

The Sustainability Effect

Arlo Kristjan O. Brady



The Sustainability Effect

The Sustainability Effect

Rethinking Corporate Reputation
in the 21st Century

Arlo. Kristjan O. Brady

palgrave
macmillan



© Arlo. Kristjan O. Brady 2005
Softcover reprint of the hardcover 1st edition 2005 978-1-4039-9171-3

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No paragraph of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, 90 Tottenham Court Road, London W1T 4LP.

Any person who does any unauthorised act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

The author has asserted his right to be identified as the author of this work in accordance with the Copyright, Designs and Patents Act 1988.

First published in 2005 by
PALGRAVE MACMILLAN
Houndmills, Basingstoke, Hampshire RG21 6XS and
175 Fifth Avenue, New York, N.Y. 10010
Companies and representatives throughout the world.

PALGRAVE MACMILLAN is the global academic imprint of the Palgrave Macmillan division of St. Martin's Press, LLC and of Palgrave Macmillan Ltd. Macmillan® is a registered trademark in the United States, United Kingdom and other countries. Palgrave is a registered trademark in the European Union and other countries.

ISBN 978-1-349-54314-4 ISBN 978-0-230-50848-4 (eBook)
DOI 10.1057/9780230508484

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data

Brady, Arlo Kristjan O., 1977–

The sustainability effect : rethinking corporate reputation in the 21st century / by Arlo Kristjan O. Brady.
p. cm.

Includes bibliographical references and index.

ISBN 978-1-4039-9171-3 (cloth)

1. Corporate image. 2. Sustainable development. 3. Social responsibility of business. I. Title.

HD59.2.B73 2005

658.4'083—dc22

2005046323

10 9 8 7 6 5 4 3 2 1
14 13 12 11 10 09 08 07 06 05

Transferred to digital printing 2006

To my parents

Contents

<i>List of Tables</i>	ix
<i>List of Figures</i>	xi
<i>List of Charts</i>	xii
<i>List of Abbreviations</i>	xiii
<i>Acknowledgements</i>	xv
<i>Preface</i>	xvi
1 Introduction	1
1.1 Layout	3
2 The Rise of Corporate Conscientiousness	4
2.1 Introduction	4
2.2 People, the planet and profits	4
2.3 Sustainable Development	6
2.4 The Tower of Babel: Corporate contributions	13
2.5 Change drivers	25
2.6 Demonstrating performance	36
2.7 Summary	42
3 Profiling Corporate Imagery: Seven Competitive Elements	44
3.1 Introduction	44
3.2 Reputation and its alternate guises	45
3.3 The process of image formation	47
3.4 The value of positive imagery	54
3.5 Seven competitive elements	63
3.6 Summary	66
4 A Global CEO Survey	68
4.1 Survey purpose	68
4.2 The sample	68
4.3 Scenario approach	70

4.4	Hypothesis list	74
4.5	Design	74
4.6	Timeline	82
4.7	Choice of statistical analysis	83
4.8	Response profile	84
5	Survey Results and Conclusions	89
5.1	Introduction	89
5.2	Headline results	89
5.3	Hypothesis 5.1	92
5.4	Hypothesis 5.2	94
5.5	Hypothesis 5.3	94
5.6	Hypothesis 5.4	96
5.7	Hypothesis 5.5	97
5.8	Hypothesis 5.6	98
5.9	Hypothesis 5.7	100
5.10	Hypothesis 5.8	100
5.11	Survey conclusions	102
5.12	The other elements	106
6	Strategic Implications	110
6.1	New rules for the new economy	110
6.2	Leadership for sustainability	121
6.3	Partnerships for sustainability	127
6.4	The SME perspective	130
6.5	Global variation	131
6.6	The role of the financial community	133
6.7	List of key propositions	134
6.8	The seven transitions	135
6.9	Implications for further research	139
	Appendices	141
	<i>Appendix 1: The survey</i>	142
	<i>Appendix 2: The year 2001 Global Fortune 500</i>	144
	<i>Appendix 3: Survey confidentiality statement</i>	157
	<i>Notes</i>	158
	<i>References</i>	164
	<i>Index</i>	173

List of Tables

2.1	Key definitions of Sustainable Development	9
2.2	Phrase search on Google.com	13
2.3	Forum for the Future's 'five capitals' and 'twelve features', adapted from their website	17
3.1	Abridged <i>Oxford Dictionary</i> terminology	46
5.1	The seven elements of reputation in order of their perceived future impact on the preservation of a positive corporate reputation – all respondents, shown by individual scenario	91
5.2	The seven elements of reputation in order of their perceived future impact on the preservation of a positive corporate reputation – regional breakdown	92
5.3	Table showing the regional variation in mean EC and SC score	93
5.4	The results of a Mann-Whitney test – establishing the statistical significance of the variation	93
5.5	Data table for Chart 5.2	95
5.6	The results of a Wilcoxon Signed Ranks test – establishing the statistical significance of the variation	95
5.7	The results of a Wilcoxon Signed Ranks test – establishing the statistical significance of the variation	96
5.8	Average scores for EC and SC	97
5.9	Data table for Chart 5.4	97
5.10	The results of a Mann-Whitney test – establishing the statistical significance of the variation	98
5.11	ANOVA regression results	100
5.12	Mean significance scores for FC across all three scenarios	101
5.13	The results of a Wilcoxon Signed Ranks test – establishing the statistical significance of the variation	101
5.14	Data table showing variation in perceived significance of SC and EC with two scenarios	101

x *List of Tables*

5.15	The results of a Wilcoxon Signed Ranks test – establishing the statistical significance of the variation	102
6.1	Potential risk profile for the three response strategies	113

List of Figures

2.1	The pyramidal interrelationship between economy, society and the environment	6
2.2	'The triple bottom line', adapted from figure on SustainAbility's website	14
2.3	The three-legged stool of Sustainability	15
2.4	Spheres of Sustainability, from Sd3 Ltd	15
2.5	Venn diagram showing Sustainable Development as the point of convergence between three circles	16
2.6	'The natural step' funnel, adapted from (Robert, 2002)	19
2.7	The de-construction of CSR – adapted from (Watts and Holme, 1999)	21
2.8	The virtuous responsibility circle	25
3.1	A simplified example of the relationship between identity, image and reputation	51
3.2	The process of individual image formation	51
4.1	Graphic showing the structure of the pre and pilot surveys	76
4.2	Screenshot of the project website	80
4.3	Graphic showing the structure of the final survey	81
5.1	Diagram showing the relationship between each of the 'five capitals'	105
5.2	Diagram showing the relationship between each of the 'five capitals' and the 'seven elements of reputation'	106
6.1	Three future intangible value strategies for MNCs	111
6.2	Firm/stakeholder relationships in the future	118
6.3	Constructing a strong business case on two levels	136

List of Charts

4.1	Nationality breakdown, GF500	69
4.2	Graph showing overall (pilot and full) survey response rate	84
4.3	Graph showing 'usable' (pilot and full) survey response rates	85
4.4	Graph showing breakdown of survey replies pull-out displays regional breakdown of completed replies	86
4.5	Graph showing the revenue distribution of the GF500	87
5.1	Mean significance of reputational elements	90
5.2	Graph showing variation in mean significance of Q, EC and SC across all scenarios	94
5.3	Graph showing variation in mean significance of EC, SC and FC across scenarios	95
5.4	Graph showing variation in overall (cross-scenario) environmental and social scoring: Financial sector v. other sectors	98
5.5	Mean EC score plotted against annual revenue (US\$) with trend line	99
5.6	Mean SC score plotted against annual revenue (US\$) with trend line	99

List of Abbreviations

AIDS	Acquired Immunodeficiency Syndrome
BBC	British Broadcasting Corporation
BP	British Petroleum – or – Beyond Petroleum!
BSC	British Safety Council
BSI	British Standards Institute
Co ₂	Carbon dioxide
CALpers	California Public Employees Retirement System
CARB	California Air Resources Board
CBA	Cost–Benefit Analysis
CBI	Confederation of British Industry
CC	Corporate Citizenship
CBD	Convention on Biological Diversity
CEO	Chief Executive Officer
CES	Corporate Environmental Strategy
CIA	Central Intelligence Agency
CR	Corporate Responsibility
CSR	Corporate Social Responsibility
DDT	Dichlorodiphenyltrichloroethane
DEFRA	Department for the Environment, Food and Rural Affairs
DTI	Department for Trade and Industry
EC	Environmental Credibility
EM	Emotional Connections
EMAS	The Eco-Management and Audit Scheme
ESG	Environmental, Social and corporate Governance
EU	European Union
FC	Financial Credibility
FMA	First Mover Advantage
GBN	Global Business Network
GF500	Global Fortune 500
GM	General Motors Corporation
GNP	gross national product
GRI	Global Reporting Initiative
GSK	GlaxoSmithKline
HBR	Harvard Business Review
HFC	Hydrofluorocarbons

HIV	Human Immunodeficiency Virus
IISD	International Institute for Sustainable Development
ISO	International Standards Organisation
KS	Knowledge and Skills
KPI	Key Performance Indicators
LV	Leadership, Vision and Desire
MNC	Multinational Corporation
NASA	National Aeronautics and Space Administration
NGO	Non-governmental Organisation
NYU	New York University
PA	Personal Assistant
PR	Public Relations
PwC	PricewaterhouseCoopers
RBV	Resource Based View
RQ	Reputational Quotient
SC	Social Credibility
SIGMA	Sustainability: Integrated Guidelines for Management
SMA	Second Mover Advantage
SME	Small to Medium size Enterprise
SRI	Socially Responsible Investment
SUV	Sports Utility Vehicle
TBL	Triple Bottom Line
TDM	Dillman's Total Design Method
TRI	Toxic Release Inventory
TRIPs	Trade Related Intellectual Property Rights
UK	United Kingdom
UN	United Nations
UNCSD	United Nations Commission on Sustainable Development
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
US\$	United States Dollar
US, USA	United States
WBCSD	World Business Council for Sustainable Development
WCED	World Commission on Environment and Development
WEF	World Economic Forum
WRI	World Resources Institute
WTO	World Trade Organisation
ZEF	Zero Emissions Fuel Mandate

Acknowledgements

This book would not have made it out of the confines of my head without the inspiration, insight, help and downright patience of a small group of people. Most of all I would like to thank my family and in particular my sage and sounding-board Dr Alessandra Buonfino. I would also like to extend my heartfelt gratitude to Dr Chris Hope and Prof. Peter Guthrie from Cambridge University and Prof. Rod Aspinwall from the British Sustainable Development Commission.

Special thanks are also due to Prof. Dame Sandra Dawson for giving me the opportunity to interact with the superb group of brains that she has assembled and calls the 'Judge Institute', to Sir Mark-Moody Stuart at Anglo-American for having helped me with my research and provided comments on parts of this book; to Jason, Dan, Ian, Dave, Alex and Evelin at Sd3 for giving me the opportunity to work with them and their clients for the last five years and finally to Dr Paul Ashley and my team at Mott MacDonald who have given me a head start on what I freely admit is a steep learning curve.

Extracts of this book have previously been published and presented at various forums including at the European Academy of Business in Society, the Conference Board, Euro-Sustainability, the Reputation Institute, *CES the International Journal of Corporate Sustainability*, *Ethical Corporation Magazine*, *Corporate Responsibility Management*, the *Journal of Brand Management* and *Sustain Magazine*. I would like to thank the editors and reviewers from the above publications and organisations.

Various individuals have, perhaps unwittingly, inspired me and influenced my thinking at stages over the last three years. I would like to thank Dr David Deephouse (University of Alberta) and Professor John F. Mahon (University of Maine). Dr Kristin Zimmerman (General Motors), Dr Kai Hockerts (INSEAD), Professor John Stopford (LBS), Dr Chris J. Moon (CSR Global), David Vidal (Conference Board), Professor Malcolm McIntosh (University of Bath), Joss Tantram (Terra Consult), Vesa Kangaslahti (Cambridge), Jim Collins, Dr Simon Zadek (AccountAbility) and Andrew Wilson (Ashridge).

I should say that while many individuals have helped me to reach this point, one individual alone is responsible for the content and that is, of course, me.

Preface

Corporate sustainability, responsibility and citizenship are rapidly entering the global business lexicon. Yet despite this there has been little detailed research designed to examine corporate reasoning, response and behaviour. This book is grounded in research designed to address specific aspects of these questions. As such, I hope that its readership will be composed of both corporate decision makers, and also others whose interests lie in research. In particular, I hope that a portion of the readership will be composed of 'sceptics'. In my opinion, to a large extent, much of the current debate about these so called 'soft' business issues is taking place behind closed doors. In many ways it is often portrayed as a quasi-religious confrontation between the 'believers' and the 'disbelievers'. As with all things there is certainly a middle way, and I think that this is where real progress can be made.

This book will show the reader with a business background how to mitigate sustainability related risks and it will highlight some of the opportunities that can be capitalised upon in order to create competitive advantage. In contrast to other works in this area I have not suggested that reputation is a concept to be exploited, rather I have taken a practical approach making it clear that reputation can only be mobilised to one's advantage if one has genuine underlying holistic performance.

For the researcher or academic this book presents the detailed results of a research programme that I conducted over the last few years. On top of presenting the results and conclusions I have also taken care to emphasise those aspects which I believe contributed to its success, and areas where I thought my research technique could be improved.

As a last thought I would like to point out that through the course of my research and consultancy it has become apparent to me that while corporate responsibility and citizenship are controversial topics (hampering their universal uptake) – individual responsibility and citizenship are not. If you are socially and environmentally minded get out there and influence consumption and spending patterns. At the end of the day it is at the grassroots level where the real change truly lies. Don't just blame someone else!

1

Introduction

This book is the result of several years' research that was conducted at Judge Business School, University of Cambridge, between 2000 and 2004. It reflects the findings of a Global Fortune 500 CEO survey, but it also reflects the findings of a literature and practice survey and many of my experiences gained while consulting on sustainability issues for a number of prominent multinational corporations (MNCs).

The book offers a novel perspective on the corporate sustainability debate but, unfortunately, and unlike many others, it cannot claim to offer a clear solution. Over the last few years I have increasingly come to the realisation that this area is a minefield of complexity and dilemmas. It is not black and white, or to use the frequently espoused discourse of the corporate responsibility movement; a galactic battle between 'Good Corporation' and 'Bad Corporation'. I argue that this 'Phantom Menace' debate does little other than to damage the serious business case for sustainability. In reality it is a battle of multiple, and often competing dilemmas that companies and their stakeholders must join forces to resolve. The resolutions will not meet with everyone's approval – but will ultimately help contribute towards the societal goal of sustainable development. Many of the observations, proposals and conclusions that I make in the latter half of this book are based on the results of the survey that I conducted in 2002. The survey employed scenario planning techniques as tools to gain an original and slightly unconventional insight into the perceived future impact of sustainable development on the reputation of large MNCs.

The objective of asking this question was not necessarily to determine the *exact* impact – as due to the number of variables, this would be virtually impossible – but to establish the perception of global corporate leaders.

2 The Sustainability Effect

When interviewed on the television, radio, or when profiled by a newspaper, global corporate leadership can always be relied upon to say the correct thing. Through the usage of a strict privacy/confidentiality statement, the research sought to lift the veil of political correctness – exposing what experienced corporate leaders *really* deem to be the future importance of environmental and social credibility. By determining their perceptions we can expect to gain an insight into the potential direction of corporate sustainability strategy over the coming years.

We already know that a large portion of a company's value is made up of intangibles – various studies suggest that this can be up to 70 per cent of total value (for a review of these studies see Grey, 2001). For business, it is important to attempt to predict how, and to what extent, environmental and social credibility will/could impact this: Through dialogue with global leaders, this research reveals the extent to which corporate reputation is perceived to represent the *fabled return on responsibility* in the near future. It is of critical importance for me to concede that the field of research is young, intensely dynamic and due to its interdisciplinary nature inherently controversial. I was aware of this from the outset.

Bearing this in mind, I believe that the reader should be aware of my background; as a geologist turned environmental technologist turned business advisor, my perspective is not rooted in any one discipline. As a consequence, there are probably aspects of Chapters 2 and 3 that are not as detailed as a reader from a single discipline may expect. This is not a function of a lack of focus nor does it deter from its contribution; it is a deliberate function of the desire to maintain an objective perspective.¹ This is most evident in sections of this book. A traditional literature review would reveal such a level of discrepancy that it would be unintelligible and its practical use would not go beyond a mere encyclopaedic, backward looking, listing. Instead the section seeks to draw together current thinking – focusing on similarities as opposed to differences. New developments, controversies and breakthroughs within what are sometimes competing disciplines are critically discussed and bound together. This process of binding has brought to light several new notions and concepts which are worthy of interest and credence in their own right – not withstanding later, more traditional empirical work.

By contributing an incremental step in our understanding of the interface between business, society and the environment and reputation management it is hoped that the agenda can move forward with greater transparency and perhaps have a greater impact on the mammoth challenge that is Sustainable Development.

1.1 Layout

This book has been laid out in such a way that it is possible to read it straight through from start to finish, or to dip in and out using the contents or index as a point of reference. Without wishing to take away from the importance or interest of the other chapters I would recommend that the busy executive, with little time to spare, concentrates on Chapters 2, 3, 5, and 6.

This book is subdivided into 6 chapters. Leaving aside the introduction, the Chapter 2 addresses the phenomenon that I have termed 'Corporate Conscientiousness'. This phrase has not been used with the intention of adding to the already burgeoning market for acronyms in this field, rather it is an umbrella term that helps to describe a whole set of processes that are occurring at the interface between business, society and the environment. Following this literature, thought and practice review, Chapter 3 uses the same process to examine current thinking and corporate practice with respect to the construction of corporate reputations and imagery. Chapters 4 and 5 go through the methodology, content and results of a unique *Global Fortune 500* CEO survey. The survey used scenario planning techniques as a tool to gain an original and slightly unconventional insight into the perceived future impact of sustainable development on the reputation of large MNCs.

Chapter 6 presents the conclusions of this book in two separate ways. First, I have formulated 10 key propositions. These focus heavily on leadership for sustainability, long-term thinking, communication and partnerships. Second, I have highlighted a number of transitions inherent in the dynamic relationship between today's large MNCs and society (argued on the basis of a combination of the results of my survey with the literature and practice reviews in Chapters 2 and 3). I argue that the successful management of these seven transitions is essential to the extraction of reputational value from sustainability. This conclusion distils each of these directional changes and in doing so, presents a unique, challenging and revealing agenda for business and academia to further investigate/attempt to resolve.

2

The Rise of Corporate Conscientiousness

2.1 Introduction

Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it's the only thing that ever does.

Margaret Mead (1901–78) US anthropologist

This chapter charts the rise and implications of corporate interest/engagement in responsibility. After a brief introduction the theoretical framework underlying Sustainable Development is introduced in its historical perspective. This is followed by a discussion about what Sustainable Development really means to business, paying particular attention to the most popular models of implementation. Subsequently, three primary drivers of responsible behaviour are introduced and examined. Section 2.4 looks at the ways in which companies are demonstrating their responsibility performance and reviews some of the emerging guidelines.

2.2 People, the planet and profits

Profits and principles, does there have to be a choice?

(Shell International, 1998)

People, planet & profits: an act of commitment.

(Shell International, 1999)

A complex question, followed up by a statement of intent. These are the titles of Shell annual sustainability reports – published consecutively for the past seven years.