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The Interplay Between Corporate Social Responsibility and Corporate Reputation
Is CSR the Recipe for Corporate Success?

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Abstract

This work aims at assessing the interplay between Corporate Social Responsibility (CSR) and Corporate Reputation, illustrating the cyclical relationship between these two core intangible assets. The first, through its main objective of combining profit maximization with responsible purposes, constitutes, nowadays, one of the drivers of companies' image, identity, and reputation, thereby implicitly enhancing financial performance and, hence, corporations' ability to invest in future and ambitious CSR initiatives. At the same time, the evolution of modern society, along with consumers' and investors' interests, added to the role played by the media, contributed to making corporate reputation one of the major self-regulatory mechanisms for socially responsible practices. This work provides a theoretical triangulation of the most prominent literature on the topic, alongside case studies and practical examples in demonstration of the argument. Hence, it hopefully contributes to the fields of research on CSR and corporate reputation and the understanding of the combination of such assets for corporations' success in modern society.

Key Words

Corporate Social Responsibility, Corporate Reputation, Intangible Assets, Trust, Self-Regulation, Communication, Corporate Irresponsibility, and Stakeholder Management.

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Introduction

"The proportion of a company's total market value that exceeds its book value has increased from 40% in the early 1980s to over 80% at the end of the 1990s. This means that only 20% of a company's value is reflected in the accounting system... [thus the largest portion of a company's economic activities]." (Daum and Firm, 2003).

Despite companies being mainly driven by profit maximization, they are, nowadays, recognizing that their value is increasingly related to the responsibilities they have toward a multitude of actors in society in spheres that go largely beyond the economic domain. Corporations are progressively embracing a business model which encompasses a wide range of activities, from reducing their negative environmental impact and stimulating sustainable practices to supporting local communities, providing public goods, and promoting human rights. In this regard, Corporate Social Responsibility (CSR) has become an increasingly prominent feature of business in recent years, as demonstrated by the shift in companies' focus, purposes, objectives, mission, vision, and values. The importance of CSR lies in its ability to create positive change and benefits for all stakeholders, including customers, employees, shareholders, and the wider community. Such benefits are, of course, reflected in corporations themselves. Indeed, higher levels of customers' trust and loyalty, improvement in employees' engagement, motivation, and sense of belonging to the company, as well as overall support by investors and the wide community are all factors that contribute to enhancing revenue growth and profit (Branco and Rodrigues, 2006). Firms that prioritize CSR are better positioned to mitigate reputational, legal, and environmental risks, reducing the probability of reputational declines. Therefore, the overall positive implications that CSR has for businesses might broadly be attributed to corporate reputation. The latter has become an essential intangible asset of modern business strategy. Representing the perceptions, beliefs, and attitudes that stakeholders hold about a company, including its products, services, values, and behaviours, reputation can have a considerable impact on business outcomes, including consumer behavior, investor decisions, employee engagement, and stakeholder relations (Fombrun, 1996) Hence, understanding the importance of corporate reputation is essential for companies to thrive in today's competitive and dynamic business environment. The factors that mostly contribute to boosting a company's reputation include product quality and customer service, innovation, CSR, and ethical behavior. Nonetheless, aspects such as the quality of goods and services and employees' treatment have always played a relevant role in determining a company's image,

identity, and reputation. Conversely, socially responsible practices constitute, especially since the last decade, the core driver of reputation, especially due to the interconnected nature of the modern globalized world, where consumers and investors are increasingly conscious of the impact of their actions and investments and where media's power is on the rise. Thus, CSR is no longer a "nice-to-have" but a necessary intangible asset. It is a way for companies to demonstrate their commitment to creating a sustainable future and contributing to the well-being of society, while at the same time maximizing their well-being, through the positive implications for reputation. In this regard, the majority of corporations that have adopted ambitious sustainable policies seem to enjoy a solid reputation. If we think, for instance, about companies such as Starbucks, Lego, Levi Strauss, Patagonia, and others, their sustainable approach undoubtedly pays off. Starbucks, among others, created a CSR department in 1999, having identified coffee as a commodity that strongly affects biodiversity and conservation. Therefore, among the multiple policies, the company has decided to start various partnerships with NGOs, such as Conservation International, to improve environmental conditions in the coffee industry, aiming to find a common interest that will continue to ensure the full independence of both the firm and the NGO (Austin and Reavis, 2002). Through such partnerships, Starbucks shifted its mission toward the real care of its customers, persuading the latter about the singular quality of their coffee, while, at the same time, positively impacting the environment and sustaining farmers around the world (Austin and Reavis, 2002). Of course, such initiatives have a cost that is reflected in the price of the goods provided. Nevertheless, people continue to buy the company's products because of their quality, which constitutes the foundation of Starbucks' differentiation compared to its competitors. Of course, CSR does not represent the sole motivation underpinning such a solid reputation. However, due to the prominence of these initiatives in modern society, it certainly embodies one of the main drivers (Austin and Reavis, 2002). Therefore, as such a trend will never stop, but will rather continue to evolve, companies must understand that CSR is among the principal keys to their success.

The current dissertation stems from the interest in companies' rising tendency to embrace a socially responsible approach. The usual emphasis on financial performance and increased revenues seems to have been partially replaced by corporations' desire to communicate their responsible initiatives. Hence, this work aims to understand which incentives corporations have for committing to such activities, focusing on CSR's implications for corporate reputation. The objective is to critically assess, discuss, and triangulate the most prominent literature on the topic, to explore the interplay between the two variables under analysis. Particularly, I will

argue that the connection between the two intangible assets is mutual and cyclical, in the sense that not only do socially responsible practices inevitably enhance companies' reputations but also the latter serves as a self-regulatory mechanism for CSR. The voluntary nature of ethical business leads corporations to behave appropriately only if and when they have the appropriate incentive. Such a stimulus can stem even only from competitors' behaviors and practices, as being an outlier is never a good idea for any company. Nonetheless, the motivation to build, maintain and boost corporate reputation is undoubtedly one of the core drivers for firms to switch toward more sustainable practices. Hence, I will dwell on what I define as a virtuous cycle through which the incentive to build a strong reputation will guide the company to embrace a socially responsible approach, which will have positive implications on brand identity, image, and reputation, thereby potentially improving the corporation's financial performance, which will, in turn, constitute the premise for the needed future investments in CSR. The latter, therefore, will be more costly in the short run than in the long run and, vice versa, more beneficial in the medium and long term.

The thesis will be structured as follows. The first chapter will develop a broad and detailed focus on CSR, starting from the origins of the term, along with the evolutions of the concept and its role in modern society. Subsequently, the CSR pyramid will be deeply illustrated, as the premise to present the drivers that should incentivize companies to adopt a socially responsible approach, highlighting different categories of motivations. Then, the benefits of CSR will be analyzed as distinguished between internal and external. While the former strictly concerns advantages for internal components and members of corporations, the latter mainly revolves around the implications for external stakeholders, being thereby strongly connected to corporate reputation. Hence, the attention will be shifted toward reputation, which will constitute the pivotal focus of the second chapter. Beginning with the distinction between identity, image, and reputation, which, despite being intertwined, have all their independent nature, the chapter will continue with the presentation of the reputation pyramid, through the identification of its main components. Subsequently, the impact of reputation on financial performance will be assessed through critical lenses, which will bring to light contrasting perspectives. The second broad focus of this chapter concerns the debated challenges related to reputation measurement, presenting the three most common methods used nowadays to measure such an intangible asset. Finally, the chapter will be concluded with a section on how companies aim at building and maintaining their reputation, through winning corporate branding strategies and effective stakeholder management, along with managing and facing

reputational risk. After having set the stage through the first two chapters, the third and final one will analyze the relationship between the two variables of interest, starting with a focus on trust, considered the mediating factor between CSR and reputation. As the lack of trust often stems from irresponsible conduct, a brief focus on corporate social irresponsibility will be developed to contribute to explaining the impact of CSR on reputation. Subsequently, the implications of the second variable for the first one will be analyzed, considering reputation as a self-regulatory mechanism of sustainability. Then, the importance of CSR communication strategies will be presented to end the theoretical sections of the work, which will be followed by two case studies demonstrating how opposite directions in terms of CSR potentially result in diverse effects on corporations' reputations. Hence, the clothing company Patagonia and the food and beverage multinational Nestle will be used as cases to clarify the practical implications of such a mutual and cyclical relationship. The concluding remarks will be eventually presented, alongside the main limitations of the work and some suggestions for corporate behavior.

CHAPTER 1

Principles and Implications of Corporate Social Responsibility

The first chapter of this work will develop a detailed focus on CSR. It will begin by illustrating the origins of the concept, along with its evolution throughout the last decades and its modern development, following the recent social movements, values, and rights. Subsequently, the identification of CSR's different components will be elaborated through the analysis of its pyramid, designed by Carroll in 1991 and divided between economic, legal, ethical, and philanthropic responsibilities. Such a focus will be followed by the identification of some of the main motivations and incentives that companies have to engage in socially responsible initiatives. Indeed, as firms are not social actors and their primary purpose is to maximize profit, CSR must be in line with corporations' core objective, rather than constituting an obstacle to revenues and growth. The chapter will then be concluded with a description of some of the companies' benefits of adopting a socially responsible approach. These benefits tend to be distinguished between internal and external. While the first will be briefly developed throughout chapter one, the second, revolving around the broad concept of corporate reputation, will be elaborated in deep detail in the third and core chapter, representing the pivotal aim of the present work.

1.1 CSR: Origins and Definition

"To prosper over time, every company must not only deliver financial performance but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate." (Fink, 2018 in Sorkin, 2018).

As highlighted by Larry Fink, Chairman and CEO of BlackRock, the world's lead asset management firm, linking purpose to profit has become the recipe for companies' success in modern society (Deshpande et al., 2020). The belief that businesses have duties and responsibilities toward society is not recent. Conversely, the concept's origins may be traced back to the early 20th century, when the Industrial Revolution led to rapid industrialization and urbanization, and companies began to take on a more prominent role in society. Nevertheless, some scholars trace the CSR movement to the period between 1945 and 1960, when the goal was supporting business interests that were strictly aligned with free-market capitalism against

the threat of the Soviet Communist Party (Carroll and Shabana, 2010). Within this context, some argue that the notion of CSR is related to the figure of Dean Donald K. David, who, in 1946, encouraged the future business executives at the Harvard Business School to never underestimate the consideration of ethical and social responsibilities as companies' leaders (Carroll and Shabana, 2010). Subsequently, the CSR movement gained further popularity when economists such as William C. Frederick and Howard R. Bowen started to define, around the 50s and 60s, the broad set of social obligations faced by corporate organizations and their CEOs (Carroll and Shabana, 2010). In the present context, Keith Davis suggested, in 1960, that social responsibility can be defined as "businesses decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest." (Carroll, 1991, p.39).

Aside from the single episodes that are still remembered, one of the early pioneers of CSR was undoubtedly the philosopher and economist Milton Friedman. In his 1970 essay "The Social Responsibility of Business is to Increase its Profits," Friedman argued that the only responsibility of a business is to maximize profits for its shareholders. He stated that any other responsibilities, such as social or environmental concerns, were not a company's business and should be left to governments and other institutions. However, this view was met with criticism from various groups, who argued that businesses have a broader set of responsibilities to society and the environment. These critics pointed out that companies impact a wide range of stakeholders, including employees, customers, suppliers, and communities, and that they should be held accountable for their impact (Mulligan, 1986). In response to this criticism, the concept of CSR began to gain further importance. Thus, in the 1960s and 1970s companies started to take a more proactive approach to social and environmental issues and began to develop policies and programs to address these concerns.

Despite the non-recent emergence of the CSR concept, the decades following the Cold War faced numerous trends revolving around business ethics, and the link between corporate social responsiveness and financial performance, as well as the raising interest for civil rights, women's rights, and consumers 'rights, culminating in the inclusion of the environmental movement and sustainable development into the corporate realm (Carroll and Shabana, 2010). Nonetheless, the consideration of CSR in modern society has inevitably evolved. The 1970s represented the turning decade for CSR, following the foundation of the Environmental Protection Agency (EPA), the Equal Employment Opportunity Commission (EEOC), the Occupational Safety and Health Administration (OSHA), and the Consumer Product Safety

Commission (CPSC) (Carroll, 1991). Such a trend was confirmed by the gradual development of subjects such as managerial ethics and social responsibility of businesses starting from the 1970s and becoming pivotal since the beginning of the twenty-first century (Križanová and Gajanová, 2016).

In the 1990s, because of global trade regulations prioritizing profits over human rights and environmental protection, an unchecked expansion of corporate power took place. Consequently, responsible practices in terms of environment, employment, security, safety, health, and human rights all gradually became integral components of the CSR concept, which is nowadays broadly considered as a practice through which companies combine social purposes with their core business objectives and operations (Edmondson, 2022). Therefore, the CSR concept has evolved and continues to evolve, adapting to the ongoing societal progress that revolves around new values, principles, and rights. If CSR was often viewed, in the past, as a way for companies to "do well by doing good", its definition has expanded to be integrated into the overall corporate business strategy of firms. In recent years, the concept relies upon an increasing focus on sustainability, stakeholder engagement, and integrated reporting, demonstrating that companies are now expected to take a more holistic approach, considering the long-term impacts of their actions. Hence, as stated by List and Momeni (2021, p.8) "Corporate social responsibility has become a cornerstone of modern business practice, developing from a "why" in the 1960s to a "must" today, as over 90% of G250 companies (the top 250 companies listed in the Fortune Global 500 ranking) now publish annual CSR reports". At the national and international levels, CSR norms are now widely accepted, and more than 90% of the 250 largest firms in the world reported on corporate sustainability in 2017, as stated by KPMG (2017).

One of the key drivers of this shift has been the rise of stakeholder capitalism, which is an approach to business recognizing that companies have a responsibility to all of their stakeholders, including shareholders, employees, customers, suppliers, and the communities in which they operate (Hunt, Nuttall and Yamada, 2021). Companies that embrace stakeholder capitalism are more likely to adopt a broader definition of CSR, thereby giving a more expansive definition of "value" and understanding the strong potential behind every management choice that goes beyond the historical purpose of profit maximization (Hunt et al., 2021). Related to this, another driver of the shift in CSR is the growing awareness of the impact of business on society and the environment. Climate change, inequality, and social

justice are some of the major issues of our time, and companies are recognizing that they have a role to play in addressing them, by taking meaningful action to minimize adverse effects and maximize positive contributions.

In addition, the rising role of technology has impacted the evolution of CSR, as businesses may now examine and take advantage of the linkages between organizational strategy, governance, social issues, and economic success thanks to numerous new platforms (Fabara, 2021). For instance, Google is addressing global education disparity with its technologies, through the support of an open-source platform that translates books into regional languages spoken in tiny communities worldwide (Fabara, 2021). Furthermore, social media and other digital platforms have made it easier for stakeholders to access information about a company's CSR initiatives and to hold corporations accountable for their actions This often contributes to attracting investors who like to be affiliated with transparent and accountable businesses that have a long-term plan for operating sustainably and keeping good connections with all of their stakeholders (Fabara, 2021)

The legal actions that have been put in place throughout time to pressure businesses into compliance with CSR guidelines are another matter of some significance. On a global scale, several initiatives—mostly soft laws—have been implemented. More than 300 worldwide corporate standards were developed by Ligteringen and Zadek (2004 in Marimon et al., 2012) and are now used by businesses to self-evaluate their social and environmental impact. The UN Global Compact stands out among them because it encourages businesses to behave themselves properly by coordinating their operations with the UN Guiding Principles. The Guidelines for Multinational Enterprises, issued by the Organisation for Economic Cooperation and Development (OECD), also offers advice to businesses on how to exercise due diligence to identify, prevent, or reduce any potential negative consequences and take appropriate measures to account for those that do arise. Independent certifications also promote ethical corporate practices and ease international commerce, all while promoting sustainable growth. In order to achieve this, the International Organization for Standardization (ISO) produced widely accepted standards, such as ISO 14001 on the Global Reporting Initiative (GRI) and ISO 26000 on social responsibility guidelines. Due to the voluntary nature of CSR and the absence of strict regulations, other instruments adopt a "naming and shaming" strategy, which involves exposing businesses that violate human rights. The FTSE4Good Index Series, a set of ethical investing stock market indexes developed to assess listed firms, serves as an

example of this. These enable comparing the achievements of various businesses using 300 variables that measure their social and environmental implications. Although it hasn't always been successful, CSR has worked as a means of recovering public confidence and as a strategy to argue against regulation in light of the public reaction to corporate irresponsibility (Newell, 2008). As a result, it can be said that CSR has changed from being a concept centered on philanthropy and charity efforts to acting as a crucial component of businesses' commercial strategies.

1.2 The CSR Pyramid

Despite the evolution of CSR, the latter builds on strong pillars which have been defined by Archie B. Carroll, in 1991, through the elaboration of the so-called 'pyramid of corporate social responsibility'. This relies upon four dimensions: economic responsibility, which defines companies' core objective to be profitable; legal responsibility, which highlights companies' obligation to follow the law; ethical responsibility, revolving around companies' commitment to behave fairly; philanthropic responsibility, which builds on companies' charitable actions (Edmondson, 2022). As evident from Figure 1, economic responsibilities constitute companies' foundation, in light of the historical nature of business organizations, which were intended to be economic actors providing goods and services and driven by acceptable profit at first (Carroll, 1991). Some of the economic responsibilities that corporations assume are the commitment to performing in ways that lead to earnings per share maximization, the commitment to generating maximum rather than acceptable profit, and the set of efforts to create and maintain a relevant competitive position compared to companies operating in the same market (Carroll, 1991).

Fig. 1: The CSR Pyramid (Carroll, 2016, p. 6)

Above the economic floor, corporations' legal responsibilities are the *conditio sine qua* non for firms to operate, because compliance with the laws and regulations approved at the international, federal, state, and local level cannot be neglected (Carroll, 1991). Although they have been placed after economic responsibilities, the legal components of the pyramid are underpinned by the same level of importance, because businesses have to aim at their economic goals within a binding legal framework and following a sort of codified ethics (Carroll, 1991). The main responsibilities are corporations' commitment to performing respecting legal and governmental expectations, being law-abiding corporate citizens, and providing goods and services that also respect certain legal requirements and minimum standards (Carroll, 1991).

The last two floors have reached higher importance more recently. Ethical responsibilities are found in a new realm that goes far beyond the broad norms and principles of justice and fairness, aiming at a deeper concern for all stakeholders, ranging from employees and consumers to shareholders and the whole community, ensuring the respect of all their rights. Despite ethical responsibilities following legal responsibilities, the former somehow shapes the latter, as demonstrated by the change in recent regulations and laws, which are built on environmental principles, new human rights which are recognized, consumer movements, renovated social values, and ethical norms (Carroll, 1991). Therefore, simple compliance with basic legal standards does not attribute the label of good corporate citizen to companies, which have to follow the evolution and development of social and ethical norms. However, being a good corporate citizen entails a more profound commitment to behaviors and actions promoting goodwill and human welfare, by, for instance, financing communities, social movements, or educational policies and reforms (Carroll, 1991). Philanthropy constitutes the last part of the pyramid because it represents an addition to the core concept of social responsibility. It is not required or expected by society but is appreciated and highly evaluated if implemented by corporations (Carroll, 1991).

Although all these components are not mutually exclusive, but rather strictly intertwined, tensions often arise especially between economic and ethical responsibilities, economic and legal components, and economic and philanthropic aims, in virtue of the possible conflicting interests existing between profitable and responsible or socially virtuous actions. Indeed, if we recall Milton Friedman's argument, the initial idea was that businesses should be strictly focused on their core purposes in terms of operations and revenues, while the free market's hands should autonomously and spontaneously address social issues (Friedman, 1970).

Nonetheless, Friedman was the same economist to claim that corporations should aim to maximize profit while adhering to the fundamental social norms in terms of law and ethics (Carroll, 1991). Hence, the idea that firms' responsibilities embrace more than the mere economic realm was already present in the 70s, albeit not embedded in the corporate domain as in our modern world. Yet, theory and practice do not always correspond.

1.3 Why Should Corporations be Socially Responsible?

Although corporations are taught that meeting business goals in terms of revenue, profit, and growth can simultaneously have a positive impact on society if operations are conducted in compliance with specific standards, such a relationship is not always true, at least in the short run (Edmondson, 2022). Hence, the fact that for-profit companies, despite their inevitable impact on society, must behave responsibly from a social perspective constitutes a deep doubt (Chaffee, 2017). Thus, understanding the nature of corporations is crucial to shed light on such a doubt (Chaffee, 2017). Despite the continuous evolution of the literature concerning the essential nature of corporations, the three main essentialist theories of the corporation are the following: the *artificial entity theory*, or concession theory; the *real entity theory* or natural entity theory; and the *aggregate theory* or nexus of contracts theory (Millon, 1990).). The first contends that businesses are artificial entities whose survival is entirely dependent upon the government; according to the second, the identity and existence attributed to each company are distinct from the state and the people who founded, control, and own it; in line with the third theory, businesses are essentially groups of people linked through by a series of commitments (Millon, 1990). All of these theories emphasize distinct ways of how corporations exist, underplaying either the role of individuals or that of the government or the interplay of these two actors, without deepening the *reasons why* corporations exist (Chaffee, 2017).

Nonetheless, these reasons are the subject of interest when it comes to analyzing if and why companies have to engage in socially responsible behaviours. Hence, a fourth theory has been proposed by Chaffee (2017), to suggest that state governments and the people who establish, run, and control businesses work together to create corporations. Such *collaboration theory* stipulates an existence that is distinct from the state and the people involved in the corporation, which can thus accomplish activities and pursue objectives that the state and the people do not and could not do independently (Chaffee, 2017). Thus, this theory has the potential to better explain, compared to the first three, the motivations underpinning CSR behaviours, in light of

the role played by corporations in society. However, due to the contract between the state government and the individuals that compose the firm, it seems that socially responsible activities should be pursued by companies only if and when they maximize profit, as corporations are for-profit actors (Chaffee, 2017).

Nevertheless, the motivations that incentivize managers to adopt a socially responsible approach to their operations can be of two types: the first is referred to as the "business case", because it is related to corporations' self-interest, served by CSR (Branco, Rodrigues, 2006). However, by stating that business purposes drive socially responsible actions, managers cannot legitimize actions that do not significantly and with certainty enhance profit maximization (Chaffee, 2017). Furthermore, when comparing two activities sharing the same objective but having different types of implications for society, the socially responsible behaviour is often not the one characterized by the certainty to be more profit-maximizing than the alternative action. Thus, the second justification advanced by managers, which is nowadays predominant, is known as the "normative case", referring to companies' desire to 'do good' (Branco, Rodrigues, 2006). To clarify the vague nature of such a reason, some argue that, by voluntarily meeting specific standards, companies can avoid government intrusion, developing their own rules of conduct, without submitting them to external control (Križanová and Gajanová, 2016). Indeed, the rising power of economic actors comes with the necessity for corporate self-regulation (Križanová and Gajanová, 2016). Besides, how people view and interpret business is evolving, leading big corporations to modify their goals and serve as role models for smaller companies (Križanová and Gajanová, 2016). An instance is that consumers, especially in Western European countries, are developing a deep curiosity about the history of the goods they plan to buy, committing to be informed before making their purchasing choices (Križanová and Gajanová, 2016). Aside from these few examples, the benefits of CSR will be elaborated on in deeper detail in the following section.

1.4. Benefits of CSR

The critical question around CSR is whether a company should engage in particular activities or forego them depending on whether they would benefit or damage society. Nonetheless, the controversy concerns the level of accountability businesses should assume for the societal effects of their operations. Should companies take steps to lessen the harmful effects of their activities on society, remedy those damages, or even exercise positive influence by advancing

socially acceptable goals? (Branco and Rodrigues, 2006). If their central aim is that of making profit and if such socially responsible activities hamper their core objective, what is the best corporate behavioural guide?

The prevalent understanding of CSR today is that businesses incorporate social and environmental concerns in their operations and relationships with stakeholders voluntarily, without being strictly guided by binding laws and regulations (Branco and Rodrigues, 2006). Therefore, the voluntary nature of social responsibility initiatives implies that the latter has to be appealing to corporations, generating expected benefits that exceed or, at least, outweigh their costs. Indeed, embracing a CSR approach is often more expensive compared to the less responsible alternative. For instance, the purchase of environmentally friendly equipment, the implementation of higher quality products and health standards, or the promotion of new safety and environmental programs require relevant initial investments, especially if the firm has never implemented them in its past management (Branco and Rodrigues, 2006). Similarly, information on CSR in terms of data collection, communication, and audit must also be disclosed, implying a considerable cost. Therefore, due to the difficulty to see managers making choices that will harm the company's financial success, the incentives have to be more than the simple moral alignment with CSR ideals.

The main motivation should be the positive relationship between financial performance and CSR. The positive impact of the first on the second is straightforward because social initiatives require expensive resources and investments (Branco and Rodrigues, 2006). On the other hand, the positive impact of the second on the first is not that explicit, despite multiple studies favouring such a correlation. In this regard, some authors even argue that CSR should be approached by managers in terms of investment decisions, emphasizing that social actions constitute a type of strategic investment (McWilliams and Siegel, 2001). For instance, a study drawing attention to the overall positive impact of socially responsible initiatives of financial factors was conducted by Margolis and Walsh (2003), who, however, claimed that this type of empirical analysis is often imperfect due to measurement problems, causality, control omissions, and other methodological issues. Other studies, such as that conducted by Waddock and Gaves (1997) emphasize a commonly encountered issue, namely the uncertainty of whether CSR is the cause of improved corporate financial performance as the former is not only the premise but also the implication of the letter, due to the availability and depletion of resources and investments.

There are, of course, several studies that lead to different and sometimes conflicting conclusions. To mention an example, in a study conducted by Johansson, Karlsson, and Hagberg in 2015, it was found that there was no discernible correlation between CSR and financial success in the sample for the years 2006 to 2009 in big Swedish publicly listed firms. Despite being only an example, this study adds to the vast corpus of previous empirical analyzes in the same field that likewise failed to find a meaningful connection between CSR and financial success (Johansson et al., 2015).

Therefore, although the present general trend discourages the trade-off between CSR and financial performance, it is nearly impossible to drive standardized conclusions, disregarding all the actors that play a role in contributing to such a correlation (Branco and Rodrigues, 2006). Nonetheless, corporations continue to be encouraged to be good corporate citizens, due to the multiple benefits at the societal and corporate levels. Hence, what advantages can companies draw at the internal and external levels by adopting a socially responsible approach?

1.4.1 Internal Benefits: Resource-based Approach

When analysing the internal benefits of CSR, authors tend to refer to the *resource-based perspective* (RBP). Aside from the arguments advanced by Adam Smith and Karl Marx, one of the pioneers of such perspective is Edith Penrose who defined corporations as "pools of resources", emphasising the importance of the connection between companies' internal features and their performance (Branco and Rodrigues, 2006). The latter depends, in the first place, on resources that can be tangible or intangible, as well as more or less rare, valuable, and easily imitable by competitors, based on their characteristics (Bowman and Ambrosini, 2003). These resources have, however, no value if not appropriately combined, integrated, and managed through a pool of capabilities. An intelligent control of this combination is the premise for a firm's competitive advantage, which will be higher depending on the rarity of the resources and the difficulty to replicate them, thereby significantly contributing to boosting financial performance (Branco and Rodrigues, 2006). Therefore, RBP is a type of approach that is frequently used to emphasize the positive role played by CSR in boosting companies' performance because it highlights the correlation between intangible assets – ranging from corporate culture to employees' know-how and corporate reputation – and performance (Branco and Rodrigues, 2006). Besides, the application of RBP to CSR is further explained by the tendency to interpret socially responsible initiatives as the premise for the generation of

new resource-based chances by enhancing innovation and improving technology. At the same time, CSR practices require financial investments to be implemented, demonstrating the complementarity of the two variables and the strength of the following equation: financial performance is needed to invest in CSR, which is required to enhance the company's pool of – especially intangible - resources, which, in turn, combined with the appropriate pool of capabilities, result in higher performance (Branco and Rodrigues, 2006).

Through the lenses of the present perspective, the potential internal benefits of CSR are straightforward. One of the domains to be influenced is that of human resources (HR) activities, which benefit from CSR to form skilled and qualified employees in charge of designing firms' business strategy, which constitutes the starting point for a more solid economic performance, thereby spurring competitive advantage (Ballou et al., 2003). In the present context, one of the most significant examples is related to employee engagement and motivation. CSR may, in fact, positively influence workers' motivation, commitment, and loyalty to the company, enhancing the quality and productivity of the workforce, increasing employee retention, and lowering turnover and absenteeism (Branco and Rodrigues, 2006). Among the most common responsible practices in HR management are fair wages, training opportunities, a clean and secure workplace, educational and health benefits for employees and their families, flexible work schedules in terms of time and place, job sharing, and the availability of childcare facilities (Branco and Rodrigues, 2006). In this regard, employees who work for companies that prioritize CSR are more likely to feel a sense of purpose and fulfillment in their workplace. Additionally, employees who feel proud to work for a socially responsible company may be more likely to become advocates for the firm in which they work, promoting it to their friends, family, and professional networks (Cunha et al., 2022). Moreover, one of the main ways through which CSR can lead to increased employee engagement is by fostering a sense of purpose among workers: for instance, CSR initiatives, such as charitable giving and community outreach programs, provide employees with the opportunity to make a positive impact on their communities, contributing to creating a sense of pride and fulfilment among employees, which, in turn, can increase engagement and motivation (Cunha et al., 2022). Nevertheless, other studies confirm the opposite trend, emphasizing the negative impact of CSR on employees' commitment and behavior. For instance, List and Momeni (2018) conducted an analysis of Amazon's Mechanical Turk (MTurk), an online labour market platform where people and businesses of various types can post tasks that workers will pursue. By analysing employees' behaviour using a sample of over 1500 workers, the authors concluded that the correlation

between CSR and employee misbehaviour and shirking is negative, as 24% more employees behave negatively toward their company by shirking their primary job obligations if the firm implemented CSR practices (List and Momeni, 2018).

However, another way through which socially responsible practices can result in increased employee engagement is by creating a positive organizational culture. Companies that prioritize CSR tend to have a strong sense of corporate culture and values, which can create a sense of belonging among employees who will feel that they are part of an entire community that does not simply embrace corporate purposes but also a set of values to which people relate (Espasandín-Bustelo et al., 2020). This is strictly connected to improved communication and collaboration within companies because CSR initiatives help to create a positive and meaningful work environment, enhancing employees' willingness to communicate and collaborate effectively.

CSR can also internally support companies to identify and mitigate risks. Indeed, due to the profound change in the nature of risk, the management of the latter cannot build on the same traditional pillars, to face the current and evolving challenges. Therefore, risk management has to innovate to deal with global value chains, empowered stakeholders, and networked operations (Kytle et al., 2005). Hence, CSR can offer the appropriate framework and guiding principles for stakeholder engagement and information about the rising social and environmental issues, thereby acting as a countermeasure for social risk (Kytle et al., 2005). In this regard, companies that prioritize environmental sustainability may be less likely to face legal or regulatory challenges related to environmental compliance. Furthermore, CSR initiatives can help companies to anticipate and respond to societal changes and trends, such as shifting consumer preferences or new technologies. Nonetheless, one major drawback is that CSR can be viewed as a form of greenwashing, through which companies make superficial or misleading claims about their social and environmental impact to improve their public image. This can result, aside from all the negative implications, in a lack of accountability and transparency, which can have a long-term impact on the company's credibility and, hence, its profitability.

In addition, CSR can help companies to improve their bottom line. For example, companies that invest in energy-efficient technologies or sustainable supply chain practices may be able to reduce their operational costs (Branco and Rodrigues, 2006). Environmental practices can

lead to several financial benefits, such as cost savings and increased sales. For example, reducing energy consumption can lower energy bills, and recycling can reduce the cost of waste disposal. These cost savings can generate increased profitability. Indeed, pollution prevention alongside the reorganization of production processes, material flows and supplier relationships, among others, serves to modify production by recycling or reusing raw materials, replacing hazardous products, and so on. These processes often result in a stronger competitive position for the company in question, following the reduced costs due to factors such as higher labour and capital productivity (Branco and Rodrigues, 2006). Moreover, "improved environmental performance may bring savings associated with the use of less energy and materials and having lower pollution costs in the form of charges for waste handling and disposal, fees, licenses and fines for breaking environmental regulations: since it fosters some important management competencies, such as those related to problem-solving, discovering sources of inefficiency and incentives for employees' participation, improving environmental management competencies may also lead to better management in general" (Branco and Rodrigues, 2006, p.121).

Other ways through which environmental practices can internally benefit companies are by increasing customers' loyalty and thus sales, as well as attracting and retaining socially responsible investors, aside from numerous additional factors which are, of course, specific to the single cases, companies, practices, and contexts.

Therefore, the internal benefits of CSR are multiple, ranging from increased employee engagement and motivation, higher retention, and lower turnover to increased collaboration and communication, more appropriate risk mitigation and management, and improved firms' bottom lines. All these activities, being considered as ways to improve or augment internal resources and capabilities are identified, through RBP, as the new powerful tools to spur corporations' financial performance, showing, once again, that CSR is not at all only a matter of values. Conversely, companies' commitment to CSR can be viewed as a way for corporations to gain a competitive advantage over their rivals, rather than as a genuine commitment to making a positive impact. Although this may seem not to have drawbacks, such motivation can potentially result in a lack of consistency and credibility, as well as a lack of progress in concretely addressing social and environmental issues.

1.4.2. External Benefits

External corporate benefits stemming from CSR differ from internal ones because they do not concern internal characteristics of the company that engages in responsible activities, but rather revolve around the benefits that companies derive from the external impact that CSR practices have. Nevertheless, the external benefits of CSR are less straightforward compared to the internal ones. Indeed, there are often contrasting views on the impact that these practices can have on aspects such as market valuations and stock prices.

Some studies have shown the clear financial benefits related to companies that engage in CSR activities in terms of higher stock prices and market valuations because investors and analysts view CSR as a proxy for a company's ability to manage risk and create value over the long term (Hunt et al., 2023). Additionally, companies with strong CSR programs tend to have better access to capital and lower borrowing costs, which can lead to improved financial performance (Hunt et al., 2023). Second, CSR can lead to regulatory benefits. In this regard, companies that engage in business ethics activities are more likely to be viewed favorably by regulators and policymakers, which can lead to less restrictive regulations and more favorable treatment (Fernando, 2022). For example, companies with strong CSR programs are more likely to be granted permits and licenses needed to operate, and they may face less scrutiny from government agencies. Third, CSR can lead to societal benefits. Companies that engage in CSR activities tend to be viewed more favorably by the public, which can lead to improved relations with the community and greater support for corporate initiatives (Mahmood, 2020). Additionally, companies with strong CSR programs are more likely to be viewed as responsible corporate citizens and to be chosen as suppliers, partners, and employers of choice.

However, some argue that CSR can constitute a relevant expense which, albeit advantaging some stakeholders, can be extremely damaging for some shareholder wealth, by negatively impacting corporate profit and stock price (Hunt et al., 2023). For instance, a study conducted by Brammer, Brooks, and Pavelin (2006) aiming to examine the relationship between corporate social performance (CSP) and stock returns in the UK, concludes that companies with higher social performance scores tend to perform worse than those with the lowest possible CSP scores of zero. Although this study dates back to 2006, the conclusions drawn from other empirical analyses on the external benefits of CSR are disparate and do not tend toward a univocal direction.

Nonetheless, the main external benefit of CSR is the set of implications it has for companies' corporate reputation. "Firms obtain benefits from CSR and disclosure because it helps firms and their employees to build community ties and become socially integrated, it assists firms to build reputational capital that improves their ability to negotiate more attractive contracts with suppliers and governments, to charge premium prices for goods and services offered, and to reduce its cost of capital. It not only generates reputational gains that improve firms' ability to attract resources, enhance its performance, and build competitive advantage but also mitigates the risk of reputational losses that can result from alienating key stakeholders" (Branco and Rodrigues, 2006, p.123).

The impact of CSR on corporate reputation is a topic of ongoing research and debate in the business community. The alignment of CSR standards to boost reputation can be considered more attractive to firms. In this regard, the voluntary nature of these standards does not constitute a strong incentive for firms. Conversely, when CSR is well performed by companies, their competitive advantage is enhanced, especially due to a more solid reputation. This is due to the fact that three factors primarily affect consumers' faith in a company and its actions: a strong corporate culture, a solid reputation, and a strong sense of social responsibility (Smith, 2007). Because trustworthiness is a durable competitive advantage for businesses, it is in their best interests to implement CSR measures to show their kindness toward their customers, workers, and communities. In this approach, businesses may set themselves apart from rivals and foster customer trust by establishing policies that demonstrate respect for human rights and the environment. For large businesses, especially multinational enterprises (MNEs), a competitive edge leads to higher sales, cost savings, a better ability to retain people and attract top talent, organizational growth, and an overall improved financial status. This can only be attained if businesses have a strong commitment to CSR activities and carry out self-evaluations in a transparent, verifiable way.

Starting from these premises, it seems that, due to the high cost of adopting high standards in terms of CSR, companies have to believe in the potential of its benefits, especially in the long run, to be convinced that such advantages will compensate for the initial investments. Indeed, if firms follow their original purpose of profit maximization rather than the promotion of social causes, in some cases they would not be automatically incentivized to adopt CSR initiatives. Furthermore, the voluntary nature of these policies represents another obstacle rather than an incentive, due to the lack of legal impositions and sanctions. Hence, CSR's potential to

significantly boost corporate reputation may constitute the most powerful self-regulatory instrument for firms' responsible behaviours. Indeed, even if we consider the internal benefits of CSR, such as employee motivation and engagement, an improved bottom line, or efficiency related to environment-friendly practices, the ultimate goal is always to exploit such benefits to positively impact how the company is perceived from the external environment. Therefore, everything revolves around reputation, showing how customer trust and loyalty, a good image and brand and the ability to attract high-level and motivated employees constitute the most solid source of competitive advantage. Consequently, through the present work, I decided to deepen the link between CSR and corporate reputation, aiming to investigate their biunivocal relationship. To this end, the first chapter has deepened the CSR concept, in terms of its origins, definition, drivers, implications, and benefits; the second and following chapter aims to elaborate a general overview of the second variable of interest, namely corporate reputation. Hence, the combination of the two chapters will set the stage for the third and core chapter, which will illustrate the relationship between these two variables, central to the ongoing debate.

CHAPTER 2

Corporate Reputation: Definition, Drivers, and Implications

2.1 What is Corporate Reputation?

2.1.1 Identity, Image, and Reputation

"As Thomas Mowbray points out to Richard II: "My dear dear Lord, the purest treasure mortal times afford is spotless reputation; that away, men are but gilded loam and painted clay." This is as true today, as it was in Shakespeare's time. Having a good reputation, elevates the bearer above his or her peers" (O'Callaghan, 2007, p.104).

Fombrun and van Riel, in the occasion of the inaugural issue of *Corporate Reputation Review* in 1997 emphasized the lack of studies on corporate reputation, by stating: "Although corporate reputations are ubiquitous, they remain relatively under-studied. In part, it is surely because reputations are seldom noticed until they are threatened. In part, however, it is also a problem of definition" (Fombrun and van Riel, 1997, as cited in Barrett, Jermier, and Lafferty, 2016, p.26). Nowadays, corporate reputation has become the center of profound attention, as shown in Figure 2, which demonstrates the huge increase in the number of studies on this concept from the 80s until 2012 (Reputation X, 2023).

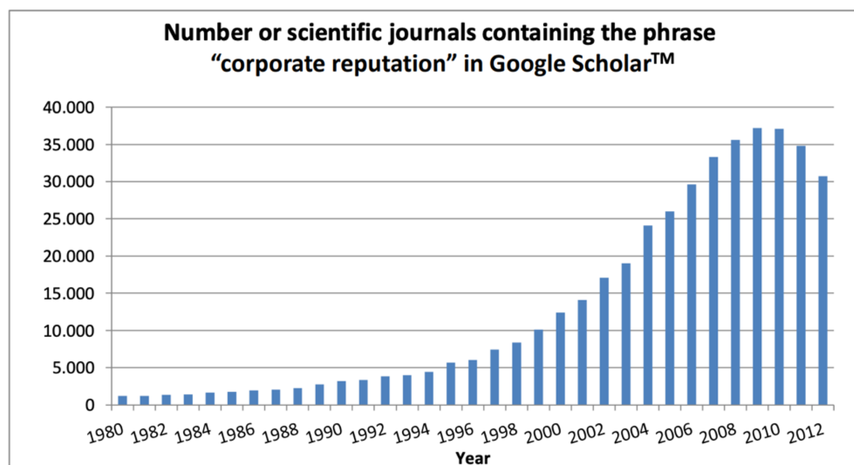

Fig. 2: Number of scientific journals containing the phrase "corporate reputation" in Google Scholar (ReputationX, 2023)

However, despite the growing interest in the analysis of the concept, its definitions are still often disparate. Firstly, corporate reputation can be of various types, ranging from economic,

strategic, and marketing, to organizational and accounting, hence being characterized by diverse features and aims (Barrett et al., 2016). Nonetheless, the primary reason that confuses the topic stems from the difficulty to distinguish between reputation, identity, and image (Barrett et al., 2016). Fombrun and van Riel (1997) define *identity* as the company's character held by managers and people who work there. Despite the different definitions of identity which are recognized, the commonly accepted categorization divides the concept between organizational and corporate identity. The former concerns members' perception of the organization, responding to the question "How do we see ourselves?" (Chun, 2005). The concept of organizational identity is strictly connected to that of *organizational culture*, although the latter is harder to change and less subjected to external influence. Hence, while identity can be modified without altering the cultural values underpinning a company, culture can evolve only starting from the adoption of a different form of organizational identity (Chun, 2005). Corporate identity, on the other hand, revolves around the idea of the *corporate brand*, which can be defined as the promise made by the company to all its stakeholders. Some of the most common pledges are the provision of good products and services for customers, fulfilling jobs for employees, and capital growth and dividends for investors (Ajder and Ross, 2020). Image, on the other hand, albeit strictly related to identity, is better explained as the impression that people outside the company have of it. "Martineau (1958) associated the image of a preferred retail store with the self-image of the individual shopper, suggesting a model of how image affects patronage: people become customers where the image of the provider is similar to the image they have of themselves." (Chun, 2005, p.95). Aspects such as advertising, logo, brand preference, and interaction with employees are all related to image, which is also distinguished between product class image, brand image, user image, and corporate image (Chun, 2005). Therefore, the image of a company is something created by external stakeholders, who can develop their idea and impressions even after a short period, leading to the likelihood of a cyclical change in the company's image, based on the period. Conversely, reputation is as follows: "A corporate reputation is a collective representation ... It gauges a firm's relative standing both internally with employees and externally with its stakeholders" (Barrett et al., 2016, p.28). More specifically, Fombrun (1996) describes it as "a perceptual representation of a company's past actions and prospects that describes the firm's overall appeal to all of its key constituents when compared with other leading rivals." (Shi, 2016, p.1). Thus, corporate reputation goes beyond impressions and perceptions, building on the equation between expectations concerning identity and image and the reality of facts. Differently from a company's image, reputation results from the combination of internal and external

perceptions, involving especially customers and employees (Chun, 2005). Therefore, reputation may be thought of as the general opinion or assessment of the company's performance. This view of a corporation is formed based on everyone's personal experience as well as information from other individuals (through print media, social media, or simply word of mouth). As information is processed and delivered to external stakeholders, information intermediaries like the media and financial analysts play a crucial role (Kartawinata and Maharani, 2022).

Due to the possible overlapping between image, identity, and reputation, these terms are often interchanged. Indeed, identity is sometimes defined as a way through which companies present and distinguish themselves from others, similar to corporate image and somehow to reputation (Barrett et al., 2016). On the other hand, when these terms are not used interchangeably, a certain hierarchy is commonly shared, as shown in Figure 3 (Reputation X, 2022b).

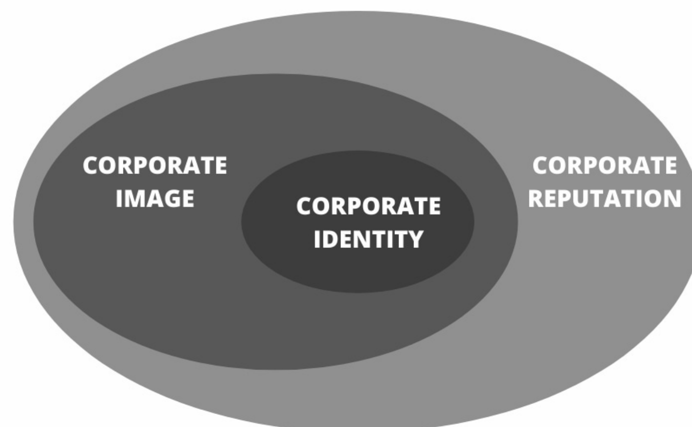

Fig. 3: The impact of company image on corporate reputation (Reputation X, 2022b)

Corporate reputation is the broader concept that incorporates both corporate identity and image and includes perceptions of the overall business while being based on facts, knowledge, and research. Hence, while a company's reputation is quite widespread, the image can be perceived differently by various types or categories of customers, not revolving around facts, but rather around perceptions and ideas. The case of Keds, the first mass-marketed sneaker corporation, sheds light on the differences between corporate image and reputation (Reputation X, 2022b). Since its foundation in 1916, the company acquired increasing popularity, selling its products to numerous celebrities, until the term "keds" became a generic one for all sneakers.

Nevertheless, starting from the 80s, the corporation's popularity began to decline, along with its image, while maintaining its reputation intact (Reputation X, 2022b). After Keds, in 2015, launched a campaign in support of women, it gradually reacquired a good image, which translated into higher profits and revenues. Therefore, while their reputation, built over the years, remained solid throughout the company's declining period, the image can be created and destroyed in a manner that is simpler and faster (Reputation X, 2022b).

The definition of the entire reputational paradigm varies also depending on its categorization. As Figure 4 (Fombrun and van Riel, 1997 in Chun, 2005, p.92) shows, reputation can be conceived in seven manners, based on the category which it concerns. Despite the differences between such categories, the primary distinction regards corporations from an economic point of view or a strategy or marketing perspective. In this regard, while the former concerns the overall perception of the company's probability that it will defend the markets in which it operates, the latter is referred to as stakeholders' general impression of the firm, based on facts and information received (Chun, 2005).

Discipline	Categorization of reputation
Accountancy	Reputation seen as an intangible asset and one that can or should be given financial worth.
Economics	Reputation viewed as traits or signals. Perception held of the organization by an organization's external stakeholders.
Marketing	Viewed from the customer or end-user's perspective and concentrating on the manner in which reputations are formed.
Organizational Behaviour	Viewed as the sense-making experiences of employees or the perception of the organization held by an organization's internal stakeholders.
Sociology	Viewed as an aggregate assessment of a firm's performance relative to expectation and norms in an institutional context.
Strategy	Reputation viewed as assets and mobility barriers. Since reputations are based on perception, they are difficult to manage.

Fig. 4: Categorization of reputation (Chun, 2005, p.92)

Aside from the confusion around the terminology, three schools tend to be distinguished within the reputation paradigm: *evaluative*, *impressional*, and *relational* (Chun, 2005). These differ not depending on their topic areas or epistemological bases but rather on the stakeholders considered to be the main focus. When it comes to stakeholders, these can be either internal, such as employees and managers, or external, such as customers and shareholders (Chun, 2005). Consequently, the *relational school* is founded on stakeholder theory according to which the disparate interests and perspectives of the two categories of stakeholders have to be recognized, whereas the other two schools focus separately on the interests of specific groups.

Particularly, according to the *evaluative school*, reputation is conceived as mainly stemming from short-term financial performance, being considered as a form of competitive advantage or a sort of intangible asset (Chun, 2005). This school is the only one having a deeper focus on the financial aspect of firms, while the other two emphasize the figures of employees and customers to a greater extent (Chun, 2005).

Hence, although corporate reputation is nowadays commonly considered an intangible asset due to its potential to ensure high-quality employees, customer loyalty, and high returns, the types of reputation vary depending on the approach utilized, the specific category, and the stakeholders targeted (Chun, 2005).

2.1.2 The Reputation Pyramid

The most popular reputational model used is that divided, as shown in Figure 5, into awareness, familiarity, favorability, trust, and advocacy (Ipsos, 2014).

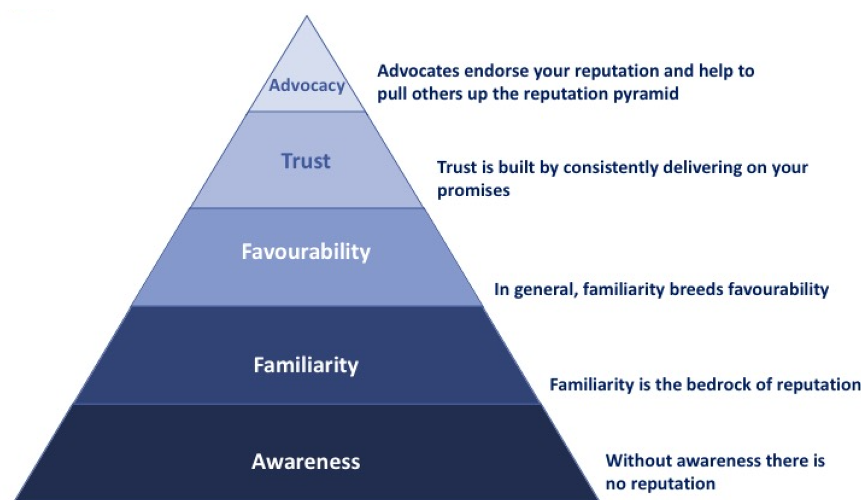

Fig. 5: The Reputation Pyramid (Ipsos, 2014)

Companies' awareness represents the foundation of this pyramid because it is the premise for maximizing the company's market value and hence increasing shareholders' wealth (Kartawinata and Maharani, 2022). Familiarity is the degree to which a company is known and recognized by the respondents: the higher the levels of knowledge and recognition, the stronger the company's reputation (Adjer and Ross, 2020). Favorability refers to stakeholders' feelings about the company. Trust from stakeholders is crucial because it anticipates a positive approach toward the firm, being among the corporate goals. Therefore, trust tends to be the most used

value to measure reputation, due to the higher correlation between these two variables, compared to that between familiarity, awareness, or favorability with reputation (Adjer and Ross, 2020). Finally, advocacy refers to how stakeholders can contribute to corporate reputation, constituting the result of the attitudes underlying trust and favorability (Adjer and Ross, 2020).

While the CSR pyramid presented in the first chapter is a commonly used paradigm, representing one of the core foundations of the concept, the reputation pyramid does not build upon layers that follow a precise hierarchy, aside from being subjected to local judgment. A demonstration of the unprecise order between the various components is that, for instance, stakeholders often develop a more solid trust toward businesses before adopting a favorable approach (Adjer and Ross, 2020). Moreover, companies pay a higher level of attention to the different components also based on their growth stage: corporations at the beginning of their journey tend to focus more on familiarity and favorability than trust, as well as firms underpinned by regulatory issues, may aim at improving in terms of advocacy (Adjer and Ross, 2020). However, the focus on the reputation pyramid is relevant for the common and basic understanding of some of the main components of the asset.

2.1.3 The Impact of Reputation on Financial Performance

As in the case of CSR, one of the areas of core interest concerns the relationship between reputation and financial performance, due to companies' primary aim of maximizing profit. Studies on the relationship between corporate reputation and financial performance have produced mixed results. Some studies have found that corporate reputation has a positive impact on financial performance, while others have found no significant relationship. One reason for the inconsistent findings is the difficulty in measuring corporate reputation and financial performance, as well as the potential for reverse causality (i.e., financial performance affecting reputation). However, the majority of studies examining this correlation confirm a positive relationship more than a non-existing or a negative one (Vig et al., 2017).

Reputation has been found to positively impact, among other factors, companies' financial performance, benefitting them through the improvement of goodwill value, which accounts for up to 80% of the sale price, and, thus, the improvement of share price (O'Callaghan, 2007). As suggested by Michael Morely "[s]hareholder value can be measurably improved. Corporate reputation and the confidence it inspires in investors will lead to a higher stock price for one

company than for others that appear to be equal in all other respects but neglect the care of reputation." (O'Callaghan, 2007, p.107). Indeed, corporate reputation is commonly considered as a strategic intangible asset and thus an added value for any firm, especially due to the difficulty to duplicate it. Therefore, several studies confirm the positive impact of such an asset on both financial and non-financial corporate performance (Vig et al., 2017). By fostering a stronger link between the company and its stakeholders, producing value for them, and boosting their happiness and willingness to be associated with the firm, a positive corporate reputation affects stakeholders' decision-making processes (Schwaiger and Raithel, 2013). Hence, a strong reputation has a market impact, such as through increased market shares and premium pricing which increase the firm's position in the market. Moreover, a solid reputation is advantageous for businesses when it comes to certain stakeholder groups such as investors and customers (Schwaiger and Raithel, 2013). In this regard, a company's reputation can act as a signal to investors about its financial health or competitive viability as well as a signal to consumers about the high caliber and reliability of the goods or services it provides (Schwaiger and Raithel, 2013). Indeed, one of the most supported hypotheses of the positive correlation between reputation and financial performance is that customers' perspective of a company is considered one of the major drivers of corporate success (Vig et al., 2017). Furthermore, additional benefits can result from better recruitment opportunities within companies with a more solid corporate reputation, contributing to acquiring high-quality workers and attaining improved employee retention rates (Schwaiger and Raithel, 2013). These beneficial financial consequences of a company's reputation result in larger profits as well as higher, quicker, more stable, and less fragile cash flows (Schwaiger and Raithel, 2013). Additionally, research has shown that a company's reputation can influence its cost of capital, as investors may demand a higher return for investing in a company with a poor reputation. This can result in reduced investment and lower growth for companies with negative reputations.

All the factors mentioned above undoubtedly contribute to affecting corporations' market value, which is the core element of interest. Nonetheless, it is often difficult to prove that a better corporate reputation results in higher financial performance, even due to the high probability that the latter is affecting the former to a greater extent. Another aspect to consider is that the connection between the two variables under analysis has often been studied as isolated from external factors, such as the period, the industry, stakeholders' influence or power, and the strategy of differentiation (Shi, 2016). However, despite all the ambiguous effects of reputation on financial performance, what is certain is that a good reputation will

never damage financial indicators more than a bad reputation can do. Hence, companies must devote attention to such an asset, especially in a world underpinned by the central role of media and word of mouth.

Now the question is: how can we measure corporate reputation?

2.2 Measuring Corporate Reputation

"One thing that we have learned from the discipline of marketing is that the most dangerous place to look at stakeholders is from behind a desk. The simple truth of the matter is that the only way accurately to gauge what people think of an organization is to ask them. This is easy to say, but often difficult to do" (Dowling, 2001 in Helm and Klode, 2011, p.87)

The definitional issues concerning reputation are reflected in the measurement problems, as demonstrated by the large number of methods used to score this asset (Chun, 2005). Unlike other assets, reputation cannot be quantified by financial metrics or easily measured by physical indicators, due to its subjective nature which results in relevant challenges in terms of measurement (Chun, 2005). Despite these challenges, it is essential to assess reputation to understand its impact on an organization's success, to identify areas for improvement, and to track changes over time.

Relying upon scores attributed by various categories of stakeholders on a scale from "bad" to "good" is not an indicative way of measuring reputation because neither does it include any comparison with other companies nor it gives a precise definition of the labels "good", "bad" and the intermediate ones (Chun, 2005). Besides, the types of measurement used are often criticized to display an inappropriate focus on financial performance (Chun, 2005). In this regard, although it is crucial to understand the implications of a reputation for financial indicators, the latter is influenced by a multitude of factors, resulting to be inadequate signals for measuring reputation. Another critique that is often heard concerns the disproportionate consideration of some stakeholders over others, which tend to be excluded from the analysis, thereby failing in providing comprehensive results. Despite some limitations generally recognized, the methods that are used to measure corporate reputation can be divided into four categories:

1) **Surveys**: used to gather information from stakeholders (Brad, 2022).

2) **Media Analysis**: aimed at examining media coverage of companies based on articles, posts, and others (Barbato, 2016).
3) **Social Media Monitoring**: aimed at the analysis of both social media and public opinion's perceptions of companies (Barbato, 2016).
4) **Reputation Indices**: specific measures composed of several dimensions and indicators to compare companies, also using the support of the previous three categories. Reputation indices nowadays constitute the most reliable method used to measure corporate reputation. Particularly, the two most popular methodologies are Fortune's indicators (AMAC and GMAC) and the Reputation Institute's indicators (Reputation Quotient and RepTrack), which will be briefly explained in the following respective sub-sections.

2.2.1 Fortune's Indicators

As Fombrun claimed in 1998 (p.327) "The initial publication of Fortune magazine's survey of America's 'Most Admired Companies' in 1983 spawned a veritable industry devoted to profiling corporate reputations. Since 1983, the proliferation of comparable perceptual ratings and rankings of companies has continued unabated".
Since its publication in 1982, Fortune's rankings, called AMAC (America's Most Admired Companies) constitutes of annual surveys, published every January and targeting only American Companies, based on a list of the 10 biggest companies divided by industries and named by the group of more than 10.000 senior executives, financial analysis and outside directors, according to the following eight criteria: (Fombrun, 1998, p.328)

- quality of management
- quality of products or services
- innovativeness
- long-term investment value
- financial soundness
- ability to attract, develop, and keep talented people
- responsibility to the community and the environment
- wise use of corporate assets

As Figure 6 shows, companies such as 3M, Coca-Cola, and Procter & Gamble are some of the most present in the top 10 rankings, displaying their scores and the number of times they have been named since the first publication of the ranking.

Company	83	84	85	86	87	88	89	90	91	92	93	94	95	96	Times on List
3M			■	■		■	■	■	■	■	■	■	■		10
Boeing		■	■	■	■		■		■		■				7
Coca Cola		■	■	■				■	■	■	■	■	■	■	10
Dow Jones		■	■	■	■	■									5
Hewlett Packard	■	■	■										■	■	5
IBM	■	■	■	■	■										5
J.P. Morgan				■	■	■					■	■			5
Johnson & Johnson	■	■			■				■	■				■	6
Liz Claiborne					■	■			■	■	■				6
Merck	■	■	■	■	■	■	■	■	■	■	■			■	12
Procter & Gamble				■		■		■	■	■	■	■	■	■	9
Rubbermaid				■	■	■	■	■	■	■	■	■	■	■	11
Wal-Mart Stores						■	■	■	■	■	■				6

Fig. 6: Figure 6: Companies Most Frequently Cited by Fortune (1983-1996) (Fombrun, 1998, p.328)

Being this ranking only applied to American companies, in 1997 Fortune published the ranking of GMAC (Global Most Admired Companies), targeting the top Global 500 companies, divided by industries and countries (Schwaiger, 2004). Besides, Fortune has been subsequently emulated by other continents and also, more specifically, by single countries which adopted the criteria and methodologies to their need and focus of interest. Some of these metrics, such as financial soundness, quality of services and products, quality of management, ability to attract, develop and keep talented people, are used also by the rankings adopted by other countries, such as Asian countries and the UK, which added other factors, such as the extent to which a company is emulated by others, the quality of marketing, the innovativeness on the ways used to accommodate customer's desires, as well as the long-term vision of management and the company's commitment to social, environmental and ethical responsibility (Fombrun, 1998). Indeed, it is crucial to adapt the types of criteria used to the continuously changing times and values or principles which acquire more popularity and prominence.

Although Fortune continues to be the most popular magazine used for ranking companies based on their reputation, other journals are "Management Today", which publishes rankings of the top British companies since the 80s, "Financial Times", targeting companies across 22 business sectors in 18 European countries, "Business Ethics", popular in America and several others (Fombrun, 1998). Besides, despite the specific criteria varying across magazines, books, and constituencies, six main families can be identified as the drivers of companies' reputations (Fombrun, 1998). These are financial performance, in terms of growth, competition, profitability, and opportunities; the quality of products and services provided; employee

treatment in terms of compensation, security, profit-sharing, work-life balance, and other features; community involvement, in terms of charitable initiatives, volunteering, and positive social impact; environmental performance in terms of externalities generated and participation in certain programs; organizational issues, in terms of the respect of principles such as diversity, inclusion, equity and others (Fombrun, 1998).

2.2.2 The Corporate Reputation Quotient Model

The Corporate Reputation Quotient (CRQ) Model, designed by Harris and Fombrun, delivered its first results in 1999 when the report was published in The Wall Street Journal to rank the best 100 companies in terms of corporate reputation (Reputation X, 2022a). Since 1999, the model has been widely used, remaining based on the same six dimensions and twenty attributes (Reputation X, 2022a).:

- **Financial Performance** is measured based on the ability of a company to outperform its competitors, the general record of profitability, the commitment to low-risk investment, and the growth prospects.
- **Workplace environment**, which relies upon the compensation system, the label of the company as a "good place to work" and the quality of employees.
- **Products and Services**, whose indicators are their quality, their value for money, and the extent to which they are innovative.
- **Social Responsibility** is measured in terms of the company's efforts to support good causes and the extent to which the firm demonstrates environmental and community responsibility.
- **Vision and leadership**, which builds on market opportunities, a clear vision of the future, and the quality of the leadership model underpinning the company.
- **Emotional appeal** refers to the extent to which stakeholders feel good about the company and to which they show admiration, respect, and trust.

An interesting element of this model is represented by its aim to focus on stakeholders' opinions, rather than using concrete data (Dayançkiyat, 2017). Indeed, stakeholders' perceptions, also in terms of emotional appeal, are used as the basis for creating the ranking, following the scores they attribute to the single companies from 1 to 7, which respectively mean "Does not describe well" and "Describes very well" (Reputation X, 2022a). The data-collection process builds on two phases, namely the nominations, during which the respondents are asked which two companies they would say, among the ones the interviewee

knows or he/she is familiar with, have the best and worst reputation (Reputation X, 2022a). From all the interviews, answers are counted to create a list with the most visible and mentioned companies (Reputation X, 2022a). Subsequently, during the rating phase, a different sample of people is used to provide a ranking of companies the interviewees are familiar with, based on the six dimensions and twenty attributes mentioned above (Reputation X, 2022a). The process is concluded by weighting the answers and generalizing the results to the national population, representing a method that truly values stakeholders, around which, after all, the whole concept of corporate reputation revolves.

2.2.3. RepTrack

RepTrack is nowadays the largest reputational benchmarking database worldwide, raking more than 1 million companies every year and used in over 60 countries (The RepTrack Company, 2022). This database is owned by the RepTrack Company and relies upon the use of the RepTrack Platform, which is the main global cloud-based intelligence platform providing data and rankings of companies in terms of their reputation and other intangible assets, as perceived and evaluated by stakeholders of various type (The RepTrack Company, 2022). Such an index elaborates evaluations based on seven criteria, some of which are in common with the indicators used by the CRQ model. The RepTrack Company (2022) defined the following criteria:

- **Products and Services** are evaluated, among others, in terms of their safety and reliability, as well as time management, transparency, uniqueness, and contact points ensuring fast and easy relationships between the company and customers.
- **Innovation** is ranked in terms of the company's commitment to digitalization and alignment with the technological developments in the sector, as well as in terms of the innovative range of products and services provided.
- **Workplace**, which is evaluated based on compensation, as well as the values promoted and the extent to which employees' well-being and appreciation of their job are considered.
- **Conduct or Governance**, refers to the company's effort to operate based on fair and ethical principles and stable and transparent relationships with institutions and stakeholders of various types.

- **Citizenship** is the dimension including the company's environmental, social, and sustainable concerns, along with its efforts to fund initiatives related to culture, sports, and other less conventional domains.
- **Leadership** is scored based on the company's network and ability to face various challenges compared to competitors.
- **Performance** is considered in terms of financial indicators compared to the average of competitors, as well as growth opportunities.

It is evident that criteria such as the quality of products delivered, as well as that of the workplace and the leadership model, the company's financial performance, and the level of innovation, are always the core principles. However, while the CRQ model emphasizes the emotional component, as well as the extent to which companies are responsible under a social and community perspective, RepTrack considers governance and citizenship as indicators of social performance and puts a major emphasis on innovation, which is, conversely, used as one of the indicators contributing to the "products and services" dimension of the CRQ model.

Despite the differences between the models and rankings used, the criteria driving corporate reputation are similar. Nevertheless, measuring reputation still results in a challenging task that has to be improved before enhancing the asset itself.

2.3. Building and Managing Corporate Reputation

After having emphasized the most commonly used definitions of corporate reputation, as well as the most popular methodologies which have been implemented to measure this intangible asset, it is of utmost importance to understand how companies can build a solid reputation, as well as manage it once they have built one. Indeed, as Warren Buffet claimed, "It takes 20 years to build a reputation and 5 minutes to ruin it. If you think about that, you'll do things differently". Of course, there is no secret to building a strong reputation, which stems from an infinity of factors that differ based on the sector, the company, the period, and several other variables. Moreover, as it is evident from the dimensions and the indicators used by the rankings and measures illustrated above, the recurrent criteria are the real drivers of corporate reputation. Nevertheless, companies should focus on some additional aspects, such as their identity and image, as well as corporate branding, stakeholder engagement, and reputational risk management. As some insights on corporate image and identity have already been

presented in the previous paragraphs, the following subsections will develop the concepts of corporate branding, stakeholder engagement, and reputational risk management.

2.3.1 Corporate Branding

Corporate branding consists in creating and maintaining a distinct brand identity for an organization, involving the use of a unique name, symbol, and design, all related to the mission, vision, value, and personality of a company, which are fundamental to differentiate one corporate citizen from its competitors. Corporate brand and the corporate logo are, despite their strong intertwining and differently from what is generally thought, two distinct elements: while the second is the visual representation of the company, the first is a more precise definition of the firm's personality, in terms of values, mission, and core objectives (Indeed Editorial Team, 2022). Corporate branding can be considered as the initial and crucial step to building reputation, because, by defining the company's DNA, it sends specific messages to customers which begin shaping the approach to the firm, either based on trust or mistrust, loyalty or disloyalty, reliability or unreliability and so on (Indeed Editorial Team, 2022). Therefore, everything starts from developing the core values, vision, and mission, along with a sustained ability to share such characteristics with the audience through precise strategies. Subsequently, the general process that is conducted to build corporate branding consists of (Indeed Editorial Team, 2022):

- Discussing the business' core purpose, vision, and mission both short and long-term, through the support of management and leadership teams.
- Conducting a brand audit, by working on identity and image through marketing, sales materials, and the business' website.
- Surveying employees and using their inputs to understand whether they identify themselves with the brand, is a crucial premise for motivation enhancement.
- Researching the target audience, to understand how to convey certain messages.
- Developing a brand strategy and style guide, based on the previous steps and feedback from staff members.

All these elements imply that companies which focus on building strong corporate branding will be more likely to differentiate from competitors, engage and motivate their employees, gain customer loyalty, and implicitly rely on improved financial performance. Consequently, an organization that is more recognizable and appreciated by customers, will enhance its

awareness and reputation. Indeed, as Argenti (2004, p.372) claimed "When customers get what they expect from a company time and time again (i.e. the corporate brand promise is kept), reputation is strengthened". The majority of the factors influencing reputation are nowadays incorporated into corporate branding strategies (Argenti, 2004). This correlation is particularly evident in terms of CSR, which tends to be increasingly pivotal in the identification of companies' purpose and core objectives, values, and vision, while, at the same time, requiring a concrete implementation to build and maintain a solid corporate reputation. Hence, such an aspect will be developed in deeper detail in the following chapter.

2.3.2. Stakeholder Engagement

Stakeholders, as defined by the Stanford Research Institute (SRI), are "those groups without whose support the organization would cease to exist" (Freeman, n.d., p.2). This definition was, over time, improved to identify stakeholders as "any group or individual who can affect or be affected by the achievement of an organization's objectives." (Freeman, n.d., p.2). Therefore, it is evident that stakeholders play a crucial role in companies' reputation, also in terms of measurement, due to the centrality of their opinion in the ranking's formulation. Furthermore, the modern society facing global and transversal issues increasingly requires that businesses communicate openly with their wider stakeholder groups about the risks they face and the steps they are taking or plan to take to reduce those risks (van Zyl, 2013). In relation to this, stakeholder communities are also progressively depending on social media to learn more about the costs and externalities imposed on them by multinational firms and to spread the news they hear about (van Zyl, 2013). Hence, poor stakeholder management will inevitably harm companies' image and thus corporate reputation. An interesting example in the present domain is that of Coca-Cola, which, despite its generally solid corporate reputation, did not consider the impact of its activities on the communities of certain countries in which it operates through its subsidiaries.

Coca-Cola is a pioneer in the areas of violating employees' rights, hiring discrimination, privatizing water, and assassinations in several companies. As an illustration, the MNE is to blame, through its Indian subsidiary, for the privatization of water, which decimated indigenous agriculture and left thousands of villages with a lack of water and a devastated agricultural sector (Global Exchange, 2005). Additionally, the tainted water led to significant health problems in the local populace, which sparked an anti-Coca-Cola demonstration in 2002 and resulted in the corporation ceasing operations two years later (Rohan, 2011). However, the

victims have continued to fight for restitution for the human rights abuses they experienced and to hold Coca-Cola responsible for its conduct (Balan, 2022).

The company and its associates are accountable for "the systematic intimidation, kidnapping, detention, and murder" of union members who joined the Colombian union SINALTRAINAL between 1989 and 2000, which is another instance in which the community's interests were not respected (Cray, 2013). The Colombian subsidiary violated workers' human rights just because they were protesting the unfavorable working circumstances that were harming their health, the environment, and local businesses (Human Rights Council, 2020). Additionally, the business ran campaigns of stigmatization against the union and accused its members of vandalism, which led to workers quitting the union (Human Rights Council, 2020).

Similar infractions that happened a few decades ago undoubtedly stayed secret in the nations in which they occurred, without meaning huge risks and costs for the corporation. While the majority of Coca-Cola's customers may not be aware of these occurrences, they did not necessarily pose high risks or costs for the company. In contrast, businesses are scrutinized constantly today. Therefore, despite the difficulty in assigning blame to either the parent company or to specific subsidiaries, these instances of poor stakeholder management in terms of misconduct toward the community and violations of human rights demonstrate how, after years of dedication to achieving a high level of recognition, the corporate reputation of one of the top companies worldwide risks being destroyed.

2.4 Reputational Risk

As suggested in Warren Buffet's quotation mentioned above, corporate reputation can be ruined from one day to another either through simple and direct actions of the company, or indirectly, through employers' or employees' behaviors and decisions. Therefore, corporations have to be committed not only to building a solid reputation and gradually enhancing it, but even more to maintaining it and to minimizing the risk to destroy it. In this regard, reputational risk represents a danger or threat posed to companies either by themselves or by employers and employees, or by peripheral parties such as subsidiaries, suppliers, or joint venture partners (Kenton, 2022). When the company itself is responsible for damaging its reputation, some examples of actions refer, among others, to the company's failure to meet customers' needs, internal scandals, scarce quality of the goods and services provided, legal actions that become

of public knowledge and the firm's inability to comply with state or industry regulations (Needle, 2022). When it comes, instead, to actions committed by company representatives, some typical cases are the involvement of employees in misbehavior or inappropriate representations of the brand, negative social media posts by people having some links with the business, and C-Suite employees engaging in unethical behavior (Needle, 2022). Finally, partners' actions range from misconduct to the spreading of bad messages about the company or the inability of partners or suppliers to provide certain services delegated to them, impacting the whole supply chain (Needle, 2022). The above-mentioned case of Coca-Cola exemplifies the case in which subsidiaries are responsible for misconduct that can be easily reflected in the whole company's brand. Indeed, selling its products in over 200 countries worldwide, the MNE relies upon the parent company headquartered in Atlanta, United States, and on a long list of subsidiaries located in several countries which include Bermuda, Brazil, Chile, China, Costa Rica, Egypt, India, Kenya, Mexico, Nigeria, Pakistan, Peru, Philippines, South Africa, Thailand, Uruguay, Venezuela and Vietnam (www.sec.gov, 2017, 2020). The company has been responsible for misbehavior through its subsidiaries in India, Colombia, Haiti, Indonesia, and Ireland, as well as in multiple Latin American countries and American States. Furthermore, Coca-Cola obtained the Ethical Consumer's worst rating for Carbon Management and Reporting and its Palm Oil company, aside from being defined as the world's biggest plastic polluter (Ethical Consumer, 2019). Besides, the MNE was ranked as the worse for engaging in tax avoidance practices in 2019, aside from being considered irresponsible in the domains of controversial technology use, anti-social finance, and political activities, animal rights, and unfair marketing policies (Ethical Consumer, 2019). Therefore, although it is unclear whether the single subsidiaries and regions should be held more accountable than the parent company in the single violations, the infinite number of abuses and inappropriate behaviours displayed by the company certainly pose serious risks and threats to its reputation.

Although the reputational risk is not new to the corporate realm, the pivotal role played by social media has contributed to making risk scenarios particularly dangerous, quickly spreading messages that instantly impact customers' and employees' perceptions of the company. Social media can also be used by external actors who have nothing to deal with the business, to attack a company, through negative posts, articles, reviews, or data breaches (Needle, 2022). Thus, it is fundamental to take some predictive measures to prepare businesses for the worst-case scenarios, such as leaning as much as possible on the company's core values, providing and requiring internal compliance training, constantly monitoring products' quality, and investing

in public relations and ensuring appropriate use of social media (Needle, 2022). Last but not least, in light of the core importance of CSR, high socially responsible standards constitute a crucial premise for the mitigation of reputational risk. Hence, after having set the stage through chapters 1 and 2, the following chapter will focus on the analysis of the link between CSR and corporate reputation, alongside reputational risk.

CHAPTER 3

CSR & Corporate Reputation: An Analysis of Their Interplay

The first two chapters of this work have respectively developed a focus on CSR and corporate reputation, highlighting their definition and origins, along with their drivers, implications, and the importance they play in the modern corporate realm. The illustration and explanation of such topics have paved the way for the core analysis of the thesis, which will revolve around the relationship between these two variables.
The present chapter will, thus, analyze the relationship between CSR and reputation, deepening both sides in terms of their mutual impact. Subsequently, two case studies on corporate ethical performance will be presented: while the case of Patagonia will demonstrate the reputational benefits stemming from ambitious responsible standards, that of Nestle will show how corporate social irresponsibility potentially damages reputational risk.

3.1. The Impact of High CSR Standards on Organizational Reputation

3.1.1 Trust as the Mediating Factor

"*A key aspect of corporate reputation is stakeholder groups' perceptions of organization's CSR, or more precisely, their perceptions of how well the organization's CSR initiatives and outcomes meet stakeholders' social and environmental values and expectations. In this context, CSR has the power to influence these perceptions, thereby contributing towards maximising the earning potential of corporate reputation.*" (Unerman, 2008 in Šontaitė-Petkevičienė, 2015, p.506).

As it is evident from the first two chapters, corporate reputation, and CSR constitute the key critical intangible assets for any organization. The former reflects the overall perception that stakeholders have about a company, likely contributing, in the best-case scenarios, to increasing sales, enhancing customer loyalty, improving relationships with stakeholders, and boosting market share. Instead, CSR activities such as charitable giving, community involvement, and environmental sustainability can help to establish the company as a responsible and ethical entity, thereby boosting its brand image and reputation. This positive perception potentially leads, in turn, to increased customer loyalty and positive publicity, and word-of-mouth, which can ultimately result in improved sales and revenues.

As for the link between the two assets, several authors and experts argue that their relationship is undoubtedly positive, motivated by a multitude of factors. One of the studies contributing to the present field of research is that conducted by Maden, Arican, Telci, and Kantur (2012), focusing mainly on the impact of CSR on reputation through the analysis of three groups of stakeholders' perspectives. These groups are customers, investors, and employees, due to the mutual ways in which they exercise an influence and are influenced by firms' activities. The findings of this study confirm that, in light of the *signaling theory*, firms' social performance serves as a signal used by stakeholders to develop a positive impression of the company, contributing to enhancing corporate reputation (Maden et al. 2012). Among the stakeholder groups considered to be at the core of the relationship between CSR and corporate reputation are consumers. Indeed, in the case of companies underpinned by a high social performance, "customers, who attribute a good reputation to a specific firm, regard their relationships with the company as valuable, create emotional bonds with the firm, and are willing to maintain these relationships for long. Positive CSR evaluations also help customers to perceive the products they purchase and/or the services they receive from the firms as of high quality, which increases their level of satisfaction and enhances loyalty and commitment." (Maden et al., 2012, p. 662). In this realm, it is often argued that CSR serves as a powerful weapon to strengthen customers' and stakeholders' awareness of products, which constitutes the foundation of the corporate reputation pyramid (Šontaitė-Petkevičienė, 2015). Related to the concept of awareness is that of trust, which can be distinguished, for such a discussion, between "expertise trust", "integrity trust" and "social benevolence trust" (Park, Lee, and Kim, 2013).

- *Expertise trust*: it reflects customers' conviction of the technical competence and skills owned by the company to provide high-quality goods and services that satisfy a certain performance in terms of consumers' needs (Park et al., 2013). Furthermore, customers have to trust the firm's economic performance concerning its potential to earn profits, as the foundation for future investments (Park et al., 2013). Although this type of trust does not seem to be directly connected to CSR, it is instead enhanced by high corporate social standards. These, indeed, aside from contributing to the firm's economic performance as illustrated in the first chapter, are crucial to support expertise trust, due to the economic responsibility component of CSR.
- *Integrity trust*: refers to consumers' perception of the company as one that behaves in respect of its values, ethical and legal responsibilities, regulations, and minimum standards (Park et al., 2013). Hence, this form of trust is one that mostly stems from the

adoption of high CSR standards, referring to the legal and ethical responsibility parts of the CSR pyramid.

- *Social benevolence trust*: it is built on consumers' perception of the company as one that is particularly devoted to social, ethical, and charitable causes, thereby probably constituting the type of trust embedded in an approach fully incorporating CSR. Although consumers may not directly benefit from firms that embrace a high level of social benevolence, they are more likely to have a good consideration of corporations committed to corporate philanthropy and social well-being (Park et al., 2013).

Therefore, all types of trust are strongly boosted by companies' social responsibility, aside from being inevitably related to corporate reputation, through a positive correlation. Nonetheless, such a relationship is often debated, due to the difficulty to conceptualize trust either as a consequence or a premise of corporate reputation (Park et al., 2013). In this regard, Fishbein and Ajzen (1975) envisage trust of all three types as a feature having a cognitive nature, whereas corporate reputation can be defined as a social construct of the company in question. Hence, if consumers develop an evaluation of the firm by integrating knowledge or beliefs they have about the latter, trust can be considered as after CSR and antecedent to corporate reputation, constituting the fil rouge between the two variables under analysis, as represented in Figure 7 (Park et al., 2013).

As seen in the scheme built by Park et al. (2013), philanthropic responsibilities contribute to building social benevolence trust, whereas ethical and legal responsibilities constitute a core premise for integrity trust, and economic responsibilities are inevitably the factor from which expertise trust stems. Trust, in turn, represents the mediating variable between CSR and reputation, on the condition that consumers sincerely trust the company's commitment to social responsibilities. Indeed, when the overall perception is one of a corporation that commits to certain activities solely with the aim of good publicity, or more through words rather the fact, CSR represents the premise for destroying trust and thus reputation (Park et al., 2013).

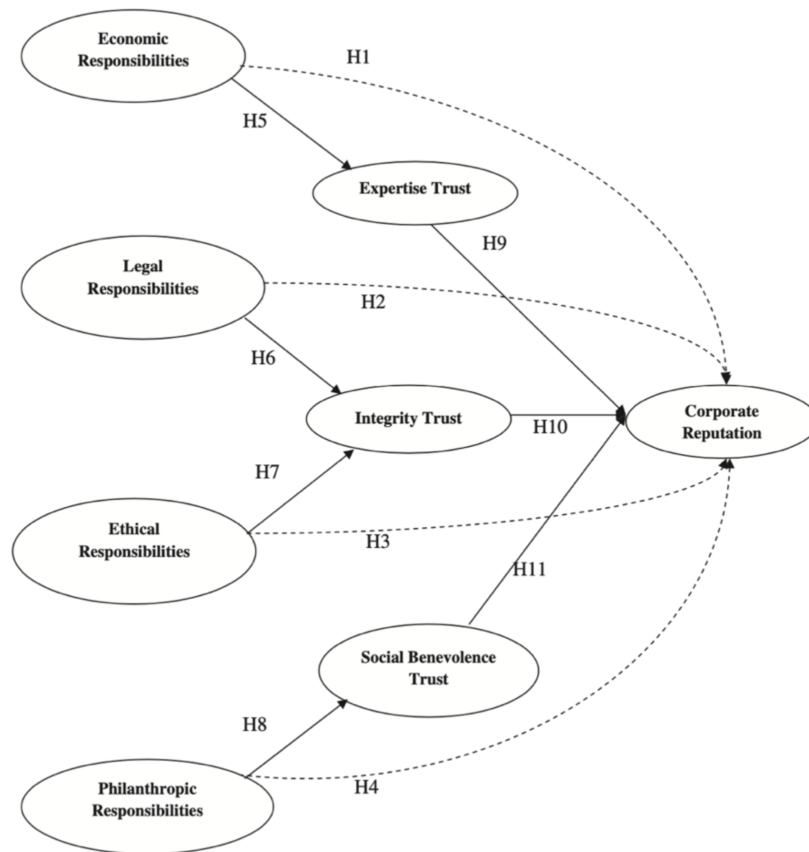

Fig. 7: CSR, Trust, and Corporate Reputation (Park et al., 2013, p.298)

Criticism has centered, among other things, on how CSR has evolved into a tool for business marketing. For businesses using it as an advertising technique, it signifies the development of a new signifier (Manokha, 2004). While businesses gain from the absence of binding rules, many believe that they just claim to be devoted to CSR in order to win over the public (Christian Aid, 2004). To ensure that customers are informed, businesses prominently highlight their moral behaviour and socially responsible practices in their reports and websites. Many people feel that doing this enables them to forge close relationships with their clients, who are keen to interact directly with businesses that have a beneficial social impact (Manokha, 2004).

However, this propensity frequently leads to the phenomenon known as "colour washing," which refers to the act of giving clients misleading information about a company's procedures in order to make them appear better. Greenwashing, which happens when "firms deliberately mislead consumers about their environmental performance or the environmental benefits of their product" (Markham et al., 2014), is the most pervasive type of color washing. Greenwashing has become increasingly prevalent as customers have been more ready to pay extra for sustainable goods. The absence of enforcement and accountability of these procedures

is one of CSR's main weaknesses, which is highlighted by the phony commitments made by businesses. Since CSR is wholly based on voluntary codes of conduct and instruments, neither its adoption by businesses nor the effectiveness of their use is subject to designated authority oversight. In fact, data reveals that many businesses ignore their social responsibilities while promoting their CSR strategy in public policy (Christian Aid, 2004). According to Gatti et al. (2019), CSR reinforces greenwashing because of its voluntary approach, which leaves room for grey areas where false information about sustainability may be advertised (Gatti et al., 2019). Others, however, are adamantly opposed to this viewpoint, pointing out how a mandated approach might foster the formation of grey zones where firms hunt for loopholes. Many contend that the voluntary aspect of CSR may be what could represent its greatest strength. This is particularly true in the corporate-driven, globally integrated society, "where globalization makes self-organizing processes necessary to solve the deficit in regulation" (Scherer et al. 2006, cited in Gatti et al., 2019, p.2). Opponents of the voluntary method feel that "the only way to ensure there is nowhere to hide is to go for global coverage of duties and obligations," as Newell (2008, p. 1074) explains. Corporate reputation could be seen as the efficient self-regulatory mechanism of CSR, representing a strong incentive for concrete ethical initiatives and a solid disincentive for any type of colour-washing, in this debate over whether the voluntary nature of CSR constitutes a benefit or a drawback.

3.1.2 Corporate Irresponsibility and Reputation

As delineated in the previous paragraph, not only exposing social values is not a sufficient attribute of CSR but it can be also extremely detrimental in case the company is found not to comply with the declared standards. Corporate irresponsibility (CI) is generally intended as the failure of a company to meet the expectations of its stakeholders, including, *inter alia*, generating environmental damage, engaging in unethical behaviour, and poor treatment of employees. CI is often considered to generate specific attention to firms that engage in inappropriate behaviors especially if the social performance of the company in question was considered to be a good one until that moment. Furthermore, “corporate hypocrisy - the inconsistent behaviour which involves claiming higher values or standards than is the case - may be penalized most severely when CI contradicts an organization’s pro-social claims” (Nardella, Brammer, and Suru, 2020, p.3).

Corporate irresponsibility frequently involves MNEs. Multinational corporations are defined as companies that generate at least 25% of their income outside of the parent country and have

commercial activities spread over at least two nations, as was foreshadowed in the earlier chapters (Chen, 2022). The strategy of MNEs is founded on their desire to balance the demands of the global and local economies by taking advantage of the cost advantages of globalization and the revenue benefits of localization, and by doing so, they frequently adhere to various social norms depending on where they do business (Buckley, 2011).

The complexity of MNEs' corporate governance and structure, as is clear in the case of Coca-Cola, seriously impairs the ability to determine responsibility in cases of misbehavior, negatively affecting MNEs' commitment to comply with regulations and prevent violations, especially at the subsidiary levels. Corporate governance in these businesses really consists of two levels, the parent level, and the subsidiary level, with each having its own internal power structures, rights, obligations, and repercussions (Luo, 2005). Such dislocation increases the likelihood of corporate irresponsibility, which can take many different forms, including the use of discriminatory practices, unsafe and unhealthy working conditions, abuse of the rights of indigenous communities, the exploitation of forced and child labor, and corruption and unethical behavior, all of which are accompanied by a lack of transparency. The accountability difficulties outlined above, which enable MNEs' capacity to escape severe liability implications, are one of the elements that encourage such infractions.

Three broad categories of intentionality can lead to misbehavior: the first is when headquarters' managers choose to invest in unregulated locations while engaging in illegal activities abroad; the second is when such managers are unaware of the violations committed in the subsidiaries, which rely on lower standards than the parent company; and the third results from actual intentionality (Cuervo-Cazurra et al., 2021). Despite the different reasons or combinations of factors resulting in such misconduct, the latter can likely have a strong negative impact on corporate reputation, which can be destroyed, as anticipated in the previous chapter, after having been built over decades. Nonetheless, it is often the case that corporate social irresponsibility (CSI) results in different reputational outcomes based on where the misconduct occurs. Indeed, according to a study conducted by Nardella, Surdu, and Brammer (2022), the negative correlation between CSI and reputation is considerably weaker when the former occurs at the international host market level compared to the home-parent country, due to the lower accountability placed on the headquarter in the case in which misbehavior occurs at the subsidiary levels (Nardella et al., 2022). Stakeholders respond to the risks generated by CSI in ways that are not homogeneous, depending on where such risks are situated: when they are

closer to stakeholders, either consumers or employees or investors, they generate more impactful consequences. As explained by Nardella et al. (2022, p.3) "the tendency to emphasize and respond to the immediate, local environment is mainly attributed to the salience of risks to the 'self' and the 'ingroup'. Ethno- centric responses, therefore, may be more likely to arise when the risks associated with CSI emerge in the immediate, home market, and less likely to arise when CSI risks emerge elsewhere, in international host markets." Besides, international markets may be characterized either by significant distinctions compared to home markets, in terms of values, norms, ideals, and principles, or by solid similarities, thereby requiring different levels of compliance and respect for certain standards and responsibilities (Nardella et al., 2022). Hence, aside from the diverse consequences that CSI can have on corporate reputation depending on whether the misbehavior occurs at the home or international market level, the implications vary substantially also depending on the differences between the home country and the international subsidiaries where the MNE operates.

Nardella et al. (2022) proposed a model, illustrated in Figure 8, that indicates the potential consequences of misconduct on corporate reputation in disparate circumstances. The theoretical framework proposed divides cases in which CSI negatively influences reputation, based on the impact that irresponsible actions have either on the home country (defined as the *nuclear ingroup*), the host country located in the Western area (defined as the *extended group*), or the host country located in the non-Western area (defined as the *outgroup*). (Nardella et al., 2022). Through the observation of a series of occurred episodes, Nardella et al. (2022) theorized that stakeholders respond to CSI after hearing about certain episodes through media or other means, impacting the firm in different ways depending on the severity of the behavior, which tends to be perceived as higher when the action is committed in the nuclear ingroup (Nardella et al., 2022). Moreover, the seriousness of CSI varies depending on the similarity of rules, norms, and principles between regions. It is more straightforward for stakeholders to identify misbehavior if they can understand and assess the events, based on their knowledge of actions that are generally considered either legitimate or illegitimate (Nardella et al., 2022).

On the other hand, "when assessors of CSI lack a set of shared rules and values, efficient judgments about the inappropriateness or illegitimacy of MNE behavior are reduced. Hence, understanding CSI and its severity is likely made more difficult because applying shared principles and approaches for evaluating CSI becomes unavailable" (Nardella et al., 2022, p.4).

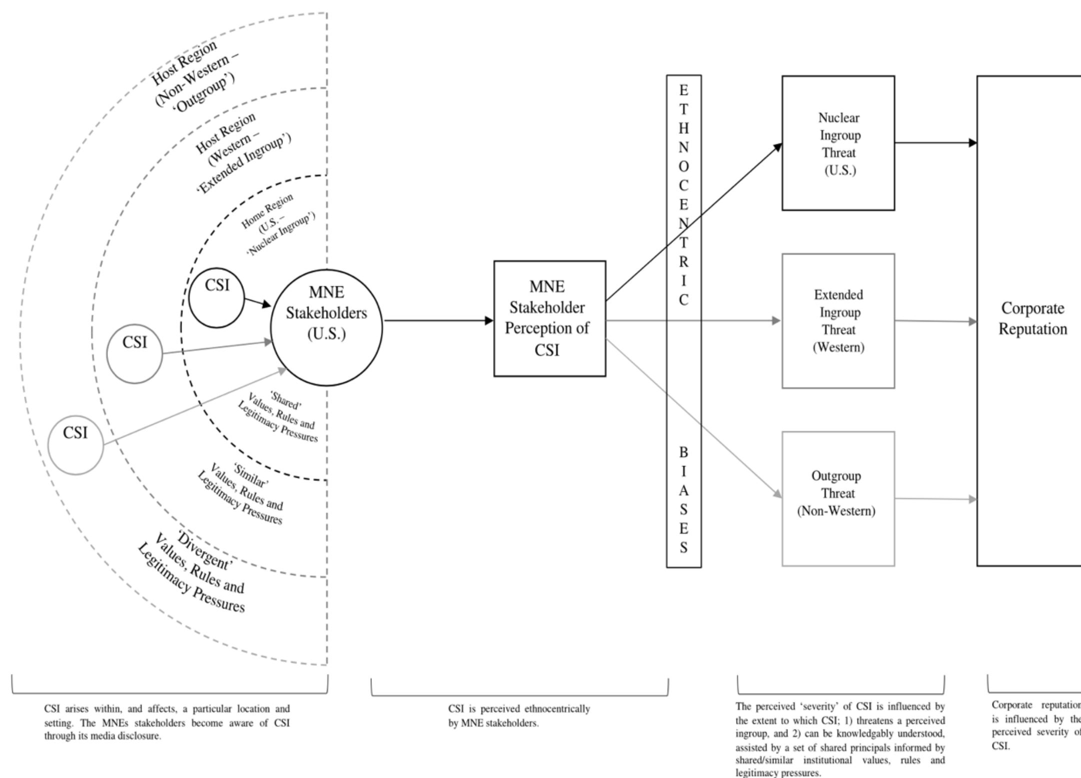

Fig. 8: The relationship between corporate social irresponsibility (CSI) *location* on (MNE) corporate reputation (Nardella et al., 2022, p.4)

In the second and third cases, the lack of a shared set of rules, norms, values, principles, and standards contributes to reducing the negative impact of CSI on the nuclear ingroup, due to the limited knowledge of such standards (Nardella et al., 2022). The consequences of misconduct are particularly less relevant when this occurs in the outgroup rather than the extended group, due to the completely different norms that apply to the Western and non-Western contexts. In this regard, if we recall the case of Coca-Cola mentioned in the previous chapter, the actions committed by the Indian or Colombian subsidiaries did not significantly impact the corporate reputation of the whole MNE, considering that accountability cannot be automatically placed at the headquarter level, as well as the fact that the respect of human rights and the compliance with minimum standards vary considerably between countries.
Therefore, the main findings of such a study concern the role played by the ethnocentric bias in determining the severity of the irresponsible action and the implications that the latter has on the nuclear group's corporate reputation (Nardella et al., 2022).

Nevertheless, it is also true that, despite these differences, the impact of CSI will be diverse depending on the country in which the company operates, regardless of whether it is a

multinational firm or not, due to the different standards and expectations that stakeholders have on the social role of that corporation. For instance, if we consider a non-Western example of severe irresponsible behavior, its impact on reputation is considerably less relevant compared to the impact that the same conduct would have had in a Western context. For instance, China's "go global" strategy has encouraged MNEs to play a larger role, with a focus on Africa, where these businesses have strong political and economic interests, particularly in war zones (Bu, 2015). Several international corporations have been held accountable for violating human rights while pursuing these interests, either on their own or in tandem with the Chinese government. In fact, typical Chinese MNE companies work in the mining and energy industries and depend on State political and financial assistance (Alden and Davies, 2006). China National Petroleum Corporation (CNPC), one of the most prominent examples of an emerging State-owned MNE, is headquartered in Beijing and manages its operations in more than 30 countries across Asia, America, Africa, Europe, and the Middle East (China EDGE, 2022). As the third-largest oil corporation in the world by revenue, it has 151 subsidiaries and a complicated corporate governance system. As a result, it frequently hides its wrongdoing behind these factors and its ties to the government (CNPC, 2017). The multinational was therefore criticized for breaking existing restrictions by selling commodities in war zones including Afghanistan, Iran, Iraq, South Sudan, and Syria (China EDGE, 2022). Additionally, it was charged with relying upon resources that were prohibited, frequently causing environmental damage and explosions. put under sanctions, often being responsible for environmental degradation and explosions (China EDGE, 2022). Another case occurred in Myanmar, where the corporation launched projects that were closely related to conflict and violations of human rights through a joint venture with a state-owned energy company that has been under military administration since 2021 (Burma Campaign UK, 2021).

The MNE's role in the Darfur genocide in Sudan resulted in its most devastating human rights violation (Bu, 2015). This nation faced the growing involvement of developing countries' firms, notably CNPC, which established its position in 1996, after facing the departure of several Western oil corporations during the mid-1990s (Robinson, 2007). Over 90% of the government's budget and the funds used to conduct the war were rapidly provided by the corporation, which quickly rose to the position of top foreign investor in Sudan (Goch, 2022). In addition to directly causing serious environmental harm in the African oil fields and endangering the lives of whole communities which were never properly recompensated, the MNE also indirectly participated in the genocide (Goch, 2022). However, the relationship

between CNPC and the Chinese government also serves as evidence that none of CSI's acts had a detrimental impact on the company's reputation. Therefore, it is crucial to keep in mind that the foundations and tenets of corporate reputation are closely tied to the expectations that stakeholders outside of the company have of its behavior, which naturally varies based on the geopolitical, social, cultural, and economic context.

3.1.3 The Self-Regulatory Power of Corporate Reputation

The previous paragraphs have analyzed, through different perspectives, how CSR potentially impacts corporate reputation, demonstrating that, aside from cases in which scarcely relevant implications are observed, the relationship between the two variables tends to be positive. Simultaneously, it could be argued that the positive relationship between the two variables may be determined by reputation impacting CSR, although the explanation might be less straightforward. Indeed, corporate reputation may represent one of the factors incentivizing companies to adopt high CSR standards. The awareness that, nowadays, corporate reputation is one of the core assets that a company relies upon and that is strongly related to CSR may motivate firms to be more responsible and embrace social causes, even only for image and brand improvement. In this regard, the ultimate aim of building and maintaining a solid reputation may be considered as a sort of self-regulatory mechanism.

Self-regulation consists of the set of processes through which people or companies voluntarily decide and enforce their standards and rules of conduct, as well as manage the monitoring and control of their behaviour, without being subjected to external regulation. Self-regulation can take various forms, depending on the context and the actors involved. One common form of self-regulation is industry self-regulation, where industry associations or trade groups set and enforce standards and rules for their members. This can be effective in ensuring that all members of the industry are acting consistently and responsibly. One of the main benefits of self-regulation is that it enables individuals or organizations to take responsibility for their behaviour and to ensure that they act in an ethical and socially responsible manner, without relying on external regulations. This can lead to greater trust and credibility among stakeholders, such as customers, employees, and investors, who value organizations that act in their best interests (Healthline, 2019). Self-regulation can also be more flexible and adaptable than external regulation because corporations can tailor their standards and rules to their specific needs and circumstances, rather than being constrained by a one-size-fits-all approach

imposed by external regulators, enabling them to respond more quickly and effectively to changing circumstances, such as new technologies or market conditions (Healthline, 2019). Another benefit of self-regulation is that it can reduce the burden on external regulators. If organizations can regulate themselves effectively, there may be less need for external regulation, which can save time and resources for both regulators and organizations.

On the other hand, among the main limitations of self-regulation is that it may not be effective in preventing harm or ensuring that organizations act in the best interests of society, due to the lack of external oversight that may lead them to prioritize their interests over those of other stakeholders, such as consumers or the environment. Self-regulation may also be subjected to issues in terms of transparency and accountability since external regulators typically overgo public scrutiny and are required to provide regular reports on their activities, which can help to ensure that they are acting in the best interests of society.

Although the drivers of self-regulation are multiple, corporate reputation may undoubtedly be considered one of them. As O'Callaghan (2007, p. 117) points out "It may be that the reputations that activists so eagerly seek to "devour" may be functioning as a market mechanism effectively constraining the behaviour of corporations." Such an effect is referred to as "international reputation side effects", which constitutes one of the main drivers of firms' tendency to self-regulate, especially when they operate in multiple countries and are thereby subjected to diverse jurisdictions (O'Callaghan, 2007). If a company operates only locally, it should have a solid awareness of the norms, rules, standards, and principles to follow, as well as a less naïve knowledge of the general impact that avoiding such standards and not complying with certain norms may have on their corporate image. On the other hand, when corporations operate in more than one country, they have to base their decisions also on international standards, to avoid a decline in their reputation, thereby having to be more committed to social causes and complying with minimum (or higher) ethical standards. In this regard, self-regulation can be either weak or strong: the former refers to corporations setting objective behavioral standards constituting in voluntary reporting initiatives, code of conduct, and similar; the latter, conversely, refers to the self-adoption of binding norms (O'Callaghan, 2007).

There is wide evidence that companies are self-regulating in a soft manner, pushing their commitment above local, and national standards. "According to research conducted by Petra

Christmann and Glen Taylor, for example, the environmental performance of foreign corporations operating in China invalidates the activist view that corporations move heavy polluting industries to countries with weak regulatory environments" (Christmann and Taylor, 2001 in O'Callaghan, 2007, p.115). Furthermore, other examples concern, *inter alia*, the decision operated by Johnson & Johnson to adopt its code of conduct, as well as the program through which Levi Strauss aimed to ensure that underage children would not work in the factories of affiliates O'Callaghan, 2007). Therefore, it can be argued that, although the relationship between CSR and corporate reputation is certainly understood and interpreted more in terms of the impact of the former on the latter, also the opposite can be claimed to be true. At the same time, such correlation that I defined as "mutual" is cyclical: CSR strongly contributes to boosting companies' reputation, which, in turn, acts as a self-regulatory mechanism influencing responsibility and social commitment, due to the widespread awareness of the first causal relation. Such connection, along with the key role played by CSR and reputation as crucial intangible assets in modern society is, among other factors, due to the prominence of social media and the power of word of mouth among consumers and external stakeholders in general. Some decades ago, powerful companies might have been more able to hide or reduce the reputational impact of certain actions. Conversely, today every company is continuously observed and compared to other firms, thereby leading external stakeholders to play a crucial role in determining corporate reputation and, thus, success. Hence, the following paragraph will develop a deeper focus on the process of building a corporate reputation through strategic communication of corporate social responsibility.

3.1.4 How do Communication Strategies Impact the Interplay Between CSR and Corporate Reputation?

The positive impact of CSR on corporate reputation has been confirmed by several studies which analyzed the correlation through different perspectives and in various sectors and industries. However, despite the differences, the common factor shared is that responsible initiatives have to be shared with stakeholders and communicated strategically and effectively to be productive in terms of reputation. CSR requires relevant investments also in terms of effective communication strategies and initiatives that companies implement to gain more visibility on their commitment to social efforts. Nonetheless, the long-term benefits of CSR are

numerous, aiming at encompassing all the diverse groups of stakeholders through emphasizing various aspects.

CSR communication can be defined as the process of conveying a company's CSR initiatives to its stakeholders. This includes communicating the company's efforts to address social and environmental issues, as well as its commitment to ethical business practices. Effective CSR communication requires a company to be transparent about its actions, goals, and progress. It also involves engaging with stakeholders and soliciting their feedback. "CSR communication can be used to influence stakeholders' positive perception of the organisation, for example when consumers spread positive words regarding the organisation's involvement in CSR initiatives. CSR communication also leads to awareness of shared social concerns with stakeholders, which facilitates their identification with the company. Consequently, stakeholders' identification with the organisation leads to increased patronage and other brand-supporting behaviours such as positive word of mouth, customer loyalty, and referrals." (Ajayi and Mmutle, 2020, p.3).

Nevertheless, if the communication strategies used are not appropriate and customized to the target stakeholder group, the mismatch may result in a consequent mismatch between stakeholders' expectations and corporations' expectations. Concerning the extent to which communication is organized, the most common approach is one according to which communication concerning social or ethical initiatives may not be exaggeratedly explicit because it is more likely to be misinterpreted as green or color washing, due to general stakeholder skepticism (Ajayi and Mmutle, 2020). Furthermore, if companies focus too intensely on communicating their initiatives, stakeholders may interpret it as a signal that such actions do not have a meaningful impact and therefore have to be shared with the intent to hide something, similar to greenwashing (Ajayi and Mmutle, 2020).

For what concerns the communication channels, these tend to be distinguished into two broad categories, namely company-controlled and uncontrolled media channels. "Company-controlled media channels include advertising, brochures, company's website or social media outlets, newsletters, annual reports, etc., while uncontrolled media include news media, experts' blogs or non-company social media" (Kim and Ferguson, 2014, p.3). In this regard, the preference for some channels over others depends on the single case, the company, the industry, as well as the target group of stakeholders, and the CSR initiative, communicated.

Indeed, the general corporate performance tends to be communicated on companies' websites and annual reports, while single initiatives may be publicized more through advertising, newsletters, or social media pages (Ajayi and Mmutle, 2020).

Regardless of the extent and the periodicity in which CSR is communicated as well as the channels utilized, it is commonly shared that communicating is better than not communicating and that effective and strategic CSR publicity has positive implications for corporate reputation. The CSR strategies, defined also as "motives" (Coombs and Holladay, 2012 in Ajayi and Mmutle, 2020), tend to be distinguished by the literature, between:

- *Strategic motive*: CSR communication strategies finalized at contributing to the company's core business and strategic goals.
- *Value-driven motive:* CSR communication strategies focusing on the true corporate interest in the causes that it supports.
- *Stakeholder-driven motive*: CSR communication strategies that maximize the purpose of satisfying stakeholders' expectations.
- *Egoistic motive*: CSR communication strategies that are purely self-centered.

Distinguishing between these motives is crucial because, according to the literature, strategic and value-driven motives are the ones that contribute the least to stakeholder skepticism, thus having a positive impact on corporate reputation. Conversely, stakeholder-driven and egoistic motives are generally perceived as the ones that contribute to skepticism (Ajayi and Mmutle, 2020). On the other hand, there are other studies according to which "acknowledging both self-serving and society-serving motive reduces skeptical attribution and enhances stakeholders' favourable perception of the organisation, as compared to acknowledging only a society-serving motive" (Ajayi and Mmutle, 2020, p.5).

Another categorization of CSR communication strategies distinguishes between information, response, and involvement, which are rooted in the three public relations models referred to as "public information", "two-way asymmetry" and "two-way symmetry" (Grunig and Hunt's, 1984 in Ajayi and Mmutle, 2020). Although this model does not strictly serve the purpose of analyzing the link between CSR communication strategies and corporate reputation, it represents the foundation upon which the model proposed by Morsing (2006) is built. Such a model distinguishes between:

- the *informing strategy*: it revolves around providing messages to the public to boost visibility and trust, by emphasizing that the social initiatives are shared both by the company and the public, as well as the connection between such actions and the core business and explicitly showing the CSR results (Morsing, 2006 in Ajayi and Mmutle, 2020).
- the *interacting strategy*: it aims at engaging with the public, through social partnerships with non-profit organizations and community leaders and the external public as well as through receiving an endorsement from the external public (Morsing, 2006 in Ajayi and Mmutle, 2020).

These two strategies are complementary forms of CSR communication and contribute to bolstering corporate reputation in different ways because they involve the public and all kinds of stakeholders in terms of feedback exchange, interaction, and involvement (Ajayi and Mmutle, 2020). Therefore, given their complementarity, such communication strategies have to be combined to represent an added value for corporate reputation.

CSR communication strategies are several and vary depending on the circumstances, industry, and CSR initiatives. Nonetheless, they certainly constitute a fundamental step to ensure that the initiatives implemented will have positive implications for corporate reputation. Hence, aside from the attention to the content, they have to be transparent, conducted regularly at least through annual CSR and sustainability reports, and supported by real evidence, thereby avoiding any hidden information or fake storytelling. Secondly, they have to be built upon feedback received from stakeholders, since those are the real evaluators of corporate performance and determinants of image and reputation. Finally, they have to be clear and simple for stakeholders, involving engaging information techniques, as well as visual, and storytelling to be as appealing as possible.

A good combination between high CSR standards and effective CSR communication strategies will certainly contribute to building a strong reputation for any company. Hence, the following two sections will respectively illustrate a positive and negative example of two companies that displayed different attention to social responsibilities, resulting in two opposite outcomes in terms of reputation.

3.2 The Case of Patagonia: an Example of How CSR Pays Off

"As of now, Earth is our only shareholder. ALL profits, in perpetuity, will go to our mission to 'save our home planet'." (Chouinard, Patagonia).

Yvon Chouinard, passionate about rock climbing, founded Patagonia in 1973 and managed to gain strong success for his clothing line which, since the beginning, showed particular attention to the environment (Center for Ethical Organizational Cultures, 2021). Patagonia, a privately held outdoor clothing company based in California, revolves around a set of core values, established since the foundation of the company, which include the high quality of goods provided alongside a strong sense of responsibility underpinning the whole manufacturing by avoiding generating any unnecessary damage to nature (Center for Ethical Organizational Cultures, 2021). Nevertheless, such attention led to the choice, in 1996, of durable organic cotton which was certainly more expensive than basic cotton used by the majority of clothing companies. Although this choice seemed to generate some financial troubles at the beginning, the company realized that the cost of materials was reflected in the necessity for a lower number of customers to buy their products. Hence, the purpose was that of doing business based upon transparency, attention to the environment, accountability, and trust of a targeted category of customers: these decisions resulted in a net positive effect that continued throughout the years (Center for Ethical Organizational Cultures, 2021). Indeed, despite some difficult times, such as when the company faced relevant financial hardships during the 1990s, the goal that the CEO always kept in mind was to honour the values designed and set for the brand since its foundation, also in terms of hiring policies, employees' treatment and recycling materials (Center for Ethical Organizational Cultures, 2021). The latter objective has always represented the core driver, as shown by the fact that recycled materials constitute 69% of the clothing line, which is likely to become 100% by 2025 (Center for Ethical Organizational Cultures, 2021).

At the same time, Patagonia is a for-profit business and has always ensured that the attention to the environment was combined to be debt-free, also because the two causes are related: not

only does sustainability entail the economic component along with the social and governance one, but also investment in the planet requires a healthy business. “For instance, the firm—which constantly remarks that they place the environment over profits—has embarked upon a “Buy Less” campaign, among other initiatives that seem like they might discourage revenue growth. On the contrary, annual revenue has hit $1 billion in recent years” (Center for Ethical Organizational Cultures, 2021, p.2).

Patagonia represents the case of a company that has always, continues, and will continue to prioritize investments in socially responsible causes over profit, simultaneously reaching satisfying goals in terms of revenues. Therefore, as argued in the first chapter, the initial heavy investment in responsible initiatives pays off in the long term, albeit resulting sometimes in moments of financial hardships. Indeed, such investments are beneficial especially after the business has operated for some time, due to the time required for customers and investors to develop awareness about the company’s operation and thereby trust, which represents the foundation for a solid reputation. In this regard, Patagonia is considered to have placed itself in a virtuous cycle which constitutes the key source of its competitive advantage. It invests in CSR initiatives, making sure that customers will perceive and maintain coherent perceptions about the brand: these perceptions are among the main drivers of sales, reducing any kind of risk, which in turn gives the chance to the company to continue to voluntarily comply with gradually higher and higher social standards (Digital Initiative, 2015). Of course, the company cannot satisfy all categories of customers but rather focuses on environmentally conscious buyers, people passionate about sport and nature, and luxury customers, relying upon a business model which, through all the mentioned components, ensures a considerable competitive advantage (Digital Initiative, 2015). The key strength of the corporation is that “there is no contradiction between saving the world and the bottom line.” (Matthews, 2001).

3.2.1 The Company’s CSR Initiatives

Patagonia places a strong emphasis on CSR initiatives from a multitude of perspectives. First of all, its most ambitious commitments revolve around the environmental initiatives that the company launched over the years, through partnerships and collaborations with other firms aiming at reducing its carbon footprint and developing new clothing technologies, alongside renovating the manufacturing processes (Center for Ethical Organizational Cultures, 2021).

Among the core initiatives, it launched a business alliance to donate a portion of its sales to environmental organizations whose key objective is to save the planet. The name of the initiative stems from the fact that, since 1985, Yvon Chouinard has decided to donate 1% of Patagonia's proceeds to these organizations, contributing, as of 2021, to 74 million dollars (Center for Ethical Organizational Cultures, 2021). As the founder claimed "If we have any hope of a thriving planet 50 years from now, it demands all of us doing all we can with the resources we have. As the business leader I never wanted to be, I am doing my part. Instead of extracting value from nature and transforming it into wealth, we are using the wealth Patagonia creates to protect the source." (Yvon Chouinard in George, 2022). Since that year, Patagonia funds businesses that create an equitable, inclusive, and diverse environmental movement; address systemic bias, discrimination, and injustice in environmental politics or the outdoors; are action-oriented; focus on the issues' roots; are underpinned by a clear strategy; aim at pursuing specific goals and objectives that can be measured to monitor success; foster civic engagement and public involvement and take place in a long series of pre-decided countries (Patagonia, 2022). Conversely, the company does not support organizations other than non-profit organizations or with a similar tax framework; research, unless it is in direct support of a developed plan of specific actions aimed at solving an environmental problem; projects focused uniquely on environmental education; conferences on the environment, sponsorship of events or film festivals; endowment funds; political campaigns; green building projects; projects that support cycling, unless the project is directly supported by a climate change solution and associations with conflicting goals, values and missions compared to those of the company (Patagonia, 2022). What is even more striking is that 20 years after Patagonia launched "1% for the Planet", over 5000 companies have followed the leader and embraced the same approach. However, what differentiates such a corporation is that since the beginning the goal was to "go purpose" rather than going public, showing that their main shareholder has always been our Planet (George, 2022). This is demonstrated, among the several factors mentioned, by the strong efforts conducted by the company during the COVID-19 pandemic when, despite the evident difficulties, Patagonia never stopped the initiative (Center for Ethical Organizational Cultures, 2021).

Another singular action is called the "Worn Wear Initiative", through which the company opened a Worn Wear store in 2017, where customers can easily sell, buy and exchange second-hand clothes (Center for Ethical Organizational Cultures, 2021). Aside from the relevant positive impact of recycling clothes, such an initiative has considerable implications in terms

of educational purposes, because it accustoms customers to the culture of clothes recycling, which revolves around the goal of extending products' life, reusing, reselling and keeping clothes out of the landfill (Center for Ethical Organizational Cultures, 2021).

Among the main initiatives is also that of working with bluesign technologies to reduce consumption and rely upon more sustainable resources since 2007 (Center for Ethical Organizational Cultures, 2021). Bluesign is a company founded in 2000 to revolutionize the whole mentality within the textile industry and to create a system aiming at reducing negative externalities on the planet and people (Bluesign, 2019). Therefore, companies that have their products certified by Bluesign satisfy precise and ambitious standards in terms of consumer safety, air emissions, resource productivity, water emissions, and occupational health and safety (Bluesign, 2019). Hence, Patagonia aims, through its holistic sustainable approach, to have "bluesign approved fabrics" on 100% of its products (Center for Ethical Organizational Cultures, 2021).

The other singular responsible action consists in the co-foundation, in 1989, of the Conservation Alliance, which, including 180 businesses, seeks to incentivize corporations in the outdoor industry to support environmental organizations, donating, as of 2021, up to 10 million dollars (Center for Ethical Organizational Cultures, 2021). Patagonia, in line with the 1% initiative, maintains a relevant role on the board of this alliance, demonstrating its commitment and coherence.

Nonetheless, aside from the numerous efforts in the environmental realm, Patagonia's socially responsible approach stems also from its employees' treatment, which is based upon the overall goal of satisfying their work-life balance. Some examples are that the company gives its employees a day off of Election Day to incentivize their participation in politics, along with joining the "Time to Vote" campaign to which it has also invited other companies (Center for Ethical Organizational Cultures, 2021). Although one may argue that employees may exploit their day off without attributing the appropriate importance to their political participation, Patagonia's policy has reached its objective, having a 4% turnover rate among its workforce, compared to the industry average of 13% (Center for Ethical Organizational Cultures, 2021).
The other fundamental initiative in the same realm is that Patagonia became, in 1996, a founding member of the Fair Labor Association (FLA) and joined, in 2007, the Fair Factory Clearinghouse (FLC), a database supporting the company in the collection and management of

supplier data concerning social and environmental matters. Information acquired in these realms is shared and compared with other firms, creating benchmarks for the future (Center for Ethical Organizational Cultures, 2021).

Aside from these efforts, Patagonia has, of course, decided to sell its products to certain companies, selecting its corporate clients based on their social and environmental responsibilities (Center for Ethical Organizational Cultures, 2021). Although such decisions are often costly, on one hand, because they force the company to renounce a long list of clients and suppliers, they are extremely beneficial in terms of building coherence, shareholders' trust, brand image, and corporate reputation.

3.2.2 How is Patagonia's Responsible Approach Beneficial for its Reputation?

"Companies that advertise around corporate social responsibility and purpose are a hot trend right now. Messages about values not only boost a company's reputation, but they also help with recruiting talent, especially among younger workers that care more about what a company stands for." (Jim VandeHei, Axios co-founder and CEO, 2021).

When Patagonia was founded, its main purpose was, of course, to make profit. As described in the previous sections, there are multiple ways to make profit and this company opted for the most responsible approach. However, if being responsible entails relevant costs, it must also generate considerable benefits to avoid excessive risks. In this regard, "Patagonia isn't just revered for the products it makes. The outdoor company has also earned praise from consumers for its public social and political stances" (Verry, 2021). Consumers have named Patagonia the company with the best reputation in America, as confirmed by the 2021 Axios-Harris Poll 100, a ranking of the reputations of the top U.S. companies. Axios is an esteemed media company whose key objective consists in providing transparent and efficient coverage of its news topics. It conducted the poll in collaboration with Harris Poll to gauge the reputation of the most visible brands in America, based on 20 years of Harris Poll research (Adegeest, 2021). According to the Harris Poll, the survey's Reputation Quotient ranking is based, as explained in detail in Chapter 2, upon seven domains, which are trust, vision, growth, products and services, culture, ethics, and citizenship (Verry, 2021). Due to its profoundly conscious and responsible approach, Patagonia was ranked in the top 10 companies in all seven categories, including

reaching the first spot in ethics (with a score of 84.7 out of 100), citizenship (82 out of 100), and culture (82.5 out of 100) (Verry, 2021).

Although Patagonia has had a solid reputation since its foundation, its responsible actions pay off nowadays to a greater extent compared to some decades ago, because "today's consumer is more digitally connected and more purpose-driven than ever, and that dramatically affects what it takes to excel in marketing, communications, and reputation." (Mark Penn in Verry, 2021). By analyzing the categories according to which corporate reputation is measured, Patagonia is particularly strong, aside from ethics, citizenship, and culture, in the trust domain, due to its developed interest in customers 'experience, philanthropy, and environmentalism (Harris, 2022). In this regard, the repair or return policies, the worn wear selection, its eco-footprint, environmental activism, the philanthropic approach, and customer and data privacy policies are among the core factors contributing to enhancing consumers' trust in the company (Harris, 2022).

Aside from the top scores, what is even more striking is that Patagonia is the only fashion company to be ranked among the top 10, followed by Adidas which, which, reached position number 40 (Harris, 2022). It is highly difficult for fashion companies to achieve high scores, due to the fast fashion tendency, as well as the mass production and the incentives to exploit economies of scale. Moreover, the textile industry is one that highly impacts the environment and that often has factories distributed across poorer countries that tend not to comply with ambitious standards. Nonetheless, Patagonia has maintained a surprising coherence since its foundation, demonstrating not only that combining purpose and profit is possible, but also that these are two sides of the same coin. Hence, the case of such a company is the perfect example of the relevant positive implications of CSR for corporate reputation and corporate success

3.3. The Case of Nestle: The Magnitude of Corporate Social Irresponsibility

" By promoting good health and well-being, we can help people live longer, happier lives. We believe that through nutrition initiatives and better farming practices, we can prevent disease and make the world a better place… By respecting and advancing human rights in our value chain, we are building a foundation that contributes to a resilient future for our planet and its people" (Nestle, 2022).

Although the quotation of Patagonia's founder is completely centered on the Planet, these two quotations provide an idea of Nestle as a company that, in line with Patagonia's mission, values, and purpose, is driven by sustainability, social responsibility, and ethics values and ideals. However, it seems that most actions committed by this corporation deviate from such high CSR standards. Hence, the present section will highlight Nestle's tendency to behave, in multiple circumstances, differently from what it declares.

Nestle is, as everyone knows, the global corporate leader in the food and drink industry, founded in 1886 when Henri Nestle developed a revolutionary infant food formula (O'Callaghan, 2019). Some years later, the company merged with an Anglo-Swiss milk company, giving rise to the Nestle Group, which gradually produced a wide range of goods and expanded internationally (O'Callaghan, 2019). Although Nestle declares its relevant efforts in terms of CSR initiatives, it has been subject to several controversies, especially for its actions in developing countries, which complied with significantly lower standards compared to those set in developed countries, where corporate crimes are avoided to a larger extent and, if committed, followed by considerable compensations to the victims and heavy sanctions, which are subsequently reflected on the corporation's image and reputation (Webdeveloper, 2023).

One famous episode consists of the company's action of exploiting 200 gallons of fresh water in Flint, Michigan, triggering a crisis that resulted in the death of 12 people and serious illnesses

for 87 individuals (O'Callaghan, 2019). Such a crisis had severe repercussions on Flint's inhabitants' health, starting with children who lost their hair, suffered skin lesions, or lost sight (O'Callaghan, 2019). Moreover, the water deficit issue contributed to such hardships, following the governor's choice to replace the city's water supply, relying on the Flint River to save money for the future (O'Callaghan, 2019). This dangerous water is pumped out by the multinationals and sold to developing countries for extremely high prices, such as 2 dollars per bottle, without highlighting the poor quality of the water (O'Callaghan, 2019). Moreover, Nestle exacerbated its misconduct by persuading the World's Water Council to define "drinking water" as a need rather than a right because the "right" label would have allowed such countries not to buy water but to receive it for free (O'Callaghan, 2019). Hence, it does not seem that Nestle considers our planet, which includes its inhabitants, as their main or one of its most important shareholders similarly to Patagonia. Conversely, the core objective is profit maximization, even at the expense of people's health or survival.

Another instance of Nestle s misbehavior is referred to as the "infant formula": the company was indeed accused of producing and providing infant milk through a formula that was found to be damaging for both mothers and children. Aside from the production and the provision of a good that was dangerous for individuals' health, Nestle was criticized for the techniques used to advertise the formula, which was designed as more beneficial to mothers and newborns compared to mothers' milk (Webdeveloper, 2023). Indeed, Nestle was aware of the fact that African mothers mixed the formula with polluted water, which they tended not to boil, due to the low literacy rates (Andrei, 2021).

Fig. 9: Nestle formula ads 1911 (Andrei, 2021)

Another relevant source of misconduct is related to Nestle's unethical practices in the Cocoa industry, where human trafficking and child labor are only two of the crimes committed by the

corporation. Nestle tried to avoid any type of accusation, by claiming that the majority of the children working in those plants work for their parents. Nevertheless, Nestle is officially their employer because it provides them with the (inappropriate) salary, instead of rising the farmers' wages and providing them with assistance (O'Callaghan, 2019). To face such a crime, a lawsuit was filed against Nestle in 2005 by the International Labor Rights Fund for the trafficking of three Malian Children who were constrained to work on a cocoa plantation with other children in Côte d'Ivoire (O'Callaghan, 2019). The case, unfortunately, was not resolved for years because the courts had trouble identifying liability for international law violations. The lawsuit was concluded in 2010, when the US district court decided not to hold corporations responsible, saving Nestle from considerable responsibilities and repercussions (O'Callaghan, 2019).

Although the examples mentioned reflect the multinational's inadequate respect for human rights and compliance with minimum standards, along with the failure to set the same requirements in developed and developing countries, other instances demonstrate the company's CSI, especially concerning its scarce attention to aspects such as the environment. In this regard, Nestle was considered, along with Coca-Cola and PepsiCo, the largest plastic polluter worldwide in the last 5 years (Keystone-SDA/ts, 2022). As claimed by Abigail Aguilar, plastics campaign regional coordinator for Greenpeace Southeast Asia, "It's not surprising to see the same big brands on the podium as the world's top plastic polluters for three years in a row. These companies claim to be addressing the plastic crisis, yet they continue to invest in false solutions while teaming up with oil companies to produce even more plastic" (Keystone-SDA/ts, 2020).

Nestle declared, in 2018, its commitment to making 100% of its packaging reusable or recyclable by 2025, launching a new packaging institute (Keystone-SDA/ts, 2020). Nonetheless, despite its reduction in plastics consumption compared to the previous years, it has increased only by 1 percentage point its share of recyclable compostable plastics, by demonstrating, aside from its corporate social irresponsibility, a solid tendency of greenwashing (Keystone-SDA/ts, 2020).

Moreover, what happens in these cases is that, as in the previous examples, the major repercussions concern developing and poorer countries, as highlighted by the countries where the biggest percentages of the annual volume of mismanaged plastics are created by the company (shown in Figure 10). The multinational continues to launch programs such as "Plastics neutrality", through which it simply discharges producer responsibilities on countries

in the Global South by exchanging for plastic offset credits (Greenpeace Southeast Asia, 2022). Therefore, Nestle continues to pretend that its actions and initiatives encompass a high CSR approach while demonstrating opposite behaviors in multiple instances.

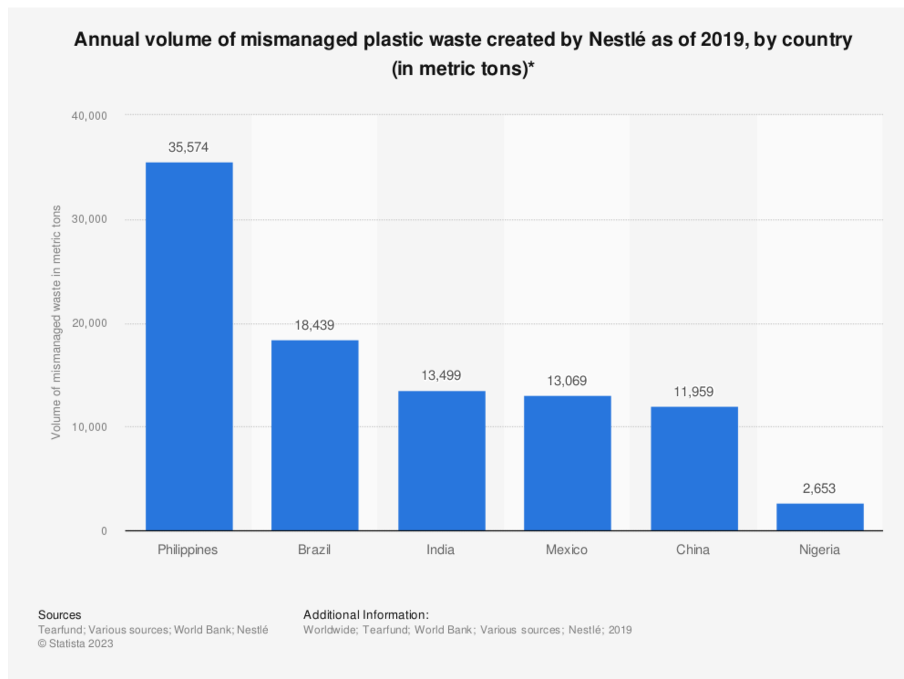

Fig. 10: Annual Volume of mismanaged plastic waste created by Nestle as of 2019, by country (Tearfund, 2020)

Despite the multiple further circumstances demonstrating Nestle's tendency to CSI, these are only a few examples that serve to give an idea of how profit and CSR can take opposite directions, likely having serious implications for corporate reputation.

3.3.1 What are the Implications of Corporate Social Irresponsibility for Nestle's Reputation?

Whenever there is a discussion about the most corrupt and unethical corporations in the world, Nestle always tops the list. The infant formula scandal, its water packages, and the use of child labour, as well as its relevant impact on pollution, make Nestle one of the most hated companies worldwide, often defined as an "evil company" (Mannen, 2022). It can be argued that being a multi-billion-dollar company completely dominating the market, as well as enjoying a strong power, competitive advantage, wealth and influence in lawmaking contributes to saving the reputation of a multinational which could easily be hated by everyone for its misbehavior. Moreover, the fact of being a multinational and relying upon a complex structure and corporate

governance helps the company avoid considerable responsibilities. As mentioned above, the high level of complexity in MNE corporate governance entails difficult hurdles in holding companies responsible for their deeds and, consequently, for the protection of human rights. The complex network of branches, offices, factories, and contractors is also controlled by laws from several nation-states, which anchors it to a variety of authorities, courts, and tribunals (Juan, Campo, and Fernández, 2008). As a result, the major challenges typically come from the governments' failure to enforce laws and hold large firms accountable or from the difficulties in determining the parent and/or subsidiary degree of accountability. When host nations lack the ability or desire to enforce national laws to control MNEs' activities, problems frequently result in the first scenario, proving that "State power has been replaced by a multinational economy where MNCs play an increasingly decisive role" (Juan et al., 2008, p.172). In the second case, conversely, the parent company may only be held liable under the prevailing legislation if it can be proven that a single decision-making center has entire authority over the subsidiaries (Eroglu, 2008). This results from the presumption that parent firms are legally and financially distinct from the subsidiaries and is supported by legal theories of separate legal personality and limited liability (Eroglu, 2008). The capacity of the parent firm to conceal its responsibility behind a convoluted corporate governance system made up of several layers and companies, therefore attaining the status of "nonliable," is one factor that leads to the so-called "corporate veil" (Weschka, 2006). However, the conventional decentralized architecture that MNEs rely on does not take into account the idea of vertical control as a requirement for holding a parent business accountable for its misdeeds (Eroglu, 2008). As a result, despite their separation and decentralization, the parent firm and its subsidiaries should often be held responsible for actions taken at the subsidiary level. In fact, the central management is the actor in charge of choosing to outsource manufacturing to countries with lax regulations, tacitly accepting low standards (Purnamawati, 2021). This is in addition to the parent company often controlling over 50% of the voting stocks of the subsidiaries (Purnamawati, 2021).

In the present case, Nestle has often found strategies to avoid responsibility as well as a considerable impact on its reputation. Nevertheless, it is known by many for all the scandals mentioned above. Hence, especially in a period in which ethical businesses and socially responsible actions are taking the lead, such behaviors become increasingly dangerous. Moreover, the media’s increasing role and power are more and more used for a socially beneficial cause, raising awareness and boosting companies’ accountability at all layers of

corporate governance, thereby constituting an incentive for fair practices, due to corporations' fear to face a serious and imminent decline of their reputation.

The two cases described show that, despite the similarity of companies' annual reports, websites, or claims, the ways to conduct business without needing to sacrifice profit can differ completely, having dangerous implications for companies' reputations. Of course, the role that a big multinational has in the global market has a counter influence which, for the above-mentioned reasons, can slow down the process or reputation decline. However, appropriate ethical behaviors today represent one of the drivers, if not the key, of corporate success.

Conclusion

In today's society, consumers, investors, and all types of stakeholders are increasingly informed about companies' initiatives and behaviours, as well as highly conscious of the impact of their actions. Customers, for instance, are more and more interested in the story of the products they buy, in terms of who, where, and how these are manufactured, especially due to the rising awareness of issues related to, *inter alia*, climate change, environmental protection, and employees' mental health. Similarly, investors' preferences are showing a general tendency to shift towards ethical ways of conducting business, in light of the need for investments to be economically, socially, and environmentally sustainable in the long run. In the same context, entire communities are enjoying a higher awareness of the implications of corporations' actions and activities especially in countries with lower standards and less strict regulations, due to NGOs' campaigns and the more and more powerful role of social media. It is within this context that corporations' intangible assets are gaining pivotal importance, sometimes to a greater extent compared to tangible assets. Among the core drivers of modern companies' success are both CSR and corporate reputation, which constitute the *conditio sine qua non* for corporate growth.

Therefore, through the present dissertation, I decided to deepen the focus on these two intangible assets, with the specific purpose to analyse the interplay between them. The thesis aimed to theoretically demonstrate the mutual relationship between CSR and corporate reputation, claiming that responsible corporate practices are the core driver of companies' reputation, as the latter represents the main self-regulatory instrument for sustainable initiatives and actions. To critically assess such a mutual and cyclical interplay, the present work started by independently deepening the focus on CSR and corporate reputation, setting the stage for the third and core chapter.

CSR, revolving around the pivotal aim of combining purpose with profit, is a concept that can be traced back to the origins of the 20th century, due to the beginning of the Industrial Revolution, through which companies began to gain a considerable role in society, as well as to the rise of stakeholder capitalism and the action of some relevant figures such as Dean Donald K. David, William C. Frederick, Howard R. Bowen, and Milton Friedman. The latter was indeed strongly criticized for claiming that businesses 'sole purpose is to maximize profit, contributing to generating counter movements in support of the development of CSR. Despite

its non-recent emergence, the concept gradually evolved, adapting to societal progress and becoming a "must", as demonstrated by over 90% of G250 companies that publish annual CSR reports. Moreover, the rise of environmental issues, the development of new technologies, the role of the media, and the legal initiatives that have been put in place contributed to making CSR a necessity for any company in modern society. Relying upon the economic, legal, ethical, and philanthropic responsibilities defined by Carroll's pyramid, CSR is composed of initiatives that are naturally in line with corporations' objectives and actions which tend to be less spontaneous, such as charitable initiatives. Therefore, for-profit companies must be incentivised to behave responsibly, as suggested by Chaffee, through the proposition of the collaboration theory, according to which state governments and the people who establish, run, and control businesses work together to create corporations. Therefore, the nature of corporations themselves, along with the business and normative motivations – respectively related to profit maximization and the desire to do good – should be sufficient to motivate companies towards CSR. Particularly, CSR internal benefits, identified through the resource-based perspective, concern aspects such as the improvement of financial performance, the ability to attract highly skilled workers, employee engagement, motivation, purpose and sense of belonging, the enhancement of organizational culture, the ability to mitigate risks and improve companies' bottom line through environmental practices, and the increase in customers' trust and loyalty. On the other hand, the external benefits are those stemming from the external impact of CSR practices, impacting market valuations and stock prices as well as borrowing costs. However, the most relevant features concern favourable treatment from policymakers, regulators, and the public, along with higher chances to be viewed as good corporate citizens and hence chosen as suppliers, partners, and employers of choice. Nonetheless, despite the multiple potential internal and external benefits of CSR, the studies conducted have produced conflicting results, for instance showing the uncertain impact of responsible practices on financial performance or on employees' engagement and motivation. Conversely, one of the assets that seems to enjoy only positive implications of concretely implemented CSR practices is corporate reputation, which can be defined as a self-regulatory instrument for responsible initiatives, which are, in the majority of cases, voluntarily implemented.

Before dwelling on such a relationship, nonetheless, a precise and separate focus on corporate reputation was developed. This intangible asset, despite being often confused with identity and image, embeds these two terms and reflects the collective representation of a company, in terms

of employees' internal perspectives and other stakeholders' external perspectives. Being distinguished between economic, strategy, and marketing reputation, it is generally thought to be composed of five elements, namely awareness, familiarity, favorability, trust, and advocacy, which constitute a pyramid similar to that of CSR. Reputation is another key and strategic asset for any company, especially considering the impact it has on financial performance. Such an influence is, nonetheless, uncertain, due to the difficulty of defining and measuring corporate reputation and identifying causality. However, a solid reputation can represent a signal to investors about a company's financial health or competitive viability as well as a signal to consumers about the quality and reliability of the goods and services provided, aside from being used to attract highly skilled employees. Yet, the definitional issues are reflected in the measurement problems, due to the impossibility to quantify reputation through financial metrics or physical indicators. Its subjective nature leads, indeed, to the necessity of relying upon surveys to gather information from various categories of stakeholders, media analysis, social media monitoring, and reputation indices such as the Fortune's indicators and the Reputation Institute's indicators. Despite the differences between them, they are used to rank companies based on some recurring factors, including the quality of products provided, the corporation's financial performance, the level of innovativeness, the workplace environment, and social responsibility. Therefore, companies are animated by the objective to score high in all these domains to build and maintain a solid reputation over time, also through effective corporate branding strategies and winning stakeholder engagement. By adopting appropriate strategies and initiatives, companies can minimize reputational risk and avoid imminent declines in their reputation and image. Nonetheless, reputational risk constitutes a threat posed to companies not only by themselves but also by employers and employees, or by peripheral parties such as subsidiaries, suppliers, or joint venture partners, thereby sometimes being less avoidable. One of the ways to minimize risk is to be ambitious in the domains in which companies are scored, starting with social responsibility.

Hence, after having developed two independent focuses on CSR and corporate reputation, the third chapter provided a critical analysis of the interplay of the two variables, beginning with the illustration of trust as the mediating factor. Trust, which tends to be distinguished between expertise, integrity, and social benevolence trust, has been proven to be directly enhanced by socially responsible practices. Trust is also the foundation of the reputation pyramid, demonstrating that ambitious social conduct results in increased trust from consumers, employees, suppliers, partners, investors, and the wide community, strongly contributing to

building a reputation. Particularly, through the scheme elaborated by Park, it is evident that economic responsibilities determine expertise trust, legal and ethical responsibilities are the foundation for integrity trust and philanthropic responsibilities constitute the basis for social benevolence trust: the combination of the three is the necessary premise for a solid reputation. When such components are weak, the main cause is generally constituted by corporate social irresponsibility and corporate hypocrisy, which, entailing the inconsistency between a company's claims and its actions, often stems, nowadays, from phenomena of color washing. The latter, especially in the form of greenwashing, are particularly frequent, due to the voluntary nature of CSR, and represent one of the most damaging factors of corporate reputation. Moreover, their frequency is further increased within the context of multinational corporations, where misbehaviour can result from headquarters managers' engagement in illegal activities abroad, managers' unawareness of the violations perpetuated in the subsidiaries, or from cases of real intentionality. However, as demonstrated by the results of the analysis conducted by Nardella, the consequences of misconduct are particularly less relevant when this occurs in the outgroup rather than the extended group, due to the completely different norms that apply to the Western and non-Western context. Hence, corporate reputation's foundations and premises are strongly related to the expectations that external stakeholders have on the companies' conduct, of course varying depending on the geopolitical, social, cultural, and economic context.

Corporate reputation, aside from being strongly built on CSR, can also be judged as a core foundation and determinant of the latter, being generally considered by experts as a sort of self-regulatory mechanism and generating the so-called international reputation side-effect, especially when companies operate in multiple countries and are thereby subjected to diverse jurisdictions. Nonetheless, the interplay that has been illustrated in the present dissertation is effective only if and when communication strategies are appropriate, in a way that corporate initiatives are correctly conveyed to all stakeholders. Among the strategies with a strategic motive, a value-driven motive, a stakeholder-driven motive, and an egoistic motive, the most successful ones are generally the second, as they avoid generating stakeholder skepticism. One example of an ineffective communication strategy that is based on strategic, stakeholder-driven, and egoistic motives is that of Nestle, a global leader in the food and beverage industry, which has demonstrated a high level of corporate hypocrisy. The case illustrated in the conclusion of the thesis sheds light on the profound differences between the multinational's claims and its misconduct and corporate social irresponsibility. Its numerous irresponsible

actions in developing countries, the famous infant formula scandal, the abuse of human rights in multiple contexts and countries, along with the company's scarce commitment to environmental issues make Nestle one of the most hated companies worldwide. Of course, being a strong player in the market helps the company in its aim to partially save its reputation and avoid a complete decline. Nevertheless, consumers' trust and respect for a company that committed infinite mistakes is undoubtedly declining and will continue to follow this trend, demonstrating that profit is no longer enough for corporate success. Conversely, the case of Patagonia is the perfect representation of the synergy between profit and purpose and of how revenues are not sacrificed by costly socially responsible investments. Indeed, Patagonia's CSR initiatives are the real differentiator of the company, which made such actions the center of its business strategy. The latter has never changed since its foundation, showing how coherence, concrete commitment, and ambition are the real drivers of trust and reputation, which, in turn, constitute a further incentive for all the responsible practices implemented.

The case studies described, along with the illustration of various examples illustrated and the profound analysis of the literature hopefully constituted a contribution to the field of CSR and corporate reputation, demonstrating the strong interplay between the two variables, as well as their pivotal role in modern society. Of course, the dissertation presents, among others, one main limitation which stems from the absence of empirical foundations. The latter could have, indeed, provided results with statistical significance, adding considerable strength to the work. The theoretical foundations of the dissertation could have been supported by empirical demonstrations that corporate reputation is significantly enhanced by an ambitious CSR performance and that CSR is incentivized by companies' aim to build and maintain a solid reputation. In this regard, the results might have differed based on the industry or sector explored, the type of company, the specific CSR initiatives implemented or planned, the company's popularity and recognition, the impact of customers' perceptions of the company on its activity and success, the communication strategies put in place, along with multiple other factors. Hence, one main limitation of the dissertation, stemming from the lack of empirical research, is the generalization of the conclusions drawn. Conversely, surveys targeting specific companies, supported by the analysis of their CSR activities, alongside their reputation scores, might have generated more precise and disparate results influenced by the above-mentioned factors, Nonetheless, empirical studies within this field are scarce and challenging to conduct, especially in light of the intangible nature of the two assets and the difficulty to measure them, also in terms of their impact on financial performance. If a company implements ambitious

CSR initiatives, manages to communicate them effectively and strategically, and simultaneously enjoys a solid reputation, to what extent does the latter rely upon CSR, and to what extent is it influenced by other factors? Moreover, was CSR itself motivated by the desire to foster reputation or by the hope to enhance the company's long-term book value creation?

Intangible assets such as CSR and reputation are as crucial as complex to assess, measure, and evaluate, contributing to the difficulty of conducting empirical research on the topic. However, the triangulation of the studies mentioned and investigated throughout this work, alongside the real-case examples cited and the two case studies illustrated hopefully contributed to providing arguments in support of the intertwining of CSR and corporate reputation. Thus, companies' understanding and awareness of such an interplay will conceivably represent one of the most relevant drivers of their success and growth in the present and future society. CSR and sustainability represent the next big revolution since digitalization has completely disrupted the way of doing business. Despite constituting strong pressure, especially for companies that have always oriented their efforts toward different directions, it seems that social responsibility is a must for firms in modern society, being an integral component of corporate strategy. Despite the singularity of any industry and company, all corporations, including the smallest, should acknowledge that behaving responsibly will not imply wasting investments. Conversely, the new generations increasingly believe that companies should devote significant investments to improving society, contributing to enhancing the reputation of firms that engage in CSR initiatives and communicate them effectively. Pressure from customers and investors toward responsible conduct has to guide companies' near-term strategies. Corporations should, therefore, create specific CSR departments and build their strategy considering their role in society, being aware of the potential positive impact that such an approach will have both on their reputation and on society, also in light of the example they will constitute for other companies. Initiatives such as those launched by Patagonia represent relevant examples of how firms can progress, setting more ambitious standards in various domains, ranging from the environment and social issues to the support of employees' rights and the realization of donations and grassroots campaigns. Of course, responsible actions can range from philanthropic donations and climate-neutral efforts to workplace diversity, inclusion, and profound support to local communities: companies are not expected to be ambitious in all of these domains, completely altering their organizational strategy from one day to the next. Nonetheless, among the core suggestions for companies is aiming at coherent and sincere behaviors, which constitute the premise for increasing loyalty and consumers' trust alongside

investors' and talents’ attraction and support from institutions and potential partners. Therefore, investing in sustainable packaging and recycling materials while simultaneously relying on unjust practices in subsidiaries abroad is not a winning strategy in the long run, despite any attempt to hide unethical behaviors. Similarly, green-washing practices may be effective in the short-run and disclosed in a subsequent moment, highly damaging trust, corporate reputation, and, potentially, financial performance, aside from having negative implications for society. Finally, companies should showcase efforts through effective communication strategies, complementing the value of CSR initiatives and, in turn, enhancing corporate reputation and corporate success. Indeed, the role of media has become increasingly pivotal, demonstrating that the relationship between corporations and the public is, in modern society, one of the aspects that managers and executives have to build and maintain to ensure business prosperity.

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Summary

The current dissertation stems from the interest in companies' rising tendency to embrace a socially responsible approach. The usual emphasis on financial performance and increased revenues seems to have been partially replaced by corporations' desire to communicate their responsible initiatives. Hence, this work aims to understand which incentives corporations have for committing to such activities, focusing on CSR's implications for corporate reputation. The objective is to critically assess, discuss, and triangulate the most prominent literature on the topic, to explore the interplay between the two variables under analysis. Particularly, I will argue that the connection between the two intangible assets is mutual and cyclical, in the sense that not only do socially responsible practices inevitably enhance companies' reputations but also the latter serves as a self-regulatory mechanism for CSR. The voluntary nature of ethical business leads corporations to behave appropriately only if and when they have the appropriate incentive. Such a stimulus can stem even only from competitors' behaviors and practices, as being an outlier is never a good idea for any company. Nonetheless, the motivation to build, maintain and boost corporate reputation is undoubtedly one of the core drivers for firms to switch toward more sustainable practices. Hence, I will dwell on what I define as a virtuous cycle through which the incentive to build a strong reputation will guide the company to embrace a socially responsible approach, which will have positive implications on brand identity, image, and reputation, thereby potentially improving the corporation's financial performance, which will, in turn, constitute the premise for the needed future investments in CSR. The latter, therefore, will be more costly in the short run than in the long run and, vice versa, more beneficial in the medium and long term.

The thesis is structured as follows. The first chapter develops a broad and detailed focus on CSR, starting from the origins of the term, along with the evolutions of the concept and its role in modern society. Subsequently, the CSR pyramid is illustrated, as the premise to present the drivers that should incentivize companies to adopt a socially responsible approach, highlighting different categories of motivations. Then, the benefits of CSR are analyzed as distinguished between internal and external. While the former strictly concerns advantages for internal components and members of corporations, the latter mainly revolves around the implications for external stakeholders, being thereby strongly connected to corporate reputation. Hence, the attention is shifted toward reputation, which constitutes the pivotal focus of the second chapter. Beginning with the distinction between identity, image, and reputation, which, despite being

intertwined, have all their independent nature, the chapter continues with the presentation of the reputation pyramid, through the identification of its main components. Subsequently, the impact of reputation on financial performance is assessed through critical lenses, which bring to light contrasting perspectives. The second broad focus of this chapter concerns the debated challenges related to reputation measurement, presenting the three most common methods used nowadays to measure such an intangible asset. Finally, the chapter is concluded with a section on how companies aim at building and maintaining their reputation, through winning corporate branding strategies and effective stakeholder management, along with managing and facing reputational risk. After having set the stage through the first two chapters, the third and final one analyzes the relationship between the two variables of interest, starting with a focus on trust, considered the mediating factor between CSR and reputation. As the lack of trust often stems from irresponsible conduct, a brief focus on corporate social irresponsibility is developed to contribute to explaining the impact of CSR on reputation. Subsequently, the implications of the second variable for the first one are analyzed, considering reputation as a self-regulatory mechanism of sustainability. Then, the importance of CSR communication strategies is presented to end the theoretical sections of the work, which is followed by two case studies demonstrating how opposite directions in terms of CSR potentially result in diverse effects on corporations' reputations. Hence, the clothing company Patagonia and the food and beverage multinational Nestle are used as cases to clarify the practical implications of such a mutual and cyclical relationship. The concluding remarks are eventually presented, alongside the main limitations of the work and some suggestions for corporate behavior.

As highlighted by Larry Fink, Chairman and CEO of BlackRock, the world's lead asset management firm, linking purpose to profit has become the recipe for companies' success in modern society (Deshpande et al., 2020). However, the CSR concept has evolved and continues to evolve, adapting to the ongoing societal progress that revolves around new values, principles, and rights. If CSR was often viewed, in the past, as a way for companies to "do well by doing good", its definition has expanded to be integrated into the overall corporate business strategy of firms. In recent years, the concept relies upon an increasing focus on sustainability, stakeholder engagement, and integrated reporting, demonstrating that companies are now expected to take a more holistic approach, considering the long-term impacts of their actions. Hence, as stated by List and Momeni (2021, p.8) "Corporate social responsibility has become a cornerstone of modern business practice, developing from a "why" in the 1960s to a "must" today, as over 90% of G250 companies (the top 250 companies listed in the Fortune Global

500 ranking) now publish annual CSR reports”. At the national and international levels, CSR norms are now widely accepted, and more than 90% of the 250 largest firms in the world reported on corporate sustainability in 2017, as stated by KPMG (2017).

Despite the evolution of CSR, the latter builds on strong pillars which have been defined by Archie B. Carroll, in 1991, through the elaboration of the so-called ‘pyramid of corporate social responsibility’. This relies upon four dimensions: economic responsibility, which defines companies’ core objective to be profitable; legal responsibility, which highlights companies’ obligation to follow the law; ethical responsibility, revolving around companies’ commitment to behave fairly; philanthropic responsibility, which builds on companies’ charitable actions (Edmondson, 2022). Although all these components are not mutually exclusive, but rather strictly intertwined, tensions often arise especially between economic and ethical responsibilities, economic and legal components, and economic and philanthropic aims, in virtue of the possible conflicting interests existing between profitable and responsible or socially virtuous actions. Indeed, if we recall Milton Friedman’s argument, the initial idea was that businesses should be strictly focused on their core purposes in terms of operations and revenues, while the free market’s hands should autonomously and spontaneously address social issues (Friedman, 1970).

Although corporations are taught that meeting business goals in terms of revenue, profit, and growth can simultaneously have a positive impact on society if operations are conducted in compliance with specific standards, such a relationship is not always true, at least in the short run (Edmondson, 2022). Hence, the fact that for-profit companies, despite their inevitable impact on society, must behave responsibly from a social perspective constitutes a deep doubt (Chaffee, 2017). The motivations that incentivize managers to adopt a socially responsible approach to their operations can be of two types: the first is referred to as the “business case”, because it is related to corporations’ self-interest, served by CSR (Branco, Rodrigues, 2006). However, by stating that business purposes drive socially responsible actions, managers cannot legitimize actions that do not significantly and with certainty enhance profit maximization (Chaffee, 2017). Furthermore, when comparing two activities sharing the same objective but having different types of implications for society, the socially responsible behaviour is often not the one characterized by the certainty to be more profit-maximizing than the alternative action. Thus, the second justification advanced by managers, which is nowadays predominant, is known as the “normative case”, referring to companies’ desire to ‘do good’ (Branco,

Rodrigues, 2006). The main motivation should be the positive relationship between financial performance and CSR. The positive impact of the first on the second is straightforward because social initiatives require expensive resources and investments (Branco and Rodrigues, 2006). On the other hand, the positive impact of the second on the first is not that explicit, despite multiple studies favouring such a correlation. In this regard, some authors even argue that CSR should be approached by managers in terms of investment decisions, emphasizing that social actions constitute a type of strategic investment (McWilliams and Siegel, 2001).

The internal benefits of CSR are multiple, ranging from increased employee engagement and motivation, higher retention, and lower turnover to increased collaboration and communication, more appropriate risk mitigation and management, and improved firms' bottom lines. All these activities, being considered as ways to improve or augment internal resources and capabilities are identified, through the resource-based perspective (RBP), as the new powerful tools to spur corporations' financial performance, showing, once again, that CSR is not at all only a matter of values. Conversely, companies' commitment to CSR can be viewed as a way for corporations to gain a competitive advantage over their rivals, rather than as a genuine commitment to making a positive impact. Although this may seem not to have drawbacks, such motivation can potentially result in a lack of consistency and credibility, as well as a lack of progress in concretely addressing social and environmental issues.

External corporate benefits stemming from CSR differ from internal ones because they do not concern internal characteristics of the company that engages in responsible activities, but rather revolve around the benefits that companies derive from the external impact that CSR practices have. Nevertheless, the external benefits of CSR are less straightforward compared to the internal ones. Indeed, there are often contrasting views on the impact that these practices can have on aspects such as market valuations and stock prices. When it comes to external benefits, everything revolves around reputation, showing how customer trust and loyalty, a good image and brand and the ability to attract high-level and motivated employees constitute the most solid source of competitive advantage.

Despite the growing interest in the analysis of corporate reputation, its definitions are still often disparate. Firstly, corporate reputation can be of various types, ranging from economic, strategic, and marketing, to organizational and accounting, hence being characterized by diverse features and aims (Barrett et al., 2016). Nonetheless, the primary reason that confuses

the topic stems from the difficulty to distinguish between reputation, identity, and image (Barrett et al., 2016). Fombrun and van Riel (1997) define *identity* as the company's character held by managers and people who work there. Image, on the other hand, albeit strictly related to identity, is better explained as the impression that people outside the company have of it. "Martineau (1958) associated the image of a preferred retail store with the self-image of the individual shopper, suggesting a model of how image affects patronage: people become customers where the image of the provider is similar to the image they have of themselves." (Chun, 2005, p.95). Conversely, reputation is as follows: "A corporate reputation is a collective representation ... It gauges a firm's relative standing both internally with employees and externally with its stakeholders" (Barrett et al., 2016, p.28). More specifically, Fombrun (1996) describes it as "a perceptual representation of a company's past actions and prospects that describes the firm's overall appeal to all of its key constituents when compared with other leading rivals." (Shi, 2016, p.1). Thus, corporate reputation goes beyond impressions and perceptions, building on the equation between expectations concerning identity and image and the reality of facts. Differently from a company's image, reputation results from the combination of internal and external perceptions, involving especially customers and employees (Chun, 2005). Therefore, reputation may be thought of as the general opinion or assessment of the company's performance. This view of a corporation is formed based on everyone's personal experience as well as information from other individuals (through print media, social media, or simply word of mouth). As information is processed and delivered to external stakeholders, information intermediaries like the media and financial analysts play a crucial role (Kartawinata and Maharani, 2022). Although corporate reputation is nowadays commonly considered an intangible asset due to its potential to ensure high-quality employees, customer loyalty, and high returns, the types of reputation vary depending on the approach utilized, the specific category, and the stakeholders targeted (Chun, 2005). The most popular reputational model used is that divided, as shown in Figure 5, into awareness, familiarity, favorability, trust, and advocacy (Ipsos, 2014).

As in the case of CSR, one of the areas of core interest concerns the relationship between reputation and financial performance, due to companies' primary aim of maximizing profit. Research on the relationship between corporate reputation and financial performance has produced mixed results. Reputation has been shown to have a positive effect on a company's financial success, among other things, and to benefit from a rise in goodwill value, which may account for up to 80% of the selling price (O'Callaghan, 2007). In Michael Morely's opinion

There may be a quantifiable rise in shareholder value. The stock price of a firm will be higher than that of rivals that appear to be similar in all other respects but neglect to care for their reputation. This is because of a company's reputation and the trust it builds among investors. 107 2007 (O'Callaghan). Given how difficult it is to duplicate, corporate reputation is generally seen as a strategic intangible asset that provides value to any firm.

The definitional issues concerning reputation are reflected in the measurement problems, as demonstrated by the large number of methods used to score this asset (Chun, 2005). Unlike other assets, reputation cannot be quantified by financial metrics or easily measured by physical indicators, due to its subjective nature which results in relevant challenges in terms of measurement. Despite some limitations generally recognized, the methods that are used to measure corporate reputation can be divided into four categories: Surveys: used to gather information from stakeholders (Brad, 2022); Media Analysis: aimed at examining media coverage of companies based on articles, posts, and others (Barbato, 2016); Social Media Monitoring: aimed at the analysis of both social media and public opinion’s perceptions of companies (Barbato, 2016); Reputation Indices: specific measures composed of several dimensions and indicators to compare companies, also using the support of the previous three categories. Reputation indices nowadays constitute the most reliable method used to measure corporate reputation. Particularly, the two most popular methodologies are Fortune’s indicators (AMAC and GMAC) and the Reputation Institute’s indicators (Reputation Quotient and RepTrack), which will be briefly explained in the following respective sub-sections.

Since its publication in 1982, Fortune’s rankings, called AMAC (America’s Most Admired Companies) constitutes of annual surveys, published every January and targeting only American Companies, based on a list of the 10 biggest companies divided by industries and named by the group of more than 10.000 senior executives, financial analysis and outside directors, according to the following eight criteria: (Fombrun, 1998, p.328): quality of management; quality of products or services; innovativeness; long-term investment value; financial soundness; ability to attract, develop, and keep talented people; responsibility to the community and the environment; wise use of corporate assets.

The Corporate Reputation Quotient (CRQ) Model, designed by Harris and Fombrun, delivered its first results in 1999 when the report was published in The Wall Street Journal to rank the best 100 companies in terms of corporate reputation (Reputation X, 2022a). Since 1999, the model has been widely used, remaining based on the same six dimensions and twenty attributes

(Reputation X, 2022a): Financial Performance; Workplace environment; Products and Services; Social Responsibility; Vision and leadership; Emotional appeal.

RepTrack is nowadays the largest reputational benchmarking database worldwide, raking more than 1 million companies every year and used in over 60 countries (The RepTrack Company, 2022). This database is owned by the RepTrack Company and relies upon the use of the RepTrack Platform, which is the main global cloud-based intelligence platform providing data and rankings of companies in terms of their reputation and other intangible assets, as perceived and evaluated by stakeholders of various type (The RepTrack Company, 2022). Such an index elaborates evaluations based on seven criteria, some of which are in common with the indicators used by the CRQ model. The RepTrack Company (2022) defined the following criteria: Products and Services; Innovation; Workplace; Conduct or Governance; Citizenship; Leadership; Performance.

After having emphasized the most commonly used definitions of corporate reputation, as well as the most popular methodologies which have been implemented to measure this intangible asset, it is of utmost importance to understand how companies can build a solid reputation, as well as manage it once they have built one. Corporate branding consists in creating and maintaining a distinct brand identity for an organization, involving the use of a unique name, symbol, and design, all related to the mission, vision, value, and personality of a company, which are fundamental to differentiate one corporate citizen from its competitors. Corporate branding can be considered as the initial and crucial step to building reputation, because, by defining the company's DNA, it sends specific messages to customers which begin shaping the approach to the firm, either based on trust or mistrust, loyalty or disloyalty, reliability or unreliability and so on (Indeed Editorial Team, 2022). Therefore, everything starts from developing the core values, vision, and mission, along with a sustained ability to share such characteristics with the audience through precise strategies. Moreover, it is evident that stakeholders play a crucial role in companies' reputation, also in terms of measurement, due to the centrality of their opinion in the ranking's formulation. The modern society facing global and transversal issues increasingly requires that businesses communicate openly with their wider stakeholder groups about the risks they face and the steps they are taking or plan to take to reduce those risks (van Zyl, 2013). In relation to this, stakeholder communities are also progressively depending on social media to learn more about the costs and externalities imposed on them by multinational firms and to spread the news they hear about (van Zyl,

2013). Hence, poor stakeholder management will inevitably harm companies' image and thus corporate reputation.

Corporate reputation can be ruined from one day to another either through simple and direct actions of the company, or indirectly, through employers' or employees' behaviors and decisions. Therefore, corporations have to be committed not only to building a solid reputation and gradually enhancing it, but even more to maintaining it and to minimizing the risk to destroy it. In this regard, reputational risk represents a danger or threat posed to companies either by themselves or by employers and employees, or by peripheral parties such as subsidiaries, suppliers, or joint venture partners (Kenton, 2022). Although the reputational risk is not new to the corporate realm, the pivotal role played by social media has contributed to making risk scenarios particularly dangerous, quickly spreading messages that instantly impact customers' and employees' perceptions of the company. Social media can also be used by external actors who have nothing to deal with the business, to attack a company, through negative posts, articles, reviews, or data breaches (Needle, 2022). Thus, it is fundamental to take some predictive measures to prepare businesses for the worst-case scenarios, such as leaning as much as possible on the company's core values, providing and requiring internal compliance training, constantly monitoring products' quality, and investing in public relations and ensuring appropriate use of social media (Needle, 2022). Last but not least, in light of the core importance of CSR, high socially responsible standards constitute a crucial premise for the mitigation of reputational risk. Hence, after having set the stage through chapters 1 and 2, the following chapter will focus on the analysis of the link between CSR and corporate reputation, alongside reputational risk.

As for the link between CSR and corporate reputation, several authors and experts argue that their relationship is undoubtedly positive, motivated by a multitude of factors. One of the studies contributing to the present field of research is that conducted by Maden, Arican, Telci, and Kantur (2012), focusing mainly on the impact of CSR on reputation through the analysis of three groups of stakeholders' perspectives. These groups are customers, investors, and employees, due to the mutual ways in which they exercise an influence and are influenced by firms' activities. Among the stakeholder groups considered to be at the core of the relationship between CSR and corporate reputation are consumers. Indeed, in the case of companies underpinned by a high social performance, "customers, who attribute a good reputation to a specific firm, regard their relationships with the company as valuable, create emotional bonds

with the firm, and are willing to maintain these relationships for long. Positive CSR evaluations also help customers to perceive the products they purchase and/or the services they receive from the firms as of high quality, which increases their level of satisfaction and enhances loyalty and commitment." (Maden et al., 2012, p. 662). In this realm, it is often argued that CSR serves as a powerful weapon to strengthen customers' and stakeholders' awareness of products, which constitutes the foundation of the corporate reputation pyramid (Šontaitė-Petkevičienė, 2015). Related to the concept of awareness is that of trust, which can be distinguished, for such a discussion, between "expertise trust", "integrity trust" and "social benevolence trust" (Park, Lee, and Kim, 2013). *Expertise trust* reflects customers' conviction of the technical competence and skills owned by the company to provide high-quality goods and services that satisfy a certain performance in terms of consumers' needs (Park et al., 2013). Although this type of trust does not seem to be directly connected to CSR, it is instead enhanced by high corporate social standards; *Integrity trust* refers to consumers' perception of the company as one that behaves in respect of its values, ethical and legal responsibilities, regulations, and minimum standards (Park et al., 2013). Hence, this form of trust is one that mostly stems from the adoption of high CSR standards, referring to the legal and ethical responsibility parts of the CSR pyramid; *Social benevolence trust* is built on consumers' perception of the company as one that is particularly devoted to social, ethical, and charitable causes, thereby probably constituting the type of trust embedded in an approach fully incorporating CSR. The lack of these forms of trust is frequently related to instances of corporate irresponsibility (CI), intended as the failure of a company to meet the expectations of its stakeholders, including, *inter alia*, generating environmental damage, engaging in unethical behaviour, and poor treatment of employees. CI is often considered to generate specific attention to firms that engage in inappropriate behaviors especially if the social performance of the company in question was considered to be a good one until that moment. Furthermore, "corporate hypocrisy - the inconsistent behaviour which involves claiming higher values or standards than is the case - may be penalized most severely when CI contradicts an organization's pro-social claims" (Nardella, Brammer, and Suru, 2020, p.3).

After having analyzed, through different perspectives, how CSR potentially impacts corporate reputation, it could be argued that the positive relationship between the two variables may be determined by reputation impacting CSR, although the explanation might be less straightforward. Indeed, corporate reputation may represent one of the factors incentivizing companies to adopt high CSR standards. The awareness that, nowadays, corporate reputation

is one of the core assets that a company relies upon and that is strongly related to CSR may motivate firms to be more responsible and embrace social causes, even only for image and brand improvement. In this regard, the ultimate aim of building and maintaining a solid reputation may be considered as a sort of self-regulatory mechanism. Although the drivers of self-regulation are multiple, corporate reputation may undoubtedly be considered one of them. As O'Callaghan (2007, p. 117) points out "It may be that the reputations that activists so eagerly seek to "devour" may be functioning as a market mechanism effectively constraining the behaviour of corporations." Such an effect is referred to as "international reputation side effects", which constitutes one of the main drivers of firms' tendency to self-regulate, especially when they operate in multiple countries and are thereby subjected to diverse jurisdictions (O'Callaghan, 2007). If a company operates only locally, it should have a solid awareness of the norms, rules, standards, and principles to follow, as well as a less naïve knowledge of the general impact that avoiding such standards and not complying with certain norms may have on their corporate image. On the other hand, when corporations operate in more than one country, they have to base their decisions also on international standards, to avoid a decline in their reputation, thereby having to be more committed to social causes and complying with minimum (or higher) ethical standards. In this regard, self-regulation can be either weak or strong: the former refers to corporations setting objective behavioral standards constituting in voluntary reporting initiatives, code of conduct, and similar; the latter, conversely, refers to the self-adoption of binding norms (O'Callaghan, 2007).

The correlation between CSR and corporate reputation that I defined as "mutual" is cyclical: CSR strongly contributes to boosting companies' reputation, which, in turn, acts as a self-regulatory mechanism influencing responsibility and social commitment, due to the widespread awareness of the first causal relation. Such connection, along with the key role played by CSR and reputation as crucial intangible assets in modern society is, among other factors, due to the prominence of social media and the power of word of mouth among consumers and external stakeholders in general. Some decades ago, powerful companies might have been more able to hide or reduce the reputational impact of certain actions. Conversely, today every company is continuously observed and compared to other firms, thereby leading external stakeholders to play a crucial role in determining corporate reputation and, thus, success. Hence, the following paragraph will develop a deeper focus on the process of building a corporate reputation through strategic communication of corporate social responsibility.

The positive relationship between CSR and corporate reputation has been confirmed by several studies which analyzed the correlation through different perspectives and in various sectors and industries. However, despite the differences, the common factor shared is that responsible initiatives have to be shared with stakeholders and communicated strategically and effectively to be productive in terms of reputation. If the communication strategies used are not appropriate and customized to the target stakeholder group, the mismatch may result in a consequent mismatch between stakeholders' expectations and corporations' expectations. Concerning the extent to which communication is organized, the most common approach is one according to which communication concerning social or ethical initiatives may not be exaggeratedly explicit because it is more likely to be misinterpreted as green or color washing, due to general stakeholder skepticism (Ajayi and Mmutle, 2020). Furthermore, if companies focus too intensely on communicating their initiatives, stakeholders may interpret it as a signal that such actions do not have a meaningful impact and therefore have to be shared with the intent to hide something, similar to greenwashing (Ajayi and Mmutle, 2020). Regardless of the extent and the periodicity in which CSR is communicated as well as the channels utilized, it is commonly shared that communicating is better than not communicating and that effective and strategic CSR publicity has positive implications for corporate reputation. The CSR strategies, defined also as "motives" (Coombs and Holladay, 2012 in Ajayi and Mmutle, 2020), tend to be distinguished by the literature, as follows: *Strategic motive*, referring to CSR communication strategies finalized at contributing to the company's core business and strategic goals; *Value-driven motive,* namely CSR communication strategies focusing on the true corporate interest in the causes that it supports; *Stakeholder-driven motive*: CSR communication strategies that maximize the purpose of satisfying stakeholders' expectations; *Egoistic motive*, revolving around CSR communication strategies that are purely self-centered. Distinguishing between these motives is crucial because, according to the literature, strategic and value-driven motives are the ones that contribute the least to stakeholder skepticism, thus having a positive impact on corporate reputation. Conversely, stakeholder-driven and egoistic motives are generally perceived as the ones that contribute to skepticism (Ajayi and Mmutle, 2020). A good combination between high CSR standards and effective CSR communication strategies will certainly contribute to building a strong reputation for any company.

The two case studies analysed throughout the present dissertation are those of Patagonia and Nestle. Patagonia represents the case of a company that has always, continues, and will continue to prioritize investments in socially responsible causes over profit, simultaneously

reaching satisfying goals in terms of revenues. Patagonia is considered to have placed itself in a virtuous cycle which constitutes the key source of its competitive advantage. It invests in CSR initiatives, making sure that customers will perceive and maintain coherent perceptions about the brand: these perceptions are among the main drivers of sales, reducing any kind of risk, which in turn gives the chance to the company to continue to voluntarily comply with gradually higher and higher social standards (Digital Initiative, 2015). Consequently, consumers have named Patagonia the company with the best reputation in America, as confirmed by the 2021 Axios-Harris Poll 100, a ranking of the reputations of the top U.S. companies. Axios is an esteemed media company whose key objective consists in providing transparent and efficient coverage of its news topics. It conducted the poll in collaboration with Harris Poll to gauge the reputation of the most visible brands in America, based on 20 years of Harris Poll research (Adegeest, 2021). Although Patagonia has had a solid reputation since its foundation, its responsible actions pay off nowadays to a greater extent compared to some decades ago, because "today's consumer is more digitally connected and more purpose-driven than ever, and that dramatically affects what it takes to excel in marketing, communications, and reputation." (Mark Penn in Verry, 2021).

On the other hand, Nestle is, as everyone knows, the global corporate leader in the food and drink industry, founded in 1886. Whenever there is a discussion about the most corrupt and unethical corporations in the world, Nestle always tops the list. The infant formula scandal, its water packages, and the use of child labour, as well as its relevant impact on pollution, make Nestle one of the most hated companies worldwide, often defined as an "evil company" (Mannen, 2022). It can be argued that being a multi-billion-dollar company completely dominating the market, as well as enjoying a strong power, competitive advantage, wealth and influence in lawmaking contributes to saving the reputation of a multinational which could easily be hated by everyone for its misbehavior. Moreover, the fact of being a multinational and relying upon a complex structure and corporate governance helps the company avoid considerable responsibilities. Indeed, the high complexity of corporate governance in MNEs implies, as anticipated above, hard challenges in holding corporations accountable for their actions and, thus, for human rights respect. In the present case, Nestle has often found strategies to avoid responsibility as well as a considerable impact on its reputation. Nevertheless, it is known by many for all the scandals mentioned above. Hence, especially in a period in which ethical businesses and socially responsible actions are taking the lead, such behaviors become increasingly dangerous. Moreover, the media's increasing role and power are more and more

used for a socially beneficial cause, raising awareness and boosting companies' accountability at all layers of corporate governance, thereby constituting an incentive for fair practices, due to corporations' fear to face a serious and imminent decline of their reputation.

The case studies described, along with the illustration of various examples illustrated and the profound analysis of the literature hopefully constituted a contribution to the field of CSR and corporate reputation, demonstrating the strong interplay between the two variables, as well as their pivotal role in modern society. Of course, the dissertation presents, among others, one main limitation which stems from the absence of empirical foundations. The latter could have, indeed, provided results with statistical significance, adding considerable strength to the work. The theoretical foundations of the dissertation could have been supported by empirical demonstrations that corporate reputation is significantly enhanced by an ambitious CSR performance and that CSR is incentivized by companies' aim to build and maintain a solid reputation. In this regard, the results might have differed based on the industry or sector explored, the type of company, the specific CSR initiatives implemented or planned, the company's popularity and recognition, the impact of customers' perceptions of the company on its activity and success, the communication strategies put in place, along with multiple other factors. Hence, one main limitation of the dissertation, stemming from the lack of empirical research, is the generalization of the conclusions drawn. Conversely, surveys targeting specific companies, supported by the analysis of their CSR activities, alongside their reputation scores, might have generated more precise and disparate results influenced by the above-mentioned factors, Nonetheless, empirical studies within this field are scarce and challenging to conduct, especially in light of the intangible nature of the two assets and the difficulty to measure them, also in terms of their impact on financial performance. Intangible assets such as CSR and reputation are as crucial as complex to assess, measure, and evaluate, contributing to the difficulty of conducting empirical research on the topic. However, the triangulation of the studies mentioned and investigated throughout this work, alongside the real-case examples cited and the two case studies illustrated hopefully contributed to providing arguments in support of the intertwining of CSR and corporate reputation. Thus, companies' understanding and awareness of such an interplay will conceivably represent one of the most relevant drivers of their success and growth in the present and future society.