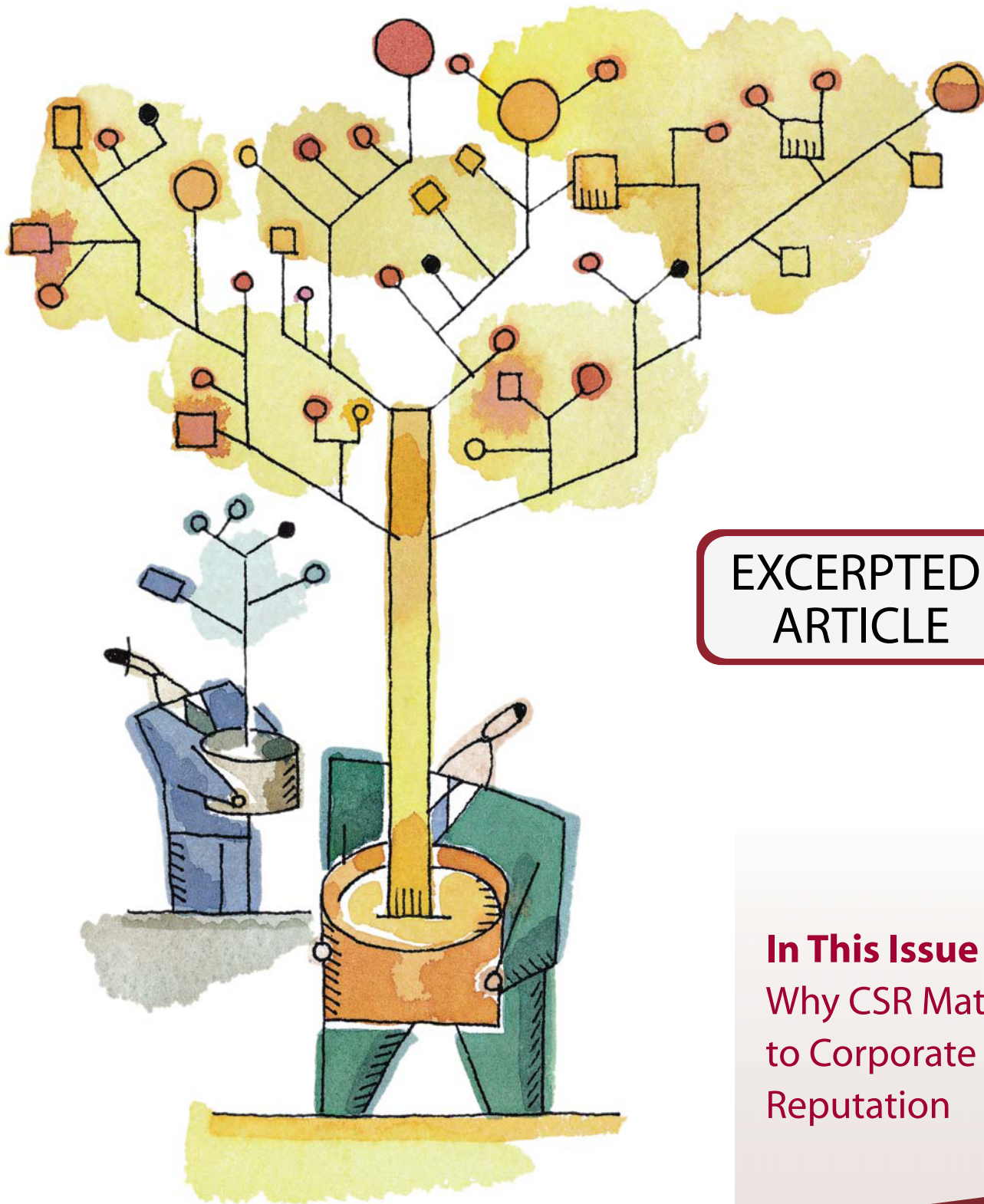


# Reputation Intelligence

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EXCERPTED  
ARTICLE

**In This Issue**  
Why CSR Matters  
to Corporate  
Reputation

REPUTATION  
INSTITUTE





# I.

## WHY CSR MATTERS IN 2010

*Ever since Adam Smith wrote “I have never known much good done by those who affected to trade for the public good” in the 18th century, the role of business in society has been widely debated. Four decades ago, Nobel Prize-winning economist Milton Friedman forcefully argued that “the social responsibility of business is to increase its profits,” an argument reiterated in business school classrooms from Auckland to Abu Dhabi to Atlanta every day.*

Here’s the hitch: The vast majority of senior executives don’t buy Friedman’s views on corporate social responsibility. A global survey found that just 16% of executives in 116 countries held to the view that business should “focus solely on providing the highest possible returns to investors while obeying all laws and regulations.” The other 84% agreed with the statement that business should “generate high returns to investors but balance that with contributing to the broader public good.”<sup>1</sup>

Altruism? Hardly. A survey of business leaders in the U.S. found that eight-in-ten believe that corporate social responsibility (CSR) helps their “bottom line” and three-quarters say that the public has a right to expect it from companies.<sup>2</sup> A fad? Not according to *The Economist*, whose editors recently reversed their stand on “do gooders” and declared that CSR was now “mainstream” in businesses in the U.S., U.K., and around the world.

What’s behind this? The macro-story has to do with the spread of market capitalism around the globe and the increased power and wealth of business. Today, two hundred corporations account for 23% of the world’s GDP, while 51 of the top 100 economies in the world are corporations. With greater wealth and power naturally comes greater responsibility. Indeed, on the demand side, surveys show that the world’s public—overall, and as customers, employees, investors, and community members—expects a great deal more from global corporations, including more socially- and environmentally-conscious behavior.<sup>3</sup>

The practical upshot is that both the legitimacy and future prosperity of companies are increasingly dependent on their reputations as socially responsible businesses.

In recent years, CSR and the role it plays in creating a sustainable global economy has shot to the top of the business and public agenda. Signs all around us point to a changed business environment. The social and environmental implications of “business as usual” dominate the headlines. Increased instances of “extreme weather” are attributed to climate change. Consumers are paying more attention to the sources of food they eat and the safety of the products they buy for their children and use to transport them. Public support for free trade and globalization is tempered by concerns about worker displacement in wealthier countries and working conditions in developing economies. And the financial meltdown has increased calls for more transparency, openness, and reforms of corporate governance.

<sup>1</sup> CSR/Business for Social Responsibility special section, pg. ZJ1, *New York Times*, October 25, 2007

<sup>2</sup> Communications Executive Council, “Linking Corporate Social Responsibility and Business Value,” 2007

<sup>3</sup> GlobeScan, *Corporate Social Responsibility Monitor* (2010), <http://www.globescan.com>



*CSR drives key reputational benefits, including more success in recruiting and retaining employees, increased sales, smoother market entry and a “license to operate,” while bad behavior in the CSR space has time and time again proved to be a surefire reputation killer.*



One way to think about these developments is that they pose reputational risks for companies. Who in business would have imagined, say, twenty years ago that a corporation would be held responsible for how employees are treated in a poor, faraway land working in a factory that the company doesn't even own? In 1996, U.S. television talk show host Kathie Lee Gifford learned this lesson the hard way when the clothing line that bore her name was boycotted by groups holding her responsible for the child labor used in its manufacture. That same year, Nike got an even bigger dose of it when reports of physical and sexual abuse of workers, salaries below minimum wage, and an exploitative quota system surfaced from its Vietnamese and Indonesian suppliers. The company's sales dropped precipitously for months thereafter, as did its reputation. Today it is widely known that consumers, investors, and the public at large will punish "bad" corporate behavior. If he were alive today, even Milton Friedman, we believe, would have to agree that corporate actions and investments taken to reduce reputational risks are now in the best interests of shareholders.

Innovation for a sustainable future requires new ways of thinking. The essence of CSR lies in seeing how the intersections of business and society are changing, and in understanding how to anticipate and shape these changes in ways that deliver sustainable value for society. Some of the best opportunities for progress are found in "black swans," the unexpected developments that appear and reshape opinions about what is normal and expected.

Twenty years ago, the roster of responsibility-minded businesses included progressive companies such as Ben & Jerry's, The Body Shop, Patagonia, Stonyfield Farms—companies whose founders were caricatured and marginalized by the mainstream business press as hippies, do gooders, and tree-huggers. But as it turns out they showed strategic foresight in developing business models that capitalized, variously, on growing interest in all-natural ingredients, eco-friendly products, and cause-related consumption. And while these may have been countercultural views in the 1960s and '70s, they have since been carried forward by baby boomers into the marketplace and passed on to their children. One telling indicator of their relevance for big business today has been the acquisition of many CSR-driven businesses—the Body Shop by L'Oreal, Tom's of Maine by Colgate, Stonyfield Farms by Groupe Danone, confectioner Green & Black's by Cadbury Schweppes, and Ben & Jerry's by Unilever. They've all found homes in mainstream businesses.

These acquisitions show how CSR can provide a reputational opportunity for companies. Particularly in industrialized nations but a growing trend worldwide, there has been a move towards more healthy and sustainable consumption.<sup>4</sup> This is reflected in the rising preference for organic foods and clothing (a market growing 20% annually), for fair trade coffee and chocolate (over 70% growth annually), and for sustainably sourced agricultural produce. There is also more "ethical" consumerism as indicated by an increase in cause-related products and marketing, as well as interest, especially among young people, in a brand's connection to social responsibility.<sup>5</sup>

Designing a sustainable future involves conscious choices about business strategies. A sustainable future is one where social and environmental considerations are center stage in the boardroom and at the top of the executive agenda. It takes innovation to create products that have sustainability built in right at the start. And it requires business leaders to understand the complex social and economic systems that produce both challenges and opportunities for lasting business success.

All of this begs a fundamental question: What do we mean by CSR?

<sup>4</sup>See Anthony Kleanthous and Jules Peck, "Let them Eat Cake" World Wildlife Fund, (WWF-UK, 2006).

<sup>5</sup>See Cone Inc./AMP Insights. "The 2006 Cone Millennial Cause Study," (October 24, 2006). <http://www.coneinc.com>.



### What is CSR?

To begin, the field of CSR (also termed corporate citizenship, corporate responsibility and/or sustainability), has its roots in ethics, a field that stresses the importance of moral corporate conduct. Ethics has been very much in the spotlight this past decade (a period book-ended by the collapse of Enron and Lehman Brothers) because of financial finagling, corporate human rights abuses in supply chains, and environmental pollution. At a minimum, this translates into compliance: corporate behavior that conforms with current law, accepted business principles, and codes of conduct. But companies can choose to comply not only with the letter but also with the spirit of regulations; and to exceed the law in product safety, environmental protection, or employee relations. On a global scale, this forces companies to ask whether to apply the high standards for ethics and transparency that are found in North America and Europe to their operations in nations where there is no legal requirement or strong public expectation that they do so.

Beyond compliance, philanthropy is an important part of the business-society equation. Increasingly, firms globally are expected to give back a portion of their profits to help the disadvantaged, support community life, and, when necessary, to provide disaster relief. This translates into a voluntary contribution to society in exchange for business benefits like market infrastructure and a general license to operate. Of course, corporate giving and employee volunteerism can also yield firm-specific benefits such as an improved reputation and stronger community relationships.

But business has its biggest impact on society through (1) its own operations and (2) its interactions with suppliers, distributors, and others through the entire value chain to end users (including B2B customers and/or consumers). In this context, the social and economic impact of philanthropy is comparatively modest. Most agree that CSR encompasses both the harms and benefits of a company's commercial activities on society.

Toyota has been in the news in 2010 for allegedly putting its customers in harms way. In years past, the spotlight has swept over the Gap (for labor issues in their supply chain), Chiquita (for conditions on plantations), Nestlé (for its infant formula), Coca-Cola (for water usage), McDonald's (for nutrition), Home Depot (selling lumber cut from old growth forests) and Wal-Mart (criticized on many fronts). Interestingly, these companies have since made concerted efforts to address these matters in order to improve their overall CSR performance.



*Today, front and center on the CSR agenda are concerns over climate change and environmental sustainability. One survey finds that over 50% of consumers and business leaders sampled in ten countries rate "environmental issues, including climate change" as the most important issue facing business.<sup>6</sup>*

Today, front and center on the CSR agenda are concerns over climate change and environmental sustainability. One survey finds that over 50% of consumers and business leaders sampled in ten countries rate "environmental issues, including climate change" as the most important issue facing business.<sup>6</sup> Hence the "greening" of business is under way around the world. It is also well documented that how employees are treated is the "litmus test" for how the public evaluates its corporations. In annual GolinHarris surveys run in the U.S., for instance, the public's perception of whether or not a company "values and treats employees fairly and well" has been the number one criteria in ratings of its corporate citizenship, more so than charity, community involvement, environmental performance, and other factors.<sup>7</sup>

<sup>6</sup>Bonini, S., G. Hintz, and L. T. Mendonca. *Addressing consumer concerns about climate change*. *The McKinsey Quarterly* (March, 2008).

<sup>7</sup>GolinHarris, *Doing Well by Doing Good: The Trajectory of Corporate Citizenship in America*



## Reputation and CSR

Polls find that eight-in-ten CEOs believe that CSR contributes to their company's reputation and that it can significantly increase their company's ability to recruit and retain employees, appeal to and attract consumers, differentiate their firm and its offerings in the marketplace, generate additional sales, and achieve many of the other business benefits. Interestingly, a recent U.S. survey found that reputation is the prime motivator of CSR in American companies.<sup>8</sup>

Research by Reputation Institute (RI) identifies just how important CSR is to the overall reputation of a firm. For the past several years, Reputation Institute has measured and studied the components of corporate reputation through in-depth studies of individual firms and an annual global study of the reputations of over 600 companies through roughly 30,000 online interviews with consumers in some twenty-seven countries.<sup>9</sup>

In RI's Global Reputation Pulse Surveys conducted in 2008 and 2009, the top predictor of reputation—whether the public trusts, admires, and likes a company—has consistently been ratings of its products and services. Products and services are of course the most visible representation and presence of a company in the marketplace and the most familiar indication of corporate conduct to consumers that purchase them, see them in stores, through the media and advertisements, or learn about them from other consumers. In statistical language, ratings of a company's products and services are the strongest driver of reputation (predicting roughly 18% of overall reputation).

But how much does CSR matter to ratings of a company's reputation? Reputation Institute's decade-plus of research has shown that CSR's impact on corporate reputation comes from a combination of 3 of their 7 reputation dimensions (a subset that when combined we term the CSR Index):

- **Citizenship:** a good corporate citizen is one that supports good causes and protects the environment;
- **Governance:** a responsibly-run company is one that behaves ethically and is open and transparent about its business dealings; and
- **Workplace:** an appealing place to work is one that treats its employees well

In the '08 and '09 studies, we found that the CSR index predicted 40% of overall reputation. In some instances, these aspects of a company are experienced directly by consumers but for most part are learned about from corporate communications, media coverage, and word of mouth.

<sup>8</sup>See *Return on Reputation: Corporate Reputation Watch 2006*. <http://www.HillandKnowlton.com>; *The State of Corporate Citizenship in the United States 2009: Weathering the Storm*. (Boston: BCCSC, 2009).

<sup>9</sup>Most polls on CSR address the public's ratings of business in general. The Global Reputation Pulse measures public perceptions of specific companies. Through the survey, consumers are asked to opine on the reputation and conduct of individual companies based in their home countries.

## Coca-Cola and Greenpeace Combat Climate Change by Co-Creation

*Coca-Cola is one of the world's most recognizable brands. So it may come as a surprise that when the company was confronted with the relatively unknown impact its 10 million coolers and vending machines had on the global climate, it relied on the brand value of a former nemesis—the environmental group Greenpeace—to gain credibility with its innovative refrigerant technology. In the process, a new industry collaborative dubbed Refrigerants, Naturally! formed with the help of not only Greenpeace but also the United Nations' Commission on Sustainable Development.*

*In December 2009, Coca-Cola announced that 100% of their new vending machines and coolers will be hydrofluorocarbon-free (HFC-free) by 2015. Coca-Cola is committing to use its scale to aggregate demand and encourage supply as a means of accelerating the transition to HFC-free refrigeration equipment.*

*This announcement is a direct result of discussions with Greenpeace that began in the run-up to the 2000 Sydney Olympics. Greenpeace challenged Coca-Cola to go HFC-free in all of the equipment it supplied to the Games. By the Torino Games in 2006 and the Beijing Games in 2008, Coke was using all HFC-free technology at Olympic venues. For the past five years, the relationship between Greenpeace and Coca-Cola has become increasingly cooperative as both sought a cost-effective alternative to HFCs. "Greenpeace increasingly works with businesses to make fundamental manufacturing and sourcing changes by connecting regulation, economies of scale and supply chain security," said Amy Larkin, Director of Greenpeace Solutions. "Coca-Cola's commitment today runs ahead of regulation and takes some fear out of rapid change."*



What does a high CSR score mean for a company? Out of 200 of the largest companies in the U.S., 65% of the general public will “definitely recommend” the top 20 CSR American companies while only 26% recommend the bottom 20 CSR companies. You want a good recommendation from consumers for your business? We recommend you work on CSR!

### **Current State of CSR**

How is business doing overall on its social responsibility scorecard? A multiyear look at public opinion worldwide by GlobeScan shows that while public expectations of companies have been rising, ratings of their social responsibility have been dropping. Data from Reputation Institute finds that in twenty-five countries studied in both years, company ratings on the CSR Index declined from 2008 to 2009. Doubtless ethical lapses and the worldwide recession contributed to this trend. But there is also good reason to believe that corporations overall are not keeping up with societal expectations regarding CSR.

Within this broad swath of companies and countries, however, lies a vast range of CSR activity. Some firms are revising their codes of conduct, adopting sustainable practices, and updating their community programs; others are forming Board and management level CSR committees, measuring their environmental and social performance, and issuing public reports. Select firms are striving to integrate staff functions responsible for CSR-type issues and are moving responsibility—and accountability—into lines of business. And a vanguard set of companies is taking CSR to market by offering products and services that aim explicitly to both make money and make a better world.

Three key ideas about CSR cut across these practices. One generally accepted idea is that corporations not only have responsibilities to their shareholders but also to multiple stakeholders, including customers, suppliers, employees, communities, government, and so on. Most business leaders acknowledge these responsibilities and their firms increasingly undertake some form of stakeholder consultation. This includes meeting with a growing voice in society: the Non-Governmental Organizations (NGOs) who act as representatives of many interests, including the natural environment.

A second idea has also taken hold that business is responsible for and needs to take an accounting of the full range of its social, economic, and environmental outputs—what John Elkington has termed the triple bottom line (TBL). This has firms take an accounting of their social and environmental impact in the form of metrics and criteria such as those advanced by the Global Reporting Initiative (GRI) or the International Organizations of Standardization (ISO 14000), and publish a report on the findings.

A third idea, just beginning to unfold in select corporations, connects CSR to the very purpose and operating strategies of a business. Firms like Dow Chemical, IBM, General Electric, Interface Carpets, and Wal-Mart, to name a few, have made a strong link between social/environmental issues and their business models. The strategic intent in these firms is not simply to go about their business responsibly and sustainably; but rather it is to make a responsible and sustainable business out of addressing the world’s social and environmental needs.

### **What Does The Future Hold for CSR?**

Through a year-long analysis in collaboration with their 400 member companies around the world, the Communications Executive Council recently reported that there are four ways to demonstrate business value through CSR activities for most organizations. From easiest to most difficult, they are:

- **Capturing Operational Efficiencies** (examples include efficient energy use and material waste reduction);
- **Capitalizing on Stakeholder Values** (examples include cause marketing and eco-products);



- **Sustaining the Value Chain** (examples include raw material source management and community infrastructure investment); and
- **Preempting Stakeholder Action** (examples include supply chain ethics, employee volunteerism and pollution prevention)

Despite the deep disappointment that resulted from the lack of a binding global agreement at the December 2009 Copenhagen conference on climate change, the CSR movement in 2010 has nowhere to go but up as the global economic recovery slowly begins from the nightmarish recession of 2008 and 2009. The challenge remains to balance sometimes competing short-term and long-term CSR objectives of the company with stakeholder perceptions of how the company manages its triple bottom line. Reputation platforms that can effectively preempt stakeholder action by seizing “victory from the jaws of defeat” will do more than just capture operational efficiencies and are the game-changers that CEOs look to in challenging times like these. Are you ready to answer the bell for your company? ■

### Five Decades of CSR and Counting

The term “social responsibility” was proposed in the U.S. by Frank Abrams, Chairman of the Board of Standard Oil of New Jersey in 1951, in a statement about the duties of executives to society. It gained a following with the publication two years later of the “Social Responsibilities of the Businessman” by economist Howard Bowen who, having surveyed the consequences of laissez-faire economics in the 1920s through to the Great Depression, concluded that business had obligations to society over and above creating jobs, paying taxes, and obeying the law.

As high minded as this sounds, it was largely irrelevant insofar as the public was concerned. Out of the worldwide devastation of World War II and the 1940s emerged a general consensus in the consumer-led recoveries in North America, Western Europe and Japan during the 1950’s that was best summed up in 1952 by GM head Erwin Wilson’s famous remark “what’s good for General Motors is good for the country.” While each Western nation could substitute a different automotive heavyweight for their respective domestic audience (Peugeot, Volkswagen, Fiat, Toyota, etc.), the point was that captains of industry were seen as doing the “patriotic” thing in expanding to new markets, creating good, local jobs and helping society bounce back from two decades of depression and war.

### Top 10 CSR Performers

*In 2008-09, Reputation Institute partnered with the Boston College Center for Corporate Citizenship to create an initial CSR Index (CSRI) to capture public perception about more than 200 high-profile companies’ corporate citizenship, governance and workplace practices in the U.S. Because 40% of a company’s reputation globally results from stakeholder perceptions of these 3 key reputation drivers, the CSRI promises to shed valuable light on the return on reputation (ROR) from various CSR programs and initiatives.*

#### The initial top 10 companies in the U.S. CSRI were:

- 1 
- 2 
- 3 
- 4 
- 5 
- 6 
- 7 
- 8 
- 9 
- 10 



All of this came crashing down during the 1960s. Dozens of new nations across Africa, Asia and South America broke free from their colonial shackles and called out multinational companies who had been conducting questionable business inside their borders with no consequences for years, in some cases nationalizing whole industries. This post-war consensus in the G-7 countries was also shattered by events of the 1960s, including:

- The 1962 publication of Rachel Carson's *Silent Spring* in the U.S., high-profile oil spills off the U.K. and California coasts in the late 1960s and a Japanese lawsuit (concluded in 1971) that confirmed decades of mercury poisoning due to industrial pollution all served as the jumping-off point for the modern environmental movement;
- Corporate involvement in the Vietnam War (1963-75) implicated numerous multinational companies in the creation of Agent Orange and other lethal herbicides used indiscriminately by the U.S. military that spawned an entire generation of anti-corporate activists around the world;
- Student rebellions and youth movements in 1968 across North America and both sides of the Iron Curtain in Europe protesting a host of social and environmental issues started to draw some companies and brands into these "counter-cultural" debates across the industrial world into the early 1970s.

The common denominator of all of this was a new distrust of all public and private sector institutions around the world that continued and actually worsened in the 1970s, as the debilitating effects of the Watergate political scandal in the U.S. and Organization of Petroleum Exporting Countries' (OPEC) crippling oil embargos of 1973 and 1979 on the West helped to usher in the rise of NGOs as a force to be reckoned with, especially in the area of corporate watchdogs. Individual activists, philanthropists and NGOs started a patchwork quilt of shame that began to demand greater transparency, more ethical business practices and calls for corporate social responsibility and the triple bottom line from the world's largest (and richest) companies.

The 1980s saw more spillover effects from the political arena (emergence of the Green Party in Germany and Solidarity in Poland; call for divestiture in companies doing business in apartheid-era South Africa; protesting nuclear weapon deployment by the U.S. and Soviet Union across Europe) into the CSR arena for companies, as NGOs took both governments and companies to task. In addition, Europe began to take the lead on CSR reporting and measurement during this time, a lead it has never relinquished to this day.

As the Cold War ended and the so-called "new world order" came of age in the early 1990s, the first dedicated CSR "stakeholder" reports were issued by Ben & Jerry's, Body Shop and Shell Canada around that time. Those early reports bear little resemblance to the 24,000 reports issued globally by nearly 6,000 companies of all shapes and sizes since then. The environment continued to drive a major portion of the CSR agenda throughout the bull markets of the decade: with the 1992 UN Conference on Environment & Development in Rio de Janeiro in 1992 followed by the UN Framework Convention on Climate Change in Kyoto, Japan in 1998 bringing the terms "global warming" and "climate change" into many CEOs' vocabularies. This was also the decade when global supply chain management and sourcing practices were called into question by NGOs on the grounds that "sweatshop" working conditions in developing countries were powering the profits of some of the world's largest brands.

By the 2000s, CSR was a broad philosophy that increasingly pervaded all countries and industries in varying degrees. It had become a part and parcel of a company's "license to operate" and a centerpiece of the reputation management platforms of the World's Most Reputable Companies. However, the painful disconnect between well-regarded citizenship initiatives and poor or unethical management decisions at Enron, BP, AIG and Satyam (to name a few) also cost numerous executives their jobs and these once-high flying brands their good name.

**For more information on how to unlock the power of your reputation, please email:**  
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