

Corporate Social Responsibility: Key Issues and Linkages with Customer Experience

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1. Executive Summary

This paper explores the issue of corporate social responsibility (CSR), and the impact CSR initiatives can have on customer experience and reactions. CSR is an organisation's obligation to evaluate its social, environmental and economic impact on its stakeholders, and on the surroundings that it affects through its activities. Organisations should aim to have a positive impact on the people and environment they affect, through a clear focus on environmental, social and economic sustainability.

Increasing concerns surrounding climate change and depletion of the world's resources mean that governments, NGOs and activists are exerting pressure on companies to keep CSR near the top of the corporate agenda. Sustainability issues are so important now that organisations should no longer exclusively focus on the financial bottom line: environmental and social performance should be prioritised as highly as economic performance.

Evidence of a positive link between financial performance and CSR is inconclusive. However, there is some evidence that adopting innovative, ethical, sustainable management approaches can lead to enhanced reputation, motivated employees, and loyalty in times of crisis. Firms need to take different approaches to CSR, depending on their impact, activities, and on the priorities and interests of their stakeholders. An understanding of the needs of different stakeholder groups is key to the success of a firm's CSR policies. In addition to this, however, organisations must be aware of the multitude of different roles that each stakeholder enacts within his or her life (for example, customer, father, school governor, community leader), and show an appreciation of the diverse CSR concerns that result from this reality.

There is significant evidence that CSR initiatives can positively affect customer satisfaction, loyalty, preference, purchase intentions and trust. This is only true, however, if the company has the ability to deliver on product and service quality, as the customer is not prepared to compromise on these factors.

Research into customer experience reveals that, currently, environmental and social concerns do not emerge as very important factors in creating a positive customer experience. The key drivers for creating a positive customer experience are factors that affect customers directly and personally in a tangible way: the satisfaction of all personal needs relating to the purchase is the top priority. However, intangible, emotional factors *can* contribute to creating a positive customer experience, albeit to a lesser extent. Broad CSR initiatives can, therefore, make a positive contribution to customer experience in some contexts, for customers with a high concern for social and environmental issues:

Hypothesis One

CSR will, generally, only become important in enhancing customer experience after all the customer's basic, immediate, direct needs are met. Once these personal needs have been fulfilled, broad CSR initiatives can provide emotional appeal for the customer.

In addition, some highly targeted, local CSR activities *can* have a direct impact on customers, for example, making them feel safer, or improving their local environment. The direct, personal nature of the impact can enhance their customer experience, even if their concern for social and environmental issues is fairly low. It could make sense, therefore, for firms to focus on the CSR issues with the most direct customer impact, if they are to make significant improvements to customer experience through CSR measures:

Hypothesis Two

CSR initiatives that will enhance customer experience the most are those that have a direct, tangible, positive impact on the customer, in one or more of his/her stakeholder roles: for example, highly focused local community initiatives that address the customer/stakeholder's personal needs or concerns.

Over time, as environmental and social concerns climb up the agenda for each one of us, we may all demand nothing less than a high level of CSR from every firm we have dealings with.

The authors include a selection of frameworks for managing CSR challenges, from academic literature and a range of websites. These frameworks highlight the point that for CSR to be successful, it must be integrated and mainstreamed into management practice; embedded in the core of a firm's operations. Companies need to understand which social and environmental issues resonate best with their customers and stakeholders, and align these issues with corporate and brand strategy. Involvement with like-minded companies can be beneficial, while involving stakeholders is crucial to the success of CSR strategies.

Working with and involving stakeholders is equally important when communicating and reporting on CSR issues, along with being clear, truthful, pragmatic, consistent, innovative, and open to learn. If communications on CSR can underline concern for an issue that is shared between the firm and its stakeholders, this can establish CSR as a potential bond between stakeholders and the company. Creating a sense of affiliation and identification with the organisation, in this way, can only help, ultimately, to enhance the stakeholder's experience of that firm.

2. Introduction

This paper explores the issue of corporate social responsibility (CSR), and the impact CSR initiatives can have on customer experience and reactions. To put our discussion in context, we start by assessing a variety of definitions of CSR that have been proposed since the concept first emerged in the 1950s. Using these definitions to inform our thinking, we then develop our own working definition of CSR. Research shows that corporate social responsibility is not simply a passing fad, but a way of thinking that is critical to every aspect of a firm's business. This paper will examine why CSR has become so important, and what the key drivers are for the increasing momentum behind CSR initiatives. The paper goes on to assess the benefits of CSR to organisations, analysing research that investigates the link

between CSR initiatives and a firm's financial performance, success and competitiveness. We also assess the benefits of CSR to firms' wider stakeholder groups, including communities, employees and the environment, as well as customers.

We then continue with an exploration of the link between CSR activities and their impact on the customer, reviewing literature that assesses how CSR can affect satisfaction, preference and experience. An analysis of this literature leads to insights into how different types of CSR initiatives can have different effects on customer experience. Based on an analysis of existing literature, the paper then makes suggestions on how firms should develop, run, and integrate CSR activities, before presenting our conclusions.

3. What is Corporate Social Responsibility (CSR)?

A plethora of definitions of CSR has been developed over the past 55 years. The concept has developed from one of generally behaving in an ethical manner, with an emphasis on philanthropic giving, to a concept where the focus is strongly on sustainable development.

The first definitions of CSR appear in the 1950s. Bowen (1953), the 'father' of corporate social responsibility, defines the social responsibility of businessmen: *"It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society"* (Carroll, 1999). CSR is seen strongly, then, as social obligation. Interestingly, we are given a glimpse of a strong social consciousness among post-war businessmen, as a 1946 survey from *Fortune* magazine reveals that 93.5% of those questioned, agreed with the statement that, *"businessmen were responsible for the consequences of their actions in a sphere somewhat wider than that covered by their profit-and-loss statements"* (Carroll, 1999).

From the 1960s onwards we see an expansion in the literature and the development of alternative themes (for example, corporate social responsiveness and public policy in the 1980s). Carroll (1991) uses the image of a pyramid to encapsulate what he sees as the four elements of CSR: *"The pyramid of CSR depicted the economic category as the base (the foundation upon which all others rest), and then built upward through legal, ethical, and philanthropic categories. [...] each is to be fulfilled at all times. [...] The CSR firm should strive to make a profit, obey the law, be ethical, and be a good corporate citizen."* (Carroll, 1991).

Carroll goes on to develop an interesting link between CSR and stakeholder theory, arguing that the term 'social' in CSR is rather vague and non specific: *"the stakeholder concept [...] personalizes social or societal responsibilities by delineating the specific groups or persons business should consider in its CSR orientation and activities. Thus, the stakeholder nomenclature puts "names and faces" on the societal members or groups who are most important to business and to whom it must be responsive"* (Carroll, 1991).

Other academics support this criticism that talking of a responsibility to 'society' is too abstract, and argue that, *"businesses are not responsible toward society as a whole but only toward those who directly or indirectly affect or are affected by the firm's activities"* (Maignan & Ferrell, 2004). These stakeholders can be grouped into four main categories: "(a)

organizational (e.g. employees, customers, shareholders, suppliers), (b) community (e.g. local residents, special interest groups), (c) regulatory (e.g. municipalities, regulatory systems), and (d) media stakeholders." (Maignan & Ferrell, 2004). Mullenbaker.net (April, 2008; a website providing a resource for people who want to be change agents within their business for CSR) suggests a few additional stakeholders: unions (which would come within Maignan & Ferrell's organisational category), NGOs (which could be grouped with regulatory systems), and financial analysts. We will return to a discussion of the link between CSR and stakeholders later in this paper (see section 6).

An alternative view of CSR that moves it away from the notion of social or stakeholder obligation is presented by Swanson (1995). She argues that an approach based on social or stakeholder obligation implies that, *"CSR practices are motivated by self-interest: they enable businesses to gain legitimacy among their constituents. [...] such approaches fail to account for a positive commitment to society that disregards self-interest and consequences."* (Swanson, 1995, cited in Maignan & Ferrell, 2004). Swanson (1995) proposes an ethics-driven view of CSR, *"that asserts the rightness or wrongness of specific corporate activities independently of any social or stakeholder obligation"* (Maignan & Ferrell, 2004).

CSR, then, may be driven by a sense of ethics, as well as social and stakeholder obligation. The numerous definitions of CSR seek to address the issue of the firm's interaction with its stakeholders and society. As Guler and Crowther state, *"Definitions of CSR abound but all can be seen as an attempt to explain and define the relationship between a corporation and its stakeholders, including its relationship with society as a whole"* (2008). Similarly, the European Commission defines CSR as, *"a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis."* (Brammer et al, 2006).

Can we be more specific, however, about the dimensions of a firm's activity that a CSR programme should address? Brand Strategy defines the key aspects of CSR as follows: *"CSR involves doing business in a responsible fashion that delivers value to the organisation, its stakeholders and the community within which it operates. The definition of CSR covers five main areas: environment, community, employee welfare, financial performance and corporate governance."* (Brand Strategy, December 18th, 2006). McDonald and Rundle-Thiele (2008) propose a similar, but expanded set of dimensions, citing Bhattacharya and Sen (2004). These are, *"(1) employee diversity (e.g. gender, disability, race); (2) employee support (e.g. union relations, concern for safety); (3) product (e.g. research and development, innovation, product safety); (4) impact on the environment (e.g. environmentally friendly products, pollution control); (5) overseas operations (e.g. overseas labour practices such as use of sweat shops); and (6) community support (e.g. support of arts programmes, housing programmes for the disadvantaged)." (McDonald & Rundle-Thiele, 2008).*

In the last few years, a variety of governmental, institutional and corporate definitions have emerged which, along with recent academic research, give CSR a new impetus, urgency and focus. This focus is directed sharply at sustainability and the environment, and is driven by heightened concerns surrounding climate change and the finite nature of natural resources (for example, oil and fresh water). Guler and Crowther (2008) propose the concept of 'equitable sustainability' as a way forward for organisations, arguing that,

“sustainability cannot exist without equity in the distributional process.” (Guler & Crowther, 2008). They go on to say that, “an understanding of sustainability must include not just what raw materials are used by the organisation, or even how they are used. It must also take into consideration an evaluation of how the effects – both positive and negative – are distributed to the various stakeholders concerned.” (Guler & Crowther, 2008).

The UK government-commissioned Stern Report (2006) presents a similarly broad view of sustainability, but with a different emphasis. It asserts that sustainability is not just about environmental issues, but has three main elements: environmental, social and economic. The report sums up these three aspects of sustainability, as follows: *“Environmental sustainability covers a range of areas all aimed at reducing the carbon footprint of an organisation. Economic sustainability refers to business practices that help an organisation continue to prosper. Social sustainability refers to organisations contributing to the development of the organisations they affect.”*

www.biggerthinking.com/en/sustainability/actionoraspiration.aspx). A report by the UN World Commission on Environment and Development sums up the concept of sustainable development succinctly: *“Meeting the needs of the present without compromising the ability of future generations to meet their own needs.”* (1987).

A Government update on the issue of corporate social responsibility takes the concept of sustainable development further, and emphasises the benefits to business: *“We see CSR as the business contribution to sustainable development. [...] how business takes account of its economic, social and environmental impacts in the way it operates – maximising the benefits and minimising the downsides. But we are not talking about altruism – CSR should be good for long-term business success as well as good for wider society.”* (DTI, May, 2004).

Gordon Brown talks of CSR as going, *“far beyond the old philanthropy of the past – donating money to good causes at the end of the financial year – and is instead an all year round responsibility that companies accept for the environment around them”* (DTI, May, 2004). The minister for CSR describes it as, *“relevant to all companies, large and small, to those operating in national as well as global markets, and to companies based in developing as well as developed countries. [CSR is] a way of thinking about and doing business. And that way of thinking needs to be mainstreamed across business operations and into company strategy.”* (ibid.). This sentiment is echoed by Ethical Investment Research Services (EIRIS), who state that, *“Reporting that started as a description of philanthropic activities has risen sharply over the past 25 years into a description of responsible business practices.”* CSR is, then, a wide-ranging and far-reaching responsibility, that should become embedded in a firm’s business practices.

With the emphasis on sustainable development, the social responsibility of firms is taken even further in recent definitions. A new and important dimension of CSR is that business should be a force for good, in a broader sense than bringing financial and economic benefit; that is, that an organisation’s activities should have a positive rather than simply neutral impact on society and the environment. In Gordon Brown’s foreword to the government update on corporate social responsibility, he expresses this sentiment in strong terms: *“Now we need to move towards a challenging measure of corporate responsibility, where we judge results not just by the input but by its outcomes: the difference we make to the world in which we live, and the contribution we make to poverty reduction.”* (DTI, 2004).

Other definitions also include this dimension of improving quality of life, for example: “CSR is about how companies manage the business processes to produce an overall positive impact on society.” (www.mallenbaker.net/csr, 25/4/08), and, “Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families, as well as of the local community and society at large.” (Holme & Watts, 2000).

Based on our learning from the above academic, governmental and institutional definitions of CSR, I would like to propose an additional, working definition of CSR; one that will encompass and pull together all the issues and dimensions that we have discussed. Firstly, it is important to consider what properties a strong definition should have. Clark, McDonald and Smith (2002) summarise these as follows: “*Inclusive (it should cover all cases of the subject); exclusive (it should exclude all cases which are not the subject); descriptive (it should facilitate recognition and understanding of the subject); a priori or non-circular (it should not depend on other terms, the definition of which depend on the original definition)*”. Keeping in mind these points, the author proposes the following comprehensive definition of CSR:

What is CSR?

Corporate social responsibility is an organisation’s obligation to evaluate its social, environmental and economic impact on the people and surroundings that it affects through its activities.

Who and What do Organisations Have an Obligation to?

Organisations have an obligation to all stakeholders. These include:

- Organisational: employees, customers, unions, shareholders, suppliers;
- Community: local residents, special interest groups;
- Regulatory systems and non-governmental organisations (NGOs);
- Media
- Financial analysts

What are the Key Dimensions that CSR Activities Should Address?

- Meeting the needs of the above-mentioned stakeholders;
- Impact on the geo-physical environment;
- Running of overseas operations;
- Development, innovation, safety and environmentally-friendly aspects of products;
- Achieving acceptable financial performance;
- Incorporating strong corporate governance.

How Can CSR be Achieved?

- Through a clear focus on environmental, social and economic sustainability.

What Could and Should CSR Achieve?

- CSR activities should enable organisations to be a force for good, having a positive rather than neutral impact on the people and environment that they affect.

4. Factors Driving Momentum Behind CSR

Increasing fears over the depletion of the earth's resources and climate change are at the heart of today's focus on CSR. As Meadows et al point out, *"As far back as 1972, the Club of Rome, an international think-tank, recognised that depletion of the Earth's natural resources at the current rate would, eventually, lead to severe economic fallout."* (Meadows et al, 1972, cited in Grayson et al, 2008). Similarly, Gore & Blood assert the view that, *"We are operating the Earth like it's a business in liquidation"* (Gore & Blood, 2006). The Economist highlights concern over climate change as, *"probably the biggest single driver of growth in the CSR industry. The great green awakening is making company after company take a serious look at its own impact on the environment. [...] 95% of CEOs surveyed last year by McKinsey [...], said that society now has higher expectations of business taking on public responsibilities than it did five years ago."* (The Economist, Jan. 19, 2008).

"The Future of Companies" (Smith, 2007) contains some bleak environmental messages, underlining the corporate world's need to respond with new thinking. If the consequences of global warming are not tackled urgently, Smith (2007) predicts, *"100 million climate refugees by 2050, sea level rising by up to 20 feet over the same period and world shortages of food and fresh water"* along with global populations rising to 2.5 billion people. He goes on to warn that we need to halve our waste and carbon based energy usage, limit our use of the 'wrong' sort of packaging, and reduce our carbon mileage (that is, transport using carbon energy sources) (Smith, 2007).

Professor Sarah Slaughter contends that we have not only been profligate in our use of resources, but also, *"in unnecessarily despoiling the remaining bearing capacity of the area"* (www.biggerthinking.com, April, 2008). Assessing the situation optimistically, the need to regenerate natural environments offers business new and positive opportunities to adopt innovative approaches.

Governments and other bodies are working hard to keep these social and environmental issues in the public eye, and their ever keener interest helps increase the momentum behind CSR. In Britain, the 2006 Companies Act introduced a requirement for public companies to report on social and environmental matters. In addition, The Global Reporting Initiative (GRI), aims to make firms' reporting on economic, environmental and social performance as routine and comparable as financial reporting (Mallenbaker.net, April, 2008). The UK Government claims to have an ambitious vision for CSR, calling for a partnership between business, Government and civil society. The Government aims to spread best practice and raise awareness, along with introducing legislation and fiscal measures where appropriate (DTI, May, 2004). Government guidelines and legislation then help to drive forward the adoption of socially and environmentally responsible policies across the wider economy. The European Commission has also contributed to the debate in this area. On March 22nd 2006, it published a new 'Communication on Corporate Social Responsibility', and using this, launched the European Alliance for CSR, *"an umbrella network for discussion and debate on*

new and existing CSR initiatives by large companies, SMEs and their stakeholders. [...] The Communication aims to make Europe a 'pole of excellence' on CSR. A new approach that inspires more enterprises to become involved in the agenda."

www.csr.gov.uk/feature.shtml).

Firms are also beginning to incorporate the external cost of carbon dioxide emissions into their decision-making, through pricing mechanisms (price per ton of carbon dioxide) and Government supported trading platforms, such as the European Union Emissions Trading Scheme in Europe (Gore & Blood, 2006). There is no regulatory framework in the US, but voluntary markets are emerging, such as the Chicago Climate Exchange, and the Regional Greenhouse Gas Initiative (Gore & Blood, 2006).

The UN promotes corporate responsibility around the world through a New York based group called the Global Compact. Established in 2000, this is a huge CSR initiative, with more than 2,300 participating companies, while the U.N. Commission on Human Rights reports on corporate responsibility with regard to human rights issues (Ruggie, 2006). In addition, the EU Business Alliance, Business in the Community (BITC), and the OECD have all developed views and guidelines on CSR, attempting to provide guidance for firms on how to make economic, environmental and social progress.

An ever-expanding army of non-governmental organisations (NGOs) *"stands ready to do battle with multinational companies at the slightest sign of misbehaviour. Myriad rankings and ratings put pressure on companies to report on their non-financial performance as well as on their financial results."* (The Economist, Jan. 19, 2008). For example, organisations such as World Resources Institute, Transparency International, the Coalition for Environmentally Responsible Economies (Ceres), and AccountAbility, are all helping companies explore how to align corporate responsibility with strategy (Gore & Blood, 2006).

The investment community is also responding to CSR issues, as socially responsible investing (SRI) is becoming increasingly popular. Jantzi's CSR ratings, for example, help investors evaluate a firm's social, governance, and environmental performance (Jantzi Research, 2008). In addition, the Equator Principles, designed to help financial institutions manage environmental and social risk in project financing, have now been adopted by forty banks, which arrange over 75% of the world's project loans. It is estimated that \$1 out of every \$9 under professional management in the USA, now involves an element of socially responsible investment (Gore & Blood, 2006).

It is clear, then, that pressure from Governments, Institutions and NGOs keeps CSR issues in the spotlight, but there is also another important factor at play: the internet allows the actions of organisations, and especially global organisations, to be scrutinised more than ever. Global firms have the power to transform communities and the natural environment all over the world. There are, *"some 70,000 transnational firms, together with roughly 700,000 subsidiaries and millions of suppliers spanning every corner of the globe."* (Ruggie, 2006), and many firms and industries have a huge carbon footprint (aviation, IT, retail, to name but a few).

More than ever, these companies are being watched: *"Embarrassing news anywhere in the world – a child working on a piece of clothing with your company's brand on it, say – can be captured on camera and published everywhere in an instant, thanks to the internet."* (The Economist, Jan. 19, 2008). When global firms are perceived to abuse their power, there can

be a social backlash, for example, the perceived unethical behaviour of major pharmaceutical companies over pricing and patents of AIDS treatment drugs in Africa. Also some companies have made themselves and their industries targets by committing harm in relation to human rights, labour standards or environmental protection (Ruggie, 2006).

With all this momentum behind CSR initiatives, there is increasing evidence that the corporate world is, indeed, taking more responsibility for social and environmental issues (Multinational Monitor, 2006; EIRIS, 2007). In the area of human rights, for example, a United Nations interim report concludes that, *“many if not most of the world’s major firms are aware they have human rights responsibilities, have adopted some form of human rights policies and practices, think systematically about them, and have instituted at least rudimentary internal and external reporting systems as well. None of this could have been said a decade ago.”* (Ruggie, 2006). A study by McKinsey & Co. is similarly positive about progress on CSR issues, stating that, *“more than 90% of chief executives are doing more now than they did five years ago to incorporate environmental, social and governance issues into their companies’ strategy and operations.”* (Grayson et al, 2008).

In fact, by investing in a range of CSR activities, companies are acting on the basis that CSR is not just the ‘right’ thing to do, but is also the ‘smart’ thing to do (Luo & Bhattacharya, 2006). While many organisations publish their plans to assess and reduce their carbon footprint and their impact on the environment and stakeholders, some adopt a strong, almost evangelical tone: BP and Infosys Technologies have together published a report addressing the issues facing tomorrow’s global company. They conclude that, *“for companies to succeed into the future they must play a greater role in contributing to solving the problems that society faces, including environmental degradation, poverty and the abuse of human rights. [...] We believe that the purpose of tomorrow’s global company is to provide ever better goods and services in a way that is profitable, ethical and respects the environment, individuals and the communities in which it operates.”* (Manzoni & Nilekani, 2007).

Their words reflect a commitment to make CSR central to the way they do business; but has the corporate world genuinely ‘bought in’ to adopting strong CSR policies, or are many companies merely paying lip-service to this issue? Some believe that large corporations continue to pursue a largely self-interested agenda. For example, Actionaid has published a report exposing what they describe as undue corporate influence over policy-making at the World Trade Organization. This influence, they believe, undermines the fight against poverty and the rights of the poor, while threatening the trade policies that developing countries need to build thriving economies (Actionaid, 2008).

In spite of evidence that many companies’ CSR efforts are moving in a more strategic direction, there are countless examples of companies who are not demonstrating ‘joined up thinking’ when it comes to CSR. Toyota, for example, has led the way in championing ‘green’, responsible motoring with its Prius hybrid model, but it has lobbied with others in the industry against a tough fuel-economy standard in the USA (The Economist, Jan. 19th, 2008). In Michael Porter and Mark Kramer’s paper on CSR in the Harvard Business Review in December, 2006, they conclude that, in most cases, CSR activity remains, *“too unfocused, too shotgun, too many supporting someone’s pet project with no real connection to the business”* (cited in The Economist, Jan. 19th, 2008).

The corporate world’s uncertain response to CSR is highlighted in PriceWaterhouseCooper’s global CEO survey, in which more than 1,100 CEOs from 33 countries were questioned on

CSR issues. Although 68% of those questioned agreed that the proper exercise of CSR was vital to companies' profitability, 21% declared themselves unsure whether this was mainly a public relations issue (Maitland, March 6th, 2002). These views may have shifted somewhat today, but there is still evidence that CSR is often driven more by the concern about the negative consequences of ignoring these issues, than it is by the potential benefits of espousing 'responsible' behaviour. It is undeniable that negative consequences of CSR failures can be extremely damaging to shareholder value, and can create cynicism among the public and campaigners: the reserves scandal at Royal Dutch/Shell, for example, has undermined its pretensions to leadership as a 'sustainable' oil company. It takes unstinting effort to ensure high standards by every employee, at every site, in every country in which a firm operates, *"but unless they do, their credentials will be jeopardised."* (Maitland, Nov. 29th, 2004).

It is clear, then, that growing concern surrounding environmental and social issues, in a world where global corporations have a huge amount of power and influence, means that CSR plays an increasingly important role for most companies. Governmental and non-governmental bodies and institutions, along with activists and special interest groups, exert continual pressure to raise the standards of CSR. Although there is significant evidence that the corporate world is taking its social and environmental obligations more and more seriously, there is, however, still a gap between the rhetoric and reality. The US, in particular, lags behind Europe in making CSR a central issue: 'sin' stocks such as gambling, tobacco and alcohol companies have been among the best American performers during recent years (Marshall, July/August, 2005). There is no room, therefore, for complacency, especially given the understandable fears that the current credit crunch may push CSR down the agenda, as the bottom line becomes the top issue (The Guardian, March 6, 2008). BP, for example, has been quoted as saying that its priority is to get its profits and share price back on track, and is reported to be considering the sale of its renewable power business (The Guardian, March 6th, 2008). There are certainly many factors driving the momentum behind CSR, then, but negative economic factors clearly have the power to slow this momentum down.

5. Understanding the Value Generated by Implementing CSR

5.1. Time For a New Mindset

Many organisations are keen to understand the financial implications of embracing CSR. It should be pointed out, however, that in the opinion of many academics and experts on this subject, questioning CSR's impact on the financial bottom line is far too narrow an approach (Kakabadse, 2007; Kolstad, 2007). The argument is that sustainability issues are so important that traditional thinking is no longer relevant. Old approaches can no longer be justified on the basis of simply analysing shareholder return.

Triple bottom line (TBL) performance is often mentioned as a more appropriate framework in today's environment. This offers a new style of reporting designed to encourage business to pay closer attention to the whole impact of their commercial activities, rather than just their financial performance. The TBL implies that business should give equal treatment to the

following three dimensions of business impact: corporate environmental, economic and social performance. All three of these dimensions should be included in a firm's balance sheets (Robins, 2006).

Jed Emerson, (who has spent two decades working in the fields of social entrepreneurship and investing and strategic philanthropy,) puts a similar idea in stronger terms, proposing a 'blended value proposition': *"The blended value proposition says that our portfolios should not only advance the financial aspect of our lives, but that they can and should advance every aspect of our lives. Our investments help create jobs, build communities, boost families, preserve the world for our kids and do a multitude of other valuable things. Or they can help do the opposite [...] Before we choose to buy or sell, let's assess all the value"* (Gertner, 2002). His view is, clearly, that although a firm should aim to maximise value for stakeholders, financial performance is only one aspect of value: as such, it should be assessed alongside the social and environmental value that a firm creates. He believes that it will eventually be, *"the stupid investor who is only going to look at financial performance [...] because in this day and age, companies that aren't effectively managing these other elements of value are companies that are going to underperform the market ultimately. They're going to have more lawsuits, more problems, and they're not going to be allowed to operate in other countries."* (Gertner, 2002).

According to Grayson et al (2008), organisations need a totally new mindset focused on corporate sustainability and sustainable management (Grayson et al, 2008). They call their approach: S2AVE (Shareholder and Social Added Value with Environment restoration), and emphasise how firms can successfully and profitably address all three elements of the 'triple bottom line' simultaneously, *"becoming increasingly agile and innovative as they do so."* (Grayson et al, 2008). They argue that, in today's world, there is no longer any place for business practices, *"that result in products with huge amounts of waste embedded in them; that involve the consumption of large amounts of energy; that undermine local communities or contaminate the environment"* (Grayson et al, 2008). They do not believe, however, that firms need to suffer because of this. On the contrary, they present the view that sustainable management offers huge opportunities, in much the same way that the internet enabled highly disruptive but, ultimately, positive innovations.

But how can companies achieve this goal of sustainable management? Daub and Ergenzinger (2005) emphasise that, central to this, all business decisions must be placed firmly within an ethical framework, and that profitability is no longer the firm's only 'raison d'être': *"sustainable management [...] is based upon an ethical framework and considers ethically correct behaviour as the cornerstones of all its actions and considerations. [...]* *What is significant and new about this management definition is its explicit emphasis on the equal weighting and thus equal importance of a company's economic, environmental and societal goals. Profitability thus becomes one goal amongst others."* (Daub & Ergenzinger, 2005). They advise reconciling the economic goals of a business with environmental and social issues by, *"systematically reviewing all their structures and processes to determine the impact they have on the good of the business and its environmental and social environment, and then adapting them to ensure they have the broadest possible positive impact in all three dimensions while exploiting all the available synergies."* (Daub & Ergenzinger, 2005). All stakeholders should be able to influence the development of a

business, and 'shareholder value' therefore becomes 'stakeholder value' (see section 6 for a further discussion of stakeholders).

According to many, then, sustainable management is the only way forward for organisations, and profitability is only one of several parameters on which a company should focus. Given that the financial 'bottom line' is still, nonetheless, an important element for consideration, let us turn our attention now to analysis of the financial implications of embracing CSR. We can do this by scrutinising the literature that focuses closely on the relationship between CSR and corporate success, financial performance and competitiveness. The literature on this subject offers arguments for every possibility regarding the link between corporate social performance and financial performance (Fernandez & Luna, 2007):

- That there is a negative correlation – due to the costs firms incur for behaving responsibly, that they would otherwise avoid;
- That the link is neutral – there are too many factors or variables that intervene between corporate social performance and financial performance to declare either a positive or negative link;
- That there is a positive link – for example, because socially irresponsible companies will incur greater costs in the long run.

5.2. Evidence of a Weak or Negative Link Between Financial Performance and CSR

A number of researchers believe there is little evidence of a positive link between corporate social performance and improved financial performance (Cowe, 2003; Rennings et al, 2003; Johnson, 2003; The Economist, 2008). In a review conducted by Griffin and Mahon (1997), 51 studies were identified which have explored this relationship. While many argued for a positive link, *"a substantial number of studies found no effect, or even a negative effect."* (Kolstad, 2007). A study based on the Dow Jones Sustainability Index found a short-term negative impact on financial performance (Lopez et al, 2007). Other researchers suggest that the link is very much dependent on the type of CSR a company implements, and that some types of CSR affect profitability favourably, while others do not (Kolstad, 2007). Kolstad argues that many of the studies that have been carried out, *"are based on limited data, and/or omit important control variables, and/or suffer from other methodological shortcomings, and any attempt to aggregate their findings is therefore meaningless."* (Kolstad, 2007).

The uncertain merits of drawing any conclusions are echoed by Brammer et al (2006) who state that, *"It is possible to justify a positive, a negative, or no relationship between a firm's social performance and its financial performance."* In a study of the financial performance of companies satisfying the FTSE4Good's corporate social responsibility criteria, the best that can be said is that, those who invest in a portfolio of companies that meet this criteria *"do no worse than their counterparts who do not follow a socially responsible strategy when purchasing equities."* (Collison et al, 2008). David Vogel, a professor at the Haas School of Business at the University of California, is sceptical of the financial rewards generated by CSR: *"Corporate responsibility is like any business strategy. It makes sense for some companies some of the time. [...] On balance, corporate responsibility most of the time*

actually makes relatively little difference to financial performance. [...] The good news is that the market does not penalize corporate responsibility. The bad news is that it also doesn't reward it." (Multinational Monitor, 2006). Many researchers agree that there is no evidence of risk in 'doing good', but that there is a heavy risk associated with behaving irresponsibly (Margolis & Elfenbein, 2008; Johnson, 2003). Vogel agrees that, *"A lot of corporate investment in corporate social responsibility is a form of insurance against the possibility of acquiring a bad reputation."* (Multinational Monitor, 2006).

Ford Motor Company provides a good example of an organisation putting a lot of energy into CSR, but also struggling financially. Their latest Sustainability Report identifies a carbon dioxide emission reduction target for its vehicles for the first time, while also focusing on urban congestion, human rights issues (having recently joined the UN's Global Compact), vehicle safety and financial sustainability

(www.ethicalperformance.net/ford_go_sustainability.html, July 2008). Bill Ford, great grandson of Henry Ford, has championed many environmental causes, reconstructing the Rouge River plant in Michigan with a 'living roof' of plants, solar and fuel cell technology, to create the most environmentally friendly facility possible (Marshall, 2005). Their CSR initiatives have incurred many costs in the short term, but time will tell if their commitment to CSR helps them to improve their financial performance.

5.3. Evidence of a Positive Link Between Financial Performance and CSR

Many corporations believe that CSR is an important instrument in increasing profitability, as evidenced by this quote from the Director of Strategic Planning at Royal Dutch/Shell Group: *"Corporate social responsibility is not itself our business but rather it is a way of conducting our business which, we believe, helps us to be more successful over the long term."* (Kolstad, 2007). The UK Government supports this view that CSR leads to corporate success. In its update on CSR, it comments that, *"the DTI has linked corporate social responsibility with competitiveness and there is no doubt that the leading practice of UK companies provides for a trading advantage in global markets."* (DTI, 2004). The DTI highlights increased competitiveness in terms of efficiency gains and cost savings generated by CSR, for example, through waste minimisation techniques. It also emphasises the growing market for socially responsible investments (SRI): *"Carbon Risk' in particular has captured the attention of many investors, including those involved in the Carbon Disclosure Project, in which institutional investors representing assets worth £7 trillion, have pressed leading companies for better information on emissions and climate impacts."* (DTI, 2004).

A white paper sponsored by BT and Cisco supports this view, asserting that investors and customers are *"increasingly rewarding organisations which wholeheartedly embrace sustainability with superior sales and shareholder value. [...] Increasingly, responsible companies make good investments"* (Grayson et al, 2008). The evidence, they believe, speaks for itself. For example, in a study of six industrial sectors (energy, mining, steel, food, beverages and media) companies considered leading in implementing CSR policies, were found to have outperformed the overall stock market by 25% since August 2005. In a cost-saving success story, 3M said that its 30 year long Pollution Prevention Pays programme, *"has not only stopped the creation of 2.5 billion lbs of pollution, primarily*

solvents and paper waste products, it has also saved the company more than \$1 billion." (Grayson et al, 2008).

Although academic research into the link between CSR and financial performance is inconclusive, many academics do support the view that the link is real and positive. It is certainly true that the number of studies that find a positive link outnumber those that do not (for example: Orlitzky, 2001; Brown, 2002; Murphy, 2002; Tilley, 2002; Maitland, 2003; Orlitzky et al, 2003; Gluck & Becker, 2004; Van de Velde et al, 2005; Derwall, 2005; Verschoor, 2005; Chand, 2006; Moneva et al, 2007; Berry, 2007; Andersen, 2008). In Luo & Bhattacharya's (2006) study on CSR, customer satisfaction and market value, for instance, the authors calculated that, *"for a typical company in our sample with an average market value of approximately \$48 billion, one unit increase of CSR ratings would result in approximately \$17 million more profits on average in subsequent years, a substantial increase of financial returns."* (Luo & Bhattacharya, 2006). In Andersen's (2008) paper, he comments on the link between, *"the ethical position and practices of an organization and the feeling of well-being, motivation and inspiration among its employees"*. It is partly the high level of employee retention in ethical companies that leads to improved financial performance (Andersen, 2008). Other studies also show that companies with reputations for being socially responsible have a significant recruiting advantage over other firms (Ingram, 1997).

Daub and Ergenzinger (2005) also highlight the benefit of employee motivation that the transition to sustainable management can bring, along with the benefits of differentiating themselves from competitors, and raising their profile. Similarly, other academics argue that sustainable management and corporate ethics are positively associated with innovation and excellence, and this is, clearly, a recipe for corporate success (Pitt et al, 1996). The National Quality Institute in Canada (NQI) has also found that organisations with a culture of excellence have proven results, and these firms also perform well on CSR. This is because, *"there is a binding culture in place, one in which doing the right thing is a natural way to do work"* (Corbett, 2004).

A study carried out by the NQI demonstrates that the share prices of organisations recognised with the 'Canada Award for excellence' have outperformed many stock market indexes over the longer term. Corbett argues that this shows that, *"when leaders focus on building sustainable balanced performance, rather than focusing on the quarterly results, [...] the results will be significant stakeholder value."* (Corbett, 2004). He also endorses the view that having a healthy workplace with motivated employees is a critical component in adding value. A US study adds weight to the argument that socially responsible behaviour has a bottom-line pay-off. It suggests that companies embracing CSR also demonstrate a generally higher standard of management (New Zealand Management, September, 2002).

These studies suggest that excellence and high levels of innovation are key to a firm's success, and firms who embrace the concept of CSR successfully are often highly innovative. Starbucks' successful CSR initiatives with the charity agency CARE, are surely due, in part, to their innovative skills. Conversely, in firms with low innovativeness, CSR activities are more likely to be purely cost-adding and less influential, and will not, therefore, tend to lead to financial benefit (Luo & Bhattacharya, 2006).

An important, related issue is that CSR can generate value for a company through the positive reputation effects of ethical initiatives (Pearce & Doh, 2005; Meng-Ling, Dr. Wu,

2006; Bernhut, 2002). Mallen (Mallenbaker.net, April, 2008) argues that many firms at the top of 'most respected company' surveys, are those with a strong reputation for CSR, for example, IBM and Motorola. A review conducted by Hendry (2006) found that corporate social performance was correlated with and leads to corporate financial performance, *"with reputation being one of the important structures on the CSP to CFP pathway."* Reputation can be transmitted through current and prospective employees, by the way they behave and what they say to outsiders: *"Three-quarters of the British public say they would believe an employee's word about a company's social and environmental record over that of a corporate brochure or advertisement, according to Mori, the pollsters."* (Maitland, 2004), emphasising the critical role that employees play.

In Schnietz and Epstein's (2005) study of the financial value of a reputation for CSR during a crisis, they found that a good reputation for CSR protects companies from the stock declines associated with a crisis. Reputation was seen to act as reservoir of goodwill (Schnietz & Epstein, 2005), with CSR effectively insuring financial performance against negative events (Pelozo, 2006). Pratima Bansal, author and professor, shares this view. She argues that while a socially responsible company, *"may not necessarily see an increase in its stock price over time, it will actually be able to remain in business over a longer period of time. Its survival will [...] be less threatened if it has a major disaster. And there's a simple reason for it. These firms build greater loyalty and commitment from their stakeholders."* (Bernhut, 2002).

We have argued, then, that judging a firm on purely financial parameters is no longer appropriate in a world where environmental and social value should, it is argued, be given equal importance. It appears, however, that by taking this ethical, sustainable approach to business, a firm is not necessarily disadvantaging itself financially. On the contrary, there is some evidence that a positive consequence of adopting innovative, ethical, sustainable management approaches is an enhanced reputation, motivated employees and loyalty in times of crisis. This, in the long run, is likely to lead to greater financial success.

5.4. Different Firms and Industries Need Different CSR Strategies

Different firms and industries will have different issues to manage where CSR is concerned. Some industries have a variety of standards to meet that may have mixed levels of support from different stakeholder groups. Other industries may have none, but companies may feel it is beneficial to seek to establish a new standard for their industry (csrnetwork.com, April, 2008). Some industries have a huge carbon footprint, others have a lesser impact. The information and communication technology (ICT) sector, for instance, is reported to have a carbon footprint as big as the aviation industry

(www.guardian.co.uk/environment/corporatesocialresponsibility, Dec. 3rd 2007).

Pratima Bansal has focused her CSR research on resource-based companies in primary goods-producing industries: for example, chemical and forestry companies, oil and gas and mining companies. *"There's no question that being socially responsible is more important for them than it is for companies in some other industries. This is because of their heavy impact on the land and local communities."* (Bernhut, 2002).

The extractive sector – oil, gas and mining – perhaps more than any other, needs clear, focused CSR strategies, as it “*utterly dominates*” reports of human rights abuses, with two thirds of the total in a UN interim report (Ruggie, 2006). There is now increasing co-operation among companies in these industries to set their own industry standards, rather than relying on government regulation, a positive, proactive move which “*brings up the laggards*” (Bernhut, 2002). For these firms, then, CSR is an essential and unquestionable element of corporate strategy.

In addition to firms exploiting natural resources, Maitland (2004) lists several other types of firm that are subjected to great scrutiny: “*those with dominant market positions, such as former state-owned utilities; those dealing directly with consumers, such as banks and retailers; those producing essentials such as food or drugs; and those [...] depending on supply chains in low-income countries, such as [...] clothing manufacturers.*” (Maitland, 2004). Again, for these firms, CSR will be near the top of the corporate agenda. Some companies are more likely than others to be heavily scrutinised by pressure groups, and Hendry has produced an interesting study which identifies the factors that lead environmental non-governmental organisations (ENGOS) to target particular firms (Hendry, 2006). According to Hendry, there are seven issues most commonly targeted. These are: “*a) energy (energy efficiency, fossil fuels, alternative fuels), b) climate change (can be related to fossil fuels, may include air pollution), c) biodiversity, d) deforestation (related to both climate change and biodiversity), e) toxics and public health, f) genetic engineering and protection of the food supply, and g) oceans and fisheries.*” (Hendry, 2006). ENGOS then focus their attention on industries and particular firms with the greatest impact on these target issues.

Other non-governmental organisations will target firms based on their record for human rights and working conditions. Nike has been targeted by a broad range of NGOs and journalists, “*as a symbolic representation of business in society*” (mallenbaker.net/csr/csrfiles/nike.html, 25/4/08). There have been allegations of poor working conditions in some of Nike’s 700 contract factories, harassment and abuse, use of child labour (1996), and poor wages (albeit above the legal minimum). Nike has also been accused of abandoning countries as they developed better pay and employment rights, in favour of countries such as China, where costs remain lower (mallenbaker.net, 2008).

Nike, in its defence, has developed a considered response, supported by corporate website reporting: “*It now has a well developed focus for its corporate responsibility on improving conditions in contracted factories, aiming for carbon neutrality, and making sports available to young people across the world.*” (mallenbaker.net, 2008). Nike denies abandoning countries, pointing out that they remain in Taiwan and Korea, despite the higher wages and labour rights. They now operate stitching centres where non-use of child labour can be verified, and monitor their supply chain carefully. The Global Alliance, through which Nike monitors some of its factories, has expressed support for the firm, believing they are acting in good faith, and have developed a, “*serious and reasonable remediation plan.*” (mallenbaker.net, 2008).

Clearly, then, different companies have different issues when it comes to CSR. In Nike’s case, the power of its brand and its global impact as a company make it a target for NGOs, pressure groups, and some consumers. Each firm will have its own particular set of issues that are most critical to the running of the business, and to its stakeholders. As Chand says,

in his paper exploring the relationship between corporate social performance and corporate financial performance, *“the inherent differences in stakeholder interests and activities across different industries make comparisons among industries almost impossible”* (Chand, 2006). A thorough understanding of stakeholder interests is, therefore, key. Verschoor and Murphy (2002) claim that there is, *“unbiased and rather conclusive empirical evidence”* demonstrating that firms who are simultaneously committed to social and environmental issues, *“that are important to their stakeholders”* (Verschoor and Murphy, 2002) enjoy financial success and enhanced reputation from their CSR strategies.

The need for different approaches to CSR depending on the firm’s activities and stakeholder interests appears undeniable, and Ruth Saunders makes an interesting contribution in this area, in Brand Strategy (2006). She recommends three different strategies to help companies integrate CSR with their brand building efforts; the most appropriate strategy will depend on an assessment of purchase drivers for the brand. The first strategy is the integrated approach: *“This is appropriate when market research shows responsible business practices to be a key driver of brand preference.”* (Saunders, 2006). That is, when responsibility is already a core company value, informing all aspects of the business. Saunders gives the example of Whole Foods Market, a natural and organic foods retailer, to illustrate this strategy: *“Business, brand and CSR strategy are directly linked and demonstrated by the company’s slogan: ‘Whole foods. Whole people. Whole planet.’”* The company’s mission is to sell only the best quality products from sustainable and humane sources. It has recently set up organisations such as The Animal Compassion Foundation and The Whole Planet Foundation to promote animal welfare and women’s trading practices in developing countries. The brand’s proposition, with CSR wrapped around it, is enjoying much success, with sales increases of approximately 21% for each of the past five years, and a spot on Fortune magazine’s 100 best companies to work for, for nine years in a row (Saunders, 2006).

Ben and Jerry’s would also fit into Saunders’ so-called integrated approach to CSR. As Pearce and Doh (2005) comment, they *“have embedded social responsibility and sustainability commitments deeply in their core strategies”*. Similarly, Patagonia, an outdoor speciality apparel and mountaineering equipment company, could be used to illustrate Saunders’ totally integrated approach to CSR (Bucaro, 2007). The business is all about a passion for the environment, and the founder, Yvon Chouinard, has, *“melded a natural partnership between ethics and business success. [...] In Patagonia’s case, they long to leave a legacy full of ethically and environmentally responsible people that use their passions to sustain natural resources and take care of the earth. [...] Their business is not about them, it is about preserving the environment and using their resources to influence others to do the same; it is about making products to help their customers live out their passion.”* (Bucaro, 2007). Patagonia donates at least one per cent of its net revenues to efforts that protect and restore the natural environment.

CSR, then, has a stronger link with the firm’s success for some companies than for others. When a firm’s business is all about social or environmental responsibility, as is the case for Whole Foods Market or Patagonia, for example, then this will be central to their success: their customers will be looking for evidence of this responsibility when they make their purchases. Most firms, however, do not claim social or environmental passion as their ‘raison d’être’, and in these cases, a different approach is required. In Brammer and

Pavelin's (2006) study of corporate reputation and social performance, they highlight the importance of 'fit' between the types of CSR undertaken and the firm's stakeholder environment: *"a strong record of environmental performance may enhance or damage reputation depending on whether the firm's activities 'fit' with environmental concerns in the eyes of stakeholders."* (Brammer & Pavelin, 2006). For companies in the energy or tobacco industries, for example, it is more difficult to create credible associations between their brands and ethical, responsible behaviour (Saunders, 2006). Similarly, some analysts believe that Levi Strauss & Co.'s, *"intense focus on social responsibility goals by the management team"* (Pearce & Doh, 2005) was inappropriate, and may have diverted the company from its core operational challenges, perhaps accelerating the closure of its North American manufacturing operations (ibid.).

Saunders (2006) suggests a selective approach to CSR for firms when, *"market research shows responsible business practices drive preference, but the company does not have the proof points across all five CSR components [environmental, community, employee welfare, financial performance and corporate governance] to support a fully integrated approach, or when only a specific sub-segment of the target market places significant value on responsible business practices."* (Saunders, 2006). With this selective approach, CSR can be very specific and targeted, and can be linked to a sub-brand or partnership rather than to the company as a whole. Saunders gives the example of Unilever's Sustainable Agriculture Initiative, *"which ensures the continued availability of the company's key crops by defining and adopting sustainable agriculture practices in the supply chain. While it is 100% in line with corporate strategies [...] the initiative itself is not on a corporate, all-encompassing scale."* (Saunders, 2006).

The third CSR strategy proposed by Saunders is the invisible approach. This approach is considered appropriate for firms where CSR plays an important strategic or philosophical role, primarily to bolster trust in their brand and company. Saunders gives the example of O2, who attempted to improve its employees' quality of life by educating and guiding them on healthy eating and living habits. They aim to, *"improve employee health and happiness, decrease absenteeism and provide a better working environment for the employees – a key stakeholder group."* (Saunders, 2006).

We have seen that, to be successful, different industries and companies need different approaches to CSR, depending on their degree of impact on the environment or society, and based on the contrasting requirements and interests of their different stakeholder groups. Saunders' proposed CSR strategies are interesting in that they focus the mind on understanding differences in both, a) stakeholders' needs and expectations of firms, and, b) firms' abilities to make credible associations between their brands and environmental or social issues. It is, perhaps, slightly misleading to refer to only the first of these approaches as 'integrated'; the 'selective' and 'invisible' approaches are clearly aligned with and integrated within corporate strategy just as much as the 'integrated' CSR option. Calling this approach to CSR 'all-encompassing' or 'total' would perhaps help to distinguish it more clearly from the other two strategies. Let us move on, now, to examine the issue of stakeholders in more detail, reviewing the literature that explores the importance of CSR to these groups who have an interest or involvement in a firm's activities.

6. A New Stakeholder Approach to Management

We have seen throughout this paper that an understanding of stakeholders and their needs is crucial to a successful CSR strategy. It is therefore useful to summarise, briefly, some key arguments relating to stakeholder management in recent literature. Jonathan Ledwidge (2007) presents the case for a new stakeholder approach to be integrated within a firm's strategic and operational fabric. He describes the human-asset model, which recognises that today's organisations are best defined as a network of human assets – managers, employees, suppliers, customers and the wider community: *"In this model, success is determined by the extent to which these assets are motivated to work and collaborate in pursuit of a common vision or purpose."* (Ledwidge, 2007). CSR activities should, therefore, be defined with all stakeholders in mind.

Researchers developed the concept of businesses as coalitions of stakeholders in the 1990s (Polonsky, 1995; Murphy et al, 1997), taking a slightly different direction to the concept of relationship marketing, which, in the 1980s, concentrated on relationships between businesses and their customers (Daub & Ergenzinger, 2005). The stakeholder approach is layered with complexity as Rowley's (1997) network model of stakeholders shows: a corporation has numerous stakeholders with different roles, but each stakeholder has several stakes, *"and therefore different roles with changing duties and obligations, even to his very own stakeholders."* (Daub & Ergenzinger, 2005). A customer, then, may also be an employee, a member of the local community, a father, a school governor, a member of the 'round table', and so on. CSR strategies therefore need to reflect an understanding of these changing roles and requirements.

As noted above, this approach moves us away, somewhat, from a customer-centric approach to marketing theory: customers are just one of many stakeholder groups that are affected by an organisation. McDonald and Rundle-Thiele (2007), however, argue that customers are likely to have a far greater role in influencing market share, shareholder value, and stock price growth than other stakeholders, such as government and the media. They propose further research to understand the role of the customer-centric approach with regard to CSR strategies (McDonald & Rundle-Thiele, 2007). Regardless of whether customers should be given increased importance within the stakeholder group, the benefits of properly managed CSR programmes to a wide range of stakeholders is undeniable. Pearce and Doh (2005) comment on the benefits, *"in terms of corporate reputation, hiring, motivation, and retention [...]. And of course the benefits extend well beyond the boundaries of the participating organizations, enriching the lives of many disadvantaged communities and individuals and helping to address problems that threaten future generations, other species and precious natural resources."* (Pearce & Doh, 2005). Similarly, the Government's DTI report (2004) emphasises the benefits CSR programmes bring to communities (for example, in terms of poverty reduction), employees (for instance, in terms of offering flexible working practices), and the environment.

Having examined the concept of stakeholder management, and established the importance of understanding the needs of each stakeholder group, let us focus now on the impact of CSR activities on one important set of stakeholders: the customer.

7. What is the Link Between CSR Activities and the Customer Experience?

Very little academic research has been carried out specifically into the impact of CSR activities on customer experience. However, by analysing and weaving together different strands of related research, we can gain some interesting insights into this area. In this section, we will start by examining the key factors that drive customer experience, and then move on to an analysis of the literature that focuses on CSR's impact on concepts allied to customer experience (for example, customer satisfaction, intent to purchase, customer preference). We will then use this analysis to develop a discussion on whether CSR activities can enhance customer experience, presenting examples of different types of CSR initiatives.

7.1. Key Factors Driving Customer Experience

It is essential for companies to understand the key factors that determine customer experience in their business, given that creating a great customer experience is a powerful competitive weapon. Research shows that customer experience is context dependent (Lemke et al, 2006). The following factors have been highlighted in the literature as having an impact on customer experience:

- Other customers (Grove & Fisk, 1997)
- Product/service quality; product freshness; time savings; behavioural intentions (Boyer & Hult, 2006)
- In a multi-channel environment: personalisation; customisation; consistency; channel choice (Lemke et al, 2006).
- US retail context: multi-store shopping; bigness and confusion; personal interaction and personalised service; customer recognition by staff; prevalence of mistakes and price discrepancies; unused checkout lanes (negative impact) (Morganosky & Cude, 2000).

Environmental and social concerns do not emerge as important factors in creating a positive customer experience. In Lemke, Clark and Wilson's (2006) research into what makes a great customer experience, they define three layers in a company's offering to its customers: product, service and experience. *"The outer layer – experience – represents the least tangible side of an offer and accommodates the categories 'emotional', 'social impact', 'relationship', 'peer-to-peer' and 'atmosphere'. All these strings are woven together to produce the fabric of customer experience."* (Lemke et al, 2006). Both tangible and intangible factors, then, have a key role to play in the creation of a positive customer experience.

If we consider online shopping, a different set of issues becomes important in determining customer experience. Clark & Myers' (2007) research identifies aspects of a company's website that can lead to a positive customer experience. These include factors such as, *"easily visible contact information; effective navigation and search functionality; product range and information; flexible delivery options; speedy checkout"* (Clark & Myers, 2007).

Speed, ease and convenience are clearly key to customers, while, as in the non-virtual world, environmental concerns do not currently register as important factors. However, environmental issues are likely to become more and more relevant to customers over time and, as Clark and Myers (2007) suggest, the online world is one that lends itself to reducing our impact on the environment: *“less road miles travelled; less amount of stock required; less printed matter; less packaging; reduced waste”* (Clark & Myers, 2007). It therefore presents strong opportunities for websites to promote positive environmental credentials; currently only 12% of websites make reference to their impact on the environment (Clark & Myers, 2007).

According to the literature reviewed, however, the key drivers for creating a positive customer experience are factors that affect customers directly and personally in a tangible way. We will expand on and discuss the implications of this finding in section 6.3. Let us move on now to a discussion of the literature relating to the impact of CSR activities on the customer.

7.2. The Impact of CSR Activities on Customers

7.2.1. CSR's Impact on Customer Satisfaction

There is evidence in recent literature that CSR activities can have a positive impact on customer satisfaction. Luo and Bhattacharya's (2006) study based on a large scale secondary data set confirms the proposal that, *“CSR initiatives enable firms to build a base of satisfied customers, which in turn contributes positively to market value”* (Luo & Bhattacharya, 2006). Their research indicates that, *“a strong record of CSR creates a favourable context that positively boosts consumers' evaluations of and attitude toward the firm. [...] CSR initiatives constitute a key element of corporate identity that can induce customers to identify (i.e. develop a sense of connection) with the company. [...]”*, and these customers who feel a sense of connection are more likely to be satisfied with the firm's offerings (Luo & Bhattacharya, 2006). The study confirms that, *“All else being equal, firms that are viewed more favourably for their CSR initiatives enjoy greater customer satisfaction.”* (Luo & Bhattacharya, 2006). Research carried out by BT also supports the connection between CSR activities and customer satisfaction. A model developed by the company links its CSR activities to a quantifiable increase in customer satisfaction and retention, and *“has estimated that if it stopped its CSR activities, customer satisfaction would drop 10%, with a direct impact on BT's profits”* (The Times, Oct. 2, 2003).

The relationship between CSR initiatives and customer satisfaction is not, however, a straightforward one. McDonald and Rundle-Thiele's (2008) investigation into CSR and bank customer satisfaction reveals some interesting findings: *“At a time when banks are increasing the amount of funds allocated towards CSR activities, many banks across the globe are experiencing increasing levels of retail customer dissatisfaction (Australian Consumer Association, 2005; IBM, 2006; Thornhill, 2007)”* (McDonald & Rundle-Thiele, 2008). They conclude that, in fact, retail banking customers, *“prefer initiatives that create direct customer benefits compared to those that have broader social impacts”* (McDonald & Rundle-Thiele, 2008). This echoes Pomeroy and Dolnicar's (2006) research into a bank's

CSR activities, which also found that customers prefer self-serving initiatives, rather than those that benefit the broader community.

Luo and Bhattacharya's (2006) study suggests that if a firm has poor corporate abilities or low innovativeness, it may find that CSR harms customer satisfaction. Customers can view such firms' CSR activities as opportunistic and manipulative, with disguised selling purposes. Gupta's (2002) research into corporate ability and CSR as sources of competitive advantage has similar findings: CSR can only enhance a company's image when that company has a high level of corporate ability. Only when a company scores highly on its corporate ability image, does investment in CSR make sense. A firm's ability to deliver a 'value bundle' is paramount in creating a satisfying exchange for customers. However, if corporate ability is high, then CSR *can* enhance the feeling of customer satisfaction and loyalty (Gupta, 2002). The third annual reputation survey by Harris Interactive and the Reputation Institute provides a concrete example of corporate ability failure damaging a company's reputation, in spite of a strong CSR record: McDonald's Corporation fell to 33rd place, from 24th place a year earlier, due to product quality and service issues, even though their reputation for social responsibility was rated highly (Alsop, 2002).

7.2.2. CSR's Impact on Customer Loyalty, Preference, Purchase Intentions and Trust

Maignan and Ferrell's (2004) discussion of CSR describes evidence that it can lead to positive word of mouth by customers (Handelman & Arnold, 1999), while another research study establishes a positive relationship between CSR and customer loyalty (Maignan et al, 1999). The link between corporate values and loyalty is also explored by Verschoor (2005), who cites an Aspen/Booz Allen study which shows that, "*nearly two-thirds of [corporate] respondents agree that a corporation's values can strongly affect customer loyalty*" (Verschoor, 2005). The survey questioned 9,500 senior executives from 365 companies, representing a broad range of industries in 30 countries, and 'values' were defined as 'a corporation's institutional standards of behavior'.

Maignan and Ferrell (2004) also refer to other studies that have demonstrated, "*that consumers are willing to actively support companies committed to cause-related marketing, environmentally friendly practices, or ethics (Barone et al, 2000; Berger and Kanetkar, 1995)*" (Maignan & Ferrell, 2004). They also cite evidence that some consumers are ready to sanction socially irresponsible companies, for example, "*by boycotting their products and services (Garrett, 1987; Sen et al, 2001)*" (Maignan & Ferrell, 2004). On a similar theme, Cohen (1999) carried out survey research in the form of simultaneous national polls in the U.S. and U.K., and found that roughly half of the respondents in each country will refuse to purchase goods or services from a company with a poor ethical reputation (Cohen, 1999).

In addition, Maignan and Ferrell (2004) describe how advertising and corporate messages can establish CSR as a positive bond between a company and its customers, based on shared concerns. Sen, Bhattacharya and Korschun's (2006) web-based survey of university undergraduates found that the CSR initiative assessed in the study generated positive attitudes among those who were aware of it, "*Individuals [...] displayed greater organizational identification with the company; and indicated a greater intent to purchase products, seek*

employment, and invest in the company than respondents who were unaware of the initiative” (Sen et al, 2006). The respondent reacts, then, not just as a consumer, but in other stakeholder roles as well: as a potential employee or investor. It should be pointed out, however, that another key finding of this research was the low level of awareness for even a very targeted CSR initiative (approximately 17%). Clearly, then, the intensity of information surrounding CSR initiatives needs to be high if they are to have an impact.

Schuler and Cording (2006) refer to this point in their corporate social performance – corporate financial performance behavioural model, along with the importance of the consumer’s moral values in determining purchase intentions. They predict that, *“information intensity will influence the consumers’ broader attitude, and we expect consumer moral values to have a main effect on purchase intentions, as well as to interact with information intensity in predicting purchase intentions.* (Schuler & Cording, 2006).

Other research focuses on the relationship between CSR and trust. A survey conducted on consumers of organic products by Pivato et al (2008) finds support for their hypothesis that corporate social performance influences consumer trust and that this trust, in turn, influences consumers’ subsequent actions. Aqueveque (2005), however, uncovers a problematic relationship between CSR and trustworthiness. Using an experimental research design, he measures consumers’ perceptions of companies’ trustworthiness, manipulating the presence or absence of environmental commitment information in a company profile. The findings indicate that the consumer’s knowledge of the company’s environmental commitment can positively affect the perception of company trustworthiness, but this effect is not strong. Importantly, if the consumer perceives that resources are being deviated away from things that are more important to them, then the effect can be negative (Aqueveque, 2005).

7.2.3. Can CSR Help Companies Command a Price Premium?

There is some evidence that the CSR record of a company can trigger consumer responses of willingness to purchase and pay a premium price. Gupta’s (2002) empirical study used a questionnaire with 312 MBA students, describing four hypothetical companies that manufacture and market light bulbs. There were no tangible differences between the four competing brands except for the information on their corporate ability and CSR attributes. The study revealed that, if all else is equal, *“consumers are more likely to reward the companies that have a more solid and positive socially responsible record in the marketplace. [...] The study showed that consumers were willing to pay 50% extra above the average price for a manufacturer’s product that had a strong CSR record”* (Gupta, 2002).

Auger et al (2007) assert that, *“most empirical studies have found that some consumers are willing to pay a premium for more socially acceptable products”*. They cite empirical research demonstrating the willingness of Hong Kong and Australian consumers to do precisely this, especially when sensitive issues such as child labour and animal testing come into play. However, consumers were not willing to sacrifice basic functional features for socially acceptable ones (Auger et al, 2007). In Andersen’s (2008) framework for business ethics, he cites some 1995 research by Cone Communications and Roger Starch Worldwide, which found that, *“31% of respondents viewed a company’s sense of social responsibility as a key factor in their purchasing decisions. Furthermore, large percentages*

of those surveyed said they would pay more for products and brands whose manufacturers and retailers supported a cause they cared about.” (Andersen, 2008).

A note of caution, however, is sounded by David Vogel, a professor at the Haas School of Business at the University of California. His view is that, *“What constrains the amount of resources a company can be expected to invest in protecting its brand is the fact that companies rarely can command a price premium for more responsibly produced products.[...] For virtually all consumers virtually all of the time, purchasing decisions are based on price, performance and convenience. Social considerations rarely play an important role, except in rare instances.”* (Multinational Monitor, 2006).

Overall, then, we have seen significant evidence that CSR initiatives can positively affect customer satisfaction, loyalty, preference, purchase intentions and trust. This is only true, however, if the company has the ability to deliver on product and service quality, as the customer is not prepared to compromise on these factors. In any purchase, the customer will always want his or her own needs to be fully satisfied first! CSR activities must be considered appropriate by customers, and even if they are considered suitable, companies should not over estimate awareness levels generated by even the most highly targeted initiatives. It appears that socially responsible products can command a price premium from some customers, in some cases, contexts and sectors. The customer’s moral values will, however, be a determining factor, and some consumers will always prefer self-serving initiatives over those that offer the more obscure benefit of serving social or environmental causes. Having made a broad assessment of CSR’s potential impact on the customer, let us focus in now on the specific area of customer experience, and how and whether it can be enhanced by CSR initiatives.

7.3. How Can CSR Activities Impact On Customer Experience?

Lemke et al’s (2006) research shows that most of the key factors driving customer experience in both the business to business (B2B) and business to consumer (B2C) sectors are factors that affect customers directly and personally in a tangible way. For example, in a B2B context, the extent of personal contact, flexibility, and an implicit understanding of needs are crucial. In a B2C context, helpfulness, value for time, customer recognition and promise fulfilment are the type of factors that most enhance customer experience (Lemke et al, 2006). McDonald and Rundle-Thiele’s (2008) research into customer satisfaction among retail banking customers also found that customer-centric initiatives resulted in higher satisfaction and, let us assume, a better customer experience, than CSR initiatives. In a similar vein, Pomeroy and Dolnicar’s (2006) study of a bank’s CSR activities revealed that personal well being outweighed their consideration of broader social impacts: *“customers preferred initiatives that benefited themselves, rather than those that benefited the broader community.”* (Pomeroy & Dolnicar, 2006). The top priority for creating a positive customer experience appears to be, therefore, the satisfaction of all personal needs relating to the purchase.

However, if we consider Lemke, Clark and Wilson’s (2006) findings on what makes a great customer experience, there are, critically, three layers in a company’s offering to its customers: product, service and experience. CSR issues could be relevant to some of the

constructs elicited in the research interviews that fall into the outer layer of experience – the least tangible side of the offer. These constructs were: **emotional**: “*feel good factor*”, “*offers space for important issues in life*”; **social impact**: “*fashionable (well recognised by friends)*”, “*trend/up-to-date – as opposed to old-fashioned*”; **atmosphere/environment**. (Lemke et al, 2006).

Although in Lemke et al’s (2006) research these three constructs were not found to be among the most important factors in driving customer experience, there may be contexts or sectors where these factors would be more important, or types of customer for whom they could be more important. There could also be a trend meaning that CSR issues become more important over time, so that some of the less tangible factors become more important. In other words, factors that do not have a tangible, direct, immediate effect on the customer, could still have a direct and timely relevance in certain contexts, for certain types of customers, i.e. those with a value set that contains social and environmental awareness near the top of the list.

If we accept that most CSR initiatives address broader social and environmental concerns rather than directly personal ones, we can make the following hypothesis:

Hypothesis One

CSR will, generally, only become important in enhancing customer experience after all the customer’s basic, immediate, direct needs are met. Once these personal needs have been fulfilled, broad CSR initiatives can provide positive emotional appeal for the customer.

CSR can be seen, then, as adding an extra dimension for the customer, satisfying a ‘higher order’ emotional need (similar to Maslow’s (1943) social, esteem and self-actualisation needs in his Hierarchy of Needs).

This is all, of course, assuming that CSR activities, while affecting certain stakeholders and the wider community directly, do not generally have a direct impact on the firm’s actual customers. Certain CSR activities could, however, have a direct impact on customers, for example, making them feel safer or improving their local environment. Other initiatives could have a direct impact on the customer in another stakeholder role, for example, as an employee or as a member of the local community. It could make sense, therefore, for firms to focus on the CSR issues with the most direct customer impact, if they are to make significant improvements to customer experience through CSR measures. With this in mind we can propose a second hypothesis:

Hypothesis Two

CSR initiatives that will enhance customer experience the most are those that have a direct, tangible, positive impact on the customer, in one or more of his/her stakeholder roles: for example, highly focused local community initiatives that address the customer/stakeholder’s personal needs or concerns.

There are, broadly, two types of CSR initiative, then:

- a) those that have an impact on broader social or environmental causes, and an indirect, emotional appeal to the customer;

b) those that have a direct, tangible impact on the customer him or herself.

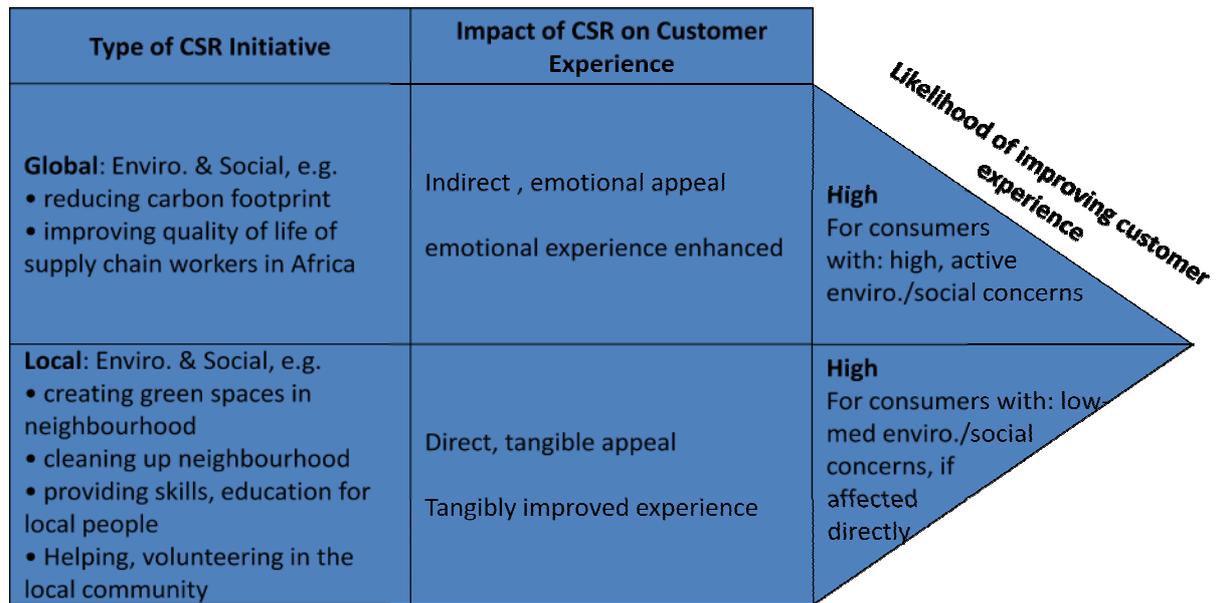


Diagram 1: The CSR Customer Experience Arrow

The diagram shows two key types of CSR initiative: global/broad environmental and social initiatives, and local/narrowly focused CSR initiatives. Customers with a high, active concern for the environment and social issues will be more strongly influenced by strong (possibly global) initiatives. Customers who are less concerned about broad environmental/social issues will be more influenced by highly targeted, local CSR initiatives, if these initiatives affect them directly and address a personal need. The author’s literature review strongly suggests that there are far more customers who fall into the low-medium concern category, than there are customers who could be said to have a high, active environmental/social concern, when it comes to their interaction with most organisations. It is possible that, over time, however, more and more customers will fall into the latter group, as environmental and social concerns increase, and customers translate these concerns into high CSR expectations of the firms with which they interact.

Let us now consider some examples of each of these two types of CSR initiative, and consider the outcome for the customer and other stakeholders in each case.

Table 1: Examples of CSR Initiatives and their Outcomes

Company	CSR Initiative	Outcomes				Customer Appeal	
		Company	Employee	Community	Customer	Indirect Emotional	Direct Tangible
IKEA	Sustainability objective requires that all their activities have an overall positive impact on people and the environment. Mission to improve life for the many.	IKEA says it is not easy to link CSR performance directly to financial performance, but they believe their efforts are having a positive impact on the numbers.	Recruit unique individuals who share their values - wanting to improve life for the many. They 'partner with people', value everyone's opinion, and encourage employees to use their own initiative. Aim for all employees to be highly motivated and committed.	Have partnered with Save the Children, UNICEF and WWF. Proud of having changed the lives of 80,000 children in Uttar Pradesh. Local initiatives (UK): IKEA supports three categories of projects within one hour's drive time of the store: Children: education, experiences, safety and improved environment. Better living: offer products and expertise. Environmental projects.	Aim to improve life for their customers. <i>"We know our customers want to help and support the sustainability of our planet - for today - and for the future of our children. [...] Our customers know we have our stake in the ground and are committed to continuing to be an environmentally responsible company."</i> (Pernille Spiers-Lopez, President of IKEA N. America, 20/2/07).	Yes	In general, no. Yes - if customer is affected in some way by a local CSR initiative.
Marks & Spencer	Plan A (so called because it is the only option - there is no Plan B): 100 targets over five years, around issues including climate change, waste reduction, safeguarding natural resources, ethical trading and promoting better health. Community initiative: Marks & Start - offering work experience to those who face barriers to getting a job.	Aims to dramatically increase the sustainability of the company's operations, vastly improve its offering to consumers, and also to build M&S into a more attractive business in terms of retaining staff and building customer loyalty.	Community programmes (Marks & Start) have boosted employee morale. Over 1,000 employees have been a 'buddy' to a participant on the programme, and almost all the stores are involved in some way. In a recent survey of 500 staff, 76% said the programme had contributed to making M&S a great place to work. This has led to increased company loyalty and staff retention.	Community programmes are developed in consultation with employees and customers. Their flagship programme: Marks & Start (launched Feb. 2004) offers work experience to those in need, e.g. Young unemployed people, the disabled, parents returning to work. The participants gain greatly improved skills, confidence and employability. Over 30% find full employment after the end of their placement, at M&S and elsewhere.	M&S is a company that customers can trust, and they benefit from buying products they know they can trust.	Yes	In general, no. Yes - if customer is affected in some way by a local CSR initiative.

Company	CSR Initiative	Outcomes				Customer Appeal	
		Company	Employee	Community	Customer	Indirect Emotional	Direct Tangible
Tesco	Tesco has pledged to become a leader in helping to create a low-carbon economy. It is committed to putting new carbon labels on its 70,000 products. It has developed a 10-point plan to make it a 'good neighbour', e.g. Installing wind turbines, sourcing more food locally. Also runs community-based education programmes.	Tesco aims to prove its 'green' credentials. It produces 2m tonnes of carbon a year in the UK. It has pledged to cut the emissions produced by its stores and distribution centres by 50% by 2020	CSR initiatives not directly targetted at employees. However, Tesco is the UK's largest private sector employer and provides the best overall benefits package in the industry.	Members of the community can benefit from Tesco's local education programmes. Criticism: Tesco should stop opening stores in towns where local communities say they don't want one. Some people feel Tesco is a 'bad neighbour' in terms of noise, litter, and driving out local stores, as well as having a poor record on selling local produce.	Tesco provides value to customers across social and economic ranges. New labelling means that customers can compare carbon costs of products (20 products, May 2008). The process has delivered data that could help shape consumer decisions, revealing, for example, that concentrated washing liquids have a lower footprint than powders (D. North, Director of Govt. Affairs and CR). Customers are said to welcome the information, though critics say carbon labels confuse customers (Philip Cullum, National Consumer Council).	Yes	In general, no. Yes - if customer is motivated to use information for selection of low carbon products.

Company	CSR Initiative	Outcomes				Customer Appeal	
		Company	Employee	Community	Customer	Indirect Emotional	Direct Tangible
Dell	Commitment to make Dell's operations carbon neutral, and to produce the most energy-efficient products. Offers ReGeneration.org: a global meeting place that allows customers and stakeholders to learn and share ideas about going 'green'. Customers can buy 'carbon credits': pay an extra \$2 - \$6 for a computer, and Dell will funnel the cash to the Conservation Fund and Carbon Fund (which will plant trees). Enables customers to offset emissions from producing the electricity used to run the computer.	Michael Dell aims to make Dell the 'greenest' technology company on the planet.	CSR initiatives not directly targetted at employees. However, employees can feel pride in Dell's commitment to CSR.	ReGeneration.org provides a useful forum for community members to exchange ideas about environmental issues.	Changes on desk-top products have saved customers \$2.4 billion in energy costs. Michael Dell believes that Dell's customers around the globe care about the environment and expect the 'greenest' technology possible: this is what they can have with Dell. Buying carbon offsets: critics argue that this allows consumers to avoid responsibility for changing their behaviour. However, it delivers a 'feel-good' factor for some customers: <i>"It gives me 'warm and fuzzies' for doing something good. [...] But the way to get real carbon reductions is if people like me cut back on airplane flights" (Sian Mooney, Boise State University). In spite of strong CSR record, some criticism of service delivery.</i>	Yes	Some direct benefits through savings to energy costs.

Company	CSR Initiative	Outcomes				Customer Appeal	
		Company	Employee	Community	Customer	Indirect Emotional	Direct Tangible
E.ON	EnergyRight : a 'home energy check' is conducted by an Age Concern volunteer (trained with E.On's support). It identifies behavioural energy efficiency improvements which can be implemented in the house, and identifies people who would benefit from additional services, e.g. hardship funds and handyperson service. E.On provides training materials and handbooks in association with National Energy Action.	Rewarding relationships have been built between E.On's employees and the communities in which it operates. E.On's reputation has been enhanced by winning a 'Business in the Community' award for excellence (2008).	<i>"Potential employees are increasingly interested in companies who are socially responsible and our commitment can help us in attracting them to E.On UK."</i> (Jarri Sandstrom, E.On UK HR Director).	Since its launch, E.On has trained 120 volunteers who have conducted 860 'home energy checks'. Through the partnership with Age Concern, E.On has enabled 285 households to access increased benefits. 2,289 older people attended presentations by E.On educating them about fuel poverty and ways to prevent it.	E.On has cut energy costs for many of its older customers. Other customers can 'feel good' about E.On's good work in the community.	Yes	Yes - for older people.
Airbus UK	Charity Challenge : a structured employee involvement programme, which since its inception in 1989 has raised £2 million for local charities, while providing personal development opportunities for staff.	Airbus UK's reputation amongst key opinion holders (local government, MPs) has been enhanced by winning a 'Business in the Community' award for excellence (2007). Airbus UK has increased its profile through local press and media coverage. Better working relationships have been achieved between management, workforce, trade unions, and the suppliers who participate in the charity challenge.	5,000 involvement days have been recorded, including 600 days of employees' own time donated. 1000 staff have directly participated in the programme, benefiting from many personal development opportunities. For example, engineering apprentices have the opportunity to run projects of their own. The number of applications to the company's apprenticeship scheme has almost doubled since the Charity Challenge started.	£2 million has been raised for local charities since 1989.	Customers can 'feel good' about Airbus UK's excellent reputation for contributing to the local community.	Yes	Tangible benefits for customers connected to any of the charities that Airbus UK have supported.

Company	CSR Initiative	Outcomes				Customer Appeal	
		Company	Employee	Community	Customer	Indirect Emotional	Direct Tangible
Manchester City Football Club	City in the Community: in 2004 an action plan was put together to tackle social need in the local area. Since then, 211,000 local people have benefited from the programme. Seven key themes were identified in co-ordination with Manchester and Tameside councils.: football, health, social inclusion, environment, life skills, citizenship and quality management.	The Club and its commercial sponsors have benefited from enhanced reputation and brand value. MC Football Club has won a 'Business in the Community' award for excellence (2007), and a BUPA Healthy Communities award (2007). Manchester City is widely regarded as leading edge in terms of community engagement and receives key note speaker invites on this subject every year.	The strong community involvement has led to a very low staff turnover, with 87% of staff showing high awareness of 'City in the Community'. Volunteers help with the delivery of these activities, which can be highly motivating.	211,000 people in the community have benefited from the programme. Many activities take place using the club's facilities every day of the week, e.g. 'Kickz', 'Play the Game', and 'Fitness for All'.	The customer can 'feel good' about Manchester City Football Club's excellent community links, and may also have directly benefited from one of their programmes.	Yes	Yes - customers may well have personally experienced some of 'City in the Community's' activities.
Barclays	Barclays Spaces for Sports: in 2004, Barclays entered into a public/private partnership with the Football Foundation and Groundwork to create sustainable sports sites for local communities, in areas where such facilities were lacking. 200 sports sites developed by end of 2007.	Barclays has benefited from a 'Business in the Community' award for excellence (2007). They have made a difference to local communities, motivated their employees and gained 14% customer awareness of their initiative	Barclays staff has been involved in the initiative from the outset. They have volunteered by getting involved in the pre-launch site preparation work, being sports coaches, and providing business skills advice. 73% of staff say that Barclays 'Spaces for Sports' makes them proud to work for the company.	500,000 people had benefited from the initiative by the end of 2007. 200 sports sites have been completed, and 3,600 coaching packs have been distributed.	Barclays has achieved 14% customer awareness of the programme. Customers can 'feel good' about Barclays positive impact on the local community, and may have benefited personally from the programme.	Yes	yes - local customers may have had the opportunity to use, or may know of people who have used one of the community sports sites.

Company	CSR Initiative	Outcomes				Customer Appeal	
		Company	Employee	Community	Customer	Indirect Emotional	Direct Tangible
BT	BT - Community Connections: an initiative whereby BT provides communications technology to community organisations. Any voluntary group in the UK, working in any field of community work can apply for an award of internet-ready PC and a year's subscription to BT Total Broadband. The initiative was developed in 2000 as a response to digital exclusion issues. Currently, 36% of people in the UK are considered digitally excluded.	BT has gained strong brand recognition and loyalty from award winners: 99% of award winners feel more positive about BT as a result of receiving an award. Whilst groups are offered the choice of broadband suppliers to comply with Ofcom regulations, 60% chose to sign up to BT in year four. BT also benefited from receiving a 'Business in the Community' award for excellence, 2008.	A recent survey shows that 62% of BT employees feel more proud to work for the company as a result of its CSR projects, including BT Community Connections. Out of those involved in volunteering for the project, 100% said they would recommend assisting with the scheme to others.	6,051 packages of IT equipment have been awarded to 5,691 groups. It is estimated that over 6 million individuals have been helped by the initiative. BT believes that providing communications technology to community organisations helps to prevent individuals from becoming marginalised and disadvantaged through digital exclusion..	Customers can 'feel good' about BT's strong community initiatives. Some may have benefited personally from the award scheme, or know of people who have benefited from the programme, improving their perception of BT as a company.	Yes	Yes - some customers may have benefited from the initiative and/or know of people who have benefited from it.

Sources for CSR tables: The Economist, Jan. 19th 2008; Barner, 2007; Grayson et al, 2008; Deutsch, 2007; Finch and Vidal, 2007; Murray, 2008; www.article13.com; www.ikea.com/ms/en_about_ikea/social_environment/uk_corporate_and_social.html; www.tescocorporate.com; www.dell.com/responsibilityreport; www.bitc.org.uk.

7.4. The Impact of CSR on Customer Experience: A Word on 'New' Consumer/Customer Typologies

It is clearly important to establish whether evidence exists that certain consumer/customer typologies are likely to have an enhanced customer experience because of CSR initiatives. A brief review of the literature in this area makes a useful contribution to our study. Jez Frampton, Chief Executive of branding consultancy Interbrand, and a non-executive director of the FairTrade Foundation, claims there is, *"a sea change in consumers' attitudes across all sectors, from organic produce to fair trade products that shoppers are prepared to pay more for."*, while money invested ethically broke through the £10 billion mark for the first time in 2004 (Marketing Week, 2006). High street banks are increasingly offering products for the growing number of consumers who want to invest and bank, *"with their hearts"* (Marketing Week, 2006). Frampton goes on to say that customers, *"want to be reassured that they are doing the right thing and feel good about themselves."* (Marketing Week, 2006).

A cross-cultural study investigating consumers' ethical beliefs across six countries (USA, Germany, Spain, Turkey, India and Korea) (Auger et al, 2007) produces some interesting findings. The researchers discovered that four ethical issues received high ratings across all countries: human rights, child labour, safe working conditions, and good living conditions. Four other issues consistently received low ratings across all countries: recycled packaging, use of animal by-products, recycled material usage, and GM materials (Auger et al, 2007). This suggests that certain human rights issues appear to be universally important, while other issues will be more readily sacrificed by consumers across certain cultural boundaries.

We can add some general comments on the values and attitudes of 'Generation Y', currently in their 20s, to this picture of an increasingly ethical, socially aware consumer. 'Generation Y' consumers have very high expectations of firms (*"give me Saturday off or I quit"* (Smith, 2007)) and make relationship based buying decisions. This suggests they may have no qualms about 'punishing' firms whose values they disapprove of. In addition, a new, narrower consumer typology has recently been developed - the New Puritans: *"young people who are against all the unhealthy stuff: fashion, consumerism, brands, smoking, Esso fuel, binge drinking, pollution, junk food etc. [...] In common with all important movements, this one has a silent march. It is under-noticed and under-observed"* (Whitmore, 2005). These are the customers for whom CSR would be vitally important.

As discussed earlier, however, (see sections 6 and 7.3), customers are not just customers: each customer performs a variety of additional stakeholder roles, and it is important to expand on this concept a little further while discussing customer typologies. Luo and Bhattacharya (2006) succinctly summarise this multi-dimensional, multi-stakeholder view of customers. They argue that a firm's CSR initiatives should lead to greater customer satisfaction since, *"a company's actions appeal to the multidimensionality of the consumer as not only an economic being but also a member of a family, community and country"* (Luo & Bhattacharya, 2006). Each customer's life is made up of a whole raft of diverse interests and priorities, and companies can create positive experiences for their customers by recognising that each person has a multi-faceted life.

Daub and Ergenzinger (2005) take the concept further, and propose the term 'generalized customer', *"to denote people who are not only customers who care about the consumption experience but also actual or potential members of various stakeholder groups that*

companies need to consider. Viewed in this way, such generalized customers are likely to be more satisfied by products and services that socially responsible firms (versus socially irresponsible counterparts) offer” (Luo & Bhattacharya, 2006). Daub and Ergenzinger (2005) go on to say that the ‘generalized customer’ – all of us – will only be satisfied if the product or service they purchase has no harmful impact on any areas in which they live and operate. The authors go on to advocate sustainable management as a way for an organisation to raise its profile among customers, differentiate itself, and achieve legitimacy vis-a-vis society (Daub & Ergenzinger, 2005). If we accept these arguments, then, as environmental and social concerns climb up the agenda for each one of us, we will all demand nothing less than a high level of CSR from every firm we have dealings with.

8. How Can Companies Develop Successful CSR Programmes?

8.1. CSR Needs to be Mainstreamed and Embedded Within Management Practice

A review of academic and corporate literature reveals widespread agreement that for CSR to be successful, it must be integrated and mainstreamed into management practice. CSR must become embedded in the core of a firm’s operations (DTI, May, 2004; Manzoni & Nilekani, 2007), and become, “*part of the corporate DNA*” (The Economist, Jan. 19th, 2008). Companies must genuinely change the ways they do business (Ledwidge, 2007; Marketing Week, Feb. 23, 2006), and leaders in these organisations must, “*live the organizational values and make decisions based on these values.*” (Corbett, 2004). In outlining the risks and opportunities that CSR has brought for HR managers, Ledwidge highlights the problem of ‘corporate schizophrenia’, when CSR is seen as complementary rather than integral to the organisation’s core strategy (Ledwidge, 2007).

BP provides a good example of a firm whose CSR reputation became tarnished because it was not fully integrated and embedded within all aspects of its wider corporate strategy (www.mallenbaker.net, April, 2008). Before his retirement in Spring, 2007, Lord Browne established himself as one of the most thoughtful business leaders, taking a strong position on CSR at BP. This position was damaged, however, by a series of major accidents that hit the company, as a result of safety and maintenance failures. In spite of all the right environmentally responsible rhetoric, budget cuts compromised maintenance programmes. In Taylor’s (2008) case study on corporate governance and reputation management, he describes how the cumbersome, complex organisational structure, operational inefficiencies, and a corporate culture that did not give decision-making to the person accountable, all undermined BP’s performance (Taylor, 2008). Tony Hayward, Lord Browne’s successor, has started to address some of these issues, but time will tell whether CSR truly becomes embedded in every aspect of the running of the firm’s business.

The ‘bottom line’ is that, quite simply, when companies talk about a commitment to CSR, they need to mean it. The Co-op bank is often cited as an example of a firm with a genuine commitment to CSR, because of the nature of the company. Frampton, Chief Executive of Interbrand highlights this, saying, “*The Co-op Bank was an institution that happened to have an ethical basis because of the type of institution it is. That was manifested as a marketing*

proposition, but it is actually true to the essence of the organisation.” (Marketing Week, Feb. 23rd, 2006). For CSR activities to be successful, then, social responsibility must be part of the very essence of the firm.

8.2. Companies Need to Understand What their Customers and Stakeholders Really Care About

In order for a company's CSR strategy to resonate with its customers and stakeholders, the firm must understand what issues are really important to these groups, and link this with an appreciation of their customers' reasons for purchasing from the firm. A Brand Strategy report (2006) exploring how to gain an ethical advantage from CSR, emphasises the need to align CSR strategy with brand strategy, defining an approach *“based on an assessment of purchase drivers and business strategy”* (Brand Strategy, December 18th, 2006). In a similar vein, Gregory (2006) asserts that when developing a strategy to engage in CSR activities, *“engaging and managing all stakeholders at every touch point will become a core competency”* (Gregory, 2006). In Smith's (2007) report on the future of companies, he summarises his advice on developing CSR strategies thus: *“Focus on the vital few trends which might impact you most”* (Smith, 2007).

Companies, then, need to understand which social and environmental issues resonate best with their customers and stakeholders, and in which combination. They should also understand which issues are non-negotiable, and which issues stakeholders are prepared to compromise on. As Auger et al (2007) state, *“companies need to not only pay attention to the ‘good’ issues – i.e. those for which consumers have a preference – but also to pay attention to the other issues which they are willing to trade-off”* (Auger et al, 2007). This exercise is not, however, a simple one. The issues preferred by one group of stakeholders may conflict with those preferred by other groups. In Maignan and Ferrell's (2004) paper on CSR and marketing, they give the example of Disney Inc. extending benefits to employees' gay partners. With this move, they, *“satisfied a major demand of some communities advocating gay rights”* but, *“angered some religious communities who believe that businesses should not support homosexuality. Accordingly, the evaluation of businesses' commitment to CSR is dependent both on the stakeholder issues and the stakeholder communities considered.”* (Maignan & Ferrell, 2004). Clearly, then, firms need to make an assessment not just of the CSR issues that are most important to stakeholders, but **which** stakeholders should have their preferences prioritised.

Archie Carroll's (1991) discussion of the moral management of organisational stakeholders was written seventeen years ago, but still presents a succinct and insightful summary of the key questions a company should pose to capture the essential elements needed for managing the CSR needs of its various stakeholders: *“1. Who are the stakeholders? 2. What are their stakes? 3. What opportunities and challenges are presented by the stakeholders? 4. What corporate social responsibilities does the business have to the stakeholders? 5. What strategies, actions, or decisions should be taken to best deal with these responsibilities?”* (Carroll, 1991). Having established the need for companies to understand their customers' and other stakeholders' priorities with regard to CSR, and the importance of aligning these with corporate and brand strategy, let us move on now to

examine some useful frameworks that have been proposed for effectively managing CSR challenges.

8.3. Frameworks for Managing CSR Challenges

A range of websites as well as academic literature offer different frameworks for managing CSR challenges. In Grayson et al's (2008) report on corporate sustainability, the authors discuss how companies can profitably address shareholder, social and environmental issues, by putting sustainability at the heart of the firm's strategy. Their recommended approach, which they call S2AVE, is summarised in the following ten steps: "1. *Make innovating for sustainability a part of your company's vision.* 2. *Formulate a strategy with sustainability at its heart.* 3. *Embed sustainability in every part of your business.* 4. *Walk the talk: emphasise actions not words.* 5. *Set up a body at board level with the power to make sustainability matter.* 6. *Set firm rules.* 7. *Bring your stakeholders on board.* 8. *Use people power. Join the networks.* 10. *Think beyond reporting: align all business systems with the company's vision of sustainability.*" (Grayson et al, 2008). According to this approach, companies must be driven by innovation, living and breathing sustainability, learning from and linking up with like-minded companies.

Pearce and Doh (2005) also discuss this theme of learning from and linking up with others, focusing on the benefits of collaborative social initiatives. Research shows that collaborative approaches consistently outperform others, as 'combinative capabilities' allow companies to synthesise resources and generate innovative responses to difficult issues (Pearce & Doh, 2005). In collaborative social initiatives, "*each participant has the potential to contribute valuable material resources, services, or individuals' voluntary time, talents, energies and organizational knowledge.*" (Pearce & Doh, 2005). They give the example of PricewaterhouseCoopers' Project Ulysses, a leadership development programme that sends small teams of PwC partners to developing countries to apply their expertise to complex social and economic challenges. The cross-cultural PwC teams collaborate with NGOs, community-based organisations, and intergovernmental agencies. The programme has led to a strong commitment to PwC from all those who have participated on the programme, "*because of the commitment it made to them and because they now have a different view of PwC's values*" (Pearce & Doh, 2005), as well as sending a message to stakeholders that the company, "*is committed to making a difference in the world*" (Pearce & Doh, 2005).

Pearce and Doh (2005) have identified five principles that are central to successful collaborative social initiatives, enabling companies to maximise the impact of their social contribution: "1. *Identify a stubborn challenge and address it for the long term. [...]* 2. *Contribute 'what we do' [...] leverage core capabilities [...]* 3. *Contribute specialized services to a large-scale undertaking [...]* 4. *Weigh government's influence [...]* 5. *Assemble and value the total package of benefits.*" (Pearce & Doh, 2005).

While Pearce and Doh (2005) offer an interesting framework for collaborative social initiatives, Bucaro (2007) gives some straightforward advice on how to develop an ethically sound company. He defines CSR, or 'stewardship', as, "*what you do, once you say that you believe in your mission statement, code of conduct/ethics, core values.*" (Bucaro, 2007). He outlines the guiding principles behind CSR as, "1. *Your actions must support what you say.* 2. *Be others-centered.* 3. *Ask yourself if it is the right thing for the customer.* 4. *Focus on*

how you can be more of a steward, be it for the environment, specific charities or causes, or the development of your people, both professionally and personally." (Bucaro, 2007). Andersen (2008) has developed a business ethics framework where the following questions regarding the "ethics components" are viewed as central: Are they internally or externally focused? Are they strategic or operational? Are they remedial or philanthropic? (i.e. do the activities go beyond merely minimising any negative impact the company may have had on the world?) (Andersen, 2008). In order to build an ethical approach to business within an organisation, Andersen proposes an eight step implementation process: "1. *Decide ethical ambition level.* 2. *Develop ethical business practices.* 3. *Decide ethical organizational design.* 4. *Conduct ethical training.* 5. *Develop a new organizational profile.* 6. *Launch the new ethical profile.* 7. *Ensure compliance with the new ethical profile.* 8. *Reinforce the implementation process.* (Andersen, 2008). We have seen, then, some over-arching frameworks for companies to consider when confronting the challenges of managing an overall approach to CSR. Let us complete this section by taking a closer look at the particular issue of how a firm should communicate and report on its CSR approach and activities to the outside world.

8.4. How to Communicate and Report on CSR

CSR network, a consultancy with expertise in developing, evaluating and assuring CSR and sustainability reports for companies around the world, offers ten clear and useful tips to companies on how to tell their sustainability story: "1. *Be relevant.*" That is, the report must cover the issues that stakeholders really care about, a tip that links directly with the point made in section 7.2 that CSR programmes should be developed with stakeholders' concerns and priorities in mind. "2. *Be integrated.*" Reports should make it clear how the sustainability strategy links to the firm's core business strategy. "3. *Be truthful.*" It is important for a firm to acknowledge its shortcomings in any reporting on CSR. "4. *Be robust.*" Companies need to decide what they are going to measure, and back up any claims with hard facts. "5. *Be pragmatic. [...] it's better to do a few things very well than a lot of things badly*" "6. *Be innovative.*" The author gives the example of Lloyds TSB who publish three different reports: "a short version for customers and shareholders; a data-rich version for those who scrutinise the company's CSR performance; and a supplement in the staff magazine". "7. *Be readable. [...] get to the point as quickly as you can*" "8. *Be trusted: Getting independent assurance of your report can be instrumental in winning the trust of stakeholders*". "9. *Be forward-looking. [...] outline your future plans*". "10. *Be aware. [...] take a look around you so you can tell where you stand against your peers and other organisations.*" (www.csrnw.com/story, 2008).

Lake (2004) also comes up with a succinct ten step plan for writing corporate responsibility reports. It covers many of the same issues, with a few additional recommendations, for example a reference to the importance of understanding cultural blocks, and an encouragement to seize the opportunity that CSR reporting presents: "1. *Have a plan and someone to execute it.* 2. *Challenge the status quo.* 3. *Establish what's material.* 4. *Align with the board.* 5. *Undo cultural blocks.* 6. *Express yourself clearly.* 7. *Work with the auditors and lawyers.* 8. *Be consistent.* 9. *Listen and learn.* 10. *Make the most of the opportunity.*" (Lake, 2004).

Savitz and Besly (2006), both of Sustainability and Business Services at PricewaterhouseCoopers LLP, propose five steps to follow when reporting on non-financial performance, but they focus more specifically on how a company can make its report attractive to investors: *“Use the Global Reporting Initiative’s reporting format and guidance to increase data transparency, accessibility, and comparability. 2. Get listed on a respected corporate social responsibility or sustainability stock index. 3. Check larger, actively managed socially responsible and/or sustainable investment funds for published investment filters. 4. Use independent third-party verification of collection practices and resulting data to reinforce validity. 5. Develop a company vision and mission statement, and follow up with quantifiable goals.”* (Anon., 2006). Being aware of the criteria that are important to investors is clearly key if a company’s report is to be attractive to this group.

Maignan and Ferrell (2004) do not come up with a five or ten point plan for effective CSR reporting, but, instead, focus on the type of marketing communications that can be most effective. Their research suggests that corporate communications such as advertising, promotions, public speeches or newsletters can, *“help spread the image of a good corporate citizen caring about important stakeholder issues”* (Maignan & Ferrell, 2004), emphasising the need for stakeholders to be informed about the company’s commitment to issues that are important to them. If communications can underline concern for an issue that is shared between the firm and its stakeholders, this can establish CSR as a potential bond between stakeholders and the company. The authors also believe that when communications stimulate interaction between stakeholders and the firm, around a particular issue, this leads to a stronger identification and relationship between the stakeholder and the firm. For instance, they give the example of EDS’s ‘Global Volunteer day’, when employees, business partners and clients join forces to work on a common project in the community (Maignan & Ferrell, 2004).

Overall, then, involving stakeholders, understanding the issues that are important to them, being clear, truthful, open to change, innovative, and robust in CSR reporting, will all help lead to effective communications.

9. Conclusions

The concept of CSR has changed dramatically over the last 50 years, anchored as it is now in notions of sustainability and reducing the carbon footprint of an organisation. Government bodies, NGOs, environmental activists and some customers scrutinise corporations’ diverse activities around the world. All stakeholders in an organisation, including potentially far-flung communities and activists need to be taken into consideration when deciding the firm’s strategic direction. Each organisation’s assessment of the benefits of CSR to their organisation should be framed within the context of strict social and environmental requirements, as well as financial ones. Organisations need to adopt sustainable management practices, and consider how they can add environmental and social value to all their stakeholders, as well as achieving strong financial returns for shareholders. Although research into the link between CSR and financial performance is inconclusive, there is evidence that a positive consequence of adopting innovative, sustainable management practices is an enhanced reputation, motivated employees, and loyalty in times of crisis.

Research also indicates that appropriate CSR initiatives can positively affect customer satisfaction, preference, purchase intentions and trust. All this, in the long run, is likely to lead to greater financial success.

CSR is no longer something a firm can 'take or leave', but should become genuinely embedded within every aspect of management practice. It is the case, nonetheless, that there will be some firms and sectors for whom CSR is even more critical than others, for example, those with a heavy carbon footprint, a supply chain that extends across the globe, or that use scarce natural resources. Each organisation must, therefore, assess the particular needs of its own stakeholders.

Most research indicates that, currently, CSR programmes are less appealing to customers, in general, than more self-serving initiatives. This would be especially true if the customer's concern for the environment and social issues is low-medium, rather than high. A product or service must, first and foremost, deliver the immediate customer benefits that it promises to offer. It could be argued that, generally, people become most concerned or excited about initiatives that have a **direct**, immediate impact on their lives. CSR activities that customers and other stakeholders can feel and see the tangible results of, are, therefore, likely to be the activities that enhance their experience the most. For example, local community initiatives that make them feel safer, improve their facilities, or create green spaces.

For some customers, in some contexts, however, the experience they have of a firm's product or service may be significantly enhanced by broader CSR activities, for example, for a 'new puritan', or customers with a medium-high environmental and social concern. If we take a multi-stakeholder view of customers, the time could come when it is generally accepted that no products or services should have a harmful impact on any areas of our lives. As more and more people wake up to the threat of global warming and climate change, issues such as a company's carbon footprint or its impact on the environment in distant communities may become increasingly important to customers. They may be prepared to pay more for, and have an enhanced experience of a product or service that they perceive to be socially or environmentally sound: the benefit they derive may be less tangible, but the 'feel good' factor as a mother/school governor/member of Worldwide Fund for Nature... will make the purchase worthwhile. These points lead us to the development of the following two hypotheses:

Hypothesis One

CSR will, generally, only become important in enhancing customer experience after all the customer's basic, immediate, direct needs are met. Once these personal needs have been fulfilled, broad CSR initiatives can provide positive emotional appeal for the customer.

Hypothesis Two

CSR initiatives that will enhance customer experience the most are those that have a direct, tangible, positive impact on the customer, in one or more of his/her stakeholder roles: for example, highly focused local community initiatives that address the customer/stakeholder's personal needs or concerns.

The focus for CSR initiatives should always be on the particular issues that are of greatest importance to the organisation's stakeholders, while being aware that some of these stakeholder needs may be 'negotiable', while others may conflict with the needs of different stakeholders. Each firm needs to make an assessment and judgement of the most appropriate CSR activities.

Clarity and truthfulness in managing and reporting CSR challenges are crucial to build trust, while innovation and the openness to learn from like-minded companies is essential. The involvement of stakeholders is also key; whether in the shape of collaborative social initiatives, or in the firm's approach to CSR communications. It is this willingness to involve stakeholders, along with a desire to focus on the CSR issues that concern them the most, that will lead to customers and stakeholders feeling a greater affiliation and identification with the organisation. If an organisation achieves this, it will, indeed, have created enhanced customer experience.

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