



CAN CORPORATE SOCIAL RESPONSIBILITY LESSEN THE IMPACT OF A CRISIS OR LEAD TO A FASTER RECOVERY?

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By Craig Badings

Too often, corporate social responsibility (CSR) is driven by social or government pressure, the fear of possible negative publicity, or the expectations that the financial markets have of listed companies.

But the market is changing, as more and more companies are starting to align their CSR programs with the values they want to espouse as an organization as well as with the expectations of society as a whole. From a risk-management perspective, there is a growing realization that companies are frequently judged by: the perception of the market at the time of a crisis; their CSR track record; and how they resolved to deal with and acquit themselves during and after the crisis.

Milton Friedman's famous line "The business of business is business..." no longer cuts it. Companies know this, the public

knows it, and so do NGOs, regulators, and government. It is no longer good enough to merely tick the compliance box. Not only are companies expected to come up with products that are good for the bottom line, they also need to be good for society.

In a June 2009 interview with Richard Edelman, President and CEO of Edelmans, conducted by Rik Kirkland, McKinsey's Director of Publishing, Edelman coined the phrase "mutual social responsibility." He explained it like this: "...people — consumers — are willing to pay a bit more for products that are ethically sourced or that have a good story. But I think, in response, they want to be sure that the companies they're doing business with have the right supply chain, have the right kind of process for the environment. So it's the mutuality of it." He called it the move from an information economy to a collaboration economy. Are companies fulfilling this? Are they willingly going beyond what is expected? My view is that, with a few exceptions, they

are not — or certainly not to the extent now expected by consumers, governments, institutions, and NGOs. Problems arise when companies view CSR as a way to placate pressure groups. Too often, these companies end up putting in place reactive, short-term CSR programs with little or no long-term value to the business, scant alignment with the company's values, and little or no benefit to stakeholders. Often it is these companies, in time of a crisis, that are seen for what they are. Once their superficial CSR programs are laid bare, the resultant community and media backlash leaves them shell-shocked as they reel from massive reputational damage.

Globally, governments are expanding compliance regulations across numerous industries — a clear signal to some that business has not come to the CSR table. Instead of taking collective action to help solve complex problems with the cooperation and support of government and NGOs, business

— in the main — has done as little as legally possible. The GFC, greenwashing, and a growing scrap-heap of corporate catastrophes are testimony to this. Not surprisingly, in December 2009, when CSR managers were interviewed for a McKinsey Global Survey on valuing CSR, they were unsure of the value of their environmental, social, and governance activities. In fact, more than half reported that they did not know what effect these programs had on value creation at all.

Who's to blame? A large proportion of the blame must lie at the feet of the boards and the management of those companies satisfied to pay lip service to paper-thin CSR initiatives. What does this have to do with crisis communications? I say everything. CSR in the truest sense is about conducting a thorough risk-analysis and aligning programs with company values that best mitigate those risks in as collaborative a manner as possible with a variety of stakeholders. Yet still, there are tens

of thousands of companies that view their CSR initiatives as short-term “insurance policies” to appease their staff and to fob off the communities within which they operate.

In the 1990s there were many companies attacked for discriminatory and unfair labor practices and people became aware of not buying “blood” — or conflict — diamonds. Nowadays, consumers are concerned about the metals sourced for their computers, where and how a company sources its raw materials, and the content of the food they purchase. We have moved rapidly into the era of the ethical consumer, a wave which will swamp those businesses that still think that the business of business is business. There are many who will disagree. Their view is that we will continue to do business the way we have always done it and that their customers do not really care. In years to come, it is likely that history will judge them as corporate dinosaurs who went under because they were unable to adjust to the demands of the broader society in which they operated.

Today, greater calls for transparency have moved corporate governance to center stage — doing what is right is a reputational imperative and CSR initiatives form the center of this. The Reputation Institute, represented in Australia by AMR Interactive, has been studying the dynamics of reputation for more than 14 years. After years of research, they have defined the key attributes that drive a company and a sector’s reputation as:

- 1| products and services
- 2| governance
- 3| citizenship

These are followed in order by innovation, workplace, leadership, and finally, performance. Taking product out of the equation for now, the measurements for governance are openness and transparency, ethical behavior, and fair conduct in all aspects of business. Citizenship measures things like environmental responsibility, support for good causes, and whether the company has a positive influence on society. Companies that embrace these principles and get it right are on track to building a strong reputation shield in the event of future crises.

Importantly, the findings of the Reputation Institute over the years corroborate that a well-regarded company is more likely to be trusted, liked, admired, and esteemed than others. All of these qualities are strong mitigating factors during a crisis, likely to afford the company, for a while at least, the benefit of the doubt when a crisis hits. In 2006 the survey Safeguarding Reputation™ was conducted in 11 markets by global public relations firm Weber Shandwick with KRC Research. They found that a substantial majority of the global business executives (79 percent) surveyed believe that companies with strong corporate responsibility track records recover their reputations faster post-crisis than those with weaker records. Recent research conducted by Ipsos MORI in the United Kingdom showed that companies participating in Business in the Community’s (BITC’s) Corporate Responsibility Index (CRI) annually from 2002 to 2009 outperformed their FTSE350 peers on total shareholder return (TSR) by an average of 10 percentage points in seven out of the eight years. Tellingly, the TSR of these companies did not fall as far as their competitors and recovered more quickly in 2009.

Stakeholders and the general public are quicker to judge and slower to forgive than ever before. The benefit of the doubt is becoming harder for companies to overcome: Doing what is right is the new reputational imperative. Unfortunately, many companies adopt CSR as a result of being the subject of public scrutiny and criticism, perpetuating the view of consumers, NGOs, and government that businesses are only in it for themselves. In a Harvard Business Review paper entitled “Strategy and Society: The link between competitive advantage and CSR,” authors Michael Porter and Mark Kramer say that “proponents of CSR have used for arguments to make their case: moral obligation, sustainability, license to operate and reputation.”

I often ask myself how so many companies can be surprised by public responses to issues they have not seriously considered and — worse still — did not believe were part of their business responsibility. One only need look at the food industry regarding issues around salt, sugar, obesity, and links to diabetes, heart disease, and the like. Or one can look at heavy manufacturing, industrial companies, and car manufacturers and their battle to come to terms with sustainability, emissions, and the like. Risk managers and communications or crisis managers should

not only combine efforts to counsel their organization/s on how to avoid a crisis in the first place, but also examine what they should be doing to lessen the impact of a crisis when it hits. This is critical for good reputational risk management. A company’s impact on society changes over time as social standards evolve, science changes, and new risks and evidence of risks emerge. The good crisis manager monitors these and incorporates them into the company’s risk profile. In doing so, he or she should work with the CSR team and executives to address and minimize the potential for conflict and to lessen the capacity of these issues to flare.

It is the crisis managers’ responsibility to think hard about what will be next — will it be food manufacturers, the alcohol industry, the fast food industry, energy producers, or the mobile phone industry? Their job is to prepare the company for all eventualities. A good starting point is to begin building the company’s reputation shield by aligning its values with an integrated and meaningful CSR campaign, which, in turn, aligns with the company’s business objectives. Why is it that so many companies in high-impact areas such as heavy manufacturing, chemicals, petroleum, and mining, to mention a few, are the ones that more often than not display the most advanced CSR programs? Some may say these sectors have changed as a result of the constant pressure, government regulation, and strong media focus. This may be so. The fact is that many of these companies are leading the way — their CSR programs are now an integral part of the values of the company and the way they do business.

Dow Chemical is probably the quintessential example of how a company can shift its reputation over time. It was one of the biggest movers in the 2009 Global Reputation Pulse survey. Why is this so relevant? Because it was the company that inherited Union Carbide after the Bhopal gas disaster in India in which an estimated 25,000 people died. Despite being punished for years by stakeholders far and wide, over time Dow Chemical shifted its reputation from that of a chemical company to a company that embraces a reputation platform focused on building a truly sustainable future. But is it enough to act as an effective reputation shield at the moment a crisis hits and in those critical days and months immediately after a crisis? Hypothetically, if company A’s CSR program relates to the issues that communities, customers, and employees care about most — while company B’s CSR program is characterized by tentative, short-term initiatives — it is likely that, while company A will not avoid intense scrutiny, its audiences will be more forgiving than those of company B. It will have more third-party endorsers and it will have a strong set of internal ambassadors. More importantly, as post-crisis scrutiny inevitably grows, the elements of what company A did in the lead-up to the crisis, its relationships with stakeholders, and its modus operandi will help lessen the desire to find fault, and thus lessen the impact of the crisis and hasten post-crisis recovery.

However, not even the best CSR program will stop activist groups targeting the most visible company in a sector if that target serves to heighten public or government awareness on key issues. Nestlé, for example, has become a major target in the global debate about access to fresh water, despite the fact they consume only 0.0008% of the world’s fresh water, have arguably one of the world’s leading water sustainability campaigns, and conduct groundbreaking work with farmers who supply them on their sustainable water practices. The companies that lead the way in any reputational institute rankings are the ones that understand they have to go well-beyond compliance. They know they need to own a space in which they proactively create their CSR programs with their stakeholders by being open and transparent and by constantly shifting the goalposts to stay ahead of societal issues and concerns.

If CSR is to truly act as a reputational shield in a crisis, its intentions have to be honorable and aligned with the values of the business and its stakeholders. Effective CSR programs can be far more than a cost to the business or merely a charitable handout. The right strategic and issues-led CSR initiatives generate business opportunities, promote innovation, and ultimately deliver the business a competitive reputational advantage while at the same time benefitting stakeholders. Importantly, during a time of crisis, it helps form a potent reputational shield and will underpin a more rapid recovery post crisis. ■



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Craig Badings is a Director at Canning Corporate Communications.