Does Corporate Social Responsibility really contribute to reputation?

Speech
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Good morning ladies and gentlemen
Thank you very much Professor Şimşek for introducing me.
Thank you for inviting me to this conference here in the exciting city of Istanbul.

The question I´d like to raise this morning is:

Does Corporate Social Responsibility, better known by the acronym CSR, really contribute to reputation?

… and the short answer would be: it depends.

Or, to be more precise while still remaining concise: Yes, but not necessarily in a positive way.

Before I provide you with further details on what CSR's contribution to reputation actually "depends" on, I would like to draw your attention to the reason why I am raising the question. Why bother with it?

Today I am speaking to you first and foremost as a practitioner. As such, I often hear decision makers in firms say something along the lines of: "Let´s do something good, let´s show responsibility to gain some bucks on our reputation account!" Or: "Please help us, Mr. Walter, you are a CSR expert. You know how to do good things and get them across to our stakeholders". Interestingly, these words are often spoken at times when the reputation of the company in question is down, or the public legitimacy of the corporation's products and services is already problematic to the public – for instance, in the tobacco or the armaments industry, from a German perspective.

The idea that CSR activities will automatically pay off in terms of reputation-building simply doesn´t work, and CSR efforts often fail where this is a corporation's only focus. But why are we becoming more and more focused on building our reputations through a demonstration of corporate social responsibility?

Corporate Reputation and CSR

Corporate reputation is still one of the most valued intangible assets, and its significance will increase in the future.

Corporate reputation and companies´ financial performance are directly co-related. Increasingly, corporations are trading not on products or services but on their reputations (Corporate Reputation Monitor, 2005). Various studies confirm that improving corporate and brand reputation is still one of the most important motivations for engaging in CSR. Also, the threat of reputation loss is currently seen as a significant factor in encouraging companies to make commitments to CSR (Eisenegger and Schranz, 2011). You can actually observe this move quite clearly in the banking sector.

The more societal problems that emerge (like unemployment, poverty, inflation etc.), which vary across different countries and cultures, the more reputation comes into play. Trust in businesses decreases while, at the same time, stakeholder expectations increase. The financial crisis has also increased uncertainty at all levels, leading financial institutions to rely more on their reputations.

At the same time, stakeholders' expectations have changed regarding CSR (Guillerme, 2012). As a result, CSR has become one of the most important business cases for decision makers with respect to reputation building. Today, one of the main business objectives of CSR is to safeguard, ensure and increase the company's reputation among its customers and employees (Witte and Reinicke, 2005). But in reality it is not very fashionable for corporate decision makers to confess to these objectives publicly. You wouldn´t go out and tell people that you have sponsored a kindergarten just because of your reputation – instead, you would be likely to use more generous terms, such as that you want to contribute to society.

Without going deeper into the definition of reputation, since it has already been discussed at this conference very intensively, I only want to point out that CSR is already one of the core elements of reputation. Citizenship, governance and workplace account for over 40% of reputation globally. There are various definitions of reputation (here you can see some of my favourites).

Two key points can be highlighted (Brown and Logsdon, 1997):

1.) This construct of reputation has a perceptual nature.
Some individuals or groups gather and process information about a firm's past actions and draw conclusions about its future prospects.
2.) Reputation is a net or aggregate perception of every stakeholder, not just one or two.

However, we have to consider that corporate reputation differs among the various stakeholder groups (Helm, 2007) and in addition, that every person is a multi-stakeholder. You might be an employee, a shareholder and a customer at the same time, and additionally you might be a member of a union, Greenpeace and so on.

This is a tremendous challenge for CSR communication.

I will come back to this later.

Corporate Social Responsibility

The highly contradictory results regarding the relationship between reputation and CSR also arise because of the different perspectives and definitions of CSR. So, let me conclude this introduction with a brief look at CSR itself.

CSR is a journey to social responsibility which more and more corporations are embarking on. Depending on which motivation they follow to engage in CSR, we can distinguish between two different journeys:

- The long journey
which a company takes to change their DNA.
This is about creating value for stakeholders.
It involves a shift in the self-concept of businesses from profit making to purpose making (Freeman, 2012).

- Or the short trip
  in which a company just wants to change their image.
  This will definitely have negative effects on reputation in the long run.

If a company takes the long journey, there are two propositions to consider with respect to CSR (van de Ven and Graaand,2007):

- The strategic proposition:
  This means: the firm's efforts with respect to CSR will have a positive influence on its financial results in the long term (Graafland,2002a/b).
- And the ethical proposition:
  Which is about behaving in a responsible way as a moral duty of businesses towards society … according to Kant's categorical imperative (Evan and Freeman, 1988).

Both propositions have to be considered when engaging in CSR. This is especially true in connection with reputation.

Reputation and CSR are two sides of the same coin

So far, we can conclude that: reputation and CSR are two sides of the same coin (Hillenbrand and Money, 2007) although there is no consensus about what form this connection takes (de Quevedo-Puente et al., 2007). Reputation and CSR are two approaches that are mutually enriching, but sometimes confusing (Eisenegger and Schranz, 2011).

After looking at the co-relation of CSR and reputation, and their significant importance to corporate performance, let me come back to the original questions.

Does CSR really contribute to reputation?
On what does this depend?

In truth, there is no silver bullet to make CSR contribute to reputation because every company, every country and every culture is so different. But there are at least five aspects worth considering anyway.

1.) Stakeholders must be aware of the CSR endeavours (Bortree,2009)

That might sound quite obvious, but it is certainly not a given. Stakeholders often feel underinformed about the ethical claims of corporations. But on the other hand, there is a paradox: the more a company talks about its endeavours, the more scepticism arises (Morsing et al., 2008). In the worst-case scenario, a firm could be labelled a corporate hypocrite.

This is especially true when stakeholders simply don´t believe in the CSR engagement.
In addition, when a company focuses too intently on communicating its CSR associations, it is possible that consumers may believe that the company is trying to hide something (Schmitt and Röttger, 2011). Thus, companies whose external communications present them as too blatantly clean run the risk of falling into the moral trap (Peloza, 2006).

So, we can come to the conclusion that the positive reputation effects of CSR are the result of "good" or "less good" communication work. However, although a company may attempt to

influence its own reputation by means of active communication, it cannot be sure whether, and with what degree of filtering, its message will finally reach its stakeholders (Eisenegger and Schranz, 2011).

Consequently communication about CSR is first and foremost a reputation risk (Brown and Dacin, 1997). But there is no way to avoid this risk if you are to keep your stakeholders informed (Walter, 2011), which is a prerequisite for building reputation.

2.) The company must already have a good – or at least a neutral – reputation (Pfau, et al., 2008).

The promotion of CSR tends to evoke scepticism if a company is stigmatized beforehand with a bad reputation or if a company is experiencing a legitimacy threat, such as a corporate scandal (Ashforth and Gibbs, 1990).

This means that a corporation with a bad reputation will not be well received when trying to enhance their reputation capital via CSR (Yoon et al., 2006). Furthermore, "the more problematic the legitimacy of a company is, the more skeptical are constituents of legitimation attempts" (Ashforth and Gibbs, 1990). However, the "good" companies – those who successfully engage in CSR already – are also under high amounts of scrutiny and should be prepared to have their motives questioned. As Fouad Harndan, former campaign strategist for Greenpeace, contends: "`good` corporations are in particularly critical focus of certain stakeholder groups (and also journalists), who are waiting for the first mistake or evidence of irregularities" (Liebl, 2011).

3.) The CSR programme has to be credible.

In terms of reputation-building, credibility and trust play a crucial role. The same is true for communications as a whole. To some extent, credibility is the license to communicate.
If people don´t trust you, they won´t believe your words, your messages. There is a high reputation risk in terms of being labelled a greenwasher, or doing some window dressing, instead of making real commitments to social responsibility that are not only based on corporate philanthropy. Consequently, CSR should not be understood in terms of moral accessories (Zadek, 2012) and "one-off improvements to win quick publicity" (Barnes, 2011), otherwise it may have lasting consequences on corporate and brand reputation.

4.) The CSR programme should demonstrate a win-win situation (Suchanek, 2008).

Stakeholders expect a win-win situation, and do not believe in purely ethical claims. Therefore, you should tell your stakeholders what benefits your company will take from your CSR engagement. Selected stakeholders, such as shareholders or employees, will not understand – and consequently not support – CSR endeavours if they see no rewards for the corporation. This is especially true when corporations engage in corporate philanthropy.
I have seen corporations increase their budget for external social engagements, while cutting wages at the same time. This simply does not work.

Also, academic studies have shown that the credibility of a corporation is not affected if a CSR communication campaign primarily intends to make profits out of it (Schmit and Röttger, 2011);

in contrast, when corporations try to conceal such self-interest, negative effects are seen on credibility, and consequently reputation (Forehand and Grier, 2003).

By the way, stakeholders also expect corporations' CSR endeavours to be linked to their core business (Haley, 1996).

So, what to do?

Among the many things which should and could be done, I want to emphasize two:

1. **Listen to stakeholders, don't just talk!**
   The better you know the expectations of your stakeholders, the better you will know how to engage in CSR, and the better you will know how to communicate with your stakeholders. "Intimate knowledge of the public agenda and its systematic alignment with the company's specific strategic goals have become prerequisites for successful reputation management" (Langen and Wreschniok, 2010). In addition, you will be showing respect and interest in the stakeholders' concerns.

2. **Follow the involvement strategy!**
   "While informing and surveying is necessary, it is not sufficient. Stakeholders need to be involved in order to develop and promote positive support as well as for the company to understand and concurrently adapt to their concerns" (Morsing, and Schultz, 2006). Companies must "give sense" as well as "make sense" (Gioia and Chittipeddi, 1991), to their stakeholders. You can avoid many reputation risks and even enhance reputation by involving stakeholders in the decision making process. Don´t just do good things *for* stakeholders, do it *with* them.

   But be aware. Dialogue with stakeholders may lead to cynicism and distrust when it is "instrumentally and superficially employed" and not "genuinely adopted" (Crane and Livesey, 2003), and "participation without redistribution of power is an empty and frustrating process for the powerless" (Arnstein, 1969).

Last but not least, corporate irresponsibility such as scandals definitely has a strong negative effect on reputation. Keep in mind that a good reputation takes years to build, but only seconds to destroy.

Thank you for your attention.

(The spoken text will prevail in the event of differences).

Your questions and comments are warm welcome:
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