

CSR: The New Competitive Advantage

Published March 2012
by DonationXchange

THE GOLDEN AGE *of* GIVING



The third article in The Golden Age of Giving series discusses the affect of consumers' societal activism on the profitability of companies. As consumer attitudes begin to have a greater impact on purchasing decisions, it is in the best interest of companies to appropriately alter their approaches to social responsibility because consumers now demand brands that give.

Consumers Demand Brands That Give

In addition to expecting quality products and services, 94 percent of consumers want companies to engage in best business practices and make a positive impact on society, according to the 2011 Cone/Echo Global CR Opportunity Study. From environmental sustainability to reducing poverty, consumers want corporations to address critical issues and reinvest resources for a better world.

A business's corporate social responsibility (CSR) profile can have a positive effect on consumer perception of the company (Lee and Qu, Ph.D). As stated in Consumers as Drivers of Corporate Responsibility, "Consumer preference is influenced favorably by the perception that the company or brand is engaged in socially responsible behavior or the product itself is socially responsible." This favorable result manifests itself as positive consumer activism, or the

act in which consumers proactively purchase goods and services from companies that engage in business practices that align with their personal views. As such, it is valuable for companies to not only engage in best business practices, but also to publicize and promote those efforts.

On the other hand, negative consumer activism is the act in which consumers actively boycott products, services, and companies that engage in business practices that do not align with their personal views. It is noteworthy that consumers commit to negative consumer activism to a greater degree than positive consumer activism. In Consumer Perceptions of Corporate Social Responsibility: The CSR Halo Effect it is reported that "some consumers will pay a premium for ethical product attributes, but only up to a point, and they will also penalize unethical conduct to a proportionately greater extent." Accordingly, companies

should actively publicize the positive aspects of their CSR initiatives, but more importantly, companies should be aware of potential consequences caused by engaging in business practices that can in any way be construed as irresponsible.

The impact of consumer activism raises a few important questions; what CSR standards are companies held to, and how are they created? The collective adoption of CSR standards follows a series of phases, beginning with the recognition of a perceived best business practice, the identification and endorsement of a new standard, and the eventual acceptance of a new norm. As reported in Does corporate sustainability matter to investors?, "Global indexes, such as FTSE4Good Index and Dow Jones Sustainability Group Indexes, are designed for the purpose of measuring the performance of companies that meet global corporate responsibility

standards.” Once a standard is implemented, corporations can be measured against it and each other. As this cycle progresses, we eventually see that “what were ethical aspirations for business behavior in one generation frequently become legal requirements in the next.” (Epstein)

While benchmarking and the evaluation of a company’s CSR choices are important, the critical factor in translating CSR into positive consumer activism is the ability of a company to effectively publicize such initiatives. “Lack of awareness about CSR initiatives is a limiting factor in consumers’ ability to reward/punish corporations appropriately” (Lombard). It is imperative for companies to educate the public, and more specifically their target market, about the efforts they make in CSR. According to Consumer Perceptions of Corporate Social Responsibility: The CSR Halo Effect, “research suggests that consumers may well make inferences about company CSR performance on the basis of very limited information.” Given the immediate nature of communication today via social media platforms and traditional advertising mediums, there is little room for mistakes in publicity efforts, but unlimited potential for

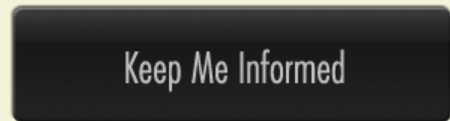
innovative marketers.

Consider Groupon's Super Bowl advertising disaster. Groupon's commercial made light of sensitive world issues such as endangered whales, deforestation, and most notably, the atrocities that have occurred in Tibet. While the commercial ran in conjunction with a charitable campaign to raise money for the featured issues, the good intentions of the charitable campaign were completely overshadowed by the poor taste of humor, and social media outlets were overrun with calls to boycott the company.

Conversely, TOMS Shoes has become the next Crocs by riding the wave of popularity of its "One for One" founding principal, donating a pair of shoes to a child in need for each pair purchased. However, behind the feel-good commercials lie a number of hidden issues. Journalist Amy Costello, recently investigated TOMS' practices in the piece "TOMS Shoes: A Closer Look." Costello uncovered that it appears some children given shoes already have perfectly adequate footwear. She also repeatedly discovered Evangelical partners acting as TOMS distributors, raising the question of whether religious teachings are handed out

with footwear. Unlike Groupon, however, TOMS' controversy has been overshadowed by their aggressive publicity touting the philanthropic arm of their business. Shoppers feel good when they buy a pair of TOMS, so the company continues to thrive.

Consumers increasingly participate in both positive and negative consumerism based on the information available to them regarding a company’s CSR initiatives. “The importance of sustainability is more than just a passing trend, it is a complete change in the consumer mindset – a paradigm shift that is growing stronger and creating demand for social responsibility from companies in all sectors.” (Stephenson) CSR is increasingly becoming a business standard that is weighed by both consumers and investors, affirming that it is financially beneficial for businesses to partake in CSR initiatives, and necessary to educate its target market to achieve a competitive advantage.



Sources:

Committee Encouraging Corporate Philanthropy: *Giving in Numbers* http://www.corporatephilanthropy.org/pdfs/giving_in_numbers/GivinginNumbers2011.pdf

Costello, Amy - TOMS Shoes: A Closer Look <http://www.tinyspark.org/podcasts/toms-shoes/>

Epstein, E. M. (2007), The Good Company: Rhetoric or Reality? Corporate Social Responsibility and Business Ethics Redux. American Business Law Journal, 44: 207–222. doi: 10.1111/j.1744-1714.2007.00035.x <http://www.stthomas.edu/cathstudies/cst/conferences/thegoodcompany/Finalpapers/Epstein.%20The%20Good%20Co.pdf>

Lo, Shih-Fang and Her-Jiun Sheu - Does corporate sustainability matter to investors? <http://www.academicjournals.org/ajbm/pdf/pdf2010/4Oct/Lo%20and%20Sheu.pdf>

Lombard, Rosetta - The Role of Corporate Social Responsibility in Consumer Behaviour: an Unresolved Paradox http://www.ecostat.unical.it/RePEc/WorkingPapers/WP15_2011.pdf

Smith, N. Craig - Consumers as Drivers of Corporate Responsibility <http://195.130.87.21:8080/dspace/bitstream/123456789/1157/1/Consumers%20as%20drivers%20of%20corporate%20responsibility.pdf>

Smith, N. Craig, Daniel Read, and Sofía López-Rodríguez - Consumer Perceptions of Corporate Social Responsibility: The CSR Halo Effect http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1577000

Stephenson, Kimberley Ellis - More Than Just a Trend: Defining Sustainability and Corporate Social Responsibility in the Italian Fashion and Luxury Sector <http://www.uvic.ca/gustavson/assets/docs/Research/FINAL%20COM%20470%20Best%20Business%20Research%20Papers%20Volume%204%20Nov11-1.pdf#page=32>

Suna Lee and Hailin Qu, Ph.D - A Study of Customers’ Attitudinal and Behavioral Responses toward Lodging Companies’ Corporate Social Responsibility Initiative http://scholarworks.umass.edu/cgi/viewcontent.cgi?article=1309&context=gradconf_hospitality

