Michael L. Barnett

Professor of Strategy, Said Business School, University of Oxford

Featured in *Financial Times* as "Professor of the Week", Feb. 24, 2011.
Definitions now embedded in FT's Lexicon system

Business case for corporate social responsibility

Definition: *An argument that firms should invest in corporate social responsibility based upon the returns such investments produce*.

Example: Many firms have found that acts of corporate social responsibility can have financial benefits, such as increased product differentiation or decreased costs of production. To the degree that these benefits exceed the costs of engaging in the acts, a business case is made. As such, corporate social responsibility can be seen as enlightened self-interest. Often the benefits are intangible, such as improved reputation and enhanced stakeholder relationships, and so can be implausible to quantify. The business case stands in contrast to the ethical case, which can encourage firms to engage in corporate social responsibility even where it causes financial loss.

Corporate reputation

Definition: *Observers' collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time*.

Example: Many agencies publicly assess the reputations of corporations. For example, Fortune produces an annual rating of the most admired firms within the United States and across the world, as does the Reputation Institute. Reputation rating agencies often using differing criteria and methods. As a result, though financial performance proves the most predictive factor of reputation score, the ratings vary considerably across assessors.

Reputation commons problem

Definition: *A situation in which the reputation of a group of firms, typically an industry, is tarnished as a whole due to the actions of a single firm within the group.*

Example: Observers are often unable or unwilling to distinguish the characteristics of one firm from similar other firms. As a result, firms may be "tarred by the same brush" when one firm behaves poorly. For example, BP's oil spill in the Gulf of Mexico has led to a moratorium on deep water drilling that affects other oil companies.

Communal strategy

Definition: *A firm's allocation of resources to collective efforts to influence the institutions governing its industry*.

Example: Communal strategy is distinguished from competitive strategy, in which firms seek to gain advantage relative to their rivals. When an industry is under threat, the normally rivalrous firms within it may cooperate in order to counter the shared threat. Often communal strategy is carried out through industry trade associations, and may take the form of industry self-regulation. For example, bankers have worked together to counter calls for stricter regulation in the wake of the recent near-collapse of the financial industry.

Real options reasoning

Definition: *An approach to managing projects under uncertainty that implicitly accounts for the ability of managers to alter and improve these projects as technological and market conditions change.*

Example: Real options reasoning is a heuristic based on the logic of financial options. Like financial options, investments in real assets can provide firms the option to take an action at a later date if conditions are favourable, or to abandon further investment if conditions prove unfavourable. For example, by purchasing a plot of land near its factory today, a firm gains the real option of expanding its factory later. In determining whether or not to purchase the land, the firm should account for this real option value. Many investment opportunities entail real option value. However, unlike financial options, there is no objective market for most real options. Thus, real options reasoning is best used as a heuristic and not as an explicit valuation tool.