CHAPTER 1

MARKET FORCES

In this chapter we will discuss which changes and dynamics define the brand environment and how they impact on brand building.

Branding has evolved through a number of stages over its relatively short history, each reflecting the economic, social and political environment at the time. In the late 1890s with the advent of railways and long-distance product distribution, branding emerged as a way to identify the manufacturer and was largely limited to the use of logos. For the first time, consumers were able to choose from a wider selection of goods from companies outside of their local economy. To cope with this greater choice (and risk), logos were used not only to indicate the manufacturer, but also to signal quality. The industrialisation that followed brought an extraordinary wave of life-changing innovation, introducing new products like the car, the vacuum cleaner, and the electric iron. At this point, it was widely believed that good products sold themselves and advertising's primary role was to make sure everyone knew the product existed. In contrast, the proliferation of consumer goods in post-war USA brought an explosion in consumer choice, but with only incremental innovation. This led to the need to differentiate products, and the focus of branding shifted again, to the communication of superior features, unique ingredients, and their functional benefits.

As real product differences increasingly eroded, companies started to shift their focus from what a product could *do* towards how a brand made the consumer *feel* (emotional benefits), attempting to build emotional bonds with customers primarily through advertising. This sparked a creative revolution in advertising which itself became synonymous with branding. But, with the proliferation of media in the 1950s and 1960s, advertising became ubiquitous, turning consumer excitement into consumer fatigue. Companies had to find new ways to engage with the customer. With the arrival of the Internet, a new possibility emerged: a shift from a one-way communication (company to consumer) towards an interactive dialogue *with* the consumer and *between* consumers.

Branding is about to shift again, and again this is being driven by economic, social and political trends. An unprecedented wave of corporate scandals from Enron to Parmalat, the current credit crisis that is engulfing the financial services sector on a global basis, combined with the difficulties surrounding the current Bush administration in the US, and political and economic repercussions of the 9/11 terrorist attacks have created an environment of distrust. Meanwhile, the globalisation of the economy has led to increasing pressures to outsource business processes in order to take advantage of lower labour and manufacturing costs, particularly in emerging markets. The resulting complex and global supply chains have proven difficult to control, causing more scandals like the massive product recall of Mattel toys manufactured in China, and the exposure of child labour in connection with Gap Inc. in

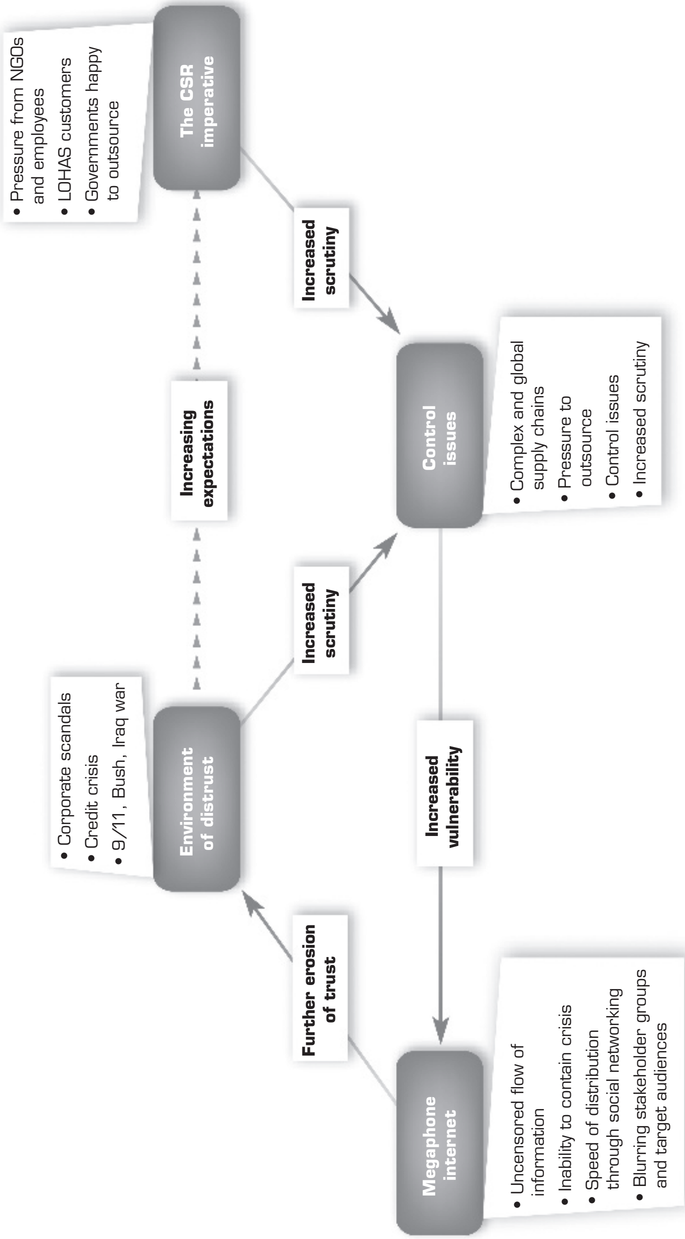

Figure 1.1 Economic, social and political trends calling for the next shift in branding

India. To add further pressure to this dynamic, Web 2.0 has turned the Internet into a giant megaphone that makes it impossible for companies to control information or contain a crisis, further amplifying both distrust and vulnerability. Increasing expectations towards businesses to be environmentally, socially, and ethically responsible create further pressure points and additional control issues, feeding into the cycle (see Figure 1.1).

How can companies build, protect and nourish strong brands in this environment? To answer this, we will explore each of these trends in more detail.

AN ENVIRONMENT OF DISTRUST

An erosion of trust over the past decade has been documented by many research studies.[1] This erosion of trust is most pronounced with institutions that traditionally carried a lot of authority, like governments, politicians, organised religion, and also the media. In the USA, for example, the disputed election of President Bush, the weapons of mass destruction fiasco leading to the war in Iraq, the less than objective behaviour of the media and the profiteering of Halliburton and other insider groups have created an environment of suspicion and cynicism. This has resulted in heightened scrutiny of and lowered expectations towards the integrity and credibility of the political system.

This breakdown of trust also extends into the corporate world, where an unprecedented wave of big corporate scandals like Enron, WorldCom, Parmalat, Tyco, etc. has and still is shaking up the trust of consumers and employees alike. To make things worse, the recent subprime mortgage crisis has demonstrated the

[1] See, for example, the Edelman Trust Barometer, conducted on an annual basis with worldwide opinion leaders, or the World Economic Forum: www.weforum.org

negative effects of our networked global economy, discrediting an entire industry in a matter of days. It did not help that the crisis involves all major financial services brands, from Citigroup to UBS to Deutsche Bank, nor did it help that the prevalent communication strategy seemed to be one of attempted cover-ups where banks were slow to admit to the actual size of their exposure.[2] Unfortunately, this is just another blow to the already eroding trust of customers and employees, leaving them equally disappointed and scared.

Large and global companies seem to evoke particular distrust at the moment. While their dealings and activities have become quite complex and somewhat impenetrable, they have risen to an entirely new echelon of transnational status and power. As their influence has increased to a point where it is perceived as unstoppable, these companies have become the target of the wrath of anti-corporation and anti-globalisation interest groups, who exert pressure to counter the impact of their size and political powers. Through books like Klein's *No Logo*[3] or movies like Joel Bakan's *The Corporation* (which tries to prove that a corporation has the personality traits of a psychopath), this sentiment has entered the mainstream. Today, heightened suspicion and scrutiny of (large) corporations is no longer limited to far-left activists; large global companies have become distrusted by *mainstream* consumers. Books, movies, articles, and blogs that point their fingers to companies like Adidas, Bayer, Nike, Donna Karan or Shell demonstrate – sometimes in a rather sensationalist way – how these popular and well-known brands are involved in exploitative practice – be it child labour, environmental destruction or cruelty to animals.[4] This has further contributed to

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[2] Bell, M., Eine Branche verspielt ihren Kredit, *W&V*, 5, 31 Jan. 2008: 12–16.

[3] Klein, N., *No Logo*, Canada: Alfred Kopf, 2000.

[4] Klaus, W. and Weiss, H., *Das neue Schwarzbuch Markenfirmen – Die Machenschaften der Weltkonzerne*, Berlin: Ullstein Buchverlage GmbH, 2006.

this collective distrust. As a result, consumers now want to know which company stands behind the brands they love and whether they are indeed worthy of their affection and patronage. They start to absorb information about companies that goes far beyond the usual PR and advertising messages. Exposed unethical practice is often the work of subcontractors and other business partners, but it calls to account the entire supply chain.

As far as corporate functions or departments are concerned, finance and accounting are not the only ones that suffer from eroding trust. A particular lack of trust has plagued marketing for a long time, fed by empty promises, exaggerated claims, and wrong information. It is only natural that as a result, people have become more suspicious, more alert and more aware. For example, people have started to scrutinise products for suspicious ingredients (e.g. food is searched for E-numbers and carcinogenic agents) and country of origin tags (e.g. "Made in China" has developed a bad, if not feared, reputation for toys due to the Mattel/Fisher-Price scandal, or "Made in India" labels on clothes have developed unpleasant associations with unethical labour standards). Companies are examined with a fine-tooth comb for their business practices (e.g. Walmart has a bad reputation for paying low wages, having no health insurance and putting small shops out of business), media for their hidden agenda (e.g. Michael Moore, in his movie *Fahrenheit 9/11*, paints an interesting picture of how the relations between the Bush family and FOX media might have played a pivotal role in George W.'s election), political parties for their integrity (e.g. Hillary Clinton has been exposed to increasing amounts of criticism for accepting donations from the pharmaceutical lobby), and so on.

So who do we trust at this point in time? One group that has been able to steadily build trust over the past decade or so in most countries is NGOs. They seem to carry many characteristics of what is considered trustworthy in the current environment. They are deemed to be highly authentic, based on a strong belief system, directed at solving pressing issues of public concern or related to a good cause, and they are seen as truly independent from the "system", thereby willing and able to do what is right and to expose what is not. Interestingly enough, the latest Trust Barometer[5] shows some signs that trust in businesses (but not governments) is starting very slowly to reverse the negative trend. At the same time, NGOs for the first time are showing a slight decline in trust. One can't help but wonder if these two movements are the result of the latest trends in CSR – namely, the increasingly common practice of corporations to partner with NGOs, thereby improving the trustworthiness of businesses and decreasing that of NGOs.

Companies that are most likely to thrive in an environment of distrust are companies that are built on a strong ethos, like the old Body Shop, Ben & Jerry's, and Green & Blacks. However, many of these trustworthy companies have been bought up by large global corporations, leaving consumers and employees even more concerned: will they all sell out eventually?

Why is this universal breakdown of trust significant?

This universal breakdown of trust in the many authorities we assumed infallible is attacking one of the fundamental principles of branding. Brands are built on trust, without trust they cannot operate and survive. However, if trust is no longer a given, brands need to go back to the basics and start to rebuild this trust. Rebuilding trust is not possible through advertising or any other means of image creation alone, but requires that the brand is lived *inside out*. This means that a small set of values that drive the brand are embedded into every action and decision the company takes.

[5] Edelman Trust Barometer, 2008, accessed: http://www.edelman.co.uk/trustbarometer/

CONTROL ISSUES

Pressures to leverage cost advantages through outsourcing and moving production to countries with lower cost structures have become proliferate and intense. However, companies are finding it difficult to develop operational models that allow them to adequately control all aspects of the resulting complex and geographically dispersed supply chains. On the one hand, they now have to deal with a multitude of different cultures in terms of work ethics, skills, languages, and business conduct, as well as a patchwork of different rules and regulations. On the other hand, they struggle to impose a multitude of standards and guidelines on their employees, contractors, and subcontractors, which are impossible to enforce despite all good intentions.

Not surprisingly, identifying and addressing supply chain risk has become an issue of high priority not only for big global corporations, but also for medium-sized companies that have decided to take advantage of international opportunities. A 2006 research study on risk management conducted by Accenture[6] found that 73% of companies experienced supply chain disruptions in the past five years and 94% indicated that the disruption affected profitability and their company's ability to meet customer expectations. But things can get much, much worse. For example, in August 2007 Mattel, the American toy company, decided to recall a large number of their Fisher-Price toys because of dangerous lead paint found on their toys made in China. A couple of weeks later, hazardous lead paint was found on their Sarge toy cars, and potentially lethal magnets were discovered in the dolls of their Barbie line, all made in China, resulting in more product recalls. Yet by the end of the month, more lead paint was found on further toy lines (GeoTrax, It's a Big World, and Barbie), making a third

[6] Malone, R., Risk is Top Priority, *Forbes* magazine, 15 Nov. 2006, accessed: http://www.forbes.com/2006/11/15/risk-accenture-management-biz-logistics-cx_rm_1114accenture.html

recall necessary in the course of only one month. In total, almost 20 million toys were recalled, giving the company a huge wave of negative publicity and emotions. As Mattel found out, there are few things that outrage the consuming public more than those presenting danger to its children.

Mattel responded in a way that is often chosen by large companies in such situations – they put a face to the issue by making their CEO, Bob Eckert, the focal point of all communications. Eckert apologised in a personal video featured on the Mattel website, he gave numerous interviews, and he publicly discussed the problem and outlined key steps taken towards solving it. While these activities will hardly offset the damage done to the Mattel brand, they will at least provide damage control. Admitting mistakes, taking responsibility and, most importantly, demonstrating that the company will do whatever it takes to rectify the situation are all part of the hard work required to regain trust; but there is also another part that is about transparency and accessibility. Since the recalls, Mattel has been inundated not only with questions from parents and retailers, but also with requests for interviews and additional information from academics, journalists, researchers, etc. While this is creating additional stress points in already turbulent times, it is nearly impossible for Mattel to deny those interested a peek behind the curtains without raising further suspicions or creating a feeling of alienation. After all, the *way* a crisis is handled is often an equally decisive factor in how a company is judged as the crisis itself.

The reaction of leadership to the crisis is the ultimate acid test of what a company is all about and which key values they subscribe to. Eckert is quoted as saying: "How you achieve success is just as important as success itself"[7] – his motto for running Mattel. Therefore, Eckert did not hesitate to make the decision

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[7] Yang, J.L., Mattel's CEO recalls a rough summer, *Fortune* magazine, 22 Jan. 2008, accessed: http://money.cnn.com/2008/01/21/news/companies/mattel.fortune/index.htm

to call back the flawed toys when in fact there might have been options resulting in less reputational damage for Mattel but higher risks for the children playing with Mattel toys. His focus on doing the *right* thing as opposed to the easy thing is a brave endeavour to position Mattel as a responsible company; unfortunately, not one that is typically rewarded by mass media more interested in sensationalist headlines than a balanced view.

It is important to note that the ultimate responsibility and blame seems to rest with the corporation behind the faulty toys – Mattel – and not the various product brands – Barbie, Sarge or Fisher-Price. This demonstrates that consumers increasingly are trying to get to the bottom of things and hold the company behind the brand accountable.

This case demonstrates the basic dilemma faced by many companies today. Outsourcing production to China or other countries with lower cost structures is often a competitive necessity, but this business practice creates huge risks in terms of quality standards, safety, and of course reputation.

Outsourcing is dangerous for brands because it reduces transparency from the company's perspective and increases the risk of things going wrong. It also places potentially highly important interaction points between the company and key stakeholders in the hands of someone who is not directly part of the company and therefore probably not privy to the same information with regards to company culture, brand promise and expected behaviour. New directions in outsourcing such as bundled services and end-to-end, fully managed supply chains may further amplify these issues.

Lack of control can also come from complex financial transactions or an over-reliance on electronic systems. For example, the latest case of a rogue trader with Société Général has called into question the reliability and transparency not only of their quality assurance programme, but also of their entire high-tech derivatives system. The incident makes experts wonder how one junior trader could have bypassed the entire system and single-handedly caused financial damage of 4.9 billion euros.[8] Of course, the reputational damage is also severe. Not only is the Société Général brand suffering enormously, but there is a negative halo affecting the entire French derivatives industry. The scandal has left many observers wondering how, in an age of alleged financial transparency, an institution of the magnitude and repute of Société Générale could allow such a failure in checks and balances.

Why is this lack of control significant for branding?

Brands represent a promise to their stakeholders and can only thrive when this promise is kept, every time. If companies lose control over parts of their supply chain, they also lose the ability to consistently deliver on this promise, thereby exposing the brand to huge potential for damage or even failure.

CORPORATE SOCIAL RESPONSIBILITY (CSR[9]) – TREND OR REMEDY?

CSR has come to include a vast array of activities, which is probably in part responsible for the confusion and lack of focus that

[8] FT Reporters, The rogue trader who cost SocGen 5bn €, Financial Times, 24 Jan. 2008, accessed: http://search.ft.com/ftArticle?queryText=Societe+general+4.9bn+rogue+trader&y=6&aje=true&x=9&id=080124000758&ct=0

[9] CSR is not a term that seems to be much liked by anyone today. Alternative suggestions have been made from "Social Innovation", to "Good Corporate Citizenship" to "Sustainability" or simply "Good Business". Since an accepted new label has not yet emerged, we will stick with the term CSR for now.

pervades in this area at the moment. The CSR umbrella covers ethical business conduct and governance (labour standards, corruption, product safety); social responsibility and corporate giving (to the local community, the poor in general, addressing the social divide, helping the underprivileged); and currently the concern for our planet and the environment (climate change, water conservation, and "green" in general have topped the CSR agenda). Al Gore certainly has given new energy to the "green" movement, helping to make it a concern for the mainstream and not just that of special interest groups. In summary, CSR embodies ethical and respectful business practices and conduct towards the consumer, suppliers, employees, society, the community, the law, the environment and any other stakeholders.

In order to fully appreciate the spectrum of CSR alternatives, we will briefly discuss its development.[10] Initially, CSR was the strategy of quirky small companies that used their strong belief system as a means of competitive differentiation upon market entry. The early Body Shop and Ben & Jerry's are older examples of this; Patagonia, innocent and Aveda would be their modern-day counterparts. Then CSR was discovered as a tool for companies in certain industries that attracted a lot of negative attention ("stigma" industries); they saw CSR as a systematic way to offset the public's anger and counter any potential reputational damage caused by disasters through good deeds. These industries include, for example, energy and oil companies as well as companies producing toxic waste (due to their environmental impact), the clothing industry (due to exposed unethical manufacturing practices such as child labour or sweatshops), the pharmaceutical industry (due to their failure to supply developing countries with free or cheap medication against highly contagious diseases like HIV/

[10] This section is heavily based on the Special Report on CSR by *The Economist*, Just good business, 19 Jan. 2008.

AIDS), and recently, fast food and packaged food companies (due to their alleged contribution to obesity).

As the various "scandals" fed a growing need for information and transparency, the public started to take a closer look at corporate activities and corporate misbehaviour. Corporations reacted with a defensive strategy and started to produce glossy CSR reports that were meant to demonstrate their good deeds, contribution to society and the environment, and their sensitivity to pertinent related issues. However, the problem with these reports is and was that they are based entirely on corporate self-descriptions and lack a strategic and holistic evaluation of the corporation overall. Not only do these reports focus primarily on the positive social impact, neglecting the negative side, but they also pick and choose which parts of the company to focus on, pointing out, for instance, how the carbon footprint was reduced for one particular business unit.

As it became clearer that CSR could be a new means for the public to gain transparency of corporate actions and behaviour, the pressure to take CSR seriously increased. Special interest groups and activists quickly picked up on this opportunity, becoming more aggressive and also effective in drawing attention to issues by targeting large and well-known companies, some of which might not even have been a primary "culprit" (for example, Nestlé in the global debate for water conservation). The emergence of a flurry of ratings and rankings created further momentum for the CSR boom, playing on peer pressure and competitive comparisons. In parallel, employees started to get excited about the idea of CSR, turning it into a new tool for recruiting and retaining top talent. On the consumer side, the importance of CSR is fuelled by the fast growing LOHAS (Lifestyles of Health and Sustainability) movement which has created a market for goods and services that appeal to consumers who value health, the environment, social justices, personal development and sustainable living. The LOHAS market is said to have grown to $230 billion in the USA alone[11] and the current boom of "green" products ranging from cars (the star being the Toyota Prius) to investments (socially responsible investments are increasing in popularity; most big banks have started to integrate "ESG" – environmental, social and governance issues – into their equity research) speaks for itself. Finally, governments have started to address CSR in legislation, as can be seen, for example, in the UK. The Companies Act 2006 has been designed to bring the regulatory framework for businesses up to date to better reflect the modern business environment. The related UK government site explains: "It enshrines in statute the concept of Enlightened Shareholder value which recognises that directors will be more likely to achieve long term sustainable success for the benefit of their shareholders if their companies pay appropriate regard to wider matters such as the environment and their employees."[12] Since October 2007, quoted companies must disclose information on environmental, employee, social and community matters.

Business schools create the business leaders of the next generation. They have to have their finger firmly on the pulse of time and think ahead how to best prepare their students for the challenges they will face. Recognising the demand for CSR and the associated shift towards a new set of underlying values, they have been adding classes to equip their students for a changing environment with new standards around the positive and negative social and environmental impacts of corporate action. One of the pioneers in this effort is Yale School of Management (SOM) which is taking a fundamentally new approach to teaching the MBA programme, both to better align with the school's distinct mission of educating leaders for business and society, and to become more

[11] Everage, L., Understanding the LOHAS Lifestyle, *Gourmet Retailer*, 1 Oct. 2002, accessed: http://www.allbusiness.com/retail-trade/food-stores/4216653-1.html
[12] www.csr.gov.uk/ukpolicy

relevant to the needs of contemporary managment. Dean Podolny, who arrived at Yale from Harvard Business School in July 2005, with the unanimous support of the Yale SOM senior faculty, decided to retire the traditional curriculum with courses like marketing, finance, and organisational behaviour in favour of an interdisciplinary approach that better reflects the need for complex decision making and multidisciplinary management. The new curriculum trains future managers and leaders to focus on managing external stakeholder groups like state and society, customers, investors, and competitors, as well as internal stakeholders like innovators, operating executives, fund managers, and employees in general. In addition to this major shift towards a multifaceted view of the commercial world, a reinvigorated focus on value-based management was introduced in order to create awareness and sensitivity of expectations and responsibilities among the leaders to be. Dean Podolny explains:

> The focus on values at Yale SOM is not new; it is part of the mission, history, and traditions of the school, demonstrated for example by the fact that SOM is consistently ranked at the top of "most ethical" business schools. But what is new is that business leaders need to have the ability to lead across boundaries. They are operating in an incredibly complex environment that not only requires a disciplined approach to problem solving, but also the courage to take their own personal values into the business. Our leadership development program, for example, helps students to explore and articulate their values and their commitments in small groups of twenty. They get a chance to understand the impact a particular set of values can have on business decisions made.

The new curriculum has been very well received by the MBA students. Not only did SOM experience significantly higher application rates, but also recruiters are rewarding the new programme with heightened interest in Yale SOM graduates. One student explains:[13]

[13] mba.yale.edu

> A lot [of people] would ask me about what was happening at Yale. They'd heard about the changes and were curious. It was through talking with them that I realized how much I've been shaped by SOM's mission to educate leaders for business and society. And I was proud to be a Yale student. I realized that at a table of MBAs from around the world, SOM students will be the voice that seeks to find the balance between what's profitable and what's right.

Today, there is no doubt that CSR is booming; contrary to the prophecy of hard core free marketeers like the late Milton Friedman, who in 1970 wrote an article with a title giving away the main point: "The social responsibility of business is to increase its profit".[14] Clearly, society's expectations towards companies taking on public responsibilities have shifted since then, to the point that virtually no (large) company can afford to ignore CSR any longer. There is very little ambiguity about what the public does see as part of a company's social responsibility – namely, the entire social and environmental impact along its value and supply chain, bringing elements that used to be peripheral or secondary to a brand right into their core. This has not always been the case. Quite famously, Nike was one of the first companies who had to wake up to the fact that the public might care about their work standards when they faced huge public outrage over their alleged connection to child labour in the 1990s.

Today, the exposure of non-compliance with CSR standards can have significant financial and reputational repercussions. For example, the tragic child labour scandal that is engulfing Gap Inc. is deeply disturbing on a human level and confronts the company with a need to address the issue at a fundamental level. Britain's *Observer* newspaper reported in October 2007 that it had found children making clothes with Gap labels in a squalid factory in New Delhi. The undercover investigation exposed how, despite Gap's rigorous social audit systems launched in 2004 to weed out child labour in its production processes, the system is being abused by

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[14] Friedman, M., The social responsibility of business is to increase its profit, *The New York Times Magazine*, 13 Sep. 1970.

unscrupulous subcontractors and quoted the children as saying they were from poor parts of India and had been sold to the sweatshop by their impoverished families. Some said they were not paid for their work.[15] Gap responded quickly, saying the factory was being run by a subcontractor who was hired in violation of Gap's policies, and none of the products made there will be sold in its stores. In fact, they thanked the newspaper for exposing the situation so that they could react swiftly. Gap North America President Martha Hansen was repeatedly quoted saying: "This is completely unacceptable and we do not ever, ever condone any child laborer making our garments. We act swiftly, and quite honestly, I'm very grateful that this was brought to our attention."[16] The fact that there was not even an attempt to blame this on anyone else demonstrates the nature of the current sentiment. Of course, such a reaction also creates expectations. And Gap Inc. – in what appears to be the biggest commitment to ending child labour ever undertaken by a major retailer – is now drawing up plans to label its products "Sweatshop Free". According to *The Observer*, Gap Inc. is working with the anti-sweatshop charity the Global March Against Child Labour to hammer out proposals to tackle child labour in India. The system would closely mirror the highly successful RugMark programme which has largely eradicated child labour in India's carpet industry. As an organisation operating independently of the carpet industry, RugMark certifies that carpets bearing its label are free of illegal child labour, monitoring looms and factories through surprise and random inspections.[17]

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[15] McDougall, D., Child sweatshop shame threatens Gap's ethical image, *The Observer*, 28 Oct. 2007, accessed: http://www.guardian.co.uk/world/2007/oct/28/ethicalbusiness.retail

[16] Brown, H., Gap admits possible child labor problem, *ABC News*, 28 Oct. 2007, accessed: http://abcnews.go.com/WN/story?id=3787304

[17] McDougall, D., Gap plans "sweatshop free" labels, *The Observer*, 4 Nov. 2007, accessed: http://www.guardian.co.uk/business/2007/nov/04/3

While this case also demonstrates the lack of control discussed earlier (much like the case of Mattel and their toy recalls), it also shows the shift in how companies react to such situations. A decade ago, this incident would have hit the news, Gap Inc. might have outsourced all responsibility to the Indian subcontractor along with the production, claiming not to know about their business practices and washed their hands of it. Today, however, it's not that easy for large and well-established brands without severely damaging their reputation and business, partly due to the obvious violation of something that has become expected business standards – i.e. CSR – and partly due to the fact that consumers today are well aware that, despite the complex supply chains, it is ultimately down to Gap Inc. to take responsibility for their actions either by imposing sufficient controls or by moving production.

As a result, CSR has been escalated all the way to the top, right into the boardroom, making CSR a strategic matter. Research shows that CSR has risen dramatically in the priorities of CEOs.[18] But still, as Porter and Kramer[19] point out in their award winning article "Strategy and society", many companies have already spent time and resources to improve the social and environmental consequences of their activities, without realising its full potential. This is partly due to the fact that in their approach they pit business against society and partly due to insufficiently integrating CSR with their specific company strategy. As Arena points out in her book: "Many companies expend much time and money 'giving back' to the community, when really they should first focus on eliminating the damage they create through their most

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[18] "Just good business", a special report on corporate social responsibility, *The Economist*, 19 Jan. 2008.

[19] Porter, M.E. and Kramer, M.R., Strategy and society: the link between competitive advantage and corporate social responsibility, *Harvard Business Review*, 84, 12, 2006: 78–92.

basic business activities."[20] Each company should assess for themselves how CSR fits into their strategic framework, considering all alternatives, the impact, and the skills and competencies present in the same strategic and disciplined way they would with any other strategic programme. One of the core tenets of Porter and Kramer is 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" for businesses and thereby contribute substantially to social progress – if it is treated with sufficient strategic discipline and rigour. Porter and Kramer suggest mapping the positive and negative social impact of their entire value chain in order to focus the CSR activities to best effect: "Rather than merely acting on well-intentioned impulses or reacting to outside pressures, the organisation can set an affirmative CSR agenda that produces maximum social benefit as well as gains for the business." What makes their framework so powerful is the fact that they apply corporate strategy to both, leveraging positive social and environmental benefits and mitigating negative social and environmental impacts with the aim to enhance competitive advantage.

One thing is for sure – if companies do not do this kind of mapping themselves, then someone else will. As transparency, a need for accountability and credibility are reaching new heights, projects like Global Demos emerge. One of the founders, Guido Palazzo, Business Ethics Professor at the University of Lausanne, remarks that understanding and evaluating the social and environmental performance of corporations is quickly gaining interest and relevance. The current situation is characterised by a myriad of ratings and rankings offering non-comparable performance metrics and resulting in a highly fragmented landscape littered with millions of CSR micro-experts all over the world: "What we really need at this point," Professor Palazzo points out, "is a universally

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[20] Arena, C., *High Purpose Companies*, New York: Harper Collins, 2007, p. 13.

accepted standard for measuring the real social and environmental performance of corporations. Transparency can be created by using the same metrics for everyone, and by collecting information that does not solely rely on corporate self-descriptions." This is, however, a daunting task. The current landscape of CSR initiatives and programmes is very diverse and confusing, and to further add to the intransparency of the situation, up-and-coming multinational corporations headquartered from China, India and other emerging markets largely operate in a black box.

Global Demos aims to increase transparency of CSR activities by mapping the social and environmental risks of the entire value chain for both entire industry sectors and individual companies. For instance, the graph in Figure 1.2 shows the value chain of the

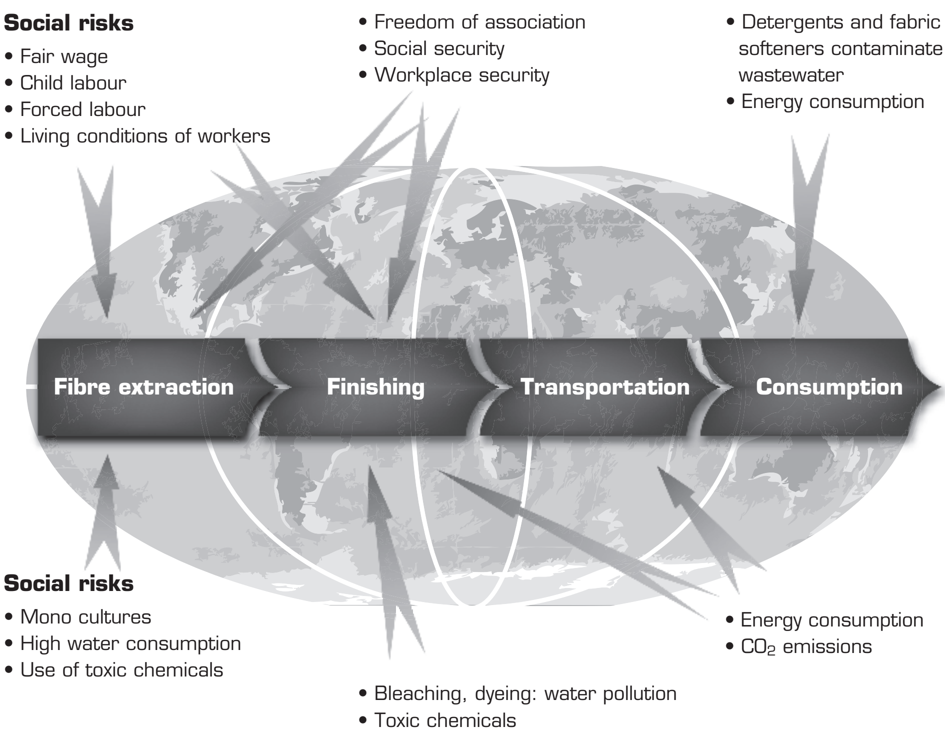

Figure 1.2 Value chain of apparel industry and risks

apparel industry and the social and environmental risks in each step.

The idea is to trace all activities with social and environmental risks. For example, in the phase of "Fiber Extraction", this could refer to anything from work standards, living conditions, and water consumption to the use of toxic chemicals and the impact of monoculture. Palazzo emphasises:

> This project is not about blaming and shaming, it is about introducing transparency into a highly complex network of relationships and interdependencies. At the moment, our main challenge is to feed the system with data. We rely on the cooperation with companies that voluntarily deliver data on their global supply chain and their standards or activities, as well as on NGOs that already have big data bases. In the future, this platform will provide anyone who is interested, for instance consumers, with understandable and comparable information on CSR. And not only for entire industry sectors, but also as it relates to individual products, brands, and corporations. This will create peer pressure. Companies can use the tool as an early warning system, as a benchmark, or for risk analysis. The society as a whole, and local communities in particular, will get access to timely, systematic, comprehensive and reliable data, which can serve as the basis for the development of standards, dialogues, programmes, and educational campaigns.

Why is the issue of CSR significant?

CSR has emerged as a new standard of doing business in the 21st century and therefore needs to be addressed by every brand. However, there is considerable concern that a non-strategic approach to CSR does not sufficiently benefit either the company or society. Equally, there is great danger that companies feel pressured to jump on the bandwagon without proper consideration of brand impact, thereby setting themselves up for creating expectations the brand cannot deliver.

THE INTERNET MEGAPHONE

We discussed earlier how CSR might be seen as a new way to gain transparency into the actions of corporations. But the strong focus on CSR has also resulted in a shift of responsibilities for social and environmental issues from the public domain into the corporate world. This is quite interesting, especially when we consider everything we observe about the breakdown of trust. Would we rather have Apple and Google save our planet than the government? And why? Most companies did not volunteer to take on these issues; on the contrary, they may feel burdened and pressured by it. Is it simply that the mounting issues have reached "emergency state" and corporations are ultimately seen as more skilled, more effective and more efficient in addressing them than an increasingly toothless public policy driven by bureaucracy and sidelined by power struggles? Well, that may be one reason. But we believe the key driver is the increased transparency and the shifting control over information in favour of free content flow which allows the public to hold corporations hostage and exert pressure in a way they could never do with governments. This dynamic represents a new system of checks and balances. Leverage is gained through fear of reputational and financial damage, making it easier and more effective to pressure (global) corporations to address the mounting issues of public responsibilities than a patchwork of national governments. We believe this shift has not occurred because the general public places any more trust and good faith in corporations than it does in the government, but because it has an uncensored, non-intermediated and unmistakably clear way of voting in this arena – with its money.

This shift of control over information has been made possible by the Internet. The Internet has dramatically changed the way information can be accessed, managed and controlled (or rather not controlled). Consumers are talking back to brands, consumers are exchanging their opinions and experiences with each other in unfiltered forums, and single opinions of highly vocal individuals (e.g. bloggers) reach large audiences with unprecedented speed. Web logs (short blogs) have given vocal individuals a means to express their own views and opinions in whichever form they find convenient, and many of the blogs have started to draw significant audiences (so much so, that advertisers are trying to sponsor them now). This mainstream emergence of bloggers occurred over a very short time period, as can be seen by the following quote from Henry Jenkins, the influential MIT professor of media and popular culture, from his 2002 article about the "exotic species" of bloggers (note the "us" versus "them" stance):

> Like cockroaches after nuclear war, online diarists rule an Internet strewn with failed dot coms. [. . .] Bloggers are turning the hunting and gathering, sampling and critiquing what the rest of us do online, into an extreme sport. We surf the Web; these guys snowboard it. Bloggers are the minutemen of the digital revolution.

Today, of course, Henry Jenkins has his own blog (entitled "Confessions of an Aca-Fan" to be found at www.henryjenkins.org) and blogs have become a mainstream marketing tool used by celebrities, politicians, academics, and, of course, companies; as blogging has become more and more proliferate, it has decreased the power of mainstream media and has lent previously unheard-of powers to uncensored voices. While these voices may or may not be objective or driven by a certain agenda, they are amplified by the instant nature of the Internet, allowing information to spread across the entire globe in virtually no time at all. A famous example concerns the US bike lock producer Kryptonite whose reputation for producing "safes" for bikes was compromised by an amateur video shown in a blog featuring how hilariously easy it was to crack the lock.[21] According to the blog search engine

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[21] Löwer, C., Digitale Mundpropaganda. *Die Zeit*, 20 July 2006, accessed: http://www.zeit.de/2006/30/Blogs

Technorati more than 1.8 million users were informed in just one week, eventually causing mainstream media to pick up on the story. Kryptonite did not react at first, but eventually had to make a product recall to save face. *Fortune* magazine estimates the damage to be around $10 million.[22] As we can see from this example, blogs can frighteningly quickly "spread the word" and create transparency among interested parties beyond established media. Unfortunately, negative information is often seen as much more newsworthy, therefore potentially creating a situation where brands (and corporate reputations) are at risk of getting severely damaged.

Another technology that facilitates the flow of uncensored information is Web 2.0 or social networking. People are more and more connected through a multitude of online communities and social networking sites, be they for professional purposes or fun, be they very stable or more ephemeral. The emergence of sites like MySpace and YouTube have pushed this idea to new limits, creating an enormous library of written information and videos on almost any topic imaginable. Already the Cluetrain Manifesto (www.cluetrain.com) had pointed out that in the networked economy it will become increasingly difficult to maintain "false" images, and this was a long time before the technology had become so sophisticated. Websites that invite employees to share information, like www.vault.com or www.internalmemos.com, have given employees' voices unprecedented amplification, rendering the term "internal" communication an oxymoron. As a result, it becomes increasingly more difficult to separate audiences, resulting in blurring and dissolving boundaries between stakeholder groups. This in turn creates a situation where messages might not always reach or stay contained within the intended

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[22] Kirkpatrick, D., Why there's no escaping the Blog, *Fortune* magazine, 10 Jan. 2005, accessed: http://money.cnn.com/magazines/fortune/fortune_archive/2005/01/10/8230982/index.htm

audience. Coupling these developments with the current political and socio-economical context will make it very clear that this ability to get "the inside track", "the real story" or the unadulterated truth addresses a deep rooted need to get information from more than one (trusted) source. While traditionally established media would have been seen as a sufficiently trustworthy authority, the aforementioned breakdown of trust on many fronts, including mainstream media, has made the consumer suspicious. Triangulation of information, a desire to get to the bottom of things, and importance accredited to (assumingly) independent sources are characteristic of the current environment and made possible by the Internet.

Consider, for example, the much discussed controversy Unilever has been embroiled in recently.[23] Unilever, a large consumer goods company, operates what is call a "House of Brands" strategy. They own a large number of product brands which are tailored to the unique needs of the customer segments they are meant to serve. These product brands are the key point of reference in the interaction with the customer, resulting in the fact that "99 out of 100" people are not aware of the entire stable of product brands owned by a single company. Unilever's Dove product brand has been praised for its socially responsible approach to the sensitive topic of marketing female beauty products. Their "campaign for real beauty" exemplifies Dove's social awareness of the impact of beauty marketing on young women and hence has focused on showing women with more "normal body types" in order to boost women's self-confidence. Dove has won several awards and prizes for their courageous stance and to many people stood for an "authentic" brand. However, Unilever incited controversy and became the target of heavy criticism when Dove

[23] See, for example, Neff, J., Viral draws heat from critics, *Advertising Age*, 26 Nov. 2007.

launched a viral video campaign entitled "Onslaught", showing a young girl being bombarded by beauty ads and images including plastic surgery and eating disorders and concluding with the line "Talk to your daughter before the beauty industry does". While the video was well received initially, soon bloggers, news reporters and special interest groups discovered and then shared that Dove is owned by Unilever who also owns Axe, a deodorant brand targeted at young men and displaying exactly the type of young, sexy, supermodel-type women in their ads that are being condemned in the Dove video. As a result, Unilever is accused of hypocrisy, the credibility of the Dove campaign is undermined, appearing to many now as just another marketing gimmick. Also, a large portion of consumers now know about the connection between Axe and Dove, making it more difficult for Unilever to operate both brands credibly. To make things worse, one advertising expert was so intrigued with the whole dilemma that he created and then launched on YouTube another viral video that inserted Axe ads into the Onslaught video, ending with the line "Talk to your daughter . . . before Unilever does". This Dove/Axe mashup video received a lot of attention, was shown on CNN news and further amplified the whole controversy and brand damage for Unilever and its product brands.

In summary, the Internet has played and will continue to play a key role in making companies more transparent, simply by bypassing conventional media with all its various forms of control and censorship and by giving employees, customers, and other stakeholders a voice that can easily be heard by a large number of people within a very short period of time. As a result, attempts to cover up incidents, to deny things that actually happened and to "spin" things are less likely to succeed at this point. On the contrary, they will most likely make things much, much worse. For many companies, this "unwanted" transparency is difficult to deal with since it represents a new situation that radically departs from the traditional way of presenting a company.

Why is the emergence of this transparency and instant amplification significant?

As brands struggle to deliver on their promises to their stakeholders, any empty claims, exaggerations, misbehaviours and inconsistencies will most likely be spotted and shared with a large number of people, potentially destroying brand equity very quickly. It also becomes more difficult to contain information and to effectively separate audiences. As more information and more diverse points of view are shared with large audiences very quickly, greater transparency will result, ultimately forcing companies to take the brand promise beyond a communications exercise and to embed it into their every action.

We will now discuss how companies have started to react to these trends in Chapter 2.