

# Strategy in Practice

Sample paper

## Suggested answers

### Important notice

When reading these answers, please note that they are not intended to be viewed as a definitive 'model' answer, as in many instances there are several possible answers/approaches to a question. These answers indicate a range of appropriate content that could have been provided in answer to the questions. They may be a different length or format to the answers expected from candidates in the examination.

### Case study

#### The Jones Motor Company

The Jones Motor Company ('JMC') is the world's oldest privately owned car manufacturer. It was founded in the west of England in 1912 by Herman Jones and is still a family company. In the 1990s, Herman Jones' son Peter Jones ('Peter') ran the company with his son Charles Jones ('Charles'). Peter owned 51% of the shares and Charles owned 20%. Four of the seven directors were also family members and the remaining two family members owned 10% of the shares each. The remaining three directors owned 3% each.

The main product in 1992 was based on a car model introduced in 1935 and was substantially hand-made. The original factory, which is still used, once produced 2,300 cars a year, five times the number produced in 1992. Surprisingly, JMC had survived as a small car manufacturer through the fluctuations in demand which forced most of its competitors out of business or into acquisition by mass-production firms.

The waiting list for a 'Jones' car in 1992 was four years. Peter realised that this deterred potential customers, but his father had told him always to keep demand slightly ahead of supply. In fact, there was such high demand that Jones cars were often sold with delivery-only mileage for 20 per cent more than the list price.

In 1992, JMC was making money but not enough to guarantee its survival. The company, therefore, set the modest aim of increasing the weekly production from nine to ten cars. The reluctant workforce agreed, and were promised extra money if they succeeded. But, like previous attempts to increase production, this foundered because not all the departments could sustain the increased level of production. They slipped to the original level, one with which they were more comfortable.

A consultant, engaged in 1992 by Charles, noted:

- **Production** – The factory gives the impression of being run by enthusiastic amateurs. The works manager sees the need for some change but likes the way things are. There is no logical flow of production and very little production planning. The machine shop is badly undercapitalised and in need of investment. The layout of the factory has not changed much since 1919 and needs a complete overhaul.
- **Sales and marketing** – The sales director has not had to sell a car for 20 years and is effectively JMC's customer liaison person. JMC's sales department is production-led. They do not think in terms of how many they can sell but how many they can produce. The company is introducing a clean-burn engine to meet United States regulations, but is doing this without any idea of how many cars they could sell. Overall, the company has absolutely no idea of the demand for the car!
- **Information technology** – There is no computer in the stockroom and the average stock level is between three and four months' supply. Nobody knows what the optimum stock levels ought to be. They are probably higher than necessary and JMC has too much money tied up in stock.
- **Human resources** – Shop-floor workers are paid a basic wage and a production bonus. However, the bonus does not work as an incentive to increase production and the workforce appears unenthusiastic about changes. Most workers have been with the company for all their working life and are skilled in traditional car building techniques. Problems in the production flow often slow things. Supervisors have no financial incentive to encourage their team to work harder.
- **Design development and technology** – The chief development engineer has a clearer sense of what is wrong with the company and a vision of what it could become. He thinks the way the car is made is wrong, is convinced the factory could be better organised and would like to build the body and chassis separately. Apparently, he has been saying this for years but whenever this is mentioned, the reaction is always the same: the customers like the car made the way it is, and this antiquated approach actually sells the car.
- **Summary** – The car has an enthusiastic following, a large global waiting list and exports half its production. But there is no direction and profits appear insufficient. Labour costs are high and a high proportion of the car's cost. Such a product will eventually become uneconomic if the problems are not addressed. Complacency is a big problem and the company is very risk averse. The management believe they are doing well enough and see no need to change. None of them are really aware of the dangers. Every department needs new investment. JMC seems dedicated to making things in the most expensive way. Everybody defends their own corner and there is a strong belief that any change will alter the attraction of the car. The company is in real peril unless it can accept the need for change.

While management was united in public, there were latent disagreements about the long-term direction of the company. Peter's experiences made him cautious. Charles was more ambitious but also ambivalent: he wanted to take advantage of demand by increasing production, had plans to bring in new tools and computerised stock control, wanted more research and development and had ideas to market Jones-branded clothing and accessories. On the other hand, he was reluctant to confront his father about the dilemmas the company faced: between new and old methods, computerisation and the personal touch, the waiting list as unsatisfied demand and the waiting list as insurance policy. Peter seemed to dominate Charles and they rarely discussed strategy together. Neither seemed to want to say anything that would upset the other. In the end, they prevaricated over and rejected the consultant's views.

Yet ten years later things had changed. In 2002, the new Whizz 4 model won its class at several motor shows. AutoMoto magazine voted JMC 'Specialist Manufacturer of the Year', saying: 'the

company has transformed not only its product but its business.’ By 2004, the company’s production was greater than at any time since the 1920s.

Developments in the clean-burn engine for the US market meant that JMC won approval for its new model and had to anticipate greater demand. This galvanised Charles into action. He had studied modern manufacturing techniques and visited advanced factories. He and the chief development engineer began to work on a plan to increase production by changing the layout and sequence, although Peter was prepared to accept some incremental change. Peter continued to work aged 80.

But change was beginning to take place. A TV documentary about JMC had the effect of increasing orders. Charles introduced a manufacturing resource planning computer system and prices were increased in advance of inflation. On the technical side, engines were updated and new developments were trialled. Production improvements also included a major investment in the paint department and a new CAD/CAM system. Output reached 11 cars per week from 2002.

A new standard European approval system required much work to ensure all JMC cars complied. Although small manufacturers usually have an exemption, with JMC’s dependence on export markets (50% of sales), Charles felt that they could not rely on this. The production of the Whizz 4 required its own production line, the trim shop was extended, the repair shop modernised to free space, and the whole factory seemed transformed. By 2002, they even had a website where you could buy Jones merchandise, and even order your new Jones for delivery – in only 18 months.

Peter died in 2008, but the momentum of change with a traditional feel continued. The Whizz 4 gave way to other models, including a recent prototype with an electric option and aerodynamic styling that delivers four times the usual fuel economy and zero toxic emissions. An article in *Envirocar* argues that JMC’s cars, partly because of their lightness (using ash and aluminium), are the world’s most environmentally friendly. The car has become ‘state of the art’ in its niche and the company a business model for the world in 2010. The article classified JMC as an example of the new micro-factory retailing approach which is customer friendly, flexible, focused on high satisfaction and highly environmentally friendly.

## Questions

1. (a) Using an appropriate framework, analyse the culture of JMC in the 1990s. (15 marks)

### Suggested answer

Organisational culture refers to a system of shared meaning that members of an organisation hold and that distinguishes the organisation from other organisations. This system of shared meaning is a set of key characteristics that the organisation values and that determine how things are done and the way members are supposed to behave.

Schein’s framework or Johnson and Scholes’ (although complex) framework would be appropriate to analyse the culture at JMC, as they offer greater analytical opportunities than would using a typology such as Handy’s or Deal and Kennedy’s.

Using Schein’s framework, answers should briefly outline the model, with examples from the case to illustrate the various elements. Answers might, for example, point to the nature and layout of the factory, the lack of IT support and the design of cars, as key artefacts or surface manifestations. Behind this lie beliefs and values that centre on traditional and hand-made approaches to manufacture, a production-led approach to marketing, and the way in which financial incentives fail to encourage greater output. Underpinning all this are ‘taken for granted’ assumptions (the paradigm in the Johnson and Scholes framework). These include the notion

that change would imperil the company and is 'undiscussable', the importance of technical quality, and the insurance value of the waiting list.

**(b) Evaluate the extent to which JMC's culture at this time may be regarded as a liability.**

*(10 marks)*

### **Suggested answer**

Culture is a descriptive term and, although it helps analysis through the application of frameworks, it is not of itself evaluative.

The answer could start by looking at Mullins' comments on the importance of culture (particularly as it links to leadership) and then discussing strong and weak cultures. It is clear that at JMC, the culture is a strong one and perhaps somewhat covert in nature.

Many of a strong culture's functions are valuable for both the organisation and the employee. Culture enhances organisational commitment and increases the consistency of employee behaviour. These are clearly benefits to an organisation. From an employee's standpoint, culture is valuable because it reduces ambiguity. It tells employees how things are done and what is important. But the potentially dysfunctional aspects of culture on an organisation's effectiveness should not be ignored, especially a strong culture.

Culture is a liability when the shared values are not in agreement with those that will further the organisation's effectiveness. This is most likely to occur when the organisation's environment is rapidly changing and the organisation's entrenched culture may no longer be appropriate. So consistency of behaviour is an asset to an organisation when it faces a stable environment. However, it may burden the organisation and make it difficult to respond to changes in the environment. This helps to explain the challenges that JMC was experiencing in the early years of the case. The company has a strong culture that worked well for them in the past but has become a barrier to change. In the early 90's, 'business as usual' was no longer effective. For many organisations with strong cultures, practices that led to previous successes can lead to failure when those practices no longer match up well with environmental needs.

Culture may also be a barrier to diversity. Hiring new employees, especially at a senior level, who differ from the majority of the organisation's members creates a paradox. Management wants new employees to accept the organisation's core cultural values to fit in or be accepted. But at the same time, management wants to acknowledge and support the differences that these employees bring to the workplace. Strong cultures put considerable pressure on employees to conform. They limit the range of values and styles that are acceptable. Strong cultures, therefore, can be liabilities when they effectively eliminate those unique strengths that people of different backgrounds bring to the organisation. Moreover, strong cultures can also be liabilities when they support institutional bias or become insensitive to people who are different. This is seen in the ambivalence of Charles and the likely reaction to the consultant's recommendations.

**2. (a) Evaluate the extent to which resistance to organisational change may be regarded as inevitable in the JMC case.**

*(15 marks)*

### **Suggested answer**

The effective management of change requires an understanding of the resistance that frequently meets it. Fundamentally, resistance is a personal matter although it can be expressed by groups, organisations or whole societies. The sources of resistance can, therefore, for analytical purposes, be categorised by individual and organisational sources. In practice, they often overlap:

- Organisational resistance – Most organisations, by their very nature, are conservative. They actively resist change and want to continue doing what they have been doing for years, whether the need for their service changes or remains the same. The evidence from JMC is that there is a high degree of organisational resistance that originates from the top.
- Individual resistance – Individual sources of resistance to change reside in basic human characteristics such as perception, personalities, and needs. Elisabeth Kubler-Ross developed a model of personal change after spending time analysing the emotional responses to grief by terminally ill patients. This model, commonly called the ‘Kubler-Ross Grief Cycle’, identifies the human emotional response to change over time in a cycle that includes denial, anger, bargaining, depression and acceptance. The issue for JMC is the extent to which they have postponed or avoided necessary change for fear of the reaction that it might produce.

Whether or not resistance to change is inevitable at JMC, resistance can be positive. It provides a degree of stability and predictability to behaviour. If there was not some resistance, organisational behaviour would take on characteristics of chaotic randomness. For JMC, resistance in the form of an inherent conservatism has had the positive outcome of seeing the company produce a successful, traditional product for a number of years.

However, the inherent conservatism and inertia of the workforce at JMC, and the power that they had because of their skills, meant that the company could not move quickly to respond to new situations. From the Moss-Kanter work, reasons for resistance in the case include concerns of future competence, loss of face, and the difference effect. For example:

- Concerns about future competence – Although often unarticulated, people are concerned about whether they have the skill set required for the future, what they will have to do and how they will do it. The JMC workforce may be concerned that their traditional, craft skills will not be required and that they will not be able to acquire new ones easily. The result can be finding reasons why change should be avoided.
- Loss of face – Changing and working in new ways often implies the old way was wrong. Some people feel threatened, that they have lost face and might defend old ways of working, rather than focusing on the new.
- The difference effect – We are all supported by our own routines, habits and ‘knowns’. The greater the difference, the more our own worlds are challenged and need re-establishing, and the greater the likelihood of more resistance to the change. This suggests that without the incremental approach adopted by Charles, and to a certain extent Peter, resistance might have been regarded as inevitable.

At JMC, Peter had immense power and influence and this impacted the workforce at this time. He also held back Charles in using some of the ideas Charles had for developing the business. His 51% ownership and influence on the other directors, particularly family directors, will have exacerbated this.

**(b) Analyse the potential sources that a change agent might use to help overcome resistance and bring about change at JMC.**

*(10 marks)*

**Suggested answer**

A change agent is an individual or group that effects change in an organisation. Some may be especially good at creating a vision for the future but may need to rely on others to take a lead in effecting the changes. It may be that there is a group of change agents from within the organisation or from outside, such as the consultant in this case.

At this point in JMC's history, change seems most unlikely. The key strategic issues seemed to be that external market pressures could either have caused a collapse of the company or have forced it to slide slowly into a financial crisis. If demand had increased, the company would have to have acted drastically to meet it.

It seems clear that the technical developments had the potential to open up new markets and that this might have some knock-on effects in promoting change. A second key point is that, although they wanted to improve things slowly and did not really embrace the need for change, the board, particularly Charles, had shown some willingness to learn, albeit at their own pace.

In addition, the vision of the chief development engineer and the mindset of Charles, whose confidence was increasing as he gained more experience in the business, are other sources to ignite change. In addition, the willingness of the people in the company to keep going and their love of the product would have helped. Appealing to these when making the case for change would have helped the communication process.

3. **One commentator on JMC said '... from a business school point of view, the company has done almost nothing right in its 83 years of existence. It has failed to automate or expand, failed to diversify, failed to change its product line, failed to turn to the stock market for new capital. It has, in short, failed to do everything but succeed.'**

**Critically review the rational planning model in the light of the JMC case.**

*(25 marks)*

### **Suggested answer**

A wide range of answers is expected for this question and there is some scope to decide on the approach. The implication in the statement is that JMC had succeeded despite its approach to strategic planning.

The rational planning process follows a sequence of steps involving setting objectives, the analysis of environmental trends and resource capabilities, continuing through the evaluation of different options, and ending with the careful planning of the strategy's implementation.

The underlying principle in the rational model is that strategies are the outcome of careful objective analyses and planning. In this way, managers are able to make decisions that establish the future direction of their organisation, for example, developing the clean-burn engine for the US market. Many organisations have formal planning systems and find that they contribute usefully to the development of the strategy of their organisation. The sequence is logical rather than chronological. Not all organisations use this approach and, even when they do, it would be a mistake to assume that the strategies of organisations, like JMC, necessarily come about because of them.

Ansoff and Drucker argue in favour of the rational approach and the rational model, arguing that **conscious** choices need to be made in relation to:

- What the organisation intends to do in the environment and within the opportunities or threats that this offers.
- The degree of risk it faces: all strategies, because they are made in conditions of partial ignorance, involve a risk. Strategic planning cannot completely avoid risk, but it can avoid unnecessary risk. Peter's management of the waiting list had this in mind.
- The long term: decisions taken now have implications for the future.
- Resource development: decisions must be made about organisation structure and issues such as outsourcing and investment.

The rational model is based on certain assumptions:

- Most strategies are created ‘top down’ – Senior managers and/or strategists ‘think great thoughts’ and the results are documented in a plan and developed into greater and greater detail.
- Corporate strategies (for the organisation as a whole) are developed first, before strategies for individual business units or functions.
- It can be broken down into its components – The depiction of the strategic planning model as a number of stages suggests that it can be broken down into its components. In its extreme form, this suggests that little creative thinking is required, as strategy will be generated automatically out of the external and internal appraisals.
- Objectivity – Strategies are determined on their merits through an objective analysis. In other words, it is possible to make objective judgements unclouded by bias.

The rational model has been criticised on a number of grounds. The very notion that strategy-making can be reduced to planning processes has come under a sustained attack from Mintzberg (1994). He made the following criticisms:

- Practical failure – Strategic plans often fail. The environment is, or has become, more unstable. The best-laid plans can be invalidated by a new competitor, changes in technology, and so on. Empirical studies have not demonstrated that planning processes necessarily contribute to improved performance. However, data about planning processes are hard to gather.
- Routine – Strategic planning often occurs in an annual cycle. But a firm ‘cannot allow itself to wait every year for the month of February to address its problems’.
- Reduced initiative – Formal planning discourages strategic thinking. Once a plan is locked in place, people are unwilling to question it. Obsession with particular performance indicators can reduce a manager’s readiness to cope with uncertainty.
- Internal politics – The model ignores the ‘political’ environment of organisations, in other words the conflicting groups that want power.
- Obsession with control – Planning can result in an obsession with control that results in a fear of risk and a reluctance to consider truly creative ideas. Planning gives an illusion of control even though the forecast assumptions on which it is based are wrong.

Mintzberg argues that managing strategy can be thought of as the process of crafting, where strategic management is seen, not as a single formal planning process, but rather in terms of a series of processes. Strategies develop on the basis of managers’ experience, their sensitivity to changes in their environment and what they learn from operating in their market. This does not mean that managers are not thinking about the strategic position of their organisation, or the choices it faces, but that it may not be taking place in a highly formalised way as it does in planning systems.

Building on this, Mintzberg developed the concept of emergent strategies. These do not arise out of conscious strategic planning, but result out of ad hoc choices, perhaps made lower down the hierarchy. Initially, they may not be recognised as having strategic importance. Emergent strategies develop out of patterns of behaviour, in contrast to planned strategies that are imposed from above.

According to Mintzberg, **intended strategies** are plans. The plans, or aspects of plans, that are actually realised are called **deliberate strategies**. **Emergent strategies** are those that develop out of patterns of behaviour which are adopted and which have a strategic impact. No strategy will be wholly deliberate or wholly emergent. A plan may exist only in someone’s head but it is still a plan, even though it is private. It is possible that the plans of Peter might have been seen in this way.

4. (a) **Assess the contribution of stakeholder analysis to an organisation like JMC.**

(15 marks)

**Suggested answer**

Stakeholders are people or groups who have a legitimate interest in the activities of companies and other organisations. They are defined by Freeman as:

‘Any group or individual who can affect or is affected by the achievement of the firm’s objectives.’

This definition encompasses managers (who are also employees and members of the community), employees, customers, suppliers, shareholders, local communities, the state (in the form of institutions, citizens and taxpayers) and those who share the environment. The stakeholders in the JMC case include:

- Internal stakeholders: employees, managers, shareholders and directors.
- External stakeholders: these will include customers/clients, suppliers, any external funders and possibly even competitors. There are also external stakeholders, indirectly affected by the organisation, who might include members of the local community or the general public.

Simply identifying stakeholders in a map such as this is little more than a listing of the groups that have an influence on the organisation and its strategy and vice versa. It is specific events that trigger the formation of stakeholder groups. For these reasons, an analysis of stakeholders is most useful when related to an assessment of specific strategic developments. What will the different people and groups think and how will they be affected? For example, how will JMC be affected by the situation relating to the US market, the new environmentally friendly models and the changes to the production process?

Stakeholder analysis identifies stakeholder expectations and power, and helps to establish political priorities. It consists of making judgements on:

- The **interest** each stakeholder group has in impressing its expectations on the organisation’s choice of strategies.
- Whether they have the **power** to do so.

It is possible, therefore, to classify stakeholders in relation to the power they hold and the extent to which they are likely to show interest in the organisation’s strategies. The resulting matrix indicates the type of relationship that the organisation needs to establish with each stakeholder group. As such, it is a useful analytical tool, both in assessing the political ease or difficulty of particular strategies and also in planning the political dimension of strategic changes – how power groups will be managed.

The importance of stakeholder analysis in helping the consultant to identify the key players who might have helped to ‘kick-start’ the change process could also be discussed here.

(b) **Critically review the way in which JMC managed its stakeholders during the period of the case.**

(10 marks)

**Suggested answer**

In order to tackle this part of the question successfully, answers need to comment on what the company did in terms of its stakeholder management process and in relation to specific stakeholders. Answers are also required to propose alternatives, using an appropriate framework or model of best practice.

For example, overall, it appears that JMC's approach to stakeholder management was to leave it to chance – at least until Peter's death. The initial approach to employees was to treat them very carefully, reluctant to upset them, rather than engaging them in the change process. The external approach to the broader community might also have focused more on the environmentally friendly approach. That way, the company may have found itself able to lead rather than having to react.

Stakeholder analysis, as discussed above, is only part of the picture. How the analysis is used for management purposes is equally significant. Stakeholder management involves identifying and then managing the following stakeholders:

- Key players – For JMC, the key players are the owners (in this case the family) including, in particular, the MD and his son, Peter and Charles, and perhaps also key analysts of the sector. Clearly, the acceptability of strategies to the key people should be a major consideration during the formulation and evaluation of new strategies. In the case, key analysts of the sector were largely ignored.
- Keep satisfied – This relates to the employees of the company, and also its customers. Often, the most difficult relationship to plan is with stakeholders in this segment. Although they might, in general, be relatively passive, a disastrous situation can arise if their level of interest is underrated and they suddenly reposition and frustrate the adoption of a new strategy. Strategists may need to raise the level of interest of powerful stakeholders so that they can fulfil their expected role. In the case, this includes employees who must adapt willingly to the new approaches. JMC customers fell into this category. Whilst prepared to wait for long periods for a special product with perceived uniqueness value, that might not have been sustainable for much longer. The customer stakeholder was changing.
- Keep informed – This might include auto industry journalists and the broader community of which the company is a part. Similarly, the needs of these stakeholders need to be addressed properly, largely through information. They can be important allies in influencing the attitudes of more powerful stakeholders, for example, through lobbying as with auto industry journalists. What they write can have an important impact on how the company is perceived.

**5. A common view ...is that business ethics is an 'oxymoron.' This suggests that it is contradictory and incongruous to speak of business and ethics in the same breath (McKenna, 1999).**

**Using examples, evaluate this statement.**

*(25 marks)*

**Suggested answer**

Milton Friedman and others have argued that a corporation's purpose is to maximise returns to its shareholders. Only people can have social responsibilities; corporations are only responsible to their shareholders and not to society as a whole. Although such writers accept that corporations should obey the laws of the countries within which they work, they assert that corporations have no other obligation to society. It could be argued that corporate social responsibility, or any other approach to business ethics, is incongruent with the very nature and purpose of business.

Critics of this argument claim that the type of capitalism practiced in many developing countries is a form of economic and cultural imperialism, noting that these countries usually have fewer labour protections, and thus their citizens are at a higher risk of exploitation by multinational corporations.

In reality, in most European countries, companies have come to be seen more as public property, with non-owners having a legitimate interest in influencing the decisions that their managers make. There was a growing concern by some commentators from inside (Roddick, 1992) and outside business (McIntosh, 1998) that the goals and activities of business should be concerned with:

- Conducting business in an ethical manner.
- Treating people who come into contact with the business, such as suppliers and customers, fairly.
- Being socially responsible.
- Taking care of the environment.

A number of labels have been attached to such intentions, including business ethics, corporate social responsibility and green business. Business ethics is the broader of the two concepts. It is concerned with making choices about right and wrong courses of action. Corporate (social) responsibility is more pragmatic and deals with the key issues on which an organisation exceeds its minimum required obligations to stakeholders and its relationship with its environment.

The relationship of ethics to business is a highly complex one. For example, there are widespread beliefs about how customers or employees should be treated. However, we can see from examples around the world, and even between firms in the same sector or area, that practices vary significantly. Business ethics are, therefore, a function of:

- The **values** of individuals working in organisations.
- The **corporate culture** created by top management.
- **Codes of conduct** operating in individual organisations.
- The **social norms** of the society within which the organisation is located
- The prevailing **laws**.

For example, in some societies the use of bribes is an essential part of getting business done, while in others it is considered unacceptable behaviour. The dilemma occurs when employees of an organisation in a country where bribes are unacceptable, must do business in a country where bribes are expected. Standards also change over time. The West decries the use of child labour in other countries, yet it was commonplace in the mining and textile industries of 19th century Britain.

Mahoney (2002) identified three strands of business ethics:

- Stakeholder theory – This identifies the various groups in society to whom the organisation is responsible.
- Corporate accountability – Corporations are accountable for their actions to the general public. Companies that transgress socially acceptable standards can expect to be punished, usually by the imposition of fines. In some cases board members can be held responsible and prosecuted as individuals. For example, in case of the bankruptcy of Enron the US energy company.
- Social responsibility – Corporations take responsibility for society at large and, through their actions, attempt to make the world a better place in which to live.

Arguments in favour of social responsibility stem from the power and importance of organisations in modern society. They are repositories of power and skills that can make a difference. The arguments broadly centre on:

- The potential to do good.
- Anticipation of emerging problems.
- Investment should yield benefits for all.
- Responsibilities are linked with rights.

Arguments against social responsibility tend to start from the classical economic model but can also be broadened into expressions of fear about the power of businesses managed by a self-appointed elite, and including:

- The purpose of business.
- Managers' capability is limited.
- Power should be restricted.
- If legitimacy is confined to the organisation's legal purposes.

**6. Using examples, explain the significance of the link between corporate strategy and reputational risk.**

*(25 marks)*

**Suggested answer**

Reputation is a valuable asset of businesses and non-commercial organisations, albeit an intangible one. A survey by Aon (2007) rated damage to reputation as the top risk identified by business leaders. Hard-earned reputations can be fragile in a globalised, technologically interconnected world, as Toyota found in 2010. The trust and confidence that underpin them can be irrevocably damaged by even a momentary lapse of judgment or problems that develop over a number of years. Risks to reputation need to be managed as actively and rigorously as other more quantifiable and tangible risks and indeed aspects of strategy.

Reputation risk could be regarded as a generic term embracing the risks, from any source, that can impact reputation (Rayner, 2003). Regulatory non-compliance, loss of customer data, unethical employee behaviour, or an unexpected profit warning, can all damage reputation and stakeholder confidence.

It is vital to make the link to corporate strategy. A good reputation hinges on an organisation living up to the values it claims to espouse and delivering consistently on the promise to its stakeholders. Pursuing short-term gain at the expense of long-term reputation and stakeholder interests may limit success.

Reputational risk is not only about threats, but also about opportunities. Climate change, for example, is a potential business threat, but many firms have spotted and exploited the opportunity for competitive advantage by developing green technologies and promoting themselves as environmentally friendly, thereby enhancing their reputation, such as JMC.

Successfully managing reputational risk can be described as both an inside-out and an outside-in challenge. The inside-out component requires business leaders to establish an appropriate vision, values, and strategic goals that will guide actions and behaviours throughout the organisation. The outside-in component requires the business to continuously scan the external environment and canvass stakeholder opinion to ensure it is on a track that will secure the continuing support, trust, and confidence of its stakeholders. All are components of corporate strategy-making activity and systematic management of the risks to reputation can help to ensure that perception is aligned with reality and that stakeholder experience matches expectations. In this way, business can build, safeguard, and enhance a reputation that will be sustainable in the long term.

*The scenarios included here are entirely fictional. Any resemblance of the information in the scenarios to real persons or organisations, actual or perceived, is purely coincidental.*