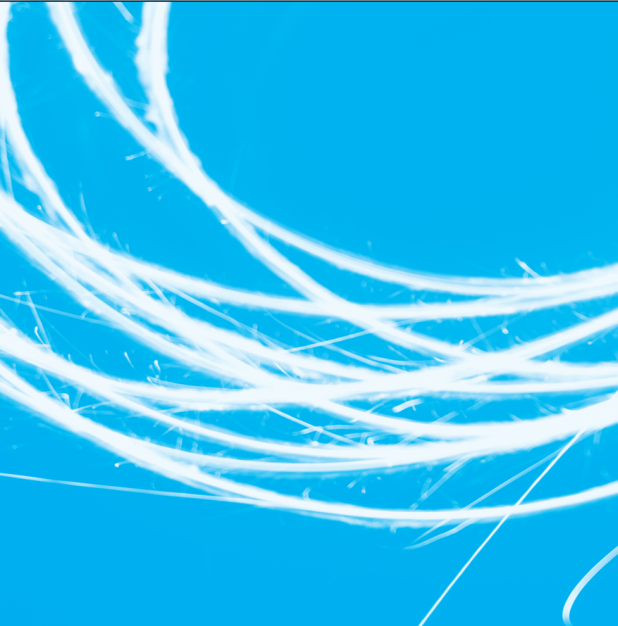


Corporate social responsibility

18



If . . . corporations were to analyze their prospects for social responsibility using the same frameworks that guide their core business choices, they would discover that CSR can be much more than a cost, a constraint, or a charitable deed – it can be a source of opportunity, innovation, and competitive advantage.

Porter and Kramer (2006)

The liberalization of markets is forcing executives and social activists to work together. They are developing new business models that will transform organizations and the lives of poor people everywhere.

Brugmann and Prahalad (2007)

Introduction

The consideration of corporate social responsibility (CSR) as an element of, or a major influence on, marketing strategy is an innovation to this book. It may appear a surprising addition. It reflects the growing importance of CSR in how companies manage their key processes. However, the definition of corporate social responsibility is somewhat problematic, but in a Green Paper presented by the European Commission in July 2001, corporate social responsibility is identified as: ‘a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.’ The Green Paper identifies four factors underpinning the growing attention by executives to issues of corporate social responsibility:

- The new concerns and expectations of consumers, public authorities and investors in the context of globalisation and industrial change.
- Social criteria increasingly influencing the investment decisions of individuals and institutions.
- Increased concern about the damage caused by economic and business activity to the physical environment.
- Transparency of business activities brought about by media and new information and communication technologies.

It is increasingly clear that business norms across the world are moving CSR into the mainstream of business practice. Non-governmental organisations like the World Resources Institute (WRI), AccountAbility, Global Reporting Initiative (GRI), International Standards Organization (ISO 14000) and the United Nations all have major initiatives aimed at improving the social involvement and performance of the world's business community (Godfrey and Hatch, 2007).

However, while CSR may be an important new element of the relationships between business, government and society, the case remains to be established that it is linked to marketing strategy in particular.

In fact, the twenty-first century is seeing issues of social responsibility and the morality and ethics of company practices become a key element of managing customer relationships and in how companies are perceived and understood by their customers. Recent research suggests that an integrated approach to CSR in marketing is largely missing in both theory and practice, and somewhat overdue (Maignan *et al.*, 2005). Certainly, some attention has been given to the operational role of marketing in managing corporate social responsibility initiatives within companies, by expanding focus beyond consumers to include other stakeholders and integrating social responsibility initiatives (Maignan and Ferrell, 2004). These developments have been particularly associated with the development of social marketing, concerned with the contribution of marketing activities to socially desirable behaviours and goals (Andreasen, 1994; Kotler and Levy, 1969), and 'cause-related' marketing (Varadarajan and Menon, 1988). However, while the impact of social marketing on the social duties attached to the marketing function has considerable managerial importance, our focus here is somewhat broader, and is concerned with the impact of the corporate social responsibility stance of the firm on its marketing and business strategy.

18.1 Marketing strategy and corporate social responsibility

From being considered primarily as a matter of 'corporate philanthropy' (Porter and Kramer, 2002), or entirely a question of moral obligation or pure altruism, corporate social responsibility (CSR) has been increasingly recognised as a potential source of

competitive advantage, and thus a corporate resource, as well as an important part of how competitive relationships operate. This thinking extends beyond the view that good corporate citizenship is a marketing tool that can yield benefits in customer loyalty, employee commitment and business performance (Maignan *et al.*, 1999), to examine corporate social responsibility as a strategic resource. Strength in this resource, as in any other, may bring competitive advantages; weakness in this resource, as in any other, may bring vulnerability (Branco and Rodrigues, 2006). Consider, for example, the following situations.

In March 2007, Microsoft dropped one of its UK suppliers because that supplier failed to meet Microsoft's standards on employee diversity. Microsoft in the UK is one of an as yet small, but growing, number of British companies which monitor suppliers to ensure that they employ a representative mix of women and ethnic minorities. The decision resulted from Microsoft's diversity audit at its 250 largest British suppliers (Taylor, 2007). In the US, many large companies, including Microsoft, already insist on good diversity practices from suppliers, and are reducing or terminating the business they do with suppliers who fail to heed requests to diversify their workforces. Indeed, while many US-based multinationals have adopted voluntary corporate responsibility initiatives to self-regulate their overseas social and environmental practices, pressures mount for more active involvement of the US government in mandating such regulation (Aaronson, 2005). British-based companies that operate 'supplier diversity policies' include the bankers Morgan Stanley, BAA airports authority, and car rental group Avis Budget (Taylor, 2007). Suppliers unable or unwilling to meet the social responsibilities defined by major customers stand the considerable risk of losing those customers.

Also in 2007, the US retail giant Wal-Mart found itself in a bitter legal dispute with Ms Julie Roehm. Ms Roehm had previously overseen Wal-Mart's £300 million advertising account before she was dismissed amid accusations that she had an affair with her deputy, was entertained too lavishly by a potential client, solicited a job inappropriately, and wrongly accepted the gift of a case of vodka (Gapper, 2007). Aside from questions of ethics in executive behaviour, to which we will return, cases such as this are a compelling illustration of the costs of inappropriate behaviour in managing buyer-seller relationships. The accusations of corruption and bribery levelled against Volkswagen and Siemens executives in Germany – for example, the alleged Siemens 'slush fund' to pay bribes to win international contracts – have been damaging to both companies (Woodhead, 2007). Appositely, it should be noted that many practices regarded in the past as wholly acceptable – for example, 'corporate hospitality' – may now be enough to undermine or destroy buyer-seller relationships, not to mention the careers of individual executives. The impact is magnified by growing transparency and information availability, so dubious practices are more difficult to hide. A recent review of the 'integrity land mines' faced by companies concludes:

The changes in laws, regulations, stakeholder expectations, and media scrutiny that have taken place in the past decade can now make a major lapse in integrity catastrophic. Fines, penalties and settlements are counted in the hundreds of millions (or billions) of dollars . . . And worse, in some cases (as Enron and Arthur Andersen demonstrated) – a company can actually implode.

(Heineman, 2007)

The management of business-to-business buyer–seller relationships has to be placed into this more demanding context.

Furthermore, at the level of the brand, questions of social responsibility and the ethics and morality of corporate behaviour are increasingly significant, posing both risks and opportunities. In 2007, the ethically minded coffee company Starbucks found itself in the midst of a damaging and intractable struggle over the legitimacy of coffee trademarking by the Ethiopian government. While the Ethiopian government – in one of the world’s poorest countries – wants to trademark some of its most famous coffees, Starbucks objected to the trademarks as damaging to its own brand. The dispute was played out live on the video website YouTube. One commentator suggested that Starbucks was ‘playing Russian roulette’ with its brand (Rushe, 2007). Importantly, there may be an increasing number of trade-offs faced by companies between CSR and commercial goals.

The German car-makers were attacked in 2007 by Renate Künast, Green MP and former environment minister, who urged German consumers to buy the Toyota Prius instead of BMW and Volkswagen cars – because of the lower carbon dioxide emissions of the Toyota hybrid car. Porsche’s chief executive responded with the claim that ‘Toyota can hardly believe its luck.’ In fact, Volkswagen and Mercedes-Benz produce cars with lower emissions than the Prius, which anyway accounts for only 3.5 per cent of Toyota’s sales. In spite of the facts, public perceptions are that German car-makers are reluctant followers rather than leaders in building cleaner cars. The fear is that, if sales follow customer perceptions, then Toyota will win the race to provide the low-emission vehicles that people around the world will drive over the next decades. Weak defensive positioning on environmental concerns has created a major strategic weakness for the German car manufacturers, which they now have to overcome (Reed and Milne, 2007).

In the UK, 2007 saw another ‘environmental arms race’ between retailers, each claiming to be greener than the other. Marks & Spencer’s announcement that it intended to be carbon neutral by 2012 led to claims from Tesco that it would carbon label all its products, and similar eco-promises from J. Sainsbury. Appositely, one analyst noted, ‘Whether M&S wants to save the rainforest or save itself from Tesco is the question.’ While cynics may suspect there is a degree of posturing and ‘holier than thou’ grandstanding in these environmental initiatives, there appears an underlying belief that in the current marketplace consumers are discriminating in favour of companies that can demonstrate they are trying to clean up their environmental act. The new retail mantra appears to be: ‘Green pays. Green brings in customers’ (Davey and Laurance, 2007). Mid-2007 saw the supermarkets attacking their own plastic carrier bags and attempting to persuade consumers to forgo this convenience in favour of other packaging – designer reusable cotton bags marked ‘I’m Not A Plastic Bag’ at Sainsbury’s, vouchers for schools for consumers not using bags at Asda, and loyalty card points for reusing plastic bags at Tesco (Sherwood, 2007). Interestingly, the green competition between supermarkets quickly moved to public criticisms of suppliers’ excessive product packaging policies, and promises to sanction suppliers who do not reduce packaging (and carry the additional costs incurred). While responding to competitors’ CSR moves may not always be the best approach, the strategic significance of CSR to competitive positioning is growing.

'I'm not a plastic bag' by Anya Hindsmarch (Courtesy of Sainsbury's plc)



The results of company manoeuvring on issues of corporate responsibility may be surprising. The fatal poisoning of seventeen cats and dogs in the USA in 2007 through contaminated petfood produced different responses from the companies affected. The big petfood brands and the supermarkets took the approach of announcing the product recall, clearing affected stock from stores, and then largely falling quiet. Petsmart and Petco took a considerably more aggressive approach than retail competitors like Wal-Mart, Krogers and Safeway, by using their response to the crisis to differentiate themselves from their competitors. Petsmart and Petco continued to actively publicise and flag the problem to consumers, in spite of the product recall. Continuing emphasis on the problem has undermined the position of the leading brands. Whether motivated by consumer interests and those of their pets, or purely commercial aims, Petsmart and Petco have apparently created competitive advantage through their actions in this crisis (Birchall, 2007).

However, CSR initiatives may not be effective in achieving either their social or business aims. While environmental politics sparked a 'green gold rush', with companies spending huge amounts on 'carbon credit' or carbon offsetting projects, the signs are that many such projects yield few if any environmental benefits. The primary beneficiaries appear to be those who sell carbon credit, rather than the environment or those who buy the credits (Harvey and Fidler, 2007).

However, there are signs that, while consumers do indeed appear to be discriminating between brands and companies on issues of societal impact and ethical

Table 18.1 The most ethically perceived brands in five countries*

France	Germany	Spain	UK	USA
1 Danone	1 Adidas	1 Nestlé	1 Co-op (including Bank)	1 Coca-Cola
2= Adidas	2= Nike	2 Body Shop	2 Body Shop	2 Kraft
2= Nike	2= Puma	3 Coca-Cola	3 Marks & Spencer	3 Procter & Gamble
4 Nestlé	4 BMW	4 Danone	4 Traidcraft	4= Johnson & Johnson
5 Renault	5= Demeter	5 El Corte Inglés	5= Cafédirect	4= Kellogg's
6 Peugeot	5= gepa	6= Adidas	5= Ecover	4= Nike
7 Philips	7 VW	6= Nike	7= Green & Black	4= Sony
8= Carrefour	8= Sony	6= Sony	7= Tesco	8= Ford
8= Coca-Cola	8= Trigema	9 L'Oréal	9 Oxfam	8= Toyota
10 L'Oréal	10= Bio Produkte; Body Shop; Hipp; Mercedes; Wrangler	10 Mercedes	10 Sainsbury's	10= Levi's; Starbucks

Note: * Based on a survey of 5,000 unprompted respondents.

Source: Adapted from Carlos Grande, 'Ethical Consumption Makes Mark on Branding', *Financial Times*, 20 February 2007, p. 24.

standards, they may be less impressed by corporate posturing than some companies may believe. A recent survey of the 'most ethically perceived brands' produced the findings shown in Table 18.1. The survey results contain some surprises both about which brands are believed to represent ethical behaviour, and in the similarities and differences across the countries studied.

The shift in attitudes towards consumption may be difficult to track – for example, while consumers claim they would pay a 5–10 per cent premium for many ethical products, in practice such brands usually have tiny market shares (Grande, 2007a). Moreover, a recent five-country survey conducted by market research group GfK NOP suggests that consumers in five of the world's leading economies believe that business ethics have worsened in the past five years, and they are turning to 'ethical consumerism' to make companies more accountable (Grande, 2007b). Respondents believe that brands with 'ethical' claims – on environmental policies or treatment of staff or suppliers – would make businesses more answerable to the public, and that companies should 'promote ethical credentials more strongly' (Grande, 2007a). Commentators on branding suggest that ethical consumption is one of the most significant branding issues in modern markets, and underlies change in the automotive sector, food, retailing, technology and health and beauty sectors. Its influence is behind the strong sales growth of hybrid cars, 'cruelty-free' beauty products, and dramatic growth in sales of organic food. The conclusion appears to be that ethical and environmental questions are being posed in growing numbers of consumers, but they are not always overly impressed by companies' responses. Nonetheless, the impact of 'ethical consumerism' is large and of escalating significance.

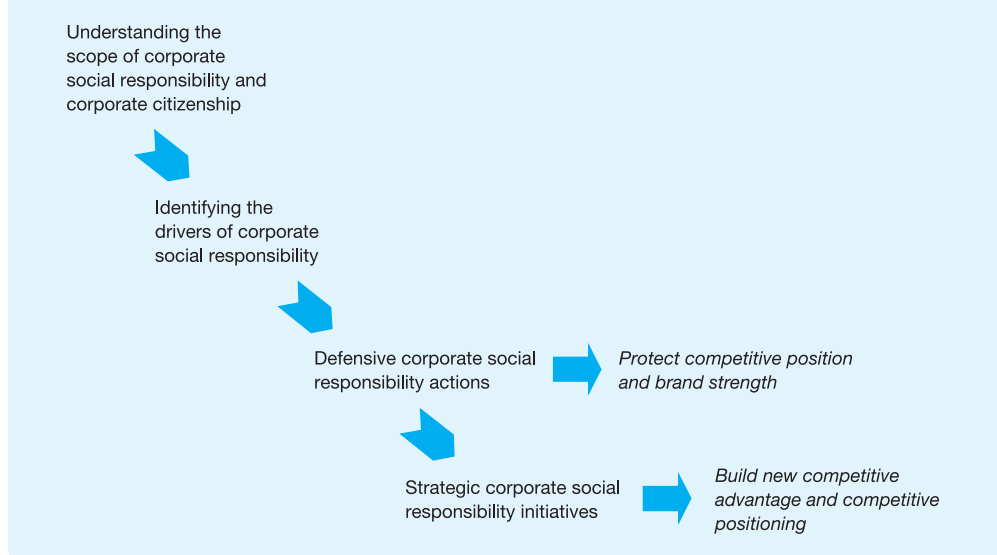
The growing frequency of situations of this kind suggests that issues relating to corporate social responsibility initiatives and the ethical standards evidenced by companies are increasingly relevant to the debate about marketing strategy and positioning relative to competitors, because:

- They represent a new kind of corporate resource which has implications for building a sustainable and defensible competitive position.

- The measurement and reporting of corporate social responsibility ‘scores’ (often computed with questionable methodologies) imposes new requirements for openness and transparency in company behaviour – of the world’s 250 largest multinationals, 64 per cent published their own corporate social responsibility reports in 2005 (Chatterji and Levine, 2006).
- Reflecting the norms of behaviour determined by buyer organisations is increasingly mandatory in sustaining buyer–seller relationships in business-to-business markets (and is made yet more complex where those relationships are global in nature and span different cultures).
- Failure to conform to or exceed the standards of behaviour defined by a media-influenced and Internet-literate consumer may undermine conventional efforts to establish the credentials of a brand and to build a position in a market.
- Increasingly, employees and managers expect their companies to reflect emerging societal values as well as superior ethical standards, and the retention of critical talent in a company may be closely related to these perceptions and beliefs.
- Most telling of all, increasingly corporate social responsibility is not being viewed as purely altruistic, but as an element of competitive advantage (Porter and Kramer, 2006).

This chapter addresses the emergent question of the impact of corporate responsibility and ethical standards on marketing strategy and competitive positioning in the following way. The structure and logic of the approach we take is shown in Figure 18.1. First, we examine the scope of CSR and the corporate drivers of CSR strategies. This is followed by a review of CSR as a defensive strategy, and then as a source of sustainable competitive advantage.

Figure 18.1 Marketing strategy and corporate social responsibility



18.2 The scope of corporate social responsibility and corporate citizenship

The modern era in which companies must operate is one which is increasingly characterised by a variety of anti-business sentiments and activism. Examples include the anti-globalisation movement, shareholder activism and corporate governance reforms – indeed, some suggest that we are experiencing a climate of ‘defiance’ towards business (Maignan and Ferrell, 2004). Certainly, global business scandals, such as the accounting abuses uncovered at Enron and Andersen’s, and the bribery accusations at VW and Siemens, have done little to improve perceptions of business.

Even at a more trivial level, businesses of various kinds are under media-orchestrated attacks for their normal ways of doing business. Recent examples of these pressures include: public campaigns to complain and demand repayment of bank charges; close to hysterical protests about ‘4×4’ (SUV) vehicles, inspired by the mythology of global warming; the siege-like conditions under which the tobacco and alcohol industries now operate; demands that airlines should reduce the number of flights they operate and that, like cigarette packs, holiday packages should carry ‘health warnings’ related to fears about carbon emissions; the anti-obesity campaign pressure on food retailers and restriction of the advertising of ‘junk food’ products to children. There is growing evidence that the way in which products are marketed in many sectors is changing because consumer groups believe business practices to be irresponsible.

Accordingly, the belief that consumers are more likely to buy from companies they perceive as socially responsible, and would switch brands to favour products and stores that show concern about the community has led to growing pressure on firms to behave as good ‘corporate citizens’ (Maignan *et al.*, 1999). In contrast to the traditional view that the only responsibility of the firm is to make a profit (Friedman, 1970), companies have been encouraged to undertake activities that provide benefits to various groups: supportive work–family policies, ethics compliance programmes, corporate volunteerism, green marketing. In this sense, ‘corporate citizenship’ is a term that describes the activities and processes adopted by businesses to meet their social responsibilities (Maignan *et al.*, 1999).

One link between these various trends and issues is the effect of inhibiting the ability of companies to develop effective marketing strategies or to establish and defend their desired competitive positions without making allowance for a societal dimension in their actions. Perhaps the most significant issue now in being a good ‘corporate citizen’ is not so much moral obligation as a business case for initiatives which protect and provide new business opportunities.

The growth in corporate attention to CSR has not always been voluntary, instead reflecting surprise at public reaction to issues not previously thought to be their responsibility – Nike faced consumer boycotts after media reporting of abusive labour practices in its Indonesian suppliers’ factories; fast-food and packaged food companies are being held responsible for obesity problems and poor nutrition; pharmaceutical companies are expected to respond to the AIDS pandemic in Africa, though it is far removed from their main product lines and markets (Porter and Kramer, 2006).

More positively, CSR may be associated with important and measurable benefits to companies. For example, cause-related projects may impact directly on income: if firms that create social gains realise cash value in terms of increased purchases by morally conscious customers (or those customers are willing to pay higher prices), or in reduced costs. More broadly, CSR may have the impact of building long-term customer loyalty, legitimacy, trust or brand equity (Godfrey and Hatch, 2007). Indeed, some companies have made high-profile efforts to position as socially responsible, as part of their strategy, which may in part be a response to external critics, but also part of the underlying vision of what a business is about.

- British Petroleum attempted to underline its commitment to the natural environment by styling itself as ‘Beyond Petroleum’ (a move viewed with some cynicism by environmental campaigners).
- Nike advertises its commitment to adopting ‘responsible business practices that contribute to profitable and sustainable growth’, having come through a decade or more of vocal condemnation of employment practices in its overseas supplier workshops.
- The Body Shop was positioned from its outset as actively involved in social improvement projects throughout the world and opposed to practices such as animal-testing of cosmetics and toiletry products, which is thought to be one of the resources of the business which made it an attractive acquisition in 2006 for the more traditional cosmetics company L’Oréal.

Certainly, it has become increasingly important for strategic decision-makers to understand the scope of corporate social responsibility initiatives both in developing possible defences against attacks on their competitive position and ability to compete, and as potential sources of new types of competitive strength.

Scoping CSR possibilities involves initially considering the specific dimensions of CSR. Attention has been given to initiatives such as the support of charitable causes, and the advent of ‘cause-related marketing’ (Barone *et al.*, 2000), as well as the protection of the natural environment as an influence on purchasing behaviour and marketing strategy (Menon and Menon, 1997; Drumwright, 1989).

In developing an integrative framework to examine CSR, Maignan and Ferrell (2004) provide a useful overview of how CSR has been understood, and how that understanding is changing. They distinguish between CSR as social obligation, as stakeholder obligation, as ethics driven, and as managerial process. These distinctions are useful in understanding the case for CSR and providing a managerial framework for addressing the strategic implications of CSR.

CSR as social obligation

Since the 1950s onwards there has been a strong link between CSR and the alignment of corporate actions with the objectives and values of society. This ethos is still found in contemporary marketing studies, particularly regarding the potential for both positive and negative consumer reactions to CSR initiatives of this type (Sen and Bhattacharya, 2001). Classically, Carroll (1979) distinguishes social obligations as: *economic obligations* – to be productive and economically viable; *legal and*

ethical obligations – to follow the law and accepted values and norms; and, *philanthropic obligations* – to actively give back to society.

CSR as stakeholder obligation

The 1990s saw the emergence of the view that CSR as social obligation was too broad to allow the effective management of CSR (Clarkson, 1995), and the argument that businesses are not responsible to society as a whole, but only to those who directly or indirectly affect, or are affected by, the firm's activities – i.e. the firm's stakeholders (Donaldson and Preston, 1995). Accordingly, stakeholders can be grouped into: *organisational* – employees, customers, shareholders, suppliers; *community* – local residents, special interest groups; *regulatory* – local authorities, legal controls; and *media* stakeholders (Henriques and Sadorsky, 1999).

CSR as ethics driven

Viewing CSR as either a social or stakeholder obligation suggests that CSR is motivated only by corporate self-interests, by enabling business to gain legitimacy with important external parties. It has been argued that such views fail to account for actions by companies which represent a positive commitment to society's interests that disregard self-interest and are genuinely altruistic (Swanson, 1995). Indeed, if CSR reflects only obligations, then it becomes difficult to evaluate whether business practices are or are not socially responsible, as opposed to simply reciprocal (Jones, 1995). An ethics-driven view of CSR is concerned with the rightness or wrongness of specific initiatives, independently of any social or stakeholder obligation. For example, justice-based ethics would lead a company to attempt to systematically favour decisions that stimulate equality and fairness for its partners and associates.

CSR as managerial process

The three perspectives above attempt to identify the factors that persuade businesses to undertake CSR initiatives. An additional view concerns CSR in terms of organisational processes (sometimes called 'corporate social responsiveness') (Ackerman, 1975). One view advocates that 'issues management' and 'environmental assessment' constitute managerial processes relevant to working towards a proactive responsibility stance (Wood, 1991). Others suggest the type of sequential management process useful to systematic development of CSR initiatives (Ackerman, 1975):

- monitoring and assessing environmental conditions;
- attending to stakeholder demands; and
- designing plans and policies aimed at enhancing the firm's impacts.

Carroll (1979) earlier described the managerial processes of response to social responsibility as involving planning and social forecasting, organising for social response, controlling social activities, and developing corporate social policy.

The importance of Maignan and Ferrell's integration of these disparate conceptualisations of CSR is that it provides us with an overview of the issues likely to be raised by CSR initiatives, and suggests the importance of developing appropriate organisational processes for managing CSR. Scoping the existing and likely future

impacts of the diverse pressures towards CSR is becoming an important challenge for management. Porter and Kramer (2006) suggest that management attention should focus on:

- **Identifying the points of intersection between the company and society** – including the ways in which the business impacts on society in the normal course of business (e.g. transport emissions), but also the way in which social conditions impact on the business (e.g. regulatory standards). This involves mapping both the social impact of the value chain, and the social influences on the company's competitiveness.
- **Choosing which social issues to address** – selecting issues that intersect with the business which present an opportunity to create shared value, rather than trying to solve all society's problems.
- **Creating a corporate social agenda** – looking beyond external expectations to achieve both social and economic benefits.

Although the ways in which it can be addressed will differ greatly between company situations, the framework in this section provides an initial approach to making CSR issues explicit and integrating them into thinking about marketing strategy.

18.3 The drivers of corporate social responsibility initiatives

Notwithstanding the links we are building between corporate social responsibility and marketing strategy, it would be wrong to suggest that altruistic, corporate philanthropy is disappearing or diminishing in importance. Indeed, while traditional philanthropy has been criticised as ineffective, the birth of the 'social enterprise' movement represents a new model of addressing issues of social justice with approaches drawn from the business world. For example, Google.org is the philanthropic arm of the search engine company, established to invest in and support for-profit and not-for-profit groups that focus on energy, poverty and the environment. Achieving social goals through business means – social enterprise – represents a new type of business model, fuelled by individuals, like Microsoft's Bill Gates, who do not simply want to donate money to good causes but to bring their own philosophy and skills to managing it to achieve social return. Social enterprise aims to break down traditional barriers between business, government and charity in ventures that aim to combine innovation, market orientation and an objective to generate a public benefit (Jack, 2007). It is speculated by some that there may even be a move away from shareholder capitalism to a radically different enterprise model, in which social purpose is placed above profit or profit is harnessed to social purpose (Smith and Ward, 2007).

However, while social enterprise is an important extension of traditional concepts of corporate philanthropy, and it may enhance the reputations of companies and leaders who devote resources to these ventures, our present interests are in the drivers of more conventional corporate social responsibility initiatives, and the links to business and marketing strategy in existing companies rather than new hybrid business models.

Porter and Kramer (2006), in their recent review of CSR, suggest that, while CSR generally remains imbued with a strong moral imperative (as we saw in the last section of the chapter), modern supporters of the CSR movement rely on four arguments to justify attention and resources for these initiatives:

- **Moral obligation** – the duty for a company to be a good citizen and to do ‘the right thing’. However, there are many dilemmas faced in such questions – Google’s entry to the China market created a major conflict between Western dislike for censorship and the legal requirements imposed by the Chinese government.
- **Sustainability** – emphasis on the environmental and community impact of the business. To an extent this may reflect enlightened self-interest – changes to packaging at McDonalds have reduced its solid waste by 30 per cent.
- **License to operate** – the tacit or explicit permission a company needs from governments, communities and other stakeholders to do business.
- **Reputation** – CSR initiatives to enhance a company’s image, strengthen its brand, improve morale, or even raise share prices. Some organisations have a distinctive position based on an extraordinary long-term commitment to social responsibility, for example, Ben & Jerry’s, the Body Shop.

Perhaps to this list can be added the need to respond to the CSR-based positioning of competitors that are seeking advantage through an enhanced franchise with the customer, and coping with explicit customer demands for the standards they expect in, for example, their suppliers. Interestingly, Porter and Kramer note that ‘All four schools of thought share the same weakness: They focus on the tension between business and society rather than their interdependence’ (p. 83).

Thomas Stewart (2006a) underlines this point. He notes the contradiction between the classic argument that a company’s only responsibility to society is to make as much money as it legally can, compared with the modern reality that a company that shunned society would be ostracised in turn, to its cost. The opposite problem for executives may be the conflict between social initiatives and business goals – is there perhaps hypocrisy in the brewer urging consumers not to drink, or the oil company promoting fuel conservation? Stewart’s point is that such views share a logical flaw: they assume that companies and society have opposing interests. Thus, it follows that, starting from the premise that business and society are interdependent, CSR is identified as a strategic opportunity, which has far greater importance than moral duty alone.

Nonetheless, there is wide recognition that firms face choices in their responsiveness to social responsibility. For example, corporate social responsiveness may reflect one of the following modes or philosophies, ranging from ‘do nothing’ to ‘do much’ (Carroll, 1979):

- **Reaction** – firms that deny social responsibilities and do less than is required by society’s standards.
- **Defence** – firms act through meeting social responsibilities only to defend their own business interests, but do only what is required.
- **Accommodation** – firms with a progressive stance to improving social responsiveness.

- **Proaction** – firms that anticipate future responsibilities and act beyond minimal requirements, ensuring that they meet or even exceed their responsibilities.

Nonetheless, responsiveness alone may not be the same as good citizenship. For example, a responsive organisation may address social pressures by moving to a less demanding environment – consider the growing emphasis by tobacco companies on the relatively unregulated developing countries, where tobacco consumption remains socially acceptable. The simple prescription of responsiveness oversimplifies the complexity of the situations that companies face. The issue is how a company responds, and what its responses represent.

Indeed, the tobacco industry provides an interesting illustration of the limitations of CSR. Notwithstanding vehement criticism by anti-smoking groups, and opponents like the World Health Organization – which categorically questions the very possibility of social responsibility in the tobacco industry – recent years have seen tobacco companies starting to position themselves as good corporate citizens. These moves include corporate philanthropy – e.g. donations to universities for research and to environmental groups; CSR reporting – e.g. in annual reports and other publications; self-regulation – e.g. BAT, Philip Morris and Japan Tobacco launching an international voluntary code of marketing. However, research suggests that these moves are likely to be ineffective or even counter-productive – some scientific journals refuse to publish research sponsored by the tobacco industry, many stakeholder groups will not risk their own reputations by engaging with tobacco companies, and CSR claims are regarded by many as window-dressing at best. While the tobacco industry can defend its position by showing integrity in its supply chain (e.g. improving the working conditions of plantation employees), it is unable to demonstrate a contribution to the well-being of society (because of the addictive and lethal nature of its products) (Palazzo and Richter, 2005). While defensive CSR may offer some advantages to tobacco companies, a proactive stance is unlikely to be effective.

Certainly, there is a dilemma for some companies if their existing business model relies on resources and capabilities which become questionable in terms of social responsibilities and duty. One of the most successful British fashion retailers is Primark. The Primark business model relies on sourcing fashion items from low-cost manufacturing areas and turning catwalk trends into products within weeks at extremely low prices, which provides a major competitive advantage with the fashion consumer. Nonetheless, the result is that Primark buys from suppliers whose workers are paid as little as 9p an hour, working 90 hours a week in extremely poor conditions. The company's 'charm offensive' in the ethics and social responsibility field spans ethical initiatives for organic cotton tops promised to be Fairtrade, reduced environmental damage through fewer plastic bags, and signing up to the Ethical Trading Initiative, which pledges commitment to improving working conditions. Primark faced coordinated protests at its stores organised by People and Plant during Fairtrade Week in 2007, and calls for consumer boycotts. However, the dilemma is that the low-price, lean supply chain business model relies on low-cost suppliers. This dilemma is shared by other low-price fashion retailers like Tesco and Asda.

The logic we are developing provides the basis for examining the linkages between CSR and competitive advantage and strategic positioning in the marketplace, in

ways which have not been fully recognised in earlier stages of the consideration of CSR initiatives as social obligations with a possible ‘public relations’ benefit to company reputation. In particular, we distinguish between CSR as a *defence* against attacks that can undermine competitive position, and as a *strategy* which can provide new business opportunities.

18.4 Defensive corporate social responsibility initiatives

If a firm is essentially defensive or accommodative in its stance to social responsiveness then its primary concerns with CSR will be the protection of relationships, for example, with consumers, business-to-business customers, influential lobby or pressure groups, suppliers, employees and managers, and relative position against competitors. Currently, the evidence is that most firms concentrate their communications regarding CSR with their consumers, employees and shareholders (Snider *et al.*, 2003), showing some neglect of their competitors and alliance partners (Robertson and Nicholson, 1996).

One example of defensive moves in this area is the 2007 appointment by the brokerage firm Cantor Fitzgerald of a chief ethics officer. Inter-dealer broking is known for its rough-and-tumble rivalry, but faced with shareholder activism criticising the company’s governance, and a court ruling where a judge pointed to the company’s ‘deceptive statements’, a defensive response was required. The chief ethics officer was appointed to reaffirm the company’s ‘strong commitment to business ethics and integrity’ (Mackensie and Beales, 2007).

Porter and Kramer (2006) identify an important warning regarding defensive forms of CSR, particularly in terms of responding to the challenges of pressure groups – they warn that companies seeing CSR only as a way to placate pressure groups often find that this approach turns into a series of short-term public relations actions, with minimal social benefit and no strategic benefit for the business. They suggest the most common corporate responses to CSR have not been strategic and are often little more than cosmetic. Nonetheless, the risks in remaining inactive when social demands become severe are considerable.

The changing policies at Coca-Cola are illustrative. Coke has attracted a barrage of negative publicity over recent years: the alleged mistreatment of workers in Columbia; the use of water in drought-stricken parts of India; delaying acceptance of responsibility for contaminated product in Belgium in 1999; violently ejecting shareholder activists from the AGM; and playing a major role in fuelling the childhood obesity epidemic sweeping the developed world. Coke has been actively boycotted on university campuses throughout North America and in parts of Europe. The company was in danger of replacing Nike and McDonald’s as the chief corporate villains for the anti-globalisation movement. The problem recognised by management was negative perceptions of the company progressively undermining the value of the brand. The new CEO of Coke has mandated a proactive company approach to social issues, with a goal of making Coke the ‘recognised global leader in corporate social responsibility’. The company has undertaken an audit of labour practices throughout its supply chain, launched several water conservation projects,

embraced industry guidelines restricting the sale of sugary drinks in schools, and supported initiatives to encourage physical exercise among children. Critics claim the company is pursuing these initiatives under pressure, not because they believe they are the right things to do (Ward, 2006).

In fact, the managerial goal in a defensive CSR mode should be to anticipate and develop appropriate responses to social demands from any source that threatens to undermine the value and credibility of brands, the attractiveness of the competitive position upon which the company's strategy depends, and the viability of the marketing strategy itself. However, it is important that social initiative responses to these pressures should be carefully evaluated for likely effects, rather than constitute an unthinking 'knee-jerk' reaction by management.

Management attention can usefully be given to examining the links between CSR stance and the impacts on consumers, business-to-business customers, lobby groups, suppliers, employees and managers, and competitors. The goal should be to carefully evaluate the possible positive and negative impacts of CSR efforts on each of these groups.

Consumers and CSR

The adoption of social causes by organisations has often been based on the assumption that consumers will reward this behaviour (Levy, 1999). Nonetheless, there is a risk that it is unlikely that consumers will blindly accept social initiatives as sincere, and so may or may not reward the firm with positive attitudes and purchases (Becker-Olsen *et al.*, 2006). Indeed, research suggests that consumers will 'punish' firms that are perceived as insincere or manipulative in their social involvement (Becker-Olsen *et al.*, 2006). Nonetheless, there have been some research findings suggesting that there is a link between a company's social initiatives and positive consumer responses in attitudes, beliefs and behaviours (Brown and Dacin, 1997; Creyer and Ross, 1997; Ellen *et al.*, 2000). Positive associations have been found between social initiatives and price, perceived quality, corporate attitudes and purchase intentions (Becker-Olsen *et al.*, 2006).

However, there is a strong argument that, to be effective, social initiatives must be consistent with a firm's operating objectives and values (Levy, 1999). Indeed, there is some evidence that, when social initiatives are not aligned with corporate objectives and values, CSR initiatives may become a liability and diminish previously held beliefs about the firm. There is some priority for social initiatives and responses to be chosen carefully to reflect the firm's values and domain, so that consumers perceive initiatives as proactive and socially motivated (Becker-Olsen *et al.*, 2006).

Business-to-business customers and CSR

The escalating demands of business-to-business customers for their suppliers to implement CSR policies and initiatives that are acceptable to the customer organisation have already been noted.

The 'vendor compliance' programme at Target Corporation is illustrative. Target Corporation is a successful US retailer with more than 1,500 Target stores and nearly 200 upmarket SuperTarget outlets. Target prides itself on its high ethical standards and business principles, emphasising the protection of human rights, and extends

these principles and standards to its suppliers. Target sources its purchases globally through its Associated Merchandising Corporation subsidiary. Purchasing officers are required to uphold Target Corporation social responsibility standards wherever they buy in the world, even when these exceed the requirements of local laws – Target engineers do not just inspect suppliers' factories for product quality but also for labour rights and employment conditions. Target operates a formal 'compliance organisation' for its purchasing, to enforce its vendor standards, focusing on vendor education and verification, with the following components:

- Implementation of a compliance audit programme, where audit staff conduct random visits to supplier manufacturing facilities, following which compliance violations are subject to administrative probation or severance of the relationship.
- Limitation of subcontractors used by suppliers to those approved by Target.
- Regular vendor evaluations as well as formal audits.

Target is not unusual in its attention to the ethical and social responsibility standards it demands of its suppliers throughout the world. The introduction of formal social responsibility dimensions to supplier relationships is becoming the norm rather than the exception with large customers. These social responsibility mandates impact on supplier selection, and on the continuation of relationships with existing suppliers.

Organisational customers' evolving social responsibility mandates require effective responses. Certainly, one response may be that a customer's social responsibility demands reduce the attractiveness of that customer to the seller, and the business should be sacrificed. Nonetheless, the spread of vendor evaluation approaches which make CSR demands on suppliers requires continuous and systematic evaluation as the basis for an appropriate response.

Lobby groups and CSR

There is some evidence also that companies with poor CSR records may experience serious negative consequences, such as large-scale consumer boycotts, weaker brand image or reduced sales. Part of this effect may be accounted for by the growth of consumer groups that actively promote awareness of what they believe to be company wrongdoing, and actively promote consumer boycotts (Snider *et al.*, 2003).

Certainly it appears that activist organisations have become much more aggressive and effective in bringing public pressure to bear on companies. They may target the most visible companies, to draw attention to the issue, even if the company in question has little impact on the problem. Nestlé is the world's largest seller of bottled water, and has become a major target in the global dilemma about access to fresh water. In fact, Nestlé's impact on world water usage and availability is trivial – but it is a convenient target (Porter and Kramer, 2006).

One outcome of scoping CSR issues in the way we proposed earlier is to identify the issues which are likely to become high profile with different types of pressure groups. This at least provides some basis for responding effectively when they become live issues. Nonetheless, responses to external pressure groups have to be evaluated carefully for their potential 'unintended consequences' (Fry and Polonsky, 2004).

Lobby and pressure groups may or may not represent issues of widespread concern, and they may or may not be legitimate in their activities. Responses to pressures from unmandated groups of dubious standing are unlikely to have positive effects for a company, and may bring additional dilemmas. For example, in the sustained attacks on the animal testing company Huntingdon Life Sciences, animal rights protestors targeted not only HLS for violent threats and protests, but also suppliers, including the company's bank. The dilemma facing the bank was then whether to concede to the protestors' demands and cease trading with HLS, or to face violent actions against their own employees and premises. However, the first signs of concession to the protestors were met with criticisms from shareholders and the financial press that the bank had no right to cave in to the demands of animal rights protestors and their dubious tactics.

Responding to outside pressures, particularly where they are vocal and well organised, in order to defend a company's competitive position may be an appropriate management action. On the other hand, it may not – it may be impossible or undesirable to respond to some pressure groups' demands. In either case, the effects of such responses need to be carefully considered in the context of the entire value chain, and attempts made to control the 'unintended consequences' of such actions.

Suppliers and CSR

The issue of CSR and ethical standards in a company's supply base is the direct reflection of the questions raised above regarding the CSR-related demands made by major customers. Indeed, the ethical and social standards displayed by a seller's own suppliers may form part of a customer's CSR evaluation – as in the limitation of the use of subcontractors in the Target example above. Increasingly, our major customers may require that we adopt a proactive CSR stance towards the entire value chain.

While the general trend is clear, strictly managers face choices. If CSR-related demands cannot or will not be met by suppliers, then the choice becomes whether or not to continue the relationship, accepting that the alternative suppliers will have to be located and the arrangements made. Conversely, if suppliers are prepared to concede new standards in their behaviour then there are likely to be implications for the prices they charge, and hence for the company's cost structure and the prices it must ask of its own customers. This is likely to be a complex calculation. Careful evaluation is required.

Employees, managers and CSR

CSR is also seen as impacting on the perceptions of the employees and managers inside the company, and consequently on their motivation and commitment to the company. It is certainly apparent that many of the individuals now entering professional employment and providing the pool of talent from which future corporate leadership will be drawn have important concerns about moral and ethical issues in business. The question is whether CSR initiatives will appeal to those concerns and generate the superior level of employee and manager commitment that should be associated with higher levels of job performance.

Research suggests two caveats to assuming that CSR will impact positively on employee beliefs and attitudes. First, employee attitudes and behaviours will be

shaped in part by organisational culture and climate, and the impact of CSR will be influenced by whether initiatives are presented in terms of compliance or values, and whether such policies are integrated into business processes or simply seen as ‘window-dressing’. Second, the impact of CSR on employee motivation and commitment will be affected by the degree to which individuals can align their personal values with those of the organisation, by their perceptions of fairness and justice in the organisation, how CSR performance is rewarded, and by their perceptions of top management attitudes towards CSR and performance (Collier and Esteban, 2007).

Nonetheless, a research study by McKinsey suggests that as many as 70 per cent of company managers believe there is room for improvement in the way large companies anticipate social pressure and respond to it. Managers see risks for their businesses in some social challenges – such as climate change, data privacy and healthcare – but opportunities in other challenges – such as the growing demand for more ethical, healthier and safer products (Maitland, 2006). Further indications of the importance of ethical and social responsibility issues are shown in studies of the perceptions of business school students – who will provide the next generations of managers. Business students appear to believe that companies should work towards the betterment of society, and want to find socially responsible employment in their careers (Knight, 2006).

Competitors and CSR

We commented earlier on the pressure to meet, equal or exceed CSR moves by competitors. The ‘environmental arms race’ between UK supermarkets in 2006–7, with each company trying to outdo the others on their environmental protection strategies, is illustrative. Certainly, CSR initiatives provide one way in which competitors attempt to differentiate themselves, even if this is swiftly countered by rivals.

Nonetheless, part of our analysis of existing and potential competitive positioning should allow for the impact of social issues. For example, in the automotive sector, Volvo makes safety a central part of its competitive positioning, while Toyota is attempting to build competitive advantage from the environmental benefits of its hybrid engine technology. Heightened public concerns about environmental and other social issues suggest that these issues will be important to competitive positioning choices in many sectors.

It should also be recognised that some social issues are shared by all members of an industry and joint or collaborative CSR initiatives may be to the benefit of all. For example, the Extractive Industries Transparency Initiative, initially based in London but now in Oslo, is a global collaboration including almost 30 major oil, gas and mining companies that have agreed to work against corruption by full public disclosure and verification of all company payments to governments in countries where they operate. The collective action by all the major companies makes it difficult for a government to undermine the social benefit of corruption-free trading by choosing not to deal with companies that disclose bribery payments.

There are clearly some risks for a company in adopting a wholly defensive approach to dealing with CSR issues. Failure to scope the CSR imperatives likely to be faced may be associated with ineffective short-term responses to social pressures.

Nonetheless, in some cases a defensive stance may be all that is available on some social issues. In such cases, initiatives should be carefully evaluated and implemented to avoid the risks of making the situation worse, being perceived as insincere and cynical, or undertaking actions with broader and undesirable consequences for the company or for society.

18.5 Corporate social responsibility and competitive advantage

Important, from the perspective of marketing strategy, is the emerging argument that corporate social responsibility (CSR) provides a source of competitive advantage which is of increasing significance. For example, Michael Porter and Mark Kramer (2006) have recently made a strong case for the position that businesses should not simply be taking corporate social responsibility seriously as an end in itself, but should be embedding it into their strategy to help build competitive advantage. They argue that conventional CSR approaches have often resulted in a mix of uncoordinated CSR initiatives and philanthropic activities that neither make meaningful social impact, nor strengthen the firm's long-term competitiveness. (We have earlier suggested the converse of this case: that companies neglecting issues of corporate social responsibility and ethical or moral standards may find themselves wrong-footed by competitors who position themselves partly on the basis of these resources.) While the Porter and Kramer model is relatively new and untried, it is likely to be highly influential in management thinking and it provides the underlying structure for this section of the chapter. Above all, Porter and Kramer link CSR directly to creating competitive advantage.

The logic linking corporate responsibility to competitive advantage follows these lines. Porter and Kramer argue that many prevailing approaches to CSR are fragmented and disconnected from business and strategy, while in fact the real challenge is for companies to analyse their social responsibility prospects using the same frameworks that guide their core business choices. The goal is to establish CSR not simply as corporate altruism but as a source of opportunity, innovation and competitive advantage.

Porter and Kramer argue that companies should make choices about which social issues to address, from:

- **Generic social issues** – things that are not affected by the company's operations, not impacting on its long-term competitiveness.
- **Value chain social impacts** – social issues that are affected by the company's activities in the normal course of business.
- **Social dimensions of competitive context** – social issues in the external environment that significantly affect the underlying drivers of the company's competitiveness.

They suggest that a company should sort social issues into these three categories for each business unit and location, and then rank them in terms of potential impact. The category into which a given issue will fall will depend on the business and its

location. For example, the AIDS pandemic in Africa might be a generic social issue for a retailer in the US or Europe, a value chain impact for a pharmaceutical company, and a competitive context issue for a mining company depending on local labour in Africa for its operations.

The purpose of this ranking is to create an explicit corporate social agenda for a company that ‘looks beyond community expectations to achieve social and economic benefits simultaneously. It moves from mitigating harm to finding ways to reinforce corporate strategy by advancing social conditions’ (p. 85). Porter and Kramer introduce a critically important distinction between responsive CSR and strategic CSR, suggesting it is through strategic CSR that a company can make the greatest social impact while also achieving the greatest competitive benefits. Their distinction is between two levels of CSR:

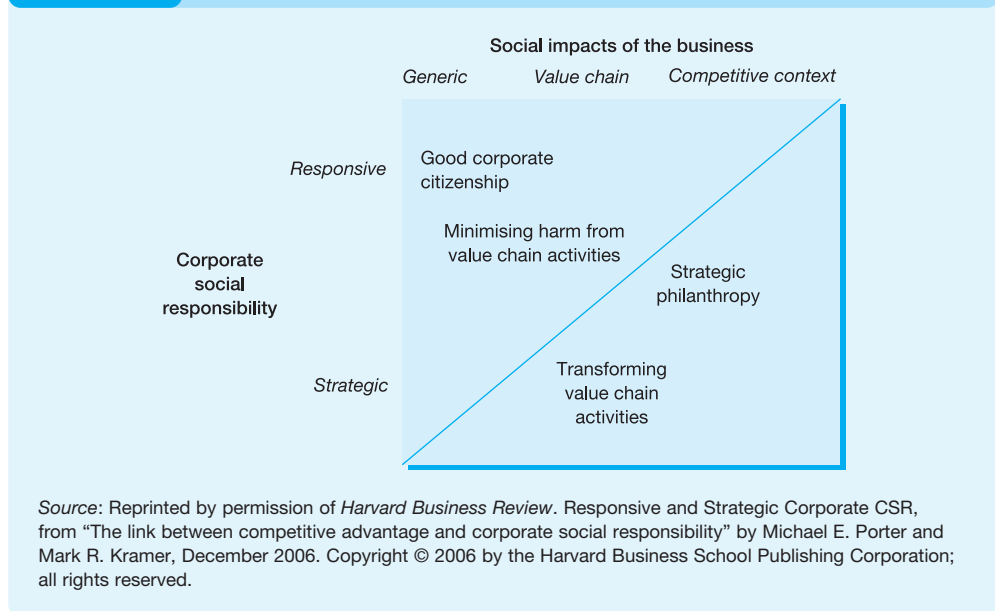
- **Responsive CSR** – involves acting as a good corporate citizen, reflecting the social concerns of stakeholders in the company, and also mitigating the existing or predicted adverse effects of business activities. The domain is generic social impacts and value chain social impacts. The limitation of many citizenship initiatives remains that, however beneficial the social effects, such programmes tend to remain incidental to the company’s business. The key to mitigating value chain social impacts is best practice, though competitive advantage through such endeavours is likely to be temporary.
- **Strategic CSR** – moves beyond good citizenship and value chain impacts to initiatives with large and distinctive effects. The goals are the transformation of value chain activities to benefit society while at the same time reinforcing the company’s strategy, and strategic moves that leverage corporate capabilities to improve areas of competitive context. Strategic CSR may involve the introduction of radically different new products – the Toyota Prius hybrid car responds to consumer concerns about car emissions pollution, and provides both competitive advantage for Toyota and environmental benefits. However, the broader goal of strategic CSR is to invest in social aspects of the company’s context to strengthen company competitiveness. This is achieved, in part, by adding a social dimension to the company’s value proposition and ways of doing business. Only a small number of the social issues that could be addressed have this potential to make a real difference to society and build competitive advantage.

As a framework for examining these distinctions and differences, the Porter and Kramer logic is summarised in Figure 18.2.

Further, using the example of Whole Foods Market in the USA, Porter and Kramer underline the competitive strength achieved by adding a social dimension to the value proposition. They suggest that the heart of strategy is a value proposition that rests on the set of needs that a company can uniquely meet for its chosen customers. The most strategic CSR adds a dimension to the value proposition, such that social impact is central to strategy. The value proposition at Whole Food Market is to sell natural, organic, healthy food products to consumers who are oriented to healthy eating and the environment. The company’s stance on social issues is central to what makes them unique in food retailing and able to ask premium prices. For example, sourcing emphasises purchasing at store level from local farmers; buyers screen out ingredients considered unhealthy or environmentally damaging; the

Figure 18.2

Responsive and strategic CSR



company offsets its electricity consumption; spoiled produce goes to regional centres for composting; vehicles are being converted to run on bio-fuels; cleaning products in stores are environmentally friendly. The effect is that every aspect of the company's value chain reinforces the social dimensions of its value proposition, and provides strong differentiation from its competitors.

Porter and Kramer conclude that, while not every company can be a Whole Foods, adding a social dimension to the value proposition adds a new frontier for our thinking about competitive positioning. They also note that the number of industries and companies whose competitive advantage can involve social value propositions is rapidly growing. Their conclusion is important to how we consider the resource profile of an organisation and the ways in which it can leverage and strengthen that profile:

Organizations that make the right choices and build focussed, proactive, and integrated social initiatives in concert with their core strategies will increasingly distance themselves from the pack . . . Perceiving social responsibility as building shared value rather than as damage control or as a PR campaign will require dramatically different thinking in business. We are convinced, however, that CSR will become increasingly important to competitive success. (pp. 91–2)

A similar viewpoint is adopted by Andrew Savitz, who created the environmental practice at PwC and has worked on environmental issues with some of America's largest companies. Savitz and Weber (2006) share the view that it makes financial sense for companies to anticipate and respond to society's emerging demands – anticipating reciprocal advantages in the longer term, i.e. the sustainable company will be more profitable as a result of its responsiveness. In their terms, sustainability is about conducting business in such a way that it benefits employees, customers,

business partners, communities and shareholders at the same time – it is ‘the art of doing business in an interdependent world’ (Savitz and Weber, 2006). They suggest that the best-run companies have identified ‘sustainability sweet spots’ – areas where shareholders’ long-term interests overlap with those of society. They point, for example, to Unilever’s Project Shakti in India, where 13,000 females have been employed and trained to distribute Unilever products to rural communities, providing economic income in a deprived area, but at the same time gaining market access and penetration in a difficult market.

Nonetheless, on occasion, there may be major questions surrounding the balance between business and social benefits in some CSR initiatives of this kind. For example, some companies are benefiting commercially by asking ‘green’ consumers to pay them for cleaning up their own pollution. Chemicals company DuPont invites consumers to pay \$4 to eliminate a tonne of carbon dioxide from the Kentucky plant where it manufactures a potent greenhouse gas called HFC-23. In fact, the equipment required to reduce such gases is relatively inexpensive. Similarly, Blue Source, a US offsetting company, invites consumers to offset their carbon emissions by investing in enhanced oil recovery (pumping carbon dioxide into depleted oil wells to bring up the remaining oil). In fact, Blue Source admits that because of the high price of oil this process is often profitable in itself, and the ‘carbon credit’ represents additional revenue (Harvey and Fidler, 2007). It is likely that such schemes will fail to deliver more than short-term financial benefits rather than synergy between business and social benefits.

One example of the possibilities for large-scale competitive change around social benefit initiatives is provided by the MIT team who said in 2004 they were going to overcome the digital divide between the rich and poor by making a \$100 laptop for the poor children of the world – the One Laptop Per Child (OLPC) project. While initially dismissed simply as a charitable project, the MIT team’s vision has underlined to the commercial IT sector the market power of the poor – the fact that the majority of the world’s population does not have a computer will be one of the main drivers of growth for the sector. The effects on hardware and software companies have been dramatic.

- Intel (initially one of the fiercest critics of OLPC) has developed low-cost computers aimed at students in developing countries.
- Intel’s rival, AMD, has pledged to get half the world’s population online by 2015 with a device called the Personal Internet Communicator.
- Microsoft is supporting the establishment of computer kiosks in villages in developing countries to allow shared online access.
- Quanta Computer, the world’s largest contract manufacturer of notebook computers, will start making laptops selling for \$200, and will make the first OLPC to ship in 2007.

The OLPC project underlines the social benefits and the commercial opportunities in a cheap laptop, which was relatively easy to make using newer technologies, open source software, and stripping out unneeded functions (Hille, 2007).

Relatedly, in this sector, an interesting example of a company’s leveraging its distinctive competitive competencies to further initiatives with both business and

social benefits is provided by Dell Inc. – the leading computer supplier. Dell is using the strengths of its direct business model to generate collective efforts to reduce energy consumption and protect the environment. The initiative centres on improving the efficiency of IT products, reducing the harmful materials used in them, and cooperating with customers to dispose of old products. Michael Dell's environmental strategy focuses on three areas:

- Creating easy, low-cost ways for businesses to do better in protecting the environment – providing, for example, global recycling and product recovery programmes for customers, with participation requiring little effort on their part.
- Taking creative approaches to lessen the environmental impact of products from design to disposal – helping customers to take full advantage of new, energy-saving technology and processes, and advising on upgrades of legacy systems to reduce electricity usage.
- Looking to partnership with governments to promote environmental stewardship – for example, in Dell's 'Plant a Tree for Me' programme, offering customers the chance to offset emission from the electricity their computers use by making a contribution to buying a tree when they buy a PC.

As a company, Dell is also committing efforts to enhancing operational efficiencies and reducing its carbon footprint through the use of renewable energy (Dell, 2007). Importantly, Dell's initiative starts with the distinctive strengths of the company (the direct business-to-business model with corporate customers, and market leadership), applies these strengths to address an environmental issue (reduced pollution, lower energy use), but at the same time achieves business goals (reinforcing the company's leadership, strengthening customer relationships, faster take-up of newer, more efficient products and technologies). The link between this CSR initiative and the company's business model and value proposition is clear.

Similarly, 2007 saw Microsoft partnering with governments in less developed countries to offer Microsoft Windows and Office software packages for \$3 to governments that subsidise the cost of computers for schoolchildren. The potential business benefit for Microsoft is to double the number of PC users worldwide, and reinforce the company's market growth. The social benefit is the greater investment in technology in some of the poorest countries in the world, with the goal of improving living standards and reducing global inequality (*Financial Times*, 2007).

On the environmental front, 2005 saw General Electric – the largest company in the world – launch its Ecoimagination initiative. Ecoimagination has grown out of GE's long-term investment in cleaner technologies, and places these technologies under a single brand. To qualify for Ecoimagination branding, products must significantly and measurably improve customers' environmental and operating performance. However, the Ecoimagination vision is driven by the principle that its green initiatives will have a positive impact on GE's competitive position and financial performance (Harvey, 2005; Hart, 2005).

CSR strategy at companies like Dell Inc., Microsoft and GE may provide a prototype of the linking of CSR to competitive advantage which will influence management thinking.

Summary

This chapter sets out to establish the impact of corporate social responsibility on marketing strategy. This is an area which is evolving rapidly, and one which is turning out to be highly significant to the ability of a company to maintain its chosen competitive position and to compete effectively. Nonetheless, it is an area where precise definitions and analytical methodologies do not yet exist. Our approach suggests that companies should devote efforts to understanding better the social pressures – which are likely to affect their ability to compete – through scoping or issue analysis. Company responses to social issues fall into several categories, ranging from altruistic company philanthropy and the concept of ‘social enterprise’, to defensive moves to protect competitive position, to strategic moves that aim to create competitive advantage through CSR initiatives. Our attention focuses on the latter areas: defensive CSR and creating competitive advantage through CSR.

Ballantyne, Smythson and others



Case study

Getty Images Entertainment



The hold music on the telephone system at Ballantyne headquarters in Italy says it all: a constant refrain of chirpy Scottish bagpipes. Very Highlands. Very heritage. Molto strange. But for Matteo Montezemolo, managing director of Charme Investments, the private equity firm that bought the cashmere company in 2005, the Scottish link is fundamental. It is about adhering to a set of ethics that he believes should be at the heart of a modern luxury company: supporting domestic industry and expertise. ‘When we bought Ballantyne, we were very impressed by how it was able to transfer on to the market such a luxury product in cashmere,’ he explains. ‘Then,

when we went to visit the factory in Innerleithen, we immediately realised that this luxury principle was starting exactly from there in what is the most prestigious district in the world for cashmere: the Scottish Borders.’ All of the brand’s knitwear is made at its Scottish factory and accounts for 60 per cent of the business (jackets and trousers are made in Italy). ‘If customers pay such high amounts of money for a cashmere product,’ he continues, ‘they need to know what is behind the pricing. They need to know it is handmade, made with excellent materials, that it is not made in low-cost countries.’ Keeping production in Scotland ‘is first of all a business decision – in our view, the core business of Ballantyne is the knitwear and all this knitting needs to be made in our factory in Scotland – and secondly, it is about ethics, because my vision is that today you need to be very careful on the market. You cannot sell a luxury product at such high prices and then turn round the label and see it’s made in Hong Kong, Taiwan or Korea. This is not fair, and you need to have a fair approach to your client; things need to be priced in the proper way, made in the right country, in your factory and handmade.’ Montezemolo admits that this could be a financial disadvantage, though with revenue leaping from \$17m to

\$40m since he took over, perhaps not a significant one. Indeed, that companies should be seen to be supporting local business is of increasing importance, as Burberry discovered recently when it closed a Welsh factory. The decision to take production off-shore prompted a rash of political point-scoring and even employee demonstrations outside its store in London. All this despite the fact that the company had announced it was donating the Treorchy site to the local community and had offered retraining and an on-site resource centre to employees.

Samantha Cameron, director of stationery company Smythson, agrees that ethical matters, especially those of where you manufacture, are increasingly important in the marketplace. 'It definitely has a bearing,' she explains. 'And people do think about what they're doing and if they leave a carbon footprint – and that's as much about what you buy as how you're travelling. But we are international, so we can't get away from that: we sell product in the US and [east Asia].' Cameron does, however, feel it's important to support home talent. 'We're a British company and as long as we can get the quality, we would definitely prefer British.' The company recently bought two UK factories – one for bookbinding and one for gold stamping in order to protect its domestic manufacturing base and has invested in gold stamp training to protect the skill from dying out entirely. Buying local factories also made sense 'as we wanted to protect our source.' Nonetheless, Cameron admits that the ethical dimension is often a 'side effect, in a way' to decisions that are based on good business sense, such as the value of being UK made. 'We think the quality is best and we feel it is important to be made in England as that is the core of our brand.' 'We'd all like to hang high moral standards and ethics to our chests, but it's just what we're selling – Englishness,' says Ian Eastwood, managing director of Swaine Adeney Brigg, the traditional leather makers. For them to use anything other than English leather, tanneries and manufacturers 'would be alien. We're

quintessentially English and if we lost that niche we'd lose our identity.' It's a similar story at knitwear maker John Smedley, which launched a 'Made in England' campaign last year to focus on its commitment to UK manufacturing. 'Made in England is what we are, it defines us and what we stand for,' explains Drew Walker, managing director.

'I think there are always pressures to go off-shore, but our philosophy is that it would destroy the whole ethos of the brand, and that ethos is that things should be made from the best raw materials, in the best way, by the best. I think the UK workforce is the best.' Walker, of course, does recognise that there is a case for moving off-shore. 'But the only thing you save,' he argues, 'is [the cost of] direct labour, and even in a high-cost economy such as ours, that is about 12 per cent of the final goods selling price. So, to get it 5 per cent cheaper in China or add 5 per cent and have it made in England – there's no argument.' Walker believes consumers are increasingly concerned about where and how goods are made – at Smedley, they even know which New Zealand pastures their wool-producing sheep have grazed in. 'I think, for a while, [this concern] deserted us in pursuit of volume and cheapness. But I think there's a move towards more ethical trading and knowing there's no point in capitalising on other people's misfortunes.'

Source: Edwina Ings-Chambers, 'Location, location, location', *The Financial Times*, 2 March 2007.

Discussion questions

- 1 What is the key impact of CSR on marketing strategy?
- 2 What has location got to do with CSR? What views of CSR do Ballantyne, Smythson etc. appear to adhere to? Do they contribute to creating a sustainable competitive advantage for these companies?
- 3 What is the dilemma faced by fashion manufacturers in trying to reconcile modern business practices with CSR?