

## Special Reports:

### Consumer protection: Reputational risk – Respect customers and retain their business

Ben Cooper  
5 Feb 09

Corporate responsibility teams must overcome internal barriers to influence the way their companies treat customers

Ask any company who its primary stakeholders are and customers are likely to be high up the list. But the fair treatment of customers has not to date been a major focus for corporate responsibility teams, which have concentrated on areas such as environmental impacts and ethical sourcing.

Things are changing, however. Mounting pressure over marketing and sales strategies in sectors such as energy and mobile phones and high-profile cases of mis-selling in the financial services market have put the spotlight on whether companies are treating customers fairly. Corporate responsibility professionals should have a valuable contribution to make here. Poor sales practices – whether stemming from isolated human error or ill-devised strategies – expose companies to reputational risk, while decisions about how to market and sell products involve ethical judgments.

So as customer care becomes an area of ethical exposure for companies, it is fair to ask what corporate responsibility teams are doing in this area. The immediate answer appears to be not enough, but the reason why is a more complicated question. It seems that many corporate responsibility teams would like to be more closely involved in customer relations but for a variety of reasons are not.



**It's a matter of trust**

## Lack of influence

Upcoming Ethical Corporation conferences & events:

### **UK Anti-Corruption Summit 2009**

2nd-4th February 2009, London

### **The 3rd Annual Climate Change Summit**

17th-18th February 2009, London

### **The Green Supply Chain Summit**

21st-22nd April 2009, London

### **The Responsible Business Summit**

The largest CSR conference in Europe

11th-12th May 2009, London

### **The Global Anti-corruption Summit**

14th-15th May 2009, Washington DC

### **The Future of Anti-corruption Law & Enforcement in Europe**

27th-28th May 2009, Brussels

### **The Global Corporate Responsibility Reporting Summit**

11th-12th June 2009, Brussels

Leo Martin, director and co-founder of GoodCorporation, a consultancy, says most people working in corporate responsibility are “completely excluded” from debates on how to treat customers. He explains: “That whole area is owned by more powerful people in the business than themselves – the sales and marketing functions.”

If concerns raised by corporate responsibility teams are seen to hamper sales staff, it is perhaps no surprise that they meet resistance. That sales and marketing directors have been known to refer to their corporate responsibility colleagues as the “sales prevention team” appears to be far from an urban myth.

In many UK firms, corporate responsibility remains primarily a function of the corporate communications team, Martin says, which limits scope for driving change. "They are often too busy describing what's already there in the best possible way rather than spending their energy trying to change what's there," he says.

In an ideal world, corporate responsibility professionals should be an expert resource within companies, advising all areas of the business, including sales and marketing, on issues such as reputational risk, campaigner activity, consumer opinion and government and regulatory matters, rather than simply being charged with producing annual responsibility reports.

Indeed, one reason environmental issues and ethical sourcing have dominated the corporate responsibility agenda is that companies have focused so heavily on these areas. Firms are not just reacting to pressure over corporate responsibility, they are also helping to shape the public profile of what responsible business means. Keeping the ethical agenda and customer relations apart in this way has, some say, been expedient.

### **Forging closer ties**

However, there are signs that companies are willing to forge closer links between their corporate responsibility teams, and sales and marketing functions.

Nicola Woodhead, head of UK corporate responsibility at Vodafone, says that some of the embedding of corporate responsibility that has been seen in the buying side of the business is now extending to "some of the more customer-facing parts of the organisation as well". However, Woodhead concedes there is still much to do in this regard. "I would say in terms of linking up with customer-facing parts of the organisation we've got a long way to go. We're beginning to improve relationships, make ourselves known, and the value of the ethical dimension, but we've got further work to do," she says.

Like mobile phones, energy companies have been under fire over sales techniques and unfair treatment of customers. David Ferguson, head of corporate responsibility strategy at EDF Energy, says his company looks to take a "systematic, cultural approach" to corporate citizenship with the aim of guiding "the way in which we behave as an entire business". He adds: "The role of our CSR team has been to ensure that everyone understands the moral standards we should respect."

EDF plans to roll out a sustainability training programme to all its employees, while the corporate responsibility team has worked with each business unit to draft a set of social commitments.

Talking of long-term cultural change is all very well, but the constant stream of news about breaches in customer care in sectors such as energy suggests connecting sales staff with the corporate responsibility team should be an immediate priority. Evidence that sales personnel are generally well-versed in companies' ethical values is, however, somewhat thin on the ground.

One of the challenges companies face is that in order to guarantee that ethical commitments regarding sales are honoured all the time, they effectively have to legislate for every conversation between a sales representative and a customer. By contrast, in the buying department, the company has to focus on a far more limited number of negotiations and contact points. Training and the incentives given to sales staff are therefore central to the debate.

Two recent cases underline just how critical this is. In December, UK energy regulator Ofgem fined Npower £1.8m for not taking sufficient action to prevent mis-selling of energy contracts. Npower had failed to take adequate steps following complaints from customers about visits from the company's doorstep salespeople, Ofgem said. While the company had procedures in place to follow up complaints, Ofgem judged that company managers had not been proactive enough in applying and improving them, allowing incidents of mis-selling to go unchecked.

Meanwhile, Phones4U was censured by Ofcom in November last year for breaching consumer protection laws relating to the sale of mobile handsets and contracts. In response, Phones4U has made changes to its sales practices. Specifically, the company has begun sending new customers a text message after their first bill has gone out, asking them whether they are satisfied with the tariff. The idea is to measure “bill shock” and test whether sales staff have misled customers about how much the new contract would cost. Phones4U says it now includes results from these surveys in its performance reviews of sales managers, giving them an incentive to make sure salespeople do not mis-sell.

This may be a positive step but it has come about following intervention by a regulator. Corporate responsibility should be about pre-empting such problems by adopting responsible practices as a matter of course. This is precisely why strong links between corporate responsibility teams and sales departments would be so constructive.

But Martin says the influence corporate responsibility professionals have in sales and marketing in the financial services sector is very limited, going as far as to say that the two areas are “completely divorced” from one another. In the phones market, Martin says the responsible business function is generally managed by communications teams, and while there is some dialogue with sales people, this is “quite limited and quite tense”. In the energy sector, environmental issues tend to take up a lot of the corporate responsibility teams’ time.

The focus when energy companies do think of caring for users is on vulnerable customers. Claire Doherty, external business and community relations manager at UK energy provider Scottish Power, says involvement of her corporate responsibility team in sales policy has increased, and that all energy companies have had to up their game in this regard. But vulnerable customer programmes have to be seen as more than just marketing exercises for companies’ ethical commitments to be taken seriously, she says.

The record of company-based vulnerable customer programmes is “patchy”, says Consumer Focus, the UK’s new statutory consumer rights body formed in October 2008 by the merger of EnergyWatch, PostWatch and the Welsh, Scottish and National Consumer Councils. The use of prepaid meters means the poorest customers in the UK pay more for their energy. Consumer Focus is pushing for a government mandate on poorer customers that would set social tariffs that make energy affordable for poor households across the board.

## **Embedding ethics**

Embedding ethical tenets throughout the business is arguably the core challenge in the pursuit of higher ethical business standards, but it appears that customer relations is one of the hardest areas in which to achieve this.

For Vodafone’s Woodhead, the fact that corporate responsibility teams have had a greater influence in buying than in sales is somewhat ironic. Good customer service, she points out, should be a fundamental business principle. It should be “innate”. Buyers, on the other hand, are there to procure from suppliers, “not necessarily to procure from suppliers fairly”. Woodhead continues: “The intention of the business always is to treat customers fairly. Sometimes with customers we do get things wrong but we look to make amends for that as soon as possible.”

Woodhead goes on to say that that treating customers fairly is vital to the long-term success of the company. This of course is something of a mantra and, particularly when seen in the light of mis-selling scandals and controversy over sales techniques, is sometimes viewed by campaigners as little more than a platitude. But in terms of extending responsible business thinking to sales and marketing, stressing the business case is central.

What customers think of a company is shaped by their experience of dealing with it, which often means conversations with sales staff. The business case for getting sales teams to treat customers in a way that is considered fair would seem to make itself. Such customers are likely to trust the company

more, and be more inclined to come back and spend money with it. Of course other factors, such as what customers think of the products they buy, have a big impact on what they make of a company. And business leaders in sectors where consumer activism or knowledge of products and services is low may yet be tempted to sanction mis-selling, because it seems easy to do so (see Mallen Baker).

Another challenge that companies and regulators face in the area of consumer protection and customer service is that of measurability. According to Doug Taylor of consumer group Which?, finding reliable ways of measuring and tracking how fairly customers are being treated has been extremely difficult.

One of the particular problems in financial services is the long-term nature of the products. As has been found with endowment and pension mis-selling, it often takes years for detrimental sales practices to come to light. Even though consumers are taking ethics increasingly into account when choosing one company over another, Taylor says, there is not really enough information in the public domain to make informed choices, or a sufficient "metric" for comparing companies.

"Consumers might decide to go to John Lewis because they perceive that they're likely to be treated in a certain way by that retailer," Taylor says. "That may be based on some customer experience but their ability to make that decision is drawn from a relatively limited series of information sources."

Not surprisingly, Taylor calls for more "naming and shaming" from regulators but he also notes that communicating and substantiating an ethical sales policy is challenging, as it is so difficult to quantify. Consumers base their decisions to a degree on personal experience over a long period, he says, or because of an abiding impression of good customer service as a proxy for quality that has been established, again, over a long period by many different means.

In this context, recent attempts in the UK by bank NatWest and insurer Norwich Union (now in the process of rebranding as Aviva) to stress their fairness credentials are worthy of note. In December, NatWest announced the launch of MoneySense, a free financial advice service to customers and non-customers alike, while Norwich Union last year introduced a policy of showing customers competitors' motor insurance prices, even when they are cheaper than its own. That policy has just been extended to Norwich Union's home insurance and is a feature of the company's current TV campaign. Both NatWest and Norwich Union clearly feel that a reputation for being trustworthy will give them a competitive edge.

The conundrum of how to measure fairness will be one of the challenges responsible business professionals face if and when they become more involved in debates on how to make sure customers are getting a fair deal. The challenge corporate responsibility personnel face at the outset, however, is gaining any influence over the sales and marketing departments at all. Clearly, corporate responsibility has to step out from a purely corporate communications function, particularly in order to enhance credibility among sales and marketing staff.

Looking at it another way, the treating customers fairly debate underlines how valuable it would be to have corporate responsibility personnel drawn from a wider spectrum of the business, rather than primarily communications and corporate affairs. How much would the credibility of the responsibility team within a company be enhanced if it included former salespeople, or was even headed by a former sales director?

As long as responsible business is seen as primarily an extension of corporate communications, extensive migration from other parts of the business that are considered far more powerful and strategically valued may be unlikely. As with so many issues in corporate responsibility, therefore, the lead has to come from the top.

---

**Subscribe now and get 20% off Ethical Corporation magazine** - your essential guide to global trends in CSR.

Want to read about business and climate change? Then visit [ClimateChangeCorp.com](https://ClimateChangeCorp.com) for free news, analysis and newsletters

---

Write to the **Editor** at [editor@ethicalcorp.com](mailto:editor@ethicalcorp.com).

### © **Copyright Notice**

This article is subject to copyright and may not legally be reproduced without prior consent from the publisher.

If you would like to license EC copyrighted content for your company or clients, please contact Andrew Bold on [andrew.bold@ethicalcorp.com](mailto:andrew.bold@ethicalcorp.com).