Shorting Ethos? Aristotelian Ethos in the context of Corporate Reputation, Persuasion and Shared Values

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Abstract

Corporate ethics is a complex field of study that focuses on the sources and role of moral expectations among modern corporate stakeholders. While there has been significant theoretical development and adoption by practitioners on the topic over the past thirty years in the field, ethical scandals persist, almost at unprecedented levels. The pressure to meet short term shareholder financial targets, the lack of consistency and clarity of moral expectations among stakeholders, the corporation as an imperfect social environment, all contribute to the status quo where corporate ethics can be a familiar but elusive goal. At the same time, there have been fundamental changes in the flow of information recently. Information now flows as speeds and volumes unimaginable thirty years ago. More importantly, it now flows through very decentralized patterns such as social media which have changed the ability of corporations to manage their reputation and brand. This paper focuses on one concept within the broader field of ethics, virtue, in an attempt to better understand the role that it currently plays, but also could play, in business ethics by studying its application in persuasion.

Chapter I provides an overview of the concept of ethos which can be roughly translated as moral character, and positions it in the context of the modern corporation. Corporate moral character is evidenced through the decisions a company makes via its decision-makers and actors, which often have an impact on the various stakeholders including customers, clients, the government etc.

Chapter II traces the relationship between virtuous conduct and corporation reputation management. It proposes that virtue, through its role in ethos can be intrinsically beneficial to a corporation and a competitive advantage in the marketplace in terms of corporate reputation, which is increasingly viewed as a valuable asset. According to Aristotle, Ethos has three components; virtue, practical wisdom and goodwill towards others (Arist. Rhet I.2,1356a). Ethos is a critical element to persuasion along with pathos (use of emotion) and logos (use of logic); speakers that embrace all three in a message will be more

persuasive. Corporations routinely rely on persuasion to be effective and successful, from advertising to sales, to employee relationships.

Chapter III then proposes corporate virtue as a form of Shared Value (SV), a theory proposed by Porter and Kramer (2011). While Shared Value has received critical acclaim over the years as an economic theory effectively and efficiently promoting the interests of the broader society at the same time as the interests of the modern corporation, the theory has been challenged more recently for its lack of clear definition and ability to be implemented properly. This chapter argues that corporate virtue meets the qualifications of Shared Value, and should be promoted within corporations in view of its influence on persuasion, positively benefitting the company, and the positive effects that virtue has on corporate stakeholders like society, employees, government etc.

Chapter IV explores the concept of persuasion at a higher level, particularly as it can be related to organizational communications and organizational rhetoric. Persuasion is a concept that has likely existed as long as there has been communication.. The study of persuasion can be traced back to ancient Greece where Aristotle put structure to the process as a means of creating an educated citizen, an element critical to emerging democracies. The chapter is framed around the notion that persuasion as a means of attitude change can be developed in a more instrumental manner characterized by one way communication such as traditional marketing and public relations efforts. The chapter proposes that persuasion can also be developed in a more deliberative manner, which is supported in the etymological root *persuadere*, emphasizing a more ethical discourse including two way communication and more equal bargaining position. It then looks at how persuasion is developed in the organizational context today, including advances in the social sciences to better understand the mechanisms of persuasion including the Elaboration Likelihood Model, inoculation theory model and expectancy value theory, suggesting that persuasion in a deliberative manner is underdeveloped in organizational rhetoric.

Lastly, Chapter V describes the advent and implications of corporate reputation risk through the case study of Goldman Sachs in 2008. Reputation risk develops when actual

corporate behaviour deviates from the reputation that the corporation has among its stakeholders in regards to any particular trait. To the degree there is a difference between a corporation's reputation or how it is perceived in regards to a particular topic such as product quality, timeliness, altruism, truthfulness, and its actual behaviour, then reputational risk may develop to the degree that its reputation, an increasingly valuable asset to companies today, may be devalued. To the degree that ethical or virtuous conduct is a component of a corporate brand, which is critical particularly in service industries such as banking, any lack of consistency with actual conduct could have significant financial implications.

Collectively these chapters demonstrate how virtue and its role in persuasion serves as a common denominator in business ethics, and a valuable vehicle to promote ethical conduct in a complicated social environment called capitalism.

Keywords: Aristotle, ethos, persuasion, shared value, virtue, reputation risk, reputation management

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I would like to thank my support network for all of the support I received through the process and over the years. To me, the PhD process was akin to climbing a very high mountain. It pushed my physical and mental endurance beyond my imagination. It was exhilarating at times with periodic celebrations of hard earned success, but isolating in others during the research, writing and learning process. At the end, it was the journey that improved my skills and changed my perspective on knowledge creation forever. I could not have completed it without the encouragement and support of others.

In particular I would like to thank my supervisor Dr. Dr. Peter Seele for his support through this journey. I benefitted from his contagious enthusiasm for the subject and insight into the deep corners of the subject matter, and truly enjoyed the countless conversations exploring and testing ideas. I also greatly appreciated the structure he provided to maintain momentum and course.

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Introduction

1. Introduction

Individual character is an abstract concept. There are no instruction manuals for one to study, and there is little formal formation on how to develop character itself. In fact, there are very few places where there is even a list of the standards of character, the rights and wrongs, how to be altruistic, how to care about others. You can take courses in engineering, social sciences or math, but rarely will you find a course in “character.” The rules and expectations defining “good character” are often found in an unwritten code which can, to some degree, change from place to place, from time to time, and from culture to culture. However, to many, character is one of the most important foundations to one’s existence in this social experience called life. Early on parents tell their children to not cry wolf because for safety reasons, but also because there is a learning opportunity about telling the truth, to start the guidance on character building. But even in the early steps it is not straight-forward. Parents tell their children not to tell lies, but struggle how to handle some situations when their child is telling a lie, but the “lie” is more creative imagination or play. There can be exceptions, for example when the statement isn’t very important and truth may hurt someone’s feelings. Big fish stories are expected from fishing trips, and a lie with a playful smirk can be different than a lie with a straight face. Likewise, being altruistic is important, but is balanced with one’s own obligations. Courage is respected, but learning the line between courage and recklessness is a journey, sometimes painful. Parents often focus on character development because they have learned through life that character is important; it is built through time, and demonstrated through hundreds of decisions taken.

With all of the trials and complications above, individual character at least involves just one person making a decision and acting upon it. For corporations, the concept of character is different and exponentially more complicated. It is a relatively new concept that a corporation, a legal fiction, could demonstrate character at all, needless to say moral character. Certainly a corporation does not have a soul, but it is increasingly being argued that corporations demonstrate the equivalent to moral character through the collective decisions made and actions taken over time (Chun, 2005; Moore 2005a; Murphy 1999;

Solomon; 1992). To the degree that corporations demonstrate such character, the process and circumstances are manifestly different than those in individual character. The modern corporation often exists and acts simultaneously in multiple cultures around the world, where the details of ethical expectations may be different. What is considered unacceptable behaviour in Europe or the United States may be perceived very differently in other parts of the world. The board members of the corporation produce majority decisions, and the executives they delegate authority use their own experiences to execute and lead, but executives change, sometime multiple times within one year. The regional or functional executives are delegated authority by the chief executive, and they bring their own values and priorities to the decision making process. The people actually performing, speaking with customers, writing copy for advertisements, monitoring product quality, acting as the face of the corporation in the local community are often several levels below the executives, and they often inject their own personalities, experiences, biases, motives into the process. Thus, even without the pressure to perform in a free market economy, the concept of singular character in a corporation is complicated.

The addition of pressure often challenges or tests individual character. As the saying goes, the true character is revealed when the going gets tough. In business, the pressure can be relentless, continuously. Sales executives and commercial team members are given annual targets to meet, which are often set high. Members in the commercial team often know by the second quarter of their fiscal year what items are in their sales funnel, and if they are on target to meet the annual targets or not. By the third quarter, the pressure mounts to meet target or potentially be replaced. Meanwhile, the competition is competing for the same customers or public contracts and, unfortunately, it can become increasingly attractive for the members of the commercial team to try to tilt the scales in their favor. The finance department works in bath of accounting regulations and are audited annually, but face pressure from executives to meet the EBITDA targets and benchmarks from shareholders. This can lead to pressure to recognize revenue as early as possible, and to delayed payment of payables as a means of cash management. The service or production departments know that compliance with health and safety, quality and regulatory regimes is required, but can be faced with compliance related expenses that cause areas under their responsibility to operate at a temporary loss. Thus, while the development and management of individual character is complicated, it is even more so when considering what corporate character is, how it develops, the multiple actors involved, the multiple influences, and how the character is controlled.

To make things even more complex, both individual and corporate character are often judged or measured against ethical principles which are commonly unwritten expectations. Certain ethical expectations are codified into laws, regulating how we all interact on critical topics (don't steal, don't kill, don't lie), but most others remain unwritten principles serving as the fabric between us, which provide a basic set of assumptions on how we should act together. Furthermore, these expectations are often enforced through societal feedback where violations can lead to a soft and even delayed effect, as opposed to more direct impact. The ethics police do not show up at the door the day after the offense; rather, people's impressions change over time, and in the corporate context, stakeholder impressions change. To that extent, laws are much easier to abide by as they are clear, and enforcement is tangible (ending up in a courtroom). Balancing a tangible need against unwritten expectations can be a harder decision than a more black and white scenario with a law for a commercial team, an operations manager, or even an executive under pressure from a board of managers.

Corporations also exist in a very competitive world where traits such as generosity and friendliness can be in contrast, or compete, with other mandates such as the need to remain profitable. Generally speaking, there is only a nominal social safety net for corporations, and to the degree that a corporation cannot generate more revenue than its expenses, it will likely die via bankruptcy proceedings. Some economists even argue that even when profitable, the only mandate the corporation has is to maximize shareholder wealth (Friedman, 1970). Any use of resources to further purposes that distract from maximizing shareholder wealth are improper or even anti- capitalistic, which can go so far as to evoke patriotic emotions about socialism, which complicate issues. Thus the belief that corporations have any social duty beyond shareholder wealth, which feeds back to society via Adam Smith's theory on the invisible hand, has not always been universal, and is still not today. While corporate social responsibility programs have become very common, the motives behind them can vary, and their existence can depend of the perception of other corporate priorities and availability of funding.

While reputation has traditionally been a backwater on corporate financial statements, it is increasingly being recognized as an important corporate asset, albeit difficult to quantify or qualify. Companies have direct control over their brand, (the message they would like to convey through images and words), but they do not have direct control over their reputation. To borrow from the saying about beauty, reputation "is in the eye of the beholder." Reputations are formed based on individual or corporate behaviour over time. Stakeholders including customers, the government, shareholders, employees and the broader society all form impressions of the various corporations based on behaviour which form into a reputation. In the past, communication patterns where more centralized. Most public information was transmitted through more centralized broadcast and print media such as the five television channels, the three newspapers locally or 15 radio stations available. To the degree that a corporation wanted to influence the perception or reputation that various stakeholders had, it had an opportunity to do so more effectively when such communication channels were more centralized and narrow. Placing an ad in the local TV programming could more easily influence people's attitudes.

Today, the broadcast media field is much broader. From the hundreds, literally, of television and cable channels to the very diverse and segmented radio stations in the airwaves and online. The traditional print media field has not grown to the same degree, but information through online advertising and news has grown exponentially. This growth of the broadcast and print media in and of itself make it more difficult for corporations to influence their reputation. But the greatest change in this regard is more structural. While in the past, such communication was more centralized through media and advertising, information today is now distributed through very decentralized channels. The social media revolution now dispenses information from customer to customer without ever passing into more controlled channels. Corporate reputation can be won or lost in watering holes like TripAdvisor, yelp, Facebook, twitter, faceless blog writing, where customers and other stakeholders influence people's attitudes based on their own experiences, biased or not. This decentralization has simultaneously made corporate reputation much more valuable, yet much harder to influence.

To the degree that corporations need to influence stakeholder attitudes through branding, advertising and other communications, they need to be persuasive. According to Aristotle, character (or ethos) plays a role in persuasion in conjunction with logic (logos) and emotion (pathos).

It is against this backdrop, and the increased prevalence of corporate ethical scandals that this dissertation investigates the role of character, an otherwise human characteristic, within the corporation. Recent corporate ethical (Enron, HealthSouth, Parmalat, Tyco, WorldCom or Goldman Sachs) have not only rocked the business world, but astounded and shaken the faith of other stakeholders such as clients, employees, governments, and the broader society. Should principles of moral character have guided these corporations away from conduct that was so disruptive? Why should corporations care about corporate character and role does moral character, specifically virtue, play in the corporation today?

The thesis investigates the concepts of ethos, organizational persuasion, reputation and shared value to determine how they are interconnected, and how they may offer management insight into how corporate character can serve as a cornerstone for corporate success.

2. Ethos

In *Nichomachean Ethics*, Aristotle explains that moral character or *ethos*, is built upon three elements; virtue, practical wisdom and goodwill towards others (Aristotle, 1962).

Virtue is a character trait that is perceived to be morally good. A virtuous trait is not a specified point, but rather what has been characterized as the golden mean, or morally appropriate option between two points of excess, or vices (Aristotle, 1962). A virtuous person has the ability to see the balanced middle-point between the two excesses, and has the courage to act in that direction. For example, in regards to fear and confidence, at one end of the spectrum is cowardice and at the other end is recklessness. The virtuous person will act with courage. On the subject of material goods, where the two vices are stinginess and extravagance, acting with generosity is the moral mean. The ability to recognize the virtuous decision and act upon it is the result of training and cultivation (Beauchamp and Bowie, 2005).

Virtue ethics is one of the major theories in normative ethics, the field of ethics that attempts to prescribe what constitutes ethical conduct. Virtue ethics uses the concept of virtue as the divining rod to help determine what is ethical in various circumstances. Other fields of normative ethics include deontology which is duty based, and consequentialism which focuses on the consequences of a decision as guidance of its morality.

The pursuit of virtue is critical to happiness and the perfection of life. In conjunction with goodwill toward others and practical wisdom, the virtuous individual will develop and demonstrate moral character or *ethos.*

According to Aristotle in his seminal text On Rhetoric, an individual's ethos is reflective of the character of the individual as developed and evidenced over time (Arist. Rhet I.2,1356a). It is not the result of a single action, good or bad, but rather the reflection of an overall pattern of behavior. Likewise corporations are said to reflect moral character. Corporate moral character is evidenced through the decisions the company makes via its decision-makers and actors, which often have an impact on the various stakeholders including customers, clients, the government etc.

3. Organizational Persuasion

The concept of persuasion is as old as communication itself, but the first organized theories about persuasion were developed by Aristotle who recognized that persuasion was an important element in civil discourse and democracy. Aristotle theorized that a speaker's capacity to demonstrate moral character, or ethos, in conjunction with logic and emotional appeals, was critical to a speaker's capacity persuade an audience. It wasn't until after World War II, and the development of more advanced capitalism, that persuasion became a field of study in the social sciences. Numerous theories were developed to better understand the process to change an audience's attitude towards a topic or item, including the Elaboration Likelihood Model, inoculation theory model and expectancy value theory. Today, persuasion has been defined as a "symbolic process in which communicators try to convince other people to change their attitudes or behaviour regarding an issue through transmission of a message, in an atmosphere of free choice (Perloff, 2003, pg. 8). Organizations employ persuasion both internally and externally as a competitive advantage.

Corporate persuasion can be developed in an instrumental or deliberative context. Instrumental persuasion refers commonly to attempts to change a stakeholder's attitude through one-way communication such as advertising or marketing where the corporation develops a message that is tested and then rolled out as part of a campaign. Persuasion in a deliberative context anticipates an attempt to change stakeholder attitude as part of a two way dialogue. This distinction is contemplated in the etymological root of persuasion, "persuadere," and has implications on the development of moral legitimacy.

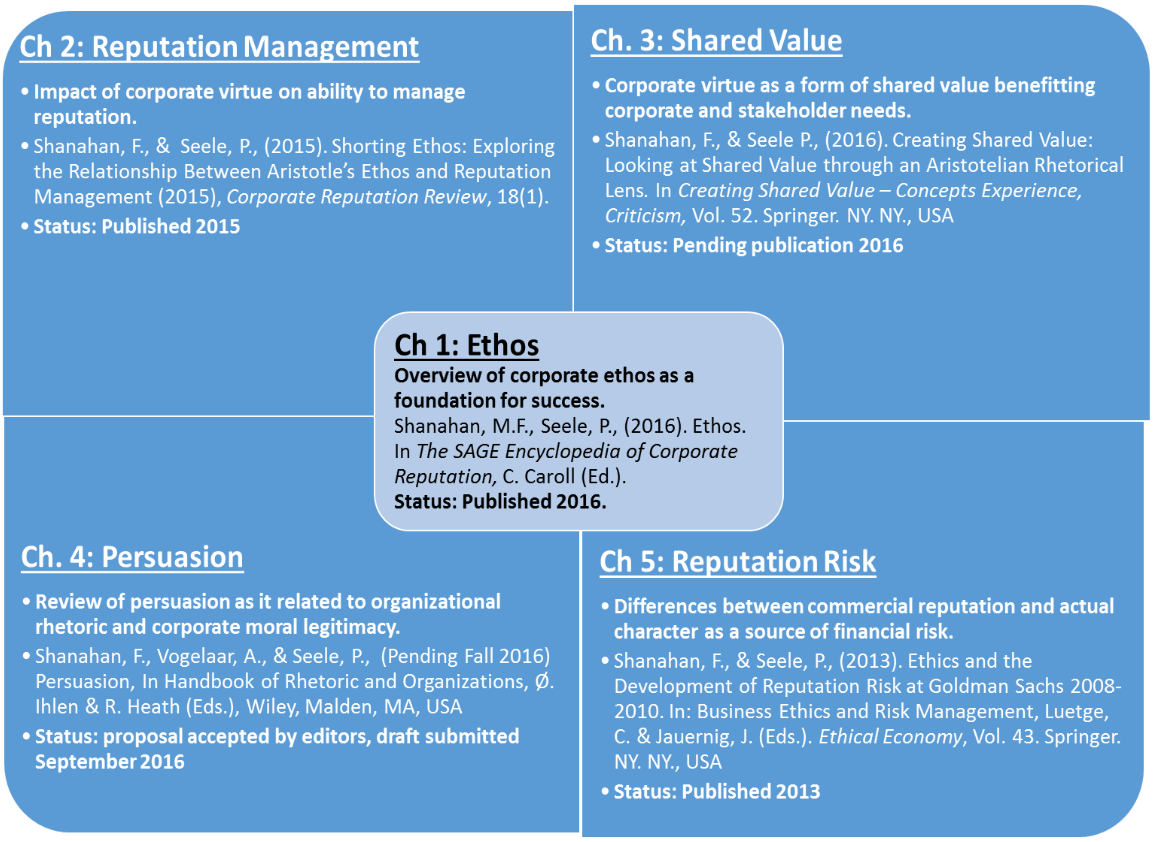
4. Corporate Reputation

Reputations are the perceptions that people have of other people and organizations. Reputations are held by the various stakeholders, and can be influenced heavily by a single act, but more commonly are based on the perception of behaviour over time. In the case of a corporation, a reputation is not reflective of any single person's actions, but rather the perception of the collective decisions and actions the organization takes over time in the commercial process but also outside of the commercial process. Corporations commonly have multiple reputations in view of the fact that the various stakeholders (such as customers, employees, investors, local communities) may have differing perceptions or opinions of the corporation's behaviour. A good corporate reputation can be a strategic asset, allowing higher pricing and attracting investors and quality talent. While reputations are based on past behaviour, they can be reflective of future behaviour and constitute up to 70% of a corporations overall market value.

5. Shared Value

Shared value is an economic theory which proposes a more sustainable version of capitalism where corporations seek opportunities in areas that benefit the broader society as well as shareholders. By reconceiving the products and services that they provide, businesses would develop markets with ample commercial opportunity which are mutually beneficial, and reduce involvement in markets that are antagonistic (Porter and Kramer, 2011). The theory builds on concepts such as corporate social responsibility (CSR), but argues that the social duty mandate which CSR is founded upon often conflicts with corporate machinery and leads to mixed results. Whereas a focus on opportunity is in line with shareholder mandates and corporate purpose. The theory has been widely applauded by numerous large corporations, but struggles in defining specifically what types of programs qualify as "shared value."

6. Graphical Abstract



7. Structure of the Thesis

At its core, the thesis focuses on corporate character and one of its main components, virtue, and investigates how these concepts are integrally involved in many of the day to day activities of the corporation at a time when information travels at unprecedented speed, volume and patterns.

Chapter I first provides an overview of the concept of corporate ethos or moral character and positions it in the context of the modern corporation as an actor in the competitive global marketplace.

Chapter II traces the relationship between virtuous conduct and corporation reputation management. It proposes that virtue is not only intrinsically beneficial, it can be a competitive advantage in the competitive marketplace in terms of corporate reputation, which is increasingly viewed as a valuable asset. Management decisions that are virtuous, practically wise, and mindful of others, will foster the development of, and reflect, a strong corporate ethos among its stakeholders. Corporations routinely rely on persuasion to be effective and successful, from advertising to sales, to employee relationships. Persuasion is also a critical tool in corporate reputation management, particularly in the event of a scandal.

Chapter III then proposes corporate virtue as a form of Shared Value. This chapter argues that virtuous conduct is not only beneficial to the corporation via persuasion as mentioned above, but also through the social recognition. Corporations are social creations and exist in a social environment. While profitability appears to be the end game for corporations, creating value in the community in which corporations exist is in fact the higher goal (Pies et al., 2014). Creating value is more complex than profitability, and requires a more in depth contribution to society through conduct that is acceptable according to moral standards. Virtuous conduct benefits stakeholders via more honest and altruistic behaviour, thus meeting the definition of Shared Value.

Chapter IV explores the concept of persuasion at a higher level, particularly as it can be related to organizational rhetoric and corporate moral legitimacy. Persuasion has likely been around since the beginning of communication, but the study of it began in ancient Greece as a desire to better understand how it can influence decision-making in democratic governance. The process of persuasion was renewed interest following the use of rhetoric in WWII, and the developing consumer markets of the 1950s. The chapter reviews significant theoretical development during this time, and then proposes that more emphasis should be placed on persuasion in the deliberative context involving two way communication as opposed to traditional instrumental persuasion and the use one way communication in marketing and advertising campaigns

Chapter V reviews the development of reputation risk as a source of financial risk. Reputation risk develops when the reputation of a company on topics such as quality, trustworthiness, reliability exceeds the actual character of the company. When the difference is revealed, commonly through some form of a crisis, the corporate reputation as an intangible asset can be subject to a decrease in value. With reputations now serving up to 50% of corporate value, the decrease in such an asset can be remarkable if not a threat to corporate existence.

Through these main components, the thesis demonstrates virtue plays a critical role in reputation development and management. Non-virtuous conduct by managers not only can cause reputation risk, the same conduct can reduce a corporation's ability to try to repair reputational damage done in the scandal. The thesis then argues that corporate virtue is a valid form of Shared Value, an economic theory developed by Porter and Kramer (2011) that proposes reconceptualising economic activity in a way that simultaneously benefits corporations and their stakeholders to minimize the antagonistic relationship and promote sustainability. Later, the thesis reviews persuasion is a critical tool in organizational communications and rhetoric. Lastly the thesis uses the Goldman Sachs reputational crisis to demonstrate and articulate how reputation risk can develop and be minimized.

Chapter I: Ethos

Manuscript Published

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ETHOS

Ethos is a Greek term commonly translated as moral character. It was initially discussed in the context of an individual's moral character, but has also been used in a more modern context to describe a group's or even a corporation's collective moral character. Ethos is established through habit, as viewed though a pattern of behavior, as opposed to any single act. This pattern becomes a component of reputation, including corporate reputation. According to Aristotle in his seminal text, *On Rhetoric*, ethos is also one of three artistic proofs critical to persuasion. This entry reviews the components of ethos according to Aristotle and the concept of "corporate ethos." The entry then discusses the role that ethos plays in corporate reputation. Lastly the entry reviews the corollary ways in which ethos can have an impact on a corporation's persuasiveness relating to advertising and reputation management.

1. Components

According to Aristotle, *ethos* is heavily influenced by three primary components; *arête* (virtue), *phronēsis* (practical wisdom), and *eunoia* (goodwill).

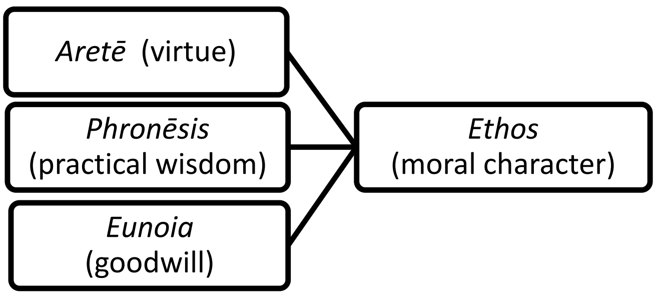

Figure 1 ***Ethos*** **as presented in Aristotle's** ***On Rhetoric***

Source: Shanahan, M.F. and Seele, P, (2015) Shorting Ethos: Exploring the Relationship between Aristotle's Ethos and Reputation Management. *Corporate Reputation Review* 18(1), 37–49, page 39.

Aretē refers to a person's capacity to make virtuous or sound moral judgment. According to Aristotle in *Nicomachean Ethics*, a virtuous person makes correct moral judgments by evaluating what is morally relevant in a given context and applying practical wisdom in pursuit of the following a virtuous act or decision. A virtuous act is one that finds the mean between two vices: excess and deficiency. For example, in the area of confidence, cowardice is deficient and recklessness is excessive, while courage is the mean, or the virtue. Likewise in the area of honesty, self-depreciation is deficient and boastfulness is excessive, while truthfulness is the mean, or the virtue. A virtuous person acquires this framework through training and cultivation.

The second component of ethos is *phronēsis, or practical wisdom*. The third component is *eunoia*, a person's goodwill compassion for others. Collectively, virtue, practical knowledge and goodwill, form an "ethos." While the concept of ethos was initially developed in the context of an individual, and the search for eudemonia, the term is now commonly used in reference to groups, societies and even corporations, in view of their collective moral character.

These traits are demonstrated through habitual behavior form an ethos which is located in individual, or group, but it is a social construct in that it is connected to what is culturally relevant at a given point in time within a community.

2. Corporate ethos

Corporations develop and display ethos through their decisions, acts and stable traits, as displayed over time. Cultivation of a corporate ethos can be honed, similar to the individual craftsmanship proposed by Aristotle, but the decisions are formed by those responsible for organizational strategy and decision-making, as opposed to any one individual. These collective decisions are more decentralized and difficult to control and cultivate than in an individual. Similar to the ethos of an individual though, corporate ethos is not a result of accidental or individual acts, and can be tested when faced with a highly visible ethical dilemma.

As is the case with individual ethos, corporate ethos is enhanced by the presence and demonstration of practical wisdom or expertise (*phronēsis*) and goodwill (*eunoia*). Corporations often demonstrate *phronēsis* through their industrial knowledge, specialization, and success, and *eunoia* through altruism such as corporate social responsibility.

3. Brand / Reputation / Reputation Risk

In the corporate context, ethos or moral character is becoming an increasingly important pursuit in view of its connection to corporate reputation. Good reputations allow higher pricing and increased sales, and customers are more likely to purchase from a broader spectrum of products from a trusted company. A company with a good reputation attracts employees with higher qualifications and investment, allowing more sustainable growth and lower cost of capital. Most corporations therefore strive to develop a good reputation, which is considered to be a highly valuable and strategic asset. In fact it is estimated that 70% or more of a company's market value can be attributed to intangible assets such as goodwill, brand, reputation and intellectual capital. If there is a difference between a reputation and the actual ethos, or character of a company, then the company may be exposed to reputational risk. Reputational risk, and management thereof, has become an increasingly common topic particularly following the 2008 recession.

4. Persuasion

In rhetoric, ethos also plays an important role as one of the persuasive appeals. According to Aristotle, a speaker's persuasiveness depends on the audiences' perception of (*ethos)* along with the effective use of *pathos* (emotion) and *logos* (logic). Of these three components, Aristotle perceived *ethos* to be the most important. Following Aristotle's rhetorical theory, corporations with a more robust *ethos*, who properly employ logic (*logos*) and emotion (*pathos*) in their messaging will be more persuasive. Corporations use a mixture of dialogue, persuasion, coordinated messages and corporate silence to influence stakeholders; however, persuasion is most likely the most important component. The following diagram therefor summarizes the role of ethos in corporate reputation management.

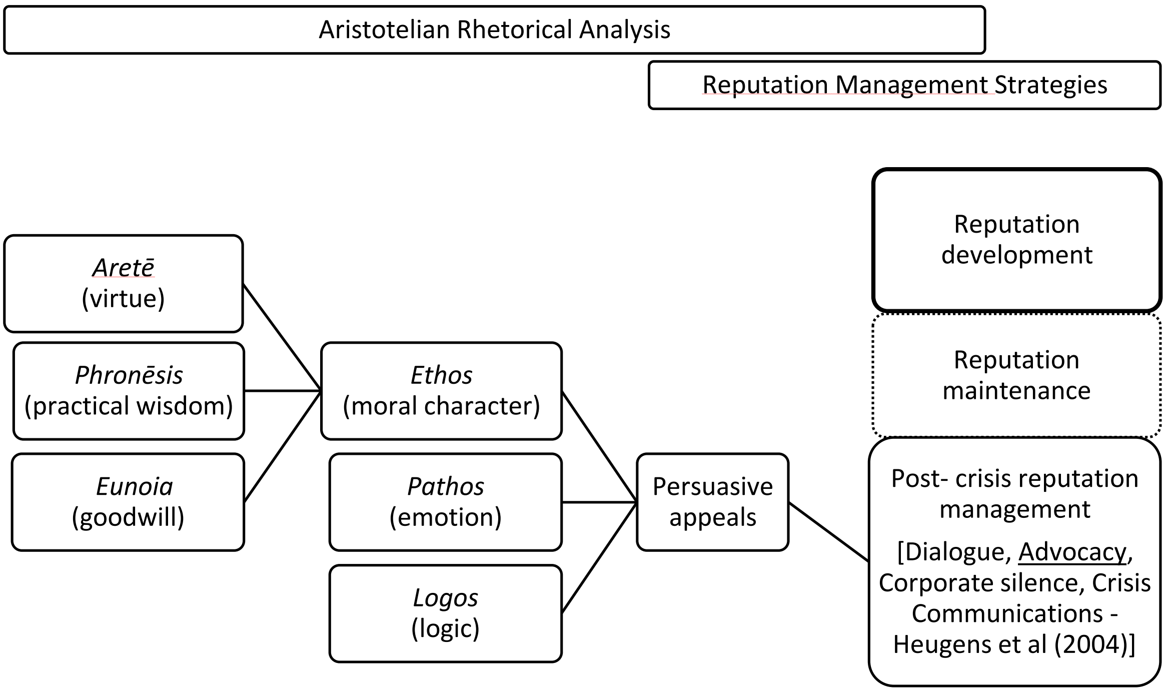

Figure 2 Ethos' role in corporate reputation management strategies

Source: Shanahan, M.F. and Seele, P, (2015) Shorting Ethos: Exploring the Relationship between Aristotle's Ethos and Reputation Management. Corporate Reputation Review 18(1), page 45

In sum, corporations rely on persuasion, and hence their ethos, for many purposes including advertising, convincing shareholders, seeking capital, managing reputation, as well as the management of reputation risk. Corporate ethos, or moral character, not only plays a large role in regards to reputation, commonly one of a corporations most important assets, but also in regards to a company's ability repair its reputation in view of ethos' role in persuasion.

See also Ethical Business Practice; Ethics of Reputation Management

Chapter II: Shorting *Ethos*: Exploring the Relationship Between Aristotle's *Ethos* and Reputation Management

Manuscript Published

Shanahan, Ford; Seele, Peter (2015), Shorting Ethos: Exploring the Relationship Between Aristotle's Ethos and Reputation Management (2015), Corporate Reputation Review, 18(1).

Manuscript presented at EBEN Research Conference, Munich 2011

Abstract

While Aristotle's ideas in the area of virtue ethics are considered to be among the most prominent in the field, less attention has been given to one of his most crucial and significant texts, *On Rhetoric*, and the role that virtue plays in reputation management. This article explores the role that virtue plays in moral character, or *ethos*, which is a critical component of persuasion according to Aristotle. It then identifies how persuasion is critical to reputation repair according to current reputation management theory, and demonstrates how Aristotle's theories on virtue and *ethos* underpin many substantive and procedural recommendations for corporate reputation management. We therefore argue in this paper that being "short" on *ethos* can not only lead to an ethical crisis and reputational damage, it can have a material impact on a corporations ability to be effective in recovering from reputational damage.

Key words:

Aristotle, Virtue Ethics, Rhetoric, Persuasion, Reputation Management

1. Introduction

This article explores the role of virtue in post-crisis corporate reputation management. While Aristotle's ideas in the area of virtue ethics are considered to be among the most prominent in the context of business ethics (Beauchamp and Bowie, 2005; Bowie and Werhane, 2005; Bragues, 2006; Sison, 2006; Hartman, 2008; Provis, 2010; Schudt, 2000), fewer in the field discuss one of his most crucial and significant texts, *On Rhetoric*, and the role that virtue plays in *ethos*, or "moral character" (Arist. *Rhet* I.2,1356a) particularly as it relates to corporate reputation. Although Aristotle developed his concept of *ethos* out of an interest in the art of persuasion (how speakers adapt to and become effective with diverse audiences), the concept is no less powerful in today's corporate context. An ethical scandal can have a crippling damage on a corporation's reputation. In this paper we hold that Aristotle's ideas on *ethos* and persuasion may prove insightful.

There is general agreement that allegations of dishonorable, corrupt or otherwise non-virtuous behavior can lead to reputational damage; however, less attention has been given to the ways in which corporate character may also impact a corporation's ability to repair its reputation once damage has occurred. Aristotle's concept of *ethos*, which he maintained was a fundamental component of persuasiveness, provides an interesting lens through which we might explore the connection between allegations of unethical behavior, persuasiveness, and reputation-repair. This article is a conceptual exploration inspired by recent corporate reputational crises related to financial and accounting issues (Enron, HealthSouth, Parlamat, Tyco, Worldcom or Goldman Sachs), or environmental issues (BP, Shell) or social issues (Apple/Foxconn, Walmart).

We may take the Parmalat case as an example: in 2003 the Italian company went bankrupt with a 14 billion Euro deficit. Before the reputation of the company was affected, a manager of the company was reported to have told the comedian Beppe Grillo, that the level of debt outweighed annual revenues. The comedian used this information in one of his shows, but the public did not respond to the information. Two years later the Italian stock exchange supervision cited discrepancies. The company reacted with claims for compensation for this reputational damage and at the same time did not pay farmers in Nicaragua and Italy. Later accusations of fraud were raised by the Italian prime minister and the founder of the company, Calisto Tanzi was sentenced to jail for ten years. This case indicates the strategy of a counter attack of a company against legal claims of fraud instead of proactively working on the restoration of the corporate reputation. A second case, where a company went 'short' on its reputation can be seen in the investment bank Goldman Sachs: In their 10k annual report of 2008 to the U.S. securities and exchange commission (SEC), the bank reported on reputational risk due to adverse publicity. Also here, the company was accused of fraud by selling financial products to clients and at the same time going 'short' on the very same investment and making fun of their clients (Seele and Zapf 2011). Hence, the paper approaches the subject of reputation management by reviewing Aristotle's concept of virtue, as a component of *ethos* and the role it plays in persuasion, followed by a discussion on the role of persuasion in substantive and procedural reputation repair strategies, according to Heugens et al (2004). The article argues in the following that Aristotle's concept of virtue may in fact underpin many of the current reputation repair strategies, which demonstrates the importance corporate character. As reputation is such a critical component of modern corporate value, it provides another lens to view the role of virtue in corporate performance.

2. Reviewing Virtue, *Ethos*, Persuasion and Reputation Management

2.1. Virtue in corporate persuasion

2.1.1. The role of virtue in persuasion

According to Aristotle in *Nicomachean Ethics*, a virtuous person makes correct moral judgments by evaluating what is morally relevant in a given context and applying practical wisdom in pursuit of the following attributes for example: courage, temperance, generosity, magnanimity, balanced ambition, gentleness, and honesty (Aristotle, 1962). The process is less objective in nature and more contextual as it defines virtue as the mean between two vices: excess and deficiency, as shown in Table 1.

Area	Defect (Deficiency)	Mean (Virtue)	Excess (Vice)
Fear and confidence	Cowardice	Courage	Recklessness
Material goods	Stinginess	Generosity	Extravagance
Anger	Apathy	Gentleness	Short temper
Honesty	Self-Depreciation	Truthfulness	Boastfulness
Interrelationships	Grouchiness	Friendliness	Obsequiousness

Table 1 Aristotelian moral values from Mintz (1996)

A virtuous person is able to find the balance between the two vices, and act in that balance; for example being courageous is the art of finding the balance between being cowardly and reckless. A virtuous person acquires this framework through training and cultivation of a decent *ethos* which yields a moral compass to be used in future decision making (Beauchamp and Bowie, 2005).

As discussed, virtue also plays a significant role in the context of persuasion through the concept of *ethos,* or moral character. These theories, found primarily in Aristotle's text *On Rhetoric*, were developed for the purpose of understanding and improving persuasive speech in the context of classical Greece where dialogue and debate served an important function in the governance of society.

Ethos is built on three components; *aretē* (virtue), *phronēsis* (practical wisdom), and *eunoia* (goodwill) (Arist. Rhet II.1,1378a) as shown in Figure II-1 below.

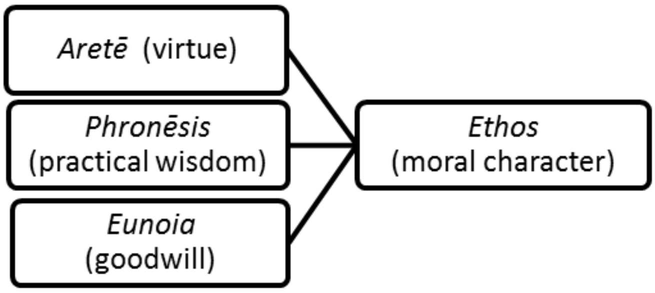

Figure 3 ***Ethos* as presented in Aristotle's *On Rhetoric***

Aretē refers to the virtuous or sound moral judgment discussed above. A wise person is perceived by the audience as having intellect and technical knowledge as an authority in the field (*phronēsis*). Goodwill (*eunoia*) is linked with a speaker's altruism or compassion for others. According to Aristotle, a speaker's persuasiveness depends on the audiences' perception of these three components in the formation of (*ethos)* along with the effective use of *pathos* (emotion) and *logos* (logic). (See Figure II-2 below)

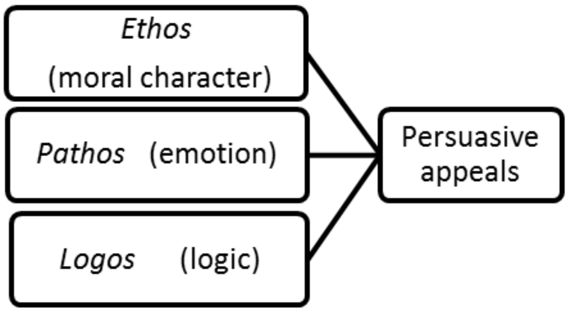

Figure 4 **Persuasive appeals**

Of the three components of persuasion, Aristotle perceived *ethos* to be the most important (Robinson, 2006). As he says in *On Rhetoric*,

> *"...character is almost, so to speak, the controlling factor in persuasion" (*Arist. *Rhet* I.2,1356a *)*

A message will be less persuasive if one of the components of *ethos* is not apparent to the listener. For example, a younger speaker may have a difficult time persuading an older audience if he or she is perceived to be lacking practical wisdom, or *phronēsis,* due to young age (Miller, 1974). Likewise an audience may be less persuaded by a speaker who conveys practical wisdom and is virtuous, but appears to be self-motivated and lacking *eunoia*. A speaker who is perceived to be less than virtuous, gravitating towards the vices of cowardice or recklessness as opposed to the mean of courage for example, will likewise be less apt to persuade an audience as well. By contrast, a speaker who is perceived to be altruistic (*eunoia*), has practical knowledge (*phronēsis),* and is virtuous (*aretē*) will portray a stronger *ethos* or moral character. In conjunction with the effective use of *pathos* (emotion) and *logos* (logic), this speaker will have the rhetorical advantage.

In connecting these sections, it can be seen that virtue plays a role in persuasion through its role in *ethos*, as summarized in Diagram 3 below.

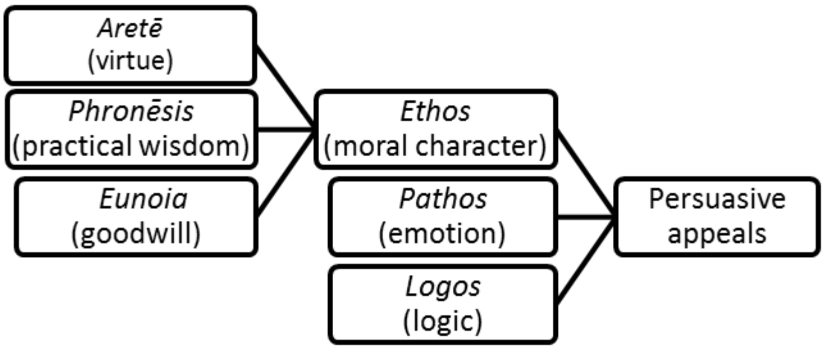

Figure 5 Virtue's role in persuasion through its role in *ethos*

2.1.2. Organizational virtue and persuasion

Although virtue and *ethos* were traditionally discussed as individual characteristics, they are now being assessed in the corporate character as well, which provides the stage for the current paper. Corporations today have a character that is developed and displayed through their interactions over time with the various stakeholders including the broader society. The concept of “organizational virtue" was initially explored by Solomon (1992), with subsequent research being well-summarized by Chun (2005) who reviewed the broad list of virtues, both moral and non-moral, identified by researchers in the corporate context. Some of the most commonly cited virtues in the corporate environment in fact stemmed from Aristotle’s list of cardinal human virtues (Dyck and Kleyson, 2001; Martinson, 2000).

Moore (2005a and 2005b) proposes that corporations develop and display virtue via institutional craftsmanship. Similarly, Murphy (1999) proposes that corporate virtue is demonstrated through a corporation’s behavior in the community, and the stable traits perceived over time.

As in the context of the individual, corporate virtue reflects an organization’s capacity to make decisions that find the mean between two vices; for example acting courageously as opposed to cowardly or and recklessly, or truthful as opposed to self-depreciative or boastful. Similar to individual character, corporate character or ethos will be reflective of a pattern of such decisions over time, as opposed to an individual act. In the corporate context, this pattern stems from decisions by a set of people developing organizational characteristics (Chun, 2005) as opposed to any individual person. Thus organizational character, *ethos*, is a more decentralized phenomenon than individual ethos, and therefore more difficult to control or rectify if necessary.

It has been argued, however, that virtue lacks linguistic and substantive meaning in modern society (MacIntyre, 1984). According to MacIntyre, Aristotelian virtue theory provided context and meaning to virtue only through the concept of *telos*: a meaning or purpose in life. He argued that the Enlightenment’s abandonment of Aristotelian virtue ethics, and in particular the concept of *telos*, left the concept of virtue outside of a substantiating context and therefore with less meaning and actual effect (MacIntyre, 1984). Substantively, questions regarding the role of ‘virtue’ in the corporate world have also led the term to be “overused and abused” (Solomon, 2003, p.57), paralleling

MacIntyre's claim that virtue lacks meaning in society today. Furthermore, in the corporate context, concerns have been raised that reward systems and the need to satisfy short-term shareholder goals often place virtue low on the organizational priority list.

Nonetheless, research today indicates that virtue is extolled in the practice of management (Whetstone, 2003), and can have substantive meaning similar to the role of *telos* through the concept of craftsmanship (Moore, 2005). It has also been argued that virtue is inherent in the role of intuitive, complex corporate decision-making (Provis, 2010). Research has also linked virtue to profitability (Arjoon, 2000), however attempts to inculcate virtue in the corporate context through its benefits are often exposed to the allegation that it misses the point of ethics in the first place (Jensen, 2008).

Chun (2005) empirically tested the role of virtue ethical character, both financially and non-financially, at the organizational level as a means of operationalizing virtue so it were more readily available for managerial application. Her research enumerated the following specific traits that can be characterized as "organizational virtues;" integrity, empathy, warmth, conscientiousness, courage and zeal, and demonstrated their link with positive business outcomes. She proposed that organizational virtue could be developed and sustained via discipline and practice (Chun, 2005), which could theoretically fill the void identified by MacIntyre (1984).

In addition to organizational virtue, corporate *ethos* is enhanced via the perception of wisdom (*phronēsis*) and goodwill (*eunoia*). Corporations often demonstrate *phronēsis* through their business savvy and specialization, and *eunoia* through altruism such as corporate social responsibility. A corporation that demonstrates virtue, practical wisdom and goodwill to others will likely be perceived to have a stronger *ethos* and rhetorical advantage than a corporation that is either entirely self-serving or inept. Under an Aristotelian rhetorical analysis, corporations that convey a stronger *ethos*, and use logic (*logos*) and emotion (*pathos*) will effectively be more rhetorically persuasive.

Today, rhetoric and persuasion extend far beyond the halls of Athens. "As persuasion itself enters into nearly every aspect of social life, rhetoric is omnipresent" (Robinson, 2006 p.7). It is also perceived as a means to victory (Fortenbaugh, 1992) and therefore is crucial to the competitive business environment (Kallendorf and Kallendorf, 1985). Corporations rely on their ability to be persuasive to be competitive. Whether convincing customers that their products are better than the competitors', convincing shareholders to invest capital, or managing employees, corporations rely on their ability to be persuasive every day to all their stakeholders (Freeman, 2001). In his article "The Necessary Art of Persuasion" in the *Harvard Business Review*, J. Conger (1998) discusses the importance of persuasion in the business context, drawing parallels to Aristotle's theories on rhetoric. He identifies four essential steps to the development of persuasiveness: establish credibility, frame for a common ground, provide evidence, and connect emotionally. The roles that *ethos, pathos,* and *logos* play in this strategy are evident. Furthermore, he identifies credibility as the "cornerstone of effective persuading…" (Conger, 1998, p. 90.) Credibility depends on "expertise and relationships," where the relationship is built on integrity and the ability to be trusted to listen and work in the best interest of others (Conger, 1998, p. 88), which match the concepts of *aretē, phronēsis,* and *eunoia*.

In sum, organizations can develop and portray a sense of virtue through their connections with stakeholders. This characteristic can have an impact on an Organizations capacity to be persuasive.

2.2. Persuasion as a tool in effective corporate reputation management

While virtue and persuasion likely play a role in several aspects of reputation management, such as reputation development and maintenance, this paper will focus on the role that virtue and persuasion play in post – crisis corporate reputation management. The following section starts by reviewing the importance of corporate reputation, and how persuasion is a critical tool in managing corporate reputation after a crisis occurs.

2.2.1. Corporate Reputation

Reputations are developed through people's perception of previous behavioural patterns; however, their value is in the predictability of future behaviour (Clardy, 2005; Scott and Walsham 2005). A good reputation can be based on a track record of good quality service or products, or in its managerial code of conduct, and gives stakeholders the framework to believe that it will continue to do so in the future (Fombrun, 1996). Good reputations are positively linked to higher pricing (Klein and Leffler, 1981; Shapiro, 1983) and increased sales (Shapiro, 1983). Customers of reputable corporations often buy a broader spectrum of products and services (Eccles et al., 2007). A good reputation can also attract more qualified employees and investors, and therefore lead to more sustainable growth with higher price-to-earnings ratios and lower cost of capital, keeping expenses down (Fombrun and Shanley, 1990; Eccles et al., 2007; Rayner, 2001). As such, most corporations strive to develop a good reputation (Eccles et al., 2007; Rayner, 2001), which is considered to be a highly valuable and strategic asset (Economist, 2005; Fombrun, 2001). A poor reputation, on the other hand, can reduce revenues by sending customers to competitors and generating low levels of regard from investors (Fombrun, 2001; Hammond and Slocum, 1996).

Corporations often have more than just one reputation, but rather several reputations among the various stakeholders. Stakeholders are defined broadly as a "group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p.46). In the corporate context, stakeholders often include customers, investors, regulators and the broader community. According to Clardy (2005), corporate reputation in each group is likely to be a simplification of complex behaviours over time.

It is difficult to identify the exact value of a reputation (Fombrun, 2001), and the relationship between reputation and market value is complex (Heugens et al., 2004). Nonetheless, it is estimated that up to 70% of a company's market value can be attributed to intangible assets such as goodwill, brand, reputation and intellectual capital (Eccles et al., 2007; Neufeld, 2007; Weber-Shandwick, 2006).

Despite the value that a corporate reputation can have, many firms take their first steps in managing risk associated with reputation only after a crisis begins, and with a particular emphasis on the immediate needs of protecting the reputation through public relations (Sims, 2009). A crisis is broadly defined as an event that has a low probability of occurrence (Pearson and Clair, 1998), but often a potentially large impact on an organization's reputation among stakeholders (Pearson and Mitroff, 1993; Fink, 1986). Crises in the corporate context come in many forms; but they often involve a violation of a societal norm or expectations (Coombs and Holladay, 2001). They also often have an element of surprise, are not completely within control of the relevant corporation, but require an immediate response from the corporation (Pearson and Mitroff, 1993; Stephens et al., 2005).

While acknowledging that much emphasis in reputation risk has been focused on its precedents and consequences, there is value in understanding why some corporate reputations are more durable to external shocks than others (Lurati and Mariconda, 2012). Factors that affect reputational robustness include reputation consistency across stakeholder groups, the level of discounting already incorporated into the reputation, stakeholder familiarity, personal interaction, distinctiveness, historical character, accuracy of reputation, etc (Lurati and Mariconda, 2012).

As reputation is a perception of character, managing reputation incorporates management of character as well as management of perception. Public relations and corporate communications play a strategic role in managing reputation with stakeholders and their perception of the corporation (Steyn, 2003; Fombrun, 2001). During a crisis, corporate response requires the use of strategic communication and corporate discourse to rebuild legitimacy (Allen and Caillouet, 1994; Ray 1999). These efforts focus on modifying the perception that stakeholders have of the organization's responsibility regarding the crisis, and managing the impressions they have (Coombs, 1999). How they respond to crises can have a material impact on their ability to restore their reputation after the crisis (Sims, 2009). Failure to successfully build legitimacy and receive support / approval from shareholders may in fact jeopardize the organization's future in general (Erickson et al., 2011).

Thus, corporations develop reputations over time through interactions with stakeholders, and have been recognized as valuable intangible assets. This is particularly also true for supplier relations as the Apple/Foxconn case has shown (Xu and Li 2013), where the supplier's responsibility and reputational damage has also affected the business-to-consumer company Apple (Seele 2012). Despite the vested interest that corporations have in managing their reputation, it is not uncommon for corporations to take a reactive approach to reputation management, only after a crisis has reputational crisis has developed. The following section discusses the substantive and procedural steps that are widely accepted and applied in reputational restoration literature.

2.2.2. Communication Strategies to Manage Corporate Reputation

One of the more prominent theories regarding substantive strategy, or specific messages that corporations use, in restoring reputation is Benoit's theory of restoration, (1995); (Erickson et al., 2011). In this theory, Benoit proposes five image-restoration strategies: denial, evading responsibility, reducing the offensiveness of the act, taking responsibility, and mortification (Benoit, 1995). Coombs (1995) builds on this theory and offers a framework to see what types of messages are most commonly used by corporations in crisis. The most common subjective strategies identified by Coombs include:

- Nonexistence : where the firm attempts to convince stakeholders that a crisis does not exist, either through simple denial, intimidation or clarification
- Distancing: acknowledge the crisis but make excuses to weaken the link between damage and the firm's responsibility
- Ingratiation: bolstering the image of the firm
- Mortification: convince stakeholders that the firm should be forgiven
- Suffering: characterize the firm as the victim (Coombs, 1995)

Attempts to restore reputations are often dependant on the audience, or various stakeholder groups (investors, government, community, clients), catering the strategies to each group (Allen and Caillouet, 1994). Stephens et al. (2005) found there to be a surprising lack of consistency within corporate messages to their various stakeholder groups, however, potentially leading to a sense of disenfranchisement among some groups.

Overall, the most common strategies used by corporations are mortification and ingratiation (attempting "to gain forgiveness and or gain public approval"), accounting for 63% of the results (Stephens, Malone and Bailey, 2005) . The subcategory of rectification, taken as an organization's attempt to convince stakeholders that such a crisis will not happen again, was the most common subcategory (Stephens et al., 2005, p.407). Allen and Caillouet (1994) also confirmed that the most effective strategy was ingratiation: using belief, values and attitude similarity to persuade the recipient of the organization's positive traits and gain approval 'Accommodation,' such as the use of an apology can be very effective in rebuilding trust (Benoit, 1995). However, accommodation can be problematic in light of potential legal and financial liabilities that it may invite (Coombs and Holladay, 2002). Coombs and Holladay (2002) therefore developed the Situational Crisis Communication theory in an attempt to provide guidance on the appropriate level of accommodation under various crisis scenarios, limiting unnecessary exposure to liability while maximizing the reputational gain (Coombs and Holladay, 2002). They found that when the organization appears to be a 'victim' there is little reputational threat, and as such accommodation should be used sparingly. An unintentional accident will have greater reputational implications than when the corporation is the victim. However, if the crisis is perceived as preventable and the organization is perceived as responsible for the crisis, there is a greater threat of reputational damage (Coombs and Holladay, 2002). Higher levels of responsibility require more accommodating responses such as corrective action and apology, preferably in ways that limit additional liability exposure (Benoit, 1995).

The level of responsibility and potential damage to reputation also depends on other intensifying factors such as an organization's history with similar crises in the past, and the quality of interactions between the organization and the stakeholders (Coombs and Holladay, 2001). Stakeholders are also more likely to believe and forgive an organization that had high pre-crisis credibility (Coombs, 1999).

Heugens et al. (2004) helped identify the procedural means by which firms commonly convey their chosen subjective response regarding reputational threats to stakeholders:

- Dialogue. Engaging in a cooperative dialogue with relevant stakeholders to build trust. This involves bringing parties to the table to communicate key information and encourage discussion.
- Advocacy. Using persuasion to present the organizational view favourably in the eyes of the external stakeholders. This includes the use of "persuasion oriented public affairs plans" (p. 1363), rhetorical skills, and propaganda.
- Corporate silence. Avoiding organizational ownership of critical reputational threats
- Crisis communication. Developing protocol to communicate meaningfully with affected parties, even under the conditions of high adversity and time pressure.

Repairing a firm's reputation following a crisis may be influenced by several factors including: multidimensionality of reputation, organizational age, diversity of market segments and third parties (Rhee and Valdez, 2009). These factors may affect both the perceptions that stakeholders have of the firm as well as the degree to which the faults are visible (Rhee and Valdez, 2009). The stakeholder plays an active role as well. Where traditional rhetorical theory focused primarily on the speaker and the production of the message, recent theories also look at how the listener processes information to better understand message reception (Benoit and Smythe, 2003).

The above reputation-management literature indicates that firms manage reputational crises through deliberate communication channels and strategic messages which employ persuasion. The goal in reputation management is to persuade stakeholders to maintain the positive image of the organization or restore a damaged perception (Ray, 2007). Organizations achieve this by shaping public perception of responsibility and influencing their audience (Coombs, 1999). These efforts are time-critical, and the future of the firm can depend on the success of the initial steps.

2.3. The role of virtue and *ethos* in post-crisis reputation-management strategies

Virtue and *ethos* therefore have multiple roles in the corporate context. As proposed and focused on in this article, virtue and *ethos* play an important role in a corporation's ability to manage and repair its reputation following a reputational crisis, which is relevant to reputation management literature. As shown in diagram 4 below, virtue can be linked to successful post-crisis reputation management through its role in *ethos*. According to an Aristotelian analysis, persuasive capacity is dependent on the deployment of emotion and logic in a message, in conjunction with the audience's perception of the speaker's moral character. As persuasion is an important tool in Heugens et al. (2004)'s strategies for reputation repair via the use of advocacy, it is clear that moral character and hence virtue play a material role.

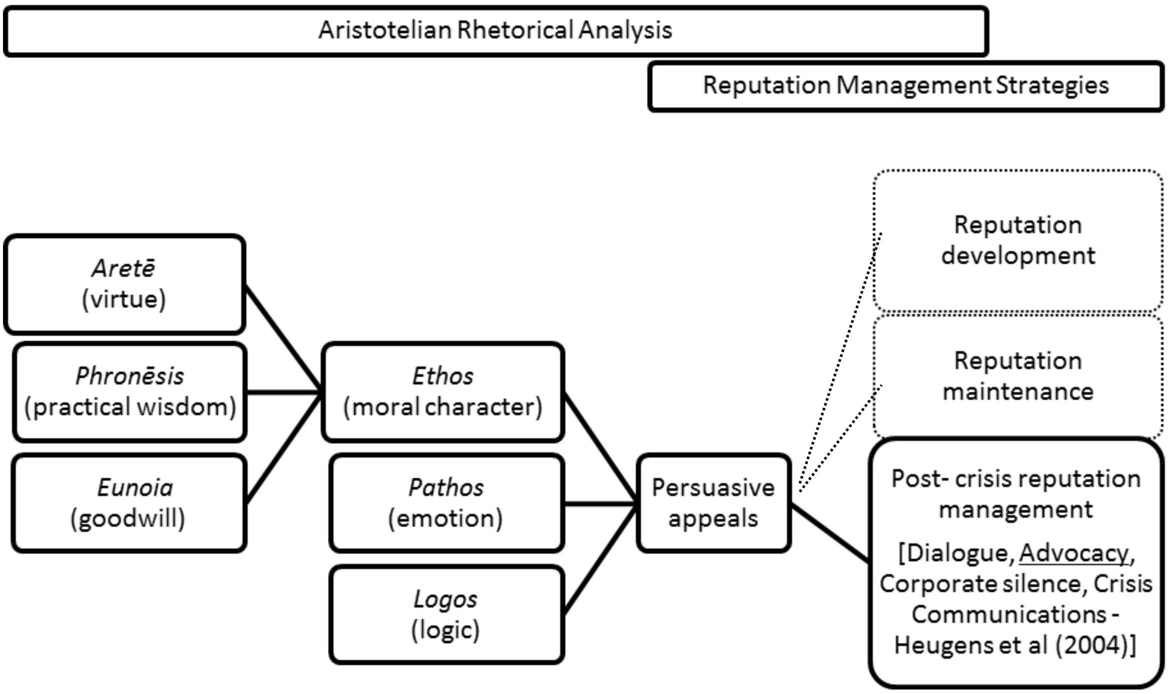

Figure 6 Virtue's role in corporate reputation management strategies

By way of example, a corporation that is normally perceived to be trustworthy which is alleged to have acted in a non-trustworthy manner, may suffer from reputation risk or a reputational crisis among key stakeholders. This became a common concern among corporations involved in accounting scandals, where corporate representations that were once taken on face value were suddenly questioned and undermined. For example, when it was revealed that certain corporations such as Enron were using off balance sheet finance vehicles to generate artificial revenues, a level of trust with stakeholders was erased. In the more recent Goldman Sachs reputational crisis of 2008, the firm was accused of misleading its clients and investors in regards to financial products. This paper argues that this lack of trustworthiness not only caused the reputational damage, but tempers the corporation’s ability to restore its reputation through advocacy as cited by Heugens et al (2004).

Likewise, this theory suggests that a corporation perceived to be generous will be more persuasive than those perceived to be either stingy or extravagant. According to an article in Forbes Magazine, Wells Fargo, Walmart, Bank of America and Chevron are among the most charitable companies among the Fortune 500 in 2012 (Smith, 2013). Stakeholder awareness of this charitability would influence corporate ethos, and persuasive capacity in the event of a crisis.

The theory also suggests that a company perceived as courageous will be more persuasive among stakeholders than one that is perceived to be reckless or cowardly. While the concept of corporate courage lacks clarity, examples of courage may include boardrooms that are reluctant to face or acknowledge accounting scandals. The willingness to face the problem head on, if perceived as courageous by stakeholders, could contribute to post-crisis persuasion. This concept would coincide with the effectiveness of ‘Accommodation’ in rebuilding trust, as described by Benoit (1995).

While this paper does not investigate other components of ethos, this theory supports the notion that evidence of corporate *Phronēsis* (practical wisdom) and *Eunoia (*goodwill) have an impact on persuasive capacity as well. The connection between corporate goodwill in the form of corporate social responsibility, and persuasion, is worth exploring and will likely be the subject of future research. While corporate social responsibility is often demanded from a moral perspective, yielding intrinsic rewards, any connection to performance in the form of persuasion should be examined.

In managing their reputation, corporations often employ a combination of dialogue, advocacy, coordinated messages and corporate silence to influence stakeholders (Heugens et al., 2004), however advocacy is the underlying tenant of the strategic communication. As described by Heugens et al, (2004) advocacy requires the use of persuasion in presenting the organizational view in the most positive light including "persuasion oriented public affairs plans" (p.1363). According to Aristotle, persuasion is dependent upon *ethos, pathos* and *logos*; however, to the degree that a crisis challenges the reputation of trustworthiness among stakeholders, the *ethos* or moral character of the organization would be diminished among stakeholders. The corporation may still be perceived to possess wisdom and altruism, but if the organizational virtue is damaged among stakeholders through allegations of untrustworthiness, the moral character of the corporation, and hence the persuasive capacity of the corporation during the use of advocacy, may be diminished.

After suffering from extensive reputation damage following extensive allegations of fraud, the value of Goldman Sachs stock tumbled $21 billion in less than one week (Bowley, 2010). Six months later Goldman Sachs launched a nationwide public relations campaign going beyond their traditional campaigns to investors and stockholders, and reaching to the broader society proclaiming "*Progress is what we do,"* and displaying a worker next to a wind turbine field explaining how Goldman Sachs helps with job creation a small Goldman Sachs logo in the corner (Harper, 2010). Yet it was criticized by some as unpersuasive, failing to offer evidence that the company was changing in any way to become more trustworthy (Kaplan, 2010). Thus the ethical crisis at Goldman Sachs not only caused the reputational crisis, but it hampered the corporation's ability to successfully navigate its way out of the crisis via advocacy.

As demonstrated in dotted lines on Diagram 4 above, to the extent that persuasion plays a role in the development of corporate reputation, or the maintenance of corporate reputation, virtue may be linked these aspects of corporate reputation management as well. While these areas are not the focus of this paper, these links may provide interesting subjects for future research.

3. Conclusion: *Virtue* and *Ethos* as Components of Reputation Management

Non-virtuous behavior, or the mere perception of it as in the above described case of the 10k annual report of Goldman Sachs in 2008, has a direct impact not only on corporate reputation, but more fundamentally on corporate character or *ethos*. As one of the three components of persuasion theorized by Aristotle (along with *pathos* and *logos*), well-developed *ethos* is a fundamental component of a corporation's persuasive appeal.

Though the extant literature in reputation management discusses the importance of persuasion as a tool in corporate reputation management, it has yet to connect persuasion and virtue. Aristotle's theory of persuasion in *On Rhetoric* helps us make that connection in a way that we believe is useful to the field. According to Aristotle, persuasion is made possible through appeals to *ethos*, *pathos* and *logos*. *Ethos* is constructed of *arête* (virtue), *eunoia* (goodwill), and *phronēsis* (practical wisdom). Virtue (moral character) is thus a fundamental component of *ethos* (character generally) without which persuasion is hampered if not impossible.

Corporate reputation managers and theorists increasingly acknowledge the importance of persuasion in the pursuit of effective reputation management. Rather than being an esoteric concept, reputation is increasingly being understood as a corporate asset, and an asset that needs careful management to be effective. This is where persuasion comes in. Reputation is both (potentially) a component of a corporation's persuasive appeal and alternatively requires persuasion. Reputations, as it were, do not speak for themselves. Aristotle's rhetorical appeals, intended originally to help the newly empowered citizens of the Greek polis, have much to offer the field of corporate reputation management specifically in terms of the importance of the careful craft of ethical character in corporate communication messaging.

This essay also has implications for better understanding the fallout of the recent ethical scandals in the banking and finance industry. Indeed, many of these controversies involved allegations of fraudulent or otherwise non-virtuous behavior. As argued in this paper, being "short" on ethos can not only cause an ethical crisis and reputational damage, it can have a material impact on a corporation's ability to recover from reputational damage, which impacts the bottom-line. Hence, being "short" on ethos as illustrated with the Parmalat and the Goldman Sachs cases can have important reputational, managerial and financial consequences.

Awareness of the link between virtue and the economic bottom line is relevant as it may also have an impact on managerial behavior. As the corporate world is occasionally accused of being overly insulated from the expectations of some of its stakeholders such as the broader public and interest groups, awareness of the intrinsic benefits as well as extrinsic benefits of virtuous behavior may prompt practical managerial changes potentially mending the "fractured contract between business and society" (Brigley, 1995, p. 225).

Chapter III - Creating Shared Value: Looking at Shared Value through an Aristotelian Lens

Manuscript published

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1. Introduction

While capitalism has proven to be one of the most efficient economic engines in modern history, the goal of simply pursuing profit has, according to many, left some of society's needs unmet if not further challenged. In 2006, Porter and Kramer developed the notion that corporations could and should pursue a higher goal of capitalism including "creating shared value" (CSV) as a means to improve performance and bridging the gap that developed between corporations and society (Porter/Kramer 2011). The concept was welcomed within both academia and the corporate world for the amount of energy it has generated, its potential to improve capitalism and repair what Brigley referred to as the "fractured contract" (Brigley 1995: 225). However, it is being equally critiqued for lacking in definitional clarity causing inconsistent strategy, and lacking in originality *vis-a-vis* existing concepts such as Corporate Social Responsibility (CSR). This paper proposes corporate virtue as a form of CSV, by identifying two theories which demonstrate how corporate virtue meets the definitional requirements of CSV and helps both the corporation and society fulfil unmet needs.

2. Shared Value

2.1 The promise

The concept of CSV grew out of Porter's initial contributions regarding business strategy and the perspective, that corporations were not being as effective as they could be in regard to societal obligations and opportunities (Porter/Kramer 2011). Citing the inherent interdependence of businesses and the surrounding society, they observed that in order to be successful, businesses need a healthy community and public policy which fosters growth (Porter/Kramer 2011). Conflicting views on the role of the modern corporation in society contributed to this problem: with some economists claiming that businesses should focus exclusively on profitability with little or no obligations to social or other community needs (Friedman 1970; Henderson 2001, 2005), and other economists claiming that businesses have a positive duty to society and should take an active role in addressing social needs. As to the latter, corporate social responsibility (CSR) became very popular and attempted to clarify this corporate role. CSR, haracterized as a "duty," was often perceived as being antagonistic to other corporate mandates and therefore unable to systematically improve capitalism. As a result, CSR has been adopted by many corporations, but these efforts are inconsistent and often regarded as a part of self-serving defensive strategies, employed to limit reputational risk (Beschorner 2013), rather than societal duty.

Porter/Kramer (2011) claimed that a more sustainable solution in the corporate world should focus on opportunity, as opposed to duty, and that there was ample potential to do so. They proposed that corporations should focus their energies on mutually beneficial opportunities which businesses could tap into and effect invaluable change through their "skills, resources and managerial capabilities" (Porter/Kramer 2011: 77). By reconceiving products and markets, redefining productivity in the value chain and enabling local cluster development, as outlined in Table 2 below, corporations could tap into a wealth of opportunity that would not only benefit the corporation, but society at the same time (Porter/Kramer 2011).

Table 2: Examples of Shared Value

LEVELS OF SHARED VALUE	BUSINESS RESULTS	SOCIAL RESULTS
Reconceiving product and markets:	Increased revenue	Improved patient care

How targeting unmet needs drives incremental revenue and profits	Increased market share Increased market growth Improved profitability	Reduced carbon footprint Improved nutrition Improved education
Redefining productivity in the value chain:	Improved productivity	Reduced energy use
How better management of internal operations increases productivity and reduces risks	Reduced logistical and operating costs Secured supply Improved quality Improved profitability ...	Reduced water use Reduced raw materials Improved job skills Improved employee incomes ...
Enabling cluster development:	Reduced costs	Improved education
How changing societal conditions outside the company unleashes new growth and productivity gains	Secured supply Improved distribution infrastructure Improved workforce access Improved profitability	Increased job creation Improved health Improved incomes

Source: Porter et al. (2012, p. 3)

CSV has since been adopted as an economic theory and buzzword. It has been defined as a bundle of policies and operating principles which enhance the competitiveness of a company while simultaneously advancing economic and social conditions of the communities in which it operates (Crane et al. 2013; Porter and Kramer 2011; Spitzeck and Chapman, 2013). CSV has also been adopted as a strategic goal by numerous multinational companies. Examples of reconceiving products and markets in a way that are consistent with societal needs include Intel's and IBM's innovations in digital intelligence as a means to achieve energy efficiency, and GE's ecomagination products (Porter/Kramer 2011). Examples of supply chain innovations include water reduction programs by Coca Cola and Dow Chemical, and procurement programs enabling direct local sourcing in a more efficient way. Local cluster development enabled companies to operate more efficiently through proximity (Porter/Kramer 2011).

2.2 The critique

Despite its popularity, CSV has also been criticized for lack of focus and originality. Having acknowledged the amount of positive energy that the concept had generated to reshape capitalism, Crane et al. (2014) criticized the theory for not being original vis-a-vis other existing theories such as CSR. According to Crane et al. (2014), CSV also underestimates the inherent tensions between social goals of society and economic goals of corporations. Lastly, they point out that its underlying presumptions and requirements e.g. that businesses always comply with regulatory and ethical standards (as a requirement for CSV to flourish) are naïve and unrealistic (Crane et al. 2014). Similarly, Beschorner (2013) argued that CSV is a ”one trick pony” incapable of addressing societal issues. Specifically, Beschorner (2013) challenged whether all of society's ills present proper business opportunities, and therein lies the failure of the theory.

In June 2014, Dembek et al. conducted an extensive literature review on CSV, attempting to describe the theory's current status nearly a decade after it was initially launched into the public domain. The review captured the amount of energy the theory had generated among both academia and the corporate world to revamp capitalism, but also revealed several critical flaws limiting its adoption and implementation. The authors noted the lack of a common definition across the various academic fields which is likely to affect successful implementation (Dembek et al. 2015). They identified three core characteristics of the definition of CSV which remained unsettled, relating to the means, outcomes and beneficiaries. In terms of "means" the authors point out that there is inconsistency whether CSV could just relate to a single project, or whether it requires the alignment of actions and behaviors within an organization (Dembek et al. 2015). For example, if a company adopts a program to reduce waste in a product line that would otherwise create unnecessary amounts of waste, the question is, whether this specific project would be considered as CSV.

From an organizational perspective, the outcomes include profits, access to re-sources and competitive positions (Dembek et al. 2015). On the societal side, the outcomes should focus on basic human needs (Doyal/Gough 1991), including environmental quality, health, water, education and income. Dembek et al. (2015) noted, however, that many of the examples of CSV cited in articles do not appear to cater to unmet needs, but rather convenience, such as faster shipping by Amazon for a fixed fee. While not questioning the intrinsic value of such programs, Dembek et al. (2015) point out that CSV would likely be diminished in value and remain only a buzz word if outcomes were defined so broadly that any corporate program could qualify . Lastly, Dembek et al. (2015) noted the lack of consistency in the literature regarding the intended beneficiaries of CSV ranging from corporation and stakeholders (Maltz et al. 2011), the entire value chain and society (Fearne et al. 2012), or just the corporation and one social group (Porter/Kramer 2011). There were also discrepancies as to whether the environment itself could qualify as a beneficiary independently (Dubois and Dubois 2012), or if environmental affects should be linked to certain stakeholders. Lastly, Dembek et al. (2015) questioned whether the benefit of the social group should be of higher priority in shared value than the value to the corporate, or if the two should be considered equal in weight. This lack of unison on the definition and requirements of CSV has caused complications in how the concept was operationalized (Dembek et al. 2015). Hence, as a next step we propose to apply the criteria above to look at CSV from a corporate virtue perspective, providing more of a holistic approach to the positive and negative aspects illustrated above.

3. Corporate Virtue: A Holistic Approach

3.1 Corporate Virtue

While corporate virtue is not a traditional corporate program, product or service per se, the authors propose that it is beneficial to both corporation and society in a way that it qualifies under the definitions of CSV above. Virtue, or arête, refers to moral excellence. According to Aristotle in *Nichomachean Ethics*, a virtuous person is trained to recognize the balance between two vices, and choses the balanced and "virtuous" option in the middle between the two vices (Aristotle, 1962). For example, on the subject of confidence: the two vices are cowardice at one end and recklessness on the other end. The virtuous person selects the balanced and virtuous option of courage in the middle. Similarly, in regards to material goods, the two vices are stinginess and extravagance, with the virtuous option at the balance point being generosity (Mintz 1996). Such virtuous behavior is developed through training, yielding a moral compass that can be employed in future decisions (Beauchamp/Bowie 2005). Virtue is then maintained by habituation, such that the virtuous decision becomes automatic, despite the allure of the vices.

While Aristotle's concepts were intended to be applied to individuals, the concepts today are applied in the corporate context as well. The concept of corporate virtue was initially coined by Salomon (1992), describing how corporations demonstrate virtue through stable decisions they make and actions they take as demonstrated over time, which impact other shareholders such as employees, customers, the environment, broader society. As stated by Aristotle,

> *"we become just be doing just acts, temperate by doing temperate acts, brave by doing brave acts" (Aristotle EN 1103a).*

Corporations therefore develop and display virtue via institutional craftsmanship (Moore 2005a; 2005b).

3.2 Virtue in the Creation of Value

According to Aristotle, happiness is the ultimate goal. People live in a social world and rely on social relationships. The end goal or purpose relates to one's ability to achieve happiness in this environment. According to Aristotle, virtue is critical to this path. Virtue leads to happiness via social recognition by others which requires habituation of virtuous conduct through active self-management. This ultimate goal serves as a "telos", or inherent purpose for everything, providing a compass in moral decision-making. Pies et al. (2014) argue that this principle is equally applicable to corporations, which links virtue to the concept of creating value that benefits both corporation and society, or shared value.

Corporations principally seek to make a profit, but Pies et al. (2014) argue that profit is ultimately not an end goal for corporations, or corporate happiness. Like individuals, corporations operate in a social environment; profits are just an indicator that a corporation has performed well in this social environment. Corporations enter into business relationships with other companies if there is an element of trust and the other company is perceived to be reliable (Pies et al. 2014). Companies can only charge a profit if they are perceived to have added value. While profits are important, and often appear to be the end goal, creating value is in fact the most important goal which orients corporations, similar to a telos (Pies et al. 2014).

> *"Just as Aristotle sees happiness as a signal that someone has perfected himself as a virtuous citizen, making a profit can be evidence that a company is giving more to society than it is taking from it." (Pies et al. 2014: 243)*

"Creating value" within the social environment of global society is therefore the goal of corporate self-perfection, above the simple pursuit of profits, and this requires virtue. Virtue, and its role in corporate moral decision-making, is a critical component of a corporation's capacity to achieve such happiness. Corporations are not individuals and therefore do not have the same singular capacity to demonstrate virtue, but they nonetheless demonstrate virtue via the patterns of decisions they make over time in the social environments or communities where they exist. Virtue can only be maintained through an active and healthy corporate culture that embraces virtuous conduct.

> *"Not all habits are virtuous, but all virtues are habits" (Pies et al. 2014: 236).*

However, virtue can only flourish in a society where there are collective self-commitments by other participants in the community (Pies et al. 2014). This need for a stable environment for business to operate in, with mutual commitments, motivates the corporation to participate as an active political member in the polis (Pies et al. 2014). While self-motivated, such participation also benefits society.

> *"The ideas of self-perfection and potentiality of win-win cooperation are thus complementary; my own personal self-perfections is only possible if I interact with others, thus helping them realize their own self perfection: do ut des ("I give that you might give")." (Pies et al., 2014: 237)*

Thus creating value in the community in which it operates is a higher goal for the corporation or eudaimonia. Eudaimonia can only be achieved through virtuous conduct maintained through habit and a healthy corporate environment. Because virtue can only survive in a society where there are active mutual commitments, companies are also required to play an active role in the governance of the com-munity, as well as in the management of its own corporate culture (Pies et al. 2014).

3.3 Virtue in Persuasion

Virtue also plays a more functional and direct role in the success of a company through Aristotle's concept of ethos, or moral character. Aristotle's theories on ethos were developed in part in his text *On Rhetoric*, which dissected the components of persuasion in the context of political dialogue and debate in ancient Greece, where they were critical to the function of the society. According to Aristotle, ethos consists of three main components; arête (virtue), phronesis (practical wisdom) and eunoia (goodwill). Put another way, a person's ethos was sum of his or her virtue, caring for others and practical knowledge. Ethos is a critical component of persuasion along with pathos (emotion) and logos (logic). If a speaker in ancient Greece, for example, was successful in invoking all three of these components in a message, he or she would be more effective in persuading the audience. If the speaker was able to effectively employ logic and emotion in his speech, but was perceived by the audience to be selfish (lacking eunoia as a component of virtue), he or she would be less persuasive. Similarly, if he or she was virtuous and employed logic but was unable to effectively evoke any emotion among the audience he or she would have been less effective as well. Putting all three together, as perceived by the audience, the speaker would have the best chance of persuading the audience. Thus, as can be seen in diagram 2 below, virtue plays a role in persuasion via Aristotle's concept of ethos. While this concept was developed for oral debate in ancient times, the principles in persuasion remain valid over 2000 years later, and have been adopted in the corporate context as well.

> *"As persuasion itself enters into nearly every aspect of social life, rhetoric is omnipresent" (Robinson 2006: 7).*

Whether convincing customers that their products are better than the competitors', asking shareholders to invest capital, or managing employees, corporations rely on their ability to be persuasive every day to all their stakeholders (Freeman 2001). In his article on this point, Conger identifies credibility as the "cornerstone of effective persuading [...]" (Conger 1998: 90) Credibility depends on "expertise and relationships", as evidenced by the ability to listen and work in the interest of others (Conger 1998: 88).

Corporate reputation itself has been identified as a valuable intangible asset, with up to 70% of a company's value being tied to the perception that stakeholders have (Eccles et al. 2007). Companies with good reputations benefit from more loyal customers who are in turn likely to purchase diverse products. Such companies are more likely to attract top talent. It is therefore in a corporation's vested interest to attend to its reputation (and the corporate actions which form it). From a reputation management perspective, persuasion is a critical tool, particularly in the event of a reputation-challenging crisis. The most common responses companies employ in the case of a reputational crisis are dialogue and advocacy (Heugens et al. 2004). Persuading the stakeholders to understand the company's position or facts is critical to this process. Thus, the following figure demonstrates how virtue plays a critical role in persuasion, through Aristotle's concept of ethos, and the role of ethos in the persuasive appeals (figure 2).

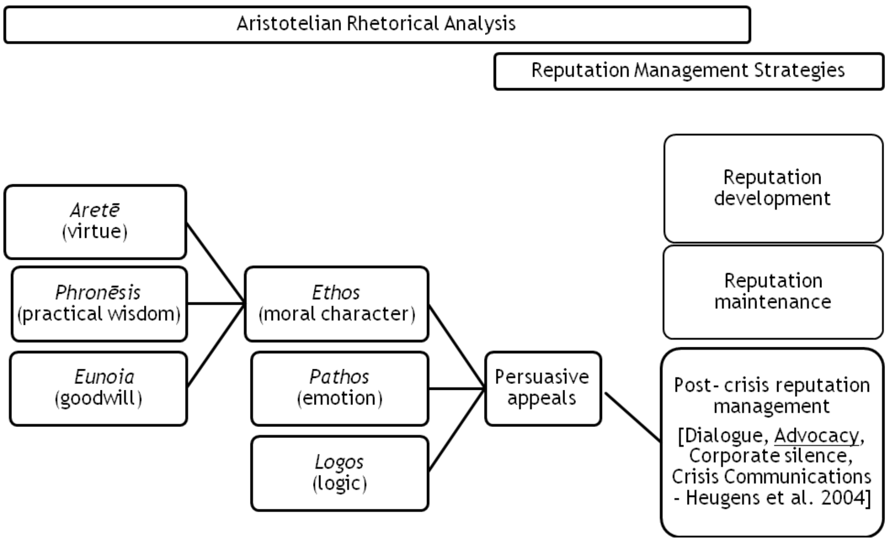

Figure 7: Aristotelian Rhetorical Analysis.

Source: Shanahan/Seele 2015

3.4 Corporate virtue as shared value

Corporate virtue is a critical component of value within the social economic system, and to the corporations end goal of eudaimonia. This requires that the corporation plays an active role in polis, so virtue can be sustained. Likewise corporate virtue plays a role in persuasion which is critical to corporate reputation management. Thus while being virtuous is beneficial to society, it is also self-serving to the corporation as a means to effectiveness and end-state happiness. In order to qualify as Shared Value, Dembek et al. (2015) suggest that prospective programs be clear and consisted with the definition and theory of Shared Value as proposed by Porter and Kramer (2011), particularly in terms of the means, outcomes and beneficiaries.

Means

Of the three means offered (reconceiving of products and markets, redefining productivity in the value chain and enabling cluster development), corporate virtue qualifies as redefining productivity in the value chain. While Porter and Kramer (2011) do not enumerate corporate virtue as an example of shared value, they do emphasize that this form of the means focuses on inventing new ways of operating. In the commercial process today, there are often situations where being virtuous is seen as being at odds with the need to either lower an expense or raise a revenue in the moment. Decisions in the corporate world today are often under immense pressure to meet financial goals (for example pressure in the commercial process to make a sale at any cost before the end of a quarter, to recognize revenue early, to not raise expenses that would ensure compliance, to not notify shareholders of a problem), which can be at odds with virtue as a mean between two vices. Courage, generosity, trustworthiness and friendliness can easily be perceived as a luxury that cannot be afforded at certain times in the corporate decision-making paradigm. However, if their value was reconceived and maintained through habit, it would not necessarily change any one of the value chain topics listed by Porter and Kramer (2011) such as resource use, energy use, employee productivity. It would change how decisions in those lanes were made, which would in turn improve the value chain offer and allow new economic value. According to Dembek et al. (2015), the impact should not be on just one country only, but rather be border-crossing, as effective corporate virtue would be. They also point out that it is unclear if shared value should be a single project or activity of an entire organization, but corporate virtue would be on the safe side as organization-wide habits.

Outcomes

In regards to outcomes, Dembek et al. (2015) point out the apparent lack of consistency across the literature on what types of outcomes meet the definition of CSV. On the corporate side, the outcomes focus on profits, access to resources and improved competitive position (Porter/Kramer 2011). Corporate virtue would have this outcome in view of the improved societal position raising profits, eudaimonia and persuasiveness. In regards to the outcome for society, Dembek et al. (2015) indicate there should be a clear focus on basic human needs, or the determinants of well-being and quality of life (Constanza et al. 2007). If corporations were to adopt and encourage a focus on virtue, the resulting increase in courage, truthfulness, generosity and friendliness would improve the well-being and quality of life for those directly affected. Virtue is critical to the polis (Pies et al. 2014). Courage and physical fitness allow individuals to defend the polis, and justice, temperance and generosity allow others in society to thrive (Pies et al. 2014).

Beneficiaries

In terms of proper beneficiaries of the outcomes of CSV, Dembek et al. (2014) again point out that there is inconsistency in the literature on this requirement, but their focus is on whether the beneficiary could be just one customer or broader society, whether certain stakeholders such as the environment itself qualify, and if there is a priority of society over the corporation. As an entity wide endeavour, corporate virtue likely meets the criteria for proper beneficiaries as it is not exclusive.

4. Conclusions

Corporate virtue is a proper example of CSV as proposed by Porter and Kramer (2011). It encourages corporations to develop habits that foster and maintain virtuous decision-making in leadership and the commercial process. It fosters the creation of value in society and the engagement of the corporation in the political process, and benefits the corporation not just as a result of increased persuasiveness and profits as a result of better positioning in the global social marketplace, but also through the attainment of corporate eudaimonia.

Chapter IV - Handbook of Rhetoric and Organizations Chapter on Persuasion

Manuscript proposal accepted by editors, submitted September 2016

Shanahan, F., Vogelaar, A., Seele, P., (2016 pending) Persuasion, Handbook of Rhetoric and Organizations, Øyvind Ihlen and Robert L. Heath (Eds.), Wiley, Malden MA, USA

1. Introduction

The study of persuasion is a historically rich and interdisciplinary field of inquiry. This chapter explores this richness as it has consequences for the emergent subfield of organizational rhetoric. It begins with a review of rhetorical and social science approaches to persuasion, continues with an examination of the value of persuasion studies for organizational communication and concludes with a recommendation for future research.

Persuasion is the intentional act of changing another person's attitudes, beliefs, and/or behaviours through the use of language and/or symbols. The term persuasion is often conflated with the term rhetoric and, although the two are related, they in fact have very different intellectual trajectories. Whereas *rhetoric* is a broad concept used to describe a wide array of linguistic and symbolic practices, *persuasion* refers more specifically to the process of change resulting from rhetorical activities. In the Western context, the study of persuasion was first developed in ancient Greece, codified by Greek polymath, Aristotle, and further developed during the Roman Republic. The study of persuasion resurfaced a new in post-World War II context amidst the political and social fallout of the second world war, the rapid growth of mass media and its offspring, public relations (corporate and political) and advertising. Much of the rhetorical inquiry in this period examined political persuasion, both dominant (political structures) and resistant (social movements). The social sciences examined the specific psychological processes at work in persuasive processes. In both rhetorical and social scientific approaches to persuasion, we see an important development in the field of communication: the birth of an applied field of communication whose goal was to specialize theories and then train a cadre of political speech writers, PR and advertising executives.

We live in another moment of rapid and important transformations wherein the study of rhetoric and persuasion may help us both better understand what is happening and as organizations better navigate that uncertain path. Organizations are increasingly under fire for manipulation and more than ever, we need to have a clear understanding of the significance of language as a tool. In this vein, theories of persuasion can be useful in understanding all levels of organizational rhetoric including: (1) leadership and motivation, (2) persuasive external communication and campaigns (marketing/advertising/PR/CSR), (3) internal persuasive communication, and (4) branding and identity building (reputation).

The chapter pays particular attention to the context in which persuasion is employed. Organizational persuasion has traditionally been used in an instrumental manner characterized by one way communication (public relations, marketing). The chapter – informed by the etymological root from Latin grammar as transitive and intransitive verb – proposes organizational persuasion in the deliberative context as an important but underdeveloped forum. In both forums, the organization is seeking to change the attitude of the stakeholder, but the deliberative context emphasizes a more ethical discourse including two way communication and more equal bargaining position. This concept is not only supported in the etymological root of the term persuasion, *persuadere*, but is increasingly recognized as an important forum for corporations to develop moral legitimacy in view of their new role as political participants.

2. Persuasion: Definitions and Conceptual Frameworks

Persuasion has been defined in numerous ways over time, which in part can be traced to its latin root:

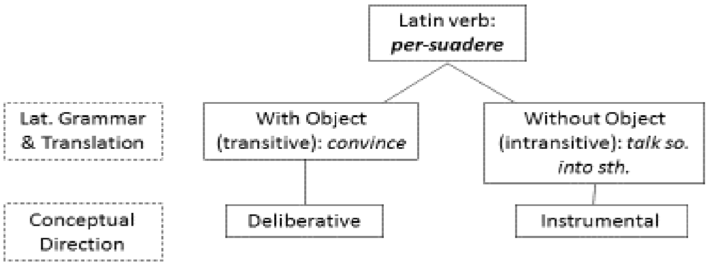

Figure 8: Two meanings of "persuadere" derived from Latin grammar

Contemporary definitions include the following:

- a communication process in which the communicator seeks to elicit a desired response from his receiver (Andersen, 1971, p. 6);
- an interactive process that "attempts to satisfy the needs of both parties." (Jowett and Donnell 1990, p.24);
- a conscious attempt by one individual to change the attitudes, beliefs, or behavior of another individual or group of individuals through the transmission of some message (Bettinghaus and Cody,1987, p. 3);
- a symbolic activity whose purpose is to effect the internalization or voluntary acceptance of new cognitive states or patterns of overt behavior through the exchange of messages (Smith, 1982, p. 7);
- a successful intentional effort at influencing another's mental state through communication in a circumstance in which the persuadee has some measure of freedom(O'Keefe, 1990, p. 17);

In his book, *The Dynamics of Persuasion: Communication and Attitudes in the 21st Century*, Richard Perloff highlights the processual nature of persuasion as a "symbolic process in which communicators try to convince other people to change their attitudes or behaviour regarding an issue through transmission of a message, in an atmosphere of free choice (Perloff, 2003, p. 8). He characterizes it as a multistep process similar to teaching that utilizes language as well as symbols to convey cultural meaning. At its core, it requires the transmission of a message, with the intent to change the attitude of another (as opposed to a communication which does so incidentally or unwittingly). “Behaviour as an outcome of persuasion is the gold standard because it is the main point of a persuasive attempt” (Rhodes and Ewoldsen, 2013, p 55). While it is the persuader who intends to change the recipient’s attitude, it is in fact the recipient who decides whether or not to change their own attitude in view of the new information. As with a therapist and a patient, the therapist cannot force a new perspective, rather the patient needs to independently understand it, appreciate it, and adopt it. Persuasion also requires free choice-for it to qualify as persuasion, the receiver must have other options and the ability to change their attitude freely (Perloff, 2003, p. 8-12).

This final feature, distinguishes persuasion from its sister arts, coercion and propaganda. While each of these practices involve some features of persuasion, in coercion, the actor attempts to change the behaviour of another by removing the attraction or availability of other options, leaving them with little to no available choices but to change attitude. Propaganda, on the other hand, involves the manipulation of information, negative emotions like fear, and the tools of mass communication where the speaker has a dominant if not exclusive position in the flow of information (Perloff, 2003).

The foundations for the contemporary definitions of persuasion in the corporate context were developed in the aftermath of World War II. The focus in this area was in part motivated by the desire to understand how dictators such as Hitler, Stalin and Mussolini were so successful in persuading masses in Europe to support their political visions of the future. The studies were also motivated by an increased desire to understand and model consumer behaviour in the post war economies starting in the 1950’s. The studies and ensuing research discussed later in this chapter helped businesses better understand how marketing and advertising could be instrumental in creating favourable impressions of products and increasing sales.

The world has changed quite a bit since the 1950's and the role of the corporation with it. While some corporations in the middle of the twenty first century achieved large domestic influence, their ability to grow globally was limited to the communication means available at the time. Today technology has enabled corporations to become global powerhouses, promoting products and services world-wide simultaneously, in some cases developing the same economic might as smaller nation states. In many ways, corporations have assumed some roles traditionally afforded to nation states altogether (Seele and Lock, 2015; Kobrin, 2001). At the same time corporations have acquired the legal status similar to individuals in many jurisdictions, including certain rights to free speech and legal recourse. Along with this new role and rights, comes the notion that they also have responsibilities and even duties as "global corporate citizens" (Matten and Crane, 2005). This development has moved corporations from being in an exclusively commercial spotlight, into a political role.

Political roles require moral legitimacy, which is "based on moral judgments and exchange of arguments on whether an individual, an institution, or an action can be considered socially acceptable" (Scherer and Palazzo, 2011, p. 915). In the corporate context it requires an alignment of corporate interests with stakeholder interests, which can be achieved and maintained through public discourse (Seele and Lock, 2015). To the degree that corporations lose moral legitimacy, they will find it difficult to ensure access to needed resources in the society within which they operate (Parsons, 1960; Weber 1978). Such discourse can be characterized as a "communicative approach to legitimacy" (Scherer et al., 2013, p 479), requiring a two way communication with open dialog and transparency and adherence to the four validity claims outlined by Habermas; truth, sincerity, understandability and appropriateness of communication (Seele and Lock, 2015). Legitimacy is also fostered through the deliberative process as part of Habermasian deliberative democracy (Palazzo and Scherer, 2006). Deliberation involves the sharing of concerns, information, arguments leading to a decision (Palazzo and

Scherer, 2006). Collectively, corporations should develop moral legitimacy by fostering open and deliberative communication with their stakeholders, particularly also when communicating in the public arena such as lobbying (Lock and Seele, 2016) or its sub form of grassroots initiative as part of a public affairs activity (Lock, et al., 2016).

What has reached momentum in organisation and management theory as political CSR in the Habermasian sense is not entirely new. Both directions, the deliberative context and the instrumental direction can both be traced back to the concept of persuasion as apparent in Latin language. In short: the ethical dimension of persuasion depends on the presence of an argument if persuasion means to convince someone (grammatically with object in accusative case) or to manipulate someone (without object in accusative case): The term 'persuasion' itself stems from 15th century Latin root of "*persuadere*," where "per" refers to completion, and "suadere" (Lewis and Short 1879) to advise. In essence, to advise someone to the point of completion. In Latin grammar '*persuadere*' has two forms that are quite revealing with respect to the ways in which persuasion has been articulated, studied and used over the course of history. '*Persuadere*' in Latin can be used as a transitive verb or as an intransitive verb. A transitive verb is one that comes with an object. An intransitive verb does not. The transitive form of the verb implies a relationship and an interaction among people. The intransitive, on the other hand, focuses on only the act of the subject. In the case of the verb '*persuadere*' it can be used in Latin in both ways, with and without an object. This however has an effect when translated into another language. In English for example *persuadere* with object (in the dative case) means to convince, whereas *persuadere* in the intransitive use without object it means to persuade in the sense of talking someone into something or to bring someone round.

In this article we take this grammatical peculiarity to conceptually distinguish two approaches to persuasion in rhetoric, theoretically described as persuasion by deliberation and persuasion by instrumental manipulation without argument (which would be the dative case object making the verb transitive). Figure 2 below visualizes these two types derived from the Latin grammatical peculiarities of transitive and intransitive as they can be linked to specific organizational communication theories. This chapter delineates these two conceptual directions and the existing theories that correspond.

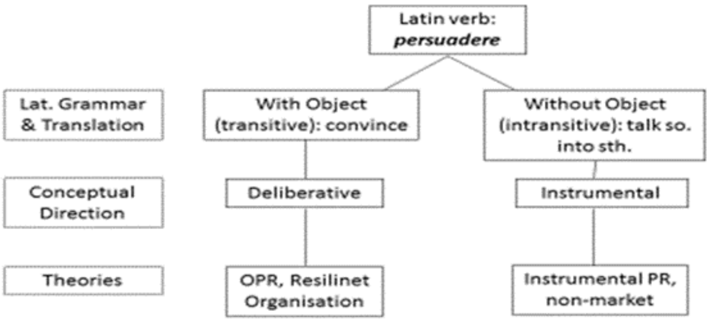

Figure 9: The two forms of persuasion applied to organizational communication theories

Instrumental persuasion, or talking someone into something, anticipates a unilateral agenda to change the other party's attitude. Persuasion in a deliberative context on the other hand anticipates ethical discourse and discussion between the parties.

Deliberation is more common in the realm of politics and government, where debate in democratic countries serves an important function. Participants / ideas / ideologies in the political realm can be pitted against each other as a means of testing ideas in a public forum. Such debate has been characterized as the "healthy politics of persuasion" where citizens have sense a civic duty and choose to participate (Hogan, 2013, p. 16). Today, such deliberation in politics, referred to as "deliberative democracy" is becoming increasingly popular with a focus on returning to a more local sense of democratic participation (Hogan, 2013), leading to research on deliberation in specific contexts including school boards (Tracy, 2010), town hall meetings (Zimmerman, 1989).
This distinction may however help explain why persuasion has been viewed in different ways through the centuries, both as a critical element in democracy in the form of debate,

but also a tool that can be used in a unilateral manner for one-sided gain as it is often perceived in the commercial context. This perception that corporations commonly attempt to persuade people to buy their products or change public opinion via indirect and hidden ways has contributed to the gap in credibility that many corporations face among stakeholders.

3. In the Rhetorical Tradition

The practice of persuasion is likely as old as human communication, the *study* of persuasion, however, arose with the birth of large, complex, democratic societies and their related need for modes of social influence across diverse populations. In the Western tradition, persuasion can be traced back to ancient Greece, where an emergent democracy necessitated a citizenry capable of engaging in reasoned debate about civic matters. This time period saw the birth of a professional cadre of itinerant professors called sophists, who "initiated a long tradition of teaching speech and persuasion as education for citizenship" (Hogan, 2013, p. 4). Though little is known about the sophists, much has been made of them. They have been interpreted both as forces for social good—inspiring imaginative, collaborative, culturally-specific language use—as well as, forces of evil—teaching (and charging a fee for) the art of manipulation and fallacious argumentation. The sophists were most famously lambasted by Greek philosopher Plato, whose dialogue, *Gorgias*, demonstrates his most searing accusation of sophistry (and relatedly rhetoric)—that it *creates illusions of truth* and in so doing distorts reality.

Rhetoric, as the art of influence came to be called, was "rescued," as the dominant narrative goes, by Greek polymath (and student of Plato), Aristotle, who developed "the first comprehensive theory of rhetorical discourse" (Dillard and Pfau, 2002, p. ix). Aristotle was the first person to clearly articulate the morally neutral nature of rhetoric, acknowledging that it could be used for good or ill (Kennedy, 1991). His definition of rhetoric, "an ability, in each [particular] case of observing the available means of persuasion," is demonstrative of his highly technical approach to rhetoric (Kennedy, 1991, p. 36). This is not to suggest that he was not concerned with ethics, rather that he sought to develop an ethically neutral canon of rhetorical techniques which could then be used to ethical ends. The term persuasion is most frequently associated with Aristotle's the three artistic proofs (often called persuasive appeals): character (ethos), emotion (pathos) and logic (logos). While many conflate *rhetoric* with *persuasion*, for Aristotle, rhetoric was a much larger category involving the study, identification and application of persuasive techniques.

Since its emergence in ancient Greece, rhetorical study and practice, has been applied, developed, manipulated, and rejected according to the needs of the diverse cultural/political contexts. While the complete history of Western rhetoric is beyond the scope of our article, suffice it to say that the study and practice of rhetoric, as a rich and evolving art of civic discourse, has ebbed and flowed since its birth. Its study and development has been intentionally suppressed at many points in history on the (correct) suspicion that it could be a powerful a tool in the hands of both "the people" and "demagogues." In other periods, it has flourished as an important tool in the creation and maintenance of large organizations (e.g. governments, religious institutions).

Rhetoric was finessed most comprehensively during the time of the Roman Republic when it was studied, taught, and applied most notably by philosopher and orator-statesman, Marcus Tillius Cicero, and rhetorician, Marcus Fabius Quintilius (Quintilian). Rhetorical study and practice thrived during the Republic and ultimately was extinguished under the Empire—crystalized by the execution of Cicero at the behest of Mark Antony.

In the mid-twentieth century, the right mixture of socio-political turmoil, technological advancements, and democratic governance created the conditions once more for the study of rhetoric to flourish, giving rise to what has been called a "new rhetoric" (Hogan, 2004). The champions of the new rhetoric are American literary critic, Kenneth Burke and Polish-born philosopher, Chaim Perlman, who are both credited with "renewing" Aristotelian rhetoric and dialectic in the humanities and philosophy (Frogel, 2005). Kenneth Burke, shifted classical rhetoric's focus on persuasion to *identification*—bridging literary and rhetorical theory and expanding rhetoric to include virtually any means of inducing cooperation and building community, intentional and unintentional (Zappen, 2009). Chaim Perlman refocused attention on the importance of understanding *argumentation* as a systematic mode and, with Lucy Olbrects-Tyteca, published *The New Rhetoric*, which is concerned with the technical aspects of argumentation. The late twentieth century saw the development rhetorical theory and criticism as tools for understanding (and espousing) many democratic causes including women's rights, civil rights, lesbian / gay rights, and environmentalism. As we write, in the beginning of the twenty first century, we are witnessing a continued interest in non-textual forms of rhetoric (i.e. images) and a renewed interest in the medium (i.e. sms, video, etc) as an important feature of persuasive discourse.

4. In Organizational Communication

In the same post-World War II period that saw renewed interest in rhetorical study in the humanities, persuasion began a life of its own in the social sciences. While studies in rhetoric often focus on "rhetors," rhetorical messages, and rhetorical effects, studies in the social sciences tend to focus on empirical studies of message receivers and the psychological and sociological processes that influence how receivers interpret and react to messages.

One of the first empirically based models the persuasive tactics was developed in the post-World War II era by a US Army psychologist, Carl Hovland, who had studied propaganda efforts during the war. Hovland and several colleagues developed the Yale Attitude Change approach which explored persuasion in terms of the source, content and audience, in an effort to better understand the conditions under which people were most likely to change their attitudes (Hovland et al., 1953). The ensuing Cognitive Response Approach to persuasion built on the Yale model, adding the important role played by listener's mental state played a role (Brock, 1967). These initial models laid the foundation for two additional models which remain dominant in the field today; the Elaboration Likelihood Model (ELM) developed by Richard E. Petty and John Cacioppo, and the Heuristic Systematic Model (HSM) developed by Shelly Chaiken, both in the mid-1980s. The ELM indicates that there are two routes to changing a person's attitude, dependent on the listener's level of engagement, or "elaboration." A listener that is highly engaged is more likely to have their attitude changed following positive reaction to the message following careful consideration; whereas listener that has a low level of engagement will likely have their attitude change only as a result of heuristics, or peripheral cues, which act as mental short cuts (Petty and Cacioppo, 1986). Similarly, the HSM, concludes that people employ both systematic and heuristic approaches to processing information which can be used in parallel.

Inoculation theory, developed by social psychologist William J. McGuire in 1961, also theorized how attitudes developed, focusing more on how existing attitudes and beliefs persisted in spite of persuasive messages (McGuire, 1964).Cognitive dissonance theory, developed by Leon Festinger in 1957, builds on the notion that people inherently like cognitive consistency, or consistency in our beliefs or attitudes. When there is dissonance, or a lack of consistency between existing beliefs and new information, people will inherently react and adjust to reduce the mental stress. By provoking inconsistencies, (even through extreme situations such as shock marketing) people can be put in a position that precipitates either an attitude change, or even an illogical strengthening of a belief that can be illogical (Perloff, 2003 p. 223-245). Expectancy-value theory explains attitude as a function of one's belief or expectations about something, and how one feels about those expectations. Demonstrating the components of attitude better allowed researchers and practitioners to understand methods to change attitude (Fishbein and Ajzen, 1975). Contemporary research has continued to expand and extend upon these foundational models. Recent developments in the field of neuropsychology are paving the way for a very different approach to persuasion and will likely yield interesting and controversial insights.

While social science approaches differ from rhetorical approaches, most notably in their focus on the quantification of persuasion variables, there remain many common threads: each approach variably explores the communicants, content and conditions under which persuasion does and does not happen; each is motivated by a desire to understand and thus intervene in persuasive processes; and each is indelibly influenced by the socio-political contexts in which they were produced (e.g. birth of a democracy, WWII).

Organizational communication is inherently tied to the act of persuasion. Though organizational communication has many functions and purposes, much of it is tied to persuasion and would be strengthened by a better understanding of persuasive processes. As mentioned above, the landscape for organizational research and practice has changed dramatically in recent years. Technological, economic and social transformations have forever changed the face of organizations and their communication both internally and externally. This section explores how knowledge about persuasive processes might serve organizations and the field of organizational communication.

4.1. Internal Persuasion

Organizations employ persuasion internally to gain compliance, lead, for sense making, problem solving, negotiating and conflict management as a matter of competitive advantage (Neher, 1997). Internal persuasion helps retain top talent and drive institutional energy into productivity. Theo traditional view on internal communication has held that it is structural in nature, flowing through an organization based on its size and shape. Any failure to communicate internally effectively was a structural issue, and thus the remedy was one the effective flow of information. The newer constitutive theory developed by claims theorists such as Karl Weick held that this perception is too simplistic, and fails to account for the true social complexity of communication; what is said versus not said, the impact of power imbalance, identity, and meaning. The theory claims that organizations are not fixed containers within which information flows, but rather that the organization is the social process itself (Koschman, 2013).

The study of persuasion in the context of internal management processes can be seen as early as 1938 under Chester Bernard. According to Bernard, employee cooperation and contribution to an organization was dependant on perceived inducements (getting more from the organization than they put into it) outweighing the contributions (Barnard, 1938). To secure cooperation, the employer either needed to reduce the required employee contribution, or increase the inducements either through material incentives or changes in the employee’s attitude (Legget and Rosanas, 2008). With resources for material incentives commonly being in high demand, efforts to change employee attitude were the most efficient means to increase the inducements and hence employee productivity. Barnard felt that one could change employee attitude by appealing to intrinsic motives, and convincing them that what they were doing was worthwhile meeting personal goals. Forty years later, Riccillo and Trenholm found that managers still tend to influence trusted employees with persuasion, but use coercion tactics with less trusted employees, (Riccillo and Trenholm, 1983, p 336).

4.2. External Persuasion

The most well-known forms of external organizational persuasion are marketing and advertising, whereby organizations attempt to build favorable attitudes about their products and image among the consumer population. Given the desire and financial motives to influence and predict consumer behaviour in the marketplace, it is logical that the initial social science models such as the expectancy- value theory were further developed into more applied theory models such as the theory of reasoned actions, and the ELM.

The theory of reasoned action has been valuable to marketers in predicting consumer behavior as a means of competitive advantage. It was shown to be predictive in the purchasing of a particular brand of a grape drink (Bonfield, 1974) and toothpaste (Wilson et al., 1975). Because the model is quantifiable, it has also allowed marketers to focus in on the particular attributes of consumer attitudes, their strengths and priorities, to sculpt effective messaging (Shrum et al, 2013).

The ELM has served as a foundation in proscribing marketing strategies dependent on people's level of involvement. People are often in a high involvement mode when it comes to high tech products, more expensive products, and products that are personal to the consumer. They are commonly in low involvement for all other products such as groceries, drinks, fast food etc. While this is not universal, for example some people may be particularly engaged in the type of soft drinks, and others not, this type of distinction provide marketers valuable guidance on commercial persuasion and how to develop marketing and advertising for their products. Process messages about low involvement purchases peripherally, indicating that mere exposure, the use of sound bites, celebrity exposure are likely most effective (Perloff, 2013). For purchases that require high customer involvement in the decision making process, people are commonly more engaged in the messaging surrounding the product. In these cases, the use of mental short-cuts such as simple sound bites and celebrities will be less persuasive, and there should be more coherent arguments about the product specifications and quality (Andrews and Shimp, 1990).

Persuasion is also critical in terms of reputation management and public relations, where the goal is to make external stakeholders feel good about the company and see it in a positive light. Whether building a new reputation as a trusted partner in the commercial world, or responding to a scandal where the organizations character failed to meet up to the reputation it built, strategic communications require the use of advocacy. As described by Heugens et al, (2004) advocacy requires the use of persuasion in presenting the organizational view in the most positive light including “persuasion oriented public affairs plans” (p.1363).

Corporate social responsibility (“CSR”) programs were initially responses to the perceived duty corporations have to society they operate in, beyond the direct outputs including employment, products and tax generation. CSR programs met this duty by dedicating resources to non-commercial needs such as the environment, the poor and other societal issues. CSR programs have recently come under fire for being overly instrumental, seen increasingly as tool to promote the financial position of the corporation (Seele and Lock, 2015), as opposed to a response to a perceived sense of duty.

5. Discussion

Persuasion is fundamental to the corporate mission and is intertwined in most all of its communicative activities. Whether it is internal persuading employees to be believe in a corporate goal, or external seeking to promote products and services to the target market, attempting to change perception or behaviour is often a core element in corporate communication.

Much of the research on persuasion in the commercial context outlined above is focused on how an organization can use persuasion to change a stakeholder's attitude or behaviour in an instrumental context. While there has been research into the deliberateness of decision making in the commercial context, (in contrast with spontaneous decision-making) (Fazio, 1990), less research appears to be devoted to how corporations can and should use persuasion in a deliberative context. Not only is such persuasion contemplated in its etymological root, *persuadere*, it is an important function for organizations for moral legitimacy as they increasingly participate in the political role. The critical distinction between instrumental and deliberative means is the availability of two way discussion where both parties have equal power, such that ethical deliberation, in the absence of misleading may occur. We therefor look at common corporate communication strategies and suggest opportunities for corporations to employ persuasion in the deliberative context as an alternative. One such theoretical avenue could be seen in organization-public-relations (OPR) (Kim and Chan-Olmsted, 2005, p. 145; Heath, 2013) arguing for a shift towards trustful relationships between organisations and public relations (Ihlen, 2008), also for strategic communication (Lock et al., 2015).

Internally, organizational announcements are an obvious example of a one way instrumental communication. Incentives such as commission programs are another example. In contrast, employee town hall meetings where there is an openness and encouragement to ask questions and debate issues, are an example of persuasion in a deliberative context.

Externally, one way communications such as marketing and advertising are examples of instrumental persuasion. Organizations seek to influence customer behaviour through well-developed campaigns to change their attitude. While most people believe that they

are not susceptible to the influence of advertising and marketing, the research above demonstrates the complexity and forethought into such models designed to precipitate attitude change. CSR programs have the capacity to be more interactive in nature, but have been increasingly under fire for serving as instrumental public relations tools. They nonetheless can be adopted to be two-way communication to foster meaningful interaction with stakeholders such as local communities (Seele and Lock, 2015). Organization public relationships can also serve as a new paradigm for public relations, interaction, and exchange built on openness, trust, involvement, investment, and commitment.
(Ledingham and Bruning, 1998).

Table 3 **Examples of persuasion in the instrumental and deliberative contexts**

	Instrumental	Deliberative
Internal	Organizational announcements Incentives	Employee town hall meetings
External	Marketing Advertising Publications	Organization public relationships CSR programs Organizational resilience initiatives

New technologies such as interactive media also present novel opportunities for corporations to interact with stakeholders in a deliberative manner (Seele and Lock, 2015).

6. Conclusion

This chapter has explored the concept and intellectual history of 'persuasion' as it has value for organizational communication research and practice. Codified in ancient Greece and developed over the centuries to suit the needs of various cultures and interests (and used as a force for good and ill), persuasion has much to offer contemporary organizations. As noted in the introduction, the root word '*persuadere*' has two forms, the transitive and the intransitive, allowing for two very different understandings and applications of the concept.

Persuasion in the intransitive form focuses only on the actor and act of persuasion. It is instrumental in nature and commonly one-way communication. Advertising and marketing are examples of instrumental persuasion, where corporations have applied decades of research, attempting to understand how consumer attitudes are formed and can be changed, in building their communication strategies as a tool to drive sales and growth.

In our interpretation, however, the transitive form of persuasion is distinct in that it acknowledges influence can also occur a more open interaction, and therefore a relationship, where both parties have equal footing with transparency of motive and intent. This context is deliberative in nature, whereby any change in attitude occurs as a result of ethical and open communication, and an educated basis for the change. CSR and OPR are opportunities for corporations to be persuasive within in a deliberative context of a relationship with two way communication. As opposed to persuasion in the instrumental context, where hidden motives and one way communications have undermined the level of trust and credibility between the corporation and its stakeholders, persuasion in the deliberative context allows the potential to influence behaviour and attitude, while ensuring that trust and creditability are maintained. Such trust and creditability are becoming increasingly important to corporations as they transition from being exclusively commercial actors to political actors on the local and global stage.

While advertising and marketing are classic examples of persuasion in an instrumental context, they need not be. The primary distinction between the instrumental and deliberative context are the degree of openness, power and flow of communication. In that sense, advertising and marketing programs could be developed in a more deliberative context as an alternative source of influence to drive growth, but also to maintain the moral legitimacy required for a political role.

We believe that an ethical and productive approach to persuasion in all realms, but very specifically in organizations, must be situated in the transitive form. This form is certainly evident in emerging theories and forms of organizational communication, including trends to insert the community in public relations, but it is as yet nascent.

This distinction provides organizations alternate avenues to communicate with stakeholders on various topics. In certain areas it is critical for an organization to lay the foundation so that potential customers perceive the product favourably, whether it is in regard to quality, functionality or uniqueness.

Chapter V- Ethics and the Development of Reputation Risk at Goldman Sachs 2008-2010

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1. Introduction:

1.1. Aim of the Article

This paper explores the role that allegations of unethical behavior played in the development of reputation risk in the case of Goldman Sachs from 2008- 2011. While the role of ethics in business hasn't always been universally understood, it is becoming increasingly clear that failure to comply with certain ethical norms such as trustworthiness can and may have a serious impact on corporate performance if not corporate survival. In particular, in the service industry where no physical goods are produced, trust can be critical, and to the degree that reputation is an intangible asset, a decline in reputation could have financial implications in the form of reputation risk. In 2008, Goldman Sachs was accused of misleading investors and government in its business dealings. These allegations not only had a material impact on Goldman Sachs' bottom line via multi-million dollar settlements with the U.S. government and private parties, but society's changing impression of the corporation likely did harm to business prospects as well.

This paper is an offshoot of a separate paper that discusses the role of Aristotelian *ethos* and the role of persuasion in corporate reputation management (Shanahan and Seele, 2015). It reviews the role of ethics, specifically trustworthiness, and the development of reputation risk in the Goldman Sachs case as a means of demonstrating the connection between ethical standards and market forces. Finally, the paper proposes that awareness of such a link may help change market behavior via the mechanics of obligational norms, potentially helping repair what has become known as the "fractured contract" (Brigley, 1995, p. 225) between the marketplace and society.

1.2. Timeline of the Goldman Sachs case 2008-2010

In 2008, Goldman Sachs was one of the largest and most successful investment banks in the world with annual revenues exceeding $39 billion, offering investment banking and investment service globally. In 2009, the firm's vaunted reputation as a global leader was challenged via numerous public allegations of fraudulent behavior including the firm's tendency to benefit at the expense of various stakeholders. Negative press stemming from these allegations made by regulators, investors and the public in general began to accumulate, chipping away at Goldman Sachs' reputation.

By mid-2009, with frustration mounting as the U.S. and global economy was going into a second year of economic recession, Goldman Sachs continued to be was the target of allegations from multiple sources. In May 2009, the New York Times announced that Goldman Sachs agreed to pay $60 million to settle an investigation and charges by the Massachusetts Attorney General alleging that the firm promoted unfair home loans in the state (Wayne, 2009).

In July 2009, the magazine Rolling Stone published an article that characterized Goldman Sachs as a "giant vampire squid" wrapping its tentacles around the "face of humanity" (Tiabbi, 2009). According to the article, the firm was shameless in its pursuit of self-gain regardless of whom it took advantage. In December 2009, the New York Times reported that the U.S. Securities and Exchange Commission (SEC) was investigating the firm's role in fraud regarding its own investors (Morgenson and Story, 2009).

In February 2010, Goldman Sachs acknowledged that public scrutiny and bad press may have an impact on its business in the form of reputation risk. The disclosure was unique in that it was made in the Form 10k, an annual disclosure made to the U.S. Securities and Exchange Commission, designed to ensure financial transparency for the investing public. Likewise in the 2010 annual report to shareholders, Goldman Sachs acknowledged adverse publicity and governmental scrutiny may have an adverse financial effect. As such, the reputational damage became clearly linked to Goldman Sachs' financial prospects.

While it may seem self-evident that negative press may have an impact on finances, these disclosures were unique and different from previous years. In the 2008 Form 10-k annual report to the SEC and the annual report to investors, Goldman Sachs disclosed in the section entitled “risk factors” that generally, legal and regulatory action could have an impact on reputation and business prospects (Table 4). The 2009 Form 10k filed 26 February 2010) included language from previous years; however, there was a new paragraph describing the impact that governmental or regulatory scrutiny and negative publicity might have on the firm’s finances (Table 4). The 2009 Annual Report to investors also used similar language as in the 2008 report; however, new language was feathered in acknowledging the impact that adverse publicity might have. (Table 4) This language in the 2009 report noted that the reputational risk could be based on the allegations alone, “regardless of the ultimate outcome” (Goldman, 2010).

Three months after the 2009 reports were released, the SEC filed a federal complaint on 15 April 2010, alleging that Goldman Sachs had mislead investors by omitting and misstating important facts (Securities and Exchanges Commission, 2010). The same complaint alleged that Goldman Sachs had then bet against the investments it was selling to clients. Thereafter, Goldman Sachs was widely perceived to have acted in its own self-interest often at the expense of its own clients and investors. As one article characterized it, Goldman Sachs became “one giant piñata to whack” (Elson cited in Bel Bruno, 2010, paragraph 4).

At the annual shareholders meeting on 7 May 2010, Goldman Sachs announced its intent to create the new “Business Standards Committee” (Goldman Sachs Annual, 2011 a). The Committee’s mandate was to conduct a review of Goldman Sachs business standards to ensure that they are of the “highest quality, that they meet or exceed the expectations of our clients, other stakeholders and regulators; and that they contribute to overall financial stability and economic opportunity.” (Goldman Sachs, 2011a)

In February 2011, Goldman Sachs released the 2010 Form 10k which was similar to the 2009 report with respect to reputational harm (Table 4). The 2010 annual report to shareholders; however, differed in that there was a much greater emphasis on reputation. In one section entitled, "Certain Risk Factors that May Affect Our Business," the report enumerate specific types of risk including:

- Conflicts of interest are increasing and a failure to appropriately identify and address conflicts of interest could adversely affect our business.
- We may be adversely affected by increased governmental and regulatory scrutiny or negative publicity.
- Substantial legal liability or significant regulatory action against us could have material adverse financial affects or cause us significant reputational harm, which in turn could seriously harm our business prospects. [1]

The report also included a new section entitled, "Our Business Standards" with a subsection entitled, "Strengthening Reputational Excellence" (Goldman Sachs, 2011). It begins,

> *"Goldman Sachs has one reputation. It can be affected by any number of decisions and activities across the firm. Every employee has an equal obligation to raise issues or concerns, no matter how small, to protect the firm's reputation. We must ensure that our focus on our reputation is as grounded, consistent and pervasive as our focus on commercial success."*

As a company with a global market cap of over $50 billion, such reputational damage could potentially have a multi-million, if not multi-billion, impact on the stock price and market capitalization. Following the public scrutiny, two analysts downgraded to their ratings of Goldman Sachs stock, and the stock price tumbled. (Bowley, 2010). As quoted in a April 2010 article,

[1] Page 87

"How much trouble is Goldman Sachs really in? One answer, $21 Billion. That is how much the vaunted Wall Street bank has lost in market value since it was engulfed in a fraud accusation a week ago" (Bowley, 2010).

In July 2010, Goldman Sachs agreed to pay $550 million to settle the lawsuit alleging fraud brought by the SEC (Harper, 2010).

By September 2010, Goldman Sachs initiated a new, and relatively novel (for the firm) public relations campaign. As opposed to targeted communications to specific investors and customers which were more common for the firm, the firm launched a broad general awareness campaign to the broader population of the US (Kaplan, 2010). With its slogan, "Progress is what we do" the initial advertisement showed a worker in a windfarm, explaining how Goldman Sachs helped with job creation. The advertisement appeared to link Goldman Sachs to broader issues in society such as the environment, job creation and energy. In contrast, Goldman Sachs' logo was understated, very small in the corner of the page. Goldman Sachs CEO Lloyd Blankfein explained on the Charlie Rose show in April 2010, "We have a lot of work to do explaining to people what it is that we do, and we're starting from a hole." (Kaplan, 2010). Nonetheless the campaign was criticized by some as failing to offer evidence that the firm had in fact changed any of its troubling practices, and was merely an attempt to improve its image. (Kaplan, 2010).

2. Reviewing Literature for the Case

In the following section we present a literature review on the most important theoretical concepts in reputational risk. First, we look at corporate reputation and profitability, then at reputation risk, and finally at approaches to reputational repair management.

2.1. Corporate Reputation and Profitability

Similar to other service industries such as education and legal services, reputation plays a significant role in the success of financial institutions, (Atchinson, 2005). A reputation is generally understood to be an "opinion, or social evaluation, of the public towards a person, group or organization" (Walter, 2010 pg. 105). It is a set of assumptions or beliefs based upon experience, relationship, and knowledge gained through personal knowledge and other sources including mass media (Barnett, 2002; Kewell, 2007). A reputation is less reflective of individual acts, but rather a generalization of cumulative behavior and is a "simplification" of complex behavior patterns over time as perceived by the various interest groups (Clardy, 2005). Fombrun and Shanley (1990) define a corporate reputation as a "cognitive representation of a company's actions and results that crystallizes the firm's ability to deliver outcomes to its stakeholders" (1990 p. 235) Stakeholders are defined broadly as, a "group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p.46), anyone who can affect the organizations performance or goals (Bland, 1998) or anyone in the organization or outside of the organization in the public sphere that can be affected by the organization (Ray, 1999). Following Freeman et al.(2010), primary stakeholders likely include employees, suppliers, financers, communities and customers while secondary stakeholders include competitors, government, media, NGOs and consumer interest groups. As a corporation has different relationships with each of their various stakeholders, they may in fact not have one reputation, but many reputations (Dowling, 2006).

Reputations are developed through people's perception of previous behavioral patterns, however, their value is in the predictability of future behavior (Clardy, 2005; Scott and Walsham 2005). A good reputation can be based on a track record of quality service or products, or in its managerial code of conduct. A good reputation gives customers and other stakeholders the framework to believe that because a corporation has a good track record of meeting various expectations, and it likely will do so in the future (Fombrun, 1996). Trust plays a large role in the development of business relationships (Kapstein, 1998), and as such can play a key role in the identity of a corporate reputation such as Goldman Sachs. It is the value upon which business relationships are built, (Kapstein, 1998), and serves to encourage behavior within socially accepted norms and discourage behavior outside of these norms (Granovetter, 1985). In the finance industry in particular, trust plays a large role in corporate reputations (Atchinson, 2005). Financial companies such as Goldman Sachs do not sell hard goods but rather a service that requires an increased amount of trust due to the nature of the service and the potential consequences of poor decisions. Financial firms that are successful at developing relationships with their stakeholders are more likely to develop increased loyalty (Fombrun, 2001).

In general, corporations strive to develop good reputations (Eccles et al., 2007; Rayner, 2001) which are considered to be valuable and strategic assets (Fombrun 2001; Economist 2005). Better reputations can lead to higher pricing (Klein and Leffler, 1981; Shapiro 1983) and greater sales (Shapiro, 1983). Customers of reputable corporations are often more inclined to buy products across a broader spectrum. (Eccles et al., 2007) A good reputation can attract more qualified employees and investors, leading to more sustainable growth with higher price to earnings ratios and lower cost of capital, keeping expenses down (Fombrun and Shanley, 1990; Eccles et al., 2007; Rayner, 2001). A poor reputation on the other hand can send customers to competitors and increase expenses (Fombrun, 2001; Hammond and Slocum, 1996).

While reputations are clearly valuable, Fombrun (2001) explains that the value of a reputation can be difficult to determine, and Heugens (2004) indicates that the relationship between corporate reputation and overall market value is neither simple nor static. It has been estimated that up to seventy percent of corporate value may be attributed to non-tangible assets including reputation (Eccles et al., 2007; Neufeld, 2007; Wayne-Schandwick, 2007).

2.2. Reputation Risk

Like other forms of risk, the concept of "reputation risk" is founded generally in the potential for this valuable asset to be compromised or diminished in value. Most definitions of reputation risk revolve around potential for an organization to fail to meet an expectation (reputation), leading to an adjustment of that expectation. Walter (2010) defines reputation risk as the "risk of loss in the value of a firm's business franchise that extends beyond event related accounting losses and is reflected in a decline of share performance metrics" (p.105). The Office of the Comptroller of the Currency (OCC) in the United States defines reputation risk as follows,

> *"Reputation risks threaten the current and prospective impact on earnings and capital arising from negative public opinion that may expose the institution to litigation, financial loss or a decline in its consumer base" (Eisenberg, 1999).*

Rayner (2001) however contends that reputation risk is not an independent risk, but rather a compilation of various risks that may impact reputation. According to Rayner (2001) "reputation risk" is a convenient catch-all phrase for the various sources of risk involving that may have an impact on a corporate reputation including; financial, regulatory, ethical, and customer expectations.

Reputation risk involves the potential for a gap to develop between an expectation and a reality (Eccles et al., 2007). Whether it be a financial expectation, a belief regarding environmental practices, a service provided, or compliance with other social norms; if there is a difference between an expectation that is widely held by stakeholders and actual practice, there is potential for the existing reputation to be in jeopardy. According to Eccles et al., (2007) "when the reputation of a company is more positive than its underlying reality, this gap poses a substantial risk. Eventually the failure of a firm to live up to its billing will be revealed and its reputation will decline until it is more closely matches the reality" (p 107).

Reputational risk also stems from the difficult task of reaching financial benchmarks in market performance and expectations of corporate conduct at the same time (Walter, 2010). Corporations such as Goldman Sachs need to meet performance benchmarks, including short term benchmarks like quarterly results, lest they risk the loss of investors as their reputation for profitable returns decline. At the same time they need to meet corporate conduct benchmarks as measured by the laws and regulations of a particular society, as well as the social values that often form the basis of the laws or regulations (Walter, 2010). Their reputation is based on a measurement of the corporate character against these standards. Managers are often challenged to meet both expectations at the same time, and failure to do so can contribute to reputation risk. Making things even more difficult, societal standards and expectations can change or be unclear (Walter, 2010). Nonetheless, when corporate behavior is inconsistent with stakeholder perception or social expectations, a consensus can emerge within the various stakeholders groups challenging the current perception and reputation of the corporation (Walter, 2010).

To the degree that trustworthiness plays a role in reputation, risk would be present when there is a misalignment with the perception of their trustworthiness and stakeholders perception of it. For example, if the firm was perceived as business savvy but not trustworthy, there would be little risk if it were discovered that they breached trust among a group of stakeholders. Likewise there would be no risk if they were perceived as trustworthy, and acted consistently with such impression. Risk, particularly substantial risk, would develop primarily if an important element of the reputation, such as trust, and it was discovered that the actual behavior did not meet that expectation.

A primary source of reputation risk stems from compliance issues. In a survey of 269 corporations, the compliance failure and the failure to meet legal obligations were the most commonly cited sources of reputation risk among the respondents (Economist, 2005). Exposure of unethical practices was second, failure to meet minimum standards of product / service was the fourth most common source, and the failure to meet financial expectations was sixth. (Economist, 2005)

A lack of internal coordination contributes to the risk, where various units of a large corporation may be acting inconsistently, creating inconsistent perceptions (Eccles et al., 2007). In some cases, the nature of the board may contribute to reputation risk. (Dowling, 2006) Board's members often only contribute several hundred hours to their governance responsibility, and their effectiveness in that capacity is reduced by the fact that they often receive filtered information, have personal blind spots and operate in a group decision making environment. (Dowling, 2006)

When expected outcomes are not delivered, however, the result can lead to the decline of corporate reputation. The decline of corporate reputation often manifests itself in impoverished revenues, decreased ability to attract financial capital, and reduced appeal to current and potential employees. This adjustment can come in the form of a slow decline in the reputation however it often involves a triggering event or sudden awareness among the stakeholders and takes the shape of an acute crisis.

2.3. Managing Reputation Risk

In the absence of a crisis, addressing reputation risk requires a coordinated two-prong approach, managing both the actual character of the firm and the expectation stakeholders have of it. From a proactive approach, managing the character starts with an accurate assessment of the firm’s character and practices (Eccles et al., 2007, Fombrun and Foss 2004). Managing the perception should also start with an assessment of the corporate reputation or perception that stakeholders have of the corporation (Eccles et al., 2007). If there is a difference between the character of the firm and the reputation, Eccles et al., (2007) recommends “closing the gap” (p. 106). If the reputation supersedes the actual character, the clear preference is to bring the character of the firm up to a level that is consistent with the reputation. Alternatively, the firm could attempt to reduce the reputation the firm has among stakeholders, however that path is not recommended due to the value that good reputation has. (Eccles et al., 2007). Feedback loops can help match the behavior to the expectation through increased communication and assessment.

Public relations and corporate communications play a strategic role in managing relationships with stakeholders and their perception (Steyn, 2003; Fombrun, 2001). Positive and frequent visibility in the press lead to better reputations, and companies with extensive negative publicity suffer from a poor reputation (Heugens, 2004). Companies must not only remain on the public’s radar screen to maintain awareness, at least 20% of the stories regarding the firm must be positive, and less than 10% negative, with the rest neutral (Fombrun,2001).

Most corporations address reputation risk once a crisis draws attention to the issue. Pearson and Mitroff (1993) define a crisis as an event that has a small likelihood of occurring, however a potentially large and negative impact on the organization. According to Coombs and Holliday (2001) corporate crisis often involve a violation of a social expectation. Such crises are often outside the immediate control of the organization, but require a direct response (Pearson and Mitroff, 1993; Stephens et al, 2005) .

Corporate response during a crisis requires coordinated response and dialogue with stakeholders to maintain and rebuilt reputational legitimacy (Allen and Caillouet, 1994, Ray 1999). In terms of image repair, efforts often focus primarily on modifying the perception that stakeholders have of the firm in terms of responsibility and the crises, and attempt to modify these impressions (Coombs, 1999). Stakeholder response to such efforts can have a material impact on the organizations ability to restore the reputation (Sims, 2009), and failure to rebuilt legitimacy within a critical window of opportunity can potentially jeopardize organizational survival (Erickson et al, 2011).

A well-known theory regarding organizational responses to crises is Benoit's theory of restoration (1995) (see also Erickson et al, 2011). Also Coombs (1995) builds on Benoit's theory of restoration and offers an outline regarding various response strategies commonly employed by corporations in crisis. The responses include:

- Nonexistence : convincing stakeholders that there is no crisis via denial, intimidation or clarification
- Distancing: minimizing the corporate connection to the crisis
- Ingratiation: augmenting the reputation
- Mortification: soliciting forgiveness
- Suffering: describing the corporation as a victim of the crises as well.

Following this framework Stephens et al (2005) found that mortification and ingratiation, were employed in 63% of corporate crises with rectification (subcategory of mortification), convincing the audience that similar crises would not happen again, being very common (p.407). Stephens et al (2005) also found there to be a surprising lack of consistency in the message to the various stakeholders that may appear disenfranchising among some of the stakeholder groups.

Mortification in the form of accommodation, can be very influential for regaining trust (Benoit, 1995). However accommodation, such as a full apology, can also invite greater liability. Coombs and Holladay (2002) developed the "Situational Crisis Communication" theory provide guidance in the determining the appropriate response, including accommodation. As described by Coombs and Holladay (2002) there is little reputational threat where the corporation is perceived to be the victim. As such little to no accommodation should be employed. An accident that involves the corporation deserves more accommodation. Accommodation such as corrective action and apology should be considered where a corporation is perceived to be responsible for a preventable crisis, as such a situation involves the greatest threat to reputation (Benoit, 1995).

Heugens et al (2004) identified four distinct types of responses that firms employ in reputational crises;

- Dialogue: employing cooperative dialogue to understand stakeholder issues, express understanding thereof, communicate key information, and build trust
- Advocacy: employing persuasion in communications to characterize organizational views favourably, including "persuasion oriented public affairs plans" (p. 1363).
- Corporate silence: limiting organizational responsibility through minimal communication
- Crisis communication: coordinating communication across the organization with stakeholders.

Messages varied based on the stakeholder, using different impression management strategies with the most effecting strategy being ingratiation; using belief, values and attitude similarity to persuade the recipient of the organizations positive traits and gain approval. (Allen and Caillouet, 1994).

The overarching theme in the above literature, particularly in relation to reputational crises is the need to shape public perception of responsibility and influence the audience (Coombs, 1999). The purpose of communication during a crisis is to persuade stakeholders to maintain positive image of organization or restore a damaged perception (Ray, 2007). This is purportedly time-critical and the future of the organization can depend on the initial steps it takes.

3. Reputational Risk at Goldman Sachs

In this paper we review secondary data from the Goldman Sachs case including the annual report to investors, the form 10k to the SEC, public relations announcements and advertisements from 2009-2011, along with media coverage of Goldman Sachs during this timeframe to review the development of reputation risk and Goldman Sachs' response, in comparison with the prevailing literature.

As the world's largest investment banking firm, Goldman Sachs reputation likely preceded itself, conveying confidence in the firm's abilities. As a firm with a global market cap of $74 billion in June 2009, the value of the reputation would have been difficult to establish with certainty; however, according to Eccles et al., (2007) research, Goldman Sachs intangible assets including reputation may have constituted 70% of that market cap, or $51 billion. As elaborated by Kapstein (1998) trust is an important component of reputations in the service sector, and as such the perception of trust would have played an important role in the value of Goldman Sachs reputation.

Goldman Sachs reputation among investors and clients was probably different than the reputation it has among employees, the government and society in general. Following Clardy (2005) above, Goldman Sachs reputation among each of these subgroups was likely a "simplification" of complex behavior displayed over time, and not the result of a single event. Among clients and investors, their reputation likely involved a measure of perceived trustworthiness.

To the degree that Goldman Sach's reputation was positive in 2009, it would have lead to higher pricing (Klein and Leffler, 1981; Shapiro 1983) and greater sales (Shapiro, 1983). With a positive reputation, Goldman Sachs customers were likely inclined to buy products across a broader spectrum (Eccles et al., 2007), attract qualified employees and investors, leading to more sustainable growth with higher price to earnings ratios and lower cost of capital, keeping expenses down (Fombrun and Shanley, 1990; Eccles et al., 2007; Rayner, 2001).

The allegations being made against Goldman Sachs and bad press challenged the reputable firm's reputation. The settlement in May 2009, whereby Goldman Sachs agreed to pay $60 million resolve allegations that it had taken advantage of customers in home loans, the article in the Rolling Stone in July 2009 painting Goldman Sachs as a "giant vampire squid wrapped around the face of humanity" (Bel Bruno, 2010), the announcement of the S.E.C. investigation in December 2009 regarding fraud, and then the complaint filed in U.S. Federal Court in April 2010 all contributed to the changing perception of Goldman Sachs.

Financial performance is clearly a component of reputation within the financial industry, and a portion of Goldman Sachs reputation was likely suffering from the global financial recession in 2009 independently. Nonetheless, with trust being an important component of reputation in the financial industry, allegations of fraud and self-serving behavior from numerous stakeholders (including customers, investors, government and broader society) likely contributed to the development of reputation risk. These revelations exposed the gap between the corporate reputation and the actual character of the firm. As described by Walter, 2010, it is unclear what precipitates change; however, the consensus leading to a different perception of a firm can suddenly form. Consistent with the Economist (2005), compliance and ethical issues relating to fraud and trust were at the source of Goldman Sachs reputation risk issues. The lack of internal coordination within Goldman Sachs business units allegedly led to conflicts of interest at the customer's and investor's expense.

Analysis of the 10k reports filed by Goldman Sachs below (Table 4) reveals the unique acknowledgement of this risk. While the annual report to investors shows organizational concerns, it was the disclosure in the Form 10k that has the greatest impact in view of its emphasis on financial performance and corporate transparency. The sections added into the disclosure from year 2008 (filed in February 2009) to the 2009 report (filed in February 2010) reveal a marked acknowledgement (Seele 2010, Seele and Zapf 2011) that negative press regardless of the factual basis, might have a material impact on the firms performance.

An analysis of the annual reports to investors reveals the same disclosure, where Goldman Sachs took the extraordinary step in feathering in additional language stating that *"adverse publicity, governmental scrutiny or legal and enforcement proceedings regardless of the ultimate outcome, could have material adverse financial effects or cause significant reputational harm to us, or adversely affect the morale and performance of our employees."* Whereas the previous annual reports discuss the potential for reputational harm in a more generic sense:

Table 4 Comparison of the 2008-2010 10k and annual reports

	2008	2009	*2010*
Form 10k	***Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause us significant reputational harm, which in turn could seriously harm our business prospects.*** *We face significant legal risks in our businesses, and the volume of claims and amount of damages and penalties claimed in litigation and*	***Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause us significant reputational harm, which in turn could seriously harm our business prospects.*** *We face significant legal risks in our businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high. See "Legal Proceedings" in Part I, Item 3 of this Annual Report on Form 10-K for a discussion of certain legal proceedings in which we are*	***Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause us significant reputational harm, which in turn could seriously harm our business prospects.*** *We face significant legal risks in our businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high. See "Legal Proceedings" in Part I, Item 3 of this Form 10-K for a discussion of certain legal*

	regulatory proceedings against financial institutions remain high. See "Legal Proceedings" in Part I, Item 3 of our Annual Report on Form 10-K for a discussion of certain legal proceedings in which we are involved. Our experience has been that legal claims by customers and clients increase in a market downturn. In addition, employment-related claims typically increase in periods when we have reduced the total number of employees. *There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct and the precautions we take to*	*involved. Our experience has been that legal claims by customers and clients increase in a market downturn and that employment-related claims increase in periods when we have reduced the total number of employees.* *There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity have not been and may not be effective in all cases. (Goldman Sachs, 2010, pg 37)* ***We may be adversely affected by increased governmental and regulatory scrutiny or negative publicity.*** *Governmental scrutiny from regulators, legislative bodies and law enforcement agencies with respect to matters relating to compensation, our business practices, our past actions and other matters has increased dramatically in the past several years. The financial crisis and the*	*proceedings in which we are involved. Our experience has been that legal claims by customers and clients increase in a market downturn and that employment-related claims increase in periods when we have reduced the total number of employees. There have been a number of highly publicized cases, involving actual or alleged fraud or other misconduct by employees in the financial services industry in recent years, and we run the risk that employee misconduct could occur. This misconduct has included and may include in the future the theft of proprietary software. It is not always possible to deter or prevent employee misconduct and the precautions we take to prevent and detect this activity have not been and may not be effective in all cases.* ***We may be adversely affected by increased governmental and regulatory scrutiny or negative publicity.*** *Governmental scrutiny from regulators, legislative bodies and law enforcement agencies with respect to matters relating to compensation, our business practices, our past actions and other matters has increased*

	prevent and detect this activity may not be effective in all cases. (Goldman Sachs, 2009, p. 38) (1a)	*current political and public sentiment regarding financial institutions has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators or elected officials. <u>Press coverage and other public statements that assert some form of wrongdoing, regardless of the factual basis for the assertions being made, often results</u> in some type of investigation by regulators, legislators and law enforcement officials or in lawsuits. Responding to these investigations and lawsuits, regardless of the ultimate outcome of the proceeding, is time consuming and expensive and can divert the time and effort of our senior management from our business. Penalties and fines sought by regulatory authorities have increased substantially over the last several years, and certain regulators have been more likely in recent years to commence enforcement actions or to advance or support legislation targeted at the financial services industry. <u>Adverse publicity, governmental scrutiny and legal and enforcement proceedings can also have a negative impact on our reputation and on the morale and performance of our employees,</u>*	*dramatically in the past several years. The financial crisis and the current political and public sentiment regarding financial institutions has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators or other government officials. Press coverage and other public statements that assert some form of wrongdoing often result in some type of investigation by regulators, legislators and law enforcement officials or in lawsuits. Responding to these investigations and lawsuits, regardless of the ultimate outcome of the proceeding, is time consuming and expensive and can divert the time and effort of our senior management from our business. Penalties and fines sought by regulatory authorities have increased substantially over the last several years, and certain regulators have been more likely in recent years to commence enforcement actions or to advance or support legislation targeted at the financial services industry. Adverse publicity, governmental scrutiny and legal and enforcement proceedings can also have a negative impact on our reputation and on the*

		which could adversely affect our businesses and results of operations. *(Goldman Sachs 2010, pg 34) (1c)*	*morale and performance of our employees, which could adversely affect our businesses and results of operations. (Goldman Sachs 2011, pg 27) (1c)*
Annual Report to Investors	*Substantial legal liability or a significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm a business prospects. (Goldman Sachs, 2009, p. 24) (1b)*	*Substantial legal liability or a significant regulatory action against us, or adverse publicity, governmental scrutiny or legal and enforcement proceedings regardless of the ultimate outcome, could have material adverse financial effects or cause significant reputational harm to us, or adversely affect the morale and performance of our employees, which in turn could seriously harm our business and results of operations (Goldman Sachs, 2010, pg 38) (1d)*	*Substantial legal liability or a significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm a business prospects. (Goldman Sachs, 2011, p. 88)* *We may be adversely affected by increased governmental and regulatory scrutiny or negative publicity. (Goldman Sachs, 2011, p. 87)*

Likewise, the annual report revealed an attempts to manage this reputational risk consistent with the recommendations by Eccles et al. (2007) to “close the gap” (pg 107) between the reputation and reality, or the perceived character and the real character. The advent of the “Business Standards Committee” was a notable first step to address the actual character of the firm. The reports recognized that various business units within the firm may be creating different perceptions, and gave the Standards Committee the authority to identify and manage sources of conflict of interest within the firm.

Goldman Sachs also took notable steps to shore up the firms withering reputation. Such steps were consistent with Allen and Caillouet's (1994) recommendation to use strategic communication and corporate discourse to rebuild reputational legitimacy. While the information available to this study does not reveal actual steps taken internally within critical initial response period; however, the unique and again extraordinary step Goldman Sachs took in September 2010 via the national PR campaign is consistent with the recommendations by Benoit (1995) and Coombs (1995). The widely released public relations campaign, reaching broadly out to society as opposed to specific target markets which it was more known for, attempted to convey Goldman Sachs in a positive light. It attempted to characterize the firm as a benefit to society via its involvement in environmentally friendly energy projects and job creation. The understated Goldman Sachs logo in the corner revealed the self-depreciating nature of the effort to re-characterize people's impression of the firm, using ingratiation and mortification, the most common approaches to crisis management according to Stephens et al (2005). Communicating these efforts and the mandate of the new Business Standards Committee to shareholders in the 2010 Annual Report was consistent with rectification, previously being recognized as the most common subcategory.

By September 2011, Goldman Sachs' market cap had shrunk from $74 billion (June 2009) down to $47 billion, just over half of its previous market cap. Clearly the global financial crises and downward financial pressure on banks played a significant role in the depreciation of the firm's value. Nonetheless, it appears clear from the acknowledgements made by Goldman Sachs and the literature on reputation risk, that the allegations of unethical behavior had a material impact on the corporate performance. Similarly, these observations contribute to the "business case" for ethics, and lead to the final section briefly discussing why awareness of the business case for ethics may be necessary for change in the marketplace.

4. Ethical implications for Goldman Sachs

There has been tremendous growth in the subject of business ethics in academia over the past thirty years, yet at the same time a frustrating increase in the number of ethical scandals with little abatement in the number and impact these scandals have had (Heugens, 2004), bringing even further attention to what has been characterized as a “fractured contract between business and society” (Brigley, 1995, p. 225). This raises questions regarding the role that ethics play in the commercial context; which factors foster ethical compliance and which serves as a detriment. Although the “business case,” or profitable justification, for ethics may seem to be at odds with traditional justifications for ethical behavior, research into the “business case” for ethical behavior in the corporate context may provide insight into why the relationship between society and business continues to appear “fractured,” and why noticeable scandals continue to influence the perception of the corporate world.

Eisenberg (1999) provides one theory regarding the influence that social norms have on managers. In his article entitled “Social Norms and Corporate Law” Eisenberg (1999) describes obligational norms as unwritten rules in a society that are widely expected to be followed. Failure to comply with obligational norms results in either self-criticism or criticism by others, as opposed to other norms that are less compulsory in nature. (Eisenberg, 1999) Both individuals and organizations are expected to abide by social norms and expectations alike (Allen and Caillouet, 1994). Obligational norms, however, are perceived and internalized by individuals.

Obligational norms can be either “internalized” or “non-internalized” depending on individual perspectives. A norm is “internalized” by those who perceive it as the “right thing to do” regardless of other considerations (Eisenberg, 1999). For those who have not “internalized” a given obligational norm, compliance requires additional reasons to do so (maintained or improved reputation, social acceptance, financial benefit) (Basu, 1998). Telling the truth is an example of an obligational norm. Many tell the truth because it is the right thing to do. Many others recognize that telling the truth is by and large an expectation, however, doing so may be more situationally dependent. For example, a person who stands to gain from a lie may consider the likelihood that they will be exposed, and the consequences to reputation, shame or sanctions. Thus, according to Eisenberg (1999), compliance with any given obligational norm will be dependent on the extent that it is “internalized” relevant actors, and for some, the degree that alternative reasons to do so can be appreciated.

A corporate environment, such as Goldman Sachs’, may play a role in how obligational norms from the broader society are perceived and internalization within the corporate context. Efforts to promote ethical standards within various sectors of the business community through education and policy often face an “uphill battle” (Dobson, 2006). Dobson (2006) argues that behavior and morals in the financial industry are heavily influenced by implicit education on neoclassical economic theory. In one survey in the financial industry, nearly one quarter of participants stated that they experienced or witnessed unethical behavior in the previous twelve months (Viet et al, 1996). Although this can not be quantified, it is likely that the unwritten expectation of the broader society regarding trust may not have been reflected within the Goldman Sachs trading department and boardrooms where pressure for profitability may have played a dominant role.

According to Eisenberg (1999) obligational norms will be complied with by those who have internalized them as the proper thing to do regardless of other considerations. For others, however, commitment to compliant behavior may require a clearer understanding of the associated benefits. An increased awareness of the benefits of compliance and the consequences of non-compliance on reputation stemming from unethical behavior may therefore have an impact on behavior in the corporate context.

Reputation risk management requires a two-prong approach addressing the perception of the corporation, and the actual character of the corporation as described above. This analysis provides another framework to understand the link between ethics and business profitability. As the link between unethical behavior and profitability may demonstrate the “business case” for ethics, this paper starts by discussing why the “business case” may be relevant. According to Eisenberg (1999) there are varying degrees of compliance with obligational societal norms depending on the degree to which norms are internalized. With regard to a particular norm, many individuals may have internalized it and as such believe that compliance with the norm is expected regardless of any other influences. Other individuals, however, may have not internalized the norm, and as such will comply with the norm only when the perceived benefits of compliance outweigh the perceived benefits of noncompliance.

In conclusion, any feedback that encourages compliant behaviour or indicates that it has a utility to it may have a positive impact on behavior. In the case of Goldman Sachs, any evidence that shows that compliance with social obligatory norms has positive benefits, and non-compliance has negative reputational consequences that can be quantified, may be beneficial for in terms of the operation, tactical and strategic decision-making process. If this became the case, we may be close to addressing the “fractured contract” between business and society (Brigley, 1995, p. 225).

Conclusions

1. Summary of the Chapters

Chapter I first reviewed the concept of ethos and set the stage for it play a role in the corporate context through its involvement in persuasion. Corporate ethos is developed and maintained through the hundreds of decisions that corporations make over time, various jurisdictions and through its various actors such as the executive team, the commercial and operations management. These decisions collectively often demonstrate a settled character which is reflective of a corporate ethos. To the degree that these actions reflect the virtuous characteristics that Aristotle proscribed, along with goodwill towards others and the practical wisdom developed through experience, a corporation will develop the perception and reputation for corporate ethos, or corporate moral character.

Chapter II then demonstrated how this concept of corporate moral character can play a role in a key corporate activity, reputation management. Reputations have been increasingly viewed as important and valuable corporate assets in the commercial world. A lack of corporate character or virtuous traits within the corporate culture may yield decisions by the executive team, or more possible at lower levels with the commercial or operational teams, leading to a poor reputation, or worse yet an ethical scandal. Such conduct can not only cause the poor reputation or ethical scandal, crippling profitability, but can also limit the corporation's ability to be persuasive and effective in repairing the reputational damage, as moral character is linked to persuasion.

Chapter III then demonstrated how corporate virtue can be a valid form of Shared Value. A corporate focus on virtue promotes corporate culture at the top which places a priority on making moral decisions systemically, from the executive team to the operational teams. In doing so, the corporation benefits from a stronger corporate character limiting exposure to the pitfalls of ethical scandals in the first place. In the event a scandal does occur, a corporation with a stronger moral character will be more persuasive among its constituents and stakeholders, and be able to limit the damage done to the corporate reputation Stakeholders such as customers, employees and broader society also benefit from a corporation that promotes corporate virtue not only through the higher level of trust and lower risky behaviour which leads to greater efficiencies, but also in view of any higher levels of altruism fostered. In sum corporate virtue meets the means, outputs and beneficiary requirements of Shared Value, making capitalism more sustainable.

Chapter IV explored the concept of persuasion and how it can be related to present day organizational rhetoric. Persuasion is used by corporations today internally and externally to promote leadership, marketing campaigns, internal motivation and branding. Theories on the development of persuasion go as far back as Ancient Greece. Today, the field is very interdisciplinary, with active developments both in academia and in practice. The social sciences have been a central source of development breaking down the components of attitude into more malleable pieces and seeking to explain what motivates an audience to change an attitudes in view of various levels of engagement through models like the Elaboration Likelihood Model and the Expectancy Theory Model. These models and techniques serve as tools in the larger picture of organizational rhetoric.

Persuasion can also be applied in an instrumental or deliberative context. In the instrumental context, persuasion commonly involves one-way communication strategies such as advertising and marketing where the corporation is talking to its stakeholders. Persuasion in the deliberative context occurs when the corporation is in a dialogue with its stakeholders and through two way discussion, attempts to change the attitude of its stakeholders. This chapter indicates that corporations should seek to develop persuasion in the deliberative context more often. Persuasion in the instrumental context alone may be contributing to the impression that corporations manipulate information and should not be trusted. Persuasion in the deliberative context, characterized by two way communication, can be equally effective but is critical to the development of moral legitimacy.

Chapter V focused on the consequences of unethical behaviour and how it can lead to reputation risk. Using Goldman Sachs in 2008 as a case study, the paper looks specifically at allegations of self-serving and misleading behaviour by the company at the time of the economic downturn that undermined the perception of trust. When it became apparent that the actual behaviour did not meet the perception that stakeholders had of the company, the events generated reputational risk.

2. Discussion of the Findings

As of the 1980's, business ethics as a form of applied ethics remained a novel and outsider topic in both the business world and in business education. To some, the topic was a non-starter arguing as Milton Friedman did that the detraction of any resources from the creation of shareholder wealth was a violation of the executive and managerial fiduciary duty (Friedman, 1970). To others, the subject of business ethics was viewed as window dressing creating the veneer that ethical principles (what we would expect from our neighbour) should apply equally to global corporations, yielding some behavioural change in the marketplace but with poor consistency. There was little clarity in theory or in practice how the unwritten rules of a global conscious should apply in capitalism as an economic model. Nonetheless, the topic itself injected a discussion that stakeholders yearned for.

Behind the veneer, practice in many cases remained the same; the unwritten rules of ethics were at best secondary to the self-serving demands of corporate goals to increase revenues, decrease expenses and improve reputation. Corporations often promoted ethical principles when it was in their self- interest. When ethical principles created an advantage in marketing or when there was financial flexibility to either forego revenues or cut costs and still meet financial expectations, they were more likely to be cited. Corporations were otherwise expected to push operations to the limit of the written expectations, the law, as a matter of competitive advantage. Activities which were illegal, (in violation of the written rules), were not condoned, but the mandate to cut costs and exploit revenues within the confines of the law was perceived as the norm, and the fiduciary duty. This wasn't perceived as just corporate greed, it was tied to one the core principles of capitalism; that selfish intent should motivate business behaviour and the "invisible hand" would create benefits for society, as espoused by Adam Smith.

The topic of business ethics therefore often failed to penetrate into the deeper world of rough and tumble business decisions, where fortunes are made and lost, where corporations rise on good decisions and fall based on poor decisions. At best, ethics were brought to the workplace by the individual executives, managers and employees. Executives relied on their ethical foundations to determine what to do in difficult decisions in circumstances that affected stakeholders including employees, the local communities, government, shareholders, and the environment. Likewise, commercial and operational managers balanced the unyielding pressure of profitability against their own moral code in grey area decisions. Decisions that raised expenses of forfeited revenues based on an ethical principal may not have been supported, or worse could have had an impact on executive or managerial evaluations.

Today, the topic of business ethics has finally pierced that inner sanctum of corporate decision making as a result of a changing business environment and influences from multiple stakeholders.

Governmental intervention in the form of regulatory requirements has been a primary motivator in many jurisdictions. From tough anti-bribery legislation such as the UK Bribery Act and the US's Federal Corrupt Practices Act, Modern Slavery Codes, these high level interventions helped clarify expectations beyond the black and white law which was easier for corporations to push up against. These interventions have led to the creation of best practices on many subjects which then are embodied in self-policing corporate compliance programs. Mechanisms such as the code of conduct set a benchmark of expectations within the corporate microcosm, empowering the concept of ethics and regularizing it in corporate decision making. These regulations and associated compliance program requirements have raised the level of the playing field in an even way so all corporations keep the same competitive advantage. Violation of regulatory requirement such as the UK Bribery Act can cause extreme consequences for board members. Even an overt challenge to a managerial decision favouring profitability over a clear ethical principle or in particular a could easily find its way into court weighing down corporate resources or altering a manager's career, especially with the pervasive and eternal paper trail of electronic communications.

Consumer awareness and expectations have also changed. Consumers are increasingly in tune with corporate behaviour and how they match up with ethical expectations. From Max Havlaar's Fair Trade labelling to green cars, consumers now often support and purchase products that are in line with their ethical principles, creating new markets for products and services, and reject those which are out of line with such expectations.

Employees increasingly evaluate corporate character when considering employment opportunities. While there will always be applicants for positions, particularly in down markets, increasingly loose good talent, and fail to hire the desired talents if corporate character is out of alignment with that of the employee.

Even some shareholders and investors overtly consider the moral character of firms when considering investment opportunities, often willing to pay a premium in the form of reduced dividend or increased risk in exchange for the belief they are supporting global and local businesses that are in line with their personal ethical beliefs.

Broader society is also increasingly applying expectations beyond the written rules to corporate behaviour and judging it in the form of reputation. Reputation can be influenced by the actor, in this case the corporation, but it is held and controlled by the observer. The perception by society in general does not have the tangible influence that reputation among consumers of specific products and services, employees, government or investors, but it can influence the perception those groups have.

Thus the increased expectation today among external and internal stakeholders is that corporations should incorporate and abide by ethical principles, even if there is an impact of profitability. Unethical corporate decisions still occur, (as they do with individuals), but the paradigm has changed such that decisions are more commonly expected to comply with ethical norms. Business ethics in academia and in practice have adopted to these changes.

As with all unwritten rules, there is still some ambiguity and lack of consensus among society on what the specific expectations are, which can be even more complicating for corporations as they extend their footprint globally. How managers should weigh the value of often unclear expectations against pressure from other internal forces while on a conference call or in the conference room can be difficult. Other concerns such as timeliness, gross margin, key performance indexes, are often more direct and more easily quantified on power point slides or in board packs.

At the same time, there has been a radical change in the business environment. The patterns, speed and volume of information in the commercial context have radically changed. In the 20th century up, until about 20 years ago, mass information was broadcast through narrow and somewhat malleable channels. Today, mass information is much more decentralized, traveling through broadcast media but increasingly through social media. Corporations retain control over their brand, but their reputation is very much in the sea of public opinion. Social media can react swiftly and harshly to events, damaging years of good decisions and active reputation management.

This paper has reviewed several topics in business ethics linked directly to the changes in the commercial environment outlined above. The new age of information is up-ending the role and influence various stakeholders have, which has opened the door to new theoretical development.

In chapter two, it was shown how corporate virtue can be linked to corporate reputation management through ethos' role in persuasion. Conduct that is considered to be non-virtuous or unethical can not only create an ethical scandal, it have limit a corporation's ability to repair the reputational damage which is a fast-paced game in today's media.

Through ethos, virtue can influence persuasive capacity which is core to reputation management strategies. In the recent past, it was easier for corporation's to influence information through centralized advertising and influences on the mass media. Today stakeholders receive information that shapes attitude through various sources where corporations have less influence. This change has highlighted the link between virtue and reputation management. Evidence of unethical conduct (including images which can be particularly influential) can be “shared” and spread across the world in the matter of minutes having an influence on stakeholder perception, creating an ethical scandal while at the same time reducing a corporations ability to be influential among stakeholders

In chapter three, the paper proposed corporate virtue as a form of shared value. While the concept of “shared value” has been characterized by some as vague and somewhat unoriginal, it remains one of the most cited theories on how capitalism can become more sustainable. By reconceiving products and markets, corporations can pursue self-serving opportunities (as Adam Smith indicated they should) while also benefitting stakeholder interests and societal concerns. Corporate virtue can and should be pursued as a form of shared value as it benefits corporations through persuasive capacity, which is influenced by the change in flow of information, and society through increased trust and altruism.

In chapter four, the paper discusses how persuasion plays a critical role in organizational rhetoric. Persuasion can be developed in an instrumental format, characterized by one-way communication such as traditional tools advertising and marketing. As outlined in chapter four, persuasion can also be pursued in a more deliberative format characterized by two-way communication and debate. Organizational rhetoric in the deliberative format can not only be equally or more persuasive among stakeholders, it has the additional benefit of supporting moral integrity which corporations increasingly need in their new role as global citizens.

Lastly the thesis showed how corporate reputation is a critical component of value, and how the actions of the Goldman Sachs in 2008 were the root of reputational risk which became visible in the subsequent years. The value of a corporate reputation can be in jeopardy when non-virtuous or unethical conduct is inconsistent with stakeholder perception of a corporation, leading to a potential precipitous drop in corporate value.

In sum, changes in the flow of information are leading to profound and hopeful changes in the commercial environment. While unethical decisions can increasingly lead to litigation, they can also have a material impact on reputation which can have a more profound impact. The findings of this thesis provide implications from theoretical and managerial basis, demonstrating how virtue and its broader component ethos should be recognized in operational and managerial decision-making.

3. Theoretical and Managerial Implications

The research offers conceptual theory development, showing the logical connections between ancient theories of Aristotle and the present day corporate reputation and organizational rhetoric. The links between concepts of corporate virtue, persuasion, reputation and shared value offering interesting theoretical conclusions that exceed the sum of their parts.

The link between virtuous conduct and reputation management in particular offers a paradigm to better understand how virtue can and should be applied in the corporate context. Similar to how Porter and Kramer (2011) proposed that businesses could become even more successful by reconceiving products and services in a different light, managers can and should reconceive the concept of corporate virtue and the principles it espouses as being mission critical. The long-stated mantra that “business is just business,” the not-so-subtle justification of profit-oriented decisions over most other considerations is less common in business dialogue. Nonetheless, it can still be difficult in many circumstances for managers to prioritize virtuous conduct over short term profitability. When pressure builds or there is a push to meet certain financial targets (particularly when potentially operating at a loss) or if incentive scheme targets are involved, it is easier for management to focus on the apparent minimum requirement of what is legal, while principles of corporate ethos, altruism and virtue can be perceived as optional or secondary. The link between corporate ethos and persuasion explored in chapter two provides managers with a tool to use to make the corporate virtue a business tool if not mission critical. Managers are capable of articulating the benefit of persuasion and reputation, particularly as reputations are viewed as important assets which are broadly outside the control of management in today’s age. Using the theory espoused in chapter two theory, managers should equally be able to explain the benefits of being virtuous over just being legal for both short term and long term goals.

The proposal of corporate virtue as shared value discussed in chapter three has both managerial and theoretical implications. While shared value has been hailed as a means of supporting sustainable development in capitalism, it has been criticized for a lack of definitional clarity (Dembek et al, 2015). Many of the case studies or examples of shared value provided in literature failed to meet the more rigorous definitional standards of shared value upon review (Dembek et al, 2015). Corporate virtue as a valid form shared value is one of a few offerings that provide a systemic approach to shared value, as opposed to individual events or programs that purport to support both the business and its stakeholders. This systemic offering, imbedding corporate virtue into corporate practiced, could have both theoretical and managerial implications on how virtue is perceived by managers.

The discussion in chapter four on persuasion in a deliberative context opens up the door to new forums for organizational communication. Organizational rhetoric in a persuasive context is most common via one-way communications such as advertising and marketing. The chapter reveals how the predominant use of persuasion in instrumental context (one-way communication) may have contributed to the lack of trust between stakeholders and a corporations. Whether it be the perception that business communications are expected to “puff” in the sales process, or the more concerning perception that businesses often try to “pull the wool over the eyes” of the audience, such one-way communications have had an impact on the level of trust between the business community and stakeholders. More importantly, the chapter proposes that businesses balance the use of persuasion in an instrumental context with its use in a more deliberative context (two-way communication) such as town halls and interactive conversations. Opening up communication with stakeholders and attempting to be persuasive in a dialogue, allows corporations to pursue the desired changes in stakeholder attitudes, but in more sustainable manner, and in one that fosters trust between the corporation and its stakeholders.

4. Limitations

This paper has focused primarily on the conceptual development of several theories associated with the changing nature of information in the global marketplace today. The new channelling and exponential increase of volume of information being exchanged today between companies, consumers, markets and countries is dramatically different from even 5 years ago, and has now radically changed the commercial landscape which companies compete in. This new flow of information has also caused changes within balance of power in the marketplace. Large businesses still have the resources to influence regulators, create large scale awareness campaigns that can tilt public opinion in their favour, and be persuasive in advertising. But the decentralization of information has empowered other stakeholders such as employees, customers and investors who ultimately control the reputation of each company to assert their opinion, and do so in ways that can have a material impact on corporate reputation and profitability.

These changes in the flow and patterns of information and balance of power today laid the framework for the theories on reputation management and shared value proposed in chapters two and three. These two theories and the theory on persuasion in the deliberative context have all been developed using a conceptual methodology, and are limited in durability to that extent.

Another limitation of the paper is the research focus on Aristotle's theories of ethos and persuasive appeals. Aristotle's theories remains foundational and applicable today, so they served as the backbone of the theoretical development into these new areas. The theories should now be further developed incorporating other theories on persuasion to open up the applicability and durability.

5. Research Outlook

The conclusions in this thesis set the stage for the author to launch a new round of research further exploring the link between corporate virtue and corporate persuasiveness, and hence corporate performance.

First, now that the link between corporate virtue and performance has been established using a conceptual methodology, the author would like to investigate the extent the link exists in various industries using other qualitative or quantitative methodologies. To what degree is this link stronger or more direct in some industries, or perhaps weaker. Is there a correlation between the strength of this link in industries where consumers play a larger role in corporate reputation through social media? Has this impact on corporate persuasion had a material impact on business behavior under certain circumstances but not others? Measuring this link using other methodologies in specific industries would also help convert the findings into learning points and specific managerial implications.

Second, as the concept of "corporate virtue" is critical to the theory developed herein involving corporate ethos, the author would like to further explore this notion that corporations can become virtuous in view of the fact that corporations have no single conscious. As noted herein, several studies have argued that corporations embody patterns of virtuous behaviour through their craftsmanship and collective decision-making, and this impacts corporate ethos. But the notion that a corporation, a legal fiction, can be virtuous as described by Aristotle 2000 years ago leaves room for more research, particularly through the notion that virtuous conduct can be learned according to Aristotle, demonstrating how corporations learn.

Lastly, there is also potential to develop a research agenda into the concept of reputation economy. With reputations increasingly being recognized as a critical asset, more corporate resources are being dedicated to develop and protect the asset. Reputation therefor can drive corporate behaviour.

Reputations also serve as a means of feedback relating to unethical behaviour. Thus while concerns about unethical behaviour often lacked a forum or voice, the social technologies of today are allowing stakeholders to have a larger voice regarding ethical values. These profound changes are opening up new doors in research on business ethics.

Resilience studies, which began in the field of ecology and has been applied in various disciplines and contexts, can now be further extended into persuasion to organizational rhetoric studies as another avenue of potential research. Persuasion, as the goal of rhetorical inquiry, is rooted in and has a long history of serving and strengthening that massive organization called the public sphere. As our planet, and its many component parts, including organizations, begin to feel the weight of resource overuse, the language of resilience is a useful tool for both assessing and designing sustainable organizations. While persuasion is a powerful and important tool for shaping internal and external messages within organizations, many have rightly noted its potential negative implications. While it is not coercion per se, instrumental persuasion based on complex communication strategies built on decades of attitude change research in the social sciences can be perceived by stakeholders as a form of manipulation, challenging credibility and moral legitimacy of corporations. The question is thus, can we recover a form of ethical persuasion whose sole purpose is to strengthen and make resilient the many organizations that constitute our world? The preliminary answer lies in the distinction made above between the transitive and intransitive use of the verb, '*persuadere*' outlined in chapter four. The research outlook should incorporate a re-invigoration of the transitive, a move that would focus more on the relationship between people involved in a persuasive act. As in ecology, relationships are essential to a healthy organization. A fruitful line of inquiry might develop this line of thinking, asking what we can learn from ecology and the Latin roots of the term '*persuadere*' about the importance of relationships in organizational change and management.

6. Final Remark: Learning Experience

As promised by several doctoral friends of mine five years ago, my PhD adventure has been a learning process that has gone much deeper and wider than I could have imagined at the time it started. It has honed my writing skills, and taught me the value of quality research both from a procedural perspective, but also a substantive perspective.

The research process has exposed me to a wealth of knowledge and literature on persuasion and reputation, spanning from Ancient Greece to the current corporate environment, which I consider to be invaluable. I have been able to explore new theories such as shared value and reputation risk enabling me to participate in the discussion. Spending this much time focusing on a subject, exploring and understanding its various layers and angles as approached in academia and by the industry, how it has been critiqued and evolved over time, has is the exposed me to the level of knowledge required to be an expert on a subject which was a humbling experience..

I have learned the value of testing and substantiating good ideas through standards in the research, writing and editing process, as a means of knowledge creation. There is a process to value creation, which I under-appreciated prior to embarking on this journey.

It was not possible for me to understand and appreciate this depth of knowledge and rigor required in the knowledge creation process. This process of discovery and learning, which has been both rewarding and enriching, has brought me to the position where I feel I can now begin to contribute to the field and the process of knowledge creation in a constructive manner.

Appendix

A. List of Publications

Shanahan, Ford; Seele, Peter (2013): Ethics and the Development of Reputation Risk at Goldman Sachs 2008-2010. In: Luetge, C.; Jauernig, J. (Eds.): *Business Ethics and Risk Managemen*t. Springer Book Series: Ethical Economy, Vol. 43. NY., NY., USA

Shanahan, Ford; Seele, Peter (2016). Ethos. In C.E. Caroll (Ed.). *The SAGE Encyclopaedia of Corporate Reputation. Sage*, Thousand Oaks, CA. USA

Shanahan, Ford; Seele, Peter (2015), Shorting Ethos: Exploring the Relationship Between Aristotle's Ethos and Reputation Management, *Corporate Reputation Review*, 18(1).

B. Other Journal Articles

Shanahan, F., & Seele, P., (2016). Creating Shared Value: Looking at Shared Value through an Aristotelian Rhetorical Lens. In *Creating Shared Value – Concepts, Experience, Critisism*, J. Wieland (Ed), Volume 52, Springer Book Series. NY., NY., USA
Status: Accepted and pending publication.

Shanahan, F.; Vogelaar, A.; Seele, P., (2017 pending), *Persuasion*, In Øyvind Ihlen and Robert L. Heath (Eds.), Handbook of Organizational Rhetoric,:

Status: initial proposal accepted by editors, initial draft submitted 1 September 2016

C. Conference Presentations

Ethics and the Development of Reputation Risk at Goldman Sachs 2008-2010, presented at the European Business Ethics Network, Annual Meeting 2012. Business Ethics and Risk Management. TU Munich, Munich Germany, 7-10 December 2012

Creating Shared Value: Looking at Shared Value through an Aristotelian Rhetorical Lens presented at the European Business Ethics Network, Annual Meeting 2015. Creating Shared Value – Concepts, Experience, Criticism. Zeppelin University, Friedrichshaven Germany, 28-29 May 2015

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