Reducing reputational risk
Evaluating stakeholder salience and prioritising stakeholder claims

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Abstract
Purpose – The purpose of this paper is to establish how executive managers in a South African organisation prioritise and manage reputational risks arising from stakeholder claims. The authors establish how corporate reputation and reputational risk fits into their decision making when considering stakeholder claims.

Design/methodology/approach – The authors conducted in-depth interviews with the top management of a South African paint manufacture. They identified eight stakeholder claims and discussed how they assessed and addressed each one.

Findings – Respondents identified highly, moderate, and low salient claims. They reported on how they dealt with these different claims in terms of the attributes of power, legitimacy, and urgency.

Originality/value – This is an empirical theory-testing study of how managers deal with stakeholder claims. The authors establish how corporate reputation and reputational risk fits into their decision making when considering stakeholder claims. The authors suggest that managers must not only understand who their stakeholders are, but need to evaluate the impact of stakeholder claims in order to manage reputational risk.

Keywords South Africa, Reputational risk, Stakeholder salience

1. Introduction
Given the growing importance of stakeholder relationships in marketing and the limited empirical investigations capturing this practical reality, it is imperative to holistically examine the marketing implications of paying attention and responding to the demands of multiple stakeholder groups (Bhattacharya and Korschun, 2008). Many stakeholder groups have an influence on marketing relationships including customers, employees, suppliers, shareholders, regulators, and local communities. Firms need to understand how to prioritise the interests of the different stakeholder groups and whether they should differentially weight their focus or whether all stakeholders should receive equal concern (Hult et al., 2011).

Although stakeholder theory has received much attention in the management and business ethics literature, there is limited attention given to reputational risk in the context of stakeholder management. Stakeholders are considered the most worthy evaluators of reputation and reputation risk (Ou et al., 2006). Managing stakeholder demands is not easy.
According to Clement (2005), organisations face increased pressure from various stakeholders in terms of their demands and hence, we argue, fast growing levels of risk. Stakeholders may provide the firms with resources, but also require their needs or interests to be met (Mainardes et al., 2011). Rather than adopting a dyadic (Sauter and Liesen, 1999) or even broader systemic approach to stakeholders, much of the stakeholder literature emphasises the firm’s interactions with individual stakeholders or stakeholder groups such as suppliers, customers, employees, and communities (Laplume et al., 2008).

Reputational risk has been viewed as the single biggest risk facing companies (Murray, 2003). It differs from other types of risk in that it encompasses purely “man-made” products of social interaction and communication (Power et al., 2009). Scandizzo (2011, p. 18) describes reputation risk as “a function of the gap between stakeholder expectations and the company’s performance”, and Fombrun et al. (2000, p. 88) even suggest that, “since reputational capital depends on stakeholder support, each stakeholder group is a source of reputational risk to be managed”. The executive management of an organisation therefore has an important role in managing the stakeholders. Even though some stakeholders demand more from an organisation than others, they all form an impression of that organisation resulting in either positive or negative consequences. Clement (2005) suggests that responsible firms are governed by directors who embed a culture of ethical practices, lead the way themselves, and reward employees for behaving ethically. Directors also need to ensure that they respond ethically and responsibly to stakeholder demands in order to build corporate reputation and mitigate reputational risk. The purpose of this research is to understand the reputational risks arising from stakeholder claims that executive managers in a South African organisation have perceived, prioritised, and managed. Although there have been studies on how managers prioritise stakeholder demands, there is a gap in the literature regarding examples of such claims, and how reputation and reputational risk are included into their decision making when considering stakeholder claims. Mainardes et al. (2011) suggest that it is difficult to pay attention to all claims; we clearly need recommendations on how to attribute relevance to stakeholders and their claims, as is the case with the stakeholder salience model (Mitchell et al., 1997), thereby contributing to the practical application of this theory despite the long standing lack of thorough empirical testing.

We proceed as follows: first, we review the literature on corporate reputation and risk, and stakeholder salience. The methodology used in this study is then described. We then report the results and discussion thereof. Last we conclude and make recommendations.

2. Literature review

2.1 Reputational risk

An organisation’s sustainability is reliant on its reputation. When reputation is tarnished, organisations find it difficult to recover (Firestein, 2006). Goldring (2015) notes that a positive corporate reputation may ultimately be earned from stakeholders but is proactively developed from a strong reputation orientation. Abratt and Kleyn (2012, p. 1057) defined corporate reputation as “a stakeholder’s overall evaluation of an organisation over time”. This evaluation is based on the stakeholder’s experiences with the organisation and its brand(s), relationships with these and the organisation’s employees and representatives, memberships of brand communities and any other perceived communication and symbolism that provides information about the organisation’s actions and/or a comparison with the organisation’s rivals. Walker
MIP 34,6 (2010) observes that an organisation may have differing reputations between stakeholder groups, which further complicates managing reputation.

Risk is the product of specific social, organisational and managerial processes which could create potentially negative consequences for an organisation. Loss of reputation affects competitiveness, positioning, loyalty of stakeholders, media relations, and the legitimacy of operations (Rayner, 2003). Organisations are called upon to plan for and manage a range of risks (Power et al., 2009). According to O’Callaghan (2007) reputational risk can be divided into business and socio-political. Business risks for an organisation include: product failure/recall, poor advice and service, fraudulent activities, poor governance and decision making, intervention by regulatory authorities, litigation by stakeholders, unethical behaviour towards competitors, infighting/disarray of the board of directors, security-related issues, and poor policy or strategic decision making. O’Callaghan (2007) argues that reputation risks are the most serious of all the risks facing an organisation as they may damage it in its entirety, and overcoming them is usually expensive and difficult. Fombrun et al. (2000, p. 88) defined reputational risks as “the range of possible gains and losses in reputational capital”. Stakeholders are a source of risk to be managed as they are a threat to an organisation’s reputation. Organisations need to focus on possible reactions to and perceptions of organisational conduct (Power et al., 2009). The action of a few employees can bring down an entire organisation via a “multiplier” effect as their actions can be interpreted as a signal about the culture as a whole (Power, 2004). An important fact to consider is that reputation risk can result from an organisation’s own communication including their reaction to claims presented by stakeholders (Aula, 2010).

2.2 Stakeholder salience
Organisations seeking to effectively manage reputational risks must make continuous decisions based on stakeholder saliency defined as the degree to which managers give priority to competing stakeholder claims (Mitchell et al., 1997). They note that managers have limited resources to attend to all stakeholder demands at the same time, and are influenced by players that control much needed resources and receive managerial attention. Hill and Jones (1992) state that managers are responsible for resolving conflicting interests by strategically deciding and allocating resources that are most coherent with the claims across stakeholder groups.

Although Mitchell et al. (1997) proposed that stakeholders could be identified due to their possession of power, legitimacy, and urgency relative to the firm, their view is that it is the management of the firm who establish which stakeholders are “salient” and thus receive attention. Mitchell et al. (1997) suggest that stakeholders may be allocated into one of three stakeholder classes. The first are latent stakeholders. These are low salience classes and possess only one of the attributes of power, legitimacy, and urgency. Mitchell et al. (1997) explain that firms with limited resources cause managers to pay little attention to these stakeholders. The second are expectant stakeholders who are moderate salient classes possessing two of the attributes. Mitchell et al. (1997) explain when two attributes are present, the stakeholder moves towards an active claim; the firm’s response increases accordingly resulting in a higher level of managerial engagement. The third grouping is definitive stakeholders who are highly salient classes. Mitchell et al. (1997) propose stakeholder salience will be highest when all three attributes are perceived by managers to be present.

Neville et al. (2011) have argued that power, moral legitimacy, and urgency are evaluated on a range of levels, and should not be represented as dichotomous variables. They present a definition of stakeholder salience as, “the prioritisation of stakeholder
claims by managers based on their perception of the degree of power of the stakeholder and the degree of moral legitimacy and urgency of the claim” (Neville et al., 2011, p. 369) and reiterate that the incorrect assessment of salience with its attributes could result in mismanaging stakeholders by managers, possibly causing financial and reputational loss. Tachman and Raelin (2013) propose that managers alone should not determine stakeholder salience and that the perceptions of organisational and societal stakeholders should also codetermine the salience of the focal stakeholder to the firms. They argue too that rather than categorising stakeholder interests as salient or non-salient, managers must prioritise stakeholder interests by making sometimes difficult trade-offs. An empirical study of a forestry company under pressure to concede to environmentalists demonstrated the interconnectedness of stakeholders and the need for management particularly in situations characterised by a high degree of urgency, to secure legitimacy across stakeholder groups by focusing on building the organisation’s reputation (Winn, 2001).

2.3 Relationship between reputational risk and stakeholder salience
Reputations have some basis in a firm’s actions as it is the firm that decides on product quality, what prices to charge, what to communicate to various stakeholders, location, and how it compensates its employees. Reputation and its accompanying risks are therefore being constructed by various stakeholders who have varying demands and therefore perceptions of the firm (Bebbington et al., 2008). Fombrun et al. (2000) contend that reputational “capital” is at risk in everyday interactions between organisations and their stakeholders. Managers are constantly balancing the claims of stakeholders against those of other stakeholders, especially shareholders. Firms need to not only consider their interactions with each of their stakeholders, but must also understand interaction between the stakeholders. Therefore, when organisations manage their corporate reputation, they should consider their stakeholder relationships, and observe how the stakeholders influence one another (Dutton et al., 1994; Hillenbrand and Money, 2007). It is necessary to conduct relationship marketing in order to engage in actions to meet stakeholder demands on the organisation. Managing the relationships with each stakeholder should pay attention to how these are guided by organisational actions and initiatives established with the purpose of creating, building and strengthening the organisation’s bonds with respective stakeholders (Mainardes et al., 2012). One way of managing stakeholder relationships is through the commitment-trust theory developed by Morgan and Hunt (1994) who posit ways to develop commitment and trust between various stakeholders and the firm.

Dantchev and Heene (2004) suggest that organisations should convey consistent information signals over time that stakeholders believe, share and trust. In an area of multiplying stakeholder demands, directors tasked with managing reputational risk need to identify potential risks emanating from stakeholder claims; understand the impact of these risks across all stakeholders in the firm’s network and; determine the appropriate course of action to manage such risks.

3. Methodology
This study adopts a case study design (Yin, 2009). The company studied is a subsidiary of one of the largest paint companies in the world delivering global revenue of 14 billion Euros per annum, operating in over 80 countries, and employing 50,000 people. The South African subsidiary is ranked within the top three paint manufacturing companies and has shown market growth higher than the South African gross
domestic product percentage growth levels for the past five years. The South African company has 385 employees and it supplies paint to over 3,700 retail stores countrywide, and 720 professional contractors.

A total of eight face-to-face interviews were conducted across every member of the executive management team. Due to the seniority and business experience of the selected participants from all functional areas of the organisation, they were asked to deliberate their views on corporate reputation and stakeholder theory by surfacing and discussing real scenarios. The cross-functional aspect offer different perspectives of the theory and assist in triangulation of primary data.

The population chosen was the heads of department from each functional area within the business. They were all permanent employees with vast executive experience, a common vision and goal, and global communication within the company network. The ages of the executive team ranged from between 41 and 59 years. All respondents had spent most of their career with the company.

A discussion document was developed from the literature review. Respondents were asked to describe at least one stakeholder claim that they had faced and each was probed in terms of Mitchell et al. (1997) dimensions of saliency as well as the implications of each claim for reputational risk. In an attempt to elicit rich descriptions, the interview guide was semi-structured. Respondents were asked to describe a situation where a stakeholder (or group of stakeholders) had raised an issue that had the potential to damage the organisation’s corporate reputation. In cases where respondents did not describe the relationship between the organisation and the stakeholder(s) in question, this information was sought. Respondents were also questioned about the reasons why the scenario had potential reputational consequences and were then asked to explain how they had managed the issue, and the consequences thereof.

All communication during the interview process was recorded with consent from each respondent, documented, and electronically saved. The discussion guide was used in tandem with the recording to assist with the interview process by providing prompts to remain within the research area and avoid diverting to unrelated subjects. The research team also conducted document and archival research. Secondary information about the company, press documents, extractions from minutes, administrative documents, and legal documents were collected. The variety of sources of data taken together with the literature allowed for multiple forms of triangulation (Yin, 2009).

4. Results

4.1 Stakeholder claims

Eight claims were identified by respondents. We found that managers make decisions not only on the importance of the stakeholder, but based on the salience of each claim. When doing so, they take into account the reputation risk of the particular situation which depends on whether they view the claim as legitimate, the relative power of the stakeholder as well as the urgency of the matter.

4.1.1 Claim one: developer sues over shopping mall. A professional painting contractor had purchased tinted product (mixed to a specific colour) from a small retail professional paint store in 2007 to paint a shopping mall located in the Northern Cape region. Unfortunately the store had used the incorrect formulation, and this led to colour fading after a short period post being applied on the exterior of the building. As the legal manager stated “we had to do very in-depth investigations and our
Evidence was pointed to the fact that the store actually made the error with the formulation, so we actually tried to address it in that regard to the contractor who was suing us because the developer then sued the contractor. The claim was raised by the painting contractor in 2008, because the developer refused to pay the contractor due to the paint fading and four years later, the claim had not been resolved. The developer served the company with a summons from the high court.

The legal manager stated “this is very serious because it, the cost involved of defending a high court summons and it means the start of high cost litigation. I can’t even tell you the cost but it can [add up], you know, to get an advocate. I was very worried. I had to discuss it with global bosses because the moment that it goes to the high court it’s in the public domain and you can have negative publicity”. For the company this was a top priority, the legal manager said “I remember clearly I had to leave all my other matters. My global management said to me my first priority was to get it out of the high court”.

The CEO said that “the situation developed and progressed from people writing letters to each other to the degree that it eventually came back to my desk and we just didn’t make any progress”. According to the legal manager, they managed to get the case out of the high court and she said “we got them to agree to have a round table to see if all parties could reach an amicable solution”. The CEO said that “eventually the R&D director and I flew to the area to meet all the stakeholders on site”. He stated that “this was a massive claim, I think it was a R700,000 or R800,000 claim”. After more investigation and the on-site meetings, the company agreed to assist with a donation of paint, which would be sufficient to complete the affected areas, and “make a contribution towards labour”. According to the CEO, “okay, an ex-contribution. We put that in writing, etc. but therefore we need a letter to say that you are comfortable with this and there are no further claims and that was more than a year ago and we’ve had nothing back from them”. The legal manager said the same, and added “we don’t want to have a negative reputation that people will say what, how come there’s such a big mess at the mall and it was Brand X Paint”.

The CEO went onto note that “this potentially could have had quite a big impact on future business and corporate reputation, both. It is therefore, after understanding everything and analysing, what we believe is fair and equitable. We were most probably more fair and equitable than what the reality required. And that was that type of behaviour, I think, is what drives therefore responsibility from the brand, corporate image and those kinds of things”. Excluding the labour contribution, the estimated value of paint required as the donation was in the region of R50,000. The CEO questioned whether the sum of money was “worth damaging, the potential damage, corporate damage, brand damage, etc. and/or future loss of business? But you can only make that decision if you understand the problem”. Corporate reputation at the time was a major contributor to the salience of this claim, as the legal manager stated “the corporate reputation was very important both for the global company. The local view was that the reputation of the company was at risk, and the brand. Management didn’t want the brand to be looked at in a bad negative light or seen as inferior to other brands. We didn’t want that to happen”.

When asked about why this claim received his focus relative to other claims, the CEO said that if claims were not highly salient he would delegate the claim to one of the executives or managers to resolve. He noted, “if everybody demands my immediate attention for everything, I’m going to work 37 hours a day, flat out, and I won’t get
everything done.” He further stated “what I have done, especially internally, when someone asks me for X, Y and Z internally or send me things; I sometimes ignore it completely because I think it is completely utter nonsense”. In evaluating his comments, it was clear that legitimacy would not be present in those situations.

4.1.2 Claim two: contractor demand recoat of government building. The second claim was raised by the sales and marketing executive. A government building in the city of Kimberley was painted and a claim against the company was raised three or four years later. After a site meeting with all the relevant stakeholders it became apparent that there was a problem with the coating (leaching), but the relevant cause was not properly established. According to the respondent, in order to assist the customer and asset owner, the company had originally decided to repaint the affected areas and make good all areas of concern, as stated by the respondent “well if you paint the entire building it is going to cost you R400,000, and that thinking made them make the decision to say they are only going to go and paint the affected areas and not the entire building”.

What had transpired since then was that no resolution was ever adopted or executed by either party, and the claim had now become four years old. This was a poor performance issue by the company’s technical department responsible for resolving the issue. According to the respondent, “the government department had put the pressure on the contractor, not wanting to pay him and putting through the claims. The contractor put the pressure back onto the store saying it’s your fault. The store had come back to us and said that it’s our problem because the product had leached and, from a technical perspective, yes, the product had leached”. The sales and marketing executive was concerned about the corporate reputation because Kimberley is a small town, and as he stated “the building is really looking pathetic. Everybody knows it’s been painted with Brand X”. He then reflected that there was some internal conflict as to why the claim was not settled and to what extent the company had committed to make good. There was miscommunication and confusion between what the company had said it would do and did. He stated “I then made a decision yesterday to say well we will repaint the entire building, although it is going to cost us R200,000 extra”. He elaborated on the issue further by stating “we’ve actually dragged this claim for so long that it wasn’t fair on the customer, where the contractor bought the paint from, I mean, the relationship is destroyed. The contractor is highly annoyed. The government building is looking pathetic and they are upset so, I mean, it’s the whole chain of events that needed to be rectified”.

The respondent said there were two things driving this: “corporate reputation because there’s various stakeholders and word-of-mouth is actually quite dangerous, especially in a place like Kimberley or in any area. You also put the reputation of our company at stake with your customer, right, where you could lose potential business. So there’s an impact on business, with the contractor as well and I think, from an ethical/moral point of view, if your staff are saying, ‘This is what we agreed in the meeting’. You cannot go back on your word”. When questioned whether his decision to rectify the situation was based on moral and ethical grounds or business objectives, the respondent stated “I would say the driver would have been probably more moral. If the meeting occurred where we were categorically saying, ‘Listen’, from day one, ‘We are only going to be repainting the affected areas’, which was probably the right thing to do. Then I would stand by saying, ‘We wouldn’t repaint the whole building’. But the mere fact that you’ve actually agreed to the contractor that this is what you
are going to do; he’s gone back to the customer and the customer has gone back to his customer – I think that is where the horse has bolted”.

The respondent reflected by saying “I think what we do is the minute we see that these are big claims we kind of just stretch it and it does a lot of damage in the long run”. He emphasised and alluded to that as a company in the future they must admit when there is a problem, and execute a faster resolution to avoid any reputational damage.

4.1.3 Claim three: consumers seek restitution for faulty raw material. In other highly salient situations the procurement executive spoke of a situation where the company had a claim on the raw material supplier for supplying faulty material. The net effect was faulty products were produced and sent to market and in-store. The impact was claims by consumers and professional contractors due to product failures, and reputational harm, and a financial claim against the supplier, “it was all legitimate traceable referenced and we ended up with a sizable payback”. From a corporate reputation perspective, he stated that “whenever you have customer complaints like this, corporate reputation is paramount. That is why the speedy resolution, the extent to which we’re out there at the cold face ensuring that we resolve those claims and we know about it and they’re legitimate [matters]. You know, with a sense of urgency. We basically pay for the resolution of the problem, [it] helps you protect your reputation”.

4.1.4 Claim four: aerosol manufacturer supplies faulty paint. The procurement executive gave an example of an aerosol manufacturer who manufactured spray paint for the company. He stated “we know he is not a good supplier but, you know, it’s a case of he’s the best of the worst”. This immediately implied that there was legitimacy lacking. He further stated “we have intermittent supplier problems and things like that and it’s also a case of saying, you know, really we either have to accept what we get and we deal with it as and when the issue has come up. Alternatively, if we start to put undue pressure on the supplier they’ll simply put their hands up and walk away”. He added “It gets limited attention but it does have stakeholder impact on the other side when we don’t have stock available. But then we discussed it as a business and questioned what the impact of reputational damage is if we don’t have anymore of aerosols in the market place. The business agreed that based on its number of resources and the ability to deal with this particular issue we would not pursue it. It’s not worth the effort and the impact on the business from a reputational perspective is small”. He then stated the business would attend to any aerosol product claims as and when they arose.

4.1.5 Claim five: retail customer enters territory dispute. The sales and marketing executive provided details of a difficult situation he had experienced with a retail customer. This customer had been long standing for a number of years, but felt that the company had breached his contractual territory by allowing a new retail outlet of the same business profile to open in his area. The respondent explained “This customer was a paint specialist of ours for quite a few years. He actually bought one of our stores and he was our primary distribution into the trade market in a specific area. Then when I took over in January I discovered that the sales rep that used to service him, was appointed as the Preferred Stockist cutting this guy’s territory in half. But the problem was this company was over a period of time actually in breach of contract because he was buying other paint and selling it. He was actually using his market position to promote the competitor brand and we had an issue with that”.

“He was threatening us to close his account, throw us out and replace us with another brand and he was putting a lot of pressure on […] legal pressure, legal letters that we got that we were in breach of contract, that we were deliberately sabotaging his business, all
sorts of claims while we were still supporting this guy [...]. He phoned me at night, and every now and then I received a phone call, I could not get rid of the guy. He was on my case. And then I visited him once and then afterwards another colleague of mine and I had a meeting and we started debating what we should do. Should we react, should we give in or just wait and see what happens if he doesn’t want to play it out. And we decided just to wait and ignored him flat out”. “Eventually the pressures of doing business and generating a continuous profit were stronger than him. You know he was urgently trying and see if he could not get concessions out of us [...] he is still a customer and better today. I actually think that experience did him a lot of good because it made him realise who his real partners are in business and the last time I heard, there was a lot less of the competitors stock in his shop. He is playing ball with us now”.

4.1.6 Claim six: potential supplier seeks listing. The R&D executive provided an example of a potential supplier who was trying to sell raw materials to the company: “a raw material supplier who has given me things on a regular basis, samples to test [...]. He has phoned me about half a dozen times [...] In that case, all I do is ignore it. It happens on a regular basis”. As far as the pressure the supplier applied, the respondent stated “phone calls, and asking me to evaluate their products. I am weighed up in internal priorities”. The respondent was asked whether or not this potential supplier deserved stakeholder status, his answer was “no” and he confirmed that he had never paid any attention to their claim or demand. He stated that his decision not to accommodate the supplier was based on business objectives, and that there was no potential negative impact on the corporate reputation.

4.1.7 Claim seven: subsidiary requests lenience. The exports executive raised a situation where the company has an operation in Malawi. It is a separate entity belonging to the group, and manufactures and distributes its own paint products locally within Malawi. The raw materials were procured and sold to them by the South African company. The situation was explained as “the company is a subsidiary company in Malawi; their demand is that we have got to be lenient towards them in them paying their account. Obviously in holding up the fact that the country is in dire straits and they can’t raise enough money and I think the way we are treating them is with firmness so that they understand that they have got to take responsibility for managing the business. And I mean it is now six months, we have not supplied them but they are delivering the numbers. I don’t know how they do it”.

The exports executive is accountable for their results and stated that at times one needs to make very difficult decisions, and he explains the pressure Malawi is exerting on them whereby “they keep on reducing their latest view forecasts. Not giving us the numbers that we should be getting, claiming that they are not getting stock. But we know they have to pay salaries, they have to pay their bills, and they have got to make it work. Actually what we have done, thinking about it, we have actually matured them, that they can actually wash their own faces, they are not a kid anymore. I think for too long we have treated them with kid gloves not forcing them to take responsibility for their own wellbeing. And what it is proving now is that they have matured through all of this. They are getting the raw material through from somewhere, they are making the sales, they are producing what they need to produce, they pay their accounts, they have reduced their account in South Africa and they are delivering profits”. He maintains that there had been no impact on the corporate reputation.

4.1.8 Claim eight: supplier seeks status restitution. The legal manager spoke of a prior employee who resigned from the company to open a paint retail store.
This customer had a contractual agreement (preferred stockist agreement) with the company, and therefore was entitled to certain benefits. “The problem is he ran into huge financial difficulties and we had to serve him with a notice of termination of his preferred stockist agreement”. The following pressure was exerted by the customer to try and create power: “he has gone to his attorney and has been threatening us with letters so I’ve been responding diligently to those letters. Recently there’s no merit. He doesn’t have a case. We don’t owe him anything […] I used to respond and then I’ve reached a point where I’m tired of this because he has not been honest with his lawyer for one”. The customer continued to claim that the company owes him money for credits from stock returns and commission, she stated that upon investigation “we don’t owe him anything; he’s saying that we owe him things and he can’t show the proof of it. He can’t come up with any documentation. We’ve got all the proof on our side that everything has been attended to on our side”. The respondent in this case no longer attended to this individual’s claims. Although the company viewed the claims as having no legitimacy, the individual was attempting to create power, and the sense of urgency could still be present because the respondent stated that “the lawyer stopped sending letters and is now making phone calls”.

5. Discussion
Mitchell et al. (1997) and Neville et al. (2011) referenced three stakeholder classes of low, moderate, and high salience.

5.1 High salience class: definitive stakeholders
The first three claims were all examples of definitive stakeholders (Mitchell et al., 1997) with the three attributes of power, urgency, and legitimacy being present. In these cases, the managers were extremely sensitive to the level of saliency of claims and personally attended to the claims, usually urgently. In the first claim, the stakeholder with the claim against the company had power, legitimacy, and urgency. All three stakeholder attributes were present creating the highest level of salience from a definitive stakeholder. In unbundling this particular situation, the company had resulted in this situation by default. It was their retail customer that supplied the contractor using the incorrect formulation; however the company’s reputation was now at risk of harm through no fault on their part. The company could have fought this in court, and had a strong case due to them not being at fault; however the end result could have been losing the retail store through liquidation (they were too small to absorb the cost of the claim). Also having the case in the public domain would have created awareness of their paint failure, and therefore the possibility causing harm to their reputation. The risk of harming the corporate reputation was driving the salience in this case. The urgency was driven by the need to protect their reputation and keep the claim out of the high court because a summons gives a limited time period in which to respond. The power was driven by the legitimacy of the actual complaint, and the summons to the high court. The decision to make a contribution to costs underscored the importance of signalling the value of customer relationships with both contractors and end-users.

The situation in the second claim was another example of a high salience claim, and showed all three attributes of power, legitimacy, and urgency, but again reputation was viewed at risk by the manager. Where this situation differed from the mall was that the pressure exerted by the stakeholders with the Kimberley case was not as dramatic as
with the mall because there were no legal implications yet with this case. Because of the extent of the legitimacy of the claim (the paint had failed) an inherent power was at play, and this power was coupled with the threat of damage to relationships and reputation. The urgency was driven by poor past performance from the company which also had an impact on the reputation, and the respondent had to make good as quickly as possible.

There are two main findings that are not represented in the stakeholder salience model. Reputational risk was the main driver of the urgency, and hence the urgency is a consequence of corporate reputation risk from a salience perspective. Managers’ perspectives reinforced the findings of Neville et al. (2011) that legitimacy is a function of the nature of the claim rather than the stakeholder per se. Claims with high legitimacy were associated with high levels of reputational risk as a result of potential negative word-of-mouth and impact on relationships across stakeholder groups if not addressed quickly.

5.2 Moderate salience class: expectant stakeholders
In claims four and five, the situations explained by managers all lacked legitimacy, yet power and urgency were strongly evident. In these situations, the cases do not support the theory as the managers in these cases did not regard the claims as salient. They delayed efforts or passed them off to lower level employees. In claim five, the customer tried to influence the manager through use of legal power and withholding strategies. The customer’s claim lacked legitimacy and the company had no desire to build strong stakeholder relationships. The net result was not receiving concessions from the company and the manager not attending to his claims.

The lack of salience by the managers raises the question of whether or not the managers consider the claimants as stakeholders. We observed that managers did not accord stakeholder status if they, or their claim, did not have legitimacy. Another observation was that in all moderate salience cases, corporate reputation was not under any serious threat and could be moderately dealt with.

5.3 Low salience class: latent stakeholders
Claims 6-8 only showed urgency as an attribute, and the managers showed minimal salience, and minimal intention of addressing the stakeholder claims to their satisfaction. The theory adopted by Neville et al. (2011) argues that a stakeholder possessing urgency alone should not be granted stakeholder status; this was once again established. There was no risk of reputational harm to the company. In the Malawi claim, the situation clearly had urgency, but lacked legitimacy because they regularly defaulted on payments. Because they were unable to obtain required materials to continue manufacturing, the stakeholder also lacked significant power.

Analysis of the comments regarding reputational risk associated with each claim showed that in cases of high salience, managers were far more concerned about reputational damage and the risk to stakeholder relationships. When asked about high salience claims, respondents alluded to the fact that when the corporate reputation was at risk of being harmed, the salience increased, and this was mainly driven by the legitimacy of the claims. The salience of the stakeholders in high salience claims also extended to other stakeholders. Management perceptions of corporate reputational risk are depicted in Table I.
Table I indicates that in high salience claims, the potential to spill over to other stakeholders is high, the perceived corporate reputation risk is also high or moderately high. Consequently management attention is extremely high to high. In situations where the claim has moderate salience, the potential spill over to other stakeholders is moderate with low perceived corporate reputation risk. In these situations, management attention was moderate. When the salience of the claim is low, the potential spill over to other stakeholders, the perceived corporate reputation risk and management attention are all low.

6. Conclusions and recommendations
We acknowledge that given the single case study research design, our findings cannot be generalised. The findings suggest that managers must not only understand who their stakeholders are, but need to ensure that they consistently evaluate the impact of potential or actual stakeholder claims in order to manage corporate reputation risk. Claims that receive the highest prioritisation have the potential to damage reputational perceptions and ultimately relationships, not only on the part of the stakeholder concerned, but in the eyes of other stakeholders as well. Inadequate or inappropriate actions on the part of managers who are faced with potentially damaging claims could not only affect the business performance of the organisation but pose potentially negative societal consequences.

Our findings suggest that given the limited resources available in organisations, managers faced with claims engage in executive triage to allocate resources to managing claims. Such decisions need to avoid unnecessary costs and reputational damage through mismanagement. Findings showed that corporate reputation risk is related to stakeholder and issue salience, based mainly on legitimacy of the claim. High levels of corporate reputation risk are associated with high levels of salience and
a concomitant increase in urgency. In the cases where low salience and moderate salience exist, the corporate reputational risk is seen to be limited. Even in the presence of power and urgency, claims with little legitimacy demand far less attention from executive managers.

When faced with complex or uncomplicated claims, managers are often faced with decisions that need to be made that will either negatively affect the organisation’s corporate reputation or somewhat improve it. Either way, outcomes usually result in a resource or financial cost, or a corporate reputation cost, often with societal impact.

6.1 Implications for theory
Our study confirmed the theory that reputation is a function of complex interrelationships and exchanges between and among firms and their stakeholders. The findings show the links between reputational risk and stakeholder salience. Reputational risk was found to be the main driver of urgency, and hence the urgency is a consequence of corporate reputation risk from a salience perspective. Claims with high legitimacy were associated with high levels of reputational risk as a result of potential negative word-of-mouth across stakeholder groups if not addressed quickly. These are stakeholders that are crucial for the firm’s survival and are the ones that demand firm attention. The consequences of not doing so could lead to reputational damage and a serious break-down in relationships.

6.2 Implications for managers
Managers faced with stakeholder claims need to begin by understanding the problem, or the situation, through appropriate research by conversing with all stakeholders who could be affected by the claim. Managers need to assess the legitimacy of the claim, as well as both the inherent power and potentially concealed power of each stakeholder. Understanding the potential corporate reputational risk that the situation or steward, poses, enables managers to evaluate the imperative to act. If the claim is of high legitimacy, corporate reputation risk is likely to be high. The manager should identify the options available for the business to resolve the claim with the objective of a win-win outcome. If stakeholder urgency is high, and legitimacy is low to moderate, then evaluate actions based on the legitimacy of the claim and the potential for increased legitimacy. Managers need to communicate to the stakeholder to avoid reputational harm. This also allows for a time delay in attending to the claim. If legitimacy is high and reputational risk is low, urgency is likely to be low. Attention by management can be delayed, but communication to the stakeholder of potential progress is important. There may be a risk of increased reputational harm if left unattended for too long. Where urgency and legitimacy are low, evaluate whether or not the situation has the potential to evolve and move to higher salience class. If it does, communicate and postpone for further action. If no legitimacy exists, the manager might refute or ignore the claim completely.

To conclude, we suggest that managers who face stakeholder claims need to make judgements about how the claim is likely to affect reputation perceptions, not only of the stakeholder concerned, but on the part of other stakeholders. The lodging of stakeholder claims is not just a matter between the organisation and the stakeholder concerned; evaluations must be viewed in the context of a broader system of actors who, through word-of-mouth, have the potential to influence each other and in so doing, may elevate reputational risk.
References


**Further reading**


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