Getting It Right From the Start: How the Initial Crisis Response by Scandalized Organisations is Critical to Repairing Reputational Damage

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Abstract

Purpose: This paper draws on the case study of AWB and the United Nations Oil-For-Food scandal to examine the importance of the initial crisis response strategy for a scandalized organisation in framing the perceptions of stakeholders to the rebuilding of a damaged corporate reputation.

Design/Methodology: The AWB case study is a perfect opportunity to highlight the differences between apologia and apology in post-crisis communication and reputation management.

Findings: In seeking to avoid genuine reform of itself and the regulatory it operated in, AWB caused itself further reputational damage. This demonstrates the importance of getting an apology right from the outset.

Research: The Royal Commission established by the Australian Government examined in great detail the approach taken by AWB to the “Oil-For-Food” “kickback” scandal.

Practical implications: There are numerous studies of corporate scandals and why they occur but the AWB case study provides a unique case study into post-crisis communication and how organisations can respond effectively to corporate scandals.

Original value of the paper: The unique insights gained from the Australian Royal Commission investigations into AWB clearly show that the company initially tried to stonewall or manage through the impacts of the scandal without a genuine contrition and commitment to reform. As the National regulatory Affairs Manager, and Government Relations and Trade Advocacy Manager employed by the new management team, the author was intimately involved.

KEYWORDS: corporate scandal, reputation management, crisis-communication, public apology, post-crisis response, Oil-For-Food scandal, AWB Limited.

Introduction

AWB Limited was the centre of the one the most infamous corporate scandals in Australia and there have only been a handful of companies who have been the subject of Royal Commission. In the case of AWB ‘The Inquiry into certain Australian companies in relation to the UN Oil-For-Food Programme’ headed up former judge Terrence Cole, found that AWB and AWBI might have breached Australian law in relation to its dealings with Iraq. What made the scandal even more damaging and sensational was the politics, with then Australian Prime Minister called before the Inquiry and a major policy rift occurring within the Coalition Government.

In addition to the Australian Inquiry, there had also been a United Nations Inquiry headed up by Paul Volker that found AWB to be the biggest international culprit in the scandal. The scandal was referred to in Australia as the ‘kickback scandal’ but even more damaging was the reference to the ‘wheat for weapons’ scandal, where the company was accused of diverting UN aid money to the regime of Saddam Hussein. In 2007, the then Opposition Trade Minister and future Australian Trade Minister stated in the Parliament that as a result of the actions of AWB “We sent our soldiers to war against an enemy that we partly funded” (Crean, 2007)

The minority partner, the Australian National Party, split from their Coalition partners who voted on legislation to reform the regulatory arrangements for bulk wheat exports with the support of the Opposition in the Australian Parliament. As a result of the scandal, thirteen former executives faced possible criminal charges and
Australia’s bulk wheat export marketing arrangements, known as the Single Desk, were legislatively reformed. The new regulatory regime stripped AWB of its former monopoly and an open and competitive market was introduced.

What became apparent during the scandal, was that the company appeared to initially believe that it could weather the storm and fashion a way to maintain the status quo of the marketing arrangements. This was found to patently unlikely, as the initial response by AWB to the scandal was roundly condemned and rejected as the legislative reform process progressed. What made matters worse for the company was the initial attempts to obfuscate and avoid responsibility. This was perhaps best exemplified by the development of a de-merger proposal that was intended to satisfy the demands for precipitous action and to manufacture a legislative response that would maintain the monopoly position of the company under what was known as the ‘single desk’ marketing arrangements.

It was reported that the Australian Prime Minister had “reacted coolly” (Gluyas, 2006) to the initial de-merger proposal and it was not successful in stemming the demands for AWB to be punished. The company’s stakeholders did not accept the initial response of the de-merger proposal as being sufficient for the scale of the transgression. In pursuing this flawed strategy, the company generated further damage to its corporate reputation and lost further credibility from the perspective of the key stakeholders that it needed to assuage if it was to fix its reputation and continue to operate.

The documents provided to the Royal Commission established to investigate the United Nations “Oil-For-Food” scandal, made it clear to many, including the Commissioner that AWB had not acted genuinely during the scandal. This was evidenced by the approach taken by the company to dealing firstly with the Volker inquiry and then the Royal Commission under former judge Terrence Cole. Commissioner Cole stated that;

“AWB’s response to this Inquiry was one of non-cooperation, lack of frankness, and resort to litigation to endeavor to keep from disclosure documents and material relevant to this Inquiry. The decision to adopt that approach was made by the Chairman and the Board of AWB. It has caused inestimable reputational harm to AWB” (Cole, 2006)

As a case study of post-crisis communication and effective reputation management following a corporate scandal, AWB failed to grasp the opportunity of the situation. It failed to develop a response that would meet the demands of the community and key stakeholders. I compounded the problem by trying to stonewall and avoid taking responsibility. It was also exposed as being uncooperative and disingenuous in its approach. The so-called apology was insincere and overall it was seen to be trying to defend itself and its position despite the growing demands for action and reform of the company and Australia’s wheat marketing arrangements.

Post-Scandal Responses by Damaged Organisations

In examining the processes of repair and re-build from the perspective of the AWB scandal, this paper addresses the gap identified by De Maria (2010, Sims, 2009; Watson, 2007) and others in the field on scandal scholarship about how a damaged organisation can progress out of a scandal. One of the options considered by George and Evuleocha (2003) in their examination of the Enron scandal was image and reputation restoration. The distinction between image and reputation goes to the heart of effective post-scandal responses. Corporate image is defined in corporate branding and marketing literature as what the organisation wants others to think about it, or what it believes they think about it, whereas reputation is what others actually do think about the organisation (Brown et al, 2006, pp102). Thus reputation can be seen as being more aligned with the rebuilding of a fatally compromised reputation from the perspective of those critical to its continued existence and financial performance.

In looking at the unsuccessful attempts by Enron and Arthur Anderson to restore their tarnished reputations George and Evuleocha (2003) use the term triage as an action by companies to seize the initiative in a crisis by unearthing themselves any questionable practices before they are discovered by others. This action suggests that to be effective, organisations which are damaged by an unethical or illegal transgression must dig deeper than a repair of their image. To continue with the medical analogy, to effectively rebuild a damaged reputation, an organisation must treat the causes as well as the symptoms. In the case of AWB, the company was not left with the option of trying to repair its reputation. Instead it how to go about rebuilding ‘a’ new reputation as the company would never regain its former position but it did recover and it was able to effect a turn-around in its reputation.
While it is noted that the company was eventually accredited under the new bulk wheat export marketing arrangements, it is essentially beyond the scope of this paper to consider the long-term implications for the company based on its response to the scandal. However, it is important to note that the company was eventually reintegrated with key stakeholders, including the regulator and the government and that it was able to continue to operate, albeit in a different structure and operating environment.

According to Sims (2009) how an organisation responds to a scandal will play a large part in determining if they are able to rebuild their reputation. Larkin states that the actions taken by the organisation, especially as they relate to stakeholders, will play a defining role in either exacerbating or reducing the effects of a crisis (2003, pp63). The importance of the post-crisis approach taken by the damaged organisation and the link to genuine cultural and structural reform is highlighted by Fombrun and Van Riel;

“Overtime, some companies recover dissipated value quickly and crisis fizzles. Others experience more extended damage. Research suggests that the enduring difference may well lie in how the crisis is handled and what the reputation of the company was beforehand.” (Fombrun and Van Riel, 2004, pp 34 – 35).

In looking at how organisations respond De Maria (2010) identifies three different types of post-crisis organisation based on the available literature. These being the organisations that respond positively to the trouble they find themselves in, those that accept governance reforms begrudgingly and finally those that miss the opportunities offered by the scandal to reform. De Maria goes on to define these as ‘the redemptive organisation’; the ‘tread water organisation’; and, the ‘rogue organisation’ (2010, pp71 – 72). The focus of this paper is firstly on how AWB begins as a rogue organisation, becomes a tread water organisation through its initial mishandling of the scandal and ultimately it’s move to becoming a redemptive organisation.

This paper is especially concerned with the move by AWB from treading water to a redemptive organisation based on the organisational double-loop reflective learning and then the third-loop regulatory learning processes as a requirement for a genuine commitment to reform that permitted a successful rebuilding of the company’s reputation, especially with key stakeholders.

The Learning Process And Forgiveness

Implicit in much of the work on corporate crisis and even scandals, is that the organisation can ‘manage’ or deal with the incident or issue (Gaines-Ross, 2008; Curtin et al, 2005; Benoit, 1995; Coombs, 2007; Marra, 1998; Seeger, 2010; Hale et al, 2005) as distinct from changing the organisation and addressing the underlying or root causes (Poppo and Schenker, 2010). Rhee and Kim (2010) refer to this as the distinction between superficial and substantive reputation repair and Alsop, (2004) writes of the deep structural basis of a positive reputation. Therefore crisis such as corporate scandals cannot be managed superficially.

According to Pfarrer et al (2008) organisations that work to discover the facts of the transgression, provide an appropriate explanation of their wrongdoing, accept and serve an equitable punishment, and make consistent internal and external rehabilitative changes increase the likelihood of meeting stakeholder demands and, consequently, have a higher probability of successfully achieving reintegration with stakeholders than those that do not. This is the critical difference between single-loop reactive learning and double-loop reflective learning (De Maria, 2010; Sims, 2009; Stead and Smallman, 2002) where re-building requires genuine and meaningful reforms to successfully reintegrate the organisation.

Real success in this process occurs with what Healy and Braithwaite refer to as the third loop, which is when a regulator, which in the case of AWB was Wheat Exports Australia and the Australian Consumer and Competition Commission, incorporate the outcomes of the organisation’s double-loop learning. Once it began to demonstrate genuine contrition and commitment to reform through change, AWB as a disgraced organisation was able to work with the Australian Government on the new wheat marketing arrangements to replace the system that it had effectively dismantled through its own transgression. The successful reforms of the company’s double-loop reflective learning enabled it to then engage with the Commonwealth Departments such as Agriculture and Prime Minister and Cabinet, as well as the regulators on the details of the new arrangements. In 2008 the company was accredited with an export license under arrangements that were strengthened following the Cole Inquiry, which suggests that the revised response strategy was ultimately successful in gaining forgiveness and reintegration.
The deeper learnings of the double-loop reflective learning process can result in more fundamental reforms needed for forgiveness and reintegration. These can complement the potential benefits effective crisis communication. If done successfully, these responses can mitigate the negative impacts of a crisis and sometimes even enhance an already positive reputation (Kauffman, 2005). If however an organisation fails to respond to a crisis in the correct manner, the damage can be greater (Marra, 1998). A perfect example of things getting worse is the adage that the cover up is worse than the crime, which was certainly true of the AWB response exposed during the Cole Inquiry. It is still critical that organisations correctly manage their initial response to a scandal or a crisis, or any communication for that matter. However, while this paper highlights that AWB certainly didn’t initially handle itself with contrition or a genuine commitment to reform, the focus here is on the post-crisis response and the program for recovery where the positive outcomes for AWB came from a scrapping of the old ways of doing business that had contributed to the unethical and potentially illegal behavior.

Based on the complex and substantive commitments required to create and build a positive reputation, and what is required to protect and maintain one, Rhee and Kim state that in response to a scandal, organisations should engage in substantive actions to rebuild a reputation which involves changing the organisation’s behavior and position to remove the causes of the reputation-damaging event and prevent recurrence of similar events (2010, pp7). Moving beyond the management of the crisis, effective response strategies must address the causes of the transgression. This requires a complete and open assessment of the of the problems underlying the scandal and not just those resulting from the scandal, as well as the root causes and the steps proposed to resolve and treat those causes of the problems (Poppo and Schenker, 2010).

The critical link between crisis management and organisational development has been explored by Lalonde (2007) but most of the situational analysis has been unable to include longitudinal evaluation of the medium to long-term responses by organisations that have resulted in the regaining of credibility and rebuilding of reputation. Taking Lalonde’s organisational development approach to effective rebuilding of a corporate reputation, the organisation must go beyond the superficial capability of issues and crisis management, to address the key elements of a company’s reputation. This are derived from the fundamentals elements of culture and climate, values and behaviors, policies and procedures. In the AWB example, the company needed to address all of these and its performance in reforming these areas was evaluated by the wheat export regulator as a condition of its license to export.

An important piece of work in the area of restoring positive reputation was the examination by Muzellec and Lambkin (2004 into the tactic of rebranding to cultural change and organisational development and reform. They found that for many organisations, an improvement in the perceptions of the company for a short time did not translate in the long run into a better reputation. This suggests that cosmetic changes in response to a scandal will not address the underlying causes that go the heart of a genuine rebuilding program from the perspective of stakeholders. This was evidenced by the decision taken by the AWB management was not to ‘rebrand’ the company, as any new brand would still be damaged by any unresolved legacy issues and only once the company had been reformed could a new brand be considered. The AWB was eventually purchased and the new owner, who saw market value in the brand, it continues to trade with the AWB brand. Suggesting that the company might not have been able to recoup it loses, or recover its lost position or reputation but it was able to continue to operate.

It is for reasons such as those outlined in the above section that Seidman (2004), suggests newly appointed CEOs in a discredited organisation must “take on” the challenge of developing a new reputation based on new culture established through positive values and principles effectively embedded into the organisation and not merely espoused or claimed. This was the case with Gordon Davis at AWB, who in similar manner to the HealthSouth case cited by Sims (2009), changed the culture of the company by riding it of its vestiges of the past, although in the case of AWB this was somewhat assisted by the regulatory changes legislated by the Parliament that removed the company’s monopoly entitlements under the ‘single desk’ wheat marketing arrangements. Ultimately AWB was able to move beyond the scandal and restructure the company through significant constitutional reform such that it was damaged but no longer scandalized through significant community outrage and stakeholder anger.

**The Reaction To The Initial AWB Response**

In response to the findings of the Royal Commission the company announced in July 2006 (AWBa, 2006) that AWBI the subsidiary of AWB Limited that held the export license would have an independent board and separate governance and committee structures from AWB Limited. The Chairman of AWB International (AWBI),
Mr. Ian Donges, announced in September 2006 (AWBb, 2006), almost on the eve of the findings of the Royal Commission, that key industry good functions and dedicated staff would be transferred to AWBI as part of the improved governance arrangements foreshadowed a few months before.

The Chairman of AWBI announced in September 2006 (AWBb, 2006) that key industry good functions and dedicated staff would be transferred to AWBI as part of the improved governance arrangements foreshadowed in July. In an attempt to bolster the governance arrangements of the single desk, AWBI was also given a separate management team and staff and will serve an industry good function in managing the Single Desk, including controlling the bulk veto and providing input on permit applications to the Wheat Export Authority ("WEA"). Under the model, AWBI would retain its bundled services contract with AWB Limited with the international sales and marketing function, and therefore related staff, to remain within AWB Limited as part of the bundled services contract. However it was acknowledged at the time that the changes were “operational” in nature and didn’t require shareholder approval (AWBb, 2006) so they could not really be considered as genuine and meaningful governance reform.

The reaction to these was muted, skeptical or critical. The PGA at the time labeled the planned reforms as “window dressing and a sham to deflect criticism and curry favor with the Government” (Bettles, 2006). Clearly any response by the company would be influenced by the findings of the Royal Commission and that it would be difficult for the government and other stakeholders to evaluate the suitability of any proposal by AWB. It was also unlikely that the proportionality of the perceived punishment could not be measured until the scale of the transgressions was determined by the Inquiry. It is however instructive that the company would attempt to propose a set of measures before the findings of the Inquiry and then fail to appreciate how this might be negatively received by key stakeholders and the community.

The AWBI proposal by definition didn’t address the systemic issues of unethical and illegal behaviors within AWB Limited. Because the company hadn’t accepted it’s part in the wrongdoing, not only couldn’t it propose or embark on genuine reform, it could appreciate that the AWBI response wouldn’t be accepted by salient stakeholders and that such a proposal might be perceived as further evidence of the inherent organisational failings of the company. At the time it was reported that the Australian Prime Minister had “reacted coolly” to the proposal, a grain grower group referred to it as "smoke and mirrors" “a means to guarantee potential for further deception,” and a market analyst said at the time that "It's designed to make it look as though they're doing something without actually doing anything," (Gluyas, 2006).

After the release of the findings of the Royal Commission in November 2006 the Chairman immediately announced that a new demerger proposal under this proposal the Board of Directors would seek shareholder approval in 2007 to split AWB into two separate companies – a wholly grower-owned Single Desk manager, and a purely commercial agri-business company. These were positioned as reforms that would address the issues raised during the Royal commission. However the AWB de-merger proposal was seen as a “sham” by Professor Kerin (Farley, 2007) from Melbourne University's Business School. He was deeply skeptical of AWB's proposal to demerge, believing it was an exercise in political expediency to buy the company more time with the Federal Government in the wake of the Cole Inquiry.

This was also the overwhelming assessment of government, who felt that these changes were too little too late and did not get to the heart of the fundamental and systemic problems within AWB, which were seen to be intrinsically linked to the monopoly arrangements. With mounting pressure not only the government and competitors but also individual from grain traders to get rid of the single desk the company would need to come up with a more compelling case that it was taking on the challenge to respond to what had been revealed by Volker and what was coming out in the Royal Commission. The government was not going to accept the proposed changes, with the Prime Minister making that clear when he said "It doesn't alter the view I expressed to the joint party room yesterday, and that is that the world cannot remain the same as a result of the Cole inquiry...Plainly the status quo can't remain" (Howard, 2006). In the Parliament, Senator Johnston stated that

“The issue of the demerger we saw last week was not adequately explained, which says to me that this whole thing was simply a charade to try to look good and to be seen to be doing something” (Johnston, 2006).
As noted by one commentator at the time, the underlying flaw of the AWB response and source of much cynicism was that the demerger proposal was predicated on the export monopoly continuing (Hopkins, 2006). AWB was perceived to be trying to preserve the status quo of the monopoly. This was unacceptable to the Prime Minister and other political figures, including the Opposition. This attempt to try and link reforms into the continuation of the arrangements that had contributed to the transgressions behind the scandal was poorly received and if successful would have largely avoided the punishment that was expected from the community and others critical of AWB’s behaviour.

The Legislative Response To AWB’s Proposals

The prevailing view of the AWB proposals in response to the Oil-For-Food scandal was that company was doing enough and that the status quo could not remain. If the intent of the proposals was to engineer a way for the company to be seen to have been punished without losing its legislative monopoly, then not only was it poorly received it was largely unsuccessful.

In December 2006, the then Minister for Agriculture, Fisheries and Forestry, the Hon. Peter McGauran (Productivity Commission, 2011) announced that the bulk veto, which was the key mechanism of the ‘single desk’ monopoly arrangements, would be transferred temporarily to the Minister. The amendments to the arrangements transferred AWB International’s (“AWBI”) power to veto bulk wheat exports by non-AWBI exporters to the Minister. AWBI was the wholly owned subsidiary of AWB Limited. These arrangements were only in place until legislation could be passed to enact new regulatory arrangements. At the time the Minister stated that “This is, to a significant degree, a compromise between those who are passionate supporters of a single desk (system) and those who would want instant deregulation” (AAP, 2006).

The passage of the Wheat Marketing Amendment Bill 2006 signified the impending end for the existing wheat marketing arrangements and therefore the futility of the strategy of AWB up until that point. The proposed changes to the arrangements to AWB International and then the de-merger proposal had failed to gain acceptance or prevent reform to the regulatory system. With the system and the company so intrinsically linked, significant reform to one had knock on consequences for the other. AWBN was faced with no option but to adapt and to change to the new wheat marketing arrangements.

Further amendments to the Wheat Marketing Act in 2007 prepared for the complete removal of AWB’s involvement in the bulk single desk from 1 March 2008. In this way the Government and the Parliament was signalling the start date for an open and competitive market for bulk wheat exports. This paper doesn’t examine in detail what those new arrangement were or what the company needed to do so as to comply but it is important to refer to those developments in reference to the strategy until that point by AWB.

In addition to the Wheat Marketing Amendment Act 2006, the Wheat Marketing Act 2007 and the Wheat Export Marketing Act 2008, there were other pieces of legislation and parliamentary debate relevant to the AWB scandal. One of these was the International Trade Integrity Act 2007, which the then Opposition Trade Minister, Simon Crean told that Parliament would “finally see the government doing something to shut the stable door that was left wide open while AWB officials were shovelling money into Saddam Hussein’s coffers. The bill is the government’s response to the wheat for weapons scandal—the payments, allowed through the government’s negligence, made by the Wheat Board to Saddam Hussein” (Crean, 2007). This link between the Oil-For-Food scandal and undermining the Australian war effort was extremely damaging to the company. It demonstrated the extreme levels of outrage and anger that extended beyond the disappointment of many ‘white collar’ corporate scandals that related to what were for many in the community abstract transgressions such as accounting procedures.

AWB’s apologia response clearly failed to address what Dr. Sandman refers to as the outrage of transgression by organisations such as AWB in the Oil-For-Food scandal. References to “the disgraced AWB’s single desk policy” (AAP, 2006) highlight the link between AWB and the monopoly arrangements. In speaking support of the 2006 Bill, Senator McGauran (brother of the Minister) made the direct connection between the influence of the monopoly arrangements with the unethical and/or illegal transgressions of the company when he stated “What is being acted out today is a consequence of that culture and that behavior” (AAP, 2006) Another Senator commented on the negative perceptions of AWB’s initial response to the Inquiry by stating that “AWB
presented a facade of cooperation with this inquiry but, in truth, it did not cooperate at all. It should be ashamed of itself” (Ferris, 2006).

As a sad indictment on the unsuccessful strategy initially deployed by AWB, one Shadow Minister speaking in support of stripping AWB of its monopoly indicated that the AWB International proposal was too little too late; “A key problem of the services agreement is the fact that its contents have been kept secret from growers and just about everyone else. This secrecy has become a hallmark of the arrogant way in which the AWB has been conducting its business” (Thompson, 2006). A number of Senators (Eggleston, 2006; O’Brien, 2007) complained about the commercial arrangements between AWB Limited and AWB International, which the initial proposals from the company clearly failed to address.

The view of Parliament and that of many stakeholders to the conduct before during and after the scandal was perhaps best summed by Senator Johnston (2006);

“I pause to say that AWB has displayed contemptuous corporate culture with wheat growers, with shareholders—both A and B class—and with the general public. Alarmingly, the arrogance and contempt continues to this day, notwithstanding the commissioner’s finding. It seems to me that this company, amazingly and incredibly, harbours a victim mentality to its current status.”

Senator Johnston felt that AWB had “not learnt any lessons from the Cole commission” (Johnston, 2006). Perhaps the most telling indictment on the failed initial strategy was that the AWB International restructure arrangements and the demerger proposal barely rated a mention during parliamentary debate. After the negative response by key stakeholders, the damaging evidence of the Inquiry and the release of the final report by the Inquiry, the parliament did not accept the self-reforms put forward by the company and. Instead the government, the parliament and stakeholders pursued radical legislative and regulatory reform that would require a radical rethink by the company about its strategic response to the scandal.

The Findings Of The Royal Commission

If AWBs initial attempts to avoid having to undertake genuine reform through the proposed AWB International package and the de-merger proposal had been poorly received, then company’s stonewalling strategy was completely scuttled by the Royal Commission. The evidence presented to the Inquiry made it clear that the tactics of the company had been to try and manage through the crisis without undertaking genuine reform to address the problems within the company, and the wheat marketing arrangements, that had led to the ethical and/or illegal transgressions by the company.

Much of the critic came from the evidence contained in the documents numbered under Exhibit 1020 relating to Exhibit 665 were otherwise known as “Cole Inquiry – Draft Statement of Contrition”. This was a result firstly of the contents of those documents, the additional insights gained from the cross-examination of witnesses and then the attempts by the company to have the documents suppressed. The latter situation occurred because the documents in question were delivered to the Inquiry by mistake.

On the issue of documents mistakenly tendered to the Inquiry, Justice Young ruled in AWB Limited v Cole (No. 1) and (No. 5) (Young, 2006) that the draft statement of contrition did not need to be returned to AWB or removed from the Exhibits list of the Inquiry because it was not protected by a claim for privilege, in part because “The documents were prima facie, brought into existence in furtherance of improper and dishonest purpose” (Young, 2006). So not only did he rule that the documents be made public but he believed that they were further evidence of the transgressions by the company.

Under questioning from the Commissioner and Counsel Assisting the Commission, the former AWB senior in-house counsel acknowledged that AWB had stated in documents associated with those project teams that the company “Can’t cooperate fully – too damaging” and that it would play “hardball” with “limited cooperation” (Cole, 2006, transcript pp7305, AWB.9004.0053). It was little wonder then that Commissioner Cole felt that he had been misled and that the company had not been genuine when it had stated earlier in a public statement that the company would cooperate fully (AWB, 2005).
Commissioner Cole stated that “The question that concerning me is whether in fact the Inquiry is receiving that absolute cooperation” and even directly that “it seems to me we are receiving a façade of cooperation” (Cole, 2006). In addition to the comments about the conduct of the company during the Inquiry, there was mounting evidence about the actions and behaviours of the company that had resulted in the alleged ethical and/or illegal activities. Counsel Assisting the Commission accused one former employee of “dissembling” during his testimony and asked; “Are you making things up as you go along in order to get yourself out of a hole?”; and, “I suggest to you that when you made that statement, and during the course of your evidence yesterday, you were being deliberately obstructive” (Cole, 2006).

What was so damaging about the documents and testimony associated with Exhibit 665, the “Cole Inquiry – Draft Statement of Contrition”, was that it laid bare the careful strategy of confecting a so-called public apology, that was never even finally delivered to the Cole Inquiry by the then CEO or Chairman. According to one Australian newspaper, this batch of material is “essential reading for anyone involved in public life” as it contains a “scalding appraisal of AWB’s efforts to weasel out of acknowledging its ethical failures” (Wood, 2006).

This was hardly the positive environment required by the company to repair its damaged reputation and seek the forgiveness that would allow it to return to business. It was unlikely that with such information becoming known to the community and key stakeholders, that the AWB International package and the de-merger proposal would be positively received and perceived as genuine reforms. Under these circumstances it would be virtually impossible for anyone to disconnect the current public statements of the company from the confidential internal information that was being revealed during the Inquiry.

The Mismanagement Of The Initial AWB Response

According to the established literature (Alsop, 2004; Benoit, 1995; Sims, 2009; van Riel, and Fombrun, 2007; Poppo and Schepker, 2012; Pfarrer, 2008; Ree and Kim, 2010; Ree and Valdez, 2008; Ree and Hadwick, 2011; De Maria, 2010; Seeger, 2003; Mahon, 2002; Dukerich, 2002; Gaines-Ross, 2008; Roux-Dufort, 2000; Coombs, 1999; Coombs, 2007) for a disgraced organisation to successfully rebuild a tarnished reputation, it must first demonstrate a level of contrition sufficient that salient stakeholders and key audiences believe that the organisation has learnt the lessons expected of it and is ready to most into the post-crisis phases of re-establishing the standing of the company so that it can continue to operate commercially. Unfortunately, in most situations, organisations respond to a crisis by taking a defensive stance (Roux-Dufort, 2000) and in this respect AWB was no different to most.

According to Watson, not only did AWB initially attempt to deny any wrongdoing, the Royal Commission discovered a deliberate campaign of deceit to disguise the transgression and attempts to cover it up (Watson, 2007). Based on these findings and other revelations about the original transgression and the subsequent transgressions around the initial response, De Maria’s description of the rogue organisation failing to adequately confront the realities of the scandal it has caused is easily applied to AWB;

“Rogue PSOs [post-scandal organisations] regret their scandals only because they have raised their illegal or immoral profile with the policing and regulatory structures and attracted the unwanted attention of the media. The only likely lesson to emerge from their scandals is how not to get caught next time” (De Maria, 2010, pp72).

This defensive apologia response represents the narrow single-loop redressive actions such as the denials, discrediting and general level of obfuscation displayed by AWB in the initial response to the emerging crisis and eventual breaking of the ‘oil-for-food scandal (Sims, 2009). The shift from AWB to double-loop and the eventual triple-loop learnings of the legislators and regulators led to the eventual rehabilitation of AWB to the extent that it was able to operate successful, albeit with a diminished market share, in an open and competitive but nit fully deregulated wheat export marketing arrangements.

In their work on repairing trust in public organisations, Poppo and Schenker (2010) found that reticence to confront the problem was worse than either apologizing or denying to the extent that doing something was better than doing nothing. AWB was not only scandalized but discredited by a long list of negative perceptions based on it based behaviours and connection to the single desk monopoly. In their work on the repairing of trust in public organisations, Poppo and Schepker (2010) identify the failure to respond appropriately to a scandal can further harm an organisation’s reputation and legitimacy in the marketplace.
There have been a number of frameworks and categorizations for building, maintaining and protecting reputations. For example, Benoit (1995) proposes five strategies for firms or individuals as preventative and restorative approaches. These are denial, evasion of responsibility, reduction of the offensiveness of the act, corrective action, and mortification make up the rhetoric or image repair discourse. Coombs (1999, 2007) develops situational crisis communication theory, creating ten categories of basic organisational crisis communication strategies. Pfarrer et al (2008) identify the four response stages of discovery, explanation, penance, and rehabilitation. These show that organisations that don’t own up to their mistakes can’t achieve genuine reforms to address the problems and not just the symptoms of the transgression. In contrast those that are genuine about changing their ways embrace double-loop reflective learning and undertake meaningful organisational change.

This paper also draws on the categorization proposed by De Maria of how organisations respond to the crisis of scandal, as this was applied by that author to the initial response by AWB to the ‘oil-for-food’ scandal, so it aligns with the use of that company as a case study for evaluating how tarnished organisations rebuild their reputations. Whatever the framework or categorization applied to an organisation seeking, if they are not genuine change and reform responses then they will run the risk of being seen as disingenuous, with the perception that “talk is cheap” Bottom et al (2002). This highlights the need for stakeholders to have an ability to accept that the organisation has understood the severity of the situation as much is it as about punishment. The concept of penance entails an acceptance and promise of improvement. Only once stakeholders have this comfort can a damaged organisation hope to achieve the forgiveness required for quelling the outrage and anger of a scandal that then allows the company to regain the lost legitimacy required for reintegration and rehabilitation.

In looking at rehabilitation Pfarrer et al (2008) refer to research from organisational renewal, crisis management, and public relations and the need for alignment between internal and external actions but of critical importance to building, and therefore rebuilding a reputation, is the critical parts played by change management and corporate governance. Effective change management and meaningful reforms in corporate governance ensure that the causes of the scandal are addressed by the organisation and that stakeholders can have assurance that they won’t associated with a repeat or relapse of the unethical or illegal behaviors that led to the transgression that caused the scandal. After a scandal, stakeholders are cautious of claims by damaged organisations that they have rehabilitated themselves, and this can only occur when these changes have been accepted and validated by salient stakeholders.

Watson concludes after looking at a number of case studies that includes AWB that once the exterior wrapping was taken off the companies were seen to have weak ethical performances in their operations and relations with key stakeholders such as governments. Mismanagement of a scandal and disingenuous or ineffective response can compound the problem but the repressive action such as the initial AWBI proposal of AWB can make the breach worse rather than better (Sims, 2009).

**Conclusion**

AWB faced enormous reputational damage as a result of the Oil-For-Food scandal. The initial investigation by UN investigator Paul Volker, found that the company, was the biggest single source of kickbacks totalling $220 million. These payments were not paid by the company but were drawn from the UN escrow account. The Australian Government’s Royal Commission found that the company had lied about its transgressions and as a result recommended criminal proceedings against a number of former employees and while the criminal charges were dropped by the Australian Federal Police, civil cases were pursued by the Australian Securities and Investment Commission.

Rather than face up to these transgressions and seek to remedy them, AWB tried to deny them and then avoid having to undertake any genuine reforms to either the company or the regulatory arrangements for Australia’s bulk what export trade known as the ‘single desk’. In doing so, the company was punished further for being seen as having failed to show contrition or genuine effort to change. The extent to which the company had firstly sought to cover-up the transgressions and then avoid the growing demands for action by company, were revealed during the Royal Commission.

AWB was inadvertently caught out when a number of documents were accidently provided to the Inquiry that highlighted the disingenuous and deceitful manner in which the company was responding. What made matters
worse was that rather than then owning up to the original wrongdoing and the evidence contained in the documents, the company sought to have them suppressed. This strategy was condemned by the judge ruling on the motion and Commissioner Cole. The company was seen to be perpetuating the very culture and behaviors that had caused the problems and that were now seen by key stakeholders, especially the government and the parliament, as unacceptable and unsustainable.

These damaging revelations came to light as the company was being seen to trying and avoid genuine reform through the minimalist proposals associated with a restructure of the wholly owned AWB Limited subsidiary AWB International and then the demerger proposal for AWB Limited and AWB International. Neither of these options was well received, especially against the background of the damaging revelations of the Inquiry and also before the Inquiry had concluded and the findings released and the recommendations actioned. At best this was seen as premature and precipitous but it was far more damaging that they were seen as a deliberate ploy to try and avoid accountability and the need for genuine change. The company was seen to be more interested in maintaining the monopoly under the ‘single desk’ wheat marketing arrangements.

The parliamentary debates and legislative process make it clear that AWB’s initial response was unsuccessful in stemming the tide of criticism and avoiding significant reform of the operating environment. If the initial restructuring proposals were the attempt by the company to self-manage the reform program, then that was largely taken out of the company’s hands by the removal of the single desk bulk veto. This then necessitated the internal reforms by putting an end to the previously minimalist approach to change and reform. The public comments and actions of key stakeholders make it clear that these efforts were simply not believed and not accepted as genuine or sufficient.

Ultimately the company went on to put forward genuine constitutional change, once the initial proposals were unsuccessful in mitigating changes to the wheat marketing arrangements. The reforms eventually undertaken by the company resulted in the removal of dual-class share ownership structure, where wheat growers had been entitled to non-tradable ‘A class’ shares that gave them control of the company board. In contrast to the failure of the initial strategy, as a result of the constitutional changes, the company was accredited by the new wheat exporting regulator established by Australian Government. Following on from these successful changes and reforms, AWB was able to deal with the damage of the scandal and the outrage of the community, including the anger of key stakeholders.

This is not to say that the company could have prevented the loss of the single desk but if it had begun the genuine reform process from the beginning it would have avoided unnecessary additional reputation damage and potentially hastened the recovery and reintegration process. What is unknown at this point is given the circumstances that lead to the scandal, could the company have undertaken the necessary reforms until the initial minimalist approach had run its course. It is not for this paper to address this issue or to try and answer those questions as the purpose of examining the failure of the initial strategy was to demonstrate that it was unsuitable and therefore unsuccessful.

The success of the eventual strategy of the company in not only apologizing but being seen to take appropriate action to change its ways facilitate its reintegration with stakeholders. The company was also believed by key audiences that it was genuine and committed to ensuring that similar transgression would not occur again. This successful strategy is not the focus of this paper, and while it provides opportunity for further research it does provide a useful contrast to the unsuccessful initial post-crisis communication and reputation management strategy of the company.

References


