or in culture in a wider sense. But progress and change would not be possible without political will and enlightened clients. I am fortunate that we have had the opportunity to experience both: designing new buildings, transforming existing civic spaces such as Trafalgar Square, and with our infrastructure projects, such as the Millennium Bridge and Canary Wharf station – the Jubilee Line extension was one of the greatest acts of architectural patronage in recent decades.

"But we need 'joined-up' thinking in the planning of new infrastructure. London's energy, transport and housing challenges are too great to be tackled on a piecemeal basis. London has a great advantage in the considerable expertise we have here to deliver a project like the Thames Hub."

It is an important moment for the UK, and for London in particular. Infrastructure development does not happen overnight and it takes foresight and bold action by the Government to press ahead with the investment that will secure the UK's reputation as a place to do business over the next 50 years.

"If we do not act now, we are denying future generations across the country – not just in the South East. But if we do not adopt this, or alternative positive strategies for the future, then at least we should have the courage to publically confront that reality and proclaim a democratically agreed policy of standing still." R

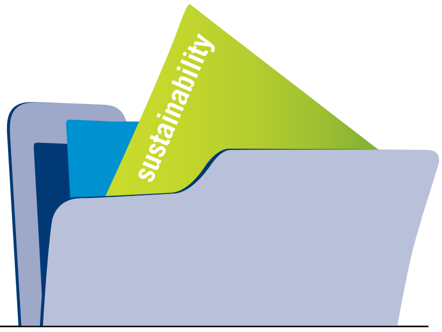
CASE STUDY: QMM/RIO TINTO IN MADAGASCAR, PART 2

PHOTO: NEDBANK

VILLAGERS NEAR QMM MINING SITE, ANOSY REGION, MADAGASCAR

QIT Madagascar Minerals (QMM), a subsidiary of mining giant Rio Tinto, operates an ilmenite mine in Madagascar. Part 1 of the Centre's two-part case study traced the steps that QMM took to build a reputation for being environmentally responsible with its many stakeholders, including the Malagasy government, local and international NGOs, and local residents. In Part 2 of this series, Case Study Editor Rowena Olegario traces how QMM confronted its next challenge – helping local communities to manage the changes brought on by development.

Bringing a capital-intensive mining project to an impoverished country like Madagascar had significant reputational implications for QMM and its parent, Rio Tinto. Geographical isolation had left the Anosy region, the mine's proposed site, with very few job opportunities and a degraded infrastructure. In a country where two-thirds of people earned less than $1.25 a day, and nearly 90 percent earned less than $2 a day, Anosy stood out for its extreme poverty. When QMM first began exploring the area's potential, it focused on conserving the island nation's biodiversity. Even then, the company realised that engaging with communities was an important part of any sustainability programme. "Biodiversity can't work without community participation," according to Manon Vincelette, head of the environmental team. QMM increased its active engagement with local communities. Yet almost from the beginning, it struggled to diffuse tensions that arose between the



company and the region's residents.
When construction of the mine began in 2006, the Anosy capital Fort Dauphin saw a large influx of workers from abroad and from other parts of Madagascar. Almost immediately, a number of problems emerged. Inflation became an issue because of the region's isolation, which limited the amount of supplies that could be brought in and enhanced the power of local monopolies. The average price increases in Fort Dauphin were already generally higher compared to other large cities on the island. During the first year of construction, Fort Dauphin saw an additional surge in prices, mostly due to a shortage of accommodation that resulted in a large rise in rents. To counter the inflation, QMM implemented monitoring and mitigation programmes beginning in 2006. For example, the company helped to stabilize the price of rice, a vitally important staple in the local diet, by setting up rice traders to compete with locals who were manipulating the price. By mid-2008, as the construction phase wound down, the Anosy region had the lowest national rate of inflation. QMM continued to monitor prices by introducing a "mystery shopper" programme to improve the quality of information.
More difficult for QMM were the unrealistic expectations that followed the announcement of the mine's construction. Hopes ran high within local communities that the project would bring plentiful investment and jobs. The construction phase lasted from 2006 to 2008. During that time more than 4,500 jobs were created, including 3,600 for Malagasy people, 70 percent of whom were from the local region. A further 1,500 jobs were generated in the accommodation, food, banking and vehicle hire sectors. Although QMM anticipated that locals would expect jobs, the company was unprepared for the eventual scale of the demand, particularly after the construction phase ended and a large portion of the jobs disappeared. From the beginning, the company was careful to dampen expectations by engaging with village representatives, including traditional and formal leaders and general assemblies. With their help, QMM compiled lists of candidates for employment to prevent people from simply turning up to apply for jobs. The approach was successful – there were no disputes or demonstrations during the hiring process. But, perhaps inevitably, many people were disappointed in not finding work.

Resentment was further inflamed when many of the local population were employed on a short-term contract for the initial construction of the port, mine and roads. Although they signed the employment documents and indicated that they agreed with the provisions, in reality many did not understand the concept of employment that expired on a given date. Instead, they interpreted the termination of their contracts as a firing. Tensions also stemmed from the allocation of jobs among locals and outsiders. The hiring process was transparent and QMM actively recruited from nearby communities, but nothing could be done about the lack of technical skills within Fort Dauphin. Locals grew to resent the company's employment of large numbers of expatriates and people from other parts of Madagascar during the construction phase. Many of the outsiders were hired by QMM's contractors and subcontractors.

"THE HIGH PROPORTION OF MALAGASY EMPLOYEES DID NOT MITIGATE THE DISAPPOINTMENT AMONG SOME LOCALS THAT THE LARGE, HOPED-FOR INCREASE IN JOBS TURNED OUT TO BE TEMPORARY."

By the start of the mine's operational phase, the number of people employed dropped to 700 (although running the mine eventually created an additional 1,100 jobs). Local residents who had prospered by providing services like hotel accommodation and car hire saw their market dry up when the construction workers left. The number of expatriates employed by QMM peaked in 2008 but dropped to only 35 by 2010, by which time 90 percent of the workforce consisted of Malagasy nationals. Of these, 61 percent had been recruited locally. The high proportion of Malagasy employees did not mitigate the disappointment among some locals that the large, hoped-for increase in jobs turned out to be temporary.

The initial criticisms of QMM's proposed activities concerned the potential damage to Madagascar's rich collection of indigenous species. But while biodiversity was clearly a vital issue, the effects of the mine on the local community proved equally sensitive. QMM responded to a fluid and dynamic situation, where local residents' expectations about what, and how much, the company should provide in terms of jobs, infrastructure, and resettlement compensation continued to escalate. Although the process was far from smooth, even critics within Madagascar conceded that solutions very often originated from within QMM rather than the government. The company set a strong example of how mining companies can cooperate with local stakeholders in developing countries to achieve outcomes that benefit all parties. According to Rio Tinto CEO Tom Albanese, QMM has set a standard that other companies within Rio Tinto can strive to emulate. R

QMM/Rio Tinto in Madagascar, Case B: Engaging with Local Communities

The case can be downloaded free of charge on www.sbs.oxford.edu/reputation/cases.

For more case studies go to www.sbs.oxford.edu/reputation/cases

VIEWPOINT: CAN THE UK SECURE A GREAT OLYMPIC GAMES? OR HAVE M

Sir Keith Mills, deputy chairman of the London Organising Committee of the Olympic Games and Paralympic Games sets out his views.

Any project on this scale needs to start with a clear compelling vision. During the bid process we needed to develop a strong and clear narrative of what the London 2012 Games would offer. Firstly, we had to gain the support of the British public and secondly we needed to persuade the IOC of the benefits of London hosting the Games in 2012. This was the most highly contested Olympic bidding race in history and our story needed to be compelling. During the bid, back in 2003, I spent hours with Seb Coe and the bid team watching the films from the IOC archive of past bidding cities presentations. What we saw were all quasi travel logs. No previous bidding city had presented a clear vision for what their Games would do for the Olympic movement and what legacy it would leave for their own country. We decided then, that in addition to regenerating a large part of East London, we would focus our bid on what the London Games could do for the next generation. In particular we wanted the London Olympic and Paralympic Games to inspire children and young people through sport. To make the point, we invited 35 children from the East End of London, representing 35 different ethnic backgrounds to join our delegation in Singapore. During our presentation to the IOC we referenced the young people in our delegation and explained that the London Games would be all about inspiring the next generation.

On a more practical front we also needed to persuade the IOC of our technical competence. The UK faced a huge credibility issue within international sport following the Government's decision to pull out of the World Athletics Championships having won the bid and also for the late delivery and overspend on Wembley Stadium. Generally, the UK's reputation for delivering large projects was not good so even at the bidding stage we had to demonstrate our competence.

"BUILDING A REPUTATION FOR COMPETENCE HAS BECOME A UNITING GOAL FOR THE ENTIRE MANAGEMENT TEAM. "

Although there was great celebration in July 2005 when we won the bid there was also great apprehension by many in the UK about our ability to deliver such an ambitious project. It was clear from the outset that we needed to build confidence amongst members of the general public, our stakeholders and the media . We started by assembling an outstanding management team led by Paul Deighton and building strong relationships with the numerous stakeholders both in the public and private sector including the Government, the commercial sector and the numerous sporting bodies. The biggest risk to the project was the delivery of the large and complex Olympic Park, and this would be the responsibility of the Olympic Delivery Authority. The ODA would be absolutely key to successfully delivering this multi billion project on time and on budget and we have always had a very close working relationship with them.

An organising committee has 7 years to prepare for the largest event that any country can organise in peace time. Building a reputation for competence has become a uniting goal for the entire management team. It has helped us develop and secure very strong and trusting relationships with all of our stakeholders, all of whom are acutely aware of the potential reputational damage that might be caused by their association with a London Games if we get it wrong. Any project as large and complex as the Games, particularly one that is so much in the public eye has every decision scrutinised. Not everyone will agree with our decisions but by demonstrating our competence we have by and large been given the benefit of the doubt. Our job now is to make sure that we do not let the country down and that we exceed expectations.

Our goal is to deliver an Olympic and Paralympic Games that we can be proud of in the UK and around the world. I would like future generations to remember the 2012 Games not just for a great sporting and cultural event, but a great example of how we in the UK can deliver a massive project brilliantly well and leave behind a lasting legacy. R

REPUTATION FOR DELIVERING A
IEGA-EVENTS BECOME TOO RISKY?

On the eve of London 2012, Kasim Randeree outlines the reputational legacy of previous Summer Olympics Games..

The grandiose scale of the Olympic Games has increasingly attracted two challenges to security: public demonstrations and the threat of terrorism. The Tlatelolco Massacre, which occurred during a student protest for greater human rights prior to the Mexico Olympics of 1968, resulted in approximately 300 people being killed. More recently, demonstrations in the run up to the Beijing Olympics of 2008 included human rights and pro-Tibetan independence protests which marred the torch lighting ceremony in Athens as well as numerous legs of the torch relay around the globe. There were also demonstrations by the Chinese Muslim Uyghur population in Xinjiang province for greater autonomy and religious freedom.

Munich (1972) saw the first instance of international terrorism at the Olympic Games. A pro-Palestinian group took eleven Israeli athletes and officials hostage inside the Olympic Village. In a bungled attempt at rescue by poorly trained West German police, all eleven hostages were killed along with five of the eight hostage takers and one police officer.

The reputational threat extends far beyond incidents of protest or acts of terrorism. The history of the modern Olympics "shows numerous instances where inadequate planning, poor stadium design, the withdrawal of sponsors, political boycotts, heavy cost overruns on facilities, the forced eviction of residents living in areas wanted for Olympic facilities, and subsequent unwanted stadia leave a legacy that tarnishes rather than enhances the reputation of the host city." Bribery and inequity in the bidding process, poor fiscal forecasting, deficiencies in infrastructure development, over optimistic predictions and games boycotts have damaged the reputation of all stakeholders who are party to the Olympic 'dream'.

The challenges that face mega-events are by their nature so overwhelming that it is practically impossible to avert every reputational threat. A small number of games have nonetheless demonstrated successful outcomes, profitability and medium to long-term sustainable infrastructure development. These successful examples demonstrate that for the host city of an Olympics event, there is potential to achieve lasting social and economic gains.

Host cities for the Summer Games who proclaimed a strategy of long-term economic benefit include Rome (host of the 1960 games), Munich (1972), Los Angeles (1984) and Barcelona (1992), all of which delivered notably successful infrastructure and urban regeneration programmes; the Sydney games (2000), which emphasised drawing increased future revenue from tourism; and London (2012) which has its accent on urban regeneration and city re-branding. In contrast, Montreal (1976) lost reputational capital for many years as a consequence of the financial mismanagement and debt burden created by their Olympics. The Olympic Park in Montreal alone, the main stadium that hosted the games, had an estimated cost of C$134 million in1970. When repaid thirty-six years later, it had cost a staggering C$1.61 billion. The financial implications of hosting the games became so prominent after Montreal that in the subsequent bidding round for the 1984 games, only Los Angeles bid. This was the only occasion in post-Second World War history where there was no bidding competition to host the games. Los Angeles' delivery of the 1984 Olympics was, in contrast to Montreal, so commercially successful (profits of $200 million) that all subsequent bidding rounds to host the games have received nominations from increasing numbers of host cities. With such a mixed history, it is no wonder that sponsoring mega-sporting events is a matter for such corporate controversy.

"WITH SUCH A MIXED HISTORY, IT IS NO WONDER THAT SPONSORING MEGA-SPORTING EVENTS IS A MATTER FOR SUCH CORPORATE CONTROVERSY."

One thing is clear: history ultimately judges the reputation of any given Olympics by association with the host city and, although the reality may be that other stakeholders are to blame when things go wrong, all the examples of failure and success given in this article is testimony to the host-city thesis. Sure, it may be the reputation of the International Olympic Committee or its leadership that suffers when there is corruption in the bidding process; it may even be the character of individual athletes or the standing of entire competing nations bearing the reputational brunt of doping scandals. But it is the host city that will ultimately reel or be rewarded, long after the Olympic flame has been extinguished. R

Dr Kasim Randeree was formerly a Research Fellow at the BT Centre for Major Programme Management and the Oxford University Centre for Corporate Reputation. He continues his academic work within Saïd Business School. This article contains excerpts from his paper:
Randeree, K. (2011). *Islam and the Olympics: Seeking a Host City in the Muslim World*, *International Journal of Islamic and Middle Eastern Finance and Management*, Volume 4, Issue 3, pp. 211-226.

IN THEIR OWN WORDS

Reputation talks to **Lord Robin Janvrin**, former Private Secretary to The Queen, about reputation and the British Monarchy.

WHAT ENCAPSULATES THE REPUTATION OF THE BRITISH MONARCHY TODAY?

The answer must be first and foremost The Queen herself. As the Diamond Jubilee has so clearly shown, there is widespread respect and affection for her personally and for the values - above all of integrity, courage, duty, and service - which she has stood for throughout her long reign. Many who know her have also drawn attention to her understated dignity, her shrewd judgement and her boundless common sense which she brings to her role. The very nature of the institution of Monarchy ensures that it is above all personalised. The reputation of the institution has therefore always depended to a large extent on the reputation of the person of the Monarch in a way that is clearly different from other institutions, organisations or businesses.

BUT THE MONARCHY IS AN INSTITUTION. DOES THE REPUTATION OF THE MONARCHY REST TO SOME EXTENT WITH THE INSTITUTION AS WELL AS WITH THE INDIVIDUAL?

Yes. In the case of the Monarchy the reputation of the institution also rests on the contribution it makes to national life. The Monarchy has a clear long-term strategic role both to carry out its constitutional and representational functions and to fulfil a wider, more symbolic remit, for example: to contribute to the very identity of the Nation (so evident at the time of the Jubilee); to give a sense of continuity and stability in a changing world; to recognise achievement; and to encourage service at every level. Its success in fulfilling these roles is clearly difficult to disentangle from the way The Queen carries them out, which is why the Monarchy's reputation is so bound up in her personally.

HOW HAS THE MONARCHY EVOLVED TO BUILD AND MAINTAIN THIS REPUTATION?

There is a good quote from Lampedusa's great novel The Leopard which is relevant: "If we want things to stay as they are, things will have to change". The Monarchy can never stand still, because the society which it serves is always evolving. But if it is also to stand for continuity and stability, change needs at best to be constant but imperceptible. Over sixty years The Queen has remoulded the institution in a whole range of ways. Perhaps two areas are worth singling out: the first is about strategic communications and the way in which the Monarchy has adapted to television; the second has been The Queen's constant support for the Commonwealth. The Queen recognised very early in her reign that the pageantry, symbolism and colour of the Monarchy – which, as Queen Victoria demonstrated, must above all be visible - is especially powerful on television. Yet she has managed in a celebrity-driven, media-intensive age to be both accessible as a public figure and private as a person. Her constant support for the Commonwealth from the very start has had obvious benefits in international affairs but may also have contributed to the sometimes difficult process of adapting to a more multi-cultural and multi-faith society at home.

ARE THERE REPUTATIONAL LESSONS FOR OTHER ORGANISATIONS?

That's difficult – the Monarchy is something of a one-off ! But there may be some pointers in what I have already said. The whole question of the personalisation of an organisation works for the Monarchy, not least because of the very special qualities of The Queen, but it would be difficult – and probably dangerous in a celebrity driven age – for most organisations. But of wider application is the key lesson that great organisations are usually built on a clear set of values and these values must be upheld and articulated from top to bottom in good times and bad – not easy. And of course change must be a constant and is often best achieved by many small steps rather than a few big ones. Finally it is possible to rebuild reputations although it takes time. Fifteen years before the Diamond Jubilee (and only five years before the Golden Jubilee) at the time of the death of The Princess of Wales many people believed that the Monarchy was in crisis and seemingly incapable of getting things right. But by the dogged adherence to key values, a focus on clear strategic goals and sheer hard work the pages were turned. There are lessons for us all there. R

Biography: Lord Robin Janvrin

Robin Janvrin is Deputy Chairman of HSBC Private Bank (UK) Ltd. After eleven years in the Royal Navy, including reading PPE at Oxford, and thirteen years in the Diplomatic Service, including postings in Brussels and New Delhi, he moved in 1987 to the Royal Household , initially as Press Secretary and then subsequently in The Queen's Private Office, becoming The Queen's Private Secretary from 1999-2007. He is a Trustee of the National Portrait Gallery, on the Advisory Board of the UK-India Business Council, and is a Visiting Fellow at the Oxford Centre for Corporate Reputation.

RESEARCH FOCUS

CEOs have significant influence over firm performance. That much is accepted wisdom, but what about the impact of specific CEOs with specific characteristics? Reputation looks at a paper on narcissistic CEOs and their effects on corporate strategy and performance.

Research into top management has looked at many differing characteristics underpinning CEO behaviour and performance. Academic studies such as that done on charismatic CEOs (Flynn & Staw, 2004) complement numerous business management texts led by Jim Collins' widely respected Good to Great published just over a decade ago. Arjit Chatterjee and Don Hambrick of Penn State University contributed to this debate through an analysis of narcissistic CEOs as seen through the lens of strategic dynamism and performance published in the Administrative Science Quarterly (2007).

Chatterjee and Hambrick analysed a sample of CEOs in the computer software and hardware industries in the US. They extracted data from Execucomp between 1992 and 2004. 1992 was chosen as the start date as this was the earliest time moment that some of the measures of narcissism were available in digital form. Only firms with CEOs appointed after 1991 and who served for a four year (or longer) term were included and this produced a sample of 111 CEOs in 105 firms.

They picked on the following four unobtrusive measures of narcissism of the CEO:

- The prominence of the CEO's photograph in annual reports
- The CEOs prominence in press releases
- The CEOs use of the first person singular pronouns in interviews
- The compensation of the CEO relative to that of the second highest paid firm executive

Taking these four measures, they then plotted them against two further measures: the dynamism of a firm's strategy as evidenced through an analysis of key resource indicators, including advertising intensity (advertising/sales); R&D intensity (R&D/sales); selling, general and administrative expenses compares to sales (SGA ratios); and financial leverage (debt/equity). For the performance measures, total shareholder return (TSR) and return on assets (ROA) were chosen.

The authors took care to analyse and ascribe certain characteristics and definitions of narcissism and narcissistic tendencies, using Raskin & Hall's (1979) Narcissistic Personality Inventory (NPI) and Emmons (1987) four factors of NPI as follows:

- First, narcissistic CEOs have a sense of entitlement ("I insist upon getting the respect that is due to me")
- Second, narcissistic CEOs have a need to be seen as authoritative leaders ("I like to be the center of attention")
- Third, they display a superiority and arrogance ("I am better than others")
- And finally they are self absorbed and full of self admiration ("I am preoccupied with how extraordinary and special I am").

As an additional validation of this methodology, they also asked five equity analysts in the sector to rate the sampled CEOs in terms of degrees of narcissism. The correlation between the authors' unobtrusive measures and those from the analysts was high.

The results generated are intriguing, and significant. The first of these concerns strategic dynamism, as the authors find that companies led by narcissistic CEOs adopt bold and attention seeking strategies. In particular, they find that narcissistic CEOs, through their need for on-going attention and applause, tend towards grander and higher profile acquisitions that are highly visible rather than focusing on incremental improvements in key metrics such as product quality, supply chain improvements, and cost reduction plans.

The second finding relates to the frequency and scale of such acquisitions. Not only are narcissistic CEOs keen on making bold and highly visible acquisitions, but they tend towards doing them more frequently and each acquisition tends to be of a larger scale than those undertaken by non-narcissistic CEOs. The authors found that this strategy of continuous novelty and grandiose actions gave rise to extreme performance – each new acquisition would either be a great hit or a great miss.

"THE AUTHORS FOUND THAT THIS STRATEGY OF CONTINUOUS NOVELTY AND GRANDIOSE ACTIONS GAVE RISE TO EXTREME PERFORMANCE – EACH NEW ACQUISITION WOULD EITHER BE A GREAT HIT OR A GREAT MISS.."

The third finding was that the strategies pursued by narcissistic CEOs not only caused extreme performance but also wide swings in overall performance. In other word, a narcissistic CEO will tend not to be a consistently high performer nor a consistently low performer, but will more often than not be prone to delivering wide fluctuations in overall performance. In other words, they can go rapidly from delivering big wins, and just as rapidly deliver poor performance.

Overall, while narcissistic CEOs will certainly make waves and be highly visible, the experience for an investor is one of a 'white-knuckle ride'. Buyer beware! R

Chatterjee, A. and Hambrick, D. (2007). "It's All about Me: Narcissistic Chief Executive Officers and Their Effects on Company Strategy and Performance" Administrative Science Quarterly, Vol. 52, No. 3 (Sep. 2007), pp. 351-386.

NEWS & EVENTS

1. **RICHARD ALDERMAN; DIRECTOR, SERIOUS FRAUD OFFICE,** presented "Enforcing The Law On Fraud And Corruption: Does Self Reporting Pay?" to members of Saïd Business School in March 2012.

2. **RESEARCH FELLOW, BASAK YAKIS-DOUGLAS'** paper "Signaling Strategic Commitment for Organizational Transition: How to Manage Potential M&As through Voluntary Disclosures" with Duncan Angwin and Maureen Meadows, has been nominated for the Strategic Management Society Practice Implications Awards 2012.

3. **DAMON J. PHILLIPS, JAMES P. GORMAN PROFESSOR OF BUSINESS STRATEGY, COLUMBIA UNIVERSITY,** presented a seminar in April 2012 called "Shaping Jazz: The Sociological Congruence of Firms and Markets in the Global Emergence of Jazz" with CCR Programme Director Dr. David Barron, Reader in Organisational Sociology, Saïd Business School, as discussant.

4. **CENTRE DIRECTOR, RUPERT YOUNGER,** quoted in Marketing Week article "Because we're worth it" discussing the reputation of corporate PR professionals.

5. **SYMPOSIUM 2012.** The Oxford University Centre for Corporate Reputation will be holding its third annual Reputation Symposium from September 5-7 at Merton College, Oxford.

6. **OXFORD UNIVERSITY CENTRE FOR CORPORATE REPUTATION INTERNATIONAL RESEARCH FELLOW DAVID VOGEL,** presented "The Politics Of Precaution Regulating Health, Safety, And Environmental Risks In Europe And The United States" to members of the Saïd Business School and the Smith School of the Environment in May 2012.

7. **STEFANIA CHIARUTTINI, EXPERT WITNESS ON THE PARMALAT CASE,** presented a seminar to members of Saïd Business School "The Parmalat Bankruptcy: Why 'Regulation by Reputation' failed" in May 2012.

OXFORD UNIVERSITY CENTRE FOR CORPORATE REPUTATION ACADEMIC ALUMNI

Will Harvey was a Research Fellow at the Centre from 2009 until 2010, when he accepted the post of Lecturer at the University of Sydney Business School. He is now an Associate Fellow of the Centre.

Will continues to work with Tim Morris, Professor of Management Studies at Said Business School and a Programme Director of the Centre, on their long-term project on corporate reputation within management consultancies. The project is funded by the Centre. Will and Tim have written a chapter in the Oxford Handbook of Corporate Reputation on reputation formation within labour markets and have presented their work at major academic management conferences in the US and Europe. They have applied for a three year Australian Research Council grant for a project that examines how reputation is judged by clients within global professional service firms. Recently, Will taught case studies on corporate reputation to postgraduate business students at the University of Sydney. These included the Centre case studies on Eni in the Republic of Congo and QMM/Rio Tinto in Madagascar, both of which he co-researched and co-wrote. R

...AND ON TWITTER

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AT FIRST YOU WORK FOR YOUR REPUTATION, THEN YOUR REPUTATION WORKS FOR YOU.

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