CSR and reputation: what has changed with the recession?

By Jeremie Guillerme

Over the past years, ReputationInc has worked with several global companies to help them develop Corporate Social Responsibility (CSR) strategies, a core element of reputation management. Conducting in-depth interviews with our clients' priority stakeholders and researching the latest CSR trends in the academic literature, we have observed that difficult economic times are profoundly changing stakeholder expectations with regards to CSR, while increasing the necessity of managing corporate reputations. To keep their competitive edge, companies have to address these concerns by rethinking their CSR strategies.

1- The recession has increased uncertainty at all levels, requiring companies to rely more on their reputation

Amongst the negative consequences of the recession, the one that has brought most concern to corporate communicators is the rise of permanent economic uncertainty. Market volatility, national debt, and the future of the Euro are issues that affect companies as much as governments. All major corporate players are now questioned on their ability to cope with a sudden crisis, and corporate reputations have a major role to play in this context.

Dowling and Moran (2012) write in the California Management Review that **"corporate reputations are most valuable in markets characterised by uncertainty or information asymmetry"**. This rings particularly true in the current situation, where stakeholder anxiety, the ever-increasing availability of information sources and speed of information form an explosive cocktail. The noise/signal ratio is maximal, and damaging rumours can spread quickly.

Conclusion: because uncertainty is higher than ever, companies need to rely on their reputation more than they used to.

2- The recession has changed stakeholders' expectations regarding CSR

The recession has not reduced the scope of CSR initiatives, as some predicted. It's rather the contrary. In a report published earlier this year, MIT Sloan and the Boston Consulting Group announce that "68% of managers say their **organisations' commitment to sustainability has increased in the past year**". More companies see CSR as the overarching tool to address the necessity of reputation building in times of uncertainty, but also to add to their profit: **31% of companies have already started to harvest the business benefits of CSR strategies** adopted a few years ago.

With this first harvest, **CSR has reached a tipping point**: it is now here to stay, regardless of the economic climate. However, it does not mean that companies should just do more of the same to preserve their licence to operate and build their reputation. Difficult economic times have fundamentally changed stakeholder expectations with regards to CSR and companies need to address these changes.

Materiality is the keyword here. As defined by the Global Reporting Initiative: "opportunities and risks which are most important to stakeholders, the economy, environment, and society, or the reporting organization, and therefore merit particular focus in a sustainability report." **The recession has changed stakeholders' perceptions of what is most important to them**. Socio-economic issues and employment in particular are now the overwhelming priority of governments, employees, media and the general public.

A number of **companies have already started reshaping their CSR portfolio to meet this material concern**, and seek to provide employment opportunities to populations most affected by unemployment. For instance, big retail chains have made strong commitments around apprenticeships (see the Marks&Start initiative from Marks &Spencer), and PWC is looking to tap talent amongst school leavers.

As companies are moving closer towards stakeholders' current socio-economic concerns, they find themselves facing 2 new challenges:

-First, **the 'traditional', usually sector-driven CSR activities are slowly becoming 'hygiene factors'**. In other words, it is now part of basic stakeholder expectations that banks carry out financial literacy programmes, or that food & beverage companies educate people around nutrition. As stakeholders have become used to these types of initiatives, the attached reputation benefits has decreased over time.

-Second, while addressing current stakeholder concerns, **companies need to keep CSR as an opportunity to differentiate from competition. But how can they do so when all stakeholder concerns tend to focus on the same issues (in our present case, socio-economic concerns)?**

<u>3- What's next? – Building CSR strategies for the next decade</u>

To keep CSR as a differentiator and maximise its business benefits while tackling similar issues, organisations will need to **cultivate their own singular way of doing CSR**, consistent with their core values, and leveraging their unique expertise. **21st century CSR needs to be built in overall business strategies, processes, performance metrics and organisational structures.**

The first step in this journey is undoubtedly setting the tone at the top. Experience shows that CEOs who strongly commit to CSR and set the sustainability agenda in their organisations have the highest chance of seeing their organisation 'harvest' business benefits.

The same goes for reputation benefits. Minor & Morgan (2011) show in the California Management Review that CSR can act as a "reputation insurance" only if the company's behaviour is consistently perceived as 'good' over time and across the entire scope of its activities. In other words, **leadership must embed CSR in the business strategy**. **A few 'add-on' CSR initiatives –however beneficial they are- will not weigh much in the reputation balance** if the company is elsewhere perceived as contributing to negative societal issues.

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Organisations willing to build and preserve their corporate reputation need to start looking now at how they can address changing stakeholder concerns through compelling CSR in a difficult economic environment. Adaptations to CSR strategies made today and their potential to meet emerging stakeholder concerns will certainly make or break the corporate reputations of tomorrow.

As organisations now engage with consumers, NGOs, old and new media, and seek to become part of everyone's life, the overall expectation for genuinely 'good' corporate behaviour is ever-increasing. In other words, as the proximity between a company and its stakeholders increases, stakeholder expectations regarding this company are rising in the same proportions.

Organisations of the 21st century will therefore pass or fail their 'friendship test' with stakeholders on the basis of consistent CSR strategies and behaviours.

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