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Mitigating Reputational Risks in Supply Chains

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Abstract

Purpose

The purpose of this research was to explore reputational risk that are borne in the supply chain and contribute to this contemporary but growing research stream.

Design

First, a theoretical framework is provided to help in the characterization of reputational risks and how they impact supply chain members that may be multiple tiers away from the manufacturer. Then, semi-structured interviews were conducted with practitioners that were familiar with reputational risks and who were engaging in varying mitigating techniques. Cognitive modelling was utilized to report on the findings.

Findings

The practitioners in this study were very familiar with the risks and were active in varying mitigating practices as budgets and resource constraints would allow. The brevity of the risks identified, and the significance of specific risks

with how they impact a reputation was revealed. Mitigation is an on-going and haphazard process with very little information available as would be expected with a typical risk management approach.

Practical Implications

This article serves to provide practitioners insight into the varying methods used by firms with supply chain members that number in the hundreds. Based on our findings, we make a recommendation that utilizes CSR as a foundation that is proposed to address a number of risks including those related to price, availability and quality. The limits of this work are that it is specific to a select group of practitioners specialised in this area. Although the information is rich, it is not generalizable.

Originality

This paper makes a significant contribution to the literature by providing insight into the perceptions of practitioners that make decisions on mitigating reputational risks. The results suggest that this is a very new area of management that is striving to find a way to minimize their exposure.

Keywords: Corporate Responsibility, Risk Management, Supply Chain Ethics

Introduction

We have known that supply chains can have a considerable impact on the environment (Shi *et al.*, 2012; Svensson and Wagner, 2012) and significant strides have been taken to address that (Simpson and Power, 2005; Tachizawa *et al.*, 2014). The practices with greening supply chains have shown continual improvement. However, irresponsible business activities remain a risk to others in the chain. A good example is the most recent and perhaps memorable incident that occurred with Apple Inc. The employees of Foxconn, a manufacturer of electronic devices for many firms including Apple, threatened mass suicide for the poor working conditions in the facilities. As a result, Apple was implicated in the sweatshop conditions (Guglielmo, 2013), merely by association and their reputation was threatened. This example serves to represent supply chain reputation risks where chain members' irresponsible actions have the potential to impact other parties.

There are many other examples of this type of risk such as Deepwater Horizon's questionable activities resulting in the worst oil disaster in US history. Because of Deepwater, BP paid the price monetarily (Gilbert and Scheck, 2014) and with respect to their reputation, the impact continues. In the USA, the release of the screenplay 'Deepwater Horizon' is anticipated for September 2016 – IMDb.com, Inc., an amazon.com company, already listed the movie as the 'Most Popular Feature Film released in 2016' in the 'Drama' category (Anonymous, 2015).

Although a close collaboration between chain members can often lead to positive outcomes for all parties involved (cf. Wagner and Alderdice, 2006), it is the dark side to it (Juhasz, 2012) that deserves the most attention. The

'Horsemeat Scandal' in Europe (see Anonymous, 2013a for the timeline of events) impacted many organizations along the supply chain. Even large retailers fell victim to the phenomenon with IKEA withdrawing their product from 14 European countries (Pollak, 2013) and Tesco investigating and revising their list of approved suppliers (Stones, 2013) in an effort to rebuild their reputation and trust with their customers. Tim Smith, Group Technical Director at Tesco, emphasized "We want to leave customers in no doubt that we will do whatever it takes to ensure the quality of their food and that the food they buy is exactly what the label says it is" (Anonymous, 2013b).

The following article builds upon the concept of reputational risks generated in the supply chain. We begin with reviewing the reputation and risk literature and instances in which this has become a topic. Next, a model is proposed theorizing how member activities may affect the reputation of partnering firms. We then present the results of a qualitative investigation, highlighting how practicing managers perceive the phenomenon. Lastly, we discuss the varying risk management approaches that may be taken and the opportunities for further research.

Reputation

Reputation is a dynamic asset and as a resource that creates value, it can mitigate the negative outcomes stemming from a crisis (Vanhamme and Grobбен, 2009), and serve as a fundamental source of competitive advantage (Dierickx and Cool, 1989). A positive reputation has been linked to improving upon the bottom line (Finch, 2004), attracting capital, closing contracts, and having a positive influence on consumer behavior (Dowling, 2001). Reputation

is derived from three foundational elements: 1) the perceptions of individuals, 2) the aggregate of those individual perceptions captured as stakeholder perceptions, and 3) the comparability of those perceptions (Fombrun, 1996). Consumers develop an impression of an organization by a number of different methods. It may be from their individual experiences with the firm's people (Lemke *et al.*, 2011), their perceptions of how the firm manages its assets, or how it may interact with the local community (Castro *et al.*, 2006). Essentially, each consumer forms impressions through a multitude of different avenues and when considered collectively with other stakeholders, results in a reputation. From a distance, stakeholders can then be mapped on a network and separated into definable groups (Ackermann and Eden, 2011). Understanding these groups is critical for managing them appropriately (cf. Money *et al.*, 2012). This allows managers to observe and evaluate the reputation of corporations over time – at least on theoretical grounds – which makes its management that much more plausible.

Dollinger *et al.* (1997) noted that individual perceptions of reputation was accrued based on the practices of management, the financial performance of the firm and lastly the characteristics of its product. These are the raw and somewhat physical layers that managers accept and control for. But there are other interwoven dimensions that cut across companies and describe reputation in detail. With the growing risk of supply chain partner behavior, and in consideration of the business-to-business (B2B) relationships found in supply chains, we adopted the model suggested by Fombrun (1996) and Fombrun and Shanley (1990) to unravel the reputational construct (see Figure 1).

Insert Figure 1 here

In Figure 1, reputation rests at the core and is formed by perceptions of: management and their capabilities, how the organization utilizes its resources, the long term investments made, products and services offered, the management of employees, innovativeness and lastly corporate social responsibility. These serve as variables in the formation and development of a reputation, which reflects a multi-stakeholder acuity whether it is in a business-to-consumer (B2C) or B2B setting. These dimensions are particularly suitable for capturing the perspectives of all stakeholders associated with the processes and outcome of a supply chain. It also provides insight as to how a reputation may be damaged (Dowling, 2004; Hamilton, 1995).

In the supply chain context, corporations will develop a reputation depending upon where they find themselves along the chain (Eltantawy *et al.*, 2009). Figure 2 represents a simplified view of a supply chain. We only consider one raw material producer, processor and manufacturer for practical purposes, but there may be many more with multiple tiers. Yet, the basic principle remains the same: reputations are formed based upon the perceptions of stakeholders with respect to the firm's activities and competences for each of the dimensions.

Insert Figure 2 here

What we are now seeing is that the reputation derived from any one or more dimensions has the probability of being transferred from one party to another

(Fiol *et al.*, 2001; Kotha *et al.*, 2001; Lemke and Petersen, 2013). For instance, a manufacturing firm that has a significant reputation for innovation, like Nike, may have a spillover effect and thereby enhance the innovation domain of a partnering firm, as shown for supply chain 'A', in the upper part of Figure 3. Put another way, the retailer borrows the reputation for innovation from the manufacturer.

Insert Figure 3 here

In contrast, the lower part 'B' of the figure shows a raw material supplier that operates sweatshops and/or causes a significant amount of damage to the natural environment. This behavior will develop a reputation that predominates within the CSR dimension¹ and entails being dirty or of committing human rights atrocities. There is now a high probability that partnering firms will experience a spillover effect in which they may also be associated with the misdeed, placing their reputation at risk. It is important to understand that reputational dimensions are transferrable in both the positive and negative. Likewise, knowing which dimensions remain with the party that essentially earned it is key for capturing reputation holistically. This helps us to understand when or where risks should be mitigated. We differentiate between 'reputational owners' and 'reputational borrowers' (discussed elsewhere, see Lemke and Petersen, 2013) and that both reputational roles co-exist throughout the supply chain. *The reputational owner actively creates reputation through the market offering, communication, and action while the*

¹ We exclusively refer to CSR as a simplified mean to facilitate our discussion. Note that reputations represent a cumulative perception of all eight dimensions, and not just one..

reputational borrower passively receives reputation from the owner merely by association. Transferring reputation from the owner to the borrower is the spillover effect – the principle that ties the two roles together. In this light, mitigation begins with analyzing how the dimensions of reputation are developed and transferred. What appeared to be a separate firm-specific reputation actually has the potential to surface in the supply chain as a holistic and multi-source construct that poses a risk to all chain members.

Risks

Risk management typically addresses issues related to strategy, operations, economics, and hazards (Andersen, 2008). As a universal principle, risks and returns typically go hand in hand. Most investments have varying degrees of risk and at times, diversification may be used to offset the loss in one area with gains in another (Wang *et al.*, 2003). For many risks that are related to liability, an organizational portfolio provides managers with the tools for identification and classification (Donaldson *et al.*, 2012). The risks are then assessed for their probability of occurrence, the costs to be incurred if the risk were to be realized, and then lastly, what portion of the burden/cost the organization should take on. This assessment facilitates risk prioritization. From there, four generic decision options are taken: risk avoidance, loss prevention and control, risk transference, and risk retention (Bodie and Merton, 1998). Risks to a corporation's reputation, reputational risks, tend to fall outside of basic risk management practices.

Reputational risks have been defined as the cumulative likelihood that events stemming from exogenous or endogenous sources can occur and negatively impact stakeholder perceptions of the firm's behavior and performance

(Roehrich *et al.*, 2014). They may be based upon an economic, societal or environmental event that the firm was engaged in directly or may arise indirectly via the activities of another organization in the supply chain (Hoejmose *et al.*, 2014). However, these risks are typically overlooked. As we have pointed out, an organization's reputation may be placed at risk if a member organization conducts itself in such a manner that the behavioral outcomes spread beyond its organizational boundaries. Given the simple and isolated 'input, throughput, and output view' of a single company, it is not a surprise that this type of risk may occur largely unnoticed. There may be several reasons for this. On the one hand, reputational risks rarely result in the disruption of resources and they hardly impact the quality and quantity of a supply; two major risks that receive the most attention. On the other, it is generally problematic to assess their associated costs making mitigation difficult to justify. Lastly, estimating the probability of an event occurring and the impact the event will have on a reputation (and to what extent) is completely off the charts. Hence, assessing the costs and benefits of risk management are highly unpredictable.

This phenomenon led us to a set of interrelated questions: *What are the risks from a practitioner's viewpoint, how (if at all) do they impact on reputation, and how could these be mitigated in a supply chain context?*

One of the corporate governance mechanisms for managing risks to reputation has been the implementation of sustainable development or corporate social responsibility. Roehrich *et al.* (2014) suggested that reputational risks were the primary driver for implementing sustainability

practices in the supply chain and that managing social issues or sustainability could come under the umbrella of social responsibility (Hoejmose *et al.*, 2014) or the greening of supply chains (Lamming and Hampson, 1996), respectively. Hence, we turn our focus to corporate social responsibility (CSR) with respect to risk mitigation for practical and theoretical foundations.

Corporate Social Responsibility and the Mitigation of Risks

From a traditional stakeholder vantage point², one of the primary roles or responsibilities of business is wealth generation (Friedman, 1970) which guides them on their duties as for-profit entities (Davis, 1973). Included in the building up of monetary wealth, business now must also strive to assume corporate social responsibility (CSR) which entails responsibilities surrounding economic, societal and environmental issues (Inoue and Lee, 2011; Jo and Harjoto, 2012; Orlitzky *et al.*, 2003; Petersen and Vredenburg, 2009a, b). Although it is becoming common practice for organizations to assume other responsibilities, the CSR concept is still somewhat ill-defined (Freeman and Hasnaoui, 2011). This is due, in part, to varying stakeholder expectations (Franz and Petersen, 2012; Jamali, 2008) and what one would consider to be a CSR-related action (cf. Alessandri *et al.*, 2011). Adding to the ambiguity is that in some circles, CSR is considered a voluntary business strategy and may very well be impacted by the discrepancy of ‘what firms think’ about CSR (cognitive), ‘what firms say’ (linguistic), and ‘how firms tend to behave’

² This takes into consideration that there are several different business models and private firms that may have as their objectives an end to a societal problem. In this case, we are referring to public firms utilizing the equity garnered on an exchange.

(conative), according to Basu and Palazzo (2008). This portends to an eclectic practice that has resulted in a multitude of contradictory definitions (Freeman and Hasnaoui, 2011) and actions. Because CSR is a normative construct, it is shaped by the activities of the firm, the environmental situation, and the perceptions of respective stakeholders – a phenomenon that is similar to that of reputation.

In the supply chain context, Awaysheh and Klassen (2010, p. 1248) note that social responsibility is also undefined and call for “a mid-range definitional construct” so that more research may be conducted to identify the tools needed to manage chain members. Although Hoejmose *et al.* (2013) extend this by referring to socially responsible supply chain management as the integration of social issues that are within the control of operations and supply chain managers, the problem is that not everything can be easily controlled for and reputational risks are one of them. Building on from this, and the works that have defined and identified stakeholder expectations (Carroll, 1979, 1991; Epstein and Roy, 1998, 2001; Franz and Petersen, 2012; Petersen and Vredenburg, 2009b), we refer to the operational approach used by Lemke and Petersen (2013), which is composed of four distinctive spheres: governance, ethics, environment and social (see Figure 4).

Insert Figure 4 here

The first CSR sphere, *governance*, views a corporation as being embedded in existing social structures and international business networks. This sphere encapsulates how organizational resources are being deployed and the type of interaction the organization has with its stakeholders (Daily *et al.*, 2003;

Turnbull, 1997). Responsible firms have better organizational performance, good risk management practices, contributions by institutional investors, satisfied employees, and loyal customers (cf. Becker-Olsen *et al.*, 2006; Du *et al.*, 2007; Groza *et al.*, 2011; Hansen *et al.*, 2011; Kiron, 2012; Peloza and Shang, 2011; Petersen and Vredenburg, 2009b).

The second sphere is *ethics* which captures the expectations of stakeholders and also the corporation's willingness to assume its ethical responsibility (Perrini, 2006). In general ethical behavior has a direct impact on shareholder value (Johnson, 2003) and in the supply chain, organizations are serving a more diverse and global market and, thus, have to cooperate with multiple and sometimes international suppliers and buyers. Often, multiple tiers of suppliers are involved. Ethics covers the materials and working processes employed at each link of the supply chain that may start in one country and crosses national boundaries, cultural zones, legal systems, and individual viewpoints. Thus, the interpretation of ethics can and does change and what appeared to be ethical at one stage – even with the best intentions at a given time – may look neutral or unethical in the next (cf. Adebajo *et al.*, 2013). The final ethical verdict comes from the end-consumer, which highlights the necessity that the ethical interpretation of all supply chain members becomes united and reflects one and the same ethical approach.

The *environment* represents the third sphere and it captures the responsibilities and actions pertaining to the management of the natural environment. This sphere includes business processes (Brundtland, 1987) so that the organization and the environment form a symbiotic relationship in which both entities flourish. In this instance, a future-oriented and pro-active

environmental strategy could reap financial rewards for the business (Yu *et al.*, 2014) although market demands and business offerings are not yet quite in sync when it comes to environmental issues (Lemke and Luzio, 2014).

The last CSR sphere is *social* and it involves the public's expectations on business leaders that surpass their fiduciary duties. Just as we would expect of a good citizen to participate in alleviating social ills, businesses are also expected to contribute in the same way. Human rights atrocities, racial disparity, the prevention of child labor, creating awareness of alcohol abuse, anti-smoking campaigns – there are many issues needing attention and socially responsible firms get behind those that they believe they can contribute the most.

This four-lenses perspective allows us to appreciate the complexity of the CSR construct while articulating a definition, a mid-range definition, of CSR in context. Hence, *corporate social responsibility is based on a commitment to governance, ethics, environmental and social dimensions and it is reflected in what the firm thinks, does, says and associates with*. As a corporate mechanism, CSR is suggested to have the potential to improve upon the risk identification process (Ennis, 2015) and as Peters and Romi (2014) note, may also increase the transparency of members. From this perspective, we wanted to assess whether reputational risks are indeed a relevant practitioner issue and if so, the mitigation methods they are considering, including CSR.

Practice

Given our close relationships with supply chain practitioners, we interviewed selected individuals to get their expert opinions on reputational risks. Helmer

and Rescher (1959) introduced the systematic investigation technique for making predictions based on an unbiased multi-experts' assessment of a current, real, and uncertain event or situation. Since we are right on the interface of varying views, and through witnessing and recording the communication process among experts, we know how experienced participants think and act. This is in line with Dewey's (1910) rationale for cognitive investigations as well as with the spirit of the 'reflective practitioner' by Schön (1995). Due to the richness of the information that emerged in the data collection process, qualitative sample sizes are typically small. In this light, Baker (2002) recommends to follow the researcher's judgment who tries to understand such an exploratory area. Our qualitative investigation has a clear scope that blends reputation, risk and CSR within the supply chain setting. Depending on the details of the interviews, Carson *et al.* (2001) recommend a sample size of six to twelve to reach the data saturation point. We selected eight participants based on their expertise in supply chain management and risk assessment.

In our investigation, we adopted established guidelines for data collection (Dalkey and Helmer, 1963; Delbecq *et al.*, 1975; Okoli and Pawlowski, 2004; Schmidt, 1997). The experts in our study are key informants (Campbell, 1955), which we selected due to a) that they had a full understanding of the strategic direction of their organization, b) they were involved in supply chain management, and c) they possessed in-depth knowledge about the operational implications of reputational risks which made them a useful source of insight (cf. Husted and Allen, 2007). They came from the aerospace, electronics, energy, logistics, and life sciences industries. They were not

direct competitors, and the organizations were located at different stages of the supply chain. The interviews took approximately 45 minutes on average and followed a semi-structured protocol.

Being that this was exploratory, and that we were seeking to understand managerial perceptions of the different types of risks in the supply chain, we adopted a mental models approach to organize and display our findings. Mental modeling is a method that provides a cognitive map of a person's belief or understanding of a concept (Morgan *et al.*, 2002). The information that was gathered was categorized into prototypes that, when combined, compose a schema (Palmer and Pickett, 1999) which is the declarative state of knowledge that answers the question of 'what'. In short, it is utilized to impose meaning upon situations.

Mental modeling serves to capture a snapshot of a schema and in combination with others, creates a single description that summarizes the pooled knowledge of people (Morgan *et al.*, 2002). This method is particularly helpful to assess comprehension, using before and after analyses, and in risk communications to gauge the effectiveness of information that is conveyed (Slovic, 1992). With regards to the latter, the method maps the collective knowledge of a professional group, thereby providing a tool to assess how risks are perceived. Based on these characteristics, the method is appropriate for this research.

It is worth noting that the model does not identify specific cause and effect relationships. Rather, it simply but elegantly allows us to present a very rich set of information that uncovers important points and concepts that are related. As a result, the arrows used in the following maps serve as a

representation of nomological space in which meaning is translated in the associations of prototypes that comprise the schema. The circles represent the ideas or concepts related to the subject in question.

Cognitive modeling employs specific aspects of the case study method as a means of reinforcing the mental models. This method provides a suitable procedure for observing and measuring behavior in a realistic setting (Macdonald *et al.*, 2011; Yin, 2009). Similar to the methodological approach by Pagell and Wu (2009), we targeted the specific firms that are doing something different. For validity purposes, and in-line with the prescribed case method for triangulation, we reviewed the internal documentation of the respective firms as well as the public records such as newspaper articles and practitioner magazines. The interviews were recorded, transcribed and then the researchers categorized them independently first and collectively later to increase the validity of the findings.

Our primary questions are reported here, but have been supplemented by probing questions.

1. Risks:

- a. What types of risks affect your organization?
- b. Do members of the supply chain carry the same risks or are there differences?

2. Reputation:

- a. In a business context, what does the term 'reputation' entail?
- b. Do your business partners effect the reputation of your organization?

c. If so, how?

3. Corporate Social Responsibility:

- a. What CSR activities does your organization do?
- b. Why do you do these things?
- c. Do these activities relate to any of the risks discussed earlier?
- d. Have all supply chain members the same opportunities to engage in CSR?

4. Corporate Social Responsibility and Reputational Risk:

- a. Does CSR impact the reputation of your organization?
- b. Can CSR be used to address the reputational risks of your organization?

In the following section, our findings are orchestrated in the logical flow that practitioners associate with these topics, supported by original quotes of respondents.

Risks

All participants recognized a multiple number of risks facing their companies in the supply chain context. In listing these, the following description does not reflect an order of priority or magnitude; rather it is simply acknowledgment and awareness.

To start with, specific risks related to the availability of the service or product was identified. This included the timeliness of the delivery, the acquisition of the product as well as obsolescence. The second set of risks was with respect to quality, risks surrounding noncompliance, the (chemical) composition of the products, the performance levels, and the regulatory requirements. Regarding

the chemical composition, numerous mentions of the Dodd-Frank Act (Anand, 2011) were made. The use of materials from conflict zones was a concern, as well as products having materials that were banned or deemed unsafe.

Safety was identified as a common risk. Operational issues associated to fires, hazards, explosions, chemicals or technology were pointed out. The concern with safety was a reflection of their concern for the public, their employees and customers. References were made to BP and the contractor employed to drill the well that led to the disaster in the Gulf of Mexico (Juhasz, 2012).

“Have you looked at the whole BP thing? Remember, BP tried to blame it on someone else. But it was a supplier and so everyone sees it as BP’s oil spill” (Director/Manager, Energy Industry).

Financial risks were also identified. These pertained to the price of partner products, the financial strength of the partner, commodity prices, exchange rates and interest rates. With respect to the environment, having an environmental policy was important. Vendors have expressed an interest in established policies, which were believed to be reflective of current practice. Other environmental issues raised were energy use, climate change, resource scarcity and impacts on the natural environment.

“No environmental policy is a threat of losing customers like Wal-Mart, AT&T and Verizon etc. They have a lot of

questionnaires that involves our supply chain” (Director/Manager,
Electronics Industry).

*“We really do think that climate change and resources are a true
risk to us and limited resources can drive costs”* (Director/Manager,
Electronics Industry).

There were several social risks identified. Human rights were pointed out and the Apple and Foxconn case (Guglielmo, 2013) was referred to on numerous occasions. Ethics or unethical practices were also identified as a risk as were stakeholder pressures. Figure 5 provides a snapshot of the perceived risks in a supply chain.

Insert Figure 5 here

Having identified the major risk areas, we then examine the results on how risks threaten an organization’s reputation, if at all.

Reputation

Each participant identified how their actions, products, communications and public relations and more formed the reputation held by their various stakeholders. Regarding business partners affecting their organization’s reputation, all respondents confirmed a reputational impact, followed by detailed business examples. Interestingly enough, all of the examples but one were associated to ethical and regulatory practices surrounding the environment or social responsibility. Availability and pricing, by contrast, were

not mentioned. Unfortunately, we are unable to report on specific instances here without the risk of compromising the anonymity of our participants and their organizations. The following quote may serve as a testament to the growing body of evidence that social and environmental practices of chain members, several tiers away, are a risk.

“There have been occasions here where people protested in front of my company for something that was three or four layers down the supply chain that we knew nothing about”

(Director/Manager, Energy Industry).

There was also the expression that all of the risks identified were a threat to the organization's reputation. This stemmed from the supply chain but also extended directly to the organization's own practices. For instance, one respondent emphasized that they stood to lose some of their big box retailers if their firm – and in particular their suppliers – had no environmental policy.

“All risk can eventually impact the reputation of the company”

(Director/Manager, Aerospace Industry).

When asked about a partner's reputation impacting their organization's reputation, all respondents answered 'yes'.

“If something happens with one of our suppliers and it is associated with some kind of negative connotation or some kind of act that does not align with [our company's] values that is a

reflection on our company as well” (Director/Manager, Aerospace Industry).

“A positive reputation is a trust that has been built up between us and our customers and hopefully us and our suppliers and vice versa” (Director/Manager, Energy Industry).

Risk Mitigation

Mitigating the identified risks, and in particular the risks to the firm’s reputation, was a concern of all participants. This was especially important for participants whose chain members were numbered in the hundreds. One particular partner had varying tiers with approximately 1300 suppliers in 26 countries.

“We could have up to 500 suppliers that go into one product”
(Director/Manager, Electronics Industry).

“It is incredibly difficult for one manufacturer to go out to all of our suppliers, launch these questionnaires, follow up with an audit or somehow get some level of verification, and then the next year, when our product line changes, do it all over again”
(Director/Manager, Electronics Industry).

Mitigation of many of the risks was attempted with the typical contractual obligations regarding availability, quality, and cost (i.e., counter party risks).

For risks related to the environment and social responsibility, mitigation was performed via questionnaires that seemed to be prolific going up and downstream in the supply chain.

“We have seen a lot coming from our customers, pressing us as part of their supply chain and the more they press on us the more we press on our suppliers and they press on theirs”

(Director/Manager, Life Science Industry).

“We see partners building supply chain audit programs and we get a lot of questionnaires. We get them on both sides. We get them from our resource side and we get them from our vendor

side” (Executive, Life Science Industry).

On an indirect level, i.e., with partners that were more than one tier away, validation was identified as needed but not easily implemented. Hence, the organizations in this study used questionnaires to transfer the mitigation of the risks throughout the supply chain to partnering organizations, which in turn may influence their chain partners with questionnaires and so on and so forth. Partnering programs were implemented by two of the eight participants interviewed. This involved partnering firms working together to minimize risks and fortifying the connection. The approach was effective but had limited reach beyond direct partners.

Insert Figure 6 here

Other forms of mitigation entailed communications and public relations. Lastly, transparency was also considered a mitigating technique. Although we could have grouped transparency with communications, the item arose in its own context and therefore, is listed as such. Figure 6 outlines the mitigating activities that participants elicited in our interviews.

“If you are just as open in sharing challenges that you face as you are with your successes, you become a more credible voice and more believable. The results seem more believable when you are willing to share the challenges as well” (Director/Manager, Energy Industry).

Corporate Social Responsibility

We adopted CSR as an entry point to capture and illustrate expert views in relation to reputational risk. All of the participants were descriptive of their CSR activities. The number of activities and their scale were enormous and entailed activities as would be expected for the environment (reducing the carbon footprint, take back programs of goods sold, biodiversity, reverse logistics) and society (employee engagement, education, diversity, non profit partnerships). There were a significant number of reporting mechanisms such as the Dow Jones Sustainability Index, FTSE4good or the carbon disclosure project. Lastly, philanthropy was a common activity with organizations donating money, assets such as technology, employee time and even skills.

With respect to why the organizations engaged in CSR, the answers varied and can be viewed in Figure 7.

Insert Figure 7 here

Stakeholder expectations were a common factor. Participants mentioned how investor expectations have changed and requests were made for them to participate in the Dow Jones Sustainability Index or FTSE4good. They also made explicit that investors were wanting more information like environmental practices, thereby forcing their firms to address items that may have not been on their radar beforehand. Customers were considered an influential stakeholder as was employees. With respect to the latter, the emphasis was on employee engagement, satisfaction, and there was a belief that CSR attracted new recruits. Lastly, there was a perception that supply chain partners were attempting to influence CSR activities along the chains via questionnaires, inquiries, and contractual expectations. However, audits or some form of validation was rarely performed.

“Internally our employees are very proud of our CSR reputation”

(Executive, Life Sciences Industry)

Another factor that influenced these organizations for engaging in CSR activities were to mitigate the many risks that were discussed earlier. When asked whether CSR adds to their reputation, all respondents expressed an affirmative. Likewise, CSR was also considered a mitigating factor for the risks that have the potential to impact their reputation. Lastly, CSR was

believed to have a positive impact on the business which led to increases in efficiencies, the acquisition of contracts, attracting better employees, and the making of appropriate investments that improved the bottom line.

“We believe in doing good. On the other hand, CSR is very profitable...so investment, where it makes sense, is a key priority for us” (Director/Manager, Life Sciences).

“When you go into negotiations for a bid and you review the RFP [request for proposal], everything is weighted and as a contracting officer, your opinion of the past performance of different companies is a weighted value. So, even if they may not be the most cost efficient when awarding contracts the reputation definitely goes into the subjective side of awarding a contract” (Director/Manager, Logistics Industry).

Insert Figure 8 here

Figure 8 is an illustration of how our participant-group perceived risks in the supply chain, the different mitigation practices that they employ and CSR. With respect to the risks identified, there was a direct association to ethical issues and their respective impact on the organization’s reputation. Human rights atrocities or environmental negligence is a significant societal issue that garners a great deal of attention.

For mitigation practices, the techniques were typical for common risks such as timeliness of delivery, quality and price. For reputational risks, particularly those drawing upon ethics, specific activities were related to social responsibility because it mitigates the negative reputational impacts of supplier activities. That is certainly not the only reason for their engaging in such activities but this is one of the benefits. With respect to their influence on other members of the chain, this is sporadic. The direct influence on partnerships is limited due to resource constraints. Currently, the plethora of questionnaires raises the topic of social responsibility although the effectiveness of this method is questionable as mentioned.

Discussion and Implications

The present study builds on the work of Hoejmose *et al.* (2013) with respect to reputational risks in the supply chain and generated a rich set of data that verified the seriousness of the threat. In this paper, we extend the definitional construct to include risks that extend beyond sustainability and greening the chain and we add to this by including a multi-dimensional construct of reputation that demonstrates the potential for spillover. The professionals in this select group expressed how these types of risks typically remain undetected by the organization and that these stemmed from unethical or at best ethically questionable activities. It is understandable that practitioners would first seek to manage the risks associated with availability, cost, and quality as these are often characteristics that directly impact a product or service offering. It is also easy to see how these three aspects would have an immediate and direct effect on the survivability of a firm, which suggests that

these risks may appear to be of higher order. This may also explain why reputational risks have limited resources as pointed out by Roehrich *et al.* (2014). Never the less, reputational risks were identified as significant and mitigation practices are evolving. For classification purposes, we refer back to the risk management process of identification, probability, costs, and prioritization. Identifying these risks is incredibly difficult. Given that these stem from unethical or questionable behavior, this is not something that is directly advertised or even reported upon. That is until an event has occurred. In fact, identifying the threat in the supply chain may be all but impossible. Without a historical record, it is difficult to know who is a potential offender. From here, assessing the probability of an event occurring and its impact on an organizations' reputation is perplexing. It seems not all events impact partnering firm reputations and when one does, the exposure is selective. For instance, Apple received a considerable amount of attention for the sweatshop conditions alleged at Foxconn, a manufacturer contracted by Apple (Blanchard, 2012). However, many U.S. and European firms contract Foxconn. Why others were not implicated in the many offences allegedly committed by Foxconn is a mystery. Never the less, the probability of an event occurring may be assessed but the probability of the outcome impacting one firm as opposed to another would be difficult. Perhaps this would have to do with the revenue or industry position of a firm (i.e., industry lead) and the level of brand awareness. More work needs to be done in this area and this would help in assessing the costs of the risk if realized.

Given the problems with characterizing the risks, investments in collecting more data is highly recommended. Decisions for mitigation are essentially

dependent upon the quality of the information available and given the newness of this phenomenon, additional research is needed. The current risk management practices fall under generic risk management categories that we discussed earlier: avoidance, loss prevention and control, transference and lastly retention. Avoidance would entail a change in managerial and institutional practices so that exposure to the risk is either minimized or removed altogether. For instance, Sony avoids certain materials in their product to prevent being implicated in sourcing materials from areas of conflict (Sony, 2015). Avoiding a product or material is one option. Perhaps avoiding a type of firm, and its consequential behavior is another. In fact, utilizing memberships to specialized associations may allow for some form of screening to minimize potential offenders. This will be discussed later.

Another risk management method may be found in loss prevention and control. For instance, Apple attempted to manage the reputational damage stemming from the Foxconn incident by contracting another manufacturer. Amidst the news of abuses with the new partner, Apple indicated that they were not aware of the problems and that steps would be taken to manage this in the future (Neate, 2013). This was their attempt at controlling the situation, minimizing the impact or potential losses, and trying to control the outcome.

Transference is a common mechanism but we were not aware of what insurance may be purchased and what the cost of this option would be. Transference of the risk to other partnering firms is, in some ways, practiced via the questionnaires that serve as a means of transferring the risk. By simply asking the questions about policy, there seemed to be a hope that this brought about awareness of the topic in question. Not one of the participants

knew of a follow-up to a questionnaire and there was no mention of how the answers on the questionnaire impacted the relationship. Finally, retention of the risk is the last option. Here, no action is taken and the costs of the risk, if realized, are anticipated and covered. Based on our interviews, we know that this is the current default option because mitigation of such an intangible risk remains difficult and uncertain.

With regards to all risk mitigating methods employed today, the contractual obligations appear to be the strongest. Hence, any attempt to enter into a contractual agreement would be advised. As one participant put it:

“It is not if they comply, they must comply if they want to do business with us” (Director/Manager, Electronics Industry).

However, as the chain broadens, contractual agreements become less effective and more costly. There is also the consideration that if your position of influence is not significant, as a powerful buyer or supplier, the likelihood of controlling partnering behavior weakens. There is also the issue of verification, as the tools needed to verify actions are slow to develop (Awaysheh and Klassen, 2010). The same can be said of questionnaires and codes of conduct. Short of adopting an auditing program or hiring third parties to conduct audits, the effectiveness of the current methods is speculative. For instance, Lee (2014) found that questionnaires and a code of conduct did not mitigate the risks of suppliers using child laborers. Still, auditing is costly and given the fluid nature of some chains, this option is incredibly complex.

We recommend the adoption of a more holistic practice of forming an association whereby participants or members agree to a set of CSR policies that serve as a foundation for good governance. In part, we recognize the mitigating potential of CSR and we refer back to Figure 4.

What CSR offers is the preemptive guidance for addressing many supply chain risks. An organization committed to fair wages and not engaging in human rights atrocities, as described in their CSR policies, may be less likely to offend. Certainly, they do run the risk of a public outcry and possibly persecution by their immediate stakeholders if they were found to be operating contrary to proclaimed practices. This would appear to be more effective than the current proliferation of questionnaires. What CSR accomplishes, that the questionnaires do not, is an attempt at transparency, public accountability and perhaps a refining of corporate governance on a multi-tier level (Tachizawa *et al.*, 2014). Table 1 demonstrates how CSR may address the different risks posed in the supply chain. Each of the four spheres (on the right of the table) can serve as a placeholder to a set of corporate policies that commit an organization to take on specific responsibilities.

Insert Table 1 here

In this sense, all members would be strategically aligned in order to design and control for varying risks in the chain. Table 2 shows how CSR and its four spheres may mitigate the risks for each of the dimensions of reputation. For example, within the sphere of governance, the organization would commit to a corporate policy for the effective use of resources. No policy is effective without measures. This means that the consequent development of a

management system leads to continual improvement. This sphere would similarly address financial performance and thereby decrease the likelihood that a risk will be generated there.

Insert Table 2 here

As can be seen in the table, mitigation may be initiated for many dimensional risks before they even start. Extending this further, we believe that by focusing on each of the dimensions of reputation, and not simply mitigating the risks but bolstering the dimension may serve as an effective means of enhancing a firm's reputation in the supply chain setting.

Conclusion

The potential for research in this area is tremendous, both qualitative and quantitative. There is a great deal of data making its way through the chains via the many questionnaires being filled out. This data would prove to be insightful. Also, knowing how many firms are impacted by this phenomenon and the varying methods being employed will help in the development of best practices. This research is by no means representative of the population or generalizable having relied upon a selective and small sample. Although this work contributes an in-depth cognitive perspective of practicing managers, more research is needed in other industries, in different cultures, and in differing positions along the chains.

Another area ripe for research is the impact of supply chain activities on stakeholder perceptions for each of the individual dimensions of a reputation. Each of these may be explored in both the negative and the positive frame.

Finally, do companies actually assess the partner profile with regards to reputational risk potential and how does this compare to other established and documented selection factors, such as price, quality, and delivery performance? Given that we identified other factors that contribute to the reputational risk, it is fair to ask whether reputation should be an overriding supplier selection factor or not, and if so, is this objectively captured or does this remain on the subjective level only?

Supply chain management is a relatively difficult management task and the significant gap that exists between theory and practice just does not help (Storey *et al.*, 2006). Even suggesting that there may not be a unified agreed upon definition of supply chain management (Stock and Boyer, 2009), which is foundational for harmonizing and advancing research that aids practice, makes it that much more challenging. Although we are emphasizing and promoting the mitigation of reputational risks borne from partners in a supply chain, we must highlight the fact that given the underwhelming performance of supply chain management (Storey *et al.*, 2006; Zumsteg *et al.*, 2012), let alone the risk management practices (Fischl *et al.*, 2014), recommendations for multi-tier mitigation process are weak at best. What we are suggesting is that a CSR policy adopted by associated members may address reputational risk and may also apply to the mitigation of generic supply chain risks related to quality and disruptions. However, not unlike the questionnaires and codes of conducts, the process begins with a commitment by tier-one partners to an association with a set of corporate policies and practices. They in turn influence their partnering firms, who in turn exercise their influence over partnering firms and so on and so forth. This mitigating action can have a

domino effect that spreads up and downstream. Aligning organizational commitments is like choosing friends. Pick them carefully, lest you find yourself running with the wrong crowd.

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FIGURES

Figure 1: Reputational Dimensions Relevant to All Stakeholders

Source: Based on Fombrun and Shanley (1990); Fombrun (1996)

Figure 2: Diagrammatic Representation of a Supply Chain and Reputational Risk Elements

Figure 3: Diagrammatic Representation of a Supply Chain and Reputational Risk Spillover Effects

Figure 4: Four Spheres of Corporate Social Responsibility

Source: Based on Authors, 2013.

Figure 5: Cognitive Model of Participants for Supply Chain Risks

Figure 6: Cognitive Model Representing Participants' Perception of Mitigating Actions for Supply Chain Risks

Figure 7: Cognitive Map of Participants' Perception for Why Their Firm Engaged in Corporate Social Responsibility

Figure 8: Participants' Cognitive Representation (Schema) for Supply Chain Risks, Methods for Mitigation and Impetus for Corporate Social Responsibility