

SOCIAL RESPONSIBILITY: KEY TO BUILDING REPUTATION AND REGAINING TRUST

A POSITIVE REPUTATION IS ONE OF THE MOST IMPORTANT PERCEPTUAL EQUITIES A COMPANY CAN POSSESS. WHILE INTANGIBLE, IT IS SOMETHING THAT YOU CAN BOTH MEASURE AND MANAGE. A GOOD REPUTATION TRANSLATES INTO REAL VALUE BY MAKING YOUR STAKEHOLDERS MORE LIKELY TO ENGAGE IN THE BEHAVIORS THAT BOOST YOUR BOTTOM LINE:

- It makes consumers more likely to buy the company's products or services and recommend them to others.
- It prompts talented employees to join the firm, to stay with the firm, and to give their best efforts.
- It contributes to a strong market valuation and attracts investors.
- It serves as a reservoir of good will, making it easier for customers, media, and other stakeholders to give the firm the benefit of the doubt in times of crisis.
- If there is trust and confidence in an industry, it can advance a responsible regulatory and legislative agenda that in turn creates a more favorable business environment and allows companies to do things needed to be profitable.

This is our eighth report on the topic of corporate reputation over the past decade. It might help to begin by reviewing some of what we have learned before:

In our April 2000¹ edition of *The Wirthlin Report*, we defined reputation as a composite of the perceptions and expectations of all of your stakeholder groups. In order to effectively manage its own reputation, a company must understand the

relative strength of the drivers of its reputation among its relevant Stakeholder audiences. Then it must develop a strategy to bolster those key differentiating attributes among the most influential audiences. We presented the corporate reputation multiplier which quantifies the value of a good reputation

In January 2002² we focused on corporate citizenship, one important aspect of reputation. The benefit of being a good corporate citizen is one component of overall corporate image, with growing potential to increase sales and attract investors. We noted that being a good corporate citizen requires more than contributing money and support to worthy causes. Before those things have an impact, a company must first run a profitable business so it can produce useful products and services, provide good paying jobs, treat employees well, and improve the standard of living in the communities where it operates. We talked about the relative impact of different areas where companies might focus their corporate giving.

In this report, we will update these concepts and introduce a structure for thinking about corporate reputation. As before, we will have a particular focus on Corporate Social Responsibility.

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Now More Than Ever

Drop in public trust and loss of confidence make a strong reputation more important today than ever before

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Building Blocks of Reputation

Many elements contribute to the framework; strengthening CSR can have a dual benefit

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An important part of most companies' strategic planning process

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¹"Maximizing Corporate Reputation," *The Wirthlin Report*, April 2002
²"The Corporate Citizenship Balancing Act," *The Wirthlin Report*, Jan/Feb 2002
both available at www.wirthlin.com/publications

Failure to regain trust can have significant impacts on business. Eighty percent of the public says their view of a company's ethical behavior and practices has a direct influence on their willingness to buy the firm's products.

While we will speak throughout this report in terms of corporate reputation and Corporate Social Responsibility, keep in mind that the same principles apply equally to non-profits, trade associations, and other types of organizations.

NOW MORE THAN EVER

Understanding and managing your corporate reputation has always been important, but two trends make this especially timely right now:

1. Drop in public trust. In general, Americans are usually a bit wary of trusting each other; a trend that has been growing over the past 30 years. A quarter of a century ago, the National Opinion Research Center found that nearly half of all Americans (47%) believed "most people can be trusted." In 2003, that number had fallen to 32%. Meanwhile, a growing majority (60%) said "you can't be too careful in dealing with people."

Recent corporate scandals and malfeasance have served to further erode public trust, particularly toward businesses. When asked to characterize the state of corporate America today, six out of ten Americans responding to a recent Wirthlin survey said things have "pretty seriously gotten off on the wrong track."

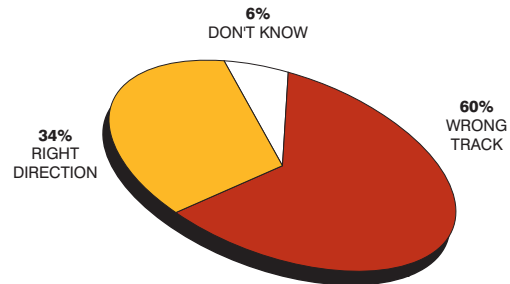
Despite the advent of regulatory measures and the compliance of a well-informed few, most companies are still not doing enough to change the long-standing and bitter perceptions of the public. This was confirmed in a recent study we

71%

OF ADULT AMERICANS FEEL "ONLY SOME" OF THE TOP 1,000 COMPANIES OPERATE IN A FAIR AND HONEST MANNER.

Corporate America on the "Wrong Track"

QUESTION: When thinking about the state of affairs today in corporate America, would you say things are going in the right direction, or have they pretty seriously gotten off on the wrong track?



Base: U.S. Adults age 18+

conducted for LRN, a leading provider of legal, compliance and ethics education and management services (www.lrn.com). That study showed a sizeable gap between the views of business leaders and consumers. Among executives surveyed, 90% say they are very confident or somewhat confident that U.S. companies are now taking the right steps to prevent future financial mismanagement and scandals, and 79% feel "almost all" or "most" of the top 1,000 corporations in the U.S. are operating in a fair and honest manner. In contrast, 71% of adult Americans say that, at best, only "some" of the top 1,000 companies operate in a fair and honest manner.

Failure to regain trust can have significant impacts on business. Eighty percent of the public says their view of a company's ethical behavior and practices has a direct influence on their willingness to buy the firm's products; 76% said perception of the company's honesty would affect their accepting a job; and 74% said these same perceptions would affect stock purchase.

2. Decline in institutional confidence. Concurrently, the last two decades have also seen a gradual decline in public confidence in all of the major institutions of society. In our July/

August 2002³ *Report*, we pointed out how confidence is shifting away from "faceless" institutions, and toward individuals. In particular, consumers are learning to rely on themselves and their own ability to gather information and make decisions.

While no institution has been immune—including the government, media, schools, even charities and organized religion—the lowest confidence ratings have consistently been given to corporations. The last time we asked the question, just over one fourth of all Americans said they have "a great deal" (10%) or "quite a lot" (17%) of confidence in big business. Forty-six percent said they have only "some" confidence in business, while 30% said "very little."

We don't have to look too far to understand the reasons why. Well-publicized incidents of corporate wrongdoing over the past few years have led to a growing demand for corporate responsibility and accountability. Again, our research suggests that American businesses are failing to keep up with rising public expectations.

WHAT DRIVES REPUTATION? A FRAMEWORK

As we step back to review the many qualitative and quantitative research studies we have

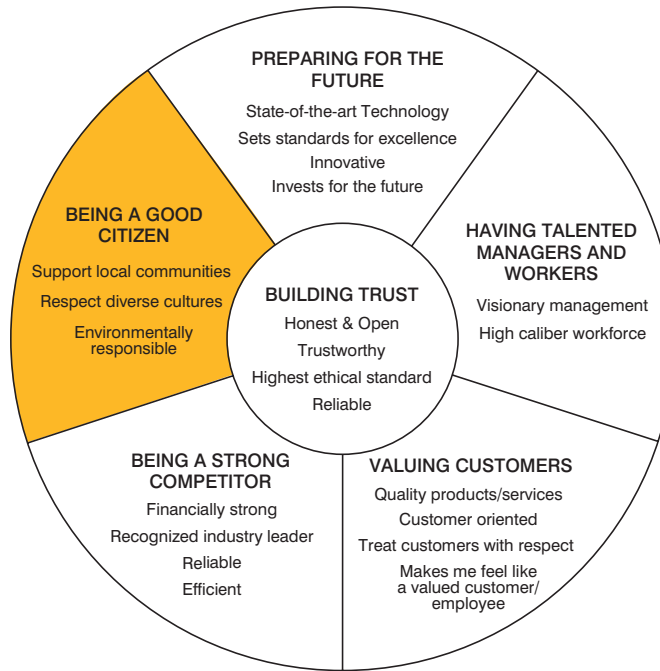
done around the world in the area of corporate and organizational reputation, a composite view emerges. We have grouped the key characteristics that drive reputation into six categories, shown in the chart on the right. While for any given individual company or industry, some of these areas may be more important than others, this broad, overall view provides a useful framework for thinking about reputation and focusing efforts to enhance reputation. We also think it is important for anyone responsible for any of these individual pieces to understand the totality of how they fit together.

At the heart of corporate reputation is trust. Stakeholders must have confidence in the organization and those who lead it. Sound corporate governance is a must. As we have already seen, trust has huge implications on overall reputation and the bottom line.

Five other characteristics round out this picture of corporate reputation:

- First is a vision for the future, along with a strategic plan and an adequate commitment of resources to achieve that vision.
- Capable managers and a talented workforce provide the means to implement the vision and carry out the plan.

Factors Underlying Corporate Reputation



- Next is a focus on customers. The degree to which the enterprise meets its customers' needs will largely determine its stature in the marketplace.
- Financial competitiveness and strength are two tangible traits that solidify reputation.
- Last is being a good citizen, otherwise known as Corporate Social

Responsibility (CSR). Corporate citizenship provides the human face that makes the enterprise more real at a grassroots level, thus influencing its image.

Today's environment of lost trust and confidence makes CSR even more important than usual. By increasing their investment in socially responsible programs, companies can enhance their reputation in a general way. But at the same time, they will be repairing the foundations of reputation by regaining the trust of stakeholders, especially the consuming public.

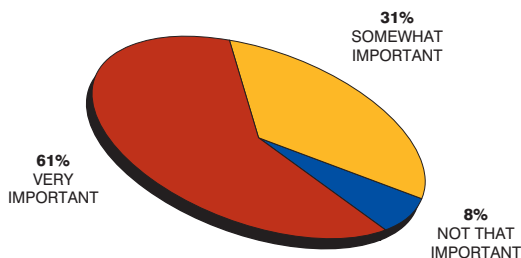


“Buildings, equipment and money in the bank are not the only ways to measure the worth of a company. Ideas, perceptions, and emotions also have value. Time and time again, we have seen how a positive corporate reputation translates into real value on the bottom line.”

Jim Hoskins, Ph.D.
Executive Vice President

Social Responsibility Not an Afterthought

QUESTION: How important is corporate responsibility to your organization's current overall business strategy?



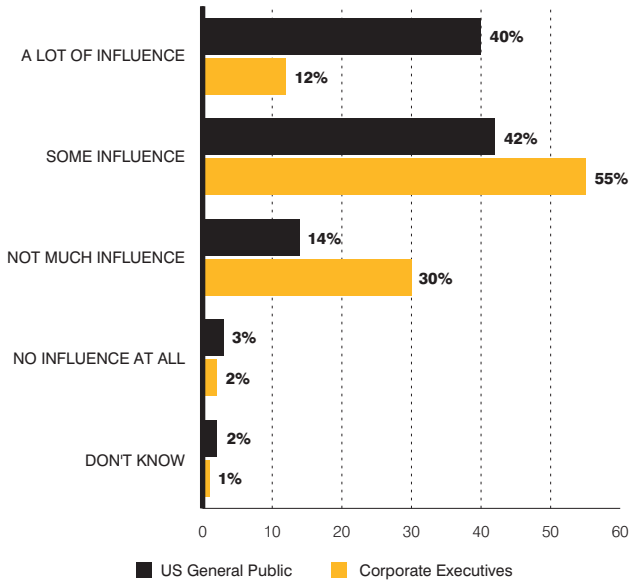
Base: Fortune 1,000 corporate executives

FOCUS ON CORPORATE CITIZENSHIP

Today's business leaders recognize the vital role that Corporate Social Responsibility plays in overall business success. The vast majority (92%) of business leaders we surveyed tell us that corporate responsibility plays an impor-

Corporate Citizenship and the Bottom Line

QUESTION: How much influence does corporate citizenship have on consumer purchase decisions? Would you say it has...



tant role in their company's business strategy, with 61% calling it very important.

Good corporate citizenship enhances a company's reputation and drives value among a number of stakeholder audiences. In particular, it has a direct influence on the bottom line by impacting decisions. In our latest surveys on the topic, 40% of the general public say corporate citizenship has "a lot" of influence on them when they pull out their wallet. Executives do not feel the influence of corporate citizenship on sales is quite as strong, yet two-thirds acknowledge that perceptions of corporate citizenship have at least some influence.

82%

OF THE PUBLIC SAY CORPORATE CITIZENSHIP HAS AT LEAST SOME INFLUENCE ON THEIR PURCHASE DECISIONS.

CORPORATE GIVING

Contributing money and other resources to charitable causes is not the only facet of being a good Corporate Citizen, but it is an important one. The public clearly expects corporations, because of their size and the resources at their command, to "give back" to the communities in which they operate. If your company is planning direct giving, how can that best be spent? By building little league stadiums or retirement homes? By funding a new wing in the local art museum? We asked about a range of possible activities in which a company might become involved, to see if some influence the perception of good corporate citizenship more than others.

As you can see in the chart below, the public appears to value all of these activities about equally. Perhaps where a company contributes is less critical than the fact that they contribute to something. Corporate executives, meanwhile, are more discriminating. In their view, being an environmentally friendly company counts the most toward corporate citizenship. Executives are

reflecting how much power a negative environmental image can have on public and consumer opinion, and thus how important it is in this day and age to be seen as environmentally friendly. In terms of corporate giving, they rank education as the most visible, followed by help with social programs, then health care.

According to our survey, the majority of large companies are already engaged in most of these activities. See the column on the far right in the chart. About eight in ten executive respondents say their company strives to be environmentally friendly, provides products or funds for education, and supports organizations for the homeless or other charities. More than half support health care and nearly half help with computers in the classroom.

To get a better sense of priorities, we posed a separate question, this time forcing respondents to choose just one area of corporate giving where they feel companies can have the greatest impact. Education and healthcare stand out dramatically as the two most important issues to the general public. As we have tracked this

Activities that Contribute to Perceptions of Social Responsibility

QUESTION: I'm going to read you a list of actions, programs, or activities in which various corporations are involved. For each one, please tell me whether you feel this increases a company's standing as a good corporate citizen a lot, a little, or not at all.

(EXECS ONLY): Now, I'm going to read you the same list... This time I want you to tell me whether or not your organization is involved in each.

	Public: "a lot"	Execs: "a lot"	Execs: Involved
BEING ENVIRONMENTALLY FRIENDLY	62%	69%	84%
PROVIDING PRODUCTS OR FUNDS FOR EDUCATION	67%	45%	81%
SUPPORTING ORGANIZATIONS THAT SUPPORT THE HOMELESS AND CHARITIES	60%	31%	79%
SUPPORTING HOSPITAL OR HEALTH CARE FACILITIES	63%	29%	57%
PROVIDING COMPUTERS FOR ELEMENTARY AND HIGH SCHOOL CLASSROOMS	64%	23%	45%

question over the past decade, the importance of health care has steadily risen, which makes sense since the oldest segment of the population is the fastest growing. As illustrated below, the older the person, the more likely they are to value health care. Education is the most important issue among young adults, but its importance declines with age. Meanwhile, environmental concern is low among the youngest and oldest segments of the population, but increases somewhat from age 25-64.

This doesn't mean every company should go out and fund healthcare. The lesson in this: As companies strategize around activities to boost perceptions of corporate responsibility and in turn their overall reputation, they should consider the demographics of their specific target audiences. There is no substitute for knowing your own stakeholder audiences and their perceptions and expectations.

A few simple rules we sug-

gest regarding corporate giving:

1. **Make sure it fits in with who you are as an organization.** You need to find something that fits with your target audience, your core values and reputation, the geographic areas where you and your customers are located.
2. **Concentrate your giving.** No organization has the resources to give to every worthy cause. There is some value in concentrating your giving rather than getting too dispersed.
3. **Promote judiciously.** You need to decide how much to promote your corporate giving efforts. Some promotion is not bad, but don't overdo it.

ONE SIZE DOES NOT FIT ALL: SPECIAL CASES IN CSR

While some general principles of Corporate Social Responsibility apply to all types of organizations, the specific approach you take toward cor-

porate citizenship depends on which industry sector you are in, the focus of your enterprise, and even where you are in the world. Let's look at a few special cases:

CORPORATE SOCIAL RESPONSIBILITY IN A "ZERO TOLERANCE" INDUSTRY

We began by talking about rising public expectations for corporate performance and social responsibility. In our work with industry associations, we have seen this phenomenon taken to an extreme level which we call a "zero tolerance" environment.

This is where an industry, usually one that is highly regulated by the government, does such a good job reducing risk that they create a very high level of public expectation. Energy, airlines, food safety, and health care are examples of zero tolerance industries that are broadly integrated into American society.

A zero tolerance environment requires management strategies to evolve and adapt to the additional expectations created by the organization's success. Zero tolerance organizations may not realize that crises find them not because of flawed business practices or poor leadership, but as the result of their own positive reputation. For the general public, who takes their products and services for granted, this means that frequently the industry is only in the news when there is a threat to the health and safety of a community, a performance failure or a perceived failure in trust.

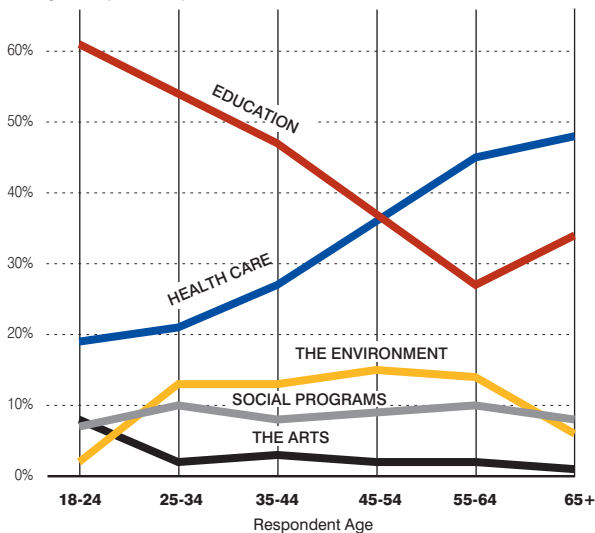
During a time of crisis, organizations will likely get more ink and public attention than at any other planned period of marketing or public outreach. As a result, zero tolerance organizations must have communications plans in place and must act more quickly than

A zero tolerance environment requires management strategies to evolve and adapt to the additional expectations created by the organization's success.

Priorities for Corporate Giving Vary by Age

QUESTION: Private corporations support many different activities that benefit their communities and they also contribute time and money to a variety of worthy causes. But if you had to name just *one* area, where do you feel corporations can have the *greatest* positive impact?

Percent who say corporations can have the greatest positive impact in this area



Base: U.S. Adults age 18+



“Not surprisingly, our research shows that non-profit stakeholders value the same fundamental organizational leadership traits that many for-profit shareholders desire.”

**Justin Greeves,
Vice President**

would otherwise be expected from those with such a strong record of performance. The zero tolerance context and the leadership demands on the organization create a situation where initial investments in pre-emptive strategies provide long term returns.

We have identified four primary elements that we recommend to successfully operate in this zero tolerance environment:

1. **Be prepared.** For zero tolerance organizations, a crisis is always looming around the next corner. These organizations are often judged on the speed and nature of their response to the crisis rather than how it originated. How the crisis is handled in the first few days is more telling to the public than any other action taken during its resolution. The organization must have a dynamic plan in place to handle the next crisis, and should see crisis as a pattern that can be managed rather than an arbitrary activity to which their organization is reacting.
2. **Model community response.** By placing representatives on the ground, interacting with community leaders and influencers, and conducting public opinion studies, organizations can create a profile of attitudes in communities where they are looking to operate. Knowing the perceptual lay of the land before starting initiatives in a given community will allow organizations to pre-engineer their communications efforts.
3. **Build a corporate model.** Decide on the message and position that the organization wants to communicate to external stakeholders and invest the resources to implement that organizational vision at all levels. We call this “convincing the CEO and committing the CFO.” By convincing the CEO we

mean developing buy-in at the highest levels of the organization that communicating with the public is an imperative for growth. By committing the CFO we mean ensuring that the funding is provided to support that commitment.

4. **Be a personal model.**

Employees are the single-most potent examples of their company's communication philosophy. While the corporate vision may take shape in the Board room, it comes to life through the personnel in the field and those interacting with members, donors, and others on a daily basis.

SOCIAL RESPONSIBILITY FOR NON-PROFIT ORGANIZATIONS.

The idea of being a good citizen also translates to the non-profit world; in fact it is fundamental to the way non-profits are judged by their supporters/donors. Americans have a strong culture of giving to organizations that “do good” and, in fact, nearly three quarters (72%) of households gave to non-profits in 2002. However, what happens when non-profits don't “do good,” or are caught pursuing activities or policies that are perceived not to be in the best interest of society or their own mission?

Few donors receive the benefits of non-profit services, but many are keenly attuned to what they hear about their favorite charity in the news. A recent wave of scandals, misdeeds and sometimes opaque policies has led to an erosion of trust in these organizations. Non-profits used to simply get the benefit of the doubt from their donors, but in today's world of full disclosure, an ever-growing pool of non-profits, over-extended charitable regulators, and increasing media scrutiny, non-profit practices are frequently put under the microscope by their own stake-

holders as well. In our last measurement of institutional confidence, charitable organizations rank above corporations, but are on par with Congress and below the Church, the Presidency and the US Military. This erosion of trust has made the non-profit sector much more aware of the need to be transparent and accountable to their own donors and members. Interestingly, our own research shows that individual donors cite economic downturn and non-profit misdeeds in equal magnitude as reasons why they may give less to non-profits in the future.

Many donors view non-profits as simple organizations that have the knowledge to direct donated resources where they are needed most to solve social problems. Donors often see these organizations as a “pass-through” where some money is allocated for overhead to run the organization and the remainder goes to programs and services that help others. However, donors sometimes fail to realize that non-profits have become more complex organizations, adopting “business like” structures and often partnering with other non-profits and for-profits to both “do good” and identify new opportunities to generate revenue that will further their own missions and make them more stable and sustainable. These partnerships are seen as “good citizenship” by the corporations and a good source of financial support for the non-profits. But what makes the right kind of partnership for both organizations?

Not surprisingly, our research shows that non-profit stakeholders value the same fundamental organizational leadership traits that many for-profit shareholders desire: vision, trustworthiness, caring, reliability/consistency, and the ability to get things done.

Further, non-profit supporters are generally skeptical of corporate partnerships unless they are aligned with desired non-profit outcomes. Therefore, non-profits and for-profits can help each other be good citizens by collaborating in areas where their own missions are aligned. These partnerships are both easily understood and easily accepted by non-profit donors and for-profit shareholders and create a "win-win" for both organizations.

Partnerships that do not further both the non-profit and for-profit missions should be questioned internally before they attract the inevitable external attention from media, regulators and donors.

In addition to creating the right kinds of partnerships, non-profits also need to focus on clearly understanding their own supporters' desires and keeping their supporters informed of their policies and practices. This effort toward transparency sends the message that non-profits are not taking donor support for granted and want to engage donors in an open forum. This openness must go beyond simply reporting what percentage of support goes to programs and what percentage goes to overhead (as required by law) - non-profits must clearly articulate what they do, how they do it and how they manage themselves to ensure continued good stewardship of their donated resources.

CORPORATE SOCIAL RESPONSIBILITY FOR NON-U.S. COMPANIES

How does Corporate Social Responsibility "play" outside the U.S.? From our experience studying corporate reputation and CSR studies in many parts of the world, we have a general sense.

The American public is

highly attuned to the notion of CSR, so corporations in the United States tend to place more focus on this area than those in other countries.

CSR is not as big a focus in Europe as it is in the U.S., but it is growing in significance. Kate Roberts, the head of WirthlinWorldwide's Business-to-Business Consultancy, notes, "The UK marketplace has seen increasing numbers of UK businesses recognizing the importance of social responsibility in engaging their stakeholders at all levels; for example, in attracting the best caliber employees. The latest UK index compiled by Business in the Community has shown an increase of 14% in the number of companies participating, i.e. adopting a systematic approach to managing, measuring and reporting on various impacts that companies have upon society and their environment."

In Asia, Corporate Social Responsibility is not yet on the radar screen for many companies. In a region of the world still regaining its economic footing, many corporations are focused on the basics of running a profitable business. A study of corporate stakeholders in seven Asian countries done for Edelman Asia last year confirmed this. According to Dr. Vincent J. Breglio, Executive

Vice President and director of the study, "Asia has more than share of trademark violations, cheap knockoff products, shoddy goods and services combined with little or no "after sale" service. The key stakeholder audiences of consumers and opinion leaders value highly the "tangibles" of business transactions such as "quality products/ services" and "after sales" service and support. A "good and responsible" company is most often defined by its performance against these criteria. Still, in most countries along the Pacific Rim, two dimensions of public opinion-concern over social welfare issues and concern over environmental degradation-are converging to generate increasing pressure on corporations to "put something back into the community."

CONCLUSION

We have seen that Corporate Social Responsibility is one of the the key building blocks of a strong overall reputation. The specifics of how you approach it depend on your industry, type of organization, and even where you are in the world. By showing that they are socially responsible, companies and other organizations can both bolster their reputations and rebuild trust.



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