acona

The
Customer
Assumption

Are you missing the biggest opportunity of Corporate Responsibility?

Acona Limited
Amadeus House
Floral Street
London WC2E 9DP

t: 020 7812 7137
f: 020 7812 7139

Emma Harding
Julie Pike
Neil Everett

customer@acona.com

www.acona.com

Executive Summary

A clear trend is emerging; more companies are increasing their involvement in Corporate Responsibility (CR) and more customers want to trust that business practices are ethical. Yet customers are sceptical of the validity of ethical claims, and businesses have doubts about the sincerity of customer interest. As a result both customers and businesses seem to be uncertain about how best to communicate on Corporate Responsibility.

...both customers and businesses seem to be uncertain about how best to communicate on Corporate Responsibility...

Many businesses have been drawn into Corporate Responsibility in order to manage risk and protect corporate reputations. There has been much less belief in the ability of CR to influence core business strategy and drive market share, especially as early attempts at market advantage, in the 1980s, resulted in a consumer backlash against "greenwash"; a cynicism that has only been compounded by the more recent corporate financial and labour law scandals.

While a risk-driven strategy - focused on the main board and investor community - is one valid approach, market signals suggest that the time is right to start thinking again about a more market focused angle to the development of CR programmes within mainstream business. But this time, the development can draw on a genuine body of understanding and business commitment that in many respects was lacking in the 1980s.

Many mainstream businesses now have more than a decade's worth of experience in environmental and social progress which - when combined with a more knowledgeable and interested customer (at both the individual and business level) - suggests the potential to include CR in market planning alongside the givens of price, quality and service. This potential is most clearly visible in the end consumer market, though glimpses suggest, and history tells us where consumer markets lead, business-to-business (B2B) is often required to follow.

However, it has to be said that while more mainstream companies are increasing their involvement in CR, few – other than the usual suspects - are actually venturing into the arena of using CR for market advantage. Perhaps this is because many businesses have a relatively poor record in engaging customers successfully. Despite it being frequently repeated that society cares more and more about responsible business, the reality is that most companies do not have a clear idea about their customers' CR needs or interests. Rarely have customers been genuinely involved in determining the priority of CR programmes or have received effective communications about them. Rather there has been a tendency for businesses to make assumptions about their customers and adopt a reliance on one-way information provisions rather then two way information sharing and dialogue.

ExecutiveSummary (continued)

In an effort to better understand why businesses are often slow to engage customers on CR this research, via a literature review followed by a series of 14 business interviews, looks firstly at the evidence for customer interest in environmental and social issues, then secondly at some of the common barriers preventing businesses from engaging with customers and markets on the subject of CR. Finally it reviews best practice companies to see what approaches they have taken to overcome some of these barriers and suggests practical steps for better customer engagement.

Underpinning the report is the belief that by taking a more market focused approach CR programmes will be in a better position to help inform both risk minimisation and market maximisation strategies within the company.

There is often a tendency for CR teams to come at marketing from the perspective of PR and advertising rather than from market planning. In this report Marketing refers to the processes of: customer and market analysis; business planning; market communication and control. That is to say we are using the term to describe the processes within a business that seek to understand, attract and build relationships with customers on an ongoing basis. In this context advertising, PR, cause related marketing, and partnership projects are just some of the many tools that may, or may not, be used to help deliver the wider business and market objectives as defined by earlier analysis and planning.

...consumer interest in environmental and social issues now represents a genuine value shift among consumers...

This report divides customers into two groups, individual customers (i.e. end consumers) and business customers, identifying a growing interest in environmental and social issues in both. The continuing support of consumers since the 1970s, has seen many "citizen brands" grow from "maverick to the mainstream". While through the 70s, 80s and 90s ethical consumers were regarded as niche, it would appear in the new millennium the movement is building up a head of steam and is starting to break into the mainstream. Indeed, some in the CR world would argue consumer interest in environmental and social issues now represents a genuine value shift among consumers[1].

Research by MORI and others suggests 5-10% of consumers can now be considered as "deep greens" who require and agitate for products and services with strong ethical credentials, while another 40% to 50% - more the "do what I can" group - will make an ethical choice if it is made easy for them. Clearly 50%-60% of the market represents a significant opportunity. The trick of course, is how to connect genuine CR business commitment in a way that taps into, and satisfies, these ethical consumer motivations.

[1] Kleanthous, A., Jule, P. (2006) *Let Them Eat Cake* – WWWF-UK report

ExecutiveSummary (continued)

Like individual consumers, there are also business customers who have an interest in procuring products and services with ethical credentials and while there is less research in this area, we can make some broad generalisations. Borrowing from the research on individual consumers we could divide them broadly into "deep green", citizen brands, and mainstream "do what I can" businesses.

Citizen brands, organisations such as Triodos bank, Cafédirect and The Body Shop, tend to be relatively young, smaller, value driven companies. The central values of these businesses are driven from ethical positions. However, despite their size they are able to sensitise their market and are frequently responsible for raising the bar of corporate responsibility within the market as a whole. Citizen brands have (relatively) high ethical standards when it comes to their purchasing behaviours, and tend to be pioneering customers who from the out set actively seek to establish buying relationships with companies to drive market share. That is to say their supplier relations and buying behaviours are about creating positive business momentum. This direct link to market benefit makes it much easier for citizen brands to accept and adopt the more complex and usually more costly buying practices associated with ethical purchasing.

"Do what I can" business customers tend to be large and frequently (though not exclusively) have a visible brand presence. Most of these companies with varying degrees of success have implemented CR controls within their procurement processes and show an ever increasing drive to understand the CR issues within their supply chains.

In contrast to Citizen Brands, the ethical buying behaviours of these companies tend to be about risk reduction, damage limitation and protecting reputation and a link back to market benefit is rarely made. Unlike the close, partnership approach which characterises the CR customer/supplier relationship with citizen brands, with many mainstream companies, the CR customer relationship is often dominated by a formal, risked based, questionnaire process.

...the influence on the market as a whole can be profound...

In the risk based approach, links back to the market are rarely made, and as a result "Do what I can" businesses are often slower to adopt ethical positions in their buying behaviour, as the business tends only to feel the costs of changes without seeing any clearly defined market reward. Consequently, change in mainstream ethical buying behaviour often relies on legislation, NGOs public naming and shaming or for a crisis to emerge with a key customer. Despite the challenges, the significant buying power of "do what I can" businesses means that when they are successful in implementing environmental and or social aspects within their purchasing standards, the influence on the market as a whole can be profound.

ExecutiveSummary (continued)

So for both individual consumers and business customers, interest in environmental and social issues is building. However, the research goes on to suggest that both in the Business to Consumer (B2C) and Business to Business (B2B) environment, customer engagement on CR is relatively weak. A key part of any purchasing decision is knowledge, and research data appears to show that consumers feel companies are making a poor job at communicating on CR. In the mainstream B2B environment, the ever increasing flow of supplier questionnaires as part of tendering processes suggests business customers are also in need of better knowledge on CR from those that they do with business with.

What then is getting in the way of improved customer engagement? From our findings we conclude there are six main barriers preventing businesses from engaging with customers on CR. These are:

1. The belief that *customers don't care* about CR and as a result scarce CR resources are better spent elsewhere. For the most part this view was rarely based on any systematic quantitative or qualitative data.

2. The view that *customers don't understand* the complexity of CR and as a result it is too difficult to engage meaningfully with customers.

3. The needs of other stakeholders, such as NGOs, investors and legislators are of greater importance than the perceived needs and wants of customers. Thus it is *a matter of priority*.

4. *The fear factor* of engaging with customers and getting it wrong is too high. Cynical backlashes from the media and customers make companies wary of market engagement.

5. The view that openly seeking market share and profit from CR feels like *breaking the faith*, in that a profit motive, in itself, may be neither socially nor environmentally responsible.

6. *Weak links between Marketing and CR* teams result in the customer element being missed out from CR strategies and environmental and social issues being missed from market strategies.

ExecutiveSummary (continued)

While common, these barriers are not insurmountable: there are instances where companies have worked through them to achieve positive engagement with not only their customers but with their employees too and have reaped the rewards of their actions. In response to the common barriers best practice companies are:

1. *Prepared to challenge long held beliefs and assumptions about their customers' perceptions to CR through qualitative and quantitative research.*

   M&S has been developing and implementing environmental and social programmes for more than a decade, yet it is only in the last three years through its extensive customer research programmes on environmental and social issues that it has been able to gain a real insight into how the company's longstanding commitment to CR can be effectively linked to customer value, delivering both customer satisfaction, loyalty and ultimately market advantage.

2. *Using customer and market CR research to inform business planning and market strategies with the conscious aim of driving market advantage.*

   The Co-operative Group understands the need to manage different sets of stakeholder priorities, dividing its CR actions into "customer facing" and "back office" issues. Even though, when viewed from the perspective of NGOs and CR experts, customers may not always seem to focus on the "correct" or "real" priorities their obvious importance to, and influence on the business necessitated understanding and using customer priorities to help inform business planning.

3. *Actively seeking to educate their customer*. Based on previous market analysis these companies develop and deliver education programmes relevant to their customers and markets. In this way customers can understand the key issues and make choices accordingly, and come to regard these businesses as authorities on the subject.

   The **Toyota** case study clearly demonstrated this. Against the apparent logic of the market which had seen 4 x 4's as the fastest growing sector for ten years; Toyota launched its Prius hybrid, dual fuel vehicle. In preparation for the launch Toyota spent two years educating its targeted customer groups and dealerships about the new technology, and when finally launched, the success of their campaign meant Toyota was unable to keep up with the speed of sales resorting to a customer waiting list. Six years on from the initial launch, driving a Prius hybrid is now almost a badge of honour.

ExecutiveSummary (continued)

4. *"Feeling the fear and doing it anyway"* (to borrow a phrase). Best practice companies accepted, and expected, some market cynicism. However they were confident of their plans and CR integration. Their strongest defence against the fear-factor is the business integration of their CR market approach; communications with customers are not one-off disconnected events, but part of an on going wider business commitment, strategy and plan. They knew that when they are seen to be transparent and making honest attempts to make a positive difference this buys them goodwill with both customers and NGOs when they make mistakes.

In 2005 **BT** demonstrated the ability to face the fear factor when, despite growing NGO pressure against the emerging Radio Frequency Identification (RFID) technology BT actively sought to discuss the issue with a key customer. A retail customer was interested in a trial of RFIDs on high value goods as a stock control measure in its supply chain. Rather than ignore, or try to play down, the concerns around RFIDs, BT, with the support of its CR team, invited the customer to a stakeholder workshop involving NGOs campaigning for controlled use of RFIDs. All parties were able to voice their concerns and increase their knowledge and understanding of a sensitive issue as part of the trial process. Not only were all parties better informed as a result of the meeting BT was also able to demonstrate its position as a trusted partner to an important customer.

5. *Experiencing no qualms about seeking profit from CR so long as market communications are proportionate to achievements and commitment*. Their view is that customers need and want to be involved and that by being transparent and proportionate in their approach they are able to discuss CR issues with their customers despite gaps in their performance.

Waitrose, like many retailers is increasingly using social and environmental issues as a competitive factor. Their overarching strategy is based on product provenance, i.e. knowing where food comes from, ensuring high standards of animal welfare and a fair deal for suppliers. This market persona has a sound basis and market communications are clearly proportionate to business commitment. For example, the Waitrose Foundation, launched in 2005, has donated more than £330,000 to local communities in South Africa through the sale of Waitrose Foundation citrus products. In 2005 Waitrose retained its title of Compassionate Supermarket of the year. Waitrose is also a major supporter of organic foods (86% of which are UK sourced) and Fair Trade products.

ExecutiveSummary (continued)

6. *Fostering good links between Marketing, Account Teams and CR*. These teams are working closely with each other, often in daily contact and often with representatives working in each others' teams. Most powerful in terms of engendering closer relationships between each division, they are developing joint customer and market research programmes.

CR teams have an understanding of the issues facing the company, yet it is the marketing team who have the skills to interpret how these issues are influencing customer's behaviour and perception of the company. A joint approach to research allows both teams to feel ownership of the results, enables the CR team to better prioritise their objectives and gain support from the business, while the marketing teams can factor the research into corporate strategy.

7. *Understanding the power of employees as advocates if companies are seeking to engage customers on CR*. Employees are a powerful channel for enhancing a company's reputation for responsibility among its key stakeholders.

This "word of mouth" approach has been employed by many citizen brands as a matter of necessity since they have frequently lacked the financial resources for traditional marketing, advertising and PR. Research would also suggest these informal methods of communication are becoming increasingly important. MORI research in 2005 shows 74% of people asked were more likely to believe the word of an employee over company information on environmental and social issues. While the Harris Interactive and the Reputation Institute in the US found in their 2005 survey of 20,000 US consumers, "that word-of-mouth was now the second strongest influence on corporate reputation and their subsequent buying intentions. Only personal experience was more likely to shape a consumer perception of company reputations"[2].

[2] L. Roner: 'Reputation is everything' Ethical Corporation, Feb 2006 pg20.

ExecutiveSummary (continued)

Looking at these best practice examples, there are two key factors which underpin successful CR market communications:

- Firstly the need to really understand customers' CR needs, desires and interests (with most companies using quantitative and qualitative research to achieve this).

- Secondly the requirement to work with marketing groups to integrate the CR market information as part of the wider business plans.

Overall from our research, it would appear that B2C companies, though often coming later to the whole topic of CR, are making better progress than B2B companies in engaging with customers. They are being more proactive and systematic in understanding their customers CR requirements, and are being more successful in using this information to drive business strategy.

...a large opportunity for B2B companies to work more closely with their marketing and account teams...

In contrast in the B2B environment, it would seem there is an over reliance on the risk-based supplier questionnaire process. Yet these questionnaires cannot be relied upon to identify areas of opportunity for market growth. For example the success of Toyota's Prius is in large part dependent on the battery technology jointly developed with Panasonic. No risk based supplier questionnaire would have identified this opportunity. This comes from proactive dialogue, trust and partnership with customers on an ongoing basis. Certainly there seems to be a large opportunity for mainstream B2B companies to work more closely with their marketing and account teams to segment the customer base, understand competitive positions and identify the most appropriate ways to engage with relevant customer groups on CR for mutual business benefit.

However, we should remember that for all businesses, even the citizen brands, it is early days in learning how to manage the customer relationship with regard to CR and the body of experience remains small and rapidly evolving. Indeed while strong themes emerge there is no one approach that will suit all. By definition, successful customer engagement will need to vary from business to business and from industry to industry dependent on the unique mix of market position and company culture. What is clear though, is that for those regarded as mainstream leaders, a core requirement is the need to understand and involve their customers.

Contents

1 **Background** and **Introduction**

A clear trend is emerging; more companies are increasing their involvement in Corporate Responsibility (CR) and more customers want to trust that business practices are ethical. Yet customers are sceptical of the validity of ethical claims, and businesses doubt the sincerity of customer interest. As a result, both customers and businesses seem to be uncertain about how best to communicate on Corporate Responsibility.

Many businesses have been drawn into Corporate Responsibility in order to manage risk and protect corporate reputations. There has been much less faith in the ability of CR to influence core business strategy and drive market share, especially as early attempts at market advantage in the 1980s led to a consumer backlash against "greenwash"; a cynicism that has only been compounded by the more recent corporate financial and labour law scandals.

While a risk-driven strategy - focused on the main board and investor community - is one valid approach, market signals suggest that the time is right to start thinking again about a more market focused angle to the development of CR programmes within mainstream business. But this time, the development can draw on a genuine body of understanding and business commitment that in many respects was lacking in the 1980s.

Many mainstream businesses now have more than a decade's worth of experience in environmental and social progress which - when combined with a more knowledgeable and interested customer (at both the individual and business level) - suggests the potential to include CR in market planning alongside the givens of price, quality and service. This potential is most clearly visible in the end consumer market, though glimpses suggest and history tells us, where consumer markets lead business-to-business (B2B) is often required to follow.

Within the Business to Consumer (B2C) market the growth of many "citizen brands" from maverick to mainstream indicates the sustained and growing support for ethical purchasing that began in the 1970s. While through the 70s, 80s and 90s ethical consumers were regarded as a niche market, in the new millennium the movement is building up a head of steam and is starting to break into the mainstream. Indeed, many in the CR world would argue consumer interest in environmental and social issues now represents a genuine value shift[3].

[3] Kleanthous,A., Jule,P. (2006) *Let Them Eat Cake* – WWWF-UK report

Many of the value-led, citizen brands established upon a central core of ethical values are now maturing into larger successful companies and in some cases are struggling to manage the transition. For example, Starbucks from small beginnings in Seattle in the mid 80s now has 5,500 stores, 20 million customers across the world and earnings that tripled in the last five years[4]. However, despite its continued and market leading approach to environmental and social issues the company faces boycotts and campaigns from a number of local communities because of its very success. These communities are trying to stop Starbucks from entering their high streets as it is seen as a symbol of the bland, faceless, relentless march of high street ubiquity.

Other citizen brands as they mature are struggling to raise capital, and seeing the opportunity mainstream businesses - intrigued by double digit growth rates - are interested in testing the ethical market and are offering them new homes. Green and Blacks, Ben and Jerry's, Pret and The Body Shop are all examples of companies with strong environmental and social values who have allowed them selves to be bought by larger traditional businesses (Cadbury Schweppes, Unilever, MacDonalds and L'Oreal respectively).

For many mainstream businesses with entrenched history, the ability to simply copy the young value led citizen brand approach to the ethical market is not a realistic option. A number of large businesses are trying to find ways to develop or repackage their existing, social and environmental credentials as a serious part of their market persona. Yet set against the backdrop of customer cynicism towards big business, gaining credibility for this new market position is not easy, and mainstream businesses are required to find their own approach and voice.

...mainstream businesses are required to find their own approach and voice...

Some of the strategies currently being used include; buying up citizen brands within their market, developing a small number of ethical products and services as part of their wider portfolios (e.g. Nestle's approach to Fair Trade) investing heavily in Cause Related Marketing campaigns (e.g. Tesco's Computers for Schools) and NGO partnership projects (e.g. Greenpeace and npower). Others like M&S and Waitrose, already seen as more in line with citizen brands, are openly placing and stating environmental and social issues at the core of their businesses and are being successful at demonstrating this commitment at the product and service level, as well as corporately.

However, it has to be said that while more mainstream companies are increasing their involvement in CR, few – other than the usual suspects - are actually venturing to use CR for market advantage. Perhaps this is because many businesses have a relatively poor record in engaging customers on CR. A key factor for market planning

[4] Kotler, P., Wong, V., Saunders, J. and Armstrong, G. (2005) *Principles of Marketing* (4th edn). Harlow: Pearson education

and success is clearly the customer relationship, yet there appears to be a contradiction with regard to CR and customers. On the one hand customer research tells us purchasing decisions are increasingly influenced by a company's social and environmental performance, that customers want to better understand business' positions on CR and that they feel this need is not being adequately met. On the other hand, businesses perceive that price is king: most of their customers don't care about social responsibility when making a purchasing decision and as a result this is still a niche market. Customers are, it seems, only paying lip service to the idea.

While many mainstream businesses would like to discuss CR with their customers in order to gain market reward, they are often wary of doing so. Some believe customers don't really care, and others seem to doubt whether customers understand the complexity of the issues. As a result many businesses have a tendency to make assumptions about their customers often relying on ad-hoc one-way information provision, rather than two-way information sharing and dialogue as described in figure 1.

At the same time customers, though they want to know more, can be both suspicious of the silence from mainstream business and frequently cynical of claims which seem to appear from out of the blue. As a consequence we seem to have something of "Mexican stand-off" with many businesses and customers looking warily and suspiciously at each other, neither sure how to proceed. The result is that a potentially valuable market opportunity on CR remains largely untapped.
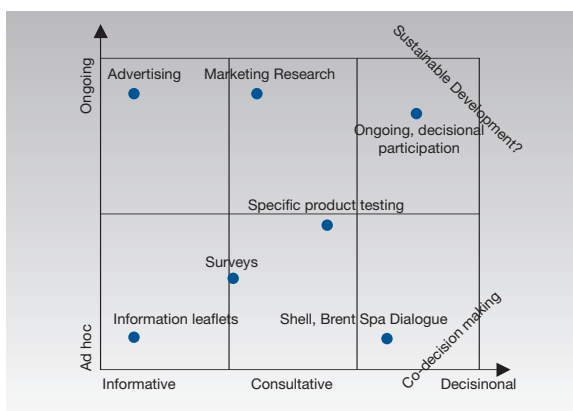

Figure 1. Modes of Stakeholder Participation;
Green and Hunton-Clarke 2003.

2 Report Objectives

In an effort to better understand the "stand-off" this research, via first a literature review and a then a series of 14 business interviews, looked at some of the common barriers preventing businesses from engaging with customers and markets on the subject of CR. It then reviewed best practice companies to see what approaches they have taken to overcome some of these barriers.

Underpinning this Report is the belief that by taking a more market focused approach CR programmes will be better able to inform both risk minimisation and market maximisation strategies within the company. In addition, CR programmes that are underpinned by relevant market knowledge are likely to find it easier to gain both internal business support and financial resources.

...risk minimisation and market maximisation strategies...

It is worth being clear from the start, that when we use the terms "marketing" and "market focused", we are referring to strategic marketing rather than advertising or PR. There is often a tendency for CR teams to address marketing from the perspective of PR and advertising rather than from market planning. In this report "marketing" refers to the processes of: customer and market analysis, business planning, market communication and control, that is to say the processes within a business that seek to understand, attract and build relationships with customers on an ongoing basis.

In this context advertising, PR, cause related marketing and partnership projects are just some of the many tools that may, or may not, be used to help deliver the wider business and market objectives as defined by earlier analysis and planning.

Specifically the Report aims to:

- review current trends among ethical consumers, whether they be individuals or businesses (section 4)
- Discuss some of the common barriers preventing businesses from engaging with their customers on CR (section 5)
- Review how these barriers have been overcome by current best practice (section 6)
- Discuss the importance of employees as advocates (section 7)
- Suggest some practical steps business can take to improve customer engagement on CR (section 8)

This Report is not a final answer. It is intended to encourage further debate and thought in this area, as it is clear from the research that even for those companies who may be regarded as leaders this is still a relatively new game.

3 The project and its stakeholders

This Report has been prepared by Acona to inform debate in this important though, in our view, often neglected area of CR. It was prepared between Oct '05 and May '06 based on:

- a literature review focussing on how businesses engage with their customers on CR issues

- Acona's own experience of corporate customer communications

- sixteen interviews with a wide range of individuals and organisations:
  - 14 companies
  - 20 CR Managers, 2 Marketing Managers and 3 Marketing Directors
  - Interviewees were invited to comment on the draft

The dominant stakeholder has therefore been the business world, with the contacts being divided between CR and Marketing Managers.

Acona would like to thank all involved for their candid and thoughtful input.

4 Trends in ethical consumers as individuals and businesses

Before discussing our research findings on Common Barriers and Best Practice Approaches we will first briefly consider current trends in ethical consumerism both at the individual and business level. The evidence of the research from MORI, the Co-op, the NCC, and the increasing flow of business-to-business supplier questionnaires suggest a significant portion of customers want to understand better the environmental and social issues associated with their purchasing. It also suggests that lack of adequate knowledge on these issues might be preventing customers from acting more often on their ethical instincts.

With regard to business-to-consumer markets there has been a lot of research into ethical consumer behaviour. Rather than replicate this data within the report we will just touch on key points and would refer readers to "The Ethical Consumer" (2006) edited by Rob Harrison, Terry Newholm and Deirdre Shaw for a detailed analysis.

[Note: The word "ethical" is being used in this chapter primarily as descriptor of brands and behaviours differentiated from the mainstream by a connection to a consumer's values. A rigorous analysis of whether a certain product is truly "ethical", and the extent to which consumers share ethical beliefs is beyond the scope of this research.]

The Ethical Consumer

"The majority (of the British public) do not think companies are listening to public concerns on social and environmental issues. Despite the high importance placed on these issues by the public, messages about companies' responsible business practices are generally not getting through to the public."
MORI, Dawkins, J.[5]

In 2002 a MORI survey reported that 80% of people felt large companies have a moral obligation to society, yet only 18% of people felt large companies cared about the social and environmental impacts of their businesses[6]. By 2005[7] over 90% of respondents said companies have a responsibility to work to improve the social and environmental impacts of their products and services; they also said business should publicly report their impacts on society and the environment, and that government should encourage companies to take their responsibilities more seriously.

The Government should encourage companies to take Responsibilities more seriously

disagree — don't know

2 7

47 tend to

44 strongly
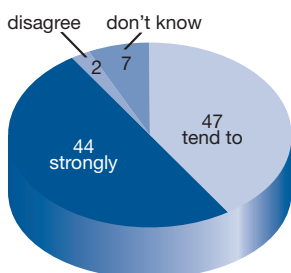
Companies have a responsibility to work to improve the social impact of their product and services

disagree — don't know

2 7

41 tend to

50 strongly

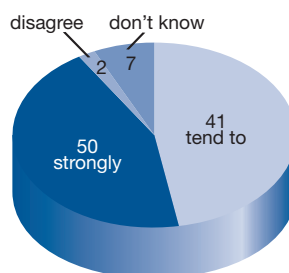**Figure 2: Companies should take their environmental and social responsibilities more seriously[8]**

[5] Dawkins, J., (2004) *The Publics Views of Corporate Responsibility 2003*. MORI

[6] Lewis, J., (2003), *Reputation and Corporate Responsibility*: MORI

[7] Armstrong, M 2005, Survey Shows nine out of ten want ethical feedback, The Guardian, Nov 28, 2005 pg 20

[8] MORI Corporate Social Responsibility Survey, 2005

Through the 1980s and 1990s consumer trust in business fell sharply[9] as trans-national corporations became global whilst seeming to ride roughshod over growing social and environmental concerns. As the 2005 MORI findings indicate, even now consumers appear to remain dissatisfied with big business and its approach to corporate responsibility, and this dissatisfaction is no doubt one of the drivers for the growth in ethical consumerism.

...even now consumers appear to remain dissatisfied with big business...

The growth of Fair Trade is often cited as an indicator of the emergence of the ethical consumer and certainly Fair Trade products are growing at an impressive rate with a 50% market increase in 2005 and over 250 products now available from over 100 different companies[10]. Fair Trade products though are not the only positive choice consumers can make: from ethical investments through to organic clothing there is a rapidly growing range and number of companies, products and services with environmental and social credentials to choose from.

Despite these high growth rates, market share figures remain low; below 5% for most products. However in the case of A-rated (highest energy efficiency) household appliances, organic baby food and organic eggs a 40% market share has already been achieved[11] and despite its relatively recent appearance, Café Direct already commands 8% of the highly competitive coffee market.

With regards to ethical consumer boycotts, quantifying their impact is more difficult. In 2003 the Co-operative Bank undertook consumer research that suggested £2.6 billion had been diverted due to boycotts which represents only a tiny fraction of total consumer spending[12]. Yet through a ripple effect (i.e. other companies changing behaviours for fear of similar action) combined with the sometimes rapid capitulation by businesses when faced with the damage of prolonged negative media exposure; the impact of boycotts would appear to be disproportionate to the size of spend diverted.

It is also important to remember consumers are not only expressing ethical choices at the product level but also at the company level. For example, the company ethics of the John Lewis Partnership and Marks and Spencer are sometimes perceived to be in stark contrast to those of Wal-Mart, which is the subject of regular criticism. Even though the consumer is not looking to buy a specifically ethical product or service, they are choosing which company to spend their time and money with on ethical grounds.

[9] Lewis, J., (2003), *Reputation and Corporate Responsibility*: MORI

[10] Mayo,E. (2005) Foreword, in Harrison, R., Newholm, T. and Shaw, D. (eds) *The Ethical Consumer*. London: Sage

[11] Clouder, S., Harrison, R., *The Effectiveness of Ethical Consumer Behaviour*, in Harrison, R., Newholm, T. and Shaw, D. (eds) *The Ethical Consumer*. London: Sage: pg 97

[12] Co-Operative Bank (2003) *The Ethical Consumerism Report 2003.* Manchester: Co-operative Bank.

In terms of the full range of ethical choices in 2003[13] MORI research indicated 38% of people stated social responsibility was a very important factor when forming decisions about buying a product or service from a particular company, compared to 24% in 1997. Add to this a further 46% stating social responsibility as fairly important and we appear to be dealing with a significant proportion of consumers.

Further research by MORI went on to say that approximately 17% of the population can be considered "CSR activists"[13]; that is to say they will actively seek to make ethical consumption choices at either the company or product level. These activists tend to be older (35-65), wealthier, broad sheet readers and MORI describes them as "movers and shakers".

The Co-op Group also undertakes regular research into ethical consumers through the use of focus groups and surveys which support MORI's findings, for example The Ethical Consumerism Report (2003) and Shopping With Attitude (2004). In the Ethical Consumer, Calvin and Lewis[14] describe research by the Co-Operative Bank which divided the UK population's consuming behaviour as follows:

Q When forming a decision about buying a product or service from a particular company or organisation, how important is it that it shows a high degree of social responsibilty?

	Very important	Fairly important
1997	24%	46%
1999	41%	41%
2001	46%	43%
2002	44%	42%
2003	38%	46%

Base: 982 GB adults 16+ July - August 2003

Figure 3. Importance of Social Responsibility: Purchase Behaviour – Trends. MORI 2003

5%	Global watch dogs	Ethical hard liners (deep greens)
18%	Conscientious consumers	More affluent than "the do what I cans"
49%	Do what I can	Older, active recyclers
6%	Brand generation	Younger, less value led
22%	look after my own	Lowest income

While all the research states the most active ethical consumers tend to be from the socio-economic groups A, B and C1s, it is interesting to note that the Co-Op Stores' customer is traditionally from lower income groups; and yet it is this customer base that has driven the Co-Op Stores to be one of the largest retailers of Fair Trade products in the UK. NCC research into sources of information on sustainable lifestyles in 2005[15] identified that lower socio-economic groups tended to have less access to information on sustainable lifestyles and this might be hindering their ability to exercise their ethical instincts; the Co-op stores success with Fair Trade products might support this view.
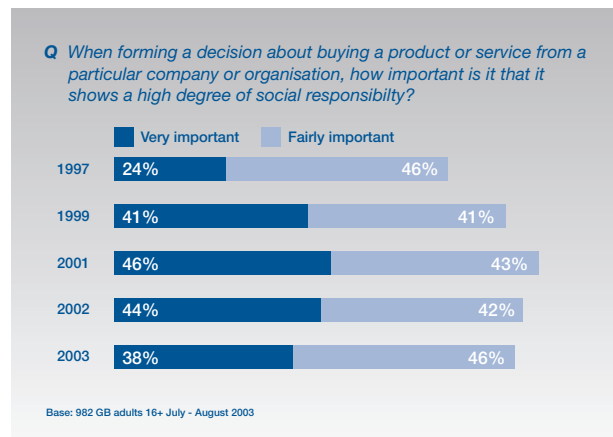
[13] Dawkins,J. (2004) *The Publics Views of Corporate Responsibility 2003*. MORI

[14] Clavin, B., Lewis, A. (2006) Focus Groups on Consumers' Ethical Beliefs, in Harrison, R., Newholm, T. and Shaw, D. (eds) *The Ethical Consumer*. London: Sage: pg 178

[15] National Consumer Council (2005) *Desperately Seeking Sustainability?: summary of NCC research and advice on sustainable lifestyles*. London: NCC

Harrison et al (2006) summarise the position by suggesting 5-10% of consumers can be considered as "deep greens" and will require products and services with strong ethical credentials, while the other 40% to 50% are more the "do what I can" group: they will make the ethical choice if it is made easy for them and they are likely to require a more populist marketing approach when compared to the "deep greens".

Whether looking at the MORI or the Co-op data there appear to be approximately 50% to 60% of consumers who might, on occasion, seek an ethical option. Clearly 50% to 60% of the market represents a significant opportunity. The challenge of course, is how to connect genuine CR business commitment in a way that taps into, and satisfies, these ethical consumer motivations.

Yet MORI and NNC research goes on to suggest that business is not making it easy for consumers to act ethically. A key part of any purchasing decision is knowledge, and MORI data appears to show that consumers feel companies are making a poor job at communicating on CR. The results of the 2003 MORI poll showed that 74% of those surveyed agreed that if they had more (appropriate) information about social, environmental and ethical behaviour it would influence buying decisions[16], a sentiment echoed in the 2005 NCC research. This suggests there is a significant yet in many respects largely untapped interest within the market in Corporate Responsibility.
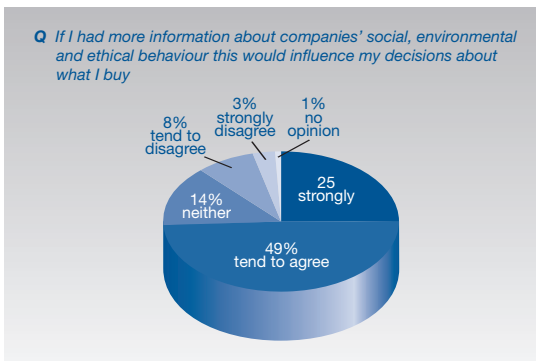

Q If I had more information about companies' social, environmental and ethical behaviour this would influence my decisions about what I buy

3% strongly disagree
1% no opinion
8% tend to disagree
14% neither
25 strongly
49% tend to agree

Figure 4. Impact of Increased Information on Purchase. MORI 2003

The Ethical Consumer

Like individuals, some businesses have an interest in procuring products and services with ethical credentials and while there is less research in this area, we can make some broad generalisations. Borrowing from the research on individual consumers we could divide them broadly into "deep green" citizen brands, and mainstream "do what I can" businesses.

Citizen/ethical brands

Organisations such as Triodos bank, Cafédirect and The Body Shop tend to be, relatively young, smaller, value driven companies, referred to by Kotler as "citizen brands". The central values of these businesses are driven from ethical positions. However, despite their size they are able to sensitise their market and are frequently responsible for raising the bar of corporate responsibility within the market as a whole.

[16] Clavin, B., Lewis, A. (2006) Focus Groups on Consumers' Ethical Beliefs, in Harrison, R., Newholm, T. and Shaw, D. (eds) *The Ethical Consumer*. London: Sage: pg 178

These companies are considered to have high ethical standards within their supply chains, are pioneers in establishing ethical purchasing relationships, standards and controls, and are looking to buy from and build relationships with companies that can meet these standards.

A key difference in the buying behaviour of citizen brands vs mainstream "do what I can" business is that from the out set citizen brands actively seek to establish buying relationships with companies to grow market share. That is to say their supplier relations and buying behaviours are about creating positive business momentum. This direct link to market benefit makes it much easier for citizen brands to accept and adopt the more complex and usually more costly buying practices associated with ethical purchasing.

In contrast, the ethical buying behaviours of mainstream businesses ("do what I can" companies) tend to be about risk reduction, damage limitation and protecting reputation and a link back to market benefit is rarely made. As a consequence the "do what I can" businesses are often slow to adopt ethical positions in their buying behaviour, as the business tends only to feel the cost of these changes without seeing any clearly defined market gain. Consequently, change in mainstream ethical buying behaviour often relies on legislation, NGOs public naming and shaming or for a crisis to emerge with a key customer, before real change occurs.

...change in mainstream ethical buying behaviour often relies on legislation, or NGOs public naming and shaming...

Mainstream business – "do what I cans"

We do not have definitive figures for "do what I can" business consumers but we can gain some rough estimate by looking at the growth in companies participating in the BITC, FTSE 4 Good and/or Dow Jones CR indices, all of which have sections on ethical supply chain management. These companies tend to be large and frequently, though not exclusively, have a visible brand presence. Most of these companies with varying degrees of success will have implemented CR controls within their procurement processes and show an ever increasing drive to understand the CR issues within their supply chains.

For the most part these large businesses began looking at their procurement processes in the late 1980s and early 1990s from the perspective of risk reduction, often in the first instance the result of environmental legislation. In addition to these drivers, many also face pressures passed down the supply chain from end consumer markets, and associated NGO driven campaigns, for example on child labour.
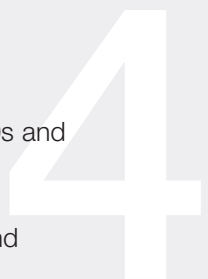
The teams managing these programmes, certainly in the early days, were situated within Health, Safety and Environment, Risk Management or Corporate Communications teams. Unlike Citizen Brands very few ever began life as part of the mainstream business process. The procurement behaviours of the "do what I can" businesses reflect this history. CR teams are trying to identify and manage the high risk ethical issues within the vast array of pre-existing, often very long-standing buying relationships, which were established in most cases with little formalised or systematic thought to ethical issues.

Despite the challenges, the significant buying power of "do what I can" businesses means that when they are successful in implementing environmental and or social aspects within their purchasing standards, the influence on the market as a whole can be profound. The adoption of ISO14001 by many UK manufactures from the 1990s onwards was in response to the growing number of customer questionnaires on environmental impacts and controls being received as part of tendering processes.

...the influence on the market as a whole can be profound...

One example of this was BT's environmental Generic Standard 13 (which has since developed into BT's Sourcing with Human Dignity programme) was directly responsible for helping to drive the adoption of ISO14001 within its key suppliers (such as at Nortel's manufacturing plants and Shield's battery recovery site). Similarly the move by manufacturers of paint to reduce solvent content in their products was in great part a response to B&Q's own graded eco-label for paints.

The process for "do what I can" businesses to communicate their CR needs to their suppliers has been largely through the use of questionnaires and occasional audits as part of the tendering process. As will be discussed in the next section, by default rather than by design, these questionnaires seem to have become a surrogate for face to face customer engagement on CR. The questionnaires frequently pass from the customer to the supplier and back again with little or no discussion, feedback or engagement and as a result are frequently viewed with a degree of scepticism and frustration on both sides.

⑤ Understanding Common Barriers

In this section, based on our interviews and desk research, we try to understand better why it is that despite apparent customer interest, businesses appear to be reluctant to engage customers on environmental and social issues. Through our interview discussions we identified six barriers:

- Customers don't care

- Customers don't understand

- It's a matter of priority

- Breaking the faith – making money from CR is against the rules

- Fear factor – the risks of getting customer communications wrong are too great

- Weak links between Marketing and CR

Customers don't care

Customers say one thing and do another

One of the most commonly cited reasons for not engaging with customers was the belief that customers don't care, aren't interested, or just pay lip service; consequently scarce CR resources are better spent elsewhere. In most cases this belief was based on experience or hunch rather than systematic qualitative or quantitative evidence.

Despite this view, all companies interviewed demonstrated at some level that they were receiving customer interest; though much less clear was the true nature and extent of this interest and how, or even if, it might be used for competitive advantage. For both B2C and B2B a relevant question is, how many customers have to express interest before an issue is taken seriously? Is the figure 5% or 50%? Are those customers enquiring in this way just the tip of a hidden iceberg, or an insignificant vocal minority? Yet the art of competitive advantage is to anticipate the needs and wants of customers, and companies undertaking regular sensing of customers and markets are in a better position to get this right and make a move to maximum market advantage.

In the B2C environment there was a view that because customers don't often ask about environmental and social issues this means they don't care about these issues. With regard to the research by MORI, the NCC and The Co-op there was a sense that consumers are fickle and will often say one thing and do another and so general consumer research should not be taken too seriously.

A good example of this arose during one of our interviews where at the outset there was a view from the CR team that their customers didn't much care about CR when making purchase decisions. As the interview progressed it became clear that one of the better selling Christmas products had been the ethical gift range, highlighting a disconnect between what customers wanted to purchase and the internal company beliefs about what customers wanted.

On the B2B side all companies were receiving the well-known, though generally less loved, supplier questionnaires as part of tendering processes. There was a view that for a small number of customers, CR credentials were a genuine and necessary part of the standard business requirement, though for most these questionnaires were seen as just a paper exercise.

Despite a general scepticism towards the supplier questionnaire process, we often heard that account teams increasingly needed the CR team's support in tendering for both public and private sector contracts, and in some cases anecdotal feedback from account teams confirmed the importance of CR credentials in helping to win specific bids.

The curse of supplier questionnaires

Despite positive feed back from some account teams and the growing onslaught of questionnaires from customers the general approach and response to B2B customer interest in CR remains reactive rather than proactive. From the qualitative research undertaken, there is a sense this may be in large part due to the CR questionnaires themselves. In essence the questionnaires are being used as a substitute for good quality customer and market sensing.

...questionnaires from customers are now commonplace in the tendering process...

Questionnaires from customers are now commonplace in the tendering process; indeed their use is a requirement for gaining good scores on many CR indices such as the FTSE4Good and Dow Jones Sustainability Index.

For the most part these questionnaires are generic in their design i.e. the same questionnaire is frequently sent to a wide range of suppliers irrespective of differences in size, products and services. They also tend to be risk based. They have been designed to identify and hopefully minimise issues of potential CR risk rather than to identify positive opportunities for synergy between suppliers and customers.

It may well be that the questionnaires are a true reflection of a B2B customer's needs and wants, though it is valid to question this. Clearly they send a signal that at some level customers are interested in CR, particularly with regard to issues of risk. However, the customer's perception of risk may differ from the supplier's, and a reactive approach to questionnaires (i.e. just filling them in and sending them back) will not help build understanding and long term relationships from which joint market and CR advantage can be derived.

The rather transactional exchange of questionnaires has been influential in driving CR improvement within the supply chain. But they are being seen as a surrogate for proactively undertaking relevant systematic customer sensing on CR.

So what is the alternative? Should companies request meetings with all of their customers to talk about CR? A possible middle ground would be to work with marketing and account teams to segment the customer base, understand competitive positions and identify the most appropriate ways to engage with relevant customer groups for mutual CR and business benefit.

Customers don't understand

Customers are focused on the "wrong" issues

Closely linked to the belief that customers don't care was the complaint that customers don't understand. There is no doubt that the relationship between business and environmental and social issues is complex. Trying to convey this complexity and getting customers to make the "right" choices was often seen as being too difficult, given the prevailing view that most customers don't care anyway!

Perhaps as a result of this lack of understanding, customers were often seen as being focused on the "wrong" social and environmental issues. For example customers may be very interested in packaging reduction, whilst the company thinks the major issues are to be with the product and the mode of manufacture and that packaging reduction is trivial or insignificant. Or, in the B2B world, the 50 page questionnaire you have just received from a customer does nothing but demonstrate how little they understand your business and their own supply chain. As a consequence many respondents felt that it was better to focus CR efforts on the "real" issues rather than customers' priorities, which leads neatly into the discussion of another common barrier - that of prioritisation of CR issues.

It's a matter of priority

Customers are less important than other stakeholders

With CR encompassing issues as diverse as company philanthropy on the one hand and product design on the other, CR management effort within organisations is constantly overstretched and struggling to prioritise.

For most mainstream companies, CR priorities are set from a risk based perspective, usually driven by a combination of legislation, NGOs, investors, peer pressure and cost reduction. Very few businesses used customer requirements in a systematic way to define their CR priorities and in most cases customer needs (perhaps because "customers don't care or don't understand") were considered less important than other factors.

NGO priorities being used as surrogate for customer priorities

Others assumed that NGOs would be able to tell them what their customers wanted; that NGO priorities could act as a surrogate for customer priorities. It is easy to understand why companies take this view, given the ability of NGOs to raise public awareness. It is also easier and cheaper to meet with relatively few NGOs than to undertake systematic customer research.

While there may be common ground between NGOs and customers, ultimately they will have different perspectives. It is as important to properly understand customers' views as it is to understand that of other stakeholders, indeed - we argue - more important given their influence on core business strategy and processes.

Breaking the faith

Making money from CR is against the rules

We found a real sense among a number of CR professionals that making profit or competitive gain from CR was somehow breaking the faith and going against the values of social and environmental responsibility, something that would clearly disincline CR teams from trying to encourage their businesses to engage with customers.

Looking more closely, the concerns about "breaking the faith" were often accompanied by a sense that their organisation had not made enough progress on social and environmental improvements. There were still too many gaps to be addressed before the company could talk with customers proactively and that a defensive position was preferable.

However, it is interesting that while there was often reluctance to seek competitive advantage with customers, CR teams were happy to support competitive advantage through investor relations, working hard to ensure their companies could be included within ethical investment funds. There was a sense that competitive advantage in this area was less obvious than "selling" ethical performance.

Fear Factor

The risks of getting customer communications wrong are too great

There is a real fear of engaging customers and getting it wrong. This caution is completely understandable, given the obvious importance of customers to business success. Early attempts to generate market advantage from environmental and social programmes in the 1980s led to many cynical responses and a general backlash from consumers to "green wash"; a cynicism that has further been compounded by the continued media exposure of financial, environmental and labour law scandals. It is not therefore surprising that communication of CR programmes has been directed to other audiences, such as investors, suppliers, NGOs, employees and communities.

Customers may judge a company's CR record by looking at the product or service, or by looking at the company itself. A slip up in any one of these areas might easily undermine good work completed elsewhere. Battling on all fronts like this is a daunting task and acts to deter CR teams from encouraging customer communication, even when many businesses have generally made good progress on CR.

Weak links between Marketing and CR

Good links with PR; poor links with Marketing

In many companies the CR function sits at the corporate level and often within the Corporate Communications department which also includes the PR and Internal Communication teams. Links are often therefore stronger between CR, PR and Internal Communications teams than with Marketing departments.

It has been these strong connections with PR and Internal Communications that have clearly been the dominant influence on CR communications to date i.e. the development of the Corporate CR report as an adjunct to the business Annual Report, a focus on investors and opinion formers and a tendency towards one-off, stand alone events or campaigns aimed at enhancing corporate reputation and image.

While the PR/Corporate Communications approach has been successful for many audiences CR functions need to collaborate and align themselves more closely with Marketing (and once again we state that by marketing we mean marketing from a strategic perspective) to generate ongoing engagement with customers. After all, it is the marketing functions who understand the customer relationship and the marketing functions that can put research findings into the overall context of the business' customer dynamics.

Links with marketing are regarded as less important

This is not to say that CR functions have not tried to engage with marketing. Many have, though during the interviews it became apparent CR teams did not regard a relationship with marketing to be as important when compared to other parts of the business and as a result attempts to work with colleagues in marketing had often been half hearted and not sustained.

...attempts to work with colleagues in marketing had often been half hearted...

This disconnect between the two functions was particularly obvious during the interviews. For example, during one interview a Marketing Director commented he was unaware that the CR manager had been fielding regular (B2B) customer questionnaires on CR and wanted to know more and ended the interview by inviting the CR manager to come and present to his direct reports. While in another interview a Marketing Director commented it was the longest time he had spent in the same room with the CR manager and again invited the CR manager to come back and present the results of the research. A third Marketing Director commented at the end of the interview that their understanding of CR had significantly changed and they were now able to see how it might be used to support business development. In a fourth interview a CR manager described how surprised a particular Customer Account Team was to discover their company even had a CR function. Indeed, as a result of customer pressure the Account Team had been developing their own CR expertise in isolation from the corporate group.

⑥ Best Practice Approach
to Common Barriers

In this section we consider how companies who are achieving market advantage from their CR business commitment are tackling the common barriers outlined in section 5. From the research it is clear this is still a rapidly evolving business area and there are no definitive answers. Each company faces its own unique mix of company culture, products, services, customers and markets. However, general themes in response to the barriers do emerge and these companies are:

- *Prepared to challenge long held beliefs and assumptions about their customers perceptions to CR through qualitative and quantitative research.*

- *Using customer and market CR research to inform business planning and market strategies with the conscious aim of driving market advantage.*

- *Actively seeking to educate their customer.*

- *"Feeling the fear and doing it anyway"* (to borrow a phrase). Best practice companies accepted, and expected, some market cynicism. However they are confident of their plans and CR integration.

- *Experiencing no qualms about seeking profit from CR so long as market communications are proportionate to achievements and commitment.*

- *Fostering good links between Marketing, Account Teams and CR*

Customers don't care - Best practice approach (B2C)

Best practice companies in the B2C area - like the rest - receive mixed signals from their customers and markets. However their approach is one of knowledge and anticipation. The best companies want to understand the mixed signals and get behind them to reveal their customers true requirements in this area. As the first step they undertake regular customer surveys and focus groups. It was commented that while surveys provide the broad sweep, focus groups were important to tease out the nuances and provide depth in understanding. It was generally held that a couple of CR questions tacked onto existing customers surveys, would not be sufficient at this early stage in the game, when all parties were still learning and required the detail that could only be obtained from in-depth research.

In most cases the CR teams paid for the surveys and focus groups, but worked closely with marketing teams to ensure the information was gathered and analysed in a relevant way for the business. In the long run it makes sense for CR market intelligence to be managed as part of the normal strategic marketing processes with continued expert input from the CR teams. However, as it is still a relatively new area for business as a whole, and marketing teams in particular, CR teams were footing the bill for market research and using it as a means to gain interest and commitment from their marketing colleagues.

The greatest benefit of working with the marketing team, aside from the cross fertilization of ideas and the exchange of knowledge, is that marketers tend to have better links into the business' strategic planning than do their CR colleagues. A united front between marketing and CR will help provide credibility to market intelligence on CR. This in turn helps secure resources for further CR programmes; programmes which can now better define their value to the market place.

The case study from M&S demonstrates the power of effective market research and how it can be used to support wider business plans and strategy.

Case study 1: M&S and Customer Research

M&S integrates CR across its business functions and uses it as another tool to attract and retain customers, much like product price, quality and customer service. Its CR strategy is formulated from the findings of ongoing customer research and is endorsed and supported by Stuart Rose, CEO.

M&S began researching its customer's views on CR in 2003; it now has 3 years worth of progressive data which has proved to be an excellent tool for generating action on CR. M&S can summarise what matters most to its customers as:

1. M&S' people – HR policies, Marks and Start programme.
2. Health – chemicals, non-GM, fat/salt, additives.
3. Fair to suppliers – Fairtrade, British food sourcing.
4. Ethical trading – labour standards at suppliers.
5. Sustainable raw materials – wood, cotton.
6. Animal welfare – free range, leather, wool.
7. Philanthropy.

Prior to 2003, M&S used NGO feedback as a proxy for understanding customers' values on CR. Moving to an annual customer research process has provided the company with much more accurate insight into the concerns and wishes of their actual customers. M&S knows that in 2005 55% of their customers believed that CR was very important, rising from 25% the previous year. Data like this is pivotal in developing a CR strategy across the whole business: if M&S was starting again to develop its values it says it would start with the customers, together with NGOs who shape and lead their opinions.

Additionally, M&S's research is highlighting that its customers are becoming a lot more CR savvy. Not only are more of them becoming aware of the issues, but they are developing a better understanding of those issues as each year passes. Therefore, M&S expect the CR goal posts to move and can rapidly organise business plans to meet evolving customer expectations.

These research findings are instrumental in establishing CR firmly as part of core business and underpin the decisions to use CR as a standard part of customer and market communications. This is evidenced by the launch of the "Look Behind the Label" campaign aimed at informing customers on a wide range of CR issues.

The CR and Marketing departments at M&S worked together to develop the campaign and choose the right time to launch it. The marketing communications package for "Look Behind the Label" consisted of in store Point of Sale materials, Press advertising, Web pages and a tailored PR package which included an interview with Stuart Rose on BBC's Breakfast programme. A collaboration between the CR, Marketing and PR departments meant that they were able to give clear messages and choose the right time to launch the campaign to gain maximum customer exposure.

Customers don't care - Best practice approach (B2B)

The B2B companies interviewed were regularly receiving CR questionnaires from customers as part of the tendering process; a process now commonplace within the B2B environment. While this broadly indicates customers care about risk-related CR issues at some level, the significance of the questionnaire as part of the purchasing decision varied enormously.

The best practice companies are trying to take an active stance and initiating discussions with some customers to understand what they need or want from CR. Mostly this is done by CR teams meeting with customers' CR teams, but there were a few examples of workshops involving a wider range of business groups from within the customer company.

The best practice companies also sought to quantify and track the value of bids requiring CR input and provide a clear process for account teams so they knew where to go for help when a customer request for tender included CR questions. Some provided CR sales support pack on the company intranet, for example.

There were also many examples of ad-hoc working with account teams to use CR to support particular accounts. On a number of occasions Account Teams had asked the CR team to present, in person, to customers as part of a bid process.

...useful in helping the account team restore good relations with the customer...

One interviewee described how their account team felt a key customer was starting to "freeze them out" and with the help of the CR team was able to approach the customer from a different angle, with new customer contacts which was ultimately useful in helping the account team restore good relations with the customer.

Current best practice in researching B2B customer needs and interests in CR appears to be more reactive and lacking both the rigor and marketing integration found within best practice B2C companies.

There was little evidence from either the interviews or the literature search of CR teams working with marketing and account teams to systematically segment the B2B customer base to identify the customers most likely to be sensitive to CR as part of the purchasing decision. Nor was there evidence of CR teams working with marketing and account teams to understand key customers real CR interests, or to understand the commercial and competitive risks and opportunities these might pose.

Despite this apparent lack of integration and process, best practice companies had received good feedback from account teams on the value of CR in helping to support customer relationships, as well as its contribution to specific sales.

There were examples of account teams spontaneously reporting to CR teams that their input had been an important part of winning bids. More commonly, account teams commented that CR was a good tool for helping to build and strengthen customer relationships. CR provided a new (and often interesting) area of discussion with customers to add to the often tired debates on product, price, service and quality. CR teams also had the valuable ability to introduce account teams to new areas and contacts within the customers' business.

Customers don't understand – Best practice approach

Customers are busy people with their own areas of focus and expertise and cannot be expected to be knowledgeable on all aspects of the products and services they procure. They want and expect the people and businesses with whom they spend their time and money to provide them with relevant information.

We have already seen – both at the individual and business level – that some customers are seeking information on the ethical performance of companies and products and that they currently feel this requirement is not being adequately met. Yet paradoxically the resulting lack of customer knowledge and understanding is cited as a barrier to companies trying to communicate CR issues with them.

Educate, educate, educate

Best practice companies educate their customers on relevant CR issues, and this is seen as a necessary and integral part of their CR and market programmes. Customers will not be able to exercise their ethical instincts in favour of the business unless they understand the issues (relevant to them) and how one company compares to the next. Through customer education these businesses are able to move the CR agenda forward, both within the business, and then in the market place, helping to maintain their competitive position.

While CR reports and other corporate communications are primarily used to communicate with opinion formers and investors, at the company level, best practice customer education formed part of the businesses marketing plan and process. The content and method for customer education were based on earlier market research and were focused on issues relevant and of interest to the customer.

In this sense, the lesson from best practice is that customer education is only one part of a much wider process. That is to say educating customers on CR is not just a matter of "telling" them what you think they need to hear about all the good things your company has done. It's a two way ongoing process that is integral to the wider business strategy, and indeed may only focus on one or two CR issues, depending on the customer and market need.

Complex issues can be communicated in simple terms

The specifics of educating customers will depend on the individual circumstances of the CR issue, the customer and the market, though some common themes did emerge for B2C companies who have relatively little time with customers (at least when compared to B2B). There is then a need to focus on a small number of issues and for communications to be visible, simple and consistent. However, companies were at pains to point out that simplicity does not mean simplistic or patronising; with thought and strategy even the most complex issues can be communicated in simple terms.

One simple example from Co-op Stores includes (as part of its wider strategy to be a leader in the sale of Fair Trade products) customer education on the principles and process of Fair Trade by including a message about the producers on the inside wrapper of Fair Trade chocolate bars. In contrast, at the large scale, (as described in case study 2 from *Kotler 2005*) Toyota began customer education on its first hybrid car two years prior to the launch of the vehicle. So successful was this programme of customer education that Toyota had difficulty in keeping up with sales when the vehicle was introduced in 2000.

Business to business relationships allow more time and opportunity to work through complex issues in close partnership and case study 3 describes how Biffa, as part of its strategy to be seen as a thought leader in the waste management industry, undertook a workshop with key customers to develop understanding of specific waste impacts and options within the supply chain.

Case Study 2: Toyota Prius Hybrid and Customer Education

In 2000 Toyota introduced Prius, its first hybrid car. The Prius and the Honda Insight are the first in a wave of hybrid family cars coming out ahead of similar vehicles from GM, Ford and DaimlerChrysler.

At first glance the Prius does not seem to have a lot going for it; car sales in the last 10 years saw the biggest growth in gas guzzling 4 X 4s, and even if fuel prices doubled, the Prius owner would have to drive at least 50,000km to reap the financial rewards of its fuel saving technology. Yet when the Prius was introduced, it flew out of the dealers' showrooms and Toyota had difficulty keeping up with demand, and by the end of October 2000 there was a waiting list to January 2001.

Much of this success is attributable to Toyota's clever customer education and marketing communications plan. Two years before introduction, Toyota began educating consumers about the Prius. The company established a website to distribute information, had print ads in magazines and also sent e-brochures to 40,000 likely buyers just before introduction. Within two weeks, Toyota had sold 1,700 cars based on the email messages.

The bulk of the 15million Euro campaign, however, was spent on television advertising. Prior to the introduction, adverts ran with a tag line focused on the new technology "A car that sometimes runs on gas power and sometimes runs on electric power, from a company that always runs on brain power". After introduction they used a more emotional tag line "when it sees red, it charges" - a reference to the car's recharging at traffic lights.

Toyota also took advantage of Earth Day to send out green seed cards shaped like Toyota's logo to prospective buyers, wrapped some Priuses in green, and gave away cars at Earth Day events.

Finally, Toyota worked with dealers to ensure appropriate training of sales staff, as it takes specially trained salespeople to explain and promote the Prius. With this extra requirement only 75% of Toyota dealers handle the car and many are unhappy about the extra training requirements.

Given the market growth in gas guzzlers and the reluctance of dealers to train sales staff, why has Toyota invested in the Prius? The main reason is competition. All car manufactures concede they will eventually have to move to hybrids and have plans on the table. Toyota hopes that its successful early entry with the Prius will provide the basis for a system of hybrids from ultra compact 'minicars' to luxury saloons, sports-utility vehicles, and even commercial trucks establishing the Toyota brand as the leader in the field.
(Taken from Kotler 2005 pg 121-122)

Case Study 3: Biffa Waste Services and Customer Education

In September 2005 Biffa hosted a "Food Chain Luncheon" with approximately 15 of its customers in the food industry, including supermarkets and suppliers of food and packaging. In addition, Biffa invited academics and NGOs to further inform the discussions.

Biffa has customers all along the farm-to-fork supply chain and is in a unique position to observe the failures occurring at all points in the chain. Research funded by Biffa and, other sources, has found that 35% to 45% of the consumer grade product is disposed of annually.

The workshop was structured around three themes (technological factors, economic factors and socio-political factors) and allowed plenty of opportunity for round table discussion. The purpose of the workshop was to educate Biffa's customers, sharing an understanding of the advantages of whole-chain thinking. In particular, discussions centred on how a more holistic approach could be used to identify options for waste reduction, improved resource efficiency and reduced environmental footprint.

Biffa's customers benefited from greater knowledge and understanding of waste issues from both a commercial and an environmental perspective, not only for themselves but also for their own customers and suppliers; knowledge that could be used to inform future supplier/customer relationships and business processes.

Biffa benefited by gaining first hand knowledge of its customers' issues and concerns while also encouraging its customers to think more widely and holistically about the sources of waste and its management. All of which will help Biffa to develop a closer fit between its products and services and customer needs. The workshop also helped to support Biffa's position as a leader in waste management strategy and as a trusted partner and source of information.

Experiential Marketing

During its interview, The Body Shop mentioned the power of experience as an important element of education. The more its customers and employees can experience the reality of the issues and of the choices they make, the greater the learning. Both BT and The Body Shop discussed the use of stories as a means to connect people with experiences; stories provide a good mechanism for an emotional impact while being easily remembered and relayed from person to person.

Along the same lines, the Dutch owned ethical bank, Triodos invites and encourages customers to visit the ethical businesses and projects their investments are funding. From wind farms to small family businesses this direct experience not only helps to educate but also to strengthen customer loyalty.

It's a matter of priority - Best practice approach

We have already described how customers' CR concerns can be seen as less important than those of other stakeholders such as NGOs, Investors and legislators and how this lower priority deters businesses from engaging with customers.

By contrast, the current best practice approach saw companies actively seeking to use customer priorities when developing their CR programmes. Indeed a number of companies commented that the customer and market research had enabled them to bring the CR agenda right to the core of the business and enabled them to gain greater support for the overall CR programme.

These businesses accepted that customers' concerns, at times, may be out of sync with broader societal obligations faced by their companies. However, given the enormous influence customers have on business strategy it was seen as important to understand and address the customers' CR issues. The Co-op described having customer (market facing issues) and "back-office" issues, with the back-office issues needing to be addressed with other stakeholders but not requiring the same visibility with customers.

In the best B2C companies, the inclusion of customers' priorities in the business strategy on CR was a deliberate and integrated process. In section 5 we saw how M&S CR market research is being used to support new products and services as part of a wider business plan being communicated through the "Look Behind the Label" campaign. Similarly in case studies 4 and 5, from the Co-op Group and Tesco, we see how customer and market research has been used to help set Group-wide business direction.

Even the best B2B companies seemed to use a much less formal approach, with little or no involvement from marketing functions. To a limited extent, customer requests through questionnaires and ad-hoc communications are being used to help inform CR strategy, but the process of prioritisation tends to be managed by CR teams as part of their agenda rather than being integrated as part of a wider market focused business strategy.

Case study 4: The Co-operative Group and the influence of customers on CR priorities

The Co-Operative Group comprises 11 businesses which include financial services, retail, property, pharmacy, funeral and travel care. While the Co-operative Bank and Co-op food retailing are best known for their value-led businesses, the Co-operative Group as a whole is seeking to align CR values more closely with the core business strategy for all its companies.

At the Group level Corporate Responsibility is managed alongside Environmental Management and the Community Investment programmes, all three being brought together under the Social Goals programme. As Steve Youd-Thomas, Head of Social Goals Strategy explained, "under the Social Goals programme we are trying to come up with an agenda for each of our businesses and for the organisation as a whole. In other words we are looking to define what it is that we should be doing with each of our businesses and their customers that will enable them to deliver the social aims of the Group".

The process of prioritisation began by identifying the concepts that the Co-Op group should be focusing on for example, animal welfare, contribution to the local community, climate change, recycling and tackling global poverty. A total of 8 such concepts were then presented to customers in a series of focus groups. At these sessions the customers were asked to comment on how relevant they thought these concepts were to themselves, and to the Co-operative Group. One result was to extend the list of concepts from 8 to 14.

The Social Goals for the Co-Op Group were then developed from these 14 concepts. Having identified the Group-level goals, discussions were held with each of the businesses to identify the goals that were most relevant to their customers and how each business would contribute to their achievement.

Case Study 5: Customers put Community on the Tesco "Steering Wheel"

"Some people argue that the idea of "following the customer" lacks leadership or ambition. In fact, the opposite is true. It takes strong leadership to listen, learn and accept that expectations are changing". Sir Terry Leahy, Tesco CEO.

During a speech to launch Tesco's 10 point Community Plan in May 2006, Sir Terry Leahy stated the case for including Corporate Responsibility directly into the company's business strategy.

Like other leading companies Tesco, has been busy understanding its customer's views on environmental and social issues resulting in a new Community Strategy. To ensure that Tesco is able to fulfil its customers' CR aspirations, and to capture the resulting market opportunities, it has linked its Community objectives directly to this Corporate "Steering Wheel".

The Steering Wheel is the tool Tesco has used to prioritise its business operations for nearly a decade. Until recently the wheel had 4 quarters; Customers, Operations, People and Finance. Now it contains a 5th element; Community. This significant change means that the Community element of the business plan will have access to the same level of company resources as the rest, i.e. annual market research, strategy planning, main board sponsorship, cross functional project groups and full direct linkage with employee's objectives and appraisals.

As Leahy went on to say in his speech: *"We have made our plan for Tesco in the Community a new part of our Steering Wheel. It means that the performance of everyone at Tesco will be measured on it far more clearly than ever before".*

Breaking the faith - Best practice approach

"Rewarding Virtue"

Best practice companies have no qualms about seeking profit from CR so long as market communications are proportionate to achievements and commitment.

Regardless of whether they are just starting out or have a leading track record on environmental and social issues, the fact is that all companies have much more to do. These deficiencies do not stop best practice companies from

engaging to get market advantage. Their view is that customers want to be involved and by being transparent and proportionate in their approach, they are able to discuss CR issues with their customers despite gaps in their performance.

Waitrose, like many retailers is increasingly using social and environmental issues as a competitive factor (see case study 6). Its overarching strategy is based on full product provenance, i.e. knowing where food comes from, ensuring high standards of animal welfare, and a fair deal for suppliers. This market persona has a sound basis and market communications are clearly proportionate to business commitment. For example, the Waitrose Foundation, launched in 2005, has donated more than £330,000 to local communities in South Africa through the sale of Waitrose Foundation citrus products. In 2005 Waitrose retained its title of Compassionate Supermarket of the year. Waitrose is also a major supporter of organic foods (86% of which are UK sourced) and Fairtrade products.

M&S, which is pursing similar market strategies to Waitrose, also made the point that many of these environmental and social achievements had taken a significant amount of time, energy and investment and - if communicated appropriately - can provide a competitive edge that is hard for many competitors to copy quickly. For example, M&S commented that some of its food programmes had been developed over a 10 year period. With both Waitrose and M&S placing ethics at the heart of their market position it is interesting to note the responses from Sainsbury's, Tesco and Walmart.

...if communicated appropriately - CR can provide a competitive edge that is hard for many competitors to copy quickly...

However, all companies looking to compete on environmental and social issues stated that an ethical stance alone will not sell a product. Customers are demanding, and the fundamentals of product, quality, price and service still have to be met. CR as a market lever needs to work in concert with these central requirements. As one interviewee described it "product quality and price remain central; CR is part of the wrap"; and in mature competitive markets the wrap can be the difference between winning and losing the sale.

Seeking reward in the market place helps these companies to keep the CR agenda closer to core business processes, which is an absolute necessity if CR teams (at the behest of wider society) are wanting help steer their businesses towards sustainability. Without a market focus most companies will find their CR programmes remain, to all intents and purposes, outside of main business processes, focused primarily on supporting corporate reputation and meeting regulatory requirements.

Case study 6: Marks & Spencer/John Lewis Partnership and the Competitive Edge

Both Marks and Spencer (M&S) and the John Lewis Partnership (JLP) compete broadly for the same customer demographic i.e. ABC1s. Like all customers, this group considers price, quality and service when choosing where to shop, yet a company's position on social and environmental factors is evidently an increasingly important consideration. This motivation therefore represents a considerable marketing lever when attracting and retaining customers; getting the message right will attract new customers away from competitors.

Both M&S and JLP have a strong brand association with Corporate Responsibility and, like the so-called citizen brands, they are increasingly using the ethical and social strengths within their supply chains to drive market share. Both are pursuing marketing campaigns that bring the environmental and social aspects of their products and services to the attention of their customers. For example, Waitrose promote their organic and locally sourced ranges with their consistent messaging of "Quality Food Honestly Priced" referring not only to the quality of the food but also to the fact that suppliers themselves get a fair deal. M&S promotes its "Look behind the Label" campaign widely, informing customers of products' health, quality and environmental credentials.

Neither company would invest time and money in these marketing campaigns if they were not yielding returns. Retailers have one eye on what the customer wants and the other eye on what each of its competitors are offering. As competitor price matching becomes the "norm", Corporate Responsibility is providing a new platform to attract and retain customers.

Fear Factor - Best practice approach

CR communications with customers and markets are part of an integrated business plan

There is no doubt that engaging with customers on CR can be risky; CR is a trust issue, and it is a "new" issue where both businesses and their customers are still learning. Best practice companies see their strongest defence against the fear-factor as being the business integration of their CR market approach: communications with customers are not one-off disconnected events, but are part of an ongoing wider business commitment, strategy and plan.

Expect and accept some cynicism

Best practice CR market programmes have depth, breadth, and substance that enable them to withstand the predictable cynical backlashes. Indeed, best practice companies stressed the need to expect and accept a certain amount of cynicism and that at times the business would make mistakes. However, by being sure of the business direction, being consistent and remaining in touch with their customers these companies win through. The Body Shop commented that commitment and transparency had bought them a lot of goodwill from their customers and NGOs during times of often intense media criticism.

Do Less Better - layering

Leading companies, when asked about combating the fear factor responded that consistency of message was central to success and that this could be achieved most easily by focusing on a few issues relevant to the customer, and by managing them well. In essence, they do less better with these selected programmes having a genuine depth and breadth to them, sometimes referred to as layering. For example, case study 7 from The Body Shop describes its approach to layering their commitment to reducing carbon emissions.

Case Study 7: Body Shop and the value of layering messages

The Body Shop team believes that layering a story around a CR achievement can mean "more for their money" and make its actions more compelling for customers. For example, when The Body Shop focused on its carbon emissions they did what many businesses are currently doing - reduced their energy consumption by turning off lights and re-using consumables - but it went several steps further, resulting in a very positive story to communicate.

The company layered its core actions by doing two additional things. Firstly it switched power supply to a renewable energy provider for its shops and offices and secondly it joined forces with Greenpeace to develop the "Choose positive energy campaign" which it promoted in stores. This campaign resulted in a petition submitted to the United Nations Earth Summit in Johannesburg urging politicians to make renewable energy more accessible to 2 billion people with no current access to energy.

This layering of the story provided The Body Shop customers with much more tangible evidence of the company's commitment to reducing carbon emissions than simply cutting its energy consumption. Overall it allowed The Body Shop to create a unique story that was compelling for the media, generating a brand halo which in turn promoted customer and employee loyalty.

If you don't say something someone else might

While the fear of getting it wrong often puts companies off CR market communications, this approach can leave them open to other competitive risks. For example, if a close competitor starts using CR in its market strategy a company who has sought to avoid customer engagement might well find itself on the back foot. Indeed its market silence may well be viewed with suspicion - "why are they keeping quiet, what have they got to hide?" Unless it has been working in the background on CR market issues the company is unlikely to be able to respond quickly with the same conviction as its competitor.

It was generally held to be worth undertaking customer and market analysis as a defensive minimum, even if the company does not want to commit to taking an open stance in the market place. At least this way it will be in a better position to respond to competitive or other market pressures at a time of its choosing. In the meantime the company can continue to communicate CR progress through the normal, less risky channels, such as CR reports.

External Endorsement

The use of external endorsement is a commonly used, relatively low risk, method of undertaking CR market communications as evidenced by the explosive growth in Cause Related Marketing and Partnership Projects. In these cases the business is able to use the credibility of the partner (usually a charity or NGO) to validate its CR initiative. Once again it has to be said these programmes provide most business benefit where they are part of a wider business strategy, as opposed to a one-off "wouldn't it be nice to do this and get a bit of good PR" approach.

Cause-related marketing demonstrates to a company's customers and market that it is contributing to good causes through product/service related sales. One of the earliest, and therefore best known examples is the Tesco Computer for Schools campaign, though a large number of other businesses now have similar schemes. Caused-related marketing is seen to be less risky because the focus is on the cause rather than the ethical performance of the company as a whole. However it leaves unanswered the question that Andrew Crane asks in The Ethical Consumer[17]: "is it about a company being good or about a company giving to good causes?"

A related approach, though frequently more complex, is to initiate projects with NGO endorsement such as the Green Peace and npower programme encouraging consumers to buy npower's green electricity package. Here credibility for the company's ethical product/service, and by association the company, is provided by NGO endorsement.

[17] Crane, A. Meeting the ethical Gaze: Challenges for orienting to the ethical market in Harrison, R., Newholm, T. and Shaw, D. (eds) *The Ethical Consumer*. London: Sage

B2B companies should have less to fear

Certainly at the B2B level the fear factor should be more easily overcome. A business customer will be dealing

with similar CR issues and will have a genuine understanding of the reality and difficulties of making progress

within mainstream business. In addition to this understanding, there is usually the opportunity with key business

customers to engage in detailed discussions over a period of time. As such, the B2B customer will be less

cynical of advances from suppliers who seek to work with them on CR, and in many cases may well be

relieved to have a supplier who is proactively seeking joint improvement on CR, rather than waiting

to be asked or prodded into action. In case study 8 we see how BT chose this route, by actively

addressing a potentially difficult fear factor issue with a key customer to mutual benefit.

Case Study 8: BT working with a customer and NGOs to address concerns over new technology

As part of its wide portfolio of new technology, BT supplies radio frequency identifications (RFID) services.
The attachment of RFID tags to everyday products often raises sensitive questions about privacy, civil
liberties and human rights and a number of high profile retailers have been criticised, and in some cases
boycotted, for their use of RFID technology.

RFID tags, heralded as the successor to bar codes, are passive devices that respond with a digital code
when interrogated by nearby reading devices. Their ability to offer a unique identification code for every
item manufactured represents potentially an enormous change in security, traceability and data
information exchange for individual products throughout their life cycle.

In 2005 a retail customer was interested in a trial of RFIDs on high value goods as a stock control
measure in its supply chain. Rather than ignore, or try to play down, the concerns around RFIDs, BT, with
the support of its CR team, invited the customer to a stakeholder workshop involving NGOs campaigning
for controlled use of RFIDs. All parties were able to voice their concerns and increase their knowledge
and understanding of a sensitive issue as part of the trial process. Not only were all parties better
informed as a result of the meeting BT was also able to demonstrate its position as a trusted partner to
an important customer.

Weak links between Marketing and CR - Best Practice Approach

Best practice companies had CR and marketing teams working very closely with each other, often in daily contact and often with representatives working in each others' teams. In the case of the Co-op Group the CR team had recently been moved into the marketing division reporting directly to the Marketing Director.

Most powerful in terms of engendering closer relationships between the two divisions was the development of joint customer research programmes. CR teams have an understanding of the issues facing the company, yet it is the market research team who have the skills to interpret how these issues are influencing customers' behaviour and perception of the company. A joint approach to research allows both teams to feel ownership of the results, enabling the CR team to prioritise their objectives and gain support from the business, while the marketing teams can factor the research into corporate strategy.

There were also examples of joint visits between Marketing and CR teams to further their understanding of certain issues and how they related to the different Marketing and CR perspectives. For example the Argos Marketing and CR teams had jointly visited a paper recycling plant to consider the recycling of the Argos catalogue. This enabled Marketing to see the scale of the operation and develop a credible message for communication and allowed CR to understand the technical aspects of the operation and how it related to business processes.

Other interviewees reported examples of Marketing and CR representatives sitting together on project teams, jointly working on strategy documents and proposals for the main board and of ad-hoc training sessions to promote knowledge transfer between the two divisions.

In the B2B environment, there is of course the need not only to work with marketing groups, but also to develop good links with relevant Customer Account Teams. Interviewees reported that more ad-hoc, close working relationships were evolving, including working together on tenders, running workshops with customers, and using CR performance strategically as a means to align themselves more closely with the customer.

Thus it can be seen that although there are some significant barriers, Best Practice offers a number of practical approaches to dealing with them.

⑦ The **importance** of employees as **advocates**

Customers trust employees and word-of-mouth communications

The importance of engaging employees on CR issues should not be underestimated; they are a powerful channel for enhancing a company's reputation among its key stakeholders. Understanding employee concerns around CR can help to develop a CR strategy that not only retains good people within an organisation but is also a powerful attractor of new employees. Employees who trust the company on these issues will be powerful advocates in the development of brand trust with customers.

This 'word of mouth' approach has been employed by many citizen brands as a matter of necessity since they have frequently lacked the financial resources for traditional marketing, advertising and PR. Research would also suggest that these informal methods of communication are becoming increasingly important. MORI research in 2005 shows 74% of people asked were more likely to believe the word of an employee over company information on environmental and social issues. While the Harris Interactive and the Reputation Institute in the US found in their 2005[18] survey of 20,000 US consumers, "that word-of-mouth was now the second strongest influence on corporate reputation and their subsequent buying intentions. Only personal experience was more likely to shape a consumer perception of company reputations"[19].
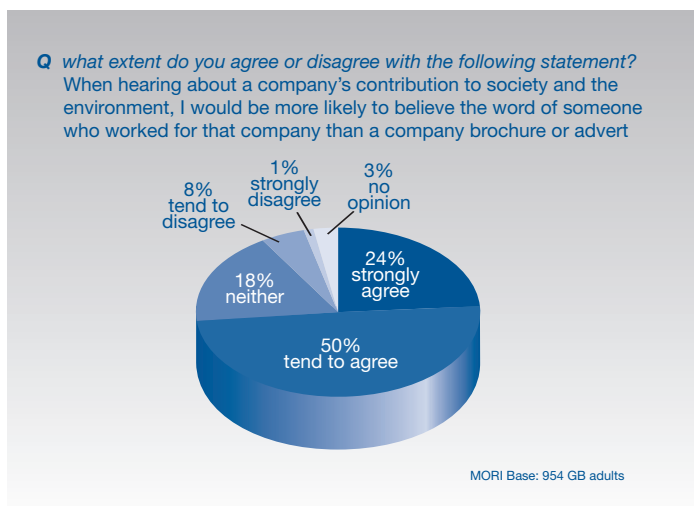

Q *what extent do you agree or disagree with the following statement?*
When hearing about a company's contribution to society and the environment, I would be more likely to believe the word of someone who worked for that company than a company brochure or advert

- 1% strongly disagree
- 8% tend to disagree
- 3% no opinion
- 24% strongly agree
- 18% neither
- 50% tend to agree

MORI Base: 954 GB adults

Figure 5. The Importance of Employees as Advocates of CR. MORI 2005

[18] Dawkins, J., (2005) Employees' Attitudes to Corporate Responsibility. MORI

[19] Roner, L.: 'Reputation is everything' Ethical Corporation, Feb 2006 pg20

For employees to be good advocates they need to understand and believe their company's strategy and progress on CR. Effectively communicating the range of CR issues can be difficult. One approach (taken for example by BT and Virgin) to helping staff understand how the different activities all contribute to an overall CR strategy is to brand all internal CR communications. BT has developed the "Better World" brand and Virgin has developed "Virgin Unite".

Figure 6: Virgin and BT's CR Branding

While internal branding helps employees to recognise and connect the many strands of CR programmes, customer communications via employees is far more effective if it is "natural" rather than full of "corporate speak". This fact is recognised by the Co-op and Starbucks who encourage the staff to express CR issues in their own language rather than in corporate jargon (see Case Study 9).

Case Study 9: The Co-operative Group and employee training for customer engagement

The Co-Operative Group was keen to train its front line employees (i.e. those with direct contact with the customer) on how to communicate its Community, CR and Environment programmes. However, the company was conscious that - more often than not - such programmes seem to inform rather than educate, the information is often not directly relevant to either employees or customers and a has a tendency to be relayed in what sounds like insincere "corporate speak".

In answer to this the Co-Operative Group employed innovative participatory training methods that started with the employees discussing social and environmental issues in general and then how they thought they were relevant to them and the local environments in which they worked.

The aim of the course was to help staff to conceptualise and verbalise the issues themselves rather than sending them off with some corporate patter. Employees were encouraged to discuss the issues that they felt were most relevant and to explore ways in which they could communicate the issues to their customers but to do so in a language they felt comfortable with.

Case Study 10: BT and internal CR communications with employees

BT has more than 100,000 employees at 8,000 locations in 160 countries. Informing them about BT's many CR programmes is a challenge. The CR team undertook an employee survey in 2004 to gain an understanding of: the current level of awareness of employees about CR at BT; how important CR was to them at work; and to identify gaps for future activity.

In 2004, 49% of BT people surveyed said that BT's CR programme made them feel proud to work for BT. 17% of graduates said BT's reputation for CR influenced their decision to apply for/accept a role. By 2005 these figures had increased to 63% and 30% respectively, representing a 14 point increase with employees and a 13 point increase with graduates. A key part of this success was attributed to the use of 'internal branding' of BT's CR programme.

The CR Marketing team created a "let's make a better world" identity and used it on all their communications and campaigns, which included roadshows, bespoke campaigns, briefings, awareness weeks, web debates, News desk images, website banners, e-mails, stickers and presentations.

Aside from the significant improvements in the survey results, BT identified a wider pool of CR activists (i.e. people willing to help with CR programmes), a steady rise in attendance at CR "Insight Briefings", an 85% increase in the readership of their Better World magazine, and received more than 400 contributions to its CR "tell us about it" site.

Given the power of employee and word-of-mouth communications in the market place, it is easy to see how BT's commitment to internal awareness raising and engagement of employees will help to maximise the benefits of its CR programmes both with employees and ultimately with customers.

The importance of engaging employees in CR programmes and the benefits for improving employee morale, attraction and retention is an important subject in its own right. However for the purposes of this report, the point to be made is that CR is a trust issue and customers tend to trust what they hear from employees more than they trust the company wide communications. Thus, if companies are seeking to engage customers on CR, then the power of employees to act as advocates should not be overlooked.

⑧ **Practical steps** towards better customer engagement

The learning from this project points to two key factors which underpin successful CR market communications:

- Firstly the need to really understand customers CR needs, desires and interests (with most companies using quantitative and qualitative research to achieve this).

- Secondly the requirement to work with marketing groups to integrate the CR market information as part of the wider business plans.

Below are some practical steps a business can undertake towards achieving these two goals.

Building blocks towards better customer engagement (B2C)

MARKETING AND CR NEED TO TALK!
Sounds simple but we found that in many cases these two groups rarely spend time together.
Sit down and learn from each other. Discuss the company's market position, business direction and brand. Describe the company's CR position and progress.

FIND OUT WHAT YOUR CUSTOMERS ARE INTERESTED IN
Through the use of quantitative and qualitative market research across your main customer demographics develop an understanding of your customers' CR values and interests in relation to your business/market place and create a prioritised list.

ESTABLISH HOW THE CUSTOMER'S PRIORITIES FIT INTO THE WIDER CR AGENDA
Review the identified customer priorities against the wider CR agenda for your market place (i.e. the agenda set by other key stakeholders: regulators, investors, NGOs etc). Are you already addressing some of these customer concerns as part of your current CR activities?

SHARE MARKET RESEARCH
Communicate research findings with relevant business departments and central business planning functions. Set up meetings with your peers from each to determine the nature of the customer priorities and how this might support or influence business strategy.

DECIDE WHAT YOU ARE GOING TO SAY…
With your marketing colleagues, review the potential for a communication campaign to educate your customers about the company's CR activities that they care about.

…AND HOW YOU ARE GOING TO SAY IT
Keep it simple, consistent and believable. "Layering" the evidence will help to show customers that you are committed.

AND DON'T FORGET ABOUT YOUR EMPLOYEES
Your employees are in direct daily contact with your customers. Make sure they understand and buy in to what you are doing, and can pass on the message to the customer in a way they feel comfortable with.

Building blocks towards better customer engagement (B2B)

MARKETING, ACCOUNT TEAMS AND CR NEED TO TALK!

Sounds simple but we found that in many cases these groups rarely spent time together. Sit down and learn from each other. Discuss the company's market position and business direction. Understand the Account Team process. Describe the company's CR position and progress.

SEGMENT YOUR CUSTOMER BASE TO FIND THOSE SENSITIVE TO CR

Work with your marketing and account teams to identify those customers most likely to be interested in CR issues.

FIND OUT WHAT THOSE CUSTOMERS ARE INTERESTED IN

Initiate discussions with some of these customers to understand their real needs and desires in the area of CR and, wherever possible, include a member of the marketing or the account team in these discussions.

ESTABLISH HOW THE CUSTOMER'S PRIORITIES FIT INTO THE WIDER CR AGENDA

Review the identified customer priorities against the wider CR agenda for your market place (i.e. the agenda set by other key stakeholders: regulators, investors, NGOs etc). Are you already addressing some of these customer concerns as part of your current CR activities?

DISCUSS HOW THE COMPANY CAN DELIVER ON THOSE CUSTOMER PRIORITIES

Communicate research findings across the relevant business departments and central business planning functions. Set up meetings with your peers from each to determine the nature of the customer priorities.

REMEMBER THIS IS NOT ABOUT ANSWERING A QUESTIONNAIRE!

This is about engaging directly with your customers. Try and find champions within the relevant account teams with whom the CR team can work. Remember the objective is to establish an ongoing dialogue where there is the time and space to identify joint market opportunities.

DECIDE WHAT YOU ARE GOING TO SAY…

Remembering your customer's CR priorities, work with your marketing and account teams to determine the strengths of your company's programme in dealing with those priorities.

…AND HOW YOU ARE GOING TO SAY IT

Plan your communication strategy with your account teams to develop your brand as an "authority" on the subject. Keep it simple, consistent and believable.

⑨ Conclusions

Through our research we have seen that despite it being frequently repeated that society cares more and more about responsible business, the reality is that most companies do not have a clear idea about their customers' CR needs or interests. Rarely have customers been genuinely involved in determining the priority of CR programmes or received effective communications about them. Rather there has been a tendency for businesses to make assumptions about their customers and adopt a reliance on one-way information giving rather than two way information sharing and dialogue.

This report has sought to understand the CR communications gap between businesses and their customers and has identified six common barriers to customer engagement:

1. The belief that *customers don't care* about CR and as a result scare CR resources are better spent elsewhere. For the most part this view was rarely based on any systematic quantitative or qualitative data.

2. The view that *customers don't understand* the complexity of CR and as a result it is too difficult to engage meaningfully with customers.

3. The perception that the needs of other stakeholders, such as NGOs, investors and legislators are of greater importance than the perceived desires of customers. Thus it is *a matter of priority*.

4. *The fear factor* of engaging with customers and getting it wrong is too high. Cynical backlashes from the media and customers make companies wary of market engagement.

5. The view that openly seeking market share and profit from CR feels like *breaking the faith*, in that a profit motive, in itself, may be neither socially nor environmentally responsible.

6. *Weak links between Marketing and CR teams* result in the customer element being missed out from CR strategies and environmental and social issues being missed from market strategies.

While common, these barriers are not insurmountable: there are instances where companies have worked through them to achieve positive engagement with not only their customers but with their employees too and have reaped the rewards of their actions. In response to the common barriers best practice companies are:

1. *Prepared to challenge long held beliefs and assumptions about their customers' perceptions to CR through qualitative and quantitative research.*

2. *Using customer and market CR research to inform business planning and market strategies with the conscious aim of driving market advantage.*

3. *Actively seeking to educate their customer.* Based on previous market analysis these companies develop and deliver education programmes relevant to their customers and markets. In this way customers can understand the key issues and make choices accordingly, and come to regard these businesses as authorities on the subject.

4. *"Feeling the fear and doing it anyway"* (to borrow a phrase). Best practice companies accepted, and expected, some market cynicism. However they were confident of their plans and CR integration. Their strongest defence against the fear-factor is the business integration of their CR market approach; communications with customers are not one-off disconnected events, but part of an on going wider business commitment, strategy and plan. They knew that when they are seen to be transparent and making honest attempts to make a positive difference this buys them goodwill with both customers and NGOs when they make mistakes.

5. *Experiencing no qualms about seeking profit from CR so long as market communications are proportionate to achievements and commitment.* Their view is that customers need and want to be involved and that by being transparent and proportionate in their approach they are able to discuss CR issues with their customers despite gaps in their performance.

6. *Fostering good links between Marketing, Account Teams and CR.* These teams are working closely with each other, often in daily contact and often with representatives working in each others' teams. Most powerful in terms of engendering closer relationships between each division, they are developing joint customer and market research programmes.

7. *Understanding the power of employees as advocates if companies are seeking to engage customers on CR.* Employees are a powerful channel for enhancing a company's reputation for responsibility among its key stakeholders.

Looking at these best practice examples there are two key factors which underpin successful CR market communications:

- Firstly the need to really understand customers CR needs, desires and interests (with most companies using quantitative and qualitative research to achieve this).

- Secondly the requirement to work with marketing groups to integrate the CR market information as part of the wider business plans.

Overall from our research, it would appear that B2C companies, though often coming later to the whole topic of CR, are making better progress than B2B companies in engaging with customers. They are being more proactive and systematic in understanding their customers CR requirements, and are being more successful in using this information to drive business strategy.

In contrast in the B2B environment, it would seem there is an over reliance on the risk-based supplier questionnaires from their customers. Yet these questionnaires cannot be relied upon to identify areas of opportunity for market growth. For example the success of Toyota's Prius is in large part dependent on the battery technology jointly developed with Panasonic. No risk based supplier questionnaire would have identified this opportunity. This comes from proactive dialogue, trust and partnership with customers on an ongoing basis. Certainly there seems to be a large opportunity for mainstream B2B companies to work more closely with their marketing and account teams to segment the customer base, understand competitive positions and identify the most appropriate ways to engage with relevant customer groups on CR for mutual business benefit.

However, we should remember that for all businesses, even the citizen brands, it is early days in learning how to manage the customer relationship with regard to CR and the body of experience remains small and rapidly evolving. Indeed while strong themes emerge there is no one approach that will suit all. By definition, successful customer engagement will need to vary from business to business and from industry to industry dependent on the unique mix of market position and company culture. What is clear though, is that for those regarded as mainstream leaders a core requirement is the need to understand and involve their customers.

⑩ References

Armstrong, M 2005, Survey Shows nine out of ten want ethical feedback, The Guardian, Nov 28, 2005 pg 20. MORI Corporate Social Responsibility Survey, 2005

Clavin, B., Lewis, A. (2006) Focus Groups on Consumers' Ethical Beliefs, in Harrison, R., Newholm, T. and Shaw, D. (eds) The Ethical Consumer. London: Sage: pg 178

Clouder, S., Harrison, R., The Effectiveness of Ethical Consumer Behaviour, in Harrison, R., Newholm, T. and Shaw, D. (eds) *The Ethical Consumer*. London: Sage: pg 97

Crane, A. Meeting the ethical Gaze: Challenges for orienting to the ethical market in Harrison, R., Newholm, T. and Shaw, D. (eds) *The Ethical Consumer*. London: Sage

Co-Operative Bank (2003) *The Ethical Consumerism Report 2003*. Manchester: Co-operative Bank

Dawkins, J.,(2004) Corporate Responsibility: The communication challenge; *Journal of Communication Management*; 9,2.

Dawkins,J. (2004) The Publics Views of Corporate Responsibility 2003. MORI

Dawkins, J. (2005) Employees' Attitudes to Corporate Responsibility. MORI

Harrison, R., Newholm, T. and Shaw, D. (eds) (2005) *The Ethical Consumer*. London: sage

Kleanthous,A., Jule,P. (2006) *Let Them Eat Cake* – WWWF-UK report Kotler, P., Wong, V., Saunders, J. and Armstrong, G. (2005) *Principles of Marketing* (4th edn). Harlow: Pearson education

Lewis, S. (2003). *Reputation and Corporate Responsibility*; MORI.

Mayo,E. (2005) *Foreword*, in Harrison, R., Newholm, T. and Shaw, D. (eds) *The Ethical Consumer*. London: Sage

National Consumer Council (2005) *Desperately Seeking Sustainability?: summary of NCC research and advice on sustainable lifestyles*. London: NCC

Oxley Green, A. and Hunton-Clarke, L. (2003) A typology of Stakeholder Participation for company environmental decision-making; *Business Strategy and the Environment*;12, 5 pg. 292.

Roner, L.,(2006) 'Reputation is everything' Ethical Corporation, Feb 2006 pg20.

⑪ About Acona

Acona is an international consulting group focused on understanding risk and improving performance. We have three business areas:

- **Business Risk Management**
- **Safety and Environment**
- **Sustainable Business**

All our employees are partners and co-owners in the company. We have a policy of recruiting primarily senior staff with real experience - gained across all functions from the front line to strategic management. Clients can therefore expect to develop a relationship with key individuals.

We have offices in Stavanger, Oslo, and London and clients in all sectors including retail, leisure, manufacturing, energy, and the public and not-for-profit sectors.

This report was produced by members of the Sustainable Business Team, which advises clients on matters of corporate responsibility, including such topics as environment, human rights, governance and supply chains.

⑪ About the authors

Emma Harding

Emma has 15 years business experience in both Corporate Responsibility and Sales. Emma started her career at BT developing customer management systems with UK Sales. Here she gained first hand experience of the importance, as well as, the challenges of developing successful customer relationships. After six years she left UK Sales to join BT's Corporate Environment Team where she had a variety to roles ranging from Audit to Employee Communications before taking up the role of European Environment Manager for Nortel Networks. At Nortel Emma spent much of her time working with Marketing and Account Teams, for example, helping them to develop a business case and business processes for product recovery and reuse, and the inclusion of environmental seminars as part of Nortel's European Customer Sales Conferences. Since completing this report, Emma has left Acona to become the Environment Strategy Manager for BAA at Heathrow Airport.

Julie Pike

Julie has over 14 years experience in marketing at two of the U.K.'s largest supermarket and high street retailers. Specialising in the development of brand trust and loyalty through customer communication, Julie held key roles at Tesco heading up "below the line" marketing, involving in-store POS, and customer publishing. At Argos, as Promotional Strategy Manager a large part of her work involved developing customer strategies and establishing communication links between the Corporate Responsibility and Marketing functions. Believing strongly that customers do care about the consequences of social and environmental impacts, her main focus is in the creation of internal and external CR communication programmes. Julie holds an Honours Degree in Business Management and is an Associate of the Institute of Environmental Management.

Neil Everett

Neil has been working for Acona Ltd for two years, working with a broad range of clients from both the business to business and business to consumer sectors. He has a specific interest and experience in CR issues relating to supply chains having begun his career in international trade, including spending four years working and living in East Asia, and then having worked as a freelance consultant focusing on ethical trade prior to joining Acona. Neil has a first degree in Economics, and a Masters Degree in International Studies and Diplomacy from the University of London's School of Oriental and African Studies. He is also a qualified SA8000 Lead Auditor.

12 Acknowledgements

We would like to acknowledge the following people who were interviewed for this report and thank them for their support and contribution.

Alison Garner – **BT**

Alison Kennedy & Mike Richards – **Egmont UK Ltd**

Carol Green – **AWG Plc**

Caroline Smith – **Berghaus Ltd**

Gail Boucher - **Nortel**

Jennie Gibbons & Steve Youd Thomas - **The Co-Operative Group**

Laurence Singer – **Argos Retail Group**

Lesley Roberts, Sheetal Nischal and Alison Tracy – **Pentland Group Plc**

Mike Ashton – **Hilton Group**

Mike Barry – **Marks and Spencer**

Nick Monger-Godfrey – **John Lewis Partnership**

Peter Jones, Rob Jones, and Gill Treanor – **Biffa Waste Services Ltd**

Sarah Heath & Stephen Clarke – **WH Smith Plc**

Steve McIvor – **The Body Shop**

We would also like to thank Shaun Bridgman of Bridgeworks UK Ltd for designing and producing "Your Customer Assumption".