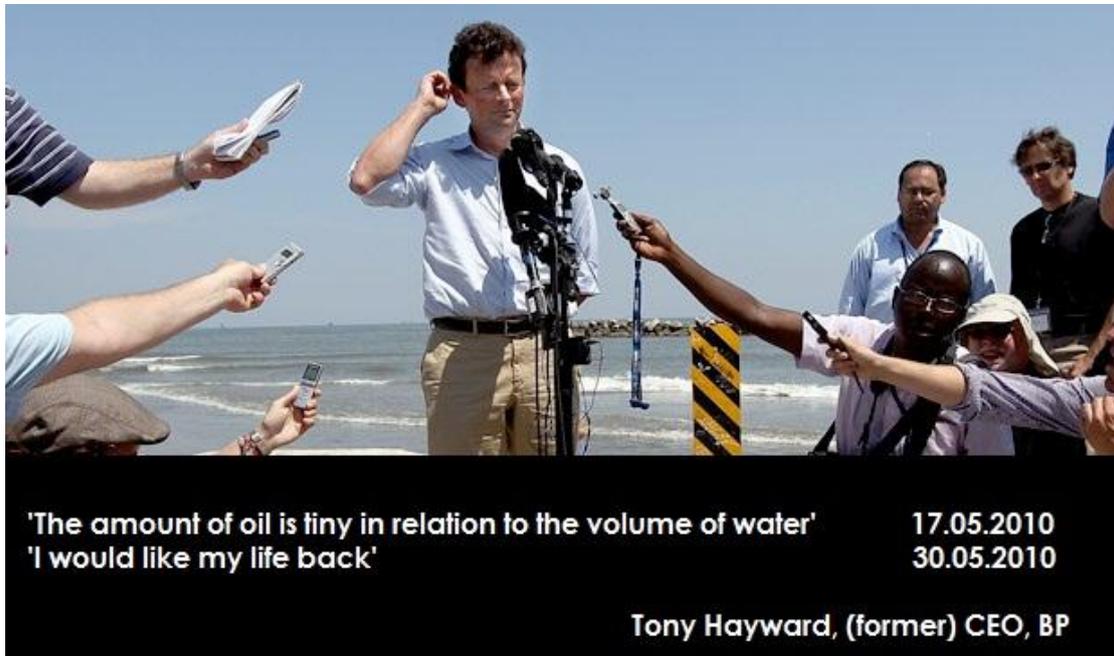


TGFT11: CSR Comes of Age

The Changing Face of Corporate Social Responsibility

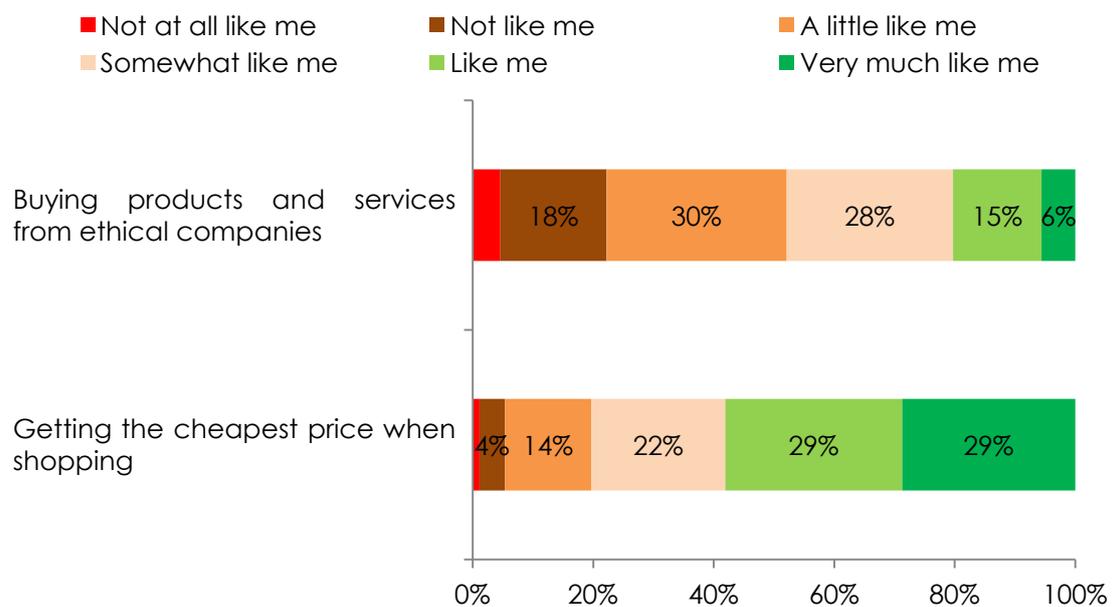


It would be easy to assume that the onset of the downturn in the UK five years ago and the subsequent political and economic traumas would have undermined the need for Corporate Social Responsibility (CSR) policies. All across the developed world, governments have been trying to roll back regulation and red tape to boost economic growth and have all but forgotten about their green aims and environmental regulation. And the UK is no exception – the coalition government has been criticised for dropping its green agenda and for pushing through reforms to make it easier to fire people.

Yet in practice it is consumer sentiment rather than government or regulator that has been the key driver of the Social Responsibility agenda and subsequent policy practice. This is reflected in the 'triple bottom line' adage (coined in 1994) – good for the planet, good for people, good for profit. Of course, it has never been the case in the UK that all consumers were interested in the CSR agenda. Traditionally it has been said that less than 10% were 'dark greens' who took a strong, active interest in CSR issues and that the majority were 'light greens', who took a passing interest, with about a third of people totally unmoved by traditional CSR.

But given the increased financial strain that consumers are under now, do they really care so much about the wider ethical issues that CSR tends to be concerned with? A shopper who is trying to save money is likely to forsake an expensive Fairtrade product for a cheaper non-Fairtrade alternative. Growth in the sales of Fairtrade products in the UK fell from 72% in 2007 to 12% in 2011¹, whilst organic food sales fell by £100m between 2010 and 2011². Conversely Primark, hardly renowned for its ethical procurement practices, continued its success in the downturn with a 25% boost in sales in the last quarter of 2012³, whilst other high street stores floundered over the Christmas period. If indeed consumers don't care about CSR issues, then there is a bigger question that follows from this – what is the incentive for companies to focus on it?

Data from Trajectory Global Foresight (see chart below) does reveal that consumers in the UK are far more concerned with finding value than buying ethically: almost three in five respondents (58%) say that getting the cheapest price when shopping is 'like' them or 'very much like' them, whereas only one in five (20%) say that buying products and services from ethical companies is 'like' them or 'very much like' them.



Source: Trajectory Global Foresight, 2012 Base: 1,512 UK respondents

This doesn't necessarily mean that consumers are not bothered by CSR and corporate behaviour in general though. In fact, recently, criticism of corporate behaviour has been particularly vociferous. Late last year,

¹ http://www.fairtrade.org.uk/what_is_fairtrade/facts_and_figures.aspx

² <http://www.independent.co.uk/life-style/food-and-drink/news/rise-of-organic-food-stalled-by-recession-2261411.html>

³ <http://www.guardian.co.uk/business/2013/jan/17/primark-sales-rise-no-internet>

Starbuck's (among others) was not only heavily criticised for tax avoidance in the UK⁴, but it actually saw its sales fall (arguably with its competitor Costa Coffee benefitting⁵) and reacted to 'loud and clear' consumer anger by volunteering to pay £20m in corporation tax over two years⁶.

We have also seen consumer outrage at big bonuses continue despite last year's 'Shareholder Spring' (during which shareholders voted against large remuneration packages for their company executives): consumer groups have criticised Barclay's for recently paying out a £1million bonus to Chief Executive, Antony Jenkins, on top of his £1.1million salary mere months after the bank was caught up in the LIBOR scandal⁷. And finally we have seen UK UNCUT activists effectively target businesses such as Vodafone and the Arcadia Group in protest at their domestic tax practices.

Clearly consumers are anything but indifferent to such matters, but how do we explain the fact that people are less concerned about ethical spending but still 'up in arms' about such financial or fiscal behaviours, and how should companies react in terms of their CSR approaches?

Part of the answer can be found in *Citizen Brands*, where Michael Willmott argues that the best form of CSR is *corporate citizenship* – a reciprocal relationship that is more a display of comprehension of consumers' values and the issues that are important to them than the traditional idea of corporate philanthropy or benevolence.

The reason companies need to show that they understand consumers' values is because consumers feel that the values of a brand they choose to purchase says something about their own identities. According to our *Greater Good* survey, conducted in the UK in 2011, half of respondents (49%) agreed that the good values and behaviour of a company they buy from reflects well on them.

In this scenario any effort to understand the ideal CSR positioning must start with an assessment of consumer values and priorities and so evaluating their fit with current CSR policy and practice.

Consumer values have changed significantly in the economic turmoil of the past 5 years and it is these changes which help to explain why consumers

⁴ <http://www.bbc.co.uk/news/uk-20650945>

⁵ <http://www.guardian.co.uk/business/2012/dec/11/costa-coffee-sales-starbucks?INTCMP=SRCH>

⁶ <http://www.guardian.co.uk/business/2012/dec/06/starbucks-to-pay-10m-corporation-tax>

⁷ <http://www.dailymail.co.uk/news/article-2270273/Shameless-Barclays-hand-new-boss-2million-And-man-brought-end-scandals.html>

take action against tax avoidance and executive pay but not against the use of sweatshops or the exploitation of third-world producers.

Indeed the main thrust of changing consumer attitudes (in advanced economies at least) is described in an earlier Trajectory article - *The Self-Preservation Society*. In times of economic difficulty people are even more likely to look out for themselves. When you're worried about how you can afford to feed your family and how many hours of work you can get hold of in the next month, the plight of people in distant countries seems that little bit more remote.

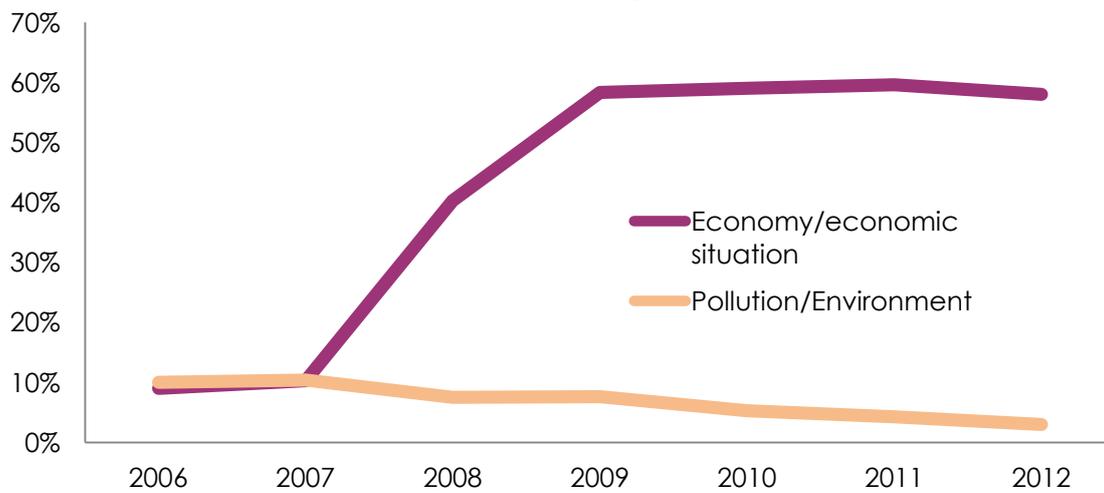
Trajectory Global Foresight data supports this assertion – we ask people whether they think their country's leaders should give top priority to help reduce poverty in the world or top priority to solving their own country's problems. The vast majority in the UK (73%) responded that their national problems should be prioritised over reducing poverty globally⁸. It seems likelt that this figure will have risen in the past five years (indeed it has done globally from 68%⁹ to 73%) during which time many have suffered financially. Our *Opportunity in Austerity* work in the UK provides evidence for this. In this study people exhibited a strong bias toward Government cut-backs in areas with the least direct effect on the respondent. For example young people would cut pensions by twice as much as those over 60 and those earning over £70,000 would cut tax credits by almost twice as much as those earning below £20,000. Thus people are more interested in 'self-preservation' than with the plight of others at both domestic and global level.

Such self-preservation is driving shifts in consumer values in a number of areas which are very relevant to companies and their CSR policies. The chart below reveals how consumers in the UK have become far more concerned with the economy than the environment, since the outbreak of financial turmoil over 5 years ago.

⁸ % responding 7-10 on 1-10 scale (where 1 = 'top priority to help reducing world poverty') and 10 = 'top priority to solve my own country's problems') to question 'thinking about your own country's problems, should your country's leaders give top priority to help reducing poverty in the world, or should they give top priority to solve your own country's problems'

⁹ World Values Survey, 2007

**What would you say is the most important issue facing Britain today? /
What do you see as other important issues facing Britain? (%
responding...)**



Source: Ipsos Mori Issues Index

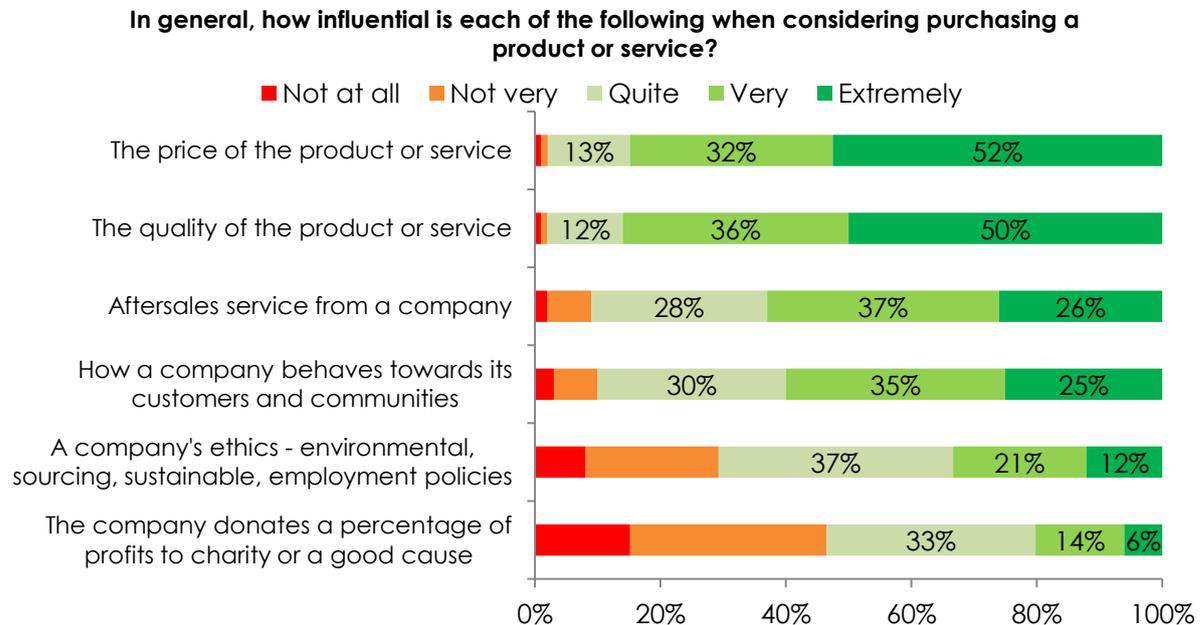
This is reflected in the areas in which consumers believe companies most need to pay attention to when it comes to their social responsibilities. Before the recession, it was the environment which was the main concern, but this slipped dramatically down the pecking order during the downturn, with executive pay now becoming the most important issue.

Area for attention	% who mentioned, 2006	Area for attention	% who mentioned, 2010
Concern for the environment	44%	Executive Pay	35%
Caring for employees	33%	Employees being able to speak about company wrongdoings	24%
Conserving energy	29%	Sweatshop labour	23%
Providing more jobs	28%	Environmental Responsibility	21%

Source: Ipsos Mori, 'What areas should companies pay attention to/most need addressing?'

This change in focus and values can be seen once more in our *Greater Good Survey*. The chart below shows the most influential considerations for customers when making a purchase. Unsurprisingly price, quality and after-sales are the most influential factors, but it's what follows that is most telling when it comes to CSR. 3 out of 5 (60%) respondents said that how a company behaves towards its customers and communities was very or extremely influential, while only 1 in 3 (33%) and 1 in 5 (20%) said the same about a

company's ethics (environmental, sourcing, sustainable, employment) and its donations to good causes respectively. In the same survey, almost half of people (46%) said they associated a 'fair pricing policy' with a good company, whereas only 1 in 5 (20%) mentioned 'environmentally friendly'.



Source: *Great Good* survey, 23 Red and Trajectory, 2011 Base: 2005

All of this represents a significant shift in emphasis in terms of consumer perception of socially responsible business practices rather than a lack of concern with company behaviour per se. As such companies shifting social responsibility to the bottom of their agenda do so at their peril.

The self-preservation society created by the economic downturn has resulted in people becoming much more concerned with issues that are close to them and affect them directly rather than seemingly more distant (both geographically and temporally) ones like sustainability, the environment and global poverty. As a result they become far more angered by excessive executive pay and tax avoidance, since the effects of these actions are much more palpable and personal to them than the effects of employing children in sweatshops on the other side of the world – people who are being squeezed financially and still paying their taxes understandably are upset when the wealthy are getting paid a huge amount or companies are avoiding taxes effectively at their expense.

Such changes in what consumers deem as socially responsible behaviour clearly have implications for companies' CSR policies and their reputations in general. Such increased scrutiny of the executive levels of businesses (*C-Suite*

Scrutiny as we coined it in our influential HBR article on the post-recession consumer psyche) as well as the changing Citizen Brand focus means that businesses are exposed to far greater accountability and any slippage between policy, rhetoric and practice – across all business areas - is likely to be exposed with unpredictable consequences.

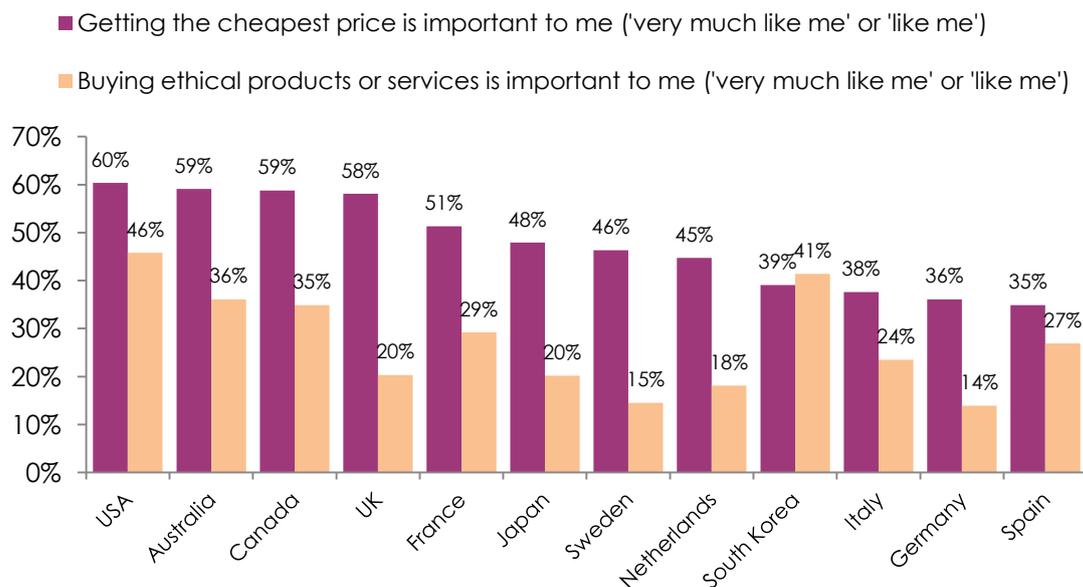
These unpredictable consequences are a core feature of what we at Trajectory have called 'The New Morality' (encompassing The Self-Preservation Society, C-Suite Scrutiny and Citizen Brands) and are amplified by arguably the pivotal aspect of the current paradigm for contemporary business CSR policies - global social connectivity and consumer empowerment.

Driven by the emergence of web 2.0 technologies, the wider social media ecosystem and personified by Facebook and increasingly Twitter, any perceived contradiction, weakness or other malpractice can be the trigger for a social media storm – often subsequently 'adopted' by mainstream media and so driven further into the mainstream consciousness. Small wonder then that David Jones in his 2012 book 'Who Cares Wins' describes the current age of CSR as the 'Age of Damage'.

As such companies must demonstrably focus on their understanding and sensitivity to what matters to their consumers. As demonstrated above, a key area that matters to a lot of consumers at the moment above all others is fair pricing and Sainsbury's is currently showing their understanding of this with their *Live Well For Less* campaign, which provides ideas on using leftovers and cooking affordable meals (it also shows an understanding of consumers' anxiety over eating healthily).

Up until now this Trajectory has only considered the state of CSR in the UK, but the broad picture is not dissimilar in other advanced nations. Other advanced countries which have felt the force of the financial crisis have also become more insular and concerned with their own issues. In Catalonia, for example, the independence movement has gathered momentum as people have tired of what they see as bailing out other Spaniards' profligacy. This is also reflected in Trajectory Global Foresight data – 70% of advanced nation respondents said their national problems should be prioritised over reducing poverty globally, up from 67% before the recession in 2007. As a result they are generally much more concerned with getting the cheapest price than buying ethical products (see chart below), although the UK is the most extreme case.

And just as in the UK, the issues that people care about have moved closer to home – the global Occupy movement, which began in the USA, fights against the social and economic inequality that people feel is affecting their own lives; Francois Hollande has reacted to such gripes by increasing income tax on the richest in France; whilst the repeated failure at global environmental summits (most notably at Copenhagen in 2009, where there was no agreement on a post-Kyoto climate treaty) and the waning media coverage of those failures shows how interest in climate change has fallen dramatically.



Source: Trajectory Global Foresight, 2012 (Base: 22,620)

It's important to note, however, different issues matter to different people at different times. Arguably this is the case more than ever before given that people are more likely to look out for their own interests. This is a test for companies with diverse sets of consumers - especially so for global companies operating in a wide range of markets. It can be too easy to assume that with the reach of global digital and social networks then consumer behaviour is also becoming homogenised – in fact there are very significant social cultural and economic differences, perceptions of business (and state) and so very different CSR priorities.

The chart below, showing membership of voluntary groups by type, gives some indication of the challenge here. It demonstrates how in both advanced and developing countries local community organisations are the organisations that people are most likely to be involved in, which supports the

idea that consumers are more concerned with issues closer to them than ones on the other side of the world.

When it comes to environmental organisations though, there is much lower involvement in them than in local organisations in advanced countries, which implies that there is far less concern with environmental issues; but the case is different in emerging countries¹⁰, where involvement in environmental organisations is almost as high as in local community organisations. This implies that environmental issues matter a great deal to people in emerging economies and certainly a great deal more than they do to people in advanced economies. This is unsurprising given people in emerging markets are more likely to feel or see the effects of environmental damage and so it is an issue that is much closer to them. For example, in China recently, anti-pollution protests resulted in the axing of the planned construction of a copper alloy plant in Shifang¹¹.

Involvement in voluntary groups (active or inactive)



Source: Trajectory Global Foresight 2011
Base: 30,402

This only demonstrates on a very broad scale how the various and volatile values and attitudes of people across the world should influence how companies behave within society. Clearly within each country too, attitudes vary within different groups, and so companies must consider who their consumers are and analyse what matters to them very carefully when it comes to CSR. But most importantly they must not misinterpret people's

¹⁰ In emerging countries, there is also a high level of self-preservation – 78% said their national problems should be prioritised over reducing poverty globally compared to 70% five years ago – implying that they too are far more concerned by issues that will affect them directly

¹¹ <http://www.guardian.co.uk/world/2012/jul/03/chinese-cancels-copper-plant-protests>

changing values as a lack of interest in their corporate behaviour within society.

This Trajectory is driven by data and thinking from Trajectory's Global Foresight service (TGF) which covers 20 countries. The service provides analysis on the trends driving consumer and citizen behaviour - what they are, why they are important and where they are heading. All of the content is supported by research amongst over 40,000 people per annum.

For more information about TGF or any associated research projects please get in touch:

sarah@trajectorypartnership.com

+44 (0)20 3567 5801

#TrajectoryTweet

www.trajectorypartnership.com