

COVALENCE INTERN ANALYST PAPERS

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The Challenge of Reputational Interdependence within the Basic Resources Sector

- A Case Study of Alcoa



Preface

This project was written alongside and inspired by my internship at Geneva based Covalence, where I served as an ethical information analyst during the autumn semester of 2009.

Covalence was founded in 2001 as a for profit company and measures the ethical reputation of 541 companies within 18 sectors following the Dow Jones Sector Titans, and covering the world's largest multinational companies. The publicity these multinational sector leaders' receive concerning their ethical stands are gathered from various online sources (such as the media, NGOs, blogs and press releases from the multinationals themselves), coded according to the subject communicated, synthesized into aggregate curves, and published as ethical rankings. The database on which Covalence base their ethical rankings holds more than a hundred thousand news items gathered between 2002 and till now. This ethical quotation system allows stakeholders to raise the awareness of companies by publishing online information aimed at the public and financial markets, as well as enabling the analysis of multinational companies' reputation according to geography, source and subject. (Covalence, 2009 a) Covalence received the Cantonal Sustainable Development Prize in 2004 and was among the finalists of the Schwab Foundations Social Entrepreneur of the Year 2005 award. Covalence research has been distributed by Reuters since 2006. (Covalence, 2007)

I had come across the article *Strategic Responses to the Reputation Commons Problem* by King et al. (2002) on the subject of reputational interdependency by chance during a previous semester - which attracted my interest merely because it, to me, introduced a whole new concept and presented a view upon corporate reputation as a common resource shared by all members of a sector. Examples of the phenomenon of reputational interdependency, when transferred to the world of business, were the Exxon Valdez oil spill accident which affected public perception of the entire petroleum sector. Another was the accident at the Three Mile Island, where the mistake of one single company at one single facility damaged the reputation of the whole nuclear power sector.

While I up till then had pictured corporate reputation as some type of reflection of a single company's actual performance on diverse CSR issues, this theory proposed that corporate reputation might in fact be a resource shared by all members of a sector, and additionally that it might be subject to overexploitation and eventually suffer from the 'tragedy of the commons' as described by Hardin (1968) and mostly applied in relation to natural resource extraction. While companies as part of a sector collectively wishes to maintain a positive sector reputation, their individual motives is rather to overexploit that reputation for their own profit. For this reason, the theory implies that companies within a sector need to strategically manage their reputation as a common resource (King et al. 2002).

While carrying out my tasks as an ethical information analyst at Covalence, mainly consisting of collecting and coding relevant, ethical information regarding the largest 541 multinationals, it came to my attention that some companies which were rated in the top 10 on a cross-sector comparison actually belonged to the sectors rated at the very bottom of the ethical rank. Here were companies

which had somehow managed to avoid the phenomena of reputational interdependence within the sector to which it belonged, to the point where they competed amongst the most admired companies within the most successful sectors.

According to the objectives of the third semester on Environmental Management, this project should investigate the *‘preconditions for, progress of, and/or the consequences of implementing practical solutions to environmental problems. The project should assess or take into consideration consequences for the environment in terms of minimization of resource use, minimization of emissions and discharges, and other forms of probable environmental gains. The project should also include an analysis of the relevant economic, organizational, institutional, political and cultural preconditions for and/or consequences of implementing a practical solution or strategy’*.

The concept of corporate reputation is directly linked to business practices and whether or not they answer to the needs and expectations of stakeholders. Stakeholders, again, are becoming more and more aware of the importance of sustainability issues – social as well as environmental. This project, from a company perspective, indirectly studies the business case of reducing the negative effects of production, among others through the implementation of practical solutions to environmental and social problems, as corporate reputation and corporate responsibility is directly connected through stakeholder pressure. This project has its basis in how the increasing focus and awareness of stakeholders on issues of sustainable development has led to a shift in focus towards more sustainable business practices. Companies lose stakeholder value, competitive advantage and hence market share if they do not follow the trend and improve their business practices and implement new and more social and environmentally friendly solutions as part and alongside their operations.

This project has its point of departure both as a university project and as a personal research project carried out as part of my internship at Covalence (in addition to my main work tasks), as it is a subject of interest both to Covalence as well as relevant in relation to my field of study.

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1. Introduction

The world is currently faced with challenges such as climate change, biodiversity loss, environmental degradation and poverty. As a response to these global challenges, the world is gathering around the concept of ‘Sustainable Development’, defined in the Brundtland Report from 1987 as “*development that meets the needs of the present without compromising the ability of future generations to meet their own needs* (WCED, 1987:43)”. The concept of sustainable development as stated in this definition requires that the world is seen as a system connecting the three “*independent and mutually reinforcing pillars* (UN, 2005:2)” of sustainable development; the economy, the environment and society. In pursuit of sustainable development and the common good of all, economic development, social development and environmental protection need to be integrated and simultaneously addressed (WCED, 1987).

Following the agenda of the Brundtland Report and sustainable development, concepts related specifically to *corporate* sustainability and how companies could manage their business in line with the principles of sustainable development, started to evolve. One of the most well know of these concepts was developed by Elkington in 1994, and is commonly referred to as the ‘Triple Bottom Line’. The concept of the triple bottom line proposes that the objectives of businesses are in fact inseparable from those of the societies and environments within which they operate. Whereas short-term economic gain may be pursued, failing to account for its environmental and social impacts would ultimately result in unsustainable business practices. (Elkington, 2004)

The aspiration to prosper without compromising the opportunities of future generations is becoming increasingly central within the philosophy of business, and the trend seems to be that the sustainable capitalist transition of the new millennia is driven by businesses rather than governments and NGO’s. The business approach to sustainable development is motivated by the opportunities and need to manage the new types of risks formed through the new agenda. By embracing these principles and opportunities as well as actively managing its risks, businesses will ultimately benefit from increased long-term stakeholder value. (Elkington, 2004) Although more and more multinational companies today integrate sustainable business principles in their long-term business strategies, there is still a long way to go and many challenges ahead in the chase for global corporate sustainability.

Businesses are part of a larger social system and hold complex relationships with governments, organizations and individuals which influences them and which they in turn influence. *Stakeholders* refer to those who affect or who are affected by a company’s actions. The way in which companies manage their relationships with stakeholders strongly affects the success and survival of a company, and its ability to build positive, strong, mutually beneficial relationships is an increasingly important part of management. As globalization intensifies, public expectations and government policies are subject to rapid change, ecological concerns increase and new technologies emerge, however, the challenge of achieving good economic results and at the same time create value for all stakeholders, are getting more and more challenging. (Clarkson, 1995)

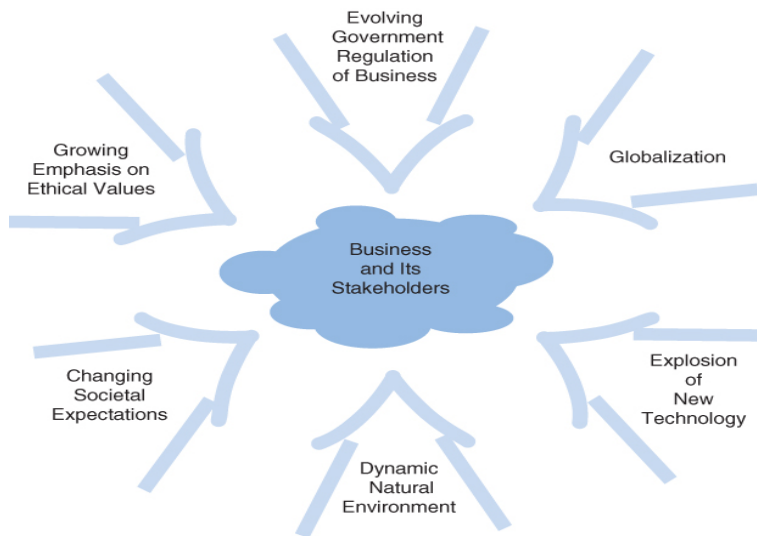


Figure 1: Forces shaping the relationship between business and society.
Lawrence et al. (2005)

Economic considerations still, in many ways, gain higher priority than those of social and environmental factors. What we do see, however, is that responsible business practices and stakeholder value often goes hand in hand, as public awareness on the issues of sustainable development and business practices intensifies. This project has its basis in the relationship between sustainable business practices, from now on referred to as ‘Corporate Responsibility’, and its effect on stakeholder value as measured in ‘Corporate Reputation’.

1.1 Corporate Reputation

Today, companies are constantly being watched and assessed, and no ethical slip-ups or corporate misdeed, whether real or perceived, will go unnoticed. Over the years authors have adopted different, sometimes even contradictory definitions for the term corporate reputation. Barnett et al. (2006) aims to clarify the confusion related to the concept of corporate reputation by proposing a definition which attempts to capture the diverse elements included by a variety of scholars on this topic, such as *assessment*, *asset* and *awareness*. He attempts to achieve such a consensus by defining corporate reputation as “*observers’ collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time* (Barnett et al. 2006:34)”.

It is also important to point out, however, that corporate reputation might mean one thing in a company perspective and something else in the perspective of stakeholders, and that a company needs to keep both of these perspectives in mind. Schreiber (2008) suggest that reputation from the point of view of a company is an intangible asset allowing them to enhance their management of

their various stakeholder groups' needs and expectations, which helps create differentiation and barriers compared to their competitors. From a stakeholder perspective, however, reputation is seen as the intellectual, emotional and behavioral responses of stakeholders towards the extent to which a company's actions and communication meets their needs and interests.

A survey conveyed by British Interbrand and Citibank in 1998 found that while 40 percent of the value of the top 100 companies in Britain depended upon support from the public in 1988, the number had increased to 70 percent in 1998. (Beder, 2002) The result from this survey illustrates that the importance and value of stakeholder support for a company's survival and success does indeed increase in line with the focus upon sustainable development and corporate responsibility.

A positive corporate reputation, meaning when the company is *highly esteemed, worthy or meritorious, which implies a good name and high regard* (Mahon and Wartick, 2003:2)" brings about several impacts ultimately advantageous to corporate performance. In a situation where stakeholders believe that one company meets their needs better than its competitors, they will behave in ways advantageous to the company. This is evident on several areas of business; it attracts consumers and investors, as well as support recruitment. (Watson, 2007) A company which meets the needs and interests of their stakeholders over time will further improve the resilience of their reputation, reduce their reputation risk and earn a 'halo effect' which might help them recover more quickly after a crisis (Beder, 2002; Burke, 1999; Yu and Lester, 2002). Having a positive reputation is also important for a company's relationship with regulators, as these are less likely to impose rules and regulations and interfere with the business operations of a company holding a positive reputation. This aspect applies to sector sectors as well as to individual companies. (Beder, 2002)

1.2 Reputational Interdependence

Reputational loss is not merely a threat applying to large corporations in high-risk sectors. Individual companies, brands and whole sectors have reputations (Beder, 2002). And so, a company's reputation depends upon more than just its own actions. The actions of surrounding companies also shape corporate reputation and ultimately its performance. Nonetheless, corporate reputation researchers have given little attention to this interdependence and how companies manage it. (Barnett and Hoffman, 2008)

The reputation of a sector is a common resource when stakeholders lack the ability to differentiate between the ethical performances of each company relative to the others. If stakeholders hold sufficient information on the relative performance of the individual companies within a sector, however, the problem of reputational interdependence does not exist. In a situation with no reputational interdependence, each company's specific impact can be individually and separately calculated, and stakeholders hold the ability to directly influence each company. On the company level, each company possesses an individual reputation, and may effectively shape this reputation

with independent activities. Hence, reputation remains a concern of the company, but is not a problem of the sector as a whole. (King et al, 2002)

Often, however, stakeholders do not hold ample information to make a proper distinction of a specific company's performance. Outermost, stakeholders may at times be unable to distinguish which one of the industries in an area is responsible for damaging a specific resource. While recognizing that a certain natural resource is damaged, they may not be able to determine whether this damage is due to the steel or agricultural industry. More frequently, stakeholders are able to distinguish which industry to blame, but incapable of making a distinction of the relative effect of different companies. (King et al, 2002)

The concept of corporate reputation defined by Barnett et al. (2006) and highlighted above, as the sum of all observer' judgment of a company's impacts over time, can then be expanded to include that a company's reputation also depends upon the actions of other companies. When determining a company's reputation, the observer might see more than that of the company's previous actions, and base their judgment on the previous performance and expected future behavior of "*groups of related firms – industry sub-groups, entire industries and even inter-industry groups* (Barnett and Hoffman, 2008:4)". In effect, a company's reputation is in fact entangled with those of other companies, both within and outside of the sector to which it belongs.

Reputational interdependence within sectors becomes a challenge when companies which act in accordance with the established rules and procedures are unjustly punished on the basis of the misdeeds of other companies, as stakeholders may sanction the whole sector as well as the actual disobeying company. A problem may also arise the other way around. A free-rider problem occurs when companies not contributing to the positive reputation of a sector strives on the efforts of a few, responsible companies.

Although reputational interdependence within industrial sectors has proven to be quite a challenge for many companies, especially those belonging to sectors with poor reputations as a whole, there are examples of companies which have successfully managed to extinguish their corporate reputation, and hence have avoided unjust stakeholder sanctioning in situations of crisis within their sector.

1.3 Objectives and Research Question

Motivated by the problems related to reputational interdependence within sectors as highlighted above, the objective of this project is to identify and analyse factors contributing to a company's success in extinguishing itself from the negative ethical reputation of the Basic Resources sector. The research question around which this project is based, is

“How can a company within the Basic Resource sector, a sector suffering from negative reputation, avoid reputational interdependence?”

Alcoa, a company which has successfully managed to build a good corporate reputation for itself despite being part of the Basic Resources sector - one of the industrial sectors with the least advantageous reputation as a whole, is applied as case study company in this project in order to help answer the projects research question based on real-life cause and effect linkages.

1.4 Delimitations

Although it has been suggested that reputational spill-over between companies might in fact occur both between companies within the same sector as well as across sectors, this project is limited to reputation spill-over between companies within the same sector. Focus is additionally put on the negative spill-over effects of reputational interdependence, and hence not on the problems related to free-riding, meaning that one company might exploit the good deeds and reputation of another.

Although a large amount and variety of factors might influence and help explain Alcoa’s position as among the top ten companies in Covalence’s cross-sector reputational rankings despite being part of the poorly ranked Basic Resources sector, many factors have been disregarded and only some selected for further analysis in this project, both due to data limitations and time restrictions.

1.5 Structure of the Report

The content and main body of this project is distributed among four main chapters. While a profile of Alcoa and the Basic Resources sector is introduced in chapter two, chapter three presents the main theories on which this project is based. First, literature concerning stakeholder theory and how it relates to corporate reputation is reviewed. Second, the concept of corporate responsibility and the way in which it is communicated is introduced and discussed. Theory clarifying the key idea in this project, namely the phenomena of reputational interdependency within sectors, forms the last section of the theoretical framework later applied as basis for analysis. As these theories helps identify the factors affecting corporate reputation as well as those contributing to reputational spill-over between companies, sub-questions ultimately supporting the main research question as presented above is generated and presented in sub-chapters 3.2 and 3.3. These sub-questions later provide the basis for data collection and presentation, as well as structure of analysis in chapter 4. Chapter 5 presents the conclusion and final answer to the main research question.

3. Case Study Presentation

This chapter will briefly introduce Alcoa and the Basic Resources sector to which it belongs, with special focus on corporate reputation. Their respective characteristics as well as reputation according to Covalence's measurements are presented and compared in order to illustrate how Alcoa distinguishes from the reputation of the Basic Resources sector as a whole.

3.1 The Basic Resources Sector

Investopedia (N.d) defines the Basic Resources sector as made up of "*companies involved with the discovery, development and processing of raw materials, including mining and refining of metals, chemical producers and forestry products.* (Investopedia. N.d)" Additionally, the Basic Resources sector can be divided into the three sub-sectors of forestry and paper, industrial metals and mining, according to the fields in which the companies are specialized within (Covalence, 2009 b).

Covalence tracks the ethical reputation of the world's 32 largest multinational Basic Resources companies (Covalence, 2009 b). Table 1 illustrates that out of the 541 companies in Covalence's overall ranking, 23 out of the total 32 companies in the Basic Resources sector are ranked in the bottom half, and as many as 12 companies in the bottom 100. These findings illustrate that a general trend in the Basic Resources sector is that many companies have a negative reputation, and that it is not only a few companies with exceptionally negative reputations who pull the reputation of the sector down.

Given the differences in nature of operations, activities and closeness to consumers across sectors, different sectors often earn attention and publicity from different types of stakeholders on different types of ethical themes. Despite the fact that there are some common themes in what different sectors seek to address through corporate responsibility programs and activities, it has been found that several such issues highly varies between sectors to the extent of sector-specific issues. A comparison of issues between sectors made by Blowfield and Murray (2008) for example, illustrates that what is found to be important focuses within the Food and Beverages sector are quite different from those of Technology, which again have completely different priorities from those of the Retail sector.

The Basic Resources sector, however, is an especially ethically exposed sector, as the nature of their operations often results in a wide range of negative environmental consequences, which in turn also affects the local communities around their operational sites. Among sector-specific priority issues are natural resource depletion; biodiversity; social and community impacts; workplace health and safety, and human and indigenous rights (Blowfield and Murray, 2008).

Covalence Ethical Ranking Across Sectors	Covalence Ethical Ranking Within Sector	Company
9	1	Alcoa
14	2	RioTinto
151	3	UPM-Kummene Oyi
156	4	International Paper
162	5	Anglo American
179	6	Xsrata
239	7	Nippon Steel
256	8	Nucor Corporation
271	9	Kinross Gold
272	10	BHP Billton
290	11	Gold Fields Ltd.
294	12	Vale
301	13	POSCO
308	14	Weyerhaeuser
319	15	JFE Holdings
344	16	Impala Platinum
362	17	Kobe Steel Corp
396	18	Peabody Energy
405	19	China Steel
456	20	Sumitomo Metal Mining
462	21	Sumitomo Metal Industries
468	22	U.S. Steel
474	23	Arcelor Mittal
477	24	Teck Cominco
485	25	Tenaries
492	26	Norsk Hydro
512	27	Newmont Mining
515	28	Stora Enso
516	29	Barrick Gold
529	30	Harmony Gold
535	31	Grupo Mexico
537	32	Freeport-McMoRan

Table 1: Covalence Ethical Ranking - Basic Resources sector. Developed from Covalence (2009 b)

Illustrated by Covalence's sorting of all publicity gained by the Basic Resources sector between July 2008 and June 2009 according to criteria (figure 2 below), the sector-specific priorities of the Basic Resources as pointed out by Blowfield and Murray (2008) above are quite representative. The *most* pressing ethical themes negatively affecting the reputation of the Basic Resources sector are

downsizing; environmental impact of production; labor standards; economic impact and wages. While the negative publicity related to the criteria of environmental impact of production can be regarded as an expected consequence of the nature of Basic Resources, however, publicity related to downsizing is exceptional for this period, and can be traced back to the recent economic downturn. The Basic Resources sector has met quite extensive criticism due to the economic downturn, and effects of factors such as downsizing have weighted heavily on the ethical performance of the sector as a whole. (Covalence, 2009 a)

On the other side, figure 2 shows that the criteria generating the most positive publicity for the Basic Resources sector throughout the same period are Environmental Impact of Production; Social Sponsorship; International Presence; Information to Consumers and Labor Standards. Identical to the criteria which generated the most negative publicity, figure 2 also illustrates that the sector has managed to generate quite a large amount of positive publicity in the criteria of Environmental Impact of Production. This illustrates that the Basic Resources sector has made efforts to reduce the negative consequences of its operations, in line with and most probably as a result of the growing focus on sustainable development and corporate responsibility. The large amount of publicity related to the criteria social sponsorship further illustrates that the sector is attempting to make up for its negative effects on society and local communities through related, positive efforts.

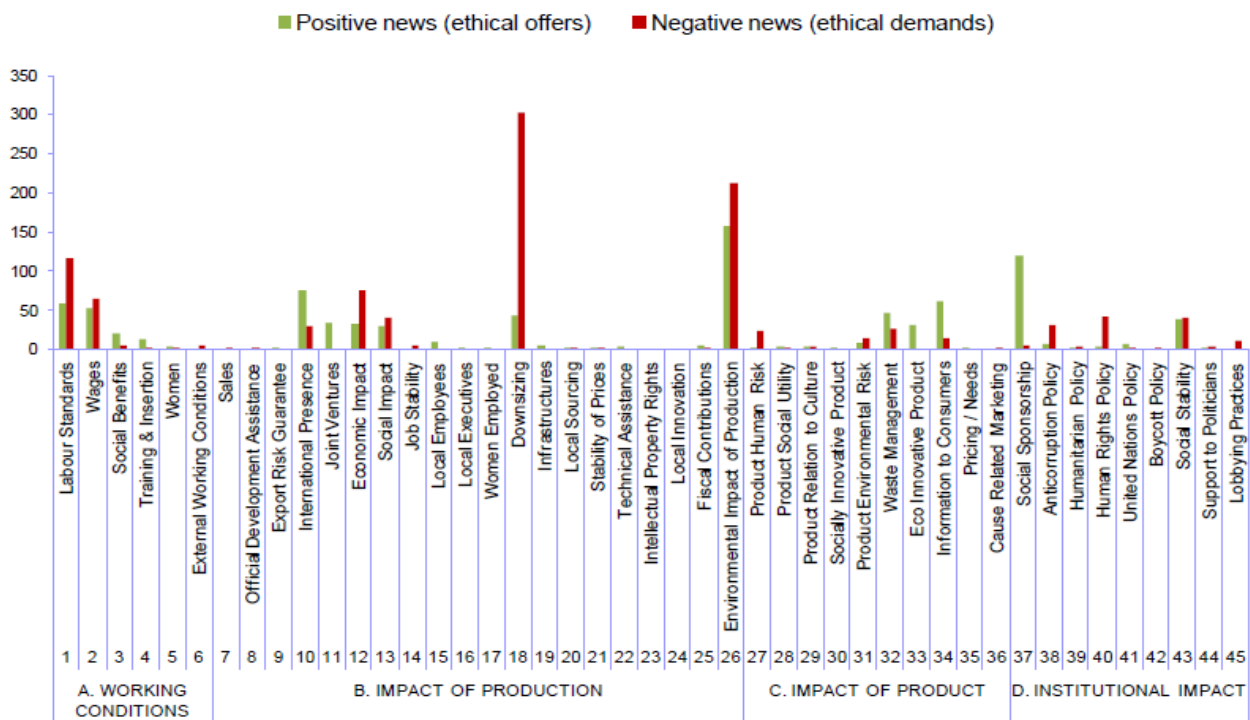


Figure 2: Basic Resources sector - positive and negative news between July 2008 and June 2009. (Covalence, 2009 b)

3.2 Company Profile: Alcoa

According to Alcoa’s homepage (Alcoa, 2009 a) they are “*the world leader in production and management of primary aluminum, fabricated aluminum and alumina (aluminum’s principal ingredient, processed from bauxite) combined, and an active and growing participant in all major aspects of the industry such as in technology, mining, refining, smelting, fabricating and recycling.*” Alcoa further “*serves the aerospace, automotive, packaging, building and construction, commercial transportation, and industrial markets, bringing design, engineering, production, and other capabilities of Alcoa’s businesses to customers. In addition to aluminum products and components, including flat-rolled products, hard alloy extrusions, and forgings, Alcoa also markets Alcoa® wheels, fastening systems, precision and investment castings, and building systems* (Alcoa, 2009 a)”.

Alcoa was founded in 1888 by one of the men who invented the process of extracting aluminum metal from alumina through electrolysis, under the name The Pittsburgh Reduction Company (later changed to Aluminum Company of America in 1907 and to Alcoa in 1999). (Alcoa, 2008 a) From 1888 and on, Alcoa has grown to become the world’s largest aluminum producer with revenues of nearly \$27 billion in 2008, and 63.000 employees at 350 facilities in 31 countries around the world, mainly in the United States and Europe (Alcoa, 2009 a).

By Market	By Geographic Area
42% Alumina and Aluminum	53% United States
15% Packaging	26% Europe
15% Aerospace	15% Pacific
14% Industrial Products	6% Other Americas

Figure 3: Alcoa’s operations by Market and Geographic Area. Developed from Alcoa (2009 a)

Among Alcoa’s many milestones is the founding of the world’s first aluminum research laboratory in 1930 dedicated to the development of new technology and applications in the field of aluminum, ever since known as the main source of aluminum innovation in the world. Alcoa research, mainly stemming from this research facility, has produced close to all aerospace alloy used during the 1900’s, advanced in the production of aluminum beverage cans, recycling and smelting technology. In addition to inventing the aluminum can, Alcoa introduced the first can recycling program aimed at consumers in the USA, including recycling centers and television marketing. (Alcoa, 2008 a)

Alcoa has also been recognized for their sustainable business practices at several occasions, among these named one of the top most sustainable companies worldwide at the World Economic Forum,

as well as being a member of the recognized Dow Jones Sustainability Index for the last eight years (Alcoa, 2009 a).

3.2.1 Corporate Reputation

As previously stated, Alcoa is among the few companies rated in the top 10 on a cross-sector basis in Covalence’s ethical rankings, belonging to one of the sectors rated at the very bottom of the ethical rank. This illustrates that Alcoa somehow has managed to avoid the phenomena of reputational interdependence within the Basic Resources sector, to the point where they compete amongst the most admired companies within the most successful sectors on ethical rankings.

The Ethical Quote reputation curve for the Basic Resources sector between 2002 and 2008 as developed by Covalence and displayed as figure 4, illustrates that Alcoa has experienced a relatively steady growth in their corporate reputation even in times when most other companies within the sector has suffered reputational loss.

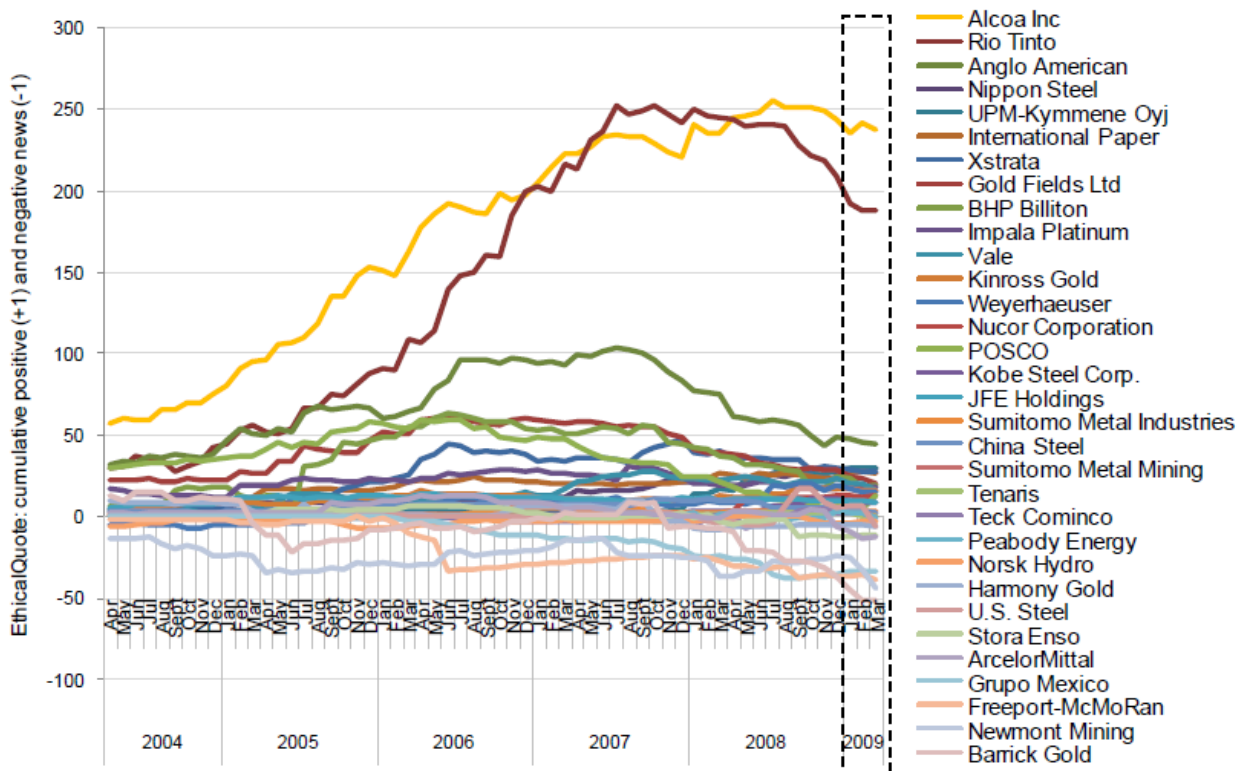


Figure 4: Ethical Quote reputation curve for the Basic Resources sector between 2004 and 2008. (Covalence, 2009 b)

Sorting data by criteria allows for a closer look at the issues which have gathered the most publicity for Alcoa during the first quarter of 2009. As illustrated by figure 5, the criteria receiving the highest amount of negative publicity for Alcoa was Downsizing; Economic Impact; Environmental Impact of Production; Labor Standards and Social Impact. Criticism received in the criteria of Downsizing and Economic Impact represented nearly 90 percent of all criticism received, and can, as in the case of the Basic Resources sector as a whole, partly be explained by the current economic recession (Covalence, 2009 c). Alcoa managed, however, to mitigate the effect of this negative publicity through a large amount of positive publicity in the criteria of Environmental Impact of Production; Social Sponsorship; International Presence; Waste Management and Information to Consumers.

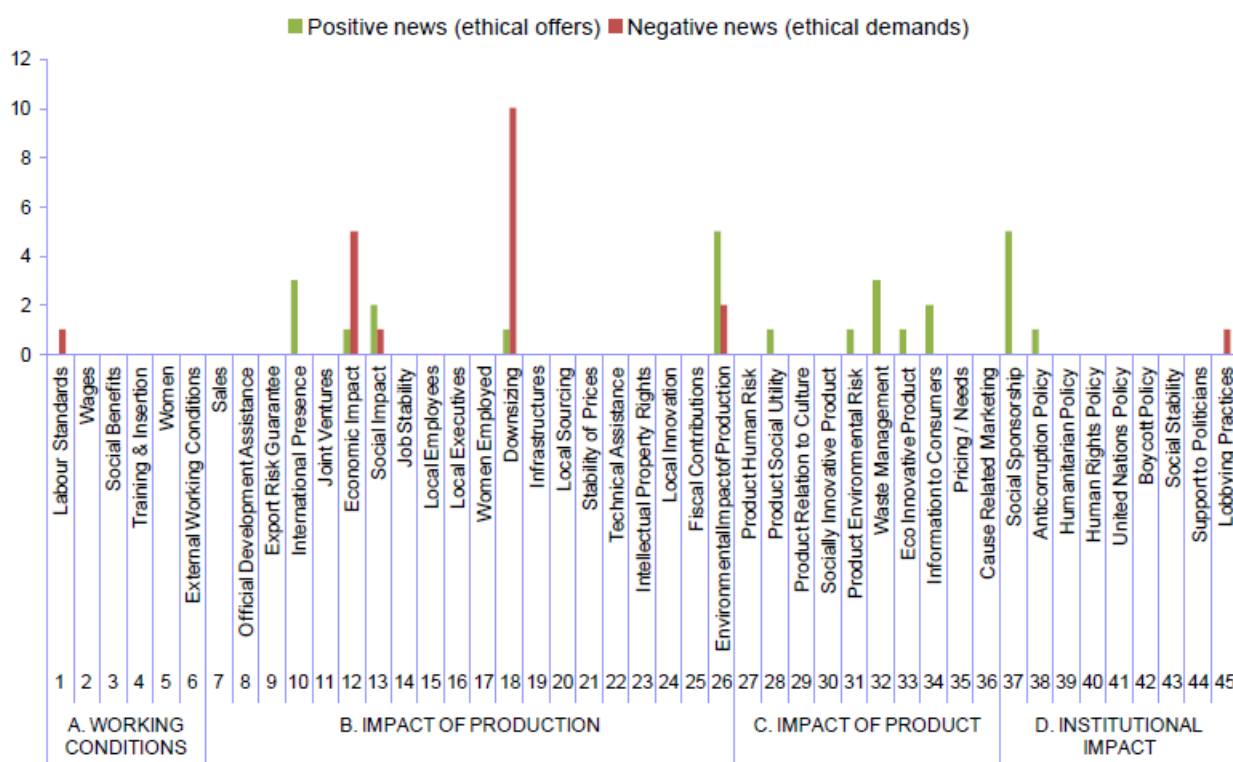


Figure 5: Alcoa by positive and negative news in Q1 2009. (Covalence 2009 c)

Comparing figure 5 of all publicity received by Alcoa with figure 3 showing the general trend of the issues gaining publicity in the Basic Resources sector as a whole, it is found that Alcoa differentiated themselves from the sector trend through higher scores in the criteria of Social Sponsorship; Waste Management; Information to Consumers and Anti-corruption Policy. Being rated second of all companies in the Basic Resources sectors in criteria group A. Working Conditions, and first in B. Impact of Production, C. Impact of Product and D. Institutional Impact, Alcoa earned the top place in Covalence’s Basic Resources sector ethical reputation ranking (Covalence, 2009 c).

Summary

This chapter has briefly introduced Alcoa and the Basic Resources sector to which it belongs, with special focus on corporate reputation. The Basic Resources sector is found to be especially exposed to negative ethical publicity, as the nature of their operations often results in a wide range of negative environmental consequences, which in turn also affects the local communities around their operational sites. It is also found, however, that the sector has made efforts to reduce the negative consequences from its operations, in line with and most probably as a result of the growing focus on sustainable development and corporate responsibility.

Alcoa, as a Basic Resources company, is a multinational mining company specializing in the extraction and processing of aluminum. Alcoa has, as opposed to the Basic Resources sector as a whole, been largely recognized for their sustainable business practices throughout many years, and have been among the top ten companies in Covalence's reputation ratings ever since the first ranking in 2002. It is also found that Alcoa has withheld a relatively steady rank in Covalence's reputational rankings, even in times when the other Basic Resources companies have experienced downfalls.

3. Theoretical Framework

This chapter presents the theories, ideas and concepts which form the theoretical framework and provide the basis for the analysis of this project. Chapter 3.1 addresses the role and importance of stakeholders for the performance and survival of businesses, as well as the mechanisms through which companies select which stakeholders' needs and expectations to satisfy. Chapter 3.2 next presents the concept of corporate responsibility and calls specific attention to the phenomena of companies' apparent need to communicate and use corporate responsibility in their marketing strategies. Finally, theory concerning reputational interdependence within sectors is elaborated upon. Together with an introduction to its concepts and possible consequences, it is proposed that stakeholders may sanction companies based upon their perceived relatedness to the company to which a reputational crisis occurs.

While chapter 3.1 merely presents stakeholder theory as a basis for understanding the concepts of reputation and reputational interdependence, the theories presented throughout 3.2 and 3.3 helps generate sub-questions which ultimately helps identify factors contributing to Alcoa's positive reputation, and hence support the final conclusion on how Alcoa has managed to avoid reputational interdependency with the Basic Resources sector.

Additionally, text-boxes providing information on Alcoa where relevant and in accordance with the theory, are presented throughout the chapter in order to provide a picture of how the theory relates to Alcoa's situation.

3.1 Business and Society

Businesses are the largest institutions in society. A *business* in this regard means any organization engaged in the production and sale of products and services in exchange for profit. The term *society*, in this context, refers to people and the social structures in which they create. As organizations ultimately created by people, businesses can be viewed as part of society. They are also, however, distinct entities clearly separated from the society as a large through set boundaries. Across these dividing boundaries, however, businesses are involved in continuous exchanges and transactions with their external environments (figure 6). (Clarkson, 1995)

It has been found that business and society together form an interactive social system. The impacts of business activities affect others in society, and likewise a range of different social actors and governments affect business. In order best to manage such interdependency business managers need to gain an understanding of their company's core relationships, as well as how the social and economic system to which they belong have an effect upon and is affected by their actions. (Clarkson, 1995)

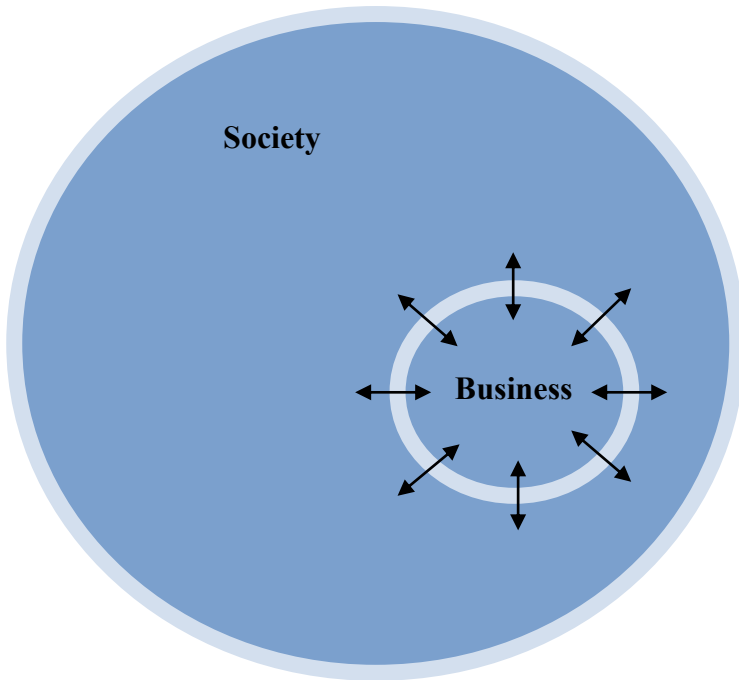


Figure 6: Business and society as an interactive system. Developed from Lawrence et al. (2005).

There are several views regarding what the role of business in society should be. In his book *'The Corporation and Its Stakeholders'* from 1995, Clarkson raises two questions fundamental to the relationship between businesses and society; *What is the purpose of the modern corporation? To whom, or what, should the company be responsible?* (Clarkson, 1995:5). He further presents two contrasting theories providing different perspectives and answers to these questions. *The ownership theory* of the company sees the company as the property of its owners and its purpose as maximizing returns in terms of profit for its shareholders. According to this theory businesses are agents of shareholders only, and have no obligations to the wider society beyond those specifically stated by law. The contrasting view, *the stakeholder theory* of the company, however, suggest that companies serve the broader public purpose of creating value for society as a whole - in addition to profit for their shareholders. Examples might be to promote employee professional development and new and innovative products which meets the needs of their customers. This view proposes that companies have multiple obligations, and that the needs and interests of all stakeholders must be considered. (Clarkson, 1995)

Chapters 3.1.1 and 3.1.2 sheds light on the relationship between society and businesses as seen by scholars such as Freeman (1984) and Clarkson (1995). According to Clarkson (1995) no companies can survive in the long run without creating wealth for their stockholders, employees and consumers. Stakeholder theory hence explains why holding a positive corporate reputation is important in the first place. The stakeholder view of the company, as well as the importance of stakeholder relationships for corporate reputation is expanded upon throughout the coming sub-chapters.

3.1.1 Stakeholders

Stakeholder theory is developed from strategic management literature of scholars such as Freeman (1984) as an alternative to the traditional neo-classical model of the company by also taking into account the power and influence of stakeholders and as response to the increase in the external demands placed upon companies today (Freeman, 1984). In his book '*Strategic Management: A Stakeholder Approach*' from 1984, Freeman presents the concept of stakeholders as more complex and nuanced than what was then considered to be the main groups to which companies held different types of duties. He further proposed that stakeholders were no longer to be viewed simply as taxonomy, but that effective management of stakeholders was in fact essential to the success and mere existence of companies.

Stakeholders' are by Freeman (1984) defined as "*any group or individual who can affect, or is affected by, the achievement of a corporation's purpose*", and include "*employees, customers, suppliers, stockholders, banks, environmentalists, government and other groups who can help or hurt the corporation* (Freeman, 1984:vi)". Mirrored in this definition, one will find that the very key concept of stakeholder theory is that companies hold obligations towards a broader group of stakeholders than just its shareholders. Stakeholder theory has developed a view of the company as a nexus of relationships which is multi-faced, and dependent upon a wide range of stakeholder needs and expectations (Freeman, 1984).

"Stability within our relationships with stakeholders is a primary objective of our stakeholder engagement processes. Pursuit of this stability is an essential, desirable, rewarding, but often challenging aspect of modern business. All relationships depend on stability to identify and then pursue sustained, equitable outcomes. Generally, such outcomes are more readily identified and achieved through continuing dialogue and, in the most productive relationships, active partnerships." (Alcoa, 2009 b)

Degree and Type of Stakeholder Influence

It can prove challenging to apply stakeholder theory in the everyday management of a company, as it can be difficult to identify who all the stakeholders claiming the rights or interest in a certain company are, and also understand the degree to which each of these stakeholders hold stakes. To help narrow this down and create categories which simplifies the difference in importance of the stakeholder groups, Freeman (1984) draws a distinctions between primary and secondary stakeholders. While *primary stakeholders* are defined as those whose participation a company needs in order to carry on its business; employees, customers, suppliers, investors, government and

communities, *secondary stakeholders* are defined as those who can affect, or is affected by the company, who are not fundamental to its survival, but who hold a certain ability to help or harm the company (for example the media). A company's primary aim, then, is to create adequate value for its primary stakeholders to make sure they are satisfied and continue to remain part of the company's stakeholder system. Secondary stakeholders should be paid attention to as well, but primary stakeholder's interests are often pursued at the expense of those of the secondary stakeholders in a situation where such interests are conflicting. (Blowfield and Murray, 2008)

According to Freeman's (1984) view of primary and secondary stakeholders, the company will be more responsive to the demands of a stakeholder group holding high ability to influence its activities, leaving the demands of groups lacking capacity to substantially influence company performance as second range. This approach has, however, earned criticism for failing to consider the difference in moral claim between stakeholders, and rather respond to those with the loudest voice or power (Blowfield and Murray, 2008). Phillips (2003), for example, criticized stakeholder theory for not distinguishing between and prioritizing stakeholders based upon moral rather than business obligations, and hence treat stakeholders more as means to corporate ends than as bodies to which interests a company should respond.

While Freeman categorizes stakeholders into primary and secondary according to *degree* of influence, Trebeck (2008) somehow adds to the definition of stakeholders by further dividing stakeholders into three groups according to the *type* of influence they exert upon a company; those holding *formal authority* over a company, including shareholders, managers and directors; those holding *economic influence* and ability to affect the costs and revenues, including customers, creditors and employees; and those able to pressure companies through *political influence* affecting the political and social environment within which a company operates. These stakeholders include local communities, NGO's, activist groups and governments. (Trebeck, 2008)

As the categorization of stakeholders according to type of influence illustrates that companies are challenged with and have to answer to a wide range of demands, the main finding is that companies ultimately react to primary stakeholders regardless of formal, economic or political influence, as one of these might be just as crucial to company activities as the next.

Raising Stakeholder Expectations

A company's reputation is a dynamic concept deriving from the company's ability to define itself, directly manage its stakeholders' impressions, as well as building and maintaining strong relationships with its primary stakeholders. (Schreiber, 2008) The way in which companies manage their interactions with stakeholders largely decides the success or failure of that company, and creating constructive and mutually beneficial relationships with primary stakeholders (in specific) is becoming an increasingly important part of management's role.

Besides having to deal with the needs and expectations of multiple stakeholders, companies also have to adapt and respond to ever growing expectations and changing demands in order to survive in today's business environment. Scholars such as Lawrence et al. (2005) and Carroll and Buchholtz (2008) argue that stakeholder's expectations towards companies social and environmental performances are ever rising, as well as the pace through which these demands shift. In effect, companies are pressured to relentlessly improve their performances in order to meet stakeholder expectations. From the viewpoint of a company, therefore, a problem arises when the gap between what stakeholders expect from their social and environmental performance compared to their actual performance, expands.

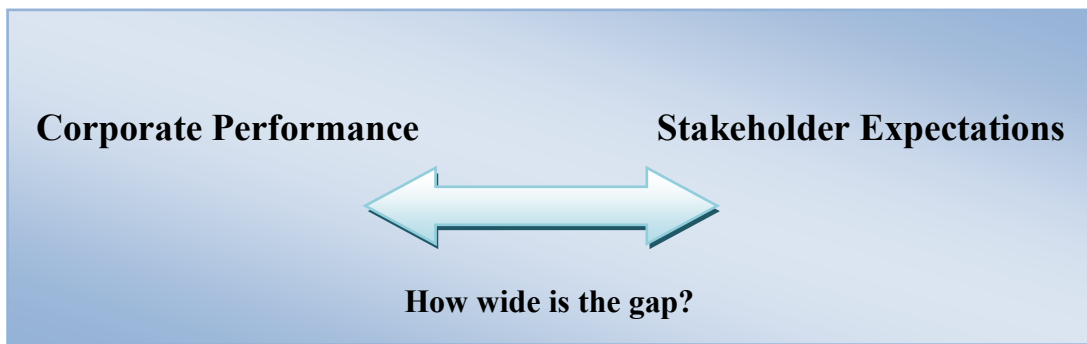


Figure 7: The gap between raising stakeholder expectations and corporate performance and ability to respond. Developed from Lawrence et al. (2005)

Today, stakeholder's expectations typically move faster than companies' ability to respond and adapt and hence creates a situation where companies are subject to growing amounts of criticism. Companies with a large gap between stakeholder expectations and actual performance are victim to public criticism and hence loss of reputational value. (Carroll and Buchholtz, 2008) Figure 7 illustrate the challenge inflicted upon companies by ever increasing stakeholder expectations.

Summary

Businesses' external environments are dynamic and in constant change, and today's businesses must meet both its economic and social-environmental objectives in order to be successful. Although there is some disagreement concerning the purpose of the company and to whom they are responsible, however, the central idea behind stakeholder theory seems to be that companies need to address a set of stakeholder expectations, as stakeholders are vital for the performance and survival of a company. In result, the way companies manage their stakeholder relationships and respond to their stakeholder's needs and expectations are a function of the individual stakeholder group's ability to influence the company's activities. In result, the perceptions and expectations of

stakeholders somehow regulate companies' behavior and make sure they act in a way which is not only beneficial to the company, but also to society as a whole.

Public relations policies and communicating to the often wide range of stakeholders is an important part of doing business. According to Schreiber (2008) the role of public relations within a company can be viewed as 'the voice of multiple stakeholders'. Their job is ultimately to unite stakeholder interests on a certain level and to pull the strategies of the company in the same direction. Chapter 4.2 next draws upon the concept of corporate responsibility as generator of value both for society and business, with special attention to the relatively new trend represented by the strategic communication of corporate responsibility activities.

3.2 Corporate Responsibility

There is a lack of a general definition of corporate responsibility, and many different notions of what the concept really means have arisen. The field of Corporate Social Responsibility (CSR) for example, initially started out with a focus on the behavior of company leaders and how they managed their companies with respect to society and local communities specifically. After a shift in focus in the 1950's, however, the concept of CSR changed into dealing with the company rather than merely its leaders. The Commission of European Communities defines CSR as "*a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis* (2000:6)". CSR can be defined as holding both an internal and external dimension. The internal dimension is made up of activities and improvements directed at conditions inside of the company, which includes human resources management, health and safety and environmental impact and natural resources management. External dimension are those activities beyond the control of the company, such as the global environmental concerns, human rights issues, relationships with local communities, business partners, suppliers and consumers. (Mathis, 2008) The term corporate responsibility will here be used as a collective term to cover all areas falling under responsible business initiatives.

There are several approaches to and interpretations of the motivations behind corporate responsibility such as compliance, philanthropic, the business case and social obligation (Trebeck, 2008). Regardless of motivation for corporate responsibility activities, be it normative or tactical, the strategic integration of corporate responsibility in business seems to create value both for the company and for the wider society (Blowfield and Murray, 2008).

"At Alcoa, sustainability is defined as using our values to build financial success, environmental excellence, and social responsibility through partnerships in order to deliver net long-term benefits to our shareowners, employees, customers, suppliers, and the communities in which we operate." (Alcoa, 2009 a)

Producing and offering high quality products to reasonable prizes does no longer fully meet consumer demands, as today's consumers also want to know the values of the company that created them, the process through which the products were produced and the way in which the profit was distributed. (Morsing, 2003) From a company perspective, a survey initialized by Shandwick and carried out by KRC Research where 950 business executives from 11 countries were interviewed to investigate the link between corporate responsibility and reputation. When asked to name the aspects important to building a good corporate reputation, going beyond merely financial objectives and put efforts into environmental protection and social justice, were highly rated. This survey helps illustrate the fact that today's corporations see corporate responsibility as essential in corporate reputation management. (Shandwick, N.d)

A company's *approach* to corporate responsibility, however, largely varies between companies. While some companies may see corporate responsibility as a way of compensating immoral deeds, others may be less concerned about its influence on corporate reputation, and concentrate more upon how it relates with their long term corporate strategies (Blowfield and Murray, 2008). Although this relationship between actual behavior and corporate reputation is difficult to fully measure, the trend seems to be that companies which base their corporate responsibility marketing on what they are not, earn short-term headlines but also expose their reputation to even greater risk if proven false (Gooderham, 2008).

3.2.1 Communicating Corporate Responsibility

As a growing trend, corporate responsibility issues are being incorporated into existing corporate communication strategies. An aspect of corporate responsibility that have earned considerable attention is the amount of money companies willingly spend on activities such as those related to CSR. A more recent development, however, is the extent to which companies communicate about corporate responsibility issues, as well as the amount of money spent on this communication. (Morsing, 2003)

"Alcoa.... were the companies that received the most attention for their social sponsorship. It seems that companies with the best global reputations have less trouble making their (CSR) efforts recognized." (Covalence, 2009 b: 75)

Companies have until recent years invested in social responsibility without feeling the urge to communicating them. They have rather been considered components of a company's obligations to society as well as a natural element of corporate culture. For those companies with a longer history of corporate responsibility, simply doing good deeds for society has often been of adequate satisfaction to maintain these activities. A rather new tendency, however, is that the initiatives in

themselves are no longer sufficient - they must be communicated to gain value. The possibility of gaining corporate competitive advantage through social and environmental initiatives is attracting more and more attention. In result, a steadily growing amount of corporate communication of companies' initiatives is evident through channels and methods such as sustainability reporting, advertising, company web pages and public relations documents. This extensive communication is motivated mainly by wanting to appear attractive within a market valuing responsible corporations, and in particular in the eyes of consumers. (Morsing, 2003)

Targeting Stakeholders

Simply contributing to social and environmental sustainability does not generate reputational gains if the relevant stakeholders are not informed about them and given the opportunity to respond. Although communication at times might seem more important than the responsibility effort itself, communicating such efforts is inevitable if they are to have any strategic and economic purpose. (Morsing, 2003)

According to Morsing (2003) the emerging critical consumer movements' demand for transparency has undeniably played an important role for the increasing focus and development of diverse social and environmental corporate responsibility initiatives, as the politically conscious consumer would like to know the background of the products they buy. These consumer organizations have emerged from strong disapproval of certain products, misinforming advertising and lacking corporate social and environmental concerns, and have given rise to a new view of consumer as a powerful unit (Christensen, 1995 in Morsing, 2003). The consumer movements was initiated in the latter half of the 50's and early 60's, but have experienced exceptional growth throughout the last decade, both in number of organizations and in terms of media coverage. Companies today are exposed to questions and inquiries concerning their social and environmental responsibilities. If they choose to ignore them they will provoke criticism and negative publicity, and ultimately run the risk of having to answer to even further consumer demands. (Morsing, 2003)

While the politically conscious consumer has been the basic logic for why companies communicate their corporate responsibility activities, Morsing (2003) argues for that government, employees, NGO's and the media should be targeted as well. A company's ability to establish itself as a genuine and responsible actor has a key role in building long-term, positive corporate reputations. In specifically, companies depending on a license in order to operate must demonstrate themselves as trustworthy and loyal towards the government and the society whose interests it represents. Also able to influence a corporate license to operate, however, are the media and critical NGO's, through their capacity to evoke public disbelief and criticism. High risk sectors such as the chemical, pharmaceutical and basic resources sectors specifically depend upon a license to operate, and the support of the media is therefore a delicate but vital factor in building corporate legitimacy. (Morsing, 2003)

A stakeholder often ignored in debates of corporate responsibility communication is employees. When companies engage in social and environmental corporate responsibility communication, the most wary and observant readers are often company employees. From an employee point of view a company's approach and initiatives to corporate responsibility might be the very reason for their choice of workplace, and therefore symbolize pride and identification with the company. In a situation where employees, then, are dissatisfied with the initiatives of its organization or feel that what is communicated does not reflect the company's actual stand, the company might lose quality workforce and inspiration. (Morsing, 2003)

“While working at Alcoa, I’ve learned that sustainability is one of Alcoa’s best values. And it’s not only words.” Dmitry Safin - Information Technology Compliance Coordinator, Samara, Russia (Alcoa, 2008 b: 5)

Correct and Balanced Communication

Throughout the last sub-chapter, the basic assumption has been that stakeholders expect considerable information concerning the corporate responsibility activities of companies, such as whether or not the company treats their employees with respect, cause unnecessary pollution, as well as their human rights policy. Additionally, involvement in corporate responsibility efforts is especially important in times of corporate reputational crisis and general public distrust towards companies, as such efforts often are core elements in regaining corporate reputation. Although stakeholders agree that corporate responsibility is an important driver of corporate reputation, the degree to which companies should communicate their engagement, as well as through what channels, is subject to further discussion. While communication through channels such as CSR reports on company web pages in general are welcomed, some stakeholders find the way in which companies' employ corporate responsibility activities in marketing and PR efforts rather repulsive. A challenge, then, is to find the perfect balance and demonstrate corporate social responsibility without communicating overtly about it. (Morsing, 2003)

It has been found that the more companies communicate their ethical values, the more prone they are to attract critical media attention, and hence risk losing reputational value. This is of particular threat to the companies considering corporate responsibility exclusively as a communication strategy with the single intention of adding to the value of their corporate reputation. What these companies have largely misjudged, is that publically claiming corporate responsibility ultimately is an act of commitment. When a company has expressed its commitment to corporate responsibility, this is a claim difficult to withdraw if not to attract mistrust and damage to their corporate reputation. (Morsing, 2003 and Gooderham, 2008)

Summary

Most corporations today see corporate responsibility activities as an essential part in corporate reputation management, as the strategic integration of corporate responsibility in business seems to create value both for the company and for the wider society on which opinions it depends. A rather new tendency, however, is that the corporate responsibility initiatives in themselves are no longer sufficient - they must be communicated if they are to have any strategic and economic purpose.

The recent trend of extensive communication is motivated mainly by wanting to appear attractive within a market valuing responsible corporations. Although stakeholders agree that corporate responsibility is an important driver of corporate reputation, however, the degree to which companies should communicate their engagement, as well as through what channels, is subject to further discussion. For communication of corporate responsibility initiatives to gain full value, companies need to find the perfect balance and demonstrate corporate responsibility without communicating overtly about it. Most notably, however, is the importance of practicing what you preach. The theory presented throughout this chapter generates two important questions to be applied in the analysis of Alcoa;

How does Alcoa understand their role in 'sustainable development'?

How does Alcoa communicate their CSR activities?

3.3 Reputational Interdependence within Sectors

Various definitions of corporate reputation have been explored and proposed in literature, among others that of Barnett et al. (2006) of corporate reputation as “*observers' collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time* (Barnett et al. 2006:34)”. It has been proposed, however, that the concept of corporate reputation defined by Barnett et al. (2006) can then be expanded to include that a company's reputation also depends upon the actions of other companies, as observers, when determining a company's reputation, might see more than that of the company's previous actions, and hence base their judgment on the previous performance and expected future behavior of the sector to which it belongs (Barnett and Hoffman, 2008). In effect, a company's reputation is in fact entangled with those of other companies within the sector to which it belongs.

Companies within an sector may therefore often find themselves ‘tarred by the same brush’, meaning that when a crisis caused by one company occur, stakeholders tend to punish both the offending company as well as the whole sector to which it belongs (King et al. 2002). This sub-chapter will explore the concepts of reputational interdependence and reputation spill-over between companies within the same sector. In order to avoid concept confusion, however, we will quickly

clarify the difference between the two and interlinked concepts ‘reputational interdependency’ and ‘reputational spill-over’. ‘Reputational spill-over’ is the process through which two companies’ reputations become interlinked. This process and its causes will be explained in chapter 4.3.2. ‘Reputational interdependency’, explained in chapter 4.3.1, however, is the state of the companies’ reputations once the process of reputational spill-over has occurred. When the reputations of companies within a sector are interlinked and difficult for stakeholders to tell apart, we have a situation of reputational interdependency. Reputational interdependency, however, is only a problem when a reputational crisis originates in one company, and spreads to the others.

3.3.1 An Expanded View of Corporate Reputation

Various scholars have suggested that corporate reputation is an essential source to competitive advantage. Although most available research views reputation at the company level, some scholars such as Barnett and Hoffman (2008), King et al. (2002) and Yu and Lester (2002) propose that a company’s reputation can be defined as a *common resource* shared by the companies in a sector.

Based upon and partly adapted from the work of King et al. (2002) figure 8 below illustrates this somewhat expanded view of corporate reputation. The bold arrow crossing the centre of the figure represents the traditional view of corporate reputation described by Barnett et al. (2006) as the sum of all stakeholders’ observations of a company’s impacts up to a certain point in time (t_0). The company’s reputation at point (t_0) further drives the expectations of the stakeholders’ about the behavior of the company from that point on. This view hence sees corporate reputation as a tool enabling stakeholders to some degree predict the future actions of a company, such as whether or not it is likely to be considerate towards and support its nearby communities, treat its customers and employees with respect, and to create adequate returns for its shareholders. (King et al. 2002)

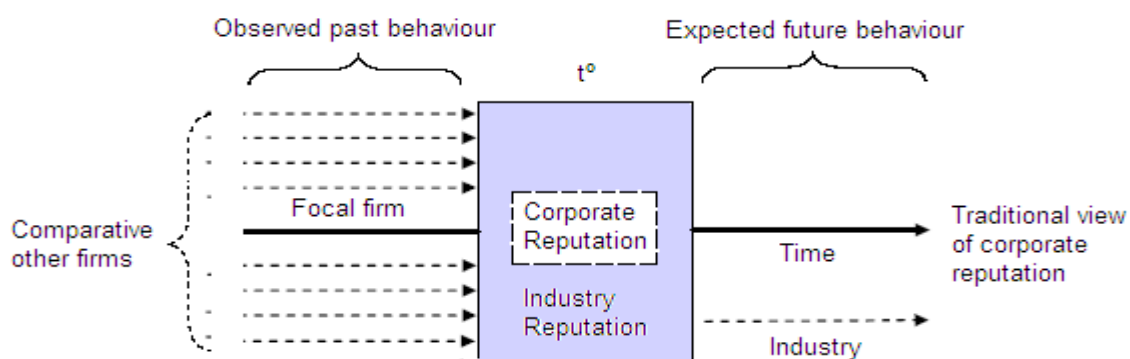


Figure 8: An expanded view of corporate reputation. Developed from King et al. (2002)

As stakeholders with little probability hold full information about a company at all times, it is found that they primarily depend upon a company's reputation to make decisions. As we have seen, however, this can cause problems when the traditional view of corporate reputation, as shown by the bold arrow in figure 8, is expanded to also depend upon the actions of other companies within its sector, and the concept of corporate reputation hence is expanded beyond merely the corporate level. According to this view of a company's reputation as interlinked with and entangled in the reputations of the other companies within the same sector (represented by the dashed lines in figure 8) stakeholders see more than merely the company's prior behavior when making judgments about its previous behavior and develop prospects about its future behavior. They tend to see the previous actions of related companies as well, and hence also base their expectations of the future behavior of the focal company not only upon its own past, but also upon the actions of others. (King et al. 2002)

Figure 8 helps illustrate the concept of reputational interdependence within sectors, but which other companies' actions tend to influence a certain company's reputation and what characterizes the nature of such interdependence is yet to be answered. These issues are addressed in the sub-chapter to come.

3.3.2 Causes of Reputational Spill-Over

Yu and Lester has defined the concept of 'reputational spill-over' as occurring "*when the damage of one organization's reputation spills over to another* (Yu and Lester, 2002:5)", and have chosen to approach this concept from a social networking perspective, arguing that network positioning can be used to clarify the differences in degree of negative reputational spill-over between companies within an sector.

Based upon the expanded view of corporate reputation by King et al. (2002), a reputational crisis, defined by Zyglidopoulos and Phillips as "*a situation in which important stakeholders negatively re-evaluate their opinions and beliefs about the company* (Zyglidopoulos and Phillips, 1999:335)", happening within one company may potentially harm the reputation of another company within the same sector, if not the sector as a whole. As most stakeholders neither hold adequate information to properly calculate the sources of such a reputational crisis, nor the ability to decide its impact on the reputation of other companies, Yu and Lester (2002) suggest that stakeholders will punish all companies based upon the companies' *perceived* relatedness to the damaged company. According to Yu and Lester (2002) this perceived relatedness and hence explanation for how a reputational crisis spreads from one company to others within its sector, can be due to the two mechanisms of network properties; *proximity* and *structural similarity* to the company causing the crisis. These two mechanisms are not, however, mutually exclusive.

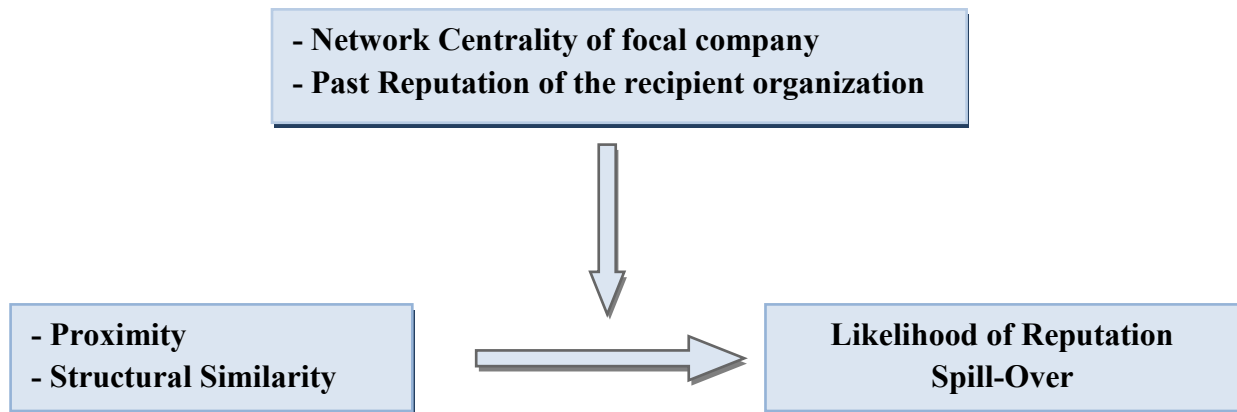


Figure 9: A framework of reputation spill-over. Developed from Yu and Lester (2002)

Proximity

Reputational spillover due to *proximity* indicates that communication between companies is more convenient when these are directly linked, as well as less convenient when there are elements separating them. According to Yu and Lester (2002) inter-organizational bounds works as pipes through which information and other transactions are transferred between companies. Such direct contact (collaboration) between companies within the same sector may promote information exchange and strategic interdependency between companies. Shortening the distance between companies based upon inter-organizational bounds, however, it is also likely that they will adopt some of each other's values and orientations. In sum, the more frequent communication and closer bounds between companies, the more closely will they resemble each other, and the more proximate they become. This same logic is applied by stakeholders when attempting to interpret the characteristics of companies in the aftermath of a reputational crisis. Hence, a reputational crisis is more likely to spread to another company within the same sector if it has direct and frequent contact with the focal company. (Yu and Lester, 2002)

Structural Similarity

Reputational spillover due to *structural similarity* evolves around the categorization of companies by stakeholders based upon perceived similarities of their key attributes. This may happen independently of any direct contact, communication or alliances between the companies in question. (Yu and Lester, 2002) Research carried out by Hannan and Freeman (1984) illustrates that those companies demonstrating resembling key attributes, for example organizational goals, marketing strategies or technologies, are more prone to be put into the same categories by stakeholders. There are several reasons as to why structurally similar companies are prone to be associated with each other, as for example similar organizational structure may imply that two companies respond in the same way to changes in the environment, or holding the same organizational goals may result in

companies communicating similar opinions despite not being in any direct contact with each other. Taking these factors into consideration, one may claim that in a situation where stakeholders lack adequate information to untangle the sources and consequences of a reputational crisis, they may punish companies sharing similar structural attributes as the focal company. As opposed to reputational spillover due to *proximity*, however, a reputational spillover due to structural similarities does not necessarily involve any direct contact between companies. (Yu and Lester, 2002)

If it is so, that structural similarity affects the likelihood of reputational spillover between companies it may also be true that specialization and product differentiation within a sector protects the companies from being affected by the reputational crisis of other companies, as this information might be less relevant for their business (Gaspar and Massa, 2004 in Yu and Lester, 2002).

The degree of influence proximity and structural similarity has upon reputational spillover within an industrial sector depends upon several other factors, as illustrated in Figure 9. The next paragraphs will briefly explain two such factors, being *network centrality of the focal company* and the *past reputations of recipient companies*.

Network Centrality of Focal Company

The effects of proximity and structural similarity on the probability of reputation spillover depend upon several factors. First of all, Yu and Lester suggest that the effect of reputation spillover is the strongest when the origin of the reputational crisis is a company of high *network centrality*, meaning that reputational spillover will have a stronger effect if originating from a company with high prominence, power and status within the sector. Hence, one company's important position within its sector often also implies that they hold the most central positions within the sector's network. Such companies are often subject to more stakeholders and receive more public attention and publicity than those holding less central network positions. As a result of this extra attention, the availability of information on these companies, as well as the public's awareness and acquaintance with them will increase. (Yu and Lester, 2002) When a reputational crisis happens, then, it is more likely that it will earn coverage and hence also more likely that it will spread and affect other companies within the sector through factors such as proximity and structural similarity.

Additionally, the companies holding the central positions within sector networks are more likely to set the standards for, influence and also to some degree control the activities and decision-making of other companies within its sector. (Yu and Lester, 2002) One may therefore claim that they somehow serve as representatives as well as images for their networks, and may influence interests and attentions such as those towards a reputational crisis. Therefore, when a crisis occurs at one of the central companies, information is more likely to reach the public, and hence also to other companies within its network and sector.

Past Reputations of Recipient Companies

The last factor influencing the degree of proximity and structural similarity upon reputational spillover within an industrial sector emphasized by Yu and Lester (2002) is the past reputation of the other companies within a sector. They claim that companies holding a positive corporate reputation prior to being exposed to reputational spillover might not be hit as hard as those with a less favorable reputation.

Yu and Lester (2002) present two separate explanations for the effect of past reputation on the likeliness of reputational spillover on a recipient company. One of the attributes of a corporate reputation is that it is 'sticky'. Wartick (1992) concludes from his research that stakeholder's perception about a specific company is difficult to change, even when they are confronted with negative information. While corporate reputation is not immune towards negative publicity, it still carries valuable information about a company and is not easily replaced. When a certain environment is disrupted by a sudden event, stakeholders tend to look to historical evidence to find direction in the new situation.

The second argument is build upon the concept of 'reservoir of goodwill', meaning that corporate reputation also can be used in a defensive manner. In a situation where a company finds itself on the brink of reputational crisis, stakeholders tend to give them the benefit of the doubt if in hold of a positive corporate reputation. (Yu and Lester, 2002) This theory is supported by the observations of several other scholars on the subject of corporate reputation, such as Schreiber (2008) claiming that companies which meet the needs and interests of their stakeholders over time increase the resilience of their corporate reputations, reduce their reputational risk, and provide themselves with a 'halo effect' which protects them when exposed to reputational crisis.

Beder (2002) and Burke (1999) further claim that companies holding positive corporate reputations may recover more quickly after a reputational crisis, as positive corporate reputations affect stakeholders' willingness to forgive. It is also possible that companies, in the process of building a positive corporate reputation for themselves, somehow institutionalize the values in which they want to be associated with, and hence earn protection from stakeholders on the basis of its historical contributions to society. A company in hold of no 'reservoir of goodwill', however, is more prone to negative influence from a reputational crisis within its sector.

"In times of economic recession every company is confronted with criticisms related to lay-offs and their corollary social effects on workers, families, communities and societies at large." (Covalence, 2009d: 56)

"The recent economic down-turn....., downsizing and jobs cuts have weighted heavily on the Basic Resource sector's ethical performance." (Covalence, 2009b:73)

".....Moreover, the average Basic Resources' company fell (in Covalence's reputation index) by nearly 40%, while Alcoa lost little more than 7% from their peaks in July 2007". (Covalence, 2009c: 57)

"The average Basic Resources company even continued its momentum below the overall benchmark. In comparison, Alcoa is still comfortably installed as a leader in Covalence ethical ranking." (Covalence, 2009d: 56)

Summary

This sub-chapter has presented theory explaining how reputational spill-over occurs within a sector. The key concept in Yu and Lester's (2002) theory of the causes of reputational spill-over is the interpretations and reactions of stakeholders. When changes in the environment, such as a reputational crisis occur, then, the perception stakeholders hold of a company may abruptly be changed. Determining the impact of a reputational crisis entails correct information, and stakeholders often find themselves in a situation of ambiguity where it is difficult to distinguish between the individual companies. Yu and Lester's central argument is that other companies within the same sector may be affected by a reputational crisis at a focal company, not inevitably because they too are guilty, but because stakeholders perceived them to be proximate or structurally similar to the focal company. We have further found that the magnitude of influence of proximity and structural similarity on the likelihood of reputational spillover depends upon several factors, two in which explained in this chapter; the network centrality of the focal company and the past reputation of the recipient company.

The factors influencing reputational spill-over as described throughout chapter 2.3.2 raises some questions which will serve as basis for the analysis of Alcoa;

Is Alcoa involved in any inter-sector alliances or other collaborative initiatives?

How can Alcoa's positive corporate reputation give them an advantage in times of distress compared to other companies within its sector holding less favorable reputations?

The theory related to the network centrality of the focal company as introduced in this chapter cannot directly be applied in the analysis due to data limitations related to the network structure of the Basic Resources sector, as well as lack of case studies to illustrate in the case of Alcoa. It does, however, raise an interesting perspective. If this theory can be applied to explain how the central network position of a focal company can aggregate the extent to which other companies are affected by reputational spill-over, can it then also be used to explain how Alcoa's network position, if central, can affect the extent to which it is influenced by reputational spill-over? Inspired by this potential link, it is asked;

How can Alcoa's network position in the Basic Resources sector influence the degree to which it can avoid reputational spill-over?

4. Analysis

This chapter provides an analysis of Alcoa, applying the sub-questions developed throughout chapter 4 as analytical framework. 4.1 is dedicated to identifying factors of how Alcoa earned its positive corporate reputation in the first place. Alcoa's sustainability approach and subsequent communication are given special focus. The last three sub-chapters deal with the mechanisms highlighted in Yu and Lester's (2002) social networking perspective on the causes of reputational spill-over, arguing that proximity, network centrality and the reputation of recipient companies can be applied to clarify the differences in degree of negative reputational spill-over between companies within a sector, on the case of Alcoa.

4.1 Corporate Responsibility

This sub-chapter evolves around identifying Alcoa's approach to sustainability as well as how they communicate their sustainability efforts.

4.1.1 Sustainability Approach

This sub-chapter answers the following question; *How does Alcoa understand their role in 'sustainable development'?* According to Alcoa's homepage it is necessary to define sustainability in line with and as principles transferrable to their operational levels. In result, Alcoa defines sustainability as building *"financial success, environmental excellence, and social responsibility through partnerships in order to deliver net long-term benefits to our shareowners, employees, customers, suppliers, and the communities in which we operate (Alcoa, 2009 c)"*.

Alcoa's commitment to sustainability has a long history, and they claim to hold a leadership role on sustainability issues both within the Basic Resources sector and beyond its sector boundary. According to Alcoa (2009 c) addressing sustainability issues and proving themselves as a genuine and responsible actor in turn leads to the approval and attraction of governments and communities, improved access to land, capital, markets, people and resources.

According to Alcoa, their goal is to integrate sustainability concepts into their various operations and activities, and they put great focus on understanding their various stakeholders' expectations as well as remaining transparent in reporting their progress and setbacks, as key components in achieving this goal. As a tool for achieving their goal of integrating sustainability into the way in which they do business, Alcoa has developed the '2020 Strategic Framework for Sustainability', which is a strategic approach and framework for integrating sustainability into Alcoa's overall business strategy. (Alcoa, 2009 c)

Alcoa's 2020 Strategic Framework for Sustainability was developed in 2000 by a team made up of worldwide Alcoa representatives, and was aimed at integrating all aspects of sustainability into Alcoa's day-to-day operations. The framework is based upon six focus areas economic benefit; respect and protection of employees; respect and protection of communities; safe and sustainable processes and products; efficient resource use and accountability and governance. The framework, provided as a whole in Appendix IV, is supported by clear targets which also help measure progress towards Alcoa's vision for 2020, in form of both long and short term metrics for each respective focus area. Alcoa have already met several of their targets for 2020, but also demonstrate transparency concerning the targets they have failed to advance towards, mainly those targets concerning resource efficiency. (Alcoa, 2009 d) While falling short of reaching some of their targets, however, it is worth mentioning that these are quite ambiguous, developed well aware of that some might not be achievable, and rather designed to push performance and force the company to find new and more efficient solutions. An example is that of Alcoa's target of reducing their mercury emissions with 80 percent between 2000 and 2008. While they came short of their objective with 57 percent, they are still leading the Basic Resources' sector efforts in addressing mercury, and remain committed to developing new practical solutions to reducing their emissions in the future. (Alcoa, 2008 b)

Alcoa has a rather instrumental approach to sustainability as it is made quite clear that their main motivation for addressing sustainability issues is to prove themselves as a genuine and responsible actor ultimately because it helps provide 'a license to operate' through the approval and attraction of communities and governments, and hence also access to land, markets, resources and so on. They also, however, demonstrate a strong commitment to sustainable development through a comprehensive integration of sustainability issues and targets into their overall business strategy and on all levels of their operations. It seems as if Alcoa has managed to transfer the wide concept of sustainable development into real and applicable targets in day-to-day business operations, and simultaneously demonstrate a deep dedication to reaching these targets. While being satisfied with their own performance within many of these areas, Alcoa also show transparency when it comes to the areas and targets where they have not succeeded, and acknowledge that there is a need for new approaches in order to properly reach them in the future.

4.1.2 Communicating Corporate Responsibility

The sub-question '*How does Alcoa communicate their CSR activities?*' involves identifying the extent of Alcoa's corporate responsibility communication, and the reporting structure through which Alcoa communicate part of their corporate responsibility activities.

According to Morsing (2003) a steadily growing amount of corporate communication of companies' corporate responsibility initiatives is evident through channels and methods such as sustainability reporting, advertising, company web pages and public relations documents. This extensive communication is motivated mainly by wanting to appear attractive within a market

valuing responsible corporations. In identifying the reporting structure through which Alcoa communicate their corporate responsibility activities and progress, Alcoa's homepage (Alcoa, 2009 e), designed to provide their stakeholders with access to up to date and detailed information on Alcoa's sustainability performance, is applied. Alcoa has produced annual sustainability reports on its economic, social and environmental performance since 2002, and their sustainability reporting sitemap is designed both to demonstrate the way in which sustainability is integrated into the different aspects of Alcoa's operations, as well as to promote best practice in all Alcoa instances and in all countries where they operate. It is also meant to serve as an instrument for research and education for their internal and external stakeholders. (Alcoa, 2009 e) Although there is a lack of accurate data illustrating all channels applied by Alcoa in communicating their initiatives, this webpage does reflect the sustainability issues and activities Alcoa find it necessary to report to their stakeholders about, as well as the way in which they structure their communication.

Alcoa's sustainability reports are put together by some 20 top leaders and other employees from all regions where Alcoa operates. Their sustainability reporting, among other information such as case studies and smaller reports and presentations, include annual Corporate Sustainability Reports for Alcoa as a whole, as well as individual Regional Sustainability Reports from the six main regions where Alcoa operates. (Alcoa, 2009 e) It also provides a GRI index in line with the Global Reporting Initiative's (GRI) G3 sustainability reporting framework, a voluntary, standardized framework consisting of different principles and indicators in which companies can use when measuring and reporting on their economic, social and environmental performance. Applying such frameworks as the one offered by GRI benefits both the reporting company in terms of providing guidelines, as well as stakeholders wanting to compare the performance of companies. (GRI, 2010 a)

While Alcoa does offer a GRI index and corresponding GRI Mining and Metal sector supplement (a specialized supplement framework additional to the universal 3G guidelines, required for sectors facing unique needs), however, they do not fully apply the 3G framework in their annual reports, nor provide all required information to fulfil all requirements in the GRI index. (Alcoa, 2009 f) Alcoa also mentions the sustainability reporting framework of International Council of Mining and Metal (ICMM) in terms of their 10 Sustainable Development Principles (Alcoa, 2009 e), developed in 2003 for corporate members to implement and measure their sustainability performance against (ICMM, 2009). In addition to the GRI and ICMM sustainability reporting frameworks, it is implied that criteria from other organizations also are used in framing Alcoa's sustainability reporting (Alcoa, 2009 f), and that supplementing information sources to those of annual sustainability reports should be reviewed in order to get the full picture of Alcoa's sustainability approach and performance. (Alcoa, 2009 e)

While Alcoa's sustainability sitemap seems to provide a thorough and transparent review of Alcoa's sustainability targets and performance, their reporting structure might have been more easy-to-follow for their stakeholders if all relevant information was provided in one report based on one clear set of sustainability reporting framework, as opposed to providing incomplete information

based upon several different frameworks. Alcoa does also imply, however, that they are currently working to improve their sustainability reporting, and employ a stakeholder panel to review and provide feedback and recommendations to their sustainability reports, which is taken into consideration during the preparation of next year’s sustainability report. (Alcoa, 2010)

While it is known that Alcoa performs well in Covalence’s rankings based on positive versus negative publicity, it is interesting to look at the extent to which Alcoa itself contributes to this publicity through communication of own corporate responsibility initiatives and stand. Figure 10 illustrates the distribution of positive and negative publicity among all companies within the Basic Resources sector as tracked by Covalence between 2008 and 2009. This figure illustrates that Alcoa not necessarily gets far less negative publicity than the average company, but that they receive enough positive coverage to offset this negative publicity and hence add positive reputational value. A question raised in relevance to Alcoa’s communication strategy is then to what extent Alcoa itself has contributed to this positive coverage, which allows them to offset the negative publicity and be among the top companies in Covalence’s reputational rankings year after year.

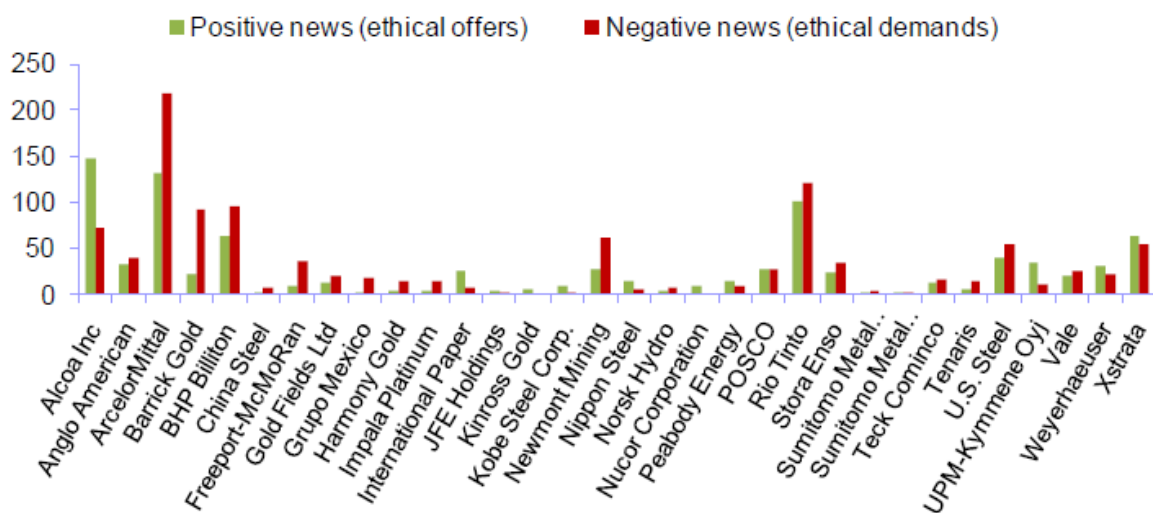


Figure 10: Comparative distribution of positive and negative news among the companies across Basic Resources companies between July 2008 and June 2009. (Covalence, 2009 b)

Figure 11 presents the distribution of positive and negative news within source groups for Alcoa during the first quarter of 2009, and provides an indication of the extent of publicity (on which Covalence’s rankings are based upon) stemming from Alcoa itself. Press, Specialized Press and Enterprise Headquarter are the main sources of positive Alcoa news. Measuring negative news, Press, Specialized Press and Individual are the main sources. (Covalence, 2009 c) What is interesting in relation to extent of publicity originating from Alcoa itself regarding corporate responsibility activities and initiatives, however, is that Alcoa, according to this data, is not the main source of positive publicity. It also shows that Alcoa publish some negative news regarding their own operations. This can both imply that Alcoa are careful with communicating too much

positive news on their own part, and also that they are transparent not only concerning areas where they are front runners, but also on issues where they find the need to improve in the future.

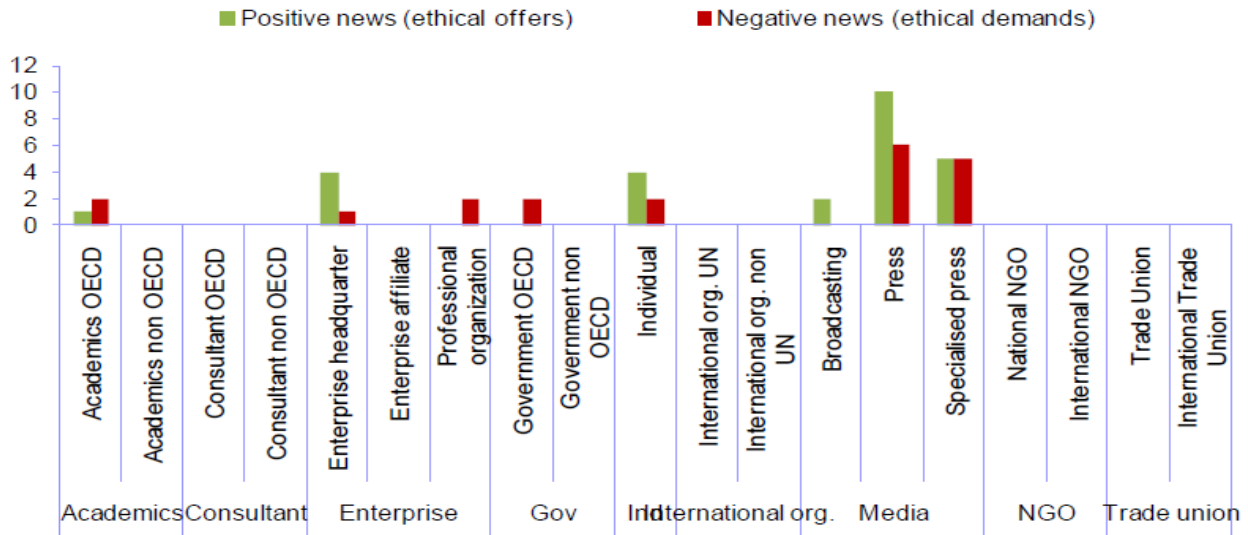


Figure 11: Alcoa news according to source group in Q1 (Covalence, 2009 c)

What figure 11 does not show, however, are the press releases from Alcoa which are published by the media, but which originates from Alcoa itself. An example is the British on-line press company Newswire, which is classified under Press in Covalence's system, but which also offers online press release services to companies who would like to communicate to the wider public at large. Another example is CSRwire, a press agency specialized in corporate social responsibility and sustainability, which offers their members such as companies, NGO's, and other organizations interested in demonstrating and communicating their corporate responsibility efforts to the wider public, to submit their news (CSRwire, 2009). While there is a lack of data confirming such suspicions, there is a possibility that an extensive percentage of the positive publicity of Alcoa classified under the main source group Media in figure 12 in reality originates from Alcoa itself.

Taking this assumption into consideration, there is a valid chance that Alcoa can have manipulated Covalence's rankings to their advantage through communicating a lot of positive aspects through press releases and hence balance the negative attention gained from other sources. This is an advantage of being a multinational corporation with almost unlimited economic resources compared to smaller companies which cannot afford to communicate as much on their efforts. Holding on to this assumption, this might imply that Alcoa's most successful strategy is their strong focus and communication of corporate responsibility issues, as these activities might earn enough positive coverage to allow them to balance negative publicity.

Sub-Conclusion

Alcoa seems to hold a somewhat instrumental approach to sustainability as their main motivation is to be viewed as a genuine and responsible actor ultimately because it helps them obtain ‘a license to operate’ by attracting communities and governments, access to land, markets and resources. Alcoa does also, however, demonstrate a rather strong commitment to sustainability through the integration of sustainability principles and ambiguous targets into their overall business strategy from the corporate to the local level of operations. Alcoa has managed to transfer the wide concept of sustainability into real and applicable targets in day-to-day operations, while at the same time demonstrating a dedication to reaching these targets. While expressing satisfaction with own performance within many of these areas, Alcoa also show transparency when it comes to the areas and targets where they have not succeeded, and acknowledge that there is a need for new approaches in order to properly reach them in the future.

Alcoa’s sustainability sitemap (webpage) provides a thorough and transparent review of Alcoa’s sustainability targets and performance. Nevertheless, their reporting structure might have been more applicable for their stakeholders if the relevant information was presented according to one sustainability reporting framework, such as the Global Reporting Initiative’s (GRI) G3 sustainability reporting framework, as opposed to providing incomplete information based upon several different frameworks. Alcoa are currently in the process working to improve their sustainability reporting, however, and also make use of a stakeholder panel to review their annual reports and provide feedback to be taken into consideration during the preparation of next year’s sustainability report. (Alcoa, 2010)

According to statistical data collected from Covalence, Alcoa itself is not the main source of positive publicity regarding its sustainability performance. This finding can imply that Alcoa is careful not to over-communicate their efforts, and demonstrating transparency not only within those areas where they are front runners, but also on issues where they find the need to improve in the future. It is also suggested, however, that certain characteristics in Covalence’s ethical quotation system methodology might result in some positive publicity on Alcoa classified under the main source group Media in reality originates from Alcoa itself. A possibility, then, is that Alcoa may be able to manipulate Covalence’s rankings to their advantage by communicating their positive sustainability performance through press releases and consequently balance negative attention gained from other sources. While this is an assumption which is difficult to confirm, such a scenario may imply that Alcoa’s most successful strategy in obtaining a positive reputation and hence avoid reputational spill-over is their strong focus and communication of their corporate responsibility performance.

While this chapter has not identified any factors contributing to Alcoa avoiding reputational spill-over as such, it does identify some factors explaining how Alcoa has earned its positive corporate reputation in the first place, and is relevant as basis for the next sub-chapter concerning the value of

holding a positive corporate reputation prior to being exposed to a reputational crisis and hence spill-over.

4.2 Reputation of Recipient Company

Yu and Lester (2002) have suggested that companies holding a positive corporate reputation prior to being exposed to reputational spillover might not be hit as hard as those holding a less favorable reputation. They presented two explanations for the effect of past reputation on the likeliness of reputational spillover on a recipient company. The first argues that a stakeholder's perception about a specific company is difficult to change as it still carries valuable information about a company and therefore is not easily replaced. This phenomenon is difficult to transfer to the analysis of Alcoa because of lacking empirical data to support any such linkage. Yu and Lester's (2002) second argument propose that reputation also can be used in a defensive manner as stakeholders tend to give a company with a positive reputation the benefit of the doubt. Schreiber (2008) similarly argues that companies which meet the needs and interests of their stakeholders over time increase the resilience of their corporate reputations, reduce their reputational risk, and provide themselves with a 'halo effect' which protects them when exposed to a reputational crisis. These arguments can to some extent find support in the case of Alcoa.

The sub-question addressed in this sub-chapter, *'How can Alcoa's positive corporate reputation give them an advantage in times of distress compared to other companies within its sector holding less favorable reputations?'*, can be answered by applying an example from the recent economic downturn. Empirical data gathered from Covalence's reports on Alcoa from the two first quarters of 2009 as well as the Basic Resources report from 2009 (all found in Appendix V) is applied as basis for analysis.

According to Covalence (2009 b), the recent economic regression which affected the financial situation of most all sectors, weighted especially hard on the ethical performance of the Basic Resources sector in Covalence's rankings. It was suggested that this was mostly a result of criticism related to the social and economic consequences from job-cuts and downsizing on employees and even whole communities (Covalence, 2009 d). Covalence rankings throughout this economic regression, however, also illustrate that Alcoa's reputation was affected far less by the negative publicity in the aftermath of job-cuts than the average Basic Resources company. While the average Basic Resources company fell with close to 40 percent in Covalence's reputation index, Alcoa merely fell 7 percent from their peak performance in July 2007, and still hold their position in the top 10 companies on Covalence rankings (Covalence, 2009 c).

Alcoa's corporate reputation seems to be a result of a long tradition of corporate responsibility and responsible business practices, as it has always been sector leader (figure 4) as well as among the top companies of Covalence's cross-sector rankings since 2002. As the economic regression did come into being as a result of the actions of a few companies, as often is the cause of a reputational

crisis according to the theory presented in chapter 2, Alcoa has not avoided reputational spill-over in the same sense as implied by the theory. Nevertheless, the economic regression and Alcoa seemingly avoiding as much negative publicity as the average Basic Resources company illustrates an actual situation where Alcoa clearly has managed to avoid a reduction of their reputational capital in contrast to the other Basic Resources companies. This may also be a result of Alcoa having handled any potential job cuts and their employees in a better manner than other Basic Resources companies, or due to differences in financial situation and therefore less need for such drastic measures. Linking this empirical finding to the theory of Yu and Lester (2002) and Schreiber (2008), however, holding a positive corporate reputation might very well be part of the reason why Alcoa has avoided large extents of negative publicity. If this is so, Alcoa's positive corporate reputation may indeed have provided them with 'a reservoir of goodwill' from their stakeholders, and finally worked as a defense mechanism against external negative publicity.

While it has been suggested that Alcoa's positive reputation might be part of the reason why they has managed to avoid reputational spill-over for so long, another interesting advantage of holding a positive corporate reputation may also be proposed. According to Covalence (2009 b) Alcoa was one of the companies which received the most publicity for its social sponsorship initiatives in 2009. It is further claimed that companies topping Covalence's reputational rankings seems to earn more recognition for their CSR efforts. Based upon these findings, then, it is suggested that companies with positive reputations not only hold an advantage when it comes to avoiding reputational spill-over and negative publicity, but also that they have an advantage when it comes to earning attention and recognition for their CSR efforts.

Sub-Conclusion

While the recent economic regression is found to weigh particularly hard on the ethical performance of the Basic Resources sector, Alcoa's reputation was affected far less by the negative publicity in the aftermath of job-cuts in Covalence's reputational rankings than the average Basic Resources company. Alcoa's positive corporate reputation prior to the economic regression might have been a contributing factor as to how Alcoa avoided the same amount of negative publicity as the other companies holding less favorable reputations. Although stressing that it is an assumption only, Alcoa's stakeholders might react in the same way in a situation where they do not hold adequate information to properly calculate the sources of a reputational crisis, and give Alcoa the benefit of the doubt in a case of reputational crisis in the Basic Resources sector. A factor which might have contributed to Alcoa avoiding reputational, then, is the defensive mechanism provided by holding a positive corporate reputation in the first place.

4.3 Proximity

As most stakeholders neither hold adequate information to properly calculate the sources of such a reputational crisis, nor the ability to decide its impact on the reputation of other companies, Yu and Lester (2002) suggest that stakeholders will punish all companies based upon the companies' *perceived* relatedness to the damaged company. According to Yu and Lester's (2002) theory as presented in chapter 3.3.2, a reputational crisis is more likely to spread to another company within the same sector if it has direct and frequent contact with the focal company, as they claim that "*interaction breeds similarity and similarity breeds interaction* (Yu and Lester, 2002:11)". Hence, it might be unfortunate with a lot of direct contact and alliances between companies if one attempts to avoid reputational spill-over. Transferring this theory to the case of Alcoa, it was asked; '*Is Alcoa involved in any inter-sector alliances or other collaborative initiatives?*'

While Yu and Lester (2002) do not specify *type* of contact or alliances, the focus in this sub-chapter is specified at alliances on *corporate responsibility initiatives*, based upon available data. The data used in order to find whether or not Alcoa has been involved in any inter-sector alliances or other collaborative initiatives on corporate responsibility issues, is Covalence's database which holds all news stories gathered on Alcoa between 2002 and 2009. The news stories sourced from Alcoa itself (301 news stories provided in Appendix V) have been extracted and analyzed one by one to identify to what extent Alcoa communicate alone or if collaborative initiatives and alliances with other inter-sector peers are mentioned. Only analyzing the news stories originating from Alcoa generates potential limitations as data from other sources which might deal with Alcoa and their potential partnerships might be lost. However, as the information sourced from Alcoa is carefully gathered over a period of 7 years between 2002 and 2009, this data should provide an indication of what Alcoa consider important issues – including any potential inter-sector alliances and partnerships.

Having searched through this data with focus on partnerships and alliances, four partnership organizations was specifically mentioned; USCAP (United States Climate Action Partnership); GPMDG (Green Power Market Development Group); WBCSD (World Council for Sustainable Development) and S.E.E. Change. Having searched through these partnerships organization's web-pages for member lists, it is clear that these partnerships and alliances are made up of companies from all sectors with a common interest for sustainability. There was hence no indication that Alcoa is involved in any inter-sector alliances with focus on sustainability. A table presenting the four partnerships including the member companies from Covalence's top 80 rated companies is provided in appendix VI.

According to King et al. (2002) in their article '*Strategic responses to the reputation commons problem*', *information* is the key element in any solution to avoid reputational interdependency. They claim that companies should communicate all progress in performance to their respective stakeholders, in order to help these stakeholders to distinguish between companies of varying levels of corporate responsibility performance. When the cost of providing information to differentiate each company's performance is too high, however, groups of companies may group together to

reveal information concerning sector sub-groups, as this can reduce the cost of processing information both for the member companies and their stakeholders, in addition to distinguishing the performance of club members versus non club members. While such clubs do not differentiate individual member companies, they may help improve the corporate reputation of member companies in preference to those of non members. It is important, however, that the memberships in such elite sub-groups are under careful control, as memberships in a club elevating companies' performance naturally forms incentives for all sector companies to join, regardless of performance. As the whole idea of such elite clubs is to jointly communicate common performance as better than the rest of the sector, low-performing members will compromise this message, and it is hence vital that entrance criteria are set in order to keep the integrity of the so called elite club. (King et al. 2002)

Transferring this theory to the case of Alcoa and the findings from the database and partnership member lists, an interesting discovery is that a particularly high number of companies from within Covalence's top 80 rated companies (Covalence, 2009 e) were found on the four member lists. Instead of involving themselves in inter-sector alliances with other Basic Resources companies, then, it seems as if Alcoa has teamed up with other top performing cross-sector leaders. As most other Basic Resources companies have negative ethical reputations and therefore not able to contribute in any inter-sector elite club in relation to sustainable development issues, Alcoa would gain limited benefits from any such alliances, and are much better off privatizing and differentiating their corporate reputation independently. An additional argument against engaging in any such inter-sector alliance on the part of Alcoa, is that companies within the same sector obviously are competitors, and that Alcoa therefore can benefit more by promoting its own reputation, and hence gain competitive advantage. Rather than involving in inter-sector alliances, as suggested by King et al (2002) then, Alcoa has chosen to group up with other cross-sector top performing companies to reveal information concerning their common mission, while simultaneously saving the cost of communicating, differentiating themselves from the negative reputation of their sector as a whole, and gaining a competitive advantage compared to their initial competitors.

Sub-Conclusion

Alcoa is not involved in any inter-sector alliances or other collaborative initiatives on sustainability. Rather than getting involved in inter-sector alliances and partnerships related to sustainable development, Alcoa has grouped up with other cross-sector top performing companies to reveal information concerning their common mission. Two arguments as to how teaming up with other cross-sector leaders in reputational rankings rather than engaging in inter-sector alliances and risk being associated with poorly ranked companies and hence be exposed to negative reputational spill-over, is found. First, Alcoa would gain limited benefits from any inter-sector alliance as most other Basic Resources companies have negative ethical reputations and therefore not able to contribute in any inter-sector elite club in relation to sustainable development issues. Alcoa is therefore better off privatizing and differentiating their corporate reputation independent on other Basic Resources

companies. Second, companies within the same sector are competitors, and Alcoa may benefit from promoting its own reputation and gain competitive advantage to the sector as a whole. A factor which might have played a role in Alcoa avoiding reputational spill-over, therefore, is that Alcoa avoid being associated with other inter-sector companies on sustainability performance, and rather with other cross sector leaders, on issues of sustainability.

4.4 Network Centrality

Yu and Lester's (2002) theory on reputational spill-over as presented in chapter 3.3.2 suggest that the effect of reputational spill-over is the strongest when the origin of the reputational crisis is a company of high *network centrality*, meaning that reputational spill-over will have a stronger effect if originating from a company with high prominence, power and status within the sector. Such companies are often subject to more stakeholders and receive more public attention and publicity than those holding less central network positions. As a result of this extra attention, the availability of information on these companies, as well as the public's awareness and acquaintance with them will increase. (Yu and Lester, 2002) When a reputational crisis happens, then, it is more likely that it will earn coverage and hence also more likely that it will spread and affect other companies within the sector through factors such as proximity and structural similarity.

This part of the theory cannot directly be applied in this analysis, as it is merely suggesting that reputational spill-over might be expanded when a crisis originates in a company with a central network position, but is raising an interesting perspective. What if it turns out that Alcoa itself holds a central position within its sector network? It was hence asked; *'How can Alcoa's network position in the Basic Resources sector influence the degree to which it can avoid reputational spill-over?'*

According to Covalence (2009 b) the four Basic Resources companies Arcelor Mittal, BHP Billiton, Newmont Mining and Alcoa gained the largest volumes of overall publicity in 2009. Together, these companies comprised 45 percent of all the information gathered by Covalence on the Basic Resources sector between July 2008 and June 2009. As a company of high network centrality is defined by Yu and Lester (2002) as a company subject to more stakeholders and receiving more public attention and publicity than others, it is safe to assume that these four companies, including Alcoa, all hold central network positions.

Assuming that Alcoa does indeed hold a central network position, this might be an advantageous factor when it comes to them being less receptive to reputational spill-over from other companies. A large multinational company receiving more public attention than its peers and which has positioned itself as frontrunner in corporate responsibility issues and alliances both within and beyond its sector, can be assumed to have made a good name for itself, and therefore also well know by the public. In a situation where a company earns as much publicity as Alcoa, then, it might be assumed that stakeholders know the company and what it stands for well enough not to confuse it with other companies and their actions, and hence avoid reputational spill-over.

Sub-Conclusion

It is found that Alcoa most probably hold a central network position within the Basic Resources sector, as it is subject to more stakeholders and receiving more public attention and publicity than most other companies within its sector. It is further suggested that holding a central network position within a sector might be an advantageous factor when it comes to companies, such as Alcoa, being less receptive to reputational spill-over from other companies. In a situation where a company earns as much publicity as Alcoa, it might be assumed that stakeholders know what a company stands for well enough not to confuse it with other companies and their actions. It may therefore be suggested that holding a central network position may be one factor explaining how Alcoa has avoided reputational spill-over.

5. Conclusion

A company's reputation is a product of a company's ability to define itself, directly manage its stakeholders' impressions, as well as building and maintaining strong relationships with its stakeholders. (Schreiber, 2008) A company's reputation, however, depends upon more than just its own performance. The actions of surrounding companies also shape a corporate reputation. The reputation of a sector is a common resource when stakeholders do not hold sufficient information on the ethical performances of each company relative to the others. Hence, a company's reputation often also depends upon the actions of other companies, as a company's reputation is in fact entangled with those of other companies. Reputational interdependence between companies becomes a challenge when companies which act in accordance with the established rules and procedures are unjustly punished on the basis of the misdeeds of other companies, as stakeholders may sanction a whole sector as well as the actual disobeying company. (King et al, 2002) Nonetheless, corporate reputation researchers have given little attention to this interdependence and how companies may manage it. (Barnett and Hoffman, 2008)

The present study examined how a company within the Basic Resources sector, a sector suffering from a negative reputation, can avoid reputational interdependency. The case study method was used in this research to reveal how a company can extinguish itself from the common reputation of the sector to which it belongs. The Basic Resources sector provides an insightful context to the study, as it is a sector especially exposed to criticism caused by the nature of their operations which often results in a wide range of negative environmental and social consequences. Alcoa, a large multinational aluminum company, was chosen as case study object because it has successfully managed to build a positive corporate reputation for itself despite being part of the Basic Resources sector, to the point where it competes with the top ten performing companies in cross-sector reputational rankings.

Supported by the analysis undertaken in this report, several factors which might have contributed to Alcoa avoiding reputational spill-over were suggested. First of all, holding a positive corporate reputation was found to be a contributing factor. Alcoa has been recognized for its sustainable business practices at several occasions, and is member of the recognized Dow Jones Sustainability Index for the eighth consecutive year (Alcoa, 2009 a). Several factors explaining how Alcoa has earned its positive corporate reputation in the first place were identified. First, Alcoa demonstrates a rather strong commitment to sustainability through the integration of sustainability principles and ambiguous targets into their overall business strategy from the corporate to the local level of operations, and has managed to transfer the wide concept of sustainability into real and applicable targets in day-to-day operations, while at the same time demonstrating a dedication to reaching these targets. While expressing satisfaction with own performance within many of these areas, Alcoa also show transparency when it comes to the areas and targets where they have not succeeded, and acknowledge that there is a need for new approaches in order to properly reach them in the future. Alcoa's sustainability webpage and annual report further provide a thorough and transparent review of Alcoa's sustainability performance, and illustrate a solid communication

strategy on sustainability performance. (Alcoa, 2010) Findings further suggested that Alcoa is careful not to over-communicate their efforts, and demonstrate transparency not only within those areas where they are front runners, but also on issues where they find the need to improve in the future. Due to rather vague data, however, the same set of data might indicate that one of Alcoa's most successful strategies in obtaining a positive reputation is their strong focus and aggressive communication of corporate responsibility performance.

As an actual situation where Alcoa clearly managed to avoid a reduction of their reputational capital in contrast to the other Basic Resources companies, the recent economic regression was used as an example. It was found that Alcoa's reputation was affected far less by the negative publicity in the aftermath of job-cuts than the average Basic Resources company. While other factors might also play a role in Alcoa avoiding large extents of negative publicity, Alcoa's positive corporate reputation may have provided them with 'a reservoir of goodwill' from their stakeholders, and finally worked as a defense mechanism against external negative publicity. It was also suggested that companies with positive reputations not only hold an advantage when it comes to avoiding reputational spill-over and negative publicity, but also that they have an advantage when it comes to earning attention and recognition for their CSR efforts.

Rather than getting involving in inter-sector alliances and partnerships concerning sustainability issues, it was found that Alcoa has grouped up with other cross-sector top performing companies to reveal information concerning their common mission. Two arguments as to how teaming up with other cross-sector leaders in reputational rankings rather than engaging in inter-sector alliances and risk being associated with poorly ranked companies and hence be exposed to negative reputational spill-over, were found. First, Alcoa would gain limited benefits from any inter-sector alliance as most other Basic Resources companies have negative ethical reputations and therefore are not able to contribute in any inter-sector elite club in relation to sustainable development issues. Alcoa is therefore better off privatizing and differentiating their corporate reputation independent on other Basic Resources companies. Second, companies within the same sector are competitors, and it was suggested that Alcoa may benefit from promoting its own reputation and gain competitive advantage to the sector as a whole. A factor which might have contributed to Alcoa successfully avoiding reputational spill-over, therefore, is avoiding being associated with other inter-sector companies on sustainability performance, and rather with cross sector leaders, on issues of sustainability.

A final factor which might have worked to Alcoa's advantage was identified as its central network position within the Basic Resources sector. It was suggested that holding a central network position, defined as a company subject to more stakeholders and receiving more public attention and publicity than other companies, within a sector might be an advantageous factor when it comes to companies, such as Alcoa, being less receptive to reputational spill-over from other companies. In a situation where a company earns as much publicity as Alcoa, it might be assumed that stakeholders know the company and what it stands for well enough not to confuse it with other companies and their actions, and hence avoid reputational spill-over.

It is hence proposed, in terms of the findings from the case study of Alcoa, that a company within the Basic Resources sector can avoid reputational interdependency from that of the Basic Resources sector as a whole, through a combination of possessing a positive reputation which provides a ‘reservoir of goodwill’ when exposed to reputational spill-over; holding a central network position and the advantage of earning enough public attention not to be confused with similar companies and their actions; to avoid alliances with inter-sector companies with negative reputations, and rather group up with other cross-sector top performing companies to together reveal information concerning their joint sustainability objectives while simultaneously saving the cost of communicating, differentiating from the negative reputation of their sector as a whole, and gaining a competitive advantage compared to competitors.

The perhaps most significant finding of this report, however, is the importance of providing the public with *information* on a company’s relative sustainability performance, as it is insufficient information on the ethical performance of each company relative to others which ultimately cause reputational interdependency. Acting responsibly is no longer sufficient. Sustainability must be communicated to gain value. (Morsing, 2003) While a limitation of the current report is inadequate data to properly demonstrate Alcoa’s communication of sustainability performance, especially related to the identification of the stakeholders in which they target their communication towards, as well as more detailed data on the diverse channels applied in this communication, it is clear that Alcoa would not be able to avoid reputational spill-over without first having made the public aware of their efforts and performance.

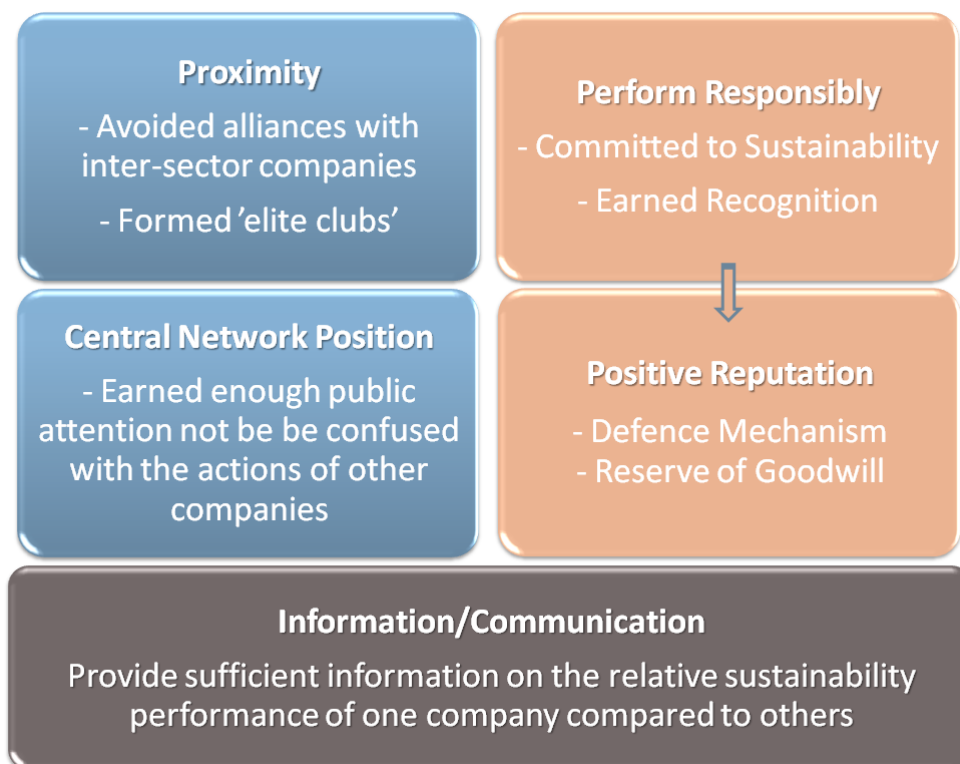


Figure 12: Factors contributing to Alcoa having avoided reputational interdependency

While several factors which might have contributed to Alcoa successfully avoiding reputational interdependency with the Basic Resources sector as a whole has been suggested, the validity of the conclusion is compromised due to several limiting factors. First and foremost, the analysis is mostly based upon Covalence data and their subsequent approach to measuring corporate reputation as the sum of all positive and negative online publicity. While this approach provides an innovative and interesting perspective to corporate reputation, the outcome of any tracking parameter might perhaps never provide outcomes fully representative to the sum of stakeholder' true perceptions. A second limiting factor is that cause and effect relationships in this type of study are almost impossible to prove, and it is hence not clear how far the findings can be generalized to other companies and sectors. Despite limitations of internal and external validity, however, the conclusion of this research is useful as it explores the phenomena and raises awareness around the problems related to reputational interdependency, suggest potential solutions which may raise awareness and help companies to avoid a situation of reputational interdependency, and argues for why companies should address corporate responsibility and most importantly stress the importance of communication of performance for competitive advantage.

Although a large amount and variety of factors might influence and help explain Alcoa's position as among the top ten companies in Covalence's cross-sector reputational rankings despite being part of the poorly ranked Basic Resources sector, many factors have been disregarded and only some selected for further analysis in this project, both due to data limitations and time restrictions. While this is more a delimitation of the project rather than an actual limitation, the conclusion might have been more complete if additional factors had received attention. Suggestions for further research are therefore provided. Further research that assesses factors mentioned by Yu and Lester (2003) in relation to their causes of reputational spill-over disregarded in the analysis of Alcoa, such as the potential effects of structural similarity on the likelihood of reputational spill-over, could provide an interesting addition to the current conclusion.

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