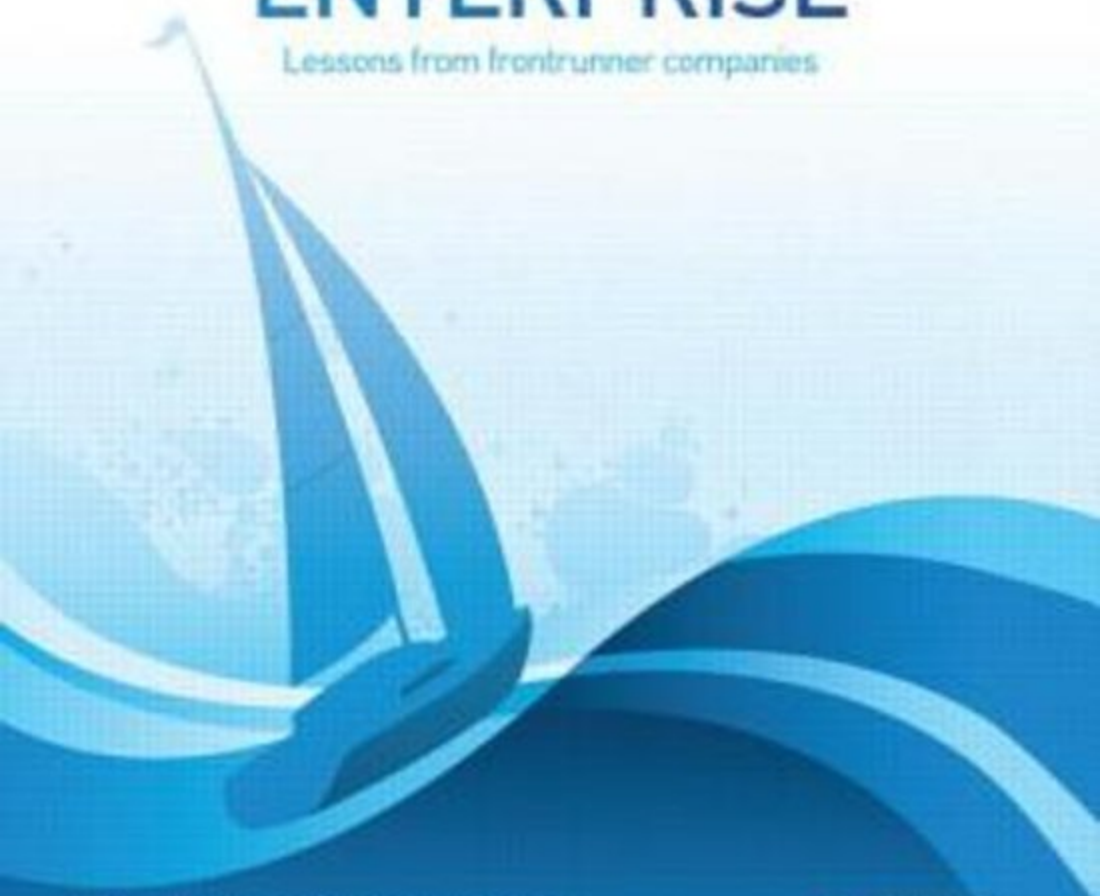


MANAGING THE TRANSITION TO A SUSTAINABLE ENTERPRISE

Lessons from frontrunner companies



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CHAPTER 1 - INTRODUCTION

THIS CHAPTER IN 2 MINUTES

The essentials

- Sustainable enterprise is moving from a luxury to a necessity. The societal need is increasingly clear as is the business case. Great challenges demand far reaching solutions. Companies have a central role to play.
- This book is about how sustainability within organizations can be shaped.
- The book uses a study of 20 large and leading companies based in the Netherlands, spread over twenty different sectors, to find out how they dealt with this process. The book also draws on our own experiences as scientists and consultants.
- The sample of twenty leading companies provide useful instructions for comparable companies around the world, not only because of their sector spread, but also because many of these companies are also global leaders in sustainability.
- This does not mean, however, that these companies have achieved sustainability and thus can be considered 'best practice'. Rather they provide 'relevant practice' because of their frontrunner status [and their willingness to share their experience at all levels within the organization with the researchers].
- This approach offers insights useful to managers in other industries contemplating a transition towards sustainability in their own companies.
- In this chapter we introduce a phase model. The focus is the attitude of companies and their employees towards societal issues and sustainability.
- Later in the book we give examples of successful interventions in well researched companies, taking sustainability to the next level.
- We identify tipping points, transitions after which regression to a lower level of action or thinking on sustainability becomes more difficult, developments that have resulted in lasting change.

1.1 INTRODUCTION

There are bookshelves full of the societal role of enterprise, analyses on how companies should behave, how they actually behave and why things are the way they are. It is a daunting task to add another book to these ranks. We have nevertheless chosen to take up this challenge. After all, rarely has the societal role of business been considered as important as it is today. Societal challenges are more pressing than ever before, and these challenges will clearly affect business continuity. This in turn affects the core processes of the business. How can products and services be profitable and meet societal needs at the same time? This is a challenge for managers: what is expected of me and how is our company perceived in the societal debate and the challenges facing society? What can I do about this as a manager? This is what societal responsible or sustainable business practice is about. What can the private sector contribute to the quality of society as a whole? How can companies' core competencies be applied responsibly to deliver an economically, societally and environmentally optimal contribution? What are reasonable expectations when it comes to minimising the undesirable side effects of business operations, such as pollution and depletion of natural resources? Take, for example, the threat to privacy as an undesirable side effect of the increasing opportunities of the digital world, another societal issue on which companies must make decisions. It is part of Google's daily routine. What should we make of the credit crisis of 2008, which has been traced back to losing sight of realistic, legitimate societal expectations? Spurred on by short term financial incentives, some financial service providers lost sight of reality, inventing creative but opaque loans, mortgages and other risky financial products which in the end shook the walls of the economic system. Seen from this perspective, societal responsible enterprise must be trustworthy, dependable, and above all decent.

Fortunately societal responsible enterprise is far more than this. It is also the quest by companies to use their core competencies to contribute to persistent societal problems. Think of employment agencies recruiting in mosques, teahouses and community centres to improve the position of immigrant youths in the labour market, as well as finding qualified personnel; or an IT service provider that introduces flexible working to reduce unnecessary travel, at the same time improving the position of its service provision; or a financial service provider that takes the initiative in simplifying mortgages, making them safer for both clients and banks. When it comes to sustainable enterprise, the knife often slices both ways, as long as companies look at the problem from this perspective.

This double orientation, simultaneously optimising added societal value and minimising undesirable side effects, is what we call sustainable or societal responsible enterprise. It relates to the core business processes: how can a company use targeted portfolio management, smart innovations and groundbreaking chain initiatives to offer products that are both worthwhile and profitable, which contribute to difficult societal problems? This is not exclusively a moral problem: it is, above all, a question that touches on the concept of continuity. The urgent call for sustainability is a call for change, for innovation towards new products and services, the essence of a company's economic activities. The sustainability movement is in no way exceptional. It represents a very ordinary phenomenon, the essence of business enterprise and the reason why companies in the past have been allowed a high degree of freedom: in order to produce added societal value.

The concept of sustainability is here to stay in the international business world. More and more companies aim for societal influence more broadly conceived than the supply of

products and services suited to their clients. Companies actively study how their operations relate to societal and environmental challenges. They are guided not by what they legally *must* do with respect to society, but rather by the expectations of various interested parties (stakeholders), by what they *can* do. Within the economic framework of enterprise, companies help form a society in which the fulfilment of the needs of the current generations does not infringe on the fulfilment of the needs of future generations. This can be achieved in all kinds of different ways, such as energy saving products, codes of conduct prohibiting child labour, partnerships with non-governmental organisations to pool resources for societal causes, or initiatives aimed at promoting animal wellbeing.

The shaping of sustainable enterprise is also known as Corporate Social/ietal Responsibility (CSR). It cannot be taken for granted. Not long ago societal issues such as working conditions, environment and poverty were seen primarily as areas for government regulation, issues of public interest, controlled by public, democratically designed organisations. If a company fulfilled these legal standards, it could expect societal acceptance. In the sixties, influential economists proposed that the only responsibility of a company was to deliver shareholder value and profit (Friedman, 1962). This was taught at many universities right into the nineties.

In today's society, however, companies are expected to have their own vision for these societal issues. Consumers are more empowered and attach greater value to sustainability, investors recognise its risks and opportunities, and companies come under scrutiny from societal organisations. Rapid exchange of information over the internet and societal media completes the conditions needed for real change.

The attitude of consumers to sustainability is ambivalent and paradoxical. Various companies offer recognisable and prominently positioned sustainable alternatives, trying ever harder to make it easy for their clients to choose sustainability. Purchasing behaviour, however, still lags behind. While we expect companies to prioritise sustainability, consumers still choose the 'cheapest' product instead of more sustainable alternatives (Van Hilten, 2011). This is paradoxical because sustainable products need not be more expensive, but are perceived as such by the consumer. Studies show that consumer awareness of sustainability has grown, but action lags behind (ibid). Nevertheless, thanks to the transparency of the internet and speed of news, consumers observe business behaviour. A negative attitude to sustainability can be expected to result in negative consumer attitudes and behaviour.

Similar patterns are detectable in the business to business market. Companies demand more from one another when it comes to sustainability of products and services. In some cases this is associated with financial rewards. Earning societal appreciation for much further reaching societal and environmental initiatives is more crucial than ever to an organisation's continuity. Where in the past people spoke of a 'licence to operate', this concept is increasingly seen as the minimum standard. After all, permission to proceed with operations is a pretty meagre step in the direction of sustainable enterprise. Sustainability is about societal contribution and reaping the benefits of societal value. It therefore goes beyond compliance.

A series of crises, from food safety to climate change to human rights violations, have hit society hard, making the societal responsibilities of businesses painfully visible. They emphasise the fact that a company's first responsibility is providing products and services which benefit the continuity and stability of both the company itself and society. This is also referred to as the 'value proposition' of companies, while related to its so called 'fiduciary

duty'. Society must be able to trust that promises to clients will be fulfilled, without small print or snakes in the grass. A company with a progressive climate programme for carbon dioxide reduction sells itself and society short if accounting regulations are violated and fraud rears its head in the same head office. This is a question of the full scope of sustainability and integrity: *People, Planet and Profit*.

Growing numbers of business leaders understand this situation. Such leaders decide the societal aspects of their activities based on dialogue with stakeholders, reflect on their roles, formulate goals for issues such as transparency and institute implementation programmes to shape the sustainability of their enterprises. They make product and service innovations, and adjust processes and initiatives targeting their suppliers.

The movement of these companies towards sustainability is often a well-considered strategic choice. Nevertheless the path of transition is not necessarily obvious; it is often full of bumps and pitfalls. Sometimes the trail seems to run cold and it is necessary to take a step back and find a different route. Eventually it often turns out to be possible, and indeed necessary, to pick up speed.

One of the problems in effectively managing this transition is that the academic literature often lags behind societal reality. A clear and unambiguous business case for sustainable enterprise has not yet been formulated. There are no magic formulae; sustainability is context dependent and difficult to replicate from one situation to another.

Despite this sometimes difficult journey, a substantial number of companies have overcome considerable barriers, ensuring that the course of sustainability is irreversible; tipping points have been passed and sustainability robustly anchored. We have a great deal to learn from these companies. Their insights and experiences are valuable to managers and others contemplating a similar task. In order to provide information to entrepreneurs, the Foundation for Management Studies in the Netherlands (part of the national employers' organisation) initiated a study on the paths to sustainability taken by leading companies in this field. In this book we present the insights gained, supplemented with our own professional experience.

TARGET GROUP

This book is intended to help companies and managers interested in the meaning and implementation of sustainability for their own companies. The book is therefore aimed at companies which did not originally set out to distinguish themselves with exceptionally sustainable practices, and which experience sustainability as a process of transition. Niche sustainable companies like the Body Shop or the Fair labelling organisation – that used their sustainability as entry strategy - are sources of inspiration. They have often been the proof that sustainability pays. But they are less useful as reflections on the process of sustainability for other – more established - companies. This book is primarily aimed at large companies which have their foundation in previous periods in which sustainability was not an issue and which often operate at a much more international level than the sustainable niche player. Many of their insights and experiences, however, should will prove to be useful for smaller enterprises as well.

In addition to being a source of inspiration for company managers, this book aims to offer students of vocational and academic institutions insight into transition processes towards sustainability. Students and managers also receive tips on mapping out processes of change towards sustainability.

STUDY GROUP: USING ACTUAL EXPERIENCE

The research used in this book to delineate the managerial challenge for implementing sustainable enterprise, centres primarily around large Dutch companies. The choice for the Netherlands as context in which to consider sustainability transition problems is not by accident. Dutch companies have consistently been amongst the global leaders in sustainability. This can be witnessed for instance by the fact that Dutch corporations *represent the biggest subgroup in so called super sector leaders of the Dow Jones Sustainability Index* – arguably one of the most prestigious benchmarks of sustainability in the world.¹ For this book twenty leading Dutch companies participated in a systematic study, including interview with leading managers as well as a survey of 2779² employees regarding their attitudes to sustainability. Leading questions were: how did these companies turn corner(s), and what was their experience of the change?

In order to offer as wide a range of inspiration and insight as possible, the group of companies researched represents a varied collection of publicly listed and unlisted companies, organisations directed at the consumer market and companies operating in the business to business sector, from different sectors and different links in the chain, companies with headquarters both in and outside the Netherlands (Table 1.1). The companies have all made important steps towards more sustainable business practices. The fact that many of these companies score high on the various sustainability rankings does not necessarily mean that they present examples of *best practice*. In this study, we are more interested in *relevant practice*. The twenty case firms represent relevant practice for other firms in their own sector at national as well as international level. Table 1.1 refers to comparable companies around the globe for which the Dutch example is relevant.

Table 1.1 Characteristics of the 20 companies

industry	Case company of this book	Reason for selection	Comparable companies in other parts of the world
Insurance	Achmea 	Large cooperative insurer, member of global coalition on sustainable insurance	Cooperative insurance companies (so called ‘mutuals’, e.g. Saudi IAIC, AXA)
Catering	Albron 	Largest Dutch catering services company; leading in sustainability	Various (industry is still quite fragmented)
Construction	Royal Bam group 	Largest, most sustainable and international Dutch construction company	Bouygues, Bechtel, Hochtief
Beer	Bavaria 	Small, but international Dutch beer brand	Medium sized (family-owned) beer companies
Carpets	Desso	Most innovative Dutch	Shaw Industries and

¹ SustAinability, a leading thinktank in the area, in a research entitled ‘ranking the rankers’ (2012) has put the Dow Jones Sustainability Index on first spot in terms of legitimacy and reliability vis-à-vis comparative sustainability claims.

² The survey was completed in full by 1936 people and in part by 843 people. Only complete questionnaires were used for calculating stage of development as judged by employees (chapters 6-8); we have drawn on the entire sample for subsidiary questions used for illustration or support throughout the book. For this reason the figures can differ from question to question.

		carpet firm embracing the 'cradle to cradle' principle	Mohawk (USA) for instance
Electric-utilities		Top three sustainable electricity provider	Largest electric utilities in country in (partial) state ownership
Dairy products	Royal FrieslandCampina 	One of the largest dairy producing cooperatives in the world	Abbott, Danone,
Harbor-infrastructure	Port of Rotterdam 	Largest European Harbor, third largest global harbor	Ports of Sjanghai, Singapore, HongKong, San Francisco, etc.
Retail	Hema 	Innovative (medium-sized) food and non-food retailer; privately owned	Kroger, Metro and particularly medium-sized retailers
Airlines	KLM-AirFrance 	Leading French-Dutch airline company; super sector leader in DJSI ranking	Airline companies like: British Airways, Delta, Singapore Airlines
Telecom	KPN 	Largest Dutch telecom company; leading in sustainability	Team Mobile, Vodafone, NTT, China telecom
Rail – infrastructure	NS 	Dutch national railway operator (semi-state-owned)	National railway operator companies (semi-public/private)
Pensions	PGGM 	Second largest pension (retirement) fund in the Netherlands and twelfth largest fund in the world	ABP, Government Pension Investment (Jap), Global (Nor), Calpers (USA)
Electronics	Philips 	Leading Dutch consumer electronics company; super sector leader in DJSI ranking for many years	Sony, General Electric, Samsung, Osram, Foxcom, Lenovo
Banking	Rabobank 	Only Triple-A bank in the world; DJSI ranking leader; cooperative bank	Other systems banks like ING, Credit Agricole, BNP Paribas, Citicorp
Electrical engineering	Siemens Netherlands 	Subsidiary of leading German conglomerate in electronics and electrical engineering; in 2012 Siemens became DJSI supersector leader	Electric and electronic conglomerates: General Electric, ABB, Schneider, Mitsubishi, Samsung
Steel	Tata Steel IJmuiden 	One of the world's largest steel companies;	ArcelorMittal, ThyssenKrupp, Bao steel, Nippon Steel, US Steel, etc.
Installation	Unica 	Most sustainable (medium-sized)	Medium sized installation companies

		installation company in the Netherlands	
Food processing and personal care products	Unilever 	Leading Dutch-British company; 14 years in a row leader of DJSI in Food producers	Nestle, Kraft, Proctor & Gamble, Monsanto, Cargill
Waste management	Van Gansewinkel Group 	Largest Dutch waste management company; innovative in applying 'cradle to cradle' principles	Other waste management companies: Veolia, Allied Waste Industries

The employee survey used for this study, partially repeated the questions used in a previous study with a group of 1000 entrepreneurs in the Netherlands (De Gilder et al., 2009). The employees of the 20 companies studied were noticeably more proactive and positive about societal responsibility, less nervous about investing in societal activities, and on average more positive about investment in sustainability. Throughout this book we use the results of the employee survey to identify and illustrate the relevant transition processes and related points of tension. Tensions can be measured through the perception gaps observable among employees between what they think their company is doing about sustainability and what they think it should (and can) do. The survey is also used to map out a number of new techniques for managers to measure their organisation's readiness for change towards sustainability. These techniques include the issue web, a partnership evaluation technique and mapping internal and external harmonising processes through the phases of change. We have done our best to make the results representative, and have largely succeeded, in terms of gender, age, and job functions. There is a less even spread across different levels of education and positions within companies. People with a higher level of education and those positioned in head offices are overrepresented in the group that filled in the survey. We consider this only a minor drawback because in almost all organisations these people occupy key positions with regard to sustainability. The selection therefore includes in particular the *agents of change* (or stagnation if the transition goes slow) within the organisations.

In addition to the survey, in-depth interviews were conducted with company directors and key figures, the aim being to ask respondents about their experiences on the path to sustainable enterprise, and to gain further perspective on the insights attained. The survey aims to give a snapshot of a company's situation according to employees, whereas the interviews serve to map the route there, more like a film.

DELINEATION AND APPROACH

Societal responsibility is a vast concept, both in breadth of content (from human rights to animal wellbeing, from privacy to substances harmful to the ozone layer) and in depth. A book on societal responsibility and sustainable enterprise therefore requires delimitation; exhaustive coverage is not possible or necessary. This book focuses in particular on offering insights, experiences and interventions to help managers accelerate sustainability within their organisations, taking it to the next level. We aim to sketch the contexts in which these interventions proved affective in the companies studied. This book is also a report on the search for *tipping points*, key moments or small changes which proved decisive in a company's sustainability policy. Sometimes a tipping point is achieved through the entrepreneur's leadership qualities, sometimes through an inspired HR manager, sometimes under pressure from the government or other critical stakeholders, due to market demands or

on the basis of extensive collaboration with other interested parties. Beyond a certain tipping point, relapse is unlikely, or at least more difficult.

STAKEHOLDERS

Interested parties or stakeholders play an increasingly crucial role in the societal evaluation of companies, and therefore indirectly in their financial value. Perhaps in contrast to the past, this is not restricted to primary stakeholders, those with whom the company has a formal relationship, such as shareholders, clients, suppliers, banks, or governments. Over the last few decades the role of secondary stakeholders has become more important as well. These include special interest groups such as trade unions, animal welfare organisations, human rights organisations, societal and traditional media, and all kinds of evaluative bodies. These have also increased their influence. In chapter 5 we look at these in detail. They often play an important role in pushing past a tipping point.

This book also discusses guidelines, protocols, and sustainability benchmarks which were valuable for the companies studied in their journey towards sustainable enterprise. Examples include ISO 26000 guidelines, those of the Global Reporting Initiative and benchmarks and ratings such as the Dow Jones Sustainability Index. We describe how the companies used these, but do not discuss the content of the standards exhaustively. Instead, we point readers to publications in which this information is given in more detail.

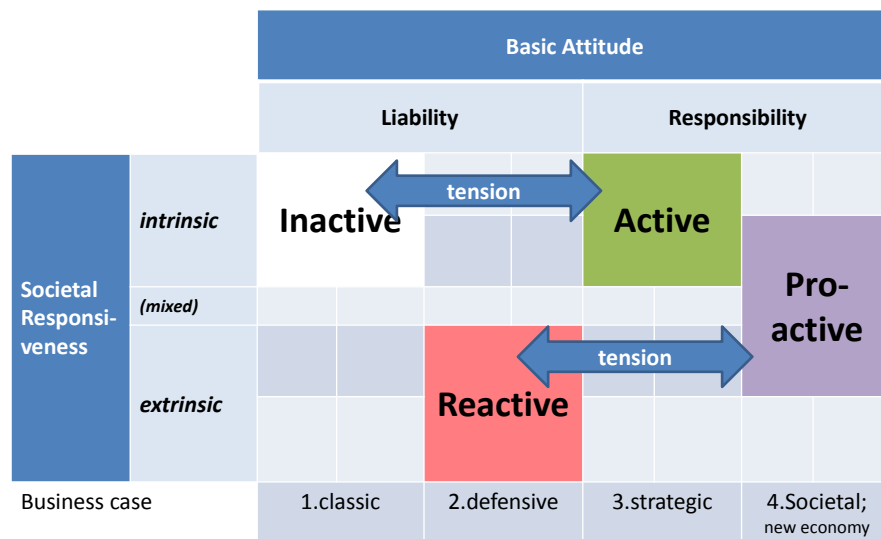
1.2 APPROACH

In our research into the development of sustainable enterprise we employ a phases model. The focal point is the attitude of companies towards societal problems and sustainability. We chose this model because we believe this attitude is an important determining factor for the method and managerial slant by which sustainability is implemented. It affects the perspective from which societal developments are viewed: you only notice what you are already aware of (Cruijff & Winsemius, 2005). The model also allows us to look under the hood, analysing how disciplines beyond the corporate approach are involved and are advanced with sustainable development. The elements of this scientifically tested method make it eminently suitable for offering managers from all sectors and disciplines insights into sustainable development. The model distinguishes between four characteristic phases through which a company moves in terms of attitude and behaviour towards societal contributions (figure 1.1).

There are two key dimensions:

- 1 The measure of societal responsiveness; is the organisation internally or externally oriented when it comes to societal issues? Is the company guided by self reflection and direct business interests, or is it influenced by external voices?
- 2 The second dimension relates to the company's *fundamental attitude*, the basic attitude to societal and societal issues. The poles we distinguish in this dimension are liability and responsibility.

Figure 1.1 Phase model of sustainable development ((c) Van Tulder, 2010)



In the first case, taking liability as the foundation, the legal framework guides business behaviour and effort is mainly directed towards avoiding legal claims arising from societal impact. Where responsibility is the fundamental attitude, the company understands its own responsibility for its effect on society and takes the initiative in fulfilling it. Liability still applies, but it is no longer the point of departure.

For the second theme, social or societal responsibility, the essential point is whether a company is guided by its own images and motivations (intrinsic) or by external influences (extrinsic). Intrinsic orientation means that the company determines its own view on sustainability issues; this can spring from liability or responsibility. Extrinsic orientation depends on the way in which companies view other interested parties as motivation for sustainability. External parties can be seen as a benefit or a burden. The more they are viewed negatively the more companies tend to think in terms of liabilities.

The more external stakeholders are seen as a positive prerequisite for change, the more it is possible to think in terms of responsibilities. This distinction is important in practice. Large businesses with glossy brochures give the impression that they take their responsibilities seriously, but if their promises are defensively motivated by external stakeholder pressure, their credibility is limited (among employees as well as stakeholders). Stakeholders' opinions colour a company's thoughts and actions on sustainability, sometimes driving them to react, sometimes motivating them to be proactive.

Overcoming obstacles

We assume that it is necessary to overcome certain obstacles in order to move between phases. In our study we went in search of these obstacles. Barriers can be overcome by both positive and negative incentives. There is also the issue of internal and external dynamics. We discover that companies that demolish boundaries and pass tipping points, will phase a greatly diminished or even removed chance of relapsing to a lower level of sustainability. In the study

we focused on listing possible interventions managers can use to pass these tipping points; what can they do to demolish obstacles and accelerate sustainability processes?

In general a company is shaken out of an inactive, internally oriented attitude when stakeholders demand it. This is sometimes an amicable process, and sometimes more imposed heavy-handedly. The company's reputation is always at stake. The resulting externally oriented attitude can therefore be termed *reactive*. The reactive phase is one which many organisations must pass through. This is necessary in order to create a sense of urgency and bring the internal stakeholders into line. The problem with a reactive attitude is that it primarily encourages work from the perspective of liability, so that the company does not fully grasp the *opportunities* offered by sustainable enterprise.

Only when intrinsic motivation is directed towards taking responsibility for sustainability do we see organisations tip towards exploiting the full value of sustainability. The lead role can be played by many departments (and their managers) within an organisation, but generally lies with the lead figures on the board of directors. Many tipping points must be passed in order to achieve internal alignment. However, unless the organisation is capable of achieving new balance with external parties, an active attitude also makes a company vulnerable to relapse.

If the process is successful, companies can progress into a new phase. We call this a *proactive* approach: companies come up with an earnings model attached to the resolution of specific societal problems. The decision as to which issues to tackle depends on a delicate assessment of the issues confronting a company directly and indirectly. Primary and secondary stakeholders have an important role to play, sometimes at the root, sometimes further on in the process.

Four phases on the way to sustainable development

The phases towards sustainable development can be summarised as follows:

- *Inactive phase*: companies in this phase are internally oriented and aim to avoid liability (risk orientation and calculation);
- *Reactive phase*: companies in this phase have a reactive attitude to external stakeholders, and still aim to avoid liability;
- *Active phase*: companies in this phase have an active, internally oriented attitude to CSR; they take responsibility for societal issues;
- *Proactive phase*: companies in this phase are externally oriented and aim to take shared responsibility for solving societal problems.

Every phase is associated with a particular vision of the business case for sustainable enterprise and thereby a different perspective on its added value. This applies both to the company as a whole and to the employees. These four phases result in three basic transition phases: from inactive to reactive; from reactive to active and from active to pro-active. Problems often arise because management and employees, or one or other section of the company, turn out to be on different tracks in different phases, making the transition for the whole corporation far from smooth if it happens at all. More on this later.

1.3 THE STRUCTURE OF THIS BOOK

This book is structured according to the phase model described above. We start first with a number of more theoretical chapters that further set the scene (Part I) and delineate the theoretical concepts and present a state-of-the-art overview of the relevant literature (Part II). Chapter 2 elaborates on the idea of sustainable development. What is it, how can the phenomenon be explained, and why is it increasingly important to companies?

Chapter 3 focuses on the arguments in favour of sustainable enterprise. How does it add value and how can companies capitalise on it? We address the *business case* for sustainability; the relevant value domains are those in which the company is rewarded for its actions in this direction. Examples include market share, greater employee satisfaction, or better access to the capital market. For each managerial discipline we indicate the possible value of sustainable enterprise. The chapter then gives the latest insights from the scientific literature. We note that in many functional areas we are far from achieving hard proof on the business case for sustainability. In many areas, thus, we lack an ‘intellectual tipping point’. There is limited clearly validated scientific knowledge of how sustainability delivers added value in practice. This does not mean that the business case cannot be convincing in individual instances as the empirical chapters will show. Chapter 3 also includes the insights of employees of the 20 companies to illustrate whether the business case was really achieved. We list a large number of transitions which can be viewed as tipping points for different functional areas.

In chapter 4 we then discuss the model sketched in Figure 1.1 in depth. What are the behavioural characteristics of each phase and what are the typical barriers between them? Chapter 5 goes deeper into the role of stakeholders. After all, sustainability is a process which takes shape in interaction with external stakeholders. Is a company successful in incorporating societal expectations of its behaviour and affect on society into its strategy, and is it able to shape such expectations? How does one move from agenda to implementation? It is vital to trace expectations explicitly or implicitly expressed by stakeholders. We expand on the different categories of stakeholders and approaches to shaping stakeholder dialogue.

In chapters 6, 7 and 8 (Part III) we provide insight into the way in which companies move through the phases and finally realise the transitions to higher levels of sustainability. We present interventions and efforts which have proved successful in these companies. These chapters are practically oriented.

In the final chapter we look back at the presented evidence on the transition towards sustainable enterprise. What are the overarching conclusions and what is the significance for the future of sustainable enterprise and business life? What challenges should we expect and what opportunities do these offer? Under what conditions can entrepreneurs gain a sustainable competitive edge in the future through smart implementation of corporate societal responsibility?

CHAPTER 3 – THE BUSINESS CASE FOR SUSTAINABLE ENTERPRISE AND THE STATE OF SCIENTIFIC KNOWLEDGE ON TIPPING POINTS

THIS CHAPTER IN 2 MINUTES

The essentials

- This chapter addresses the quest for the 'business case' for sustainability: to what extent can good sustainability policies be shown to contribute to a company's financial performance and continuity?
 - To answer this question we must embark on an intricate quest for four variants:
 - The classic business case: sustainability as a direct motivation for concrete, quantifiable financial gain
 - The defensive business case: sustainability as a means of avoiding financial loss
 - The strategic business case: sustainability as an integral part of the company's long term competitive position and/or survival strategy
 - The societal business case (also known as the 'new economy' business case)
 - This chapter lists the scientific insights into the added value of sustainability for the following functional areas of business:
 - a. financial management and accounting
 - b. marketing and sales
 - c. human resources and personnel management
 - d. purchasing policy
 - e. operations management and HSE
 - f. internal logistics
 - g. public affairs and corporate communications
 - h. R&D, product development and innovation
- More generic areas are additionally discussed:
- i. General Management
 - j. International Strategic Management
 - k. Leadership
- For each discipline we explore elements from the scientific literature which have been found to make the business case for sustainability.
 - The most important tipping points, as indicated in the literature, are listed with each area of management. More than seventy defining tipping points can be identified for the moment. The large number of tipping points illustrates how complex a real transition towards sustainable enterprise is.
 - By identifying the diversity in tipping points, however, the chapter also shows *how* the business case for sustainability can be linked to business models and concrete managerial interventions.

3.1 INTRODUCTION

To what extent can good sustainability policies be shown to contribute to a company's financial performance? To answer this question we must embark on a complicated quest for the so called 'business case' for sustainability: does sustainability pay? *Belief* in the sustainability business case amongst business people is strong, though. In particular consultant studies periodically confirm that the majority of company directors consider sustainable enterprise essential for their company's profitability. It is recognised that for the coming years, major strategic changes in the area of sustainability will be necessary (PwC, 2011). The vast majority of US entrepreneurs for instance believe there is a positive association between sustainability and financial performance (Economist Intelligence Unit, BusinessGreen, 2008).

At the same time we seem to be further from a sustainable society and economy than ever. Almost ten years of soundings among CEOs contribute to the impression that although people believe it is inevitable, sustainable earnings models are not easy to implement across entire companies. There appears to be a considerable gap between sustainable intentions and sustainable practice.

What do entrepreneurs need to convert their belief into action? Can we confirm their belief with facts? What evidence for the economic tenability of such policies can be drawn from the scientific literature? If we not only believe but *know* for certain that sustainability advances a company's continuity, does this accelerate the process?

This chapter does not aim to replace visionary belief in sustainability. It rather attempts to confirm this belief with established insights and scientific facts. For details of the studies discussed, we refer interested readers to the sources, where they can find out more and test the applicability of the generic findings for the situations in their own organisations.

In the research which forms the basis for this book, the majority of interviews with managers show that the choice for a sustainability programme was rarely a numerically calculated choice. More often the company's operations were affected by external strategic developments. In most of these leading organisations these global questions were integrated into a broader development trajectory. Sustainability was an important cornerstone in the renewal strategy; these were reasoned but not calculated choices. Unica, all round system integrator and supplier of technical services, formulated the ambition to become the most sustainable installer and Rabobank made the move towards sustainability part of its vision. Neither had a quantified business case.

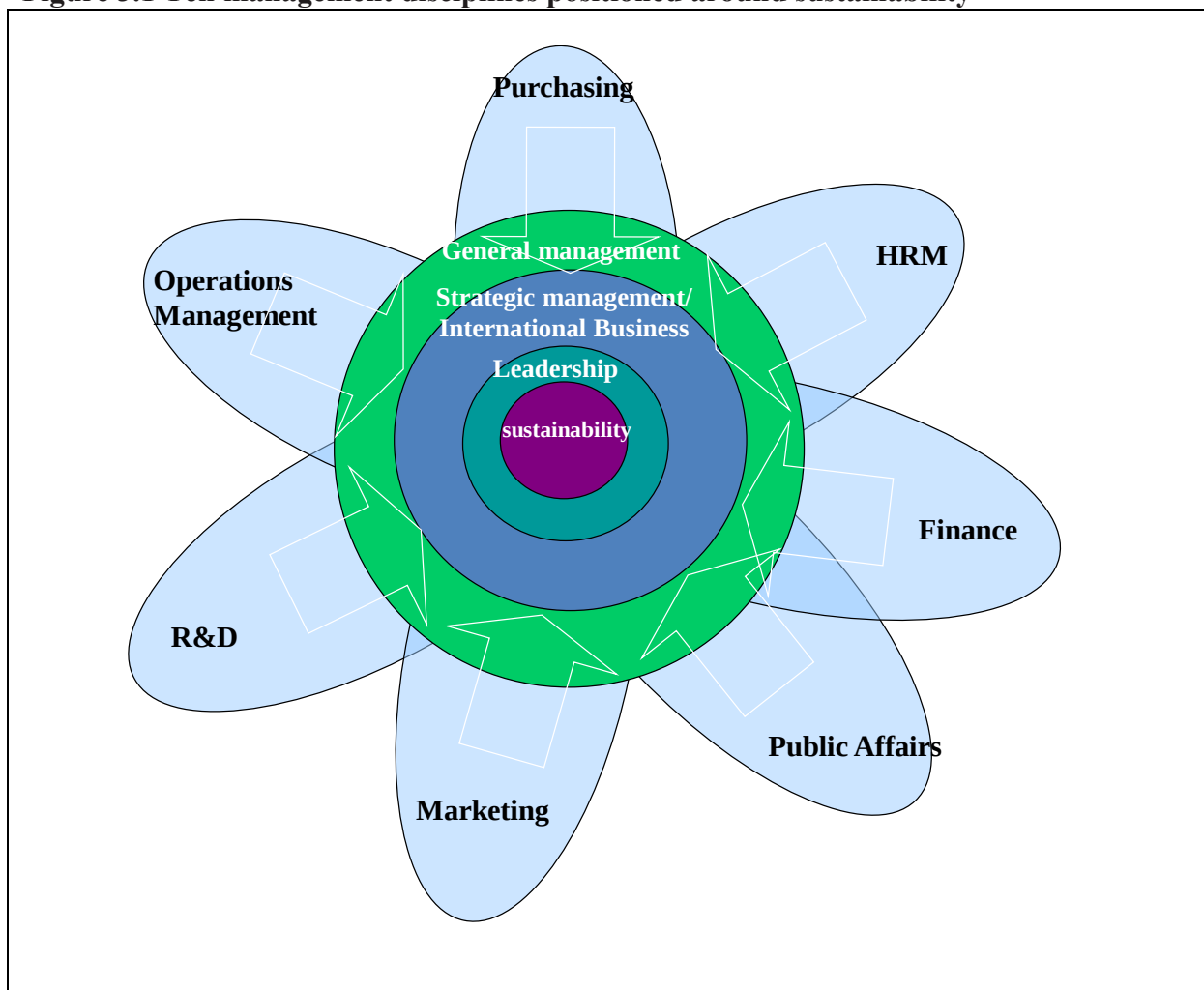
Perhaps the move is a question of leadership, the inner conviction of the directors and managers, who will not be palmed off with isolated arguments. How does the subject reach companies who would prefer to see more rational argumentation? How can a newly appointed CSR manager show that sustainable enterprise will benefit the company sooner or later? This is the subject of this chapter. How do we demonstrate the value of sustainability? What counts as proof that sustainability pays? Are we only looking at whether an investment measure with a large gain for sustainability is paid off in cost reductions within a certain period, or should we take into account the possible gain in reputation? If so, how do we

measure this? Can we count lower recruitment costs as a result of a more attractive employer profile as sustainability earnings and how do we quantify easier entry to the capital market? This chapter lists the scientific insights into the added value of sustainability for the following areas of business:

- financial management and accounting
- marketing and sales
- human resources and personnel management
- purchasing policy
- operations management and HSE
- internal logistics
- public affairs and corporate communications
- R&D, product development and innovation

More general integrative disciplines such as General Management and (International) Strategic Management are also discussed. Figure 3.1 shows how the different subdisciplines are linked.

Figure 3.1 Ten management disciplines positioned around sustainability



Source: © Van Tulder at RSM

In addition to scientific insights, there are of course individual success stories, where sustainability has delivered demonstrable added value in a particular company. Managers and entrepreneurs must analyse how the information we present applies to their own situations. Of course we need to examine the established knowledge regarding monetising sustainability, but it is often equally important to know whether a company can win market share or margin with active sustainability efforts. The two perspectives exist side by side and should be recognised by the individual entrepreneur. This chapter presents the generic insights available. Chapters 6 to 8 sketch how the businesses we studied have built this business case for themselves.

3.2 FOUR TYPES OF BUSINESS CASE FOR SUSTAINABILITY

In every business case costs must be weighed against benefits. Opinions may vary when it comes to categorisation of costs and benefits. Opportunities, risks, investments, depreciation and payback periods all play a part. Sustainability seldom takes place in isolation, further complicating matters. Many initiatives which advance sustainability take place at moments of natural change in organisations (see chapter 4). This makes it difficult to determine the costs and added value of sustainability.

Carpet manufacturer Desso, for instance, decided on a complete strategic turnaround, Cradle-to-Cradle[®], for introducing innovations. Try calculating the added value of this choice. Which costs and benefits can be exclusively attributed to Cradle to Cradle[®]? This is easier in the case of more isolated decisions specifically directed at sustainability. Still a cost-benefit calculation is far from simple. The assessment as to whether to move from grey to green energy is an example. It is easy enough to gain an overview of the costs, but the benefits, in terms of improved image are considerably more difficult to calculate. A major user of soya beans might move to using beans produced according to the Round Table on Responsible Soy criteria; here too the costs are easily calculated, but the benefits are difficult to quantify, let alone assign hard values. The business case therefore depends on the development of relevant indicators, most of which are qualitative rather than quantitative in nature (Carroll & Shabana, 2010).

The search for a business case for sustainability resulted in four basic arguments (Zadek, 2000; Kurucz et al., 2008; Van Tulder with Van der Zwart, 2006):

- 1 *The classic business case*: sustainability as a direct motivation for concrete, quantifiable financial profit (which can be achieved in many different ways, from raising standards among employees, to product innovation or environmental savings). The CSR acronym in this argument implies ‘Corporate Self Responsibility’.
- 2 *The defensive business case*: sustainability as a means of avoiding financial loss (e.g. by building up and protecting the company’s reputation, or avoiding more strict legislation). CSR stands for ‘Corporate Societal Responsiveness’.
- 3 *The strategic business case*: sustainability as integral to long term competitive position and/or survival strategy (reducing dependence on non-renewable resources and directing product development towards societal challenges). Here the CSR acronym gets its most well-known connotation: Corporate Societal Responsibility.
- 4 *The societal business case (also known as the ‘new economy’ business case)*: sustainability as the quest for new synergistic value creation, instilling a positive attitude to learning and adaptation, innovation, risk and opportunity management in a complex, dynamic environment, introducing new earnings models, advancing system transitions and forming partnerships. Now CSR becomes better known as ‘Corporate Societal (or Sustainable) Responsibility’.

If we read the business cases above from top to bottom, our view broadens to take in additional variables. The simplest business case can be made where an investment in sustainability delivers demonstrable financial gain. If there is direct profit from a sustainability strategy, the further implementation of sustainability is simply a question of good management. An investment with a clear sustainability profit which neatly fulfils the company's return-on-investment demands will present no problems, unless this takes up scarce investment resources and must compete with other profitable investments; a Euro can only be spent once. It becomes more difficult when a sustainability strategy, project or individual measure does not pay off within the payback period. What then? The costs of sustainability are often directly visible, the benefits spread over the longer term and often not directly attributable to a single measure.

Direct profitability, however, is no longer the only measure of business performance; other measures include shareholder value, market share, effective risk management, good HR policy, customer satisfaction, brand awareness, reputation and advancement of innovative capacity (cf. Blowfield & Murray, 2011). Is it really possible to make decisions based on cold financial considerations only such as the payback period? At the moment, increasingly important points are a company's changed licence to operate and licence to grow, their societal acceptance, as mentioned in chapter 2. Where it was once sufficient to comply with the law, the stakeholder dialogue and fulfilment of different stakeholder expectations have become the focal points of current CSR thinking. Different stakeholders can have different interests, and all of these should be taken into account. If a company wishes to prevail, it must balance shareholders' interest in profit, employees' need to be able to state proudly where they work and the agenda of NGOs campaigning for interests such as human or animal rights or conservation.

It is thereby no longer a question of choosing a course based on economic or moral reasoning: with increasing transparency and maturity among institutions such as works councils and trade unions, the interests of different stakeholders have become more important and have become part of the business case for sustainable enterprise. When strict financial considerations find no business case for rejecting policies such as child labour, companies can and should do this for other reasons.

3.3 ROLE OF EARNINGS AND BUSINESS MODELS

The business case provides the arguments for implementing sustainability. The earnings or business model specifies how this can be achieved in concrete terms. It is interesting to note the relationship between an organisation's earnings model and the route to more sustainable enterprise. Any economic arguments for sustainability are largely determined by the earnings model chosen.

An earnings or business model describes the architecture of the company's so called value proposition. What are the core competencies, how is the company positioned in chains and markets? An earnings model reflects the generic strategy for creating value for the client and within the organisation. The earnings model is also expressed in the company's portfolio of activities: product-market combinations, countries and chains in which the company operates, how partners interact, the extent of coherence between various activities and the level of centralisation. But also: how do companies earn money? Many companies, in manufacturing for instance, *sell the articles* they produce. This implies that the ownership of the material product goes from the producer to the consumer. In the least sustainable case this sort of earnings model is based not on long term consumer satisfaction but on high circulation speed.

In industries such as toy manufacturing, or fashion and accessories, and to an increasing extent in electronics, we see earnings models based on fast replacement rather than longer-term durability. Many earnings models are set up to reward inefficient use of materials and energy and fast replacement. Historically cheap materials and labour were abundantly available, making this the dominant earnings model. This model appears to have had its day.

Alternatively a producer can sell the *right of use*. The consumer has the product at their disposal for an agreed sum and period, but it remains the producer's property. At the end of the technical or economic lifespan the producer returns the item to upgrade or reuse. This earnings model offers many more opportunities for a sustainable economy, but is only sporadically applied. The transition is difficult. The position of a company in the value chain in part determines its potential to make a fast transition to a new model. Interdependence between partners in a chain can be high. A good example of a transfer to an alternative earnings model is an energy business which starts out exclusively providing gas and electricity, but moves to providing energy efficiency advice, taking responsibility for optimal efficiency. If the energy company can deliver less gas thanks to better insulation, energy savings and cost savings go hand in hand. Is a satellite navigation equipment manufacturer's earnings model based on subscriptions and feature updates or does the company sell as many new sat navs as possible without taking an interest in where they end up? The earnings model influences the opportunities for sustainability.

How an insight into sustainability is implemented is part of the strategy forming process. Niche players use sustainable earnings models to enter the market. Their earnings models are the same as the financial business case, if they have managed to survive. Sustainability has been shown to be a good strategy for entry to an oligopolistic market (Van Tulder & Van der Zwart, 2004). Examples include the rise of The Body Shop in the cosmetics industry or the fast growth of specialised sustainable or ethical banks like the Grameen bank aimed at the provision of Microfinance. Social enterprises provide additional examples around the world of an increasingly vibrant business sector that uses profits for maximum social or ecological impact. Sustainability sets these companies apart from the competition. That is much more difficult with an existing earnings model, originally designed without sustainability in mind. Converting the model takes courage, leadership and conviction because the positive relationship between potential future earnings models and business cases is – in the short run in any case - often more an issue of conviction than demonstrable effects.

3.4 THE SEARCH FOR TIPPING POINTS

Whether a convincing business case can be made for a sustainability strategy or project depends on whether the company is ready for it both internally and externally. There must be sufficient drive to maintain the course of development. Entrepreneurs can choose their role according to how much risk they are prepared to take. Timing is crucial. The path to sustainability is a process of transition. The most important challenge is to make changes and get them to take root.

If transition processes and strategy implementation trajectories are to lead to greater sustainability, insight into so called *tipping points* is of vital importance. Tipping points are critical milestones beyond which the whole system changes. They represent a breakthrough, a notable change after a period of instability and turbulence. A tipping point is also the point at which a new balance is achieved. This generally happens when a certain critical mass is reached (Ball, 2005). Tipping points can manifest themselves internally or externally. They represent a breakthrough, but are not necessarily positive signs. At the start of the nineties the

realisation of the urgency of acid rain was a tipping point; the severity was so clear that strict measures received wide support. A more gradual process can be observed in the discussions on climate change and epidemics. In order to reach a tipping point we need more than just big changes; sometimes very minor factors can make a big difference (Gladwell, 2001).

At the right moment a concept or earnings model can take root to become an irreversible reality. At a given point steady developments become overpowering trends. This should happen when the business case and earnings (or business) model match up. A sustainable business case and a sustainable earnings model can be linked most easily when they are supported by a societal trend. If an activity such as smoking ceases to be ‘cool’, it is much easier to come to an agreement about the rules. Chapter 4 shows how the business case for an issue is significantly influenced by the way it is discussed in the media.

If earnings model and business case match up, efforts towards sustainability fall into line with financial rewards. Examples include construction companies taking responsibility for the use of buildings. Additional investments to make the building sustainable, such as energy saving measures, are earned back because they add value to the property and make it last longer. If the building was contracted by a project developer, the builder would have much less to gain from sustainable features. In chapters 6 to 8 we provide further examples from the Dutch frontrunners group. Case by case we examine what tipping points were passed by each company.

In the following sections we first list the elements which could contribute to the business case as identified by leading authors in each discipline, and how the case can be made for the individual company. Finally we present an overview of the state of knowledge with respect to the value of sustainable enterprise, as seen from different disciplines. At the end of each section we give an overview of the tipping points discovered in the literature.

3.5 FINANCIAL MANAGEMENT

WILL GOOD DEEDS BE FINANCIALLY REWARDED?

The financial business case for sustainability raises the question of the relationship between sustainability and financial performance indicators, such as shareholder value and profitability in the short and longer term. In the literature this relationship is referred to as the relationship between Corporate Sustainable Performance and Corporate Financial Performance (CSP→CFP).

In order to establish this relationship, firstly, we must consider where there is room for improvement. For example, from an economic perspective, how are the energy costs in our company developing and how does that affect cost price if this rises significantly, as predicted? Which shareholders attach value to greater sustainability and are there particular indices where we could usefully be listed. For larger listed companies, for example, the Dow Jones Sustainability Indices could be useful. When it comes to climate, the Carbon Disclosure Project may be relevant. Here companies are allocated scores for their achievements, which in turn are worked into Bloomberg’s advice to investors. This therefore indirectly affects companies’ direction of development.

Carbon Disclosure Project

The Carbon Disclosure Project (CDP) is a joint initiative on the part of large, worldwide

investors collecting data from thousands of companies worldwide about their greenhouse gas emissions, water use and climate policy. On this basis the CDP publishes an annual report to give investors more insight into the course of climate change and the companies in which they can invest. The CDP therefore enables investors to consider company climate policy simply and consistently when making investment decisions. For more information see www.cdproject.net

Interest can also act as a financial incentive. Increasing numbers of banks pay attention to sustainability when making lending decisions. In some cases when a company applies for a loan for a sustainable project, attractive interest packages can be agreed. For banks a good sustainability policy is also an indication of less risk on the outstanding credit, because the company can be rewarded with a lower interest rate. Step one for determining the financial value of sustainability is to establish the areas where it adds financial value.

These areas have also been examined from a scientific perspective. Several factors limit quantitative research (Barnett, 2007), but the research generally finds a positive relationship between sustainability and financial performance (Orlitzky et al., 2003; Margolis & Walsh, 2003; Griffin & Mahon, 1997). There remain considerable inconsistencies in the findings due to methodological problems in measuring sustainability performance. Economically oriented researchers, such as economists, accountants and financial managers, generally find effects only half as strong as those found by more societally oriented scientists, such as those working on ‘business and society’ and business ethics (Orlitzky, 2011; Van Luijk, 2004). It remains impossible to establish what portfolio of sustainability activities makes the best contribution to financial performance (Peloza, 2009).

APPRECIATION FOR SUSTAINABILITY IN THE CAPITAL MARKET

Research into the relationship between societal and financial performance has provided a number of findings: investors who pay attention to companies’ sustainability performance are gaining influence for various reasons. Companies that invest more in sustainability present a lower risk for investors. There is less chance of embarrassing run-ins with societal organisations or sustainability incidents. After the 2010 Deep Water Horizon disaster in the Gulf of Mexico, BP’s reputation hit rock bottom. Apple’s reputation was also stained early that year when it was forced to admit that various suppliers used child labour. From an investment perspective good sustainability policy could therefore lead to a lower ‘risk premium’. However, research shows that this relationship is marginal, with the sustainability profile barely affecting the evaluation of obligations. This means there are few financial incentives in the capital market to advance sustainability.

The rise of sustainable investors has reduced the opposition between shareholder value and value for other interested parties. The proportion of sustainable investments in most countries is small (below 10% of investment capacity), but the share in some funds, such as green investments, is increasing. There are also signs that mainstream investors and analysts are paying more attention to sustainability profiles of businesses they invest in (BITC, 2011). The market for sustainable shares is growing. Sustainability attracts new investors, but the relationship to profit is not clear. A recent British study on the shareholder value of FTSE funds shows that companies which manage their sustainability activities better, scoring higher on the FTSE4Good index, have performed better since 2002 than their less sustainable peers (BITC, 2010). The shareholder value of these companies recovered more quickly after the financial crisis of 2008. The same trend has been found by Swiss agency SAM, which assesses companies for the Dow Jones Sustainability Index. This index systematically

performs better than the regular Dow Jones index. Inclusion in such an index in itself leads to greater demand for shares in a company, since it attracts the interest of sustainable investors as well as regular investors. Logically this will lead to a limited positive effect. On the other hand the highest shareholder value is still achieved by the least societally oriented companies, in areas such as tobacco and arms.

The relationship between sustainability and financial performance is affected by a company's individual circumstances. Scientific research shows that companies with any involvement in societally or societally responsible enterprise, whether it figures highly in their profile or forms a minor part of their activities, achieved better results than other companies. In the short term companies with low sustainability scores did better financially, whereas companies with high sustainability fared better in the longer term (e.g. Brammer & Millington, 2008).

Generally aspects of sustainability cannot easily be analysed in isolation. The effect of inclusion in the Dow Jones Sustainability Index on a company's performance, for instance, is difficult to measure if high unemployment figures in the United States emerge on the same day. No large listed companies can rely completely on sustainable shareholders, but increasing numbers of companies attempt to attract finance from this market. The tipping point in the sustainable investment market has not yet been reached.

ECONOMIC VALUE AS COST SAVING

In certain areas the correlation between sustainability and financial performance is easier to establish. When it comes to the environment there is a strong relationship between ecological and financial performance (Ambec & Lanoie, 2008). Environmental investments often lead to financial savings such as lower energy costs. The financial business case remains strongly classically oriented: some sustainability measures pay, even within the strict payback periods companies set. This kind of analysis is also easier to make at the level of individual projects or policies than for a complete strategy. Figure 3.2 shows that the costs precede the benefits (as can be expected for any investment strategy).

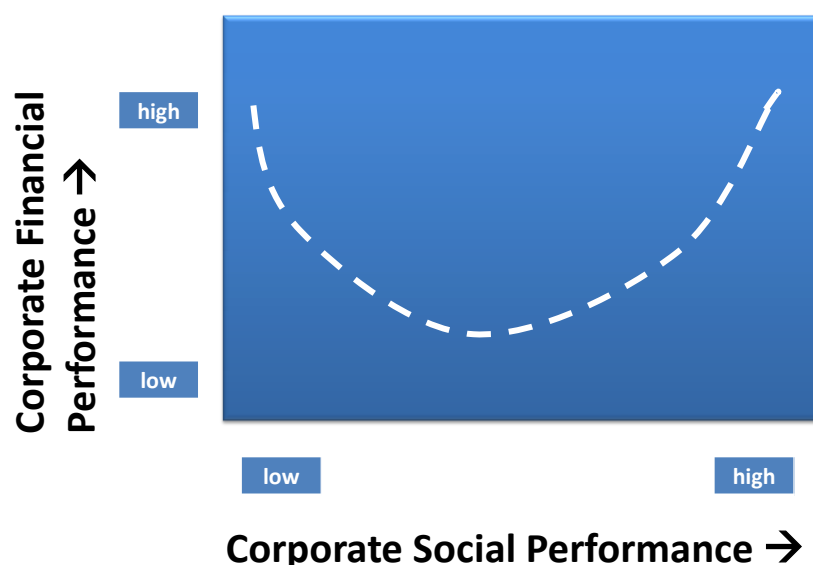


Figure 3.2 The U-shaped correlation between financial and societal performance

The U-shape of the relationship between financial and socially/societally responsible performance is not only found in developed economies. Similar connections can be found in developing markets such as China (Ye & Zhang, 2011). Apparently a higher score on sustainability performance reduces the associated costs.

Companies, however, must pass through a transition phase in order to be able to profit fully from their integrated efforts towards sustainability. Just as in other investment projects, sustainability requires an initial phase of investment. It is only in later phases that we find a transition from low to high rewards. The costs precede the benefits. In the transition phase there may be a negative effect on profit, but this is part of a return-on-investment trajectory to higher stages of sustainability. Lower financial results from investments in sustainability may either be an indication that the investments are not paying off, or that this is a phase of transition. It is also difficult to determine how long this phase will last.

This leads us to conclude that there are still no models to map the transition or allow us to calculate financial consequences uniformly. Based on insights in the literature, we can define a number of tipping points which must be passed in order to make sustainable enterprise a reality (table 3.1). Entrepreneurs wanting to move towards sustainability must work out whether they can make steps in this direction with their own organisations.

Table 3.1 Financial tipping points

From shareholder value to stakeholder value (Peloza, 2009)
From bad to good, longer term stakeholder relationships
From low to high involvement and share of sustainable investment funds
From quarterly profit (and reporting) to longer term profits (and reporting)

3.6 MARKETING AND SALES

Does sustainability sell? This is the core question for marketing and sales. Is it worth emphasising the sustainable characteristics of products and services in marketing materials? Do users appreciate this, or does it make them suspicious?

Every marketer knows that the number of claims that can be communicated for a product is limited and that different features compete for attention. Is sustainability a unique selling point worth prioritising above other communicable features? This is not just a question of marketing. Account managers must make the sale a reality; do they see opportunities to emphasise sustainability?

In the business and consumer markets companies are introducing more sustainable products and services into their ranges, often with higher retail prices. Companies are trying to make it easy for the customer to choose the sustainable option. Philips, for example, has long had the 'Green Flagship' product category. Increasing numbers of companies opt not to give the customer a choice. For instance, Dutch supermarket Plus went from offering a limited range of fair-trade bananas (1% of total turnover) to 100% fairtrade. Similar examples can be found among large retailers in the UK, such as Marks and Spencer. In the past the argument was always that customers would go to a different retailer, but in practice that turns out not to be the case. At Plus banana sales increased. UK retailers' customer loyalty rose. The more positive effects are created, the easier it is to implement a competitive price strategy.

Sustainable does not need to be expensive, as long as it is paired with proportional advantages.

The challenge for marketing and sales is to work out the extent to which specific market conditions offer opportunities for sustainable profiling. How can you research this question? It can help to start by investigating what your competitors are doing; both regular competitors and niche providers. The sustainable banks showed the large financial establishments that sustainable banking can pay, spurring them on to add sustainable products to their portfolios. It can also be useful to conduct customer research. Try investigating what clients want in terms of sustainability. You might suddenly find demand is on the up. The next step is to ask customers directly: what do they expect from suppliers now and in the future? This can be achieved through interviews or surveys and quantitative research. It may be that the extent to which a customer expects sustainability from a company largely depends on whether they associate a product with a particular issue. For instance the automotive industry competes on CO₂ emissions because everyone knows that cars contribute to climate change. Sustainability also takes a stronger hold among products which come 'close to the consumer', such as food, toiletries and clothing, perhaps due to an assumed relationship between sustainability and health. By systematically answering these questions a company can analyse the market value of sustainability for its own field.

But can it be proven that systematic sustainability efforts pay off in the market? We touch on a few studies to answer these questions.

SUSTAINABLE BRANDS

Marketing generally boils down to a chicken-and-egg question: should a company wait until demand arises or generate demand by putting a product on the market? The more expensive a product is, the greater the risk that it will be restricted to a niche market. The tipping point for sustainable marketing is only reached when sustainable products become mainstream. Marketers must always question whether customers are willing to pay a higher price for ethically produced goods. A series of experiments indicates that they are (Trudel & Cotte, 2009).

At the same time it is known that survey respondents often indicate a preference for sustainable products which is not borne out by their actual purchasing choices. The wallet rules. The number of consumers really prepared to pay a higher price for sustainability is notably smaller than the percentage claiming to consider it important. There is a difference between the individual as a citizen choosing sustainability as a collectively desirable trend, and as a consumer choosing the lowest price. This attitude is exemplified in the ambivalence of air travellers, for instance: KLM customer research among frequent flyers on the Flying Blue scheme shows that they consider the environment very important and that something must be done about it, but that they are not prepared to pay for it.

Equally important is the finding that consumers punish companies which are not seen as ethical by expecting lower prices. This relationship is asymmetric: the penalty is higher than the premium consumers are willing to pay. This means that companies do not need to be 100% sustainable to compensate for the negative effect and receive the premium. A variety of companies have successfully introduced a sustainable product line which makes it easy for customers to choose sustainable products, without the entire range being sustainable.

It also appears that the advantage of sustainability depends on the extent to which consumers appreciated different features. Ethical values are more important for 'soft' products, such as cosmetics, clothing and food, whereas they are less important for 'strong products' (Luchs et al., 2010).

Further positive connections have been found between marketing and sustainability. For example, sustainability raises a company's resilience in the face of negative information (e.g. Peloza, 2006). Compared with a reputation for classic marketing values such as being customer friendly or delivering quality, a reputation for sustainability has a larger effect on consumers' willingness to ignore negative information. This is confirmed by the fact that sustainability contributes to a sense of wellbeing among consumers, with positive effects on market position (Bhattacharya & Sen, 2004).

The more 'institutionalised' a sustainability programme, the higher the customer loyalty (retention of existing customers) they inspire and the less consumer scepticism (Pirsch et al., 2007; Stanaland et al., 2011); as in research among investors, authenticity is shown to be important. Promotional activities for sustainability lead to increased buying intent but not necessarily to greater customer retention. Good communication of intentions is crucial. If the message is convincing (showing a good connection with clear organisational interests) sustainability efforts create positive associations for consumers, leading to increased buying intent (Groza et al., 2011). Of course functional features remain a necessary condition for making a success of sustainable products and services, though cultural factors also play a role (Auger et al., 2008). In short, expensive trainers won't sell if they don't fit. The same goes for quality of service (Mandhachitara & Poolthong, 2011): if this is guaranteed, sustainability appears to have a significantly strong and positive association with customer loyalty.

There is also a positive relationship with brand value. Sustainability is an important source of intangible competitive advantage (Melo & Galan, 2011). This effect is greater if sustainability policy is well aligned with business strategy.

Companies whose marketing strategy approaches the consumer as a co-producer or co-consumer (i.e. as a partner) achieve a stronger sense of co-ownership, thereby creating a bigger market (Lang, 2009). This strategy offers the greatest chance of generating latent demand, for instance for animal well being (see Bos, 2012). Take Unilever, which calls on consumers to use their products to wash at a lower temperature. The company enables energy saving, but is dependent on consumer behaviour to achieve this. This kind of relationship generates involvement and a sense of connection, as well as expanding the market. All these studies indicate that sustainability has value in the market. This involves different dimensions (Green & Peloza, 2011), such as:

- Functional: a more sustainable product can lower costs. For instance, an efficient car reduces fuel costs
- Emotional: I'm helping make the world a better place for my children
- Societal: Using this product shows I belong to a particular group

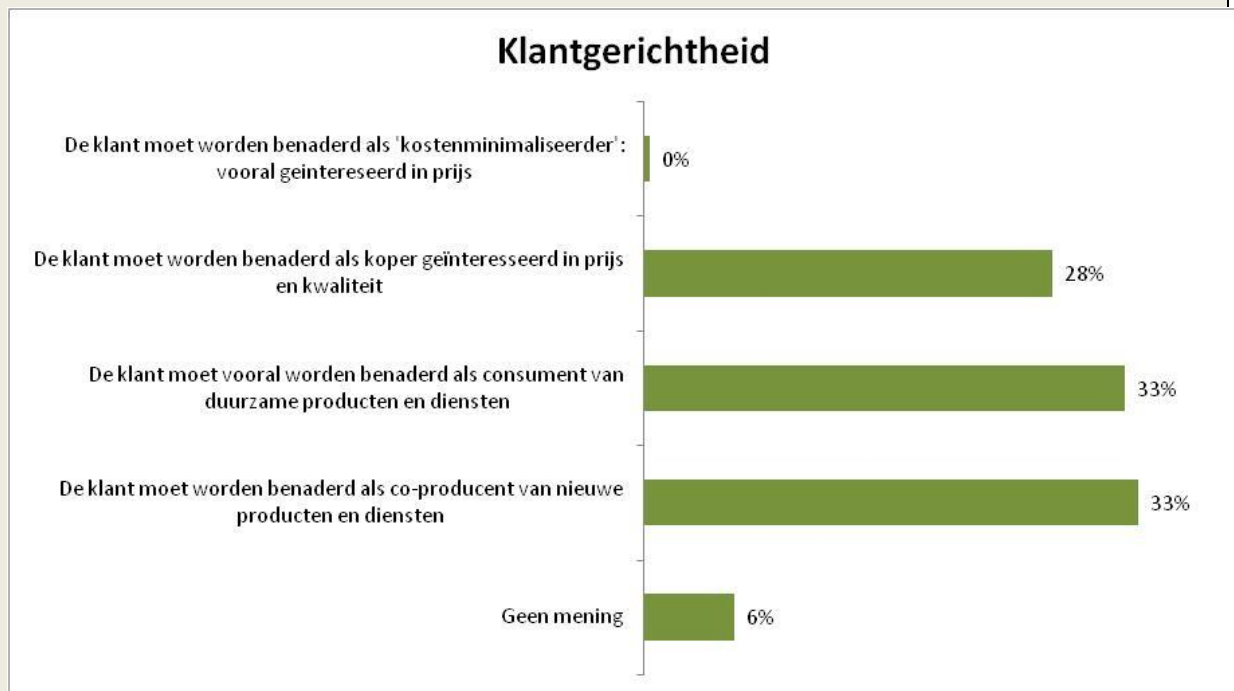
THE ROLE OF GOOD CAUSES AS AN EXTRA REASON TO BUY

In addition to sustainability features attached to a product or service, the connection to a good cause may be useful for the marketing of a company as a whole. This is known as 'cause related marketing'; donating part of the proceeds to a good cause, connecting a company's brand name with it (as with Pampers and UNICEF). Consumers are more positive about

companies with cause related marketing campaigns than about *advocacy* campaigns, which encourage consumers to think about a general societal issue without explicitly advertising their products (Menon & Kahn, 2003). Cause related marketing is also less effective than employees doing volunteer work (Creyer & Ross, 1996). Here again a company's efforts and authenticity appear to be important.

Employees are ready to get down to work

Our survey shows that employees in the twenty leading (Dutch) companies increasingly support the idea of approaching the customer as 'co-producer' of new products and services (figure 3.3). A third of employees agreed with this, while very few still saw the customer as mainly price oriented. People are therefore increasingly dissatisfied with a reactive strategy whereby companies only provide information on their sustainability policy when customers ask. The customer may be 'king' but would prefer to be more actively informed and involved in the sustainability strategy. Most employees are not yet in a position to implement more actively customer oriented sustainability strategies such as labelling in conjunction with other industry members.



Customer focus

- 0%: The customer should be approached as 'cost minimiser': mainly interested in price
- 28%: The customer should be approached as a purchaser interested in price and quality
- 33%: The customer should be approached as a consumer of sustainable products and services
- 33%: The customer should be approached as co-producer of new products and services
- 6%: No opinion

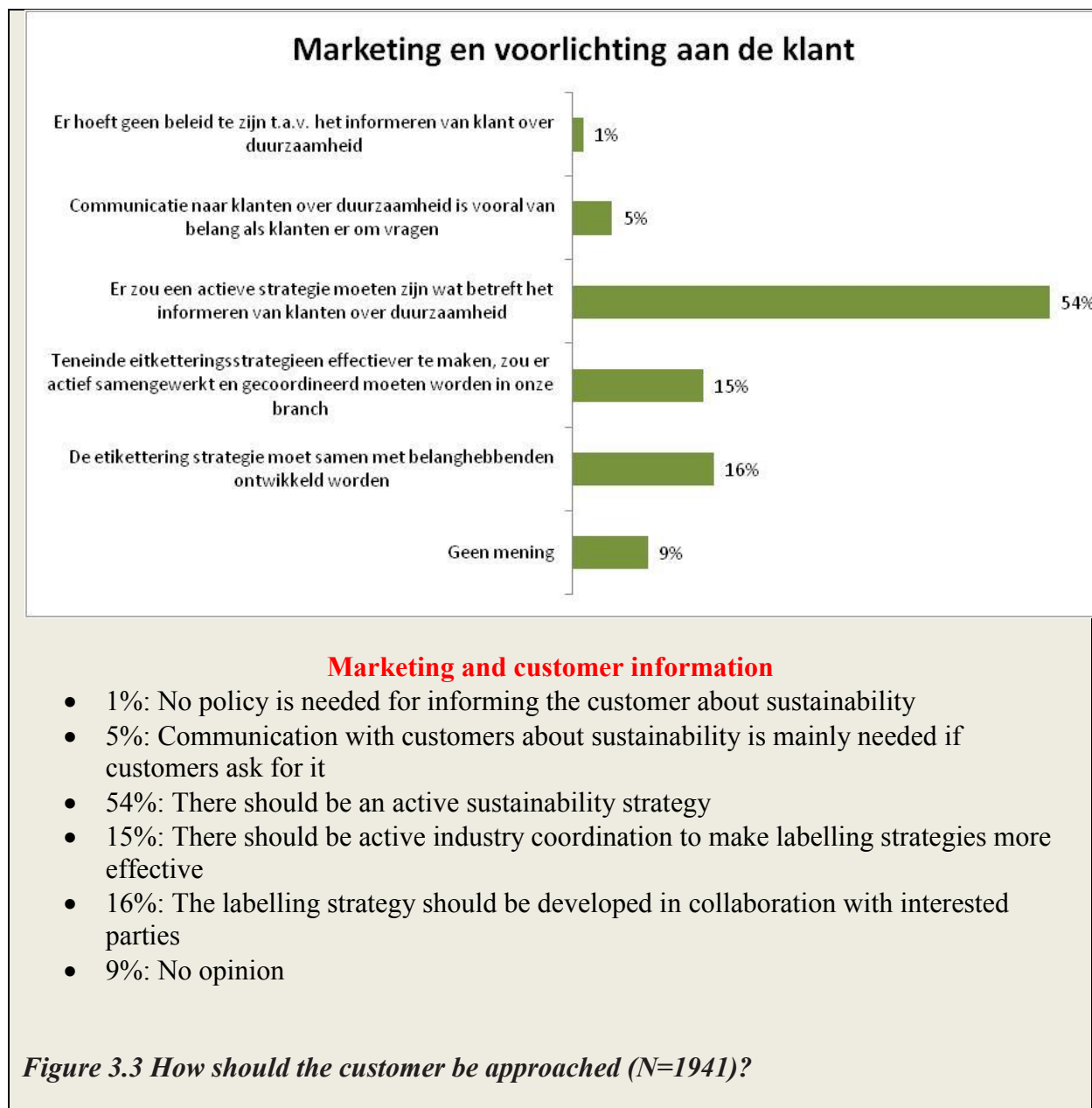


Table 3.2 lists the most important tipping points as identified in the marketing literature.

Table 3.2 Tipping points for marketing

From products with simple values such as price to products with complex features/values such as price and sustainability (Green & Peloza, 2011)
From separate strategies to integrated approaches (Green & Peloza, 2011)
From punishing unethical companies by price, to rewarding ethical companies by price (Trudel & Cotte, 2009)
From isolated marketing approaches to innovative marketing (Luo & Bhattacharya, 2006)
From sufficient conditions to necessary conditions for sustainability (Auger et al., 2008)
From explicit to latent demand
From question orientation (the customer is king) to co-creation (the customer as co-producer)
From promotion to institutionalised strategy (Pirsch et al., 2007)
From badly integrated CSR efforts (misalignment) to well integrated efforts (alignment)

We can conclude that customers may value a move towards sustainability. The extent to which this holds depends on individual circumstances. This means that companies must investigate the extent to which the positive relationships mentioned above apply to their own situations. It is particularly important to be proactive in ascertaining consumers' explicit wishes and implicit expectations with respect to sustainability. This knowledge in itself represents an important competitive advantage.

3.7 HRM POLICY

Do companies with an active sustainability policy form a more attractive prospect than other companies for existing and potential employees? A quick read through the vacancies at large companies certainly creates the impression that organisations believe this to be the case, given the trouble they go to to express their involvement in the community. But what real value does a focus on sustainability offer employees and HR? We must examine the figures to find out. It is worth investigating this in your own company: what do employees think of the company's societal value or its environmental effects? Do people think the company could put in a bit more effort, or is it already out on a limb? What employee initiatives are in place and how do these advance employee involvement? Often there are countless valuable ideas on the shop floor. Collecting and connecting these is always worth the effort.

The HR discipline itself covers one aspect of sustainable enterprise: the People component of the People, Planet, Profit triad. Aspects such as safety, working conditions, participation, health, wellbeing and vitality, development and diversity are all relevant. HR is clearly an area in which the added value should be visible. What does the literature tell us about this? A great deal of research has been carried out into the relationship between sustainability and employer attractiveness. In general companies which appear to be actively involved in sustainable initiatives are more attractive to job seekers than those which are not (Albinger & Freeman, 2000). Perceived sustainability also appears to lead to greater employee retention because of increased loyalty, trust and commitment to the organisation (Brammer & Millington, 2008; Peterson, 2004; Hansen et al., 2011; Ipsos, 2008). Greater loyalty to an organisation in turn often leads to better job performance (Carmeli, 2005; Carmeli, Gilat & Waldman, 2007). The better the organisation's sustainability, the lower the pressure on pay structure (figure 3.4). Increased loyalty and employer attractiveness also lead directly to lower recruitment costs.

It appears that companies must compensate employees financially for non-sustainability; employees at less sustainable companies demand higher salaries. Or perhaps it is the other way around: the higher the salaries an organisation pays, the more difficult the transition to sustainability. Higher salaries may attract less idealistic employees, raising internal barriers to sustainability.

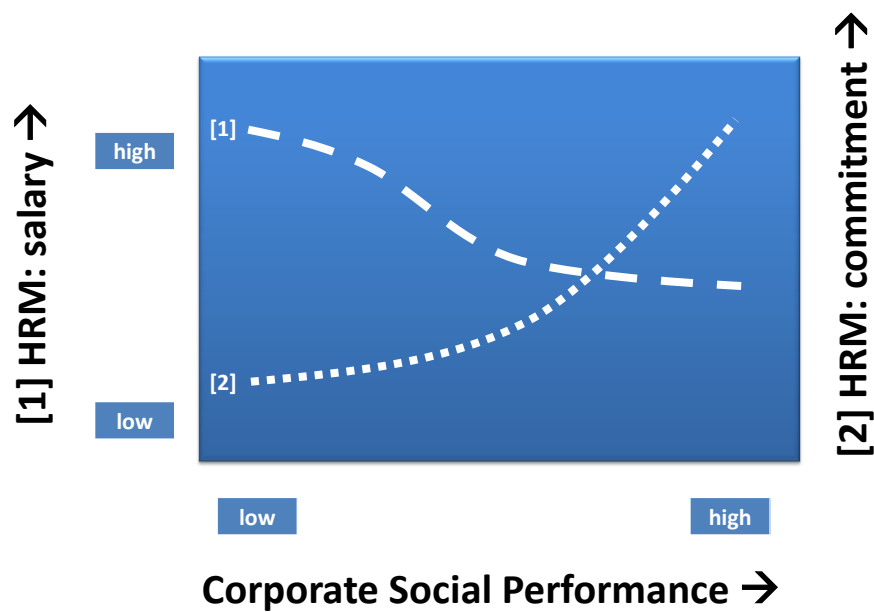


Figure 3.4 Increasing salary compensation for non-sustainability

Employees' perception of sustainability policy may not coincide with reality, particularly among new employees, who only really know the company from the outside.

Existing employees will see a discrepancy between actual and claimed sustainability as increasingly disturbing the more they are able to contribute to closing the gap. In the research which forms the foundation of this book we analysed this discrepancy. Our survey investigated how employees believed companies should behave and how they believed they actually behaved with respect to societal and societal issues.

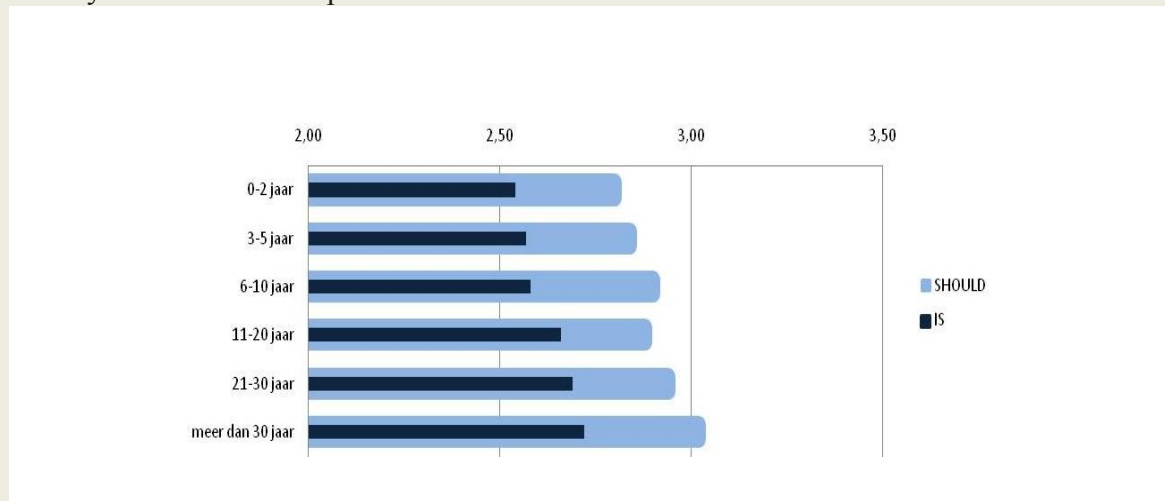


Figure 3.5 Perception gaps between what 'is the case' and what 'should be the case': the effect of years in service: "What does your company do about sustainability and what should it do?" (N=1936)

In progressive companies we also see a role for Compensation & Benefits managers in connecting sustainability with top salaries. A growing number of large organisations use financial rewards to make sustainability tangible. Non-financial as well as financial performance indicators form the basis for variable financial rewards. Some listed companies attach part of their variable reward to inclusion in the Dow Jones Sustainability Index, others choose specific indicators, such as reduction in CO₂ emissions, customer satisfaction or reduction in absence through sickness or accidents. Where financial performance indicators mainly say something about past results, non-financial indicators can give an indication of the organisation's future success (VBDO, with DHV and Hay Group, 2009). There is also an important role for the board of directors in establishing top management remuneration policy. Research by VBDO, an ethical investor, DHV and Hay Group shows that as long as this connection is made based on well chosen indicators, it can be a strong encouragement for the subject. There is a good reason why half the Dutch AEX listed companies link financial performance indicators to variable reward policies for management.

INVOLVING EMPLOYEES IN SUSTAINABILITY POLICY

Employee involvement in sustainability leads to greater identification with the organisation if it hits heavy weather (Chong, 2009). It has been shown that 71% of sustainable practices were developed at CEO level and employees wished to have a bigger role. Optimal loyalty comes from employee involvement. The tipping point for organisations is passed when the policy whatever it may be can be brought to the shop floor.

If the company's sustainable, societal responsible identity can be harmonised internally and externally, this strengthens employees' identification with the organisation (Chong, 2009). One way to achieve this is to have employees participate in voluntary work programmes. At DHL this mechanism was used to get employees involved in disaster relief programmes. The more employees can participate in these kinds of activities, the stronger they grow. These initiatives are particularly effective if they fit in with the company's core competencies (Peloza et al., 2009). In 2001, for example, TNT announced its involvement in the World Food Programme. The relevant core competency here was logistics; since world hunger is largely a logistical problem, and TNT aims to be at the forefront in this field, the connection was obvious.

Internal marketing activities are needed to ensure that managers receive sufficient support from employees. This supports other research which suggests that employee volunteering fits in better with egotistical career motives and 'corporate citizenship' than with altruistic motives and might also be effective for these employees. Basil et al. (2009) show that even reactive initiatives using employee volunteering, with only limited paid leave, make a positive contribution to employee morale, especially when things are going badly for the company. Works councils can sometimes accelerate this effect, representing employee opinions and acting as a stakeholder. At KLM a works council CSR working group was set up to address the question "What can we do on the shop floor?"

Finally an important role for sustainability lies with the young people's organisations within a company. For instance Young Siemens organised various sessions for young Siemens employees in the Netherlands. These sessions explained the importance of sustainability and Siemens' focus on this subject, providing strong encouragement for the top management present to proceed with the policy. Table 3.3 summarises the most important tipping points we find in the literature.

Table 3.3 HR tipping points

From low to high perception of good achievements in sustainability among potential and existing employees
From large to small image-reality perception gap for sustainability
From low to high ‘person-organisation fit’, especially important when the organisation is going through a rough patch (Kim & Park, 2011)
From CEO involvement only to employee involvement (Bhattacharya et al., 2008)
From external commitment through voluntary activities to links with internal commitment as part of career policy and collaboration with other employees (Grant et al., 2008)
From indifference and opposition to commitment among employees (Rodrigo & Arenas, 2008)
From altruism to egoism and ‘corporate citizenship’ as a motive for volunteering, the need to be involved
From low to high identification with the organisation by means of sustainability activities (Chong, 2009)
From sustainability/CSR as a voluntary part of reward structure to integral part of functioning and pay (with clear core performance indicators)
From communication about sustainability performance only with external stakeholders to communication with all employees (Stites & Michael, 2011)

Research confirms the positive value of a progressive sustainability policy for HR and gives us insight into the preconditions for this. It is more difficult to calculate the hard value. How much can be saved on recruitment costs? What is the exact contribution to retention of skills and top talent? From a scientific perspective these questions have yet to be answered.

3.8 PURCHASING POLICY AND SUPPLY CHAIN MANAGEMENT

The sustainable purchasing policy of organisations is receiving increasing levels of interest. This is firstly because organisations buy more from countries and regions in which sustainability is not enforced by a legal framework, where different norms and values apply, causing the organisations to be treated negatively in the news. Secondly, many organisations at home and abroad use sustainability as a criterion for allotting resources. Even in business sustainability is winning ground as a selection and allotment criterion. This is not surprising, given the growing awareness that there are profits to be gained from collaborating with suppliers and consumers to optimise the whole supply chain. If an electronics manufacturer only looks at the energy needed for the production process and bases his decisions on this, there is a good chance that the end product will use more energy than necessary. The transition to sustainable soya production demands adjustments and involvement from farmers, food manufacturers and supermarkets. We can only expect big breakthroughs if businesses are willing to work together, doing business more transparently. Child labour is still widely used in the Asian textiles industry, for example. Producers, consumers, governments and societal organisations must work together to prevent this.

For the individual company this means analysing which aspects of sustainability are open to them. What problems crop up in the chain and how can they work with partners to eliminate them?

Societal organisations (NGOs) often argue for a legal framework to give insight into the supply chain; in the Netherlands this plea has resulted in pressure for an ‘Act on the Transparency of Product Chains’ (‘Wet openbaarheid van productie en ketens’, WOK). The

Dutch Association of Investors for Sustainable Development (Vereniging van Beleggers voor Duurzame Ontwikkeling, VBDO) judges the sustainability of Dutch companies' international supply chains and has reached the conclusion that there is considerable room for improvement. NGOs regularly appear in the news to highlight bad working conditions, for instance in the textiles, mining, and electricity industries (for example the 2010 human rights violations among coal suppliers used by Dutch electricity companies). Increasingly labels such as fairtrade, UTZ Certified and EKO are developed, to make the chain more transparent to the end consumer and help consumers distinguish between more or less sustainable brands. At the same time, all these brands adds considerable complexity as well, because their message is not always clear and the relationship with the varying dimensions of sustainability often ambiguous.

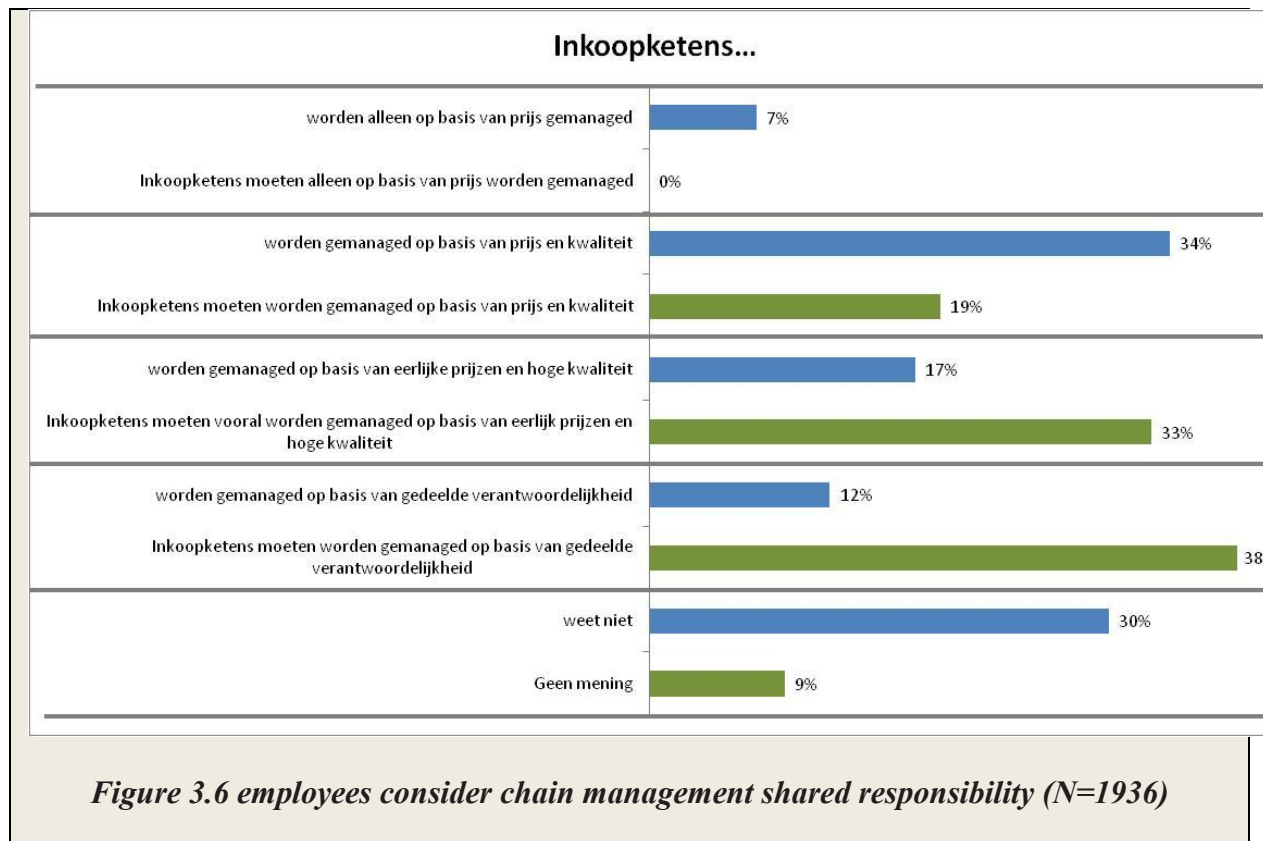
Societal pressure spurs entrepreneurs into action to defend themselves. It is crucial that they protect their reputations and combat potential negative effects resulting from irregularities in the chain. This is also seen in the literature as an important motivation for sustainable supply chain management which particularly affects issues of human rights and pollution (Mefford, 2011).

Although a defensive attitude dominates, the transition to green value chains is generally seen as an inevitable trend (Jin & Zailani, 2010). Sustainable purchasing policy has a moderately positive impact on the performance of suppliers (Carter, 2005), leading to reputational and financial advantages. Strategic considerations also play a role, based on the conviction that sustainable suppliers will be good for the continuity of the chain in the long term (Seuring & Muller, 2008).

This impression is confirmed by employees at the companies we surveyed. We asked what employees thought about the way the purchasing chains were managed at present, and how they should be managed. It was immediately clear that chains are currently mainly managed on the basis of price and quality, whereas in the future people would like to see fair pricing, high quality and shared responsibility as guiding principles. When companies reach this stage they appear to pass a tipping point.

Purchasing chains...³

³ Translation of figure 3.6: 7% [are managed], 0% [have to be managed on the basis of price only]; 34% (are managed), 19% (have to be managed on the basis of price and quality); 17% (are), 33% (have to be managed on the basis of fair prices and high quality); 12% (are), 38% (have to be managed on the basis of shared responsibility); 30% (does not know), 9% (no opinion)



Most views on how a profitable, proactive ‘sustainable purchasing policy’ or ‘sustainable supply chain’ might look are still rather theoretical (Ageron et al., 2011). A proactive approach will make the most progress towards societally responsible purchasing. The geographically closer the suppliers, the easier this is (Maignan, Hillebrand & McAllister, 2002). A proactive policy ensures the transition from purchasing driven by liability and price to purchasing as a responsibility, an activity driven by quality and sustainability. Many more external stakeholders must be involved to achieve this (Van Tulder et al., 2008). For the individual purchasing manager, this means examining which sustainability demands each supplier can meet. What issues crop up in the chain and where can collaboration solve sustainability problems? One of the biggest challenges is organising the transition process towards sustainable purchasing policy. Barriers to sustainable purchasing mainly relate to higher costs and coordination problems, as well as dealing with standards (Foerstl et al., 2010). The variety of definitions and interpretations of sustainable standards is a serious obstacle to effective purchasing and chain management.

Not all suppliers take the same approach. Strategic suppliers with important products or services for the primary process require a more dialogue oriented approach, tackling supply chain problems in partnership. Less strategically placed goods purchased according to an ordering routine are easier to steer towards sustainability by means of sustainable labelling. The popular *Kraljic purchasing matrix* can be a useful aid. Suppliers are categorised according to their business results weighed against supply risk. The best approach can be chosen for suppliers by quadrant.

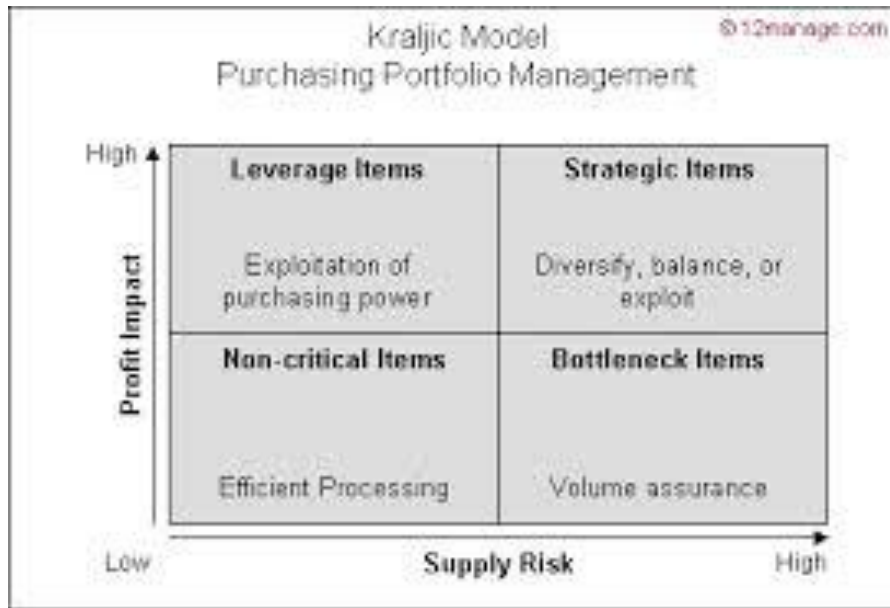


Figure 3.7 The Kraljic matrix⁴

Many companies opt for a risk-based approach. Strategic suppliers in countries with high risks of environmental problems or societally unacceptable situations fare best if they turn their attention to these issues. This allows them to make the most significant improvements and directly strengthens the company's reputation.

Table 3.4 summarises the most important tipping points from the literature.

Table 3.4 Tipping points in purchasing

From local to integral optimisation of the entire supply chain (Linton et al., 2007)
From uncoordinated to coordinated quality labelling
From liability to shared responsibility (Van Tulder et al., 2008)
From a simple sustainable purchasing policy to organisational learning, improved suppliers and lower costs (Carter, 2005)
From a green supply chain to an integrated societal, economic and ecological chain
From negative control-oriented to positive change-oriented codes of conduct
From confrontation with stakeholder NGOs to cooperation on chain management themes
From product oriented to process oriented purchasing
From purchasing as an isolated – profit centre – department, to links with other departments

To conclude, from a *scientific* perspective there are indications that companies can gain value from integrating sustainability into purchasing processes. There is less risk of reputational damage, better understanding between purchasers and suppliers and improved functional performance. The literature available is less clear as to how an entrepreneur can achieve this. In practice, companies with systematic sustainable supply chain management almost without exception report positive results. It therefore appears to be worth the effort.

⁴ We propose a slightly upgraded/updated version of this original in which other items are included and a 'strategy' component is added in each box

3.9 OPERATIONS MANAGEMENT

Operations management focuses on a company's entire business process. It organises input-output streams so as to make them as efficient as possible. Core concepts are quality, productivity, turnaround times, efficiency, use of materials and preventing losses. The business case in operations relates to the transition from efficiency to efficacy. Operational efficacy is currently achieved by reduced costs due to reduced use of materials, increased efficiency and reduced waste. In practice operational sustainability is most obviously achievable when it comes to environmental issues. Energy and waste savings quickly become visible.

Attention for sustainability generally falls within the remit of a health, safety and environment (HSE) coordinator. This function is often compliance oriented, making sure that the company fulfils legal HSE demands, often supported by standards such as ISO 9001 for quality, ISO 14001 for environment and OHSAS 18001 for health and safety.

Operations managers traditionally believe that operational performance is negatively impacted by environmentally friendly measures (Pagell & Gobeli, 2009). Recently, however, study after study has shown the opposite: good environmental achievements are coupled with positive operational achievements. This is the concept of eco-efficiency. Eco-efficiency is easier to achieve because of greater availability of affordable technologies, making environmental issues a question of implementation of existing technologies, where in the past it was considerably more expensive. Companies which have implemented an environmental management system, note a greater relationship between their environmental and financial performance than companies without such a system (Melnik et al., 2003). Comparable effects are also found for the operational efficiency of 'green buildings' (Von Paumgarten, 2003).

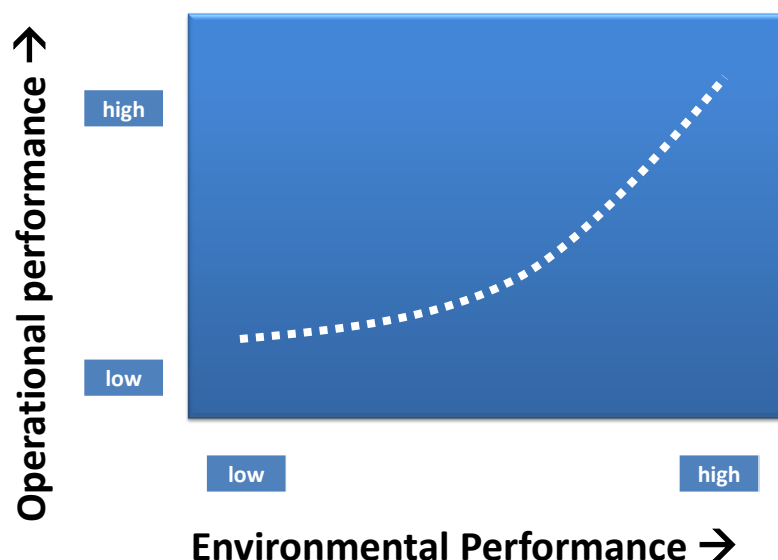


Figure 3.8 Positive relationship between environmental and operational performance

Environmentally oriented activities, supported by ISO 14000 certificates, pollution prevention, recycling and waste reduction, have a positive effect on four important operational areas: quality, delivery speed, flexibility and costs (Schoenherr, 2011). The

greatest profits are to be gained in rising markets. Here companies often encounter situations which are simple from an environmental perspective and ripe for improvement in terms of cost efficiency.

Operations management appears to play a particularly important role in the first phases of sustainable development (Kleindorfer et al., 2005). There are four phases:

1. From an 'internal neutral' phase (characterised as 'catch-up' or 'reactive'), via
2. an 'external neutral' phase (characterised as 'matching', where industry practice and existing standards are not exceeded), via
3. an 'internal supporting' strategy (where operational priorities fit in better with the business strategy), finally to
4. an 'external supporting' strategy (working towards externally recognised superior operational capacities to deliver a competitive advantage).

In actual organisations, progress has been particularly achieved in phases 1 and 2. Internal strategies work on improving internal operations through continual process improvements coupled with sustainability (employee involvement, waste reduction, energy conservation and emission control). Current external sustainability strategies are mainly aimed at improving the value chain with attention for better materials and closed supply chains in which products are recycled or can be safely disposed of. Below we summarise the most important tipping points from the literature.

Table 3.5 Operations tipping points

From a partially integrated approach to a completely integrated approach (Pagell & Gobelli, 2009)
From operational efficiency to operational efficacy
From internally oriented strategies directed at the present situation to externally oriented strategies for the future (Kleindorfer et al., 2005)
From simple stock control to reversed flows
From statistical quality control to quality system management
From internally and externally neutral operations to internally and externally supportive strategies
From eco-efficiency as reactive attitude to environmental issues to a proactive attitude in which external parties such as regulators and stakeholders are involved (BITC, 2011)

To sum up, on the basis of existing literature we can conclude that the value of sustainability to operations management largely comes from eco-efficiency efforts such as zero waste programmes which offer significant savings on costs and materials. Positive influence on employee involvement represents a further value in terms of avoided HR costs and increased productivity.

3.10 REPUTATION MANAGEMENT

How can sustainable enterprise represent value for a company's reputation and image? What does this mean for the departments of public affairs and corporate communications?

Countless companies can testify to the serious reputational damage of sustainability mistakes after confrontations with societal organisations or environmental disasters. After the 2010 Deep Water Horizon incident, British company BP's share price plummeted to an all-time low. In just two months shareholders saw the value of their property fall 55%, corresponding to a loss of 105 billion dollars. The company set up a 20 billion dollar fund to handle incoming claims for damages. Apple too is familiar with this kind of experience; shocking

numbers of suicides were reported at the much sought after consumer electronics firm's supplier Foxconn, partly as a result of bad labour conditions and lack of job prospects. It goes without saying that the morally unacceptable situation threatened the company's reputation. Businesses must live and learn.

It is therefore important for every entrepreneur to recognise such risks. Experiences of others can be immensely educational. Which companies in the sector have incurred costly stains to their reputations in the past? Analysing recent well known cases and presenting them internally can keep the subject squarely on the agenda. When commitment at the top of a company is needed, tuition from other companies can work wonders. Many companies in our study applied this intervention actively, consciously and to good effect.

Even a patchy sustainability policy can strengthen a company's reputation. The pioneering partnership between TNT and the World Food Programme, established in 2001, improved TNT's public image. The project gave TNT direction and identity after the merger with TPG (the Dutch postal service). Societal active companies achieve a better societal reputation, which is especially useful in times of crisis. Companies which give the impression of being societal involved, score considerably higher on reputation than companies with little societal involvement and a narrow concept of their role in society (Gossling & Vocht, 2007).

This has also been researched from a scientific perspective. In many companies PR and communications department attitudes are important indications of the phase of thinking about sustainability. The more attention is given to sustainability, the further the department goes beyond publishing brochures to building up its image, bridging the gaps between internal and external stakeholders, management and the community. The corporate communications department is responsible for the relationship between the community and specific stakeholders. Corporate communications often represents a more active attitude than public relations (Van Tulder with Van der Zwart, 2006). The communications department plays an important role in establishing the company's right to exist. Good communication gives the company a licence to operate, allowing it to be recognised as a corporate citizen and receive greater freedom to work out an appropriate earnings model.

Reputational crises damage the licence to operate. Countless past incidents have proven this, in terms of societal role, environment and integrity. In the mid nineties Royal Dutch Shell put their public confidence under pressure with the Brent Spar affair, Ahold's reputation took a dive with the accounting scandal over its American operations soon after the millennium, Nike was seen as a symbol for child labour for some time – even after initiating strict codes of conduct -, BP's effort to move 'Beyond Petroleum' lost critical legitimacy after the DeepWater Horizon oil spill in the Gulf of Mexico in 2011. Public suspicion increases when a company subsequently emphasises its own sustainability. This phase is therefore coupled with higher transaction costs.

The communications department must facilitate rewards for actual sustainable strategies (Doh et al., 2010). Often attempts at sustainability are insufficiently communicated, so that even initiatives which are already in place are not seen in the best possible light (Du, Bhattacharya & Sen, 2010). The communications department has an important function in relationships with investors, business partners, banks and societal organisations, providing a defence and developing new initiatives (ibid.) Institutional investors can give companies access to more patient capital. There is increasing insight into how interaction with the community can be best managed and the effect this has on a company's value proposition. Greater transparency

in societal communication about sustainability improves company legitimacy (Brammer & Pavelin, 2005). A systematic academically and practically oriented study investigated how, why and when more than 200 companies benefited from community-engagement strategies. The study found that the effect is easier to measure in terms of long term legitimacy than direct improvements in cost benefit ratios (Bowen et al., 2010). The form of community programmes affects this relationship. There seems to be a modest relationship between philanthropy and company legitimacy (Chen et al., 2008). However, it appears that philanthropy cannot easily correct a negative image once it is established.

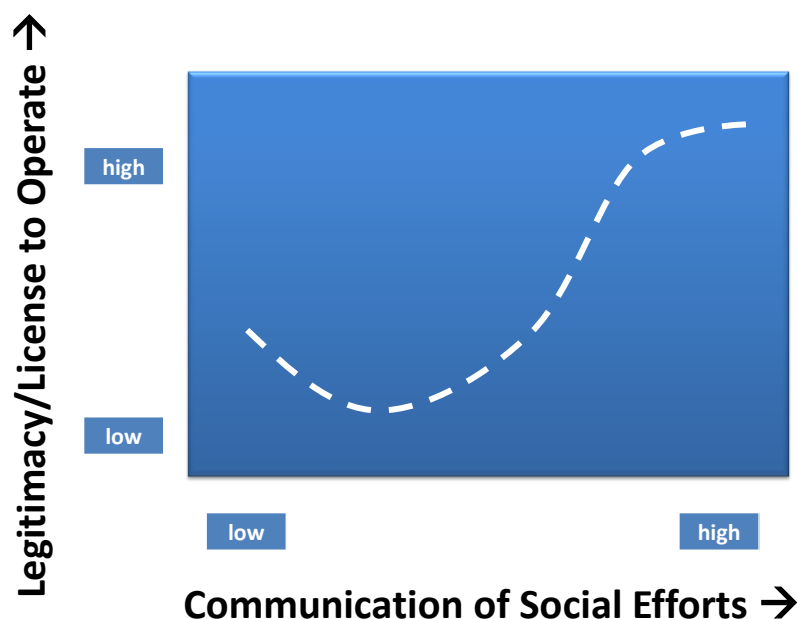


Figure 3.9 *Positive relationship between communication of societal achievements and legitimacy*

Currently much thought is going into how companies can bring together vision and mission in the short term and the long term, often in conjunction with stakeholders such as NGOs. This creates a multiplier effect for the whole industry: the more a company works with other stakeholders, the greater the effect on the legitimacy of the entire industry (Peloza & Falkenberg, 2009).

Stakeholder dialogues have an increasingly important role to play (see chapter 5). The content of these dialogues reveals the company's approach, be it tactical (limiting damage to reputation) or strategic (supporting future oriented strategy). The associated issue-identification strategies have one and the same function. The smaller the mandate of the communications department, the less strategic the communication with stakeholders can be. This is generally coupled with a relatively marginal position for the communications department in the organisation (Van Tulder & Van der Zwart, 2004). The most important tipping points established in the literature are summarised below.

Table 3.6 Tipping points in corporate communications

From stakeholder information to stakeholder involvement
From public relations/affairs to strategic corporate communications
From separate to integrated sustainability reporting
From transactional relationship management to transformational relationship management
From negative, control oriented codes of conduct to positive change oriented codes of conduct
From internally checked codes to externally verified codes
From defensive, company oriented to proactive societally oriented issue identification
From licence to sell and produce to licence to operate (static) and change (dynamic)
From stakeholder platforms to strategic stakeholder dialogue
From superficial company-specific labels to meaningful collective labels
From unilateral work to partnerships (1) within the industry, (2) with NGOs and (3) with governments
From philanthropy to core business

3.11 INNOVATION (R&D)

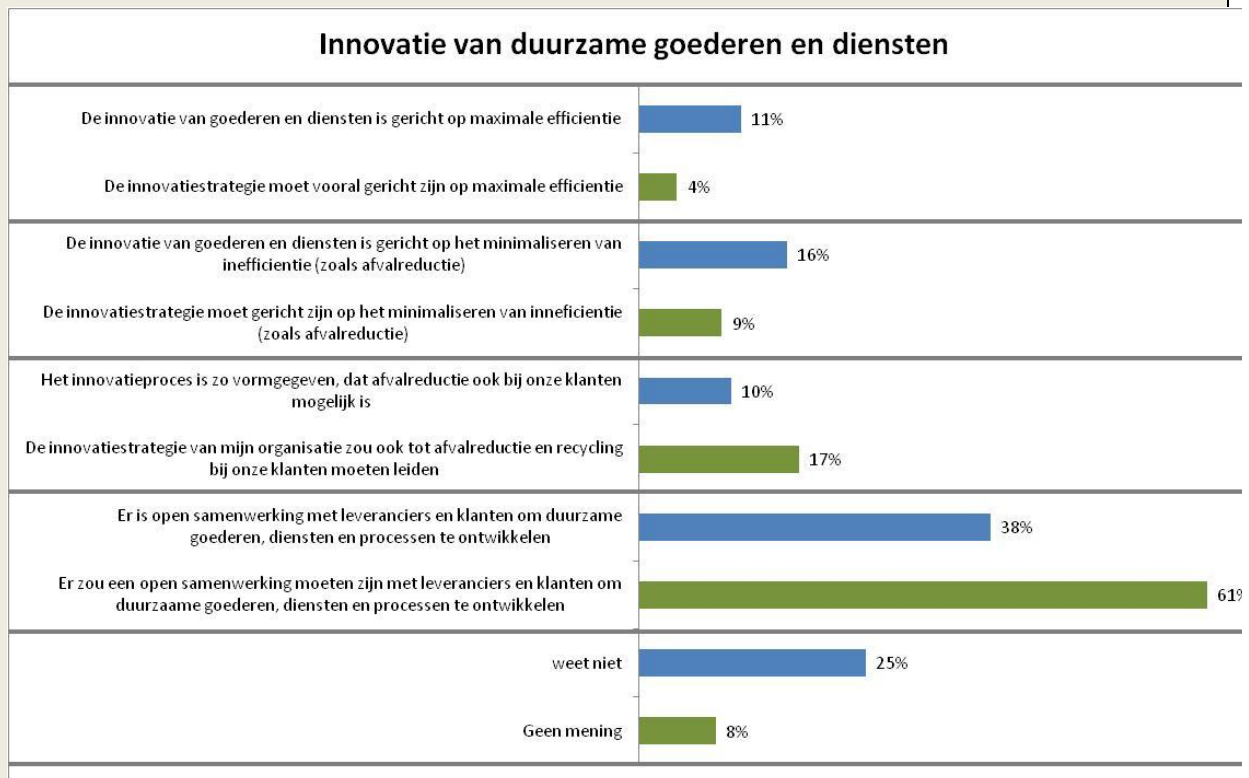
Can the search for sustainability contribute to the innovative capacity of a company? The answer is an undeniable yes. Sustainability requires substantial innovation towards new products, services and earnings/business models. Can an explicit choice for a sustainable strategy have broader implications for the organisation's innovative potential?

Sustainability and solving complex societal problems have immensely positive effects on innovation (Nidumolu et al., 2009). The more concrete the challenge (man on the moon, ending war, threat of disaster) the more creative people are and the more they are prepared to set aside old paradigms. The economist Schumpeter called this ‘creative destruction’, the precondition for almost all tipping points. The flywheel effect of societal need works through innovation processes in large companies, sometimes dealt with in a specialised department and sometimes incorporated into the existing organisation. If this leads to successful new products and services then the added value is obvious. The shorter the sector and company innovation cycle, the greater the chance that sustainability can be included in every new generation of products and processes. In industries with longer turnaround times it often makes sense to make real change only after the existing, less sustainable system has been exhausted completely. There are considerable differences between sectors in the way in which dynamic interaction between innovation and sustainability strategy develops (Midttun, 2007).

The more companies are open to the societal need for sustainability the more important an ‘open innovation’ strategy. The idea of open innovation was first introduced by Chesbrough, who emphasised that innovation needed to be based on co-production of companies and other stakeholders in order to be able to respond flexibly to today’s challenges. The idea of innovation is increasingly connected with the sustainability agenda, through innovation processes in areas such as recycling, waste prevention (e.g. the Cradle-to-Cradle® principle) and the development of sustainable services and processes.

The survey of employees in Dutch companies shows a great deal of support for this, with a large majority stating that suppliers and customers (and therefore other departments) should be involved.

Innovation in sustainable goods and services



Translation:

Innovation in sustainable goods and services is aimed at optimal efficiency 11%

The innovation strategy should aim for optimal efficiency 4%

Innovation in goods and services aims to minimise inefficiency (with efforts such as waste reduction) 16%

The innovation strategy should aim to minimise inefficiency (with efforts such as waste reduction) 9%

The innovation process is also designed to make waste reduction possible for customers 10%

My organisation's innovation strategy should also lead to waste reduction and recycling for our customers 17%

There is open collaboration with suppliers and customers to develop sustainable goods, services and processes 38%

There should be open collaboration with suppliers and customers to develop sustainable goods, services and processes 61%

Don't know 25%

No opinion 8%

Figure 3.10 From closed to open and sustainable innovation (N=1936)

In the years following these early ideas, C.K. Prahalad and his followers have elaborated on the idea of societal innovation with the innovative Base of Pyramid (BoP) strategies. These have proven important as new earnings models for small companies wanting to enter a market. For large companies the evidence is more complicated. The link between open

innovation and sustainability is obvious, but appears to be difficult to prove. An exploratory relationship between NGOs and companies, inspired by societal need, leads to an expansion of the company's policy: innovation takes place in exchange for increased societal legitimacy, which has a demonstrably positive effect on competitiveness (Holmes & Smart, 2009). Another study (see section 3.6) shows that consumers often look for a combination of innovation and sustainability.

Base of the Pyramid

The Base or Bottom of the Pyramid (BoP) refers to the world's lowest socio-economic classes. The concept has received interest since the publication of 'The Fortune at the Bottom of the Pyramid' by C.K. Prahalad and Stuart L. Hart. Here the authors suggest that large companies can generate profit and combat poverty at the same time by developing affordable products for and with this target group, working with development organisations and local governments.

An example of the BoP approach is a recycling project started by two entrepreneurs in 1995 in the capital of Bangladesh. This grew to become the Waste Concern Group, in which entrepreneurs and NGOs worked together for recycling, renewable energy, combating poverty and sustainable development. The project has allowed farmers to move from using expensive artificial fertiliser to cheap organic fertiliser and given others a good income as waste collectors.

Another illustrative product is Philips' Woodstove. The company developed a safe oven which burns wood efficiently and safely. This simultaneously reduces the risk of carbon monoxide poisoning and fires, and the need for scarce wood in developing countries.

Such initiatives give companies a way into developing economies, where further sales may be realised in the future.

Sources and further information: www.bopinc.org, www.nextbillion.org, www.wasteconcern.org, www.research.philips.com/technologies/woodstove.html

Table 3.7 summarises the most important tipping points in the innovation literature.

Table 3.7 Innovation tipping points

From closed to open innovation
From corporate societal responsibility to corporate societal innovation (Kanter, 1999)
From supply-driven (go-it-alone) innovation to co-creation and partnerships
From isolated to integrated innovation
From technique-driven to issue-driven innovation
From evolutionary development to revolutionary creative destruction (Schumpeter)
From product innovation to system innovation

To sum up, research reveals close relationships between sustainability and innovation but it remains unclear how this added value can be quantified for individual companies.

3.12 GENERAL MANAGEMENT AND STRATEGIC MANAGEMENT

The added value of sustainability is easier to research for functional areas than for general management disciplines. General management looks at how internal divisions can be

connected to make the organisation function better as a whole, reducing costs and risks. From the previous sections it seems that the changes in integration between divisions offer opportunities for gains in sustainability which can lead directly to improved financial performance. This applies to integration of innovation and marketing, HR and marketing, and HR and communication. The same may apply to other areas, but this has not been systematically studied.

Strategic management looks at how sustainability can lead to a competitive advantage in the long term and plays an important role in the transition to sustainable enterprise. Its purpose is to translate long term developments into business strategy. Many developments which we class as sustainability challenges are long term in nature. The effects of developments such as changes in demographics, distribution of wealth, geopolitical relationships, scarcity of energy and resources, biodiversity problems and climate change will only become clear in the long term. The task of strategic management is to organise company affairs in such a way as to guarantee continuity. Explicitly sketching these effects for the board of directors and emphasising the significance for the company can be enormously helpful. Sometimes this happens in isolation but often at moments of general strategic reform.

Our survey shows that various companies carry out a strategic analysis of this sort before gearing up for new initiatives. The world's largest dairy cooperative FrieslandCampina explicitly set these developments on the agenda as a result of the merger between Campina and Friesland Foods. Sustainability became one of the cornerstones of Route2020, an ambitious programme to make the cooperative more sustainable.

Strategic management research (Godfrey et al., 2008) emphasises the importance of stakeholder management. Participation in formal consultations for secondary stakeholders or the community appear to be more important for risk management than participation in more technical consultations with trading partners. Collaboration works as insurance against the risks. Good general relationships with the community offer all kinds of advantages (lower tax, less regulation) which they would otherwise miss out on (Carroll & Shabana, 2010). They reduce the number of consumer boycotts (Vogel, 2005) and the psychological risk in terms of work stress and negative reporting among employees (Jain et al., 2011). It is not surprising that the executives in these surveys recognised the cost saving element, as well as improved risk management, as the most important reasons for a sustainability strategy. This is a strong reactive motivation.

When it comes to the strategic management of sustainability, the name of Harvard Professor Michael Porter always crops up (Porter & Kramer, 2006; Porter, 2010). He makes the business case for strategic sustainability very clearly. In his vision, competitiveness and sustainability are linked. In an article in the Harvard Business Review Porter and Kramer (2006) argue that sustainability present an inevitable priority for entrepreneurs, and therefore represents a strategic tipping point. The potential value for companies becomes clear when they succeed in connecting and applying their own core competencies to sustainability. Rather than seeing sustainability challenges as a costly, restrictive labour of love, they should be seen as a powerful source of innovation and competitive advantage. Companies and community stakeholders must work together to create a new competitive context based on sustainability. Only then will lasting sustainability be achieved. This requires a change of attitude from reactive to active or proactive.

This is about working together to create value in terms of continuity, positioning, capitalising on the availability of materials, new demands and new markets. This approach is also known as the ‘co-creation of value’. Sustainability is essentially about making the most of trends and changing requirements. Entrepreneurs must choose their role: innovator, first mover or follower?

The evidence for this relationship at the strategic level is still limited. Studies indicate that Porter’s claims work in a qualitative sense, and are valuable for a company’s innovative capacity (Vilanova et al., 2009). Companies can gain an advantage if they can get over the notion that competition and responsibility are in opposition.

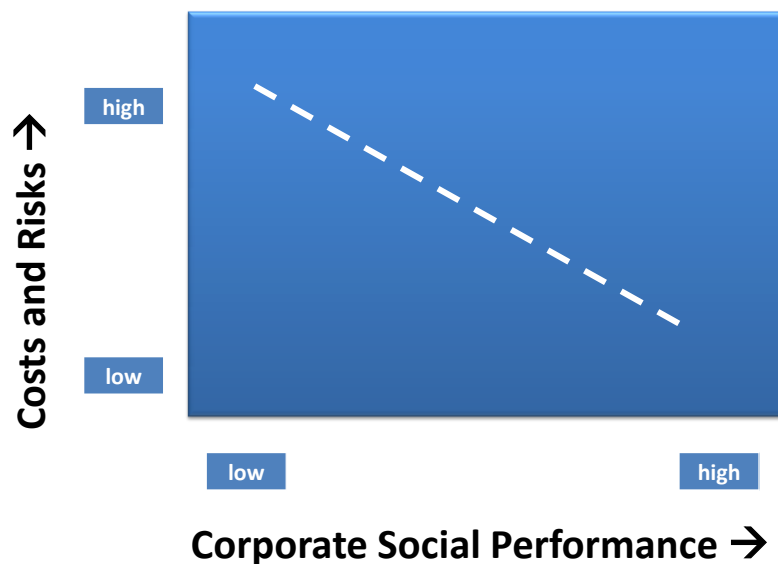


Figure 3.11 Costs, risks and sustainability

As the importance of strategy is recognised, so is the importance of leadership for the development, implementation and realisation of the business case, which is partially dependent on vision and a ‘good story’ or ‘narrative’. In a survey of 100 companies Mallin and Michelon (2011) found that sustainability achievements were positively influenced by independent leaders, by those more involved in the community and by female leaders. Psychological research shows that a leader’s ethical profile is important for attracting highly qualified staff, which in turn has a positive effect on the company’s competitive position (Strobel et al., 2010). In order to realise sustainability the role of the leader must develop from internally oriented, transactional to externally oriented and transformational. Transformational leadership is coupled with development of a good ‘sustainable corporate story’, which is always improved if it can latch onto the founder’s inspirational thoughts. The original leader’s motto affects the strength of the brand. Leadership expresses itself in inspiring mottos, thought leadership and a specific mindset. Leaders who successfully implement sustainable policies have similar skills to other effective leaders (Kakabadse et al., 2009). The difference is a mindset which enables them to take into account the perspective of a wider variety of stakeholders and think differently about their organisation’s goal (Quinn & Dalton, 2009). Recently companies have been increasingly in search of a role to encompass this, the thought

leader. When companies have an important societal issue on the agenda and are developing new perspectives this can gain them a competitive advantage (Van Halderen & Kettler-Paddock, 2011).

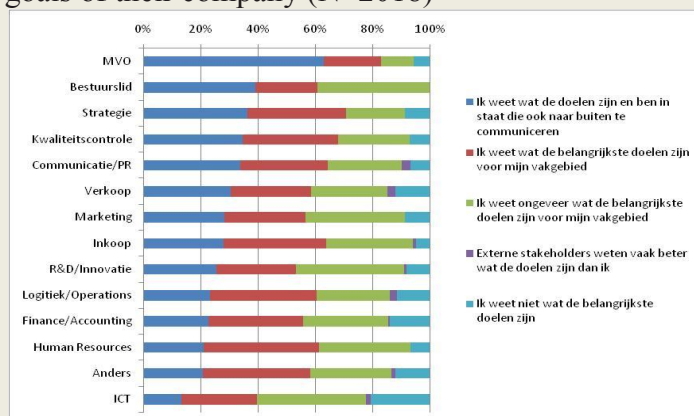
Table 3.8 summarises the most important tipping points we find in the literature.

Table 3.8 Strategic tipping points for sustainability

From threat to opportunity
From risk management to shared responsibility
From cost reduction (removal of restrictions) to profit optimisation (value creation)
From risk reduction to opportunity creation
From CSR for cost reduction (environment) to CSR for market creation
From ‘creating shareholder value’ to ‘creating shared value’
From competitive advantage to sustainable competitive advantage
From internal alignment to interactive alignment with stakeholders (co-evolution)
From ethical adaptation (multi-domestic) to ethical norm setting (free space)
From issue neutrality to ‘thought leadership’
From functional motto to inspiring motto
From internally oriented (transactional) leadership, to externally oriented (transformational) leadership

Our survey asked employees of twenty companies about the familiarity, integration, latitude and implementation of environmental and societal policies in their departments. CSR managers and directors are most likely to feel familiar with their company's environmental and societal goals and able to communicate them externally. This also applies to the way in which environmental and societal themes are integrated and implemented in their activities, and the latitude they have to accommodate suggestions. The IT department, by contrast, has the most problems and the lowest familiarity with sustainability subjects.⁵

Exemplary survey results on the question whether employees (distinguished along different managerial layers in the organisation) are familiar with the environment, social and ethical goals of their company (N=2018)



Other questions (and survey results) include:

[2] Latitude: for suggestions for environmental, societal and ethical improvements I receive ... (N=2018) (3.12b)

⁵ Please note that the figures are still in Dutch, but that English translations are available.

[3] **Integration** of environmental, societal and ethical aspects in my daily activities ... (N=2014) (3.12c)

[4] **Implementation**: environmental and societal issues come up in progress discussions in my department ... (N=2014) (3.12d)

3.13 CONCLUSION: THE CURRENT STATE OF AFFAIRS

How can the individual entrepreneur find out whether sustainability adds value to the company and how can it be scientifically shown that the transition to sustainability will pay? Those were the core questions addressed from various perspectives in this chapter. For each perspective we looked at the tipping points, the milestones, after which sustainability crystallises and achieves momentum and volume.

We saw that the business case differs from company to company. This means that each company must examine the value of sustainability of its own context and on its own merit: financial parameters, market share and position, and reputational consequences. The business case requires customisation. Enriched with the experiences of others, stakeholder expectations and the necessary vision and courage, this picture forms the basis for a well founded sustainability policy. In our study we learnt that this generic business case cannot always be calculated precisely, but also that this is not necessary. When at a certain point the strategic step towards sustainability is made, and this turns out to be much more a choice based on well a considered vision than calculated figures.

The present scientific literature does not provide a uniform answer to the question whether sustainability pays. The scientific discussion on the business case – and related the search for business models and tipping points – is thereby developing in four phases (table 3.9). The case for an inactive business case exists, if it is completely clear that a company must embrace sustainability because this will directly lead to higher profitability. There is quantitative support for a hypothesis and a company can work on the project without outside influence, generally at a functional level.

The reactive business case introduces qualitative features from external developments, generally for the sake of company reputation. The active business case stems from internal, strongly relational and moral considerations. This is about ‘doing good’. The considerations are long term and qualitative. The proactive business case presents a challenge of leadership at the interface between the company and community in which both parties move towards fulfilling the preconditions for sustainability by introducing new ways of doing business and jointly work on new ‘rules of the game’.

Table 3.9 Developments in thinking about the business case for sustainability

Generation	Phase	Method	Management Discipline	Orientation
1 st generation	Inactive	Strongly quantitative/instrumental	Functional areas	Internally oriented
2 nd generation	Reactive	Strongly qualitative/Instrumental	General/International management	Externally oriented
3 rd generation	Active	Relational/strategic/ moral	Strategic management/international business	Internally oriented
4 th generation	proactive	Holistic/societal	Leadership; business-society management	Interactively oriented (internal/external)

The overview of literature in this chapter shows that not all management disciplines are equally advanced in terms of the business case for sustainability. Also in the scientific discussion we can identify tipping points. The first generation business cases, in fact, demanded the impossible of researchers and managers: a direct quantitative relationship between sustainability and financial performance. This achieved ambiguous research results. But even these results had no effect on the tendency of CEOs to express their beliefs in terms of simple relationships.

The second generation of business cases built on the first, but emphasised the general qualitative criteria and remained strictly within the lines of the own, separate, disciplines. Case studies showed that investments in sustainability could be very valuable in some cases. Generalising from case studies, however, is by definition problematic. In this phase sustainability is generally approached reactively, prompted by real or imagined damage to reputation; this makes initiatives vulnerable to the accusation that they are purely cosmetic, for show rather than real action.

The scientific tipping point can probably be located at the transition from the second to the third generation business case (Figure 3.13). Here relational connections have been made between the various functional management disciplines with an eye to sustainable actions at a strategic level within the organisation. The transition to the fourth generation of business cases provides probably the real tipping point in scientific as well as management thinking. The issue is then seen as a challenge for strategy formulation and strategy implementation. Sustainability is a necessary but not a sufficient condition for competitive success. It becomes a standard starting point. More complex connections are gradually made across disciplines and there is a breakthrough to a more general vision. Many companies have a long way to go to reach this phase, as shown by this chapter. A 2011 survey of almost five hundred businessmen in the Business for Societal Responsibility network shows that companies are only halfway to integrated sustainability policies. The survey specified the area of business, showing that while the CSR and/or communications departments had fully integrated sustainability, least progress had been made in finance, investor relations and HR. The report

identifies short term financial thinking as the greatest barrier (The Regeneration Project, 2012).

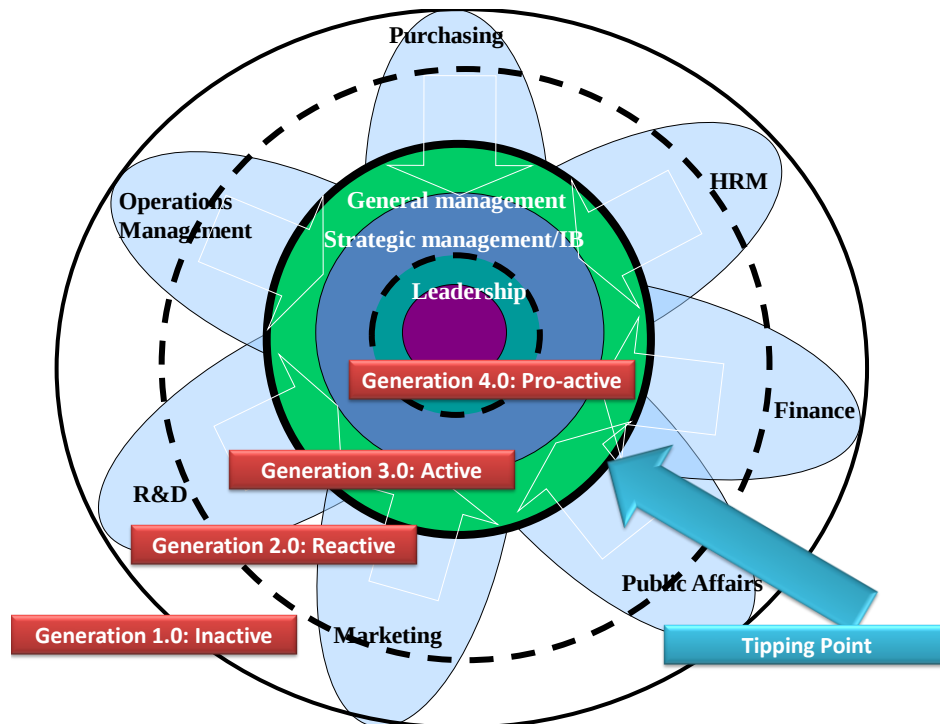


Figure 3.13 Four Generations of business cases and one intellectual tipping point
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This chapter has shown that the *scientific* business case for sustainability remains ambiguous. In part this is the result of insufficient scientific research, insufficiently advanced methods and only recent large scale attention to sustainability in many disciplines. Science also develops in generations.

In public affairs the added value of sustainable enterprise is clear, though. From a defensive point of view it is broadly acknowledged that confrontations with societal organisations and public affairs should be avoided, as these can cause considerable damage. In the increasingly transparent world in which we live this interest will only increase. Public affairs and corporate communications can also increasingly contribute to added value of the company by bringing sustainability efforts to the attention of clients, investors and society as a whole.

The added value can also be argued and calculated from an operations management perspective: eco-efficiency appears to be an easy candidate for lowering costs. Once again this is not a matter of competitive advantage or an earnings model based on a societal problem.

The added value for HR too can be demonstrated, although the literature does not provide quantifiable financial support. Marketing and sales struggle to find a business case for the whole portfolio of activities, including mainstream products. Isolated products or services with a sustainability bonus are easier to justify. Additional costs sometimes turn out to outweigh gains in market share or turnover.

The general conclusion remains that the knowledge concerning the efficient and effective management of sustainability and its relationship with corporate performance (the business case) remains patchy. We still lack the desired level of knowledge in many areas. In practice the ambiguity may be used as an excuse for inaction, especially by managers who are already sceptical. Although the evidence is somewhat fragmentary, this chapter does show that a good business case can be made in specific areas of enterprise. Investments in sustainability can pay. How exactly this works and the best routes for transition remain a challenge. Chapters 6 to 8 will present examples of companies that, despite the fragmented level of science, nevertheless started to make the transition towards sustainability. For management scholars, these companies will provide more systematic insights and, we expect, also help in surpassing the intellectual tipping point as shown in Figure 3.13.

Regardless of the state of knowledge, for the individual company, however, the question of sustainability is not one of generic proof but of constructing a business case for a specific situation. The central questions are thereby for example:

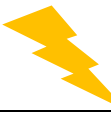
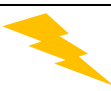
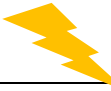
- Do my shareholders or financiers demand a sustainable approach?
- Do our customers appreciate sustainable product innovations, technologies, services or earnings models?
- Could our reputation be threatened if we neglect to make a sustainable change in time?
- Do we retain valuable staff more easily with sustainable policies?
- Can we expect financial profit from investment in sustainability?
- Should I use the financial crisis to reorient my company, and in what direction?

The answer to these questions provides ammunition for a rational and well argued transition to sustainability. In chapters 6 to 8 we show how the companies studied went in search of the answers for their own situations. Of course, regardless of the answers, there are moral motivations for sustainability. Even if there is no theoretical business case for avoiding unacceptable forms of child labour, animal cruelty or human rights violations, a company can and should make the effort to prevent them.

This chapter identified a very large number of tipping points for each functional discipline. Figure 3.14 summarises the ten most important of these.

Figure 3.14 Ten Key Tipping Points

TOP 10 TIPPING POINTS

1	<i>from</i> Shareholder value		<i>to</i> Stakeholder value
2	<i>From</i> Corporate Social Responsiveness		<i>to</i> Corporate Societal/Sustainable Responsibility
3	<i>From</i> Explicit demand (customer is king)		<i>to</i> Co-creation (customer as co- producer); latent demand
4	<i>From</i> Sustainability as extra in HRM policy		<i>to</i> Sustainability as precondition of HRM policy
5	<i>From</i> Purchase on basis of price and quality		<i>to</i> Purchase on basis of sustainability
6	<i>From</i> Negative - control oriented - codes of conduct		<i>to</i> Positive - change oriented - codes of conduct
7	<i>From</i> Philanthropy		<i>to</i> Core Business
8	<i>From</i> Inside oriented (transactional) leaders		<i>to</i> Inside/outside oriented (transformational) leaders
9	<i>From</i> Closed innovation		<i>To</i> Open innovation
10	<i>From</i> Functional motto		<i>to</i> Inspiring motto

Managers who have analysed the business case often intuitively understand the reasons for sustainability. This chapter has presented analytical and disciplinary starting points. The next step is to get things moving. It is essential for managers to gain a good understanding of which phase a company is in, in terms of the model, and which phase they are aiming at. This shows us which approaches are most likely to succeed. Doing nothing or waiting for a financially unambiguous business case are no longer options; an unambiguous case may never be possible, and taking calculated risks for competitive advantage is the essence of enterprise.

The next chapter presents a model for moving towards sustainability. Chapters 6 to 8 show how individual companies studied did so in practice.

CHAPTER 4

TRANSITION MODEL FOR ACHIEVING SUSTAINABLE ENTERPRISE

THIS CHAPTER IN 2 MINUTES

The essentials

- Managers embarking on sustainability initiatives may benefit from insight into the phases their companies are in *at present*.
- They must decide which *initiatives* will accelerate the process.
- It is useful to be able to gauge a company's position within a theoretical framework: it enhances awareness of the phase a company is in, which becomes particularly instrumental when this phase diverges from the phase as perceived by employees and/or management.
- This chapter delineates a model with four variants along two axes:
 - *Attitude* to sustainability and societal problems affecting the company, from liability to responsibility.
 - *Societal responsiveness*: is a company introverted or oriented towards the outside world? The first case is termed an intrinsic approach (and based on comparable motivation), the second an extrinsic approach (based on external motivation).
- In combination this gives us four theoretical phases through which companies pass on their way to sustainability: inactive, reactive, active and proactive.
- The most important transition challenges towards a new phase involve three impulses:
 - 1 activation
 - 2 internal alignment
 - 3 external alignment

4.1 INTRODUCTION

The route to sustainable enterprise is a trajectory which sometimes involves small steps, gradual, evolutionary change, and in other cases more revolutionary leaps. Many companies go through distinct phases characterised by different attitudes to sustainability, implicit convictions, risks, opportunities and perceptions. One phase is not necessarily better or worse than another. It is much more important that the company is in the right phase for its own situation. In each phase different perspectives and interventions will ease the transition.

Managers embarking on sustainability initiatives may benefit from insight into their companies' current phase. They must decide which initiatives will accelerate the process, and what will work. A theoretical framework showing the company's position is useful here.

This chapter further delineates our model, as introduced in chapter 1. A model by definition simplifies reality. No organisation, department or person behaves exactly as the model describes, but it offers a framework with which managers can consider which interventions or initiatives might be appropriate at a particular time. People and companies do not always behave rationally. Vision, personal insight, conviction and emotion are as significant as rational courses of change. Furthermore, in strategic management thinking, it is common to make a distinction between 'intent' and 'reality', which is very relevant in particular for the most strategic decision-making of them all: that of sustainable enterprise. The model is, therefore, not intended as a set route to sustainability but as a framework for reflection, a mirror for examining an organisation, department or individual. Companies and managers often do not follow logical lines. In retrospect it sometimes turns out that a tipping point was prompted by an unpredictable event, be it societal, organisational, publicity related or personal.

We present a four phase model. This chapter describes the general behavioural properties of companies in each phase and typical barriers to movement between the phases.

We address questions relating to the nature and form of the transition process towards sustainability. Examples include the factors determining whether a company passes a tipping point, or whether sustainability occurs in small steps or occasional leaps in the dark. What brings about the transition: inner motivation or external pressure? What are the roles of primary and secondary stakeholders? When can we be confident that change will stick? Does a company attempting sustainable initiatives due to external pressure have as much chance of reaching a tipping point as a company moving in this direction for intrinsic motives due to an active leader? Can an entrepreneur make this step alone, or must he or she involve stakeholders, and when is the best time to do this?

4.2 SUSTAINABLE DEVELOPMENT MODEL

The CSR literature is full of classifications to map out the available models. In essence they are based on two types of behavioural comparison which represent points of tension:

- 1 From an intrinsic, internally oriented perspective: the tension between inactive and active orientation.
- 2 From an extrinsic perspective: the tension between a reactive and a proactive orientation.

THE INTRINSIC ATTITUDE: INACTIVE OR ACTIVE TOWARDS SOCIETAL DEVELOPMENTS

How does a company see its role when it comes to business-related societal tasks? This is purely about how the company⁶ and its management views environmental or societal problems, not how it engages with interested parties externally. Intrinsic motivation determines whether a company approaches sustainability actively or inactively. An *inactive* company sees societal problems as irrelevant; implicitly it assumes these are problems for government. An inactive attitude is not necessarily societally ‘irresponsible’, but essentially leaves the majority of the responsibility with other stakeholders, often the government, as long as they do not directly affect the company’s profitability. An inactive attitude is a fundamentally introverted attitude and is strongly utilitarian. The government decides the rules and latitude for companies, setting thresholds for pollution and societal issues. A company like this does not consider it part of its task to become involved any further than necessary. The company is liable if it oversteps the mark and it accepts this. If societal problems require solutions, the government is there to step in and if standards change, these apply equally to all companies. Strictly speaking these companies cannot be said to be engaging in sustainable enterprise. In chapter 1 we stated that sustainable enterprise involves dealing with societal problems beyond the extent prescribed by the law.

An *active* company, by contrast, experiences and takes responsibility for societal problems. The extent of responsibility taken can vary, but the company acknowledges that legal thresholds with respect to environmental and societal issues are insufficient. The significance of societal issues confronting the organisation is recognised. The active entrepreneur has a more moral, strategic attitude to sustainability, regardless of society’s response. An active attitude is often coupled with a more outward facing, evangelistic attitude. Such entrepreneurs are intrinsically motivated to move forward and become a frontrunner.

THE EXTRINSIC ATTITUDE: REACTIVE OR PROACTIVE TOWARDS EXTERNAL STAKEHOLDERS

In addition to the basic attitude to societal problems, it is also necessary to look at the way a company deals with external stakeholders. There is a difference between *reactive* and *proactive* attitudes, with the middle ground characterised by a particular attitude to these extremes. The core question is who makes the first move when it comes to a societal problem affecting the company? Does it take an external stakeholder to point out societally undesirable effects or does the company itself take the initiative approaching a societal organisation to exchange ideas? We define external stakeholders as interested parties with which the company has no contractual relationship, such as organisations which gauge societal opinion, individuals or the media. A reactive organisation will not make the first move with stakeholders of this kind but will only respond when addressed. A proactive organisation picks up the phone first. A reactive company informs external stakeholders, whereas a proactive company involves both primary and secondary stakeholders in sustainability strategy. This is the domain of the strategic stakeholder dialogue (Van Tulder et al., 2004).

⁶ Please note that in particular in this chapter the argument is prone to the problem of ‘re-ification’, i.e. phrasing that applies personal attributes to organization behavior. A company of course has no views, but its management has. In theoretical terms, however, we can formulate as if the company can be characterized with an ‘attitude’ and ‘motivations’, but we hope the reader realizes that this is only shorthand for complicated internal and external alignment processes that will be further explained in chapter 5 and applied in the remaining parts of this book.

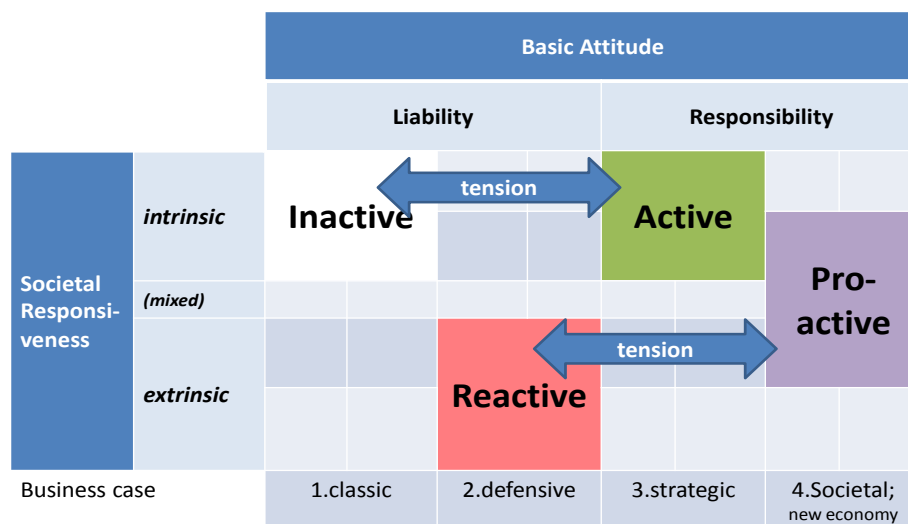
In our research we used these intrinsic and extrinsic attitudes as factors in a model which distinguishes two axes:

- The *fundamental attitude* towards societal challenges, with *liability* and *responsibility* as polar opposites.
- *Societal responsiveness* with *intrinsic* and *extrinsic* orientation as poles.

This produces a four-phase model as shown in figure 4.1.

As the figure shows there are two areas of tension. The first is between inactive and active approaches. This represents a continuum of increasingly intrinsic motivation to become sustainable. Discrepancies can arise in the mindsets of leaders and followers. A similar tension arises between a reactive and proactive approach, on a continuum of changing extrinsic motivations.

Figure 4.1 Phase model of sustainable development [(c) Van Tulder, 2010]



Real acceleration in sustainable enterprise is achieved in the transition to a new phase. The challenges vary between the different phases. The transition from inactive to active brings many internal tensions. The role of the director can be crucial here. We call this the challenge of internal *alignment*. The path of transition from reactive to proactive must be coupled with external alignment with important secondary stakeholders. If secondary stakeholders do not understand the company's strategy, or disagree with it, this forms barriers to effective implementation.

This is where the characterisation of different phases is applicable. Business units, national organisations or individuals can be in different phases, as can organisations as a whole. In practice we often find that all phases are simultaneously represented across an organisation, but that a particular phase dominates.

Organisations may be in different phases for different societal issues. For example, a company may deal very proactively with climate change, while being reactive on the issue of genetic modification.

The model is therefore primarily intended as a diagnostic tool: what is the position of a company, department or key manager and what intervention will take things to the next level? Managers can use the model to reflect on their own context and work out a plan of action.

4.3 FOUR ARCHETYPES

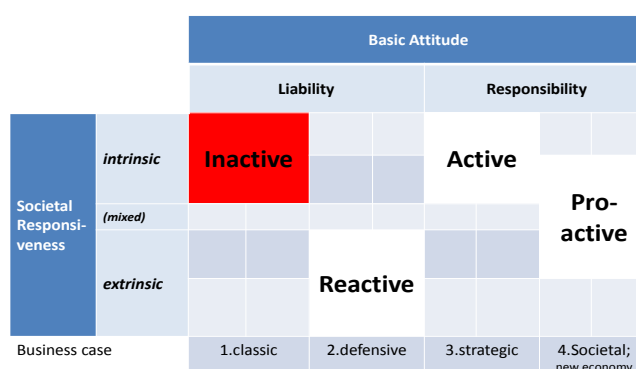
Each phase is characterised by implicit convictions and behaviour. In this section, we address each phase in further detail, describing how a company thinks and acts. How does it deal with societal interests, which stakeholders does it recognise, how does it deal with transparency towards the outside world and what are recognisable examples of a company in this phase? This should help practical readers to work out the position of their own organisations, departments or employees and decide on worthwhile courses of action. For business scholars, the model facilitates classifications at arm's length. The perspectives offered are idealtypical – some would even say stereotypical. No individual organisation will completely fulfil an archetype. In an inactive organisation there will also be idealists who would like to move to a more ambitious policy. In a proactive phase we also find sceptics who think the focus on sustainable enterprise is nonsense. The manager's challenge is to find the path appropriate to the situation in their own company.

The order in which we discuss examples is not necessarily chronological. In our research we have found that different routes possible. The trick is to identify opportunities to jump to the next phase.

4.3.1 THE INACTIVE COMPANY

Inactive entrepreneurs and their companies see no reason to work towards sustainability if the government does not require it or it does not directly benefit the company. The reasoning is based on liability considerations; if the company cannot legally be held liable for environmental or societal effects, it will not take action unless it can profit from it. If anyone mentions negative effects, the characteristic attitude is, “We would like to change, but you must look to the government, then the change applies to everyone.” It is good to realize that such companies may not be against sustainability *per se*, or indifferent to societal problems. An inactive approach, thus, does not entail irresponsible behaviour.

Figure 4.2 The Inactive Phase



Rather, these companies believe that the most effective approach is embedded in legal or financial apparatus. History does not always prove this position wrong. In the 1990s, when legislation against acidifying emissions such as sulphur dioxide or nitrogen oxides was

introduced, it took just a decade to counter acid rain. The same pattern can be found with the prohibition on chemicals damaging the ozone layer. Financial incentives can also work; when the government began taxing polluted water emissions in the 1960s, industrial emissions were significantly reduced. The introduction of environmental contributions for particular product categories represented significant progress for recycling. So there is a legitimate foundation for this relatively inactive attitude, especially if all other parties involved take responsibility (see also section 4.4.2). Many smaller companies in particular have little room for manoeuvre when it comes to adjustments to products, processes or services. Consumer demands and wishes can be rigidly formulated and suppliers are less willing to make adjustments for small buyers. Add to that the fact that the capital position of these companies often leaves little space for frivolities and risks. Everything is geared towards maintaining the status quo. These companies get moving when they can be held liable for the consequences of their actions, or when a sustainable option becomes cheaper than the existing alternative and fits into regular payback periods.

During this phase, attention for sustainability (not yet recognised as such) generally falls within the remit of a health, safety and environment (HSE) coordinator. This function is often *compliance* oriented, ensuring that the company fulfils legal demands, often supported by the introduction of standards such as ISO 9001 for quality, ISO 14001 for environment and OHSAS 18001 for health and safety.

These companies have no sustainable vision. A sustainability report is only produced if legally required. The emphasis is on the production process, gas emissions, soil conservation, energy use, working conditions, safety and similar issues. Environmental problems are the responsibility of operations, or a separate function such as HSE coordinator, director or head of technical services. Efforts are aimed at expanding freedom to use the environment, increasing rights to pollute. When it comes to environmental aspects of products, the legal team will be involved. European guidelines are carefully followed and the organisation adjusts strictly to the letter of the law.

Although these companies use laws on environment and societal problems as a compass, we often see local societal initiatives unfold; a local football club is sponsored, a societal initiative by an employee is financially supported or a societal meaningful activity is chosen for a company day out.

When it comes to stakeholders, the company takes primary contractual partners into account; a works council represents staff, customer wishes are thoroughly followed and suppliers are carefully chosen and instructed. There is rarely consultation with societal organisations, unless there is direct interest or it comes to a dialogue with a residents' association due to local problems with noise or smell. The communication often works as a monologue: the company explains why it acts as it does.

Most companies in this phase use a classic earnings/business model, selling a product or service as an independent, repeatable transaction, without experimenting to integrate sustainability.

The company does not ask its customers about their wishes regarding sustainability and customers who happen to ask are in principal referred to competitors. If a large group of customers demand it, however, it is seen as a demonstrable commercial interest. In the Netherlands the CO₂ Performance Ladder, introduced in 2009 brought a great deal of new

effort in climate policy among previously inactive companies. The system was originally developed by Prorail, the Dutch company responsible for the rail network, but it is now available across the board. Optimal climate policy benefits providers on this ladder by up to 10% ‘award advantage’. In such cases we also see inactive companies following the demand for sustainability for direct commercial advantage. Comparable processes can be witnessed around the world, because in many countries a sizable number of companies have not even entered the ‘inactive’ phase as sketched in the model. In a country like Brazil, for instance, companies in some studies have already been classified as ‘corporate responsible’ if they abide to the law. Illegal operations of corporations fall outside of our basic model. In this context it should be noted also that this problem looks simpler than it is in fact, certainly when one takes the international operations of companies into consideration. In a separate book the ‘international alignment’ within Multinational Enterprises has been discussed in much more detail (cf. Van Tulder with Van der Zwart, 2006).

It is not only small businesses, with little room for manoeuvre, that enter this phase. The classic case is Ford, with its legendary approach, where the Model T could be bought in “any colour so long as it’s black”. This gained Ford enormous scale advantages, but envisaged a rather weak-willed customer choosing exclusively by price, certainly not by colour. Ford realised almost too late that consumer power had increased and that they needed to cater to a wider variety of tastes. This example can be educational for companies who think they can afford to remain inactive too long. The context changes and what was briefly an appropriate attitude can quickly become a recipe for self destruction. We don’t have to look far back to find inactive phase examples among large businesses. For decades Cargill was secretive as to their genetic modification policy. Despite all attempts by pressure groups, the company is still no shining example of transparency or dialogue. Cargill is one of the world’s largest private companies, which substantially lowers the legal requirements to be transparent altogether.

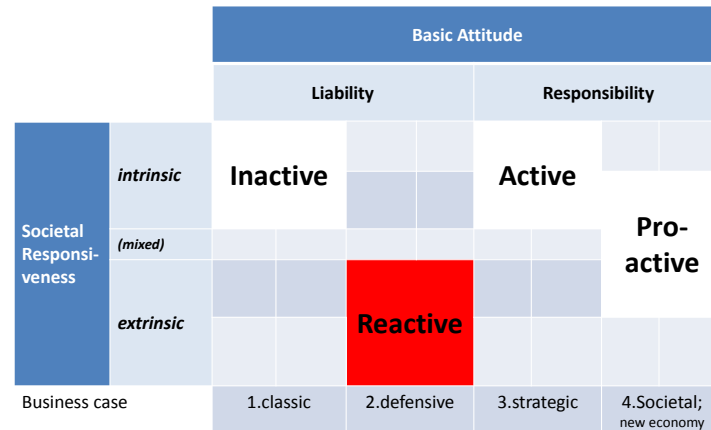
Examples of the inactive phase can also be found in specific areas such as responsible investment. The Dutch Association of Investors for Sustainable Development (Vereniging van Beleggers voor Duurzame Ontwikkeling, VBDO) systematically inquires the sustainability vision and performance at shareholder meetings. Often the VBDO representative is sent away empty handed or fobbed off by the director, showing that the company does not take the process seriously. The director fails to subscribe to the legitimacy of VBDO as a stakeholder. The company’s attitude is, “it’s none of your business.” This is an interesting case since the VBDO – comparable to other responsible investor organisations around the world – speaks for a group of shareholders all the same, which are considered to be the primary stakeholders (or ‘principles’ in the management literature) of the company. So inactive companies, still make a distinction between different types of shareholders and often ignore a substantial (and growing) part of their constituency. We do not need to look far to find companies that are still completely or partly in the inactive phase. This applies in particular to issues that are related to the economic sustainability of the company, which is often directly linked to the competitive position of the company in its market.

4.3.2 THE REACTIVE COMPANY

Companies characterised as *reactive* towards sustainability have a fundamental attitude based on liability and tend to *react* to stakeholders, whereas this is the exception with inactive companies. This societal responsiveness or orientation is extrinsic. The reactive company, department or employee acknowledges stakeholder interest whether the company has a contractual relationship with the stakeholder or not. Pressure groups, for example, can expect responses from the company, or may be invited to participate in a dialogue.

Companies use such dialogue to justify their actions; they are not there to pose questions or listen. Companies in this phase are unlikely to approach external stakeholders themselves. The business case is defensive, taking into account reputation, cost advantage and direct market response. Companies may respond in action as well as words.

Figure 4.3 The Re-active phase



Around the turn of the century many large western companies reacted to questions from societal organisations or investors by publishing a report on sustainability or societal involvement. This often went no further than answering stakeholders' questions, but it was a good start. The tone of these reports also reveals a reactive attitude. Companies in this phase often showcase particular areas, avoiding a complete and honest overview. Dilemmas are not mentioned and the focus is on operational management.

This increasing transparency is not surprising if we look at the business case. In addition to the analyses inactive companies use, such as cost advantage, direct market advantage and claims, in reactive companies we see reputation play a role. Publishing a sustainability report, even if it is incomplete, is good for reputation, as is the beginning of a dialogue with secondary, non-contractual stakeholders.

Reputational considerations also drive the way companies approach suppliers. Again reputational damage and avoidance of legal liabilities is thereby central. For example, suppliers may be asked to declare in writing that sustainability standards, such as OESD guidelines for multinational organisations or the ILO conventions (see box) are met. The legal approach reigns supreme. Companies are satisfied if a supplier declares that everything is as it should be and know that they can always fall back on legal liability. Of course this is no guarantee against reputational damage, but it is better than nothing.

International norms and guidelines: OECD and ILO

ILO standards

The UN International Labour Organisation (ILO) has set labour standards in treaties and recommendations. ILO declares the right to organisation and collective negotiation, protection from child labour, forced labour and discrimination. There are also standards for working times and conditions, pay and contracts. These labour standards are part of the Universal Declaration of Human Rights and are endorsed by the OESD guidelines. For more information see: ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up: www.ilo.org/public/english/standards/relm/ilc/ilc86/com-dtxt.htm

OECD guidelines for multinational organisations

In 2000 the Organisation for Economic Co-operation and Development (OECD) issued guidelines for multinational organisations. They state what the member states consider to be Corporate Societal Responsibility (CSR). In 2011 these guidelines were refined and expanded. The guidelines relate to dissemination of information, labour conditions, environment, corruption, consumer interests, knowledge transfer, competition and tax. Since the refinement, they have applied to all companies, demanding that they encourage supply chain partners to follow the OECD guidelines. Every member state has a National Contact Point (NCP) for information and mediation in the case of suspected violations. The NCP publishes all announcements on its website. In a number of OECD member countries, companies must comply with these guidelines to receive financial support for activities abroad for instance through development aid programmes.

For further information see <http://www.oecd.org/daf/inv/mne/>

In this phase we also see management systems on the rise. Partly spurred on by customers asking for them, partly as a result of belief in the value of these systems, companies introduce standards such as ISO 14001 or OHSAS 18001 for environment and working conditions. Not only do these companies react to demands from customers, societal organisations and stakeholders, they also observe their peers carefully. These companies are not real leaders in sustainability but they are trying to keep up with their competitors.

The first sustainability visions see the light in this phase. They are often formulated very generally. Common phrases would be:

- “Sustainability is in our genes”
- “Our products in themselves serve a societal purpose”
- “We take the environment into account as far as possible”
- “People/customers are our focus”

They sound promising, but they are very general, and cannot inspire policy decisions.

There is a real risk of the sustainability policy falling apart in this phase as a result of reacting to external signals. There are often clearly chosen pillars or spearheads, which can cause the policy to appear fragmented. Generally the focus is on the environmental and societal effects of the production processes; product features and sustainability potential receive less attention. Generally the connection with the strategy is tenuous.

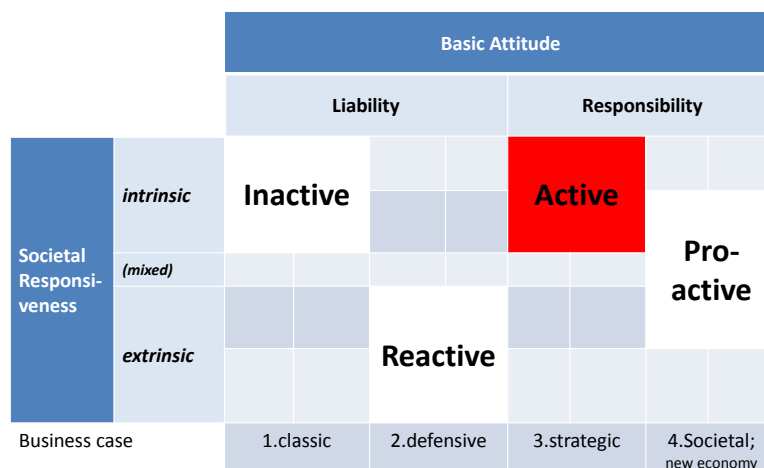
One of the most important characteristics of companies in this phase is sensitivity to visible external recognition for their sustainability performance. Larger listed companies take the Dow Jones Sustainability Index or Carbon Disclosure Project more seriously. This is not surprising, as these phenomena require a reaction in the form of a questionnaire. Companies which have been in this phase longer and are approaching a new phase in their thinking and behaviour, strive for official recognition for their performance.

The point of tension in this phase is the extent to which the company succeeds in making change last. The change is based on external pressure and there remains the risk that this will disappear, along with the initiative. There is a danger that the motivation never really becomes intrinsic and remains dependent on explicit and continual pressure from stakeholders.

4.3.3 THE ACTIVE COMPANY

The starting point in the active phase becomes responsibility rather than liability. These companies pay attention to societal influence and opportunities and take a stance in particular issues from this responsible position, often based on their individual vision and level of ambition (Figure 4.4).

Figure 4.4 The Active Phase



Companies and entrepreneurs in the active phase look first and foremost towards what they themselves consider to be their responsibilities. Of course they also respond to the demands of societal stakeholders, but in contrast to companies in the reactive phase, they formulate their policy introspectively. The moral business case is ethical and strategic, as befits the active phase, and is currently on the rise among many entrepreneurs. Sustainability is considered a worthwhile goal because it is ‘good’. It is what companies should do as they develop an ethical ‘story’. An active strategy is an expression of faith, a leap in the dark. It is difficult to make the business case for the entire company, especially in large, complex organisations.

Often when the first acknowledgements for sustainability are received a company realises that more is possible, and indeed necessary. Companies turn inwards to put their houses in order.

Directions are chosen in intensive sessions with management and employees, sometimes fed by contributions from outside. Core issues (where can we make a difference to society?) and ambition (what level are we aiming at?) are decided. The corporate communications department often takes the lead. This is a matter of making a connection between external developments relevant to the company and sector, and internal opinions and beliefs. Marketing and innovation departments also play a larger role here than in companies acting from the perspective of liability.

These companies require respectful dialogue with all kinds of stakeholders. Their approach is more questioning and there is willingness to exchange ideas. In some cases operational collaboration begins. The further companies develop in this phase the sooner they begin dialogue with societal organisations which can provide input on core themes. Companies in this phase often provide a full sustainability report detailing the chosen pillars, normally comprising three to five issues. Other issues are also more factually reported. The pillars are evenly handled and are normally societal subjects specific to the sector or company. Goals are set for the core themes, initiatives are described, programmes are unveiled and results presented.

Other subjects are generally reported in tables, without much explanation. This is of interest to specialists and necessary for completeness, but does not serve presentational purposes. Most of these reports are written at level A or B of the sustainability reporting guidelines under the Global Reporting Initiative (GRI), accompanied by an accountant's declaration of approval. Generally such reports are balanced in tone. Dilemmas and challenges are honestly described alongside achievements. A reduction in advertising expressions adds to credibility. The audit and accounting department is represented in the verification of the figures. These performance indicators not only appear in the annual report, but have grown to become full management indicators reflecting the organisational hierarchy and the variable pay package for management.

Downstream, companies in the active phase increasingly take the initiative to introduce innovations in their products or services, making it easy for the customer to choose sustainability. Sometimes this is achieved by gradually making the entire product or service range sustainable, sometimes by developing a separate line. Some companies use a special label such as 'my choice' in retail, or an ever expanding gamut of certificates related to safety and sustainability in the construction and property sectors in many countries.

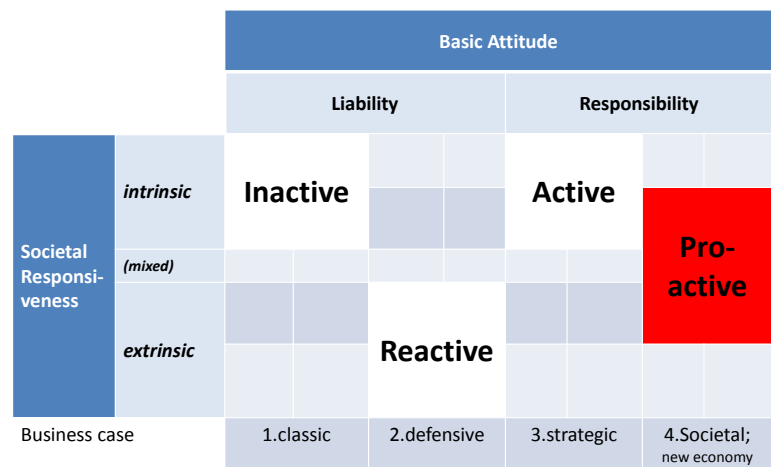
Upstream, active companies become more cooperative within their supply chains. In contrast to the reactive phase in which demands are formed for suppliers and signatures required, in this phase companies develop a strategy for engagement and collaboration. Suppliers are also physically audited and companies work with suppliers to find solutions where shortcomings are identified. The supplier commits to improvement, and the purchaser offers payment in return.

4.3.4 THE PROACTIVE COMPANY

In the proactive phase sustainability is fully integrated into company strategy. As in the active phase, the company operates from a position of responsibility and is fully aware of major trends in the global community. In contrast to the active phase, the company looks beyond societal developments relating to company business or representing direct challenges, taking into account developments which affect it less directly. The company has a truly cosmopolitan view. The societal business case fits best with a proactive business model. A

proactive earnings model requires societal leadership from the company, especially if the business case is ambiguous. The more ambiguous it is, the more important a ‘good societal story’ to justify the business strategy. If that story is not developed, there is a lack of support within the company and community, and a proactive earnings model cannot be successful.

Figure 4.5 The Proactive Phase



The company connects these developments to the business without directly deriving its approach to enterprise from it. On the basis of introspection the company approaches proactive external secondary stakeholders to explore new horizons and collaboration at a strategic level. Societal organisations are consulted, often confidentially, about difficult dilemmas. Assumed differences are replaced with shared goals.

Pro-active companies take the industry lead, initiating developments which advance sustainable solutions, either horizontally with competitors, or vertically with supply chain partners. They represent enlightened paradigms, which go beyond limiting, traditional assumptions. Instead of taking the attitude that helping competitors harms the company, there is the realisation that truw change requires the courage to move beyond short term thinking driven by annual figures. What was considered confidential in the past is sometimes shared in this phase to allow mutual improvement. These companies take initiatives which affect the entire playing field for their sector; the profits not only benefit the community and company, but may also benefit the competition.

The payback periods for solutions are often viewed in terms of decades. A good example is the *Marine Stewardship Council (MSC)* for sustainable fishing, an initiative set up by Unilever and the Worldwide Fund for Nature. Fish stocks will not be exhausted tomorrow or the day after. Extrapolating from the catches at the time Unilever was forced to conclude that action was needed. Biodiversity and right to life were seriously threatened. Long term mutual dependence and reciprocity are central points of departure.

This phase is characterised by active portfolio management aimed at sustainability problems, in which the strategy is inherently bound up with challenges to sustainability. Companies can take a step back from sectors or segments in which they may have made good profits, but which in the long term do not offer financial or societal value. This is the arena of strategic management and the board of directors. In this phase they are the owners of company thought and action.

Companies take strategic investment decisions for which there is no hard financial support, but which are chosen based on visionary leadership. Sometimes this is expressed in groundbreaking partnerships with societal organisations or NGOs.

In this phase we also see new earnings and business models mature. Companies are less interested in reinstating earnings models, giving sustainability a better chance. An example in the Netherlands is an initiative by architect Thomas Rau and others to step away from an acquisition and possession based economy. Calculation of costs should be based less on transfer of materials and more on right of use. This inspired the step to the lease economy, ensuring that ownership of products remains with the producer, who regains rights once the contract expires, taking back a product for upgrading or recycling.

The dialogue with external partners becomes open and collaborative. Companies are quicker to approach partners. Dilemmas are shared and solutions are sought based on confidentiality and trust. The organisation presents itself as a stakeholder: other organisations are approached and the company takes an active role in the stakeholder dialogues of other organisations. There is equality and reciprocity. At this stage all parts of the company have fully fledged sustainability policies, from purchasing to marketing, from communication to investor relations and reporting. These companies rarely produce a sustainability report separate from their annual report; their sustainability performance is an integral part of their financial report. Where possible these companies help suppliers move structurally towards sustainability. Alliances are forged for co-creation.

Due to the strategic nature of the subject in this phase, the board of directors (or commissioners which in the single tier system of Anglo-Saxon countries are represented by the non-executive management) is also actively involved, regularly discussing focal points and progress.

4.4 PHASE TRANSITIONS AND TIPPING POINTS

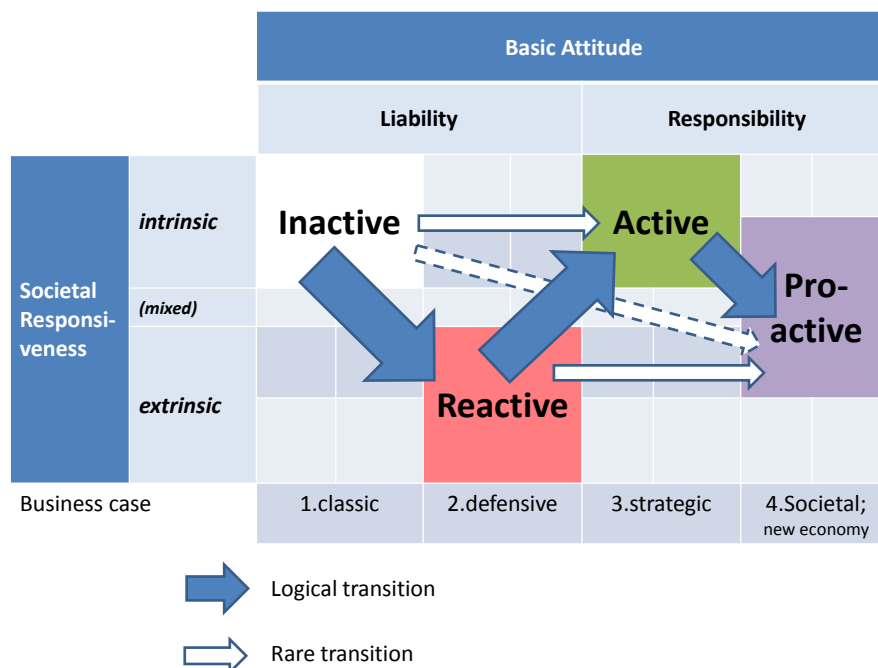
Companies are dynamic entities. Developments take place in parallel internally and in the outside world. Raising sustainability to the next level means recognising when the time is ripe for the transition to a new phase, identifying which interventions are appropriate when, and knowing which arguments can best carry the message internally. An inactive company will be less persuaded by an appeal to moral value than an emphasis on operational efficiency. A more actively oriented leader or organisation, on the other hand, might consider an appeal based on improved reputation to sound too opportunistic.

The greatest pace of progress is achieved in the transition between phases; after this energy can be devoted to consolidation and growth towards the next phase, for the entire company, a division, business unit or department. For a manager responsible for sustainability the trick is to evaluate when the time is ripe for an intervention to take sustainability to the next level. What are the precursors and how do you recognise the right moment? What intervention is

appropriate? How can relapse be prevented? How do you ensure that a tipping point is passed?

Phase transitions can be achieved in many different ways. Some transitions are evolutionary, others more revolutionary. The most obvious route is presented in the diagram below. It is not obvious that a company of any significant size can directly switch from an inactive to an active strategy: often it must move through a period in which its strategy is partially reactive. In rare cases there is a positive strategy. In the companies we surveyed this occurred a number of times (see chapter 6).

Figure 4.6 Phase Transitions [(c)Van Tulder, 2011]



How can a company progress towards sustainable enterprise? For the transition between the four business models it is necessary to overcome a number of obstacles with negative and positive incentives. Companies which achieve this pass tipping points, making relapse to a lower level much more difficult. We see two types of drivers and barriers: internal and external.

4.4.1 INTERNAL DRIVERS AND BARRIERS TO CHANGE

Pace and differences in coherence

Differences between departments often arise when thinking about implementing sustainability strategies. Departments at the forefront function as internal drivers towards transition. Departments further behind may act as a brake. Differences in pace create additional problems for coordination. Where there is little difference in pace and different areas are in similar positions, the attitude is coherent for the whole organisation and coordination costs are relatively low (figure 4.7a). Where there are large differences in pace and different attitudes in

different areas, the situation is incoherent and coordination costs increase. A coherent situation based on a reactive position (figure 4.7b) is often more difficult to set in motion than a less coherent model in which some departments can already provide a ‘good example’. An external trigger can then set adjustment processes in motion very quickly. The trick is to use this when it is available.

Figure 4.7a Incoherent situation [(c) Van Tulder, 2009]

Functional area	Primary stakeholders	Inactive ↔ active			
			Reactive ↔ Proactive		
Financial	Shareholders				
Marketing	Customers				
HRM	Employees				
Purchase	Suppliers				
Public affairs	Government, community				
Innovation	Knowledge in.				
strategy	Competitors				

Figure 4.7b Coherent situation[(c) Van Tulder, 2009]

Functional area	Primary stakeholders	Inactive ↔ active			
			Reactive ↔ Pro active		
Financial	Shareholders				
Marketing	Customers				
HRM	Employees				
Purchasing	Suppliers				
Public affairs	Government, community				
Innovation	Knowledge in.				
Strategy	Competitors				

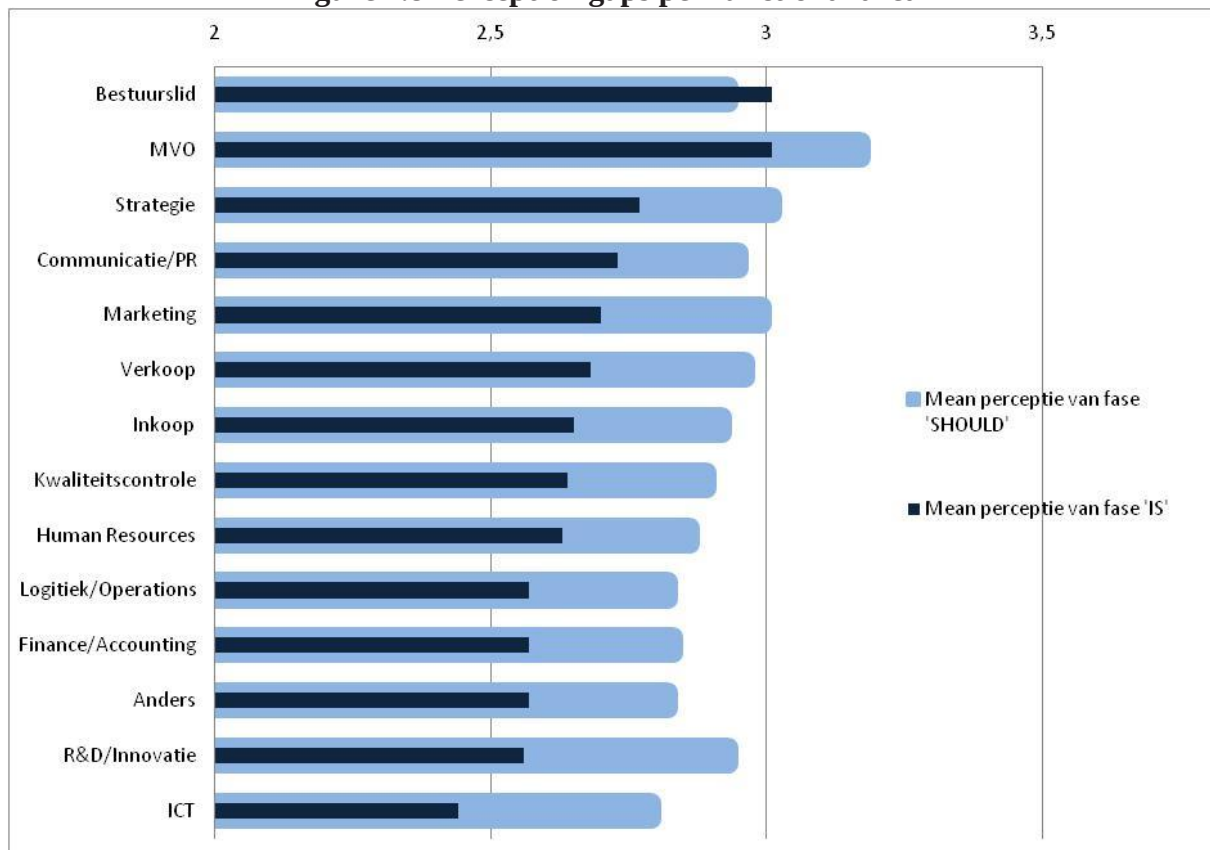
Perception gaps

Secondly, employee perception of what the organisation (1) does, (2) can do, and (3) should do also plays a role. If employees believe the company takes too little action on sustainability, it is more difficult to make the next step towards change. Change then seems too radical. If they feel it is too advanced, they lack motivation to go further because they think the required level has already been reached and no additional investments are necessary). As a company invests in an apparently active PR campaign out of defensive motives, credulous employees run the risk of being treated with suspicion by the community. Perceptions can diverge and converge in many different ways: between departments, layers of management, between the

sexes, and between what a company does, can do and should do. The consequences of measuring such perceptions are diverse and offer leads for managers:

- The less difference employees perceive between what is done and what should be done, the more support there is for the current position and the smaller the steps of change must be. Research among employees shows that the higher a company scores on sustainability, the higher the expectations of employees; this is how the tipping points work in practice;
- Areas where the perception gap is largest require extra management attention because they have the potential to lead to the greatest trouble;
- Departments with large gaps between what the company does and should do experience the greatest willingness to change. If the estimation of the existing sustainability position is realistic (fitting with average perceptions) those departments which believe they need to change can play an important leading role in the transition;
- If the average employee has a higher expectation of the sustainability strategy than the management, the transition happens too slowly. If the average employee has lower expectations than the management this forms a serious obstacle to the transition and a greater challenge for the organisation;
- There is probably a connection between the phase and the perception gaps among employees. The further the company moves on the route to change, the less employees experience 'issue stress', because the company has achieved a good alignment between the relevant issues and those considered important among employees.

Figure 4.8 Perception gaps per functional area⁷



⁷ Translation of rows: Board member CSR Strategy Communications/PR Marketing Sales Purchasing Quality control Human Resources Logistics/Operations Finance/Accounting Other R&D/Innovation ICT

CSR managers are prepared to go the furthest for sustainability. Board members form the only group in which the perception of how things should be is slightly lower than how things are. The greatest perception gap is found in R&D/innovation, IT and marketing. The innovation departments are inspired by the sustainability agenda, although they often feel the greatest discrepancy between the state of affairs and existing policy.

Two elaborate case studies

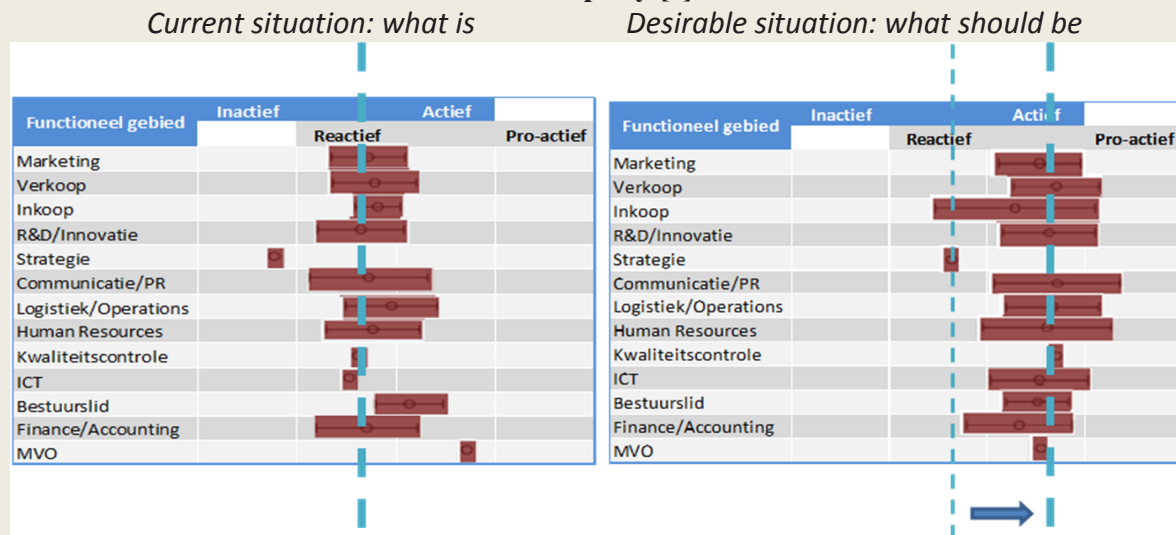
The notion of perception gaps applied to the twenty companies researched for this book provides two examples, both of them companies at or near a tipping point, which is illustrative for the difficult decisions management must make in order to apply the sustainability strategy. Company I was perceived by employees to be at the beginning of the transition from reactive to active. Let us assume that employee perception agrees with directors and independent observers, and that the company really is in the reactive phase. The strategy department is most conservative, judging the company to be inactive and thereby underestimating the actual situation, and least ambitious about what the company should be doing with respect to sustainability. Even if the directors want change, the strategy department judges the current reactive position to be desirable. This department is therefore the greatest internal barrier to change. The CSR department on the other hand has the opposite problem: they are too positive about the current strategy and run the risk of leaving the rest behind. This is the only department that should make a small step back in its ambitions for the future, so that it achieves slightly less than the average in the strategy department. This is because the proactive phase is characterised by a period in which the company deals actively with stakeholders. In this company the stakeholder relationship is in the hands of functional departments or the communications department. In this configuration the CSR department is not necessarily an obstacle to progress, but it will not carry things forward, which is what the board members want. The IT and quality control departments are also unanimous in their opinions of the current situation, and also estimate the company's position more realistically. When it comes to change the quality control department is consistent and remains prepared to go further than the average employee. They might even be one of the leading departments. Other departments want to go further in their ambition, but if they do so they lose coherence. This particularly applies to purchasing, where the range of opinions on strategy is wide. Finance and accounting in this company are relatively conservative in their ambitions, but rather incoherent, which means there are opportunities for the department to be pulled across the line. The route to change involves the challenge of harmonising internal expectations, evaluations and ambitions. In chapter 7 we explain and exemplify how this has the potential to build bridges between departments. If the company is to apply an active sustainability strategy, it will need to take into account considerable internal obstacles.

Company II is on the point of a transition from active to proactive. The company may be ahead of company I, but its departments are less attuned to one another. In this case management opinion is ahead of reality, whereas the CSR department's evaluation is realistic and somewhat conservative. This company's ambition for more proactive sustainability is not so much supported by the fact that the departments want to move forward, or the presence of clear leaders within the organisation, but because all departments on average, even taking the most conservative employee into account, are eager to make progress. What is immediately clear is that this comes at the cost of coherence between the innovation department and the logistics/operations department. The IT, marketing, sales and finance departments gain coherence in the intended direction of change, whereas the average position is closest to that

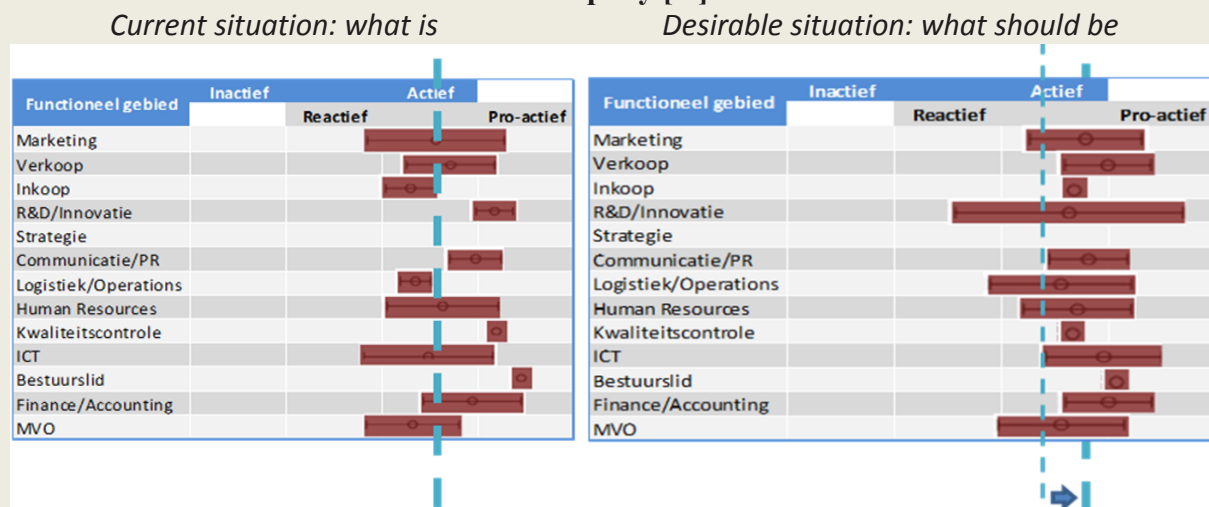
of the management. These departments are therefore the best partners for the management in making the desired change. The R&D/innovation department is the best choice for the leading role in alliances with external stakeholders.

Figure 4.9 Two examples

Company [I] ⁸



Company [II]



Leadership challenge

Leadership by the chair of the board or department heads plays an important role in transition processes. Every phase and every business/earnings model involves new challenges for leadership. An inactive earnings model generally involves transactional leadership, oriented towards maximal efficiency. In the transition from inactive to reactive earnings model, however, transactional leadership is less desirable, as the organisation comes under pressure from a shared challenge. Charismatic leadership is the obvious quality in this phase. Ethical or

⁸ Translation of rows: marketing, sales, purchasing, R&D/Innovation, strategy, communications/PR, logistics/operations, human resources, quality control, IT, Board member, Finance/accounting, CSR

visionary leadership is important for the transition between reactive and active business models. Without this, the transition is difficult. A charismatic leader without vision is unlikely to be able to pass the tipping point. Transformational or connecting leadership is the best style for the transition to a proactive model. The leaders make great internal changes coupled with external societal changes, in close consultation with many secondary stakeholders. Often different combinations of leadership styles emerge in each phase of the transition. It is not easy for existing leaders to change their leadership style or attitude to internal and external stakeholders. Often the transition to a new phase requires a new leader, or a new CEO offers a good opportunity to accelerate the transition towards sustainability.

Transformational leadership is increasingly paired with thought leadership (see also chapter 3), enabling the company to set the agenda for an issue and subsequently pass through an accelerated issue life cycle. Unilever's 2003 Dove campaign is an example. The company carried out research in ten countries into extreme negative self image among women, caused by factors which include the influence of the beauty industry (in which Unilever itself operates). The company launched a 'real beauty' campaign, with 'normal' women and platforms in which they could involve their target group in the campaign. Companies such as Philips, Apple, IBM and General Electric also started thought leadership campaigns. The approach requires a proactive attitude, introducing a new viewpoint to change the way people think about an issue.

4.4.2 EXTERNAL DRIVERS AND BARRIERS TO CHANGE

Primary stakeholders

The most important external drivers or barriers to change are primary stakeholders directly in contact with the organisation's functional departments. When primary stakeholders such as suppliers, consumers or government contemplate a more active sustainability strategy, this clearly boosts the strategy. In the relationship with government another factor comes into play: the threat of increased regulation. The transition from an inactive to a reactive attitude is often expressed in self regulation intended exclusively to prevent stricter government regulation. The reactive earnings model minimises costs, but forms a barrier to pushing through to the next level, because there is no intrinsic motivation for change. Strong trade unions and critical consumer organisations play a comparable role in the transition from inactive to reactive attitude to working conditions and product features. A critical attitude among external stakeholders is often inspired by an inactive company attitude to important matters. If companies initially give in to pressure, it is important to examine the extent to which their subsequent actions are voluntary. The more internal alignment processes are set in motion due to external pressure, the more a transition to a more active attitude becomes possible. The same external stakeholders subsequently play an important role if the company wishes to move from an active to a proactive role. The more confrontational the stakeholder strategy, the more difficult it is to make the transition to a societal sustainable model. Partnerships with external stakeholders in this phase often demand big changes among stakeholders.

International coordination

The international dimension of sustainability is an increasingly important driver of change. Most issues confronting Dutch companies are international, as are the solutions. Operating internationally can be a barrier or an incentive. Companies operating in countries with lower demands on sustainability are exposed to the temptation to lower their own standards. The

strong negotiating position of multinational companies may even encourage local suppliers to accept lower standards, starting a race to the bottom. Internationally, however, companies can gain a competitive advantage if they work with stakeholders to coordinate and regulate (Chih et al., 2010) at home and abroad. The search for a proactive approach involves finding room for manoeuvre, for so-called *normative free space*, in which companies can set themselves apart from their less international competitors (Donaldson & Dunfee, 2003). The alternative, continually adapting to ethical standards and cultures in all countries in which a company operates, brings coordination costs. The more the integration of markets and communities forms part of a multinational company's business model the more important it is for the company to demand high standards for its own level of sustainability, even if local government does not. In an international context sustainability becomes part of the risk management strategy. The race to the bottom can become a race to the top. The challenge is effectively, proactively managing ever more complex stakeholder relationships and the associated global issues. Shell, for example, has more than a thousand registered stakeholders. The stakeholder approach for multinational companies comes down to forming relationships with international NGOs such as WWF, Greenpeace and Oxfam. This reduces transaction costs and makes it possible to agree on new rules which can apply worldwide. Multinational companies are working with NGOs and international government organisations to set up new systems for production, trade and knowledge. More and more companies are taking the lead and becoming the most important agents of international change.

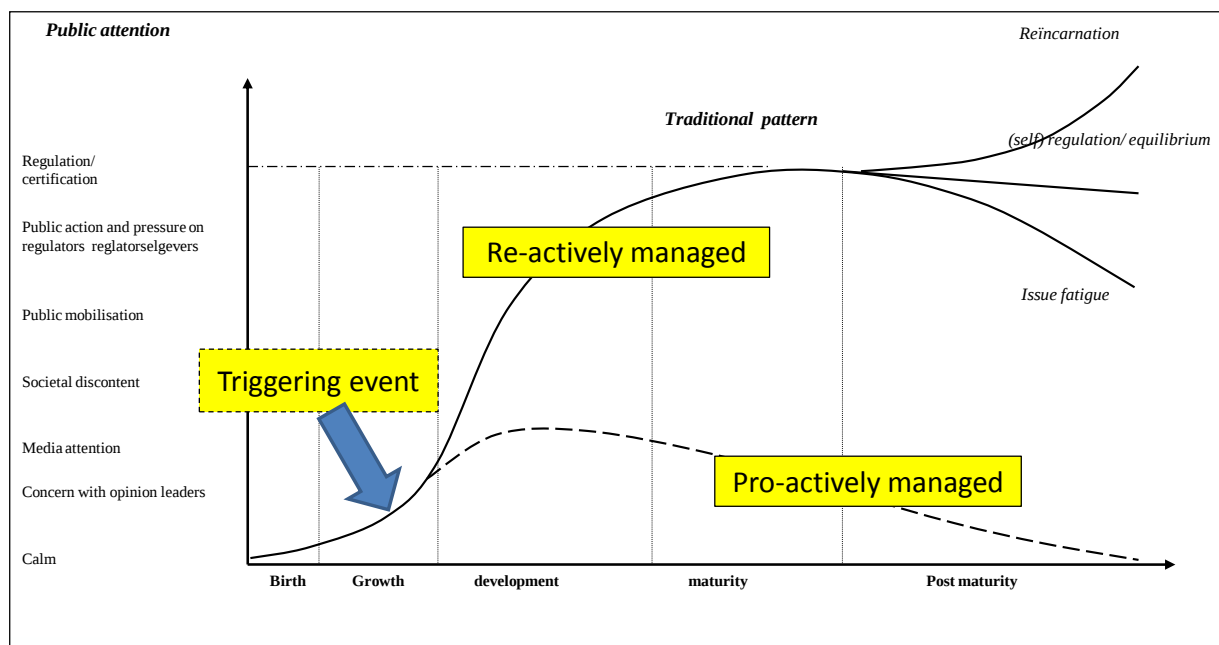
Issues

If an issue becomes news, this can also bring about a phase change. Large companies are habitually confronted with hundreds of issues, problems confronting the organisation which are not entirely regulated by law. In the relationship with secondary stakeholders companies mainly aim for external alignment on specific issues of importance. The relationship with stakeholders develops based on the urgency of the issue and the legitimacy of the organisation raising it (cf. Mitchell et al., 1997). The more employees feel connected with the external stakeholder, the faster the route to change. This is what happened with the confrontation between Shell and Greenpeace over the Brent Spar affair in 1995. Many employees turned out to be Greenpeace sympathisers. After an initially defensive attitude the company was able to make a quick internal transition to a more active attitude (later partially retracted, showing that Shell had not reached a tipping point). A company with an long term inactive attitude to a societal issue is probably not confronted by powerful secondary stakeholders or has a position in the value chain (e.g. the business-to-business) or ownership structure (e.g. a family business) which prevents reputational considerations from having any influence (cf. Van Tulder with Van der Zwart, 2006).

Once confronted with a triggering event, the company generally cannot persist with an inactive attitude, and must choose between reactive and proactive approaches. A typical life cycle for an issue moves through phases of birth, growth, development and maturity (figure 4.10). Issues are not generally solved under reactive management; instead the organisation offers ad hoc, stopgap measures. Sometimes an issue is inflated if the company denies its importance. This can amount to throwing oil on the fire. British company BP's CEO Tony Hayward discovered this in 2010 when he initially denied that the disaster on the Deep Water Horizon in the Gulf of Mexico would cause serious ecological problems. He caused a kickback reaction when he later tried to blame his US suppliers. Oil disasters can be largely reactively managed, but it is important to react promptly and not defensively. The issue with which BP was confronted was not in fact just the environmental disaster, but the fact that the company had made earlier decisions placing efficiency and price before safety. This mistake

is more interesting because BP had previously been perceived as one of the greenest oil companies. Clearly the tipping point in the offshore department had not yet been reached, and they had to mop up after the event, with the oil still flowing. Under proactive management a company takes the issue seriously much earlier, taking action in conjunction with societal groups. The closer potential issues come to core activities, the greater the need for a proactive attitude. This is the only way to avoid an issue blowing up and causing long term damage. Figure 4.10 illustrates this. Chapter 5 discusses the issue selection process in more detail.

Figure 4.10 the Issue life cycle
(source: Van Tulder with Van der Zwart, 2006; Van Mil, 2010)

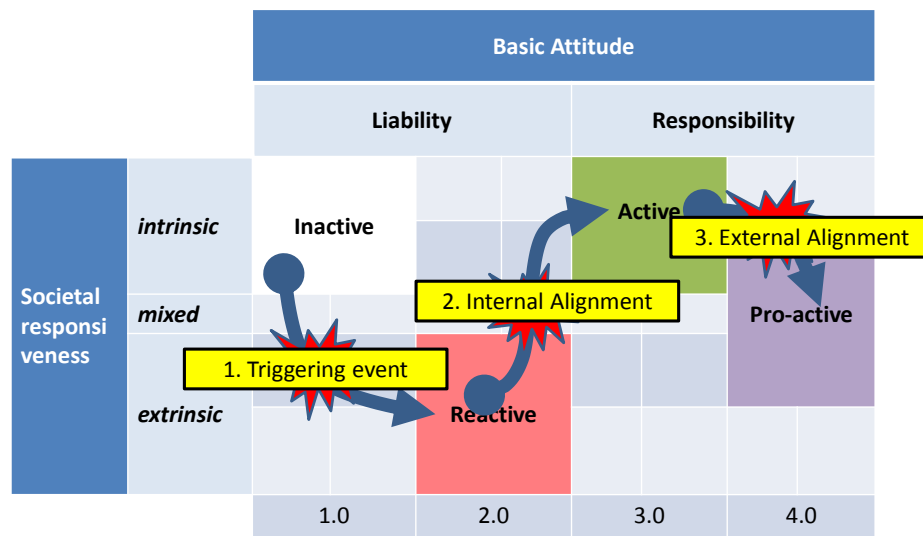


4.5 MAIN TRANSITION CHALLENGES

In summary, the most important challenges in the transition to a new phase of sustainable enterprise, entail three types of impulses, related to three basic tipping moments: (Figure 4.11)

1. Activation or triggering
2. Internal alignment
3. External alignment

Figure 4.11 Main Tippings points in Transition Trajectories [(c) Van Tulder, 2013]



[1] ACTIVATION: FROM INACTIVE TO REACTIVE

A company moves from an inactive, introverted attitude when stakeholders demand it. This is sometimes an amicable process, and sometimes more heavy-handedly enforced. The company reputation is always at stake. The resulting extrovert attitude is essentially reactive. Almost all large companies go through a reactive phase, or have been through one in the past. This phase creates a sense of urgency which brings internal stakeholders into line. A company with a reactive attitude is spurred on by liability, which cannot be considered a decisive tipping point towards sustainability.

[2] INTERNAL ALIGNMENT: FROM REACTIVE TO ACTIVE

Only when intrinsic motivation is directed towards taking responsibility for sustainability do we see organisations tip decisively towards sustainability. The leading role can be played by particular departments, which is why we look at the phases of individual departments. Management and corporate communications generally take the lead, although we may also see initiatives on the part of CSR management and HSE. Many tipping points must be passed in order to achieve internal alignment.

[3] EXTERNAL ALIGNMENT: FROM ACTIVE TO PROACTIVE

Unless the organisation is capable of achieving new balance with external parties, an active attitude also makes a company vulnerable to relapse. This is the transition from organisation to system. A proactive business model is coupled with solving specific societal problems. The decision as to which issues to tackle, depends on a delicate assessment of the current earnings

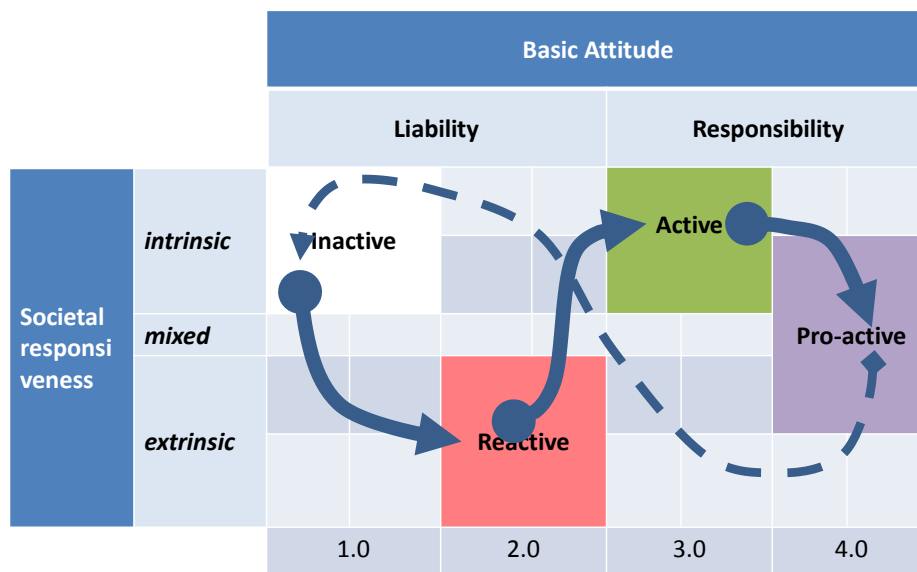
model, future goals and other issues confronting a company. Primary and secondary stakeholders play an important role, as root or support, or as partners.

4.6 CONCLUSION: FROM TEMPORARY TO PERMANENT CHANGE

This chapter sketched the phases companies move through from inactive to proactive attitudes towards sustainable enterprise. It is clear that the transition to sustainability is a permanent process of adjustment and a new beginning. The same elements crop up as in other processes of organisational change. What makes sustainability special is the change in the company's world view and self image.

The proactive business model forms the high point, but this is always relative; when new issues emerge, previously proactive companies must adjust their positions accordingly. The initial description of the transition is therefore temporary. We can view the model as a closed lemniscate shape, a process of permanent movement and challenge (Figure 4.12).

Figure 4.12 Permanent Change (source: Meeuwese, 2009)



MODEL SUMMARY

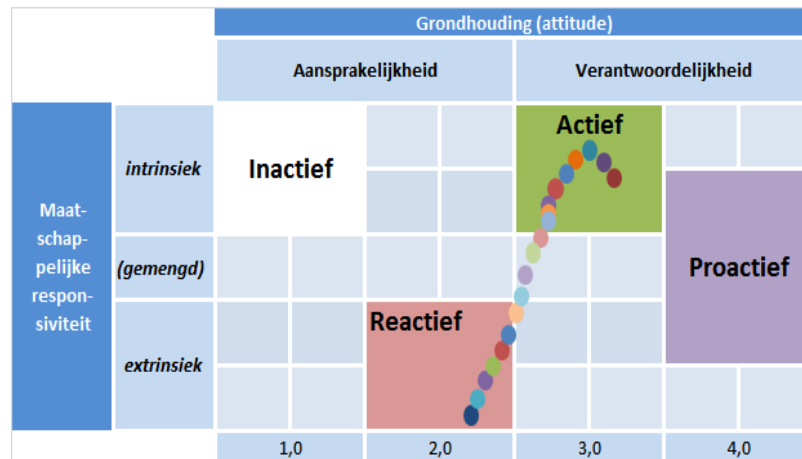
If we consider phases in different business areas, we see that each is associated with particular behaviours. Transition to the next phase is often coupled with a tipping point. Table 4.1 provides a concise summary of these behavioural characteristics.

Table 4.1 Main Phase Characteristics

Phase	Inactive	Reactive	Active	Pro-active
Behavior				
Vision of sustainability	None	General statements	Focus on societal contribution	Holistic strategic: focus on solving issue
Orientation towards external developments		External pressure, business operations, location	Affects the market and products or services	Cosmopolitan, society, system, secondary stakeholders
Business case-elements	Costs, customer and law	Costs, customer, law and reputation	Costs, customer, law, reputation, identity	Costs, customers, law, reputation, identity, long term continuity
Transparency	None	On request	Product and supply chain	Complete
Reporting	None or legally required annual environmental report	Seperate report on sustainability, focus on process	Sustainability report, focus on core themes and products	Integrated with strategy
Stakeholders	Government, important customers	Government, important customers, a few societal organisations	Government, important customers, a few societal organisations, own employees	Society as a whole
Approach to supply chain	No interest in sustainability	Narrow codes of conduct	Engagement and broad codes of conduct	Co creation and co-production
Dominant business area	Operations, legal team	Public Affairs	Corporate communications and HR	Management, leadership and strategy

In our study we investigated the current state of sustainable enterprise and its development twenty companies. We used a survey to map the state of affairs as seen by employees. This allowed us to form a snapshot of the company as regards sustainability, locating them in the phases at the time of the survey. We selected leading companies, with high positions according to external benchmarks such as the Dow Jones Sustainability Index, a sustainable product line or declared and proven vision for sustainability. Figure 4.13 shows how these companies are positioned in the phases of our model, based on employees' answers.

Figure 4.13 Positioning the frontrunner companies along the phases



None of the companies were entirely in the inactive or proactive phases. It stands to reason that we found no inactive companies, as we focused on frontrunner companies, but it remains remarkable that no company was judged by employees to be in the proactive phase. Clearly this stage is only reached when companies make further reaching steps towards sustainability. This does not change the fact that particular departments were already in the proactive phase, but no entire company had reached this point.

Of course this is a snapshot of how one stakeholder group, the employees, saw the companies. It is also interesting to look at how the companies reached this position. What brought them to this point and what challenges do they face now? Chapters 6 to 8 give an overview.

The companies we researched achieved different phase transitions and passed one or more tipping points, sometimes as entire organisations, sometimes individual departments. In the following chapters we illustrate how they achieved this. Chapter 6 looks at how companies go through the inactive phase and leave it behind. Chapter 7 gives insight on the reactive phase. Finally in chapter 8 we look at reaching the proactive phase for individual departments. In all these transitions stakeholders play an important role. Sustainability is by definition a process of dialogue, weighing up interests and influences between different parties. Stakeholders take on different roles in each phase, sometimes as harsh critics, sometimes as partners in a dialogue or collaboration. In the next chapter we explain this within a final theoretical framework, but also with examples from our survey amongst employees of frontrunner companies.

CHAPTER 5

COLLABORATIVE SUSTAINABLE ENTERPRISE: THE INCREASING IMPORTANCE OF STAKEHOLDERS

THIS CHAPTER IN 2 MINUTES

The essentials

- Stakeholders are an important concept in sustainable enterprise.
- Stakeholders are individuals and organisations influenced by companies in realising their interests, or parties which have an influence on companies. We distinguish between:
 - a) Contractual stakeholders: interested parties in an official relationship with the company, such as employees, customers, suppliers, certain government organisations, shareholders and other financiers, also known as direct or primary stakeholders.
 - b) Non-contractual or secondary stakeholders: social or environmental organisations, human rights organisations and the media.
- It is not always easy, but dialogue with stakeholders is essential. They are the eyes and ears of society.
- In order to achieve good dialogue, a company must also decide its own view on the most important themes and how to deal with them.
- The dialogue can be conducted in various forms, including one-to-one contact, multi-stakeholder group meetings, surveys, conferences, roundtable discussions, platforms and partnerships.
- Relationships with an increasing number and range of stakeholders create a new management challenge: effective partnership portfolio management.

5.1 INTRODUCTION: TWO SCHOOLS OF THOUGHT

The involvement of stakeholders in company activities lies at the heart of sustainable enterprise. Taking on board legitimate stakeholder interests and expectations when making decisions ensures that ethical, social and environmental issues are handled well. Social stakeholders must be involved in order to achieve fast, effective strategy implementation. The direction of the sustainability trajectory is far from clear. If you are setting out on your journey, it's a good idea to bring along a number of partners. Companies really intending to operate sustainably must be prepared to commit to stakeholders to create social value. The Netherlands, with its strongly institutionalised consultation structures between stakeholders, the so-called 'Rhineland model', traditionally provides a good basis for this.

Business professor C.K. Prahalad calls this process 'co-created value'. Michael Porter in a quest for what he calls 'sustainable competitive advantage' calls the ambition 'creating shared value'. Nestlé made the latter even their official motto, showing that they understand the need to design and implement new systems with important stakeholders to maintain a sustainable competitive advantage in the industry. Stakeholder involvement is a necessary condition for effective sustainability strategy. This is recognised by the employees in our survey: more than 75% think that in developing environmental and social strategy a communal or interactive dialogue must take place with interested parties (Figure 5.1).

Involving interested parties in developing the environmental and social strategy (N=1981)

2%: Regular and/or organised contact with interested parties is unnecessary.

11%: There should be discussions with external parties about environmental and social issues.

37% There should be social dialogue about environmental and social issues in which codes of conduct are decided.

39% There should be an interactive dialogue with the primary stakeholders about the environment and social issues.

11%: No opinion

Figure 5.1 Involving stakeholders

Opinions are particularly divided as to the most effective method of stakeholder management and its timing. On the one hand the critics believe NGOs should continually breathe down companies' necks to keep them on the straight and narrow. Many entrepreneurs have made changes in response to social campaigns in which they were named and shamed. The discussion focuses on worst practice. On the other hand the cooperative school believes stakeholders should work with companies to implement sustainable practices, naming and faming, making best practice the focus. Both approaches have their uses, even in companies willing to change, but the approaches are often employed at the wrong moment, either by companies or by NGOs. A cooperative strategy started too early may lead to low targets, and ending a confrontational strategy too late may lead to frustration in the implementation phase. Criticism of the phenomenon remains a problem. Often the legitimacy of initiatives is questioned. For instance in roundtable discussions only private parties (companies and NGOs) are qualified to make decisions. Government and scientific organisations are often only permitted to observe or advise. Stakeholder engagement depends on timing, goals and form, be it dialogue, partnership or other platforms for communication.

Formal involvement of stakeholders in issues affecting companies and society represents a significant change over the last few decades. In chapter 1 we cited Friedman, who proposed in the sixties that a company's only responsibility was delivering shareholder value and profit. He even said it would be irresponsible of managers to take into account stakeholder interests because this would distract from the interests of the real company owners, the shareholders.

This changed drastically in subsequent decades. Freeman's Stakeholder Theory put stakeholder thinking on the map. Central to his theory is the idea that doing business can be seen as a set of relationships between groups with an interest in business activities, the stakeholders (Freeman, 1984 in Visser, 2011). Interest in stakeholder engagement has grown significantly since the mid 1990s. In recent years this has been further spurred on by initiatives such as the ISO 26000 guidelines which give stakeholder expectations a prominent place.

Managers must work out how to organise matters, from dialogue to partnership portfolios. This often remains an unsolved problem in large organisations, which may have dozens of partnerships. This chapter introduces some of the points of discussion, with supporting material from our study.

In this chapter primarily talks about *who*: stakeholders are parties, individuals and organisations which influence the organisation or can be influenced by it. The aim of dialogue is to exchange ideas. Partners do not need to agree, but they must listen to one another. This chapter discusses different forms of stakeholder engagement. We look into partnerships, collaboration between companies and social stakeholders with shared goals, methods and expectations for tackling social problems (not just companies' individual problems). In conclusion we present a checklist for setting the various forms of stakeholder management in motion at the right moment.

5.2 CATEGORIES OF STAKEHOLDER

At the simplest level we distinguish stakeholders according to whether or not they have a contractual relationship with a company:

- Contractual stakeholders have a contractual connection with the company: for example shareholders, government licensing organisations, employees, customers and suppliers.
- Non-contractual stakeholders deal with the company without a contract: for instance NGOs, other government organisations, potential customers and potential employees.

A related distinction between *primary* and *secondary* stakeholders is based on claims over a company: these can be legal, economic or moral. Primary stakeholders such as employees are of crucial importance to the company and are directly affected by company actions (Dommerholt 2011). Primary stakeholders can be attached to the different business areas (table 5.1). Industry groups are important for preventing companies from competing strategically on unsustainable principles (such as postponing environmental investments for short term advantage). Industry collaboration must ensure a level playing field. If industry groups do not function well, or set their goals too low, this can seriously impede implementation of sustainability strategies (see chapter 3). Knowledge is crucial for sustainability, so research institutions and universities are also primary stakeholders and can contribute in various areas, most often innovation. A company firmly rooted in a network of

research institutions can change more easily than a company operating alone. Contact with general management is shaped by the relationship with the local or regional community. Many organisations in our sample with high sunk costs in their networks or manufacturing facilities, such as steel producer Tata Steel, Dutch telecoms company KPN and Royal Dutch Shell, have no alternative: they must invest in good relationships with their neighbours to be sustainable. This has a big influence on their ‘licence to operate’.

Primary stakeholders will in the first instance always approach companies about their legal liabilities. Primary stakeholders can (also) be represented by formal organisations which represent member interests rather than those of the company. The more powerful or relevant these stakeholders become, the more important it is to look for mutual interests. The more these stakeholders represent general interests, as does the government, the more socially relevant this stakeholder relationship becomes. However, these stakeholders can represent minority groups, necessitating a different consideration of interests.

Table 5.1 Business areas and primary stakeholders

Business area	Primary stakeholders	Organised as....
[1] General management	Community	government, local, international
[2] HRM	Employees	Trade unions, educational institutes
[3] Marketing	Customers	Consumer associations
[4] Purchasing	Suppliers	Supplier groups
[5] Finance	Share holders	Shareholder associations, pension funds
[6] Innovation/R&D	Universities, knowledge institutions	Academies of Science, government
[7] Strategy	Competitors	Industry groups, chambers of commerce, employer’s associations

Secondary stakeholders are groups or individuals influenced by a company or able to influence a company, but not crucial to its continuity. Secondary stakeholders check that companies conform to accepted standards, values and expectations, as in the case of environmental organisations (Dommerholt, 2011). A company generally comes into contact with secondary stakeholders through conflicts over issues affected by the company. Secondary stakeholders initially appeal to companies based on their responsibilities rather than liabilities. The discussion often relates to issues of importance to the entire company, not just individual areas. In order to be effective these secondary stakeholders must be represented by formal organisations. Human rights is represented by Amnesty International or Human Rights Watch (secondary stakeholders), but the related area of employees’ rights is often represented by trade unions, which can operate as primary stakeholders. However, in conflicts between companies and secondary stakeholders the connections often turn out to be more direct. Companies are confronted with the broadest range of secondary stakeholders in areas such as human rights, ecology, health and development. Regular consultation with these stakeholders marks a transition towards sustainable enterprise.

Often it is assumed that stakeholder collaboration chiefly involves companies and NGOs, but industry peers are also primary stakeholders and are essential to achieving critical mass for a

transition. This is often underestimated, but as the employee sample shows (figure 5.2), willingness to collaborate is high (38%).

Willingness to collaborate with industry peers over environmental or social issues is ... (N=2052)

3%: Nonexistent (we do not work with industry peers)
9%: Low
29%: Average
37%: High (we try to work actively with industry peers)
22%: Don't know

Figure 5.2 Willingness to work with industry peers

The importance of stakeholders depends on their relationship with the company (primary or secondary). For many interests in specific areas the partner in dialogue is really fixed beforehand and the company must simply decide how seriously to take matters. For more general sustainability issues the company must decide whose expectations are most important. There are three factors for identifying relevant stakeholders: power, legitimacy and urgency (Mitchell et al., 1997; Dommerholt 2011):

- *Power*: the greater the power of the stakeholder group, the greater its influence. Stakeholders with economic relationships (primary stakeholders) can be very powerful if they are big customers, or suppliers of products and services which are difficult to procure elsewhere.
- *Legitimacy* is the extent to which a group of stakeholders can justify their claim on a company. When it comes to moral issues, for instance, secondary stakeholders may be in a position to frame an issue in such a way that the company is forced respond.
- *Urgency* is the extent to which a claim provokes immediate action, as when an NGO comes knocking on the door.

The most important stakeholders are the groups which unite all three factors, representing both primary and secondary stakeholders. The groups can be further subdivided into different customer or supplier groups. Brainstorming with a group of managers in a company can produce a long list.

INTERNAL STAKEHOLDERS

As shown in chapter 4, a proactive approach to stakeholder engagement requires internal alignment, involving employees in important issues. There can be gaps between what employees and the company consider important. Stakeholder consultation with employees, combined with good prioritisation, is an important precondition for sustainability. Our 20 company survey shows employees believe their companies have a clearer vision on social issues than on the environment, one which goes beyond legal requirements. However, when asked how far the company works with other organisations (proactively, with breakthrough initiatives), they reply that environment has the upper hand. External stakeholder consultation appears to be better rooted in the organisation and can expect more support (see figure 5.3).

When it comes to environmental measures ... (N=2074)

3%: The company has taken little initiative.

6%: The company should be guided exclusively by what is absolutely necessary.
 12%: The company should be guided by what important external parties ask of us.
 40%: The company has formulated its own vision which goes beyond the law.
 35%: The company works with other organisations to come up with breakthrough initiatives.
 5%: Don't know.

Figure 5.3 Willingness to collaborate over environmental rules

5.3 REASONS TO DO BUSINESS WITH ENGAGED STAKEHOLDERS

Why should every company engage in well structured stakeholder dialogue? The stakeholder dialogue is above all a way to gain an overview of interests and achieve harmony. This is a matter of recognising and acknowledging legitimate expectations, taking opportunities and minimising risks (Van Tulder et al., 2004). The business case (see chapter 3) for stakeholder engagement includes the following elements:

- Early signalling and prioritisation of trends and future issues.
- Gaining insight into stakeholders' appreciation for the organisation, and evaluation of current performance.
- Cultivating greater understanding of interests, concerns and contribution to society.
- Expressing respect for stakeholders. Engaging in a stakeholder dialogue is a valuable exercise. The choice of dialogue, both parties listening and learning from one another, is a sign of respect. The medium in itself is an important message.
- Supplying information to stakeholders so that they can form opinions. In the case of a so-called information vacuum, the existing situation can be set in context.
- Creating support for policy.
- Resolving concrete sources of tension in the relationship with stakeholders.
- Collecting suggestions for improving companies' social performance, as well as Key Performance Indicators for stakeholder reporting.
- Increasing sensitivity to stakeholder expectations and responsibility for social issues.
- Building up a greater buffer of mutual trust, in order to pick up on possible problems more effectively.
- Creating a basis for communal projects, alliances and partnerships.
- Preventing incidents being played out publicly in the media.

The challenge is to realise the advantage and use dialogue strategically. The necessity and feasibility of dialogue depend on the company's phase of development and the weight given to a particular issue. Stakeholder expectations must be carefully analysed, either by asking them directly or through desk research. This enables companies to discover expectations and the extent to which they are fulfilled.

5.4 SETTING PRIORITIES

In addition to determining which stakeholders you wish to include in a dialogue, platform or partnership, it is also important to consider the choice of subjects for dialogue. Prioritisation is crucial to CSR policy. Here we see companies develop from a reactive attitude in which the company is busy reacting to issues brought up by others, to actively determining the area where the company can add value for society. In this section we look in more detail at how the relevant issues can be identified and prioritised.

It is advisable for companies to do their homework before engaging in dialogue with stakeholders: how do companies see their effect on society and what position do they choose on particular subjects? The Global Reporting Initiative (GRI) guidelines and ISO 26000 are useful here. ISO 26000 is subdivided into seven principles, seven core themes and 37 issues.

The guidelines also give criteria for determining the relevance, significance and priority of the various subjects.

CSR managers should also look at existing practice. For example, do the communications and sales departments receive questions about social issues or product features? Can particular subjects be identified? Collect and analyse these.

GRI materiality assessment

The Global Reporting Initiative (GRI) guidelines for sustainability reporting state that a company should choose the subjects of its sustainability report with careful consideration, supporting them with a materiality assessment.

The guidelines set criteria with which a company can judge relevance of information, such as company mission, stakeholder opinions, impact on sustainability issues and international standards.

Reports are based on the subjects identified in the materiality assessment.

Source and current guidelines: <https://www.globalreporting.org>

The position chosen can then be tested in stakeholder consultations. It is advisable to decide in advance which subjects to put on the agenda, allowing space for stakeholders to state what they consider important, and setting out clearly the subjects which the company wants to discuss. Issue matrices can be useful for selecting subjects. The classic issue prioritisation matrix was developed by Steiner and Steiner (2000). The way a company deals with an issue is determined by the extent of impact and the probability that the issue will grow into a company specific issue. The matrix makes it possible to prioritise issues which threaten company reputation in order to choose the best approach. Figure 5.4 reproduces Steiner and Steiner's original schema and shows how the four types identified in chapter 4 can be projected on the basis of this division. Where there is little likelihood of an issue arising, and the potential impact is also low, an inactive approach is sufficient. In the case of issues which are very likely to arise but will have a low impact, or for unlikely issues which would have a big impact, a reactive approach is appropriate. The higher the probability and impact, the more important it is to take a proactive approach. Early identification and management of stakeholder expectations are vital. Issue management aims to reduce the gap in expectations, preventing negative impact on the company. This can be achieved with adjustments to company behaviour and policy, and targeted, authentic management of community expectations. Obtaining understanding for policy can help in influencing stakeholder expectations. One current approach is *issue advertisement*, aimed at cultivating understanding for dilemmas with which a company is struggling. This can turn reactive issue management into active stakeholder management.

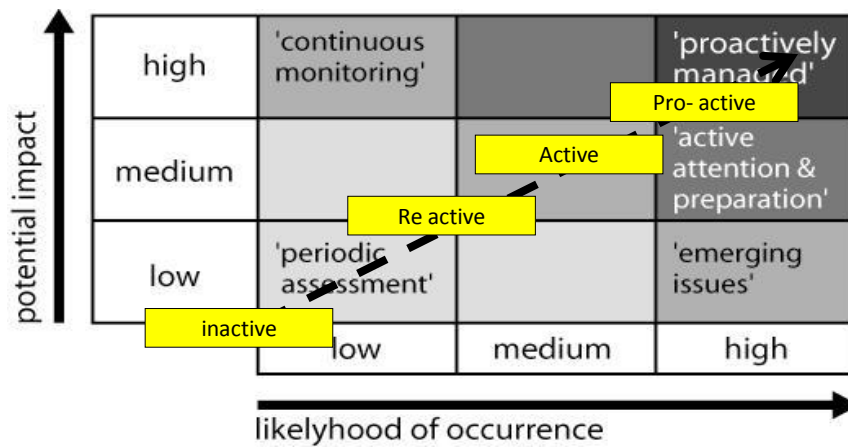


Figure 5.4 Issue prioritisation matrix
Source: based on Steiner & Steiner (2000)

In the 1990s Shell was one of the first companies in the world to make the issue prioritisation matrix an integral part of company policy. Many companies followed Shell's example. However, this approach was largely reactively applied. This can also be partially explained by the dominant characterisation of issues as external, things that 'happen to' the company. An issue only really becomes a problem when it is perceived as a threat. The tipping point for issue management comes when an issue is also seen as an opportunity. Active external stakeholder management is a precondition for creating opportunities. Given that later phases of sustainability also demand changes in the system, the challenge in issue management is identifying potentially threatening stakeholders (critical NGOs) and developments, and involving important stakeholders (possibly the same critical NGOs) in order to create opportunities. The extent of proactivity therefore depends less on the issue and more on company ambitions. Companies such as Nestlé which talk about 'creating shared value', or companies such as Unilever which produce a 'sustainable living plan', recognise that systematic change cannot occur without constructive engagement with important stakeholders, tackling problems together, and harmonising mutual goals and ambitions. This trend is coupled with bold leadership, with entrepreneurs tackling social problems to gain inspiration for new business models. The UN Global Compact, working with Unilever (supported by many Dutch companies, including DSM, KPMG, Shell and TNT), introduced the term 'transformational partnerships' (see box in this section).

As stated above, prioritisation and the use of stakeholder management to combat problematic issues depend on the opinions of company employees. This can vary from one company to another, and is also affected by the industry. For example, when it comes to issues of animal welfare and biodiversity, employees in the food industry are more likely than average employees in all sectors to see these issues as primary responsibilities (figure 5.5). It is interesting to note that food industry employees (including retailers) see an active or proactive role for their organisations; Figure 5.6 compares two completely different sectors in this respect: food/retail and the construction industry (darker colours).

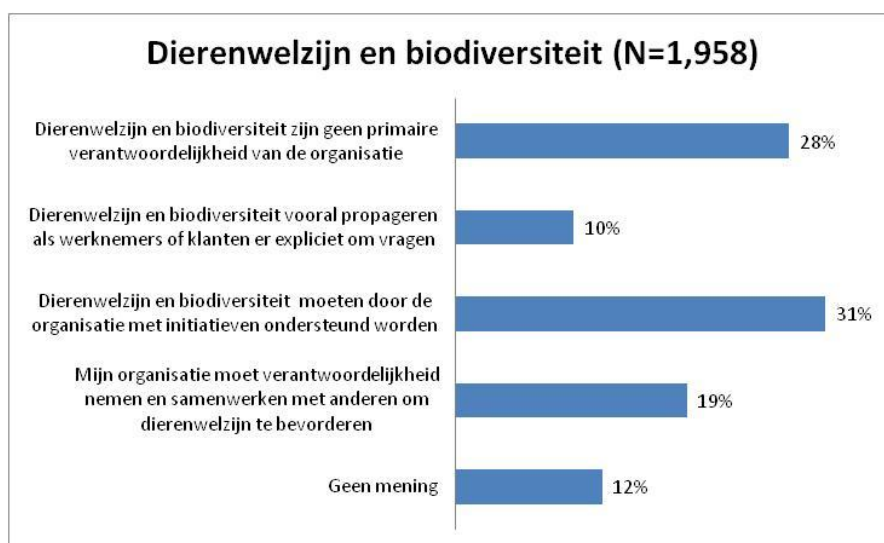
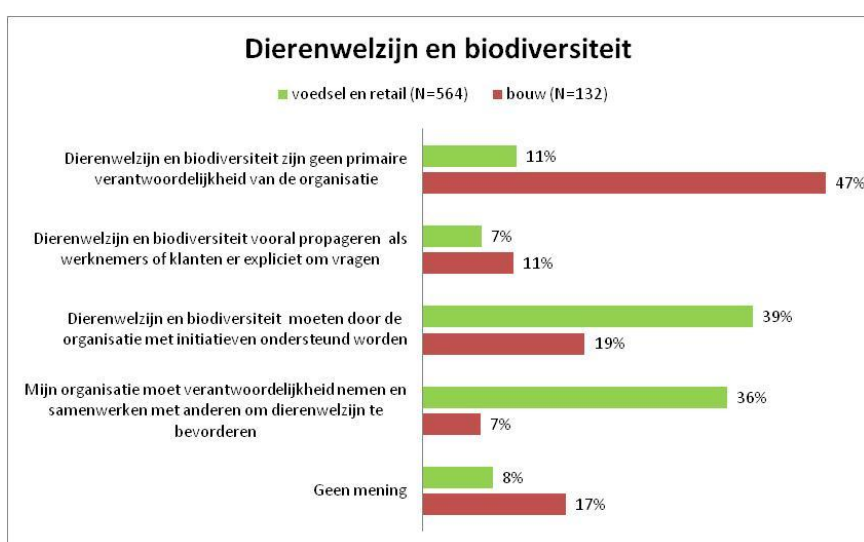


Figure 5.5 Perception of responsibility for animal welfare and biodiversity⁹



Green: food and retail (N=564); Brown: construction (N=132)

Figure 5.6 Comparison of priority of animal welfare and biodiversity in the retail and construction industries

5.5 FORMS AND METHODS OF DIALOGUE

There are various forms of contact with stakeholders. A company can broadcast its views, or enter into an interactive dialogue; it might do so one-to-one or in a group, in writing or in

⁹ Translation per row (same in both 5.5 and 5.6): 1. Animal welfare and biodiversity are not primary responsibilities for the organisation; 2. Animal welfare and biodiversity generally catch on if employees or customers explicitly demand them; 3. Animal welfare and biodiversity should be supported with initiatives by the organisation; 4. My organisation should take responsibility and work with others to advance animal welfare; 5. No opinion.

person. Dialogue refers to the entirety of interaction between the company and its stakeholders. The goal of fulfilling, and where possible surpassing, stakeholder expectations is the primary factor in determining the best form of dialogue. The stakeholders must be aware of company performance and the company must be aware of stakeholder expectations. Sometimes this can be achieved with an online survey; in other cases an in-depth interview is more appropriate. The goal determines the form. The resources available also play a role. The most common forms are (Van Huijstee & Glasbergen, 2008 and others):

- one-to-one contact
- group meetings with multiple stakeholders, surveys
- conferences
- roundtable discussions
- platforms
- partnerships

Table 5.2 Examples of multi-stakeholder platforms, tables and partnerships

Platforms/tables	Partnerships
International Multi-Stakeholder Platform for a Water Secure World (World Water council)	Multi-stakeholder partnerships to integrate participatory approaches into institutions of Agricultural Research and Development (ARD)
Multi-Stakeholder Platforms for Integrated Catchment/Water Management (Wageningen university)	Global Road Safety Partnership (GRSP)
Multi-stakeholder platform for digital literacy and e-Inclusion (facebook)	Multi-Stakeholder Partnership in Education (MSPE) in Namibia
Multi-stakeholder platform for sustainable aquaculture in Europe	multi-stakeholder partnership on commodities (Unctad)
EU multi-stakeholder platform for Action on Diet, Physical Activity and Health (EU)	Multi-Stakeholder Partnership for Disaster Management. (Asean)
EU multi-stakeholder forum on Corporate Social Responsibility (CSR)	A multi-stakeholder partnership model for e-skills at a local and provincial level (It4all Africa)
Multi-Stakeholder Platform for Urban Water Reforms (India)	Partnership for Principle 10 (PP10) (The Access Initiative)
Multi-stakeholder platform for partnership projects (Global Compact)	Sustainable Agriculture and Rural Development (SARD) Partnership Initiative (FAO)
Roundtable of Sustainable Palm Oil (RSPO)	
Roundtable for Sustainable Soy	

One-to-one contact

One-to-one contact can be achieved in various forms. This can happen in specially organised meetings or, at least as importantly, in regular contact. An example of a regular contact in which CSR can be set on the agenda is customer contact through the sales department, or meetings with the works council.

Stakeholder expectations can be ascertained from surveys as well as personal conversations. Surveys allow less space for asking additional questions, but give respondents the opportunity to think carefully about a question before they answer. The anonymity can also be attractive when replying to questions about points for improvement.

Multi-stakeholder meetings and surveys

In multi-stakeholder meetings a company can enter into conversation with a group of stakeholders. Often this includes both primary and secondary stakeholders. The aim of such an event is to enable stakeholders to respond to one another, so that it is educational and efficient. A variety of companies organise multi-stakeholder meetings, for instance to follow up on the results of stakeholder surveys. All kinds of subjects can be discussed at such meetings, including which issues a company should or should not tackle. The purpose and content of the annual sustainability report can also be discussed, including issues such as whether the right points are being reported (Van Tilburg in Van Halem, 2010). The multi-stakeholder discussion can be used to supplement one-to-one contact. It might be interesting, for instance, for the works council to hear what other stakeholders, such as investors or customers, think of the company (Van Tilburg in Van Halem, 2010). A *multi-stakeholder platform* is the most formal kind of interaction between stakeholders, but is generally limited to discussion and not directly linked to action.

The role of social media: internal stakeholder dialogue at KPN

KPN, the leading telecommunications and IT service provider in the Netherlands, wants continuous dialogue on its policy, role in society and performance with a variety of stakeholders. The aim is to ascertain whether the direction chosen fulfils customer expectations and to gain insight into developments in society. In 2011 KPN was the first company in the Netherlands to set up its own social media platform KPN1 Connect for this purpose. The platform is intended to enable KPN employees to meet in a new way. The platform dovetails with the introduction of flexible working. KPN1 Connect was established for internal stakeholder dialogue, to enable employees to discuss flexible working (one of the pillars of the CSR policy). For a week blogs and texts were used to collect personal reactions. An important finding, in addition to specific insights gained from the content, was that social media was a very good medium for a dialogue with a broad group of employees. Other lessons included the fact that ambassadors could be more actively employed, management could be based on specific themes, and that it would be worth collecting quantitative data another time (with more proposals, for instance). This would allow them to reach a larger group (source: KPN).

Warner (2006) also researched this subject, studying a large number of multi-stakeholder platforms about water. These platforms formed particularly useful networks for communication and management of competing claims about water, forming coalitions and formulating visions. Integrating participants' knowledge and interests, however, proved more

difficult. This was mainly due to lack of agreement on division of power and the fact that none of the platforms had a specific mandate in that area. The most important function of multi-stakeholder platforms, according to Warner, is therefore that they offer institutionalised space for vision forming and information exchange, not necessarily for solving problems.

Conferences

Another way of entering into dialogue with stakeholders is organising a conference. Here you can state your case, within limits, but what is more important is spending time with stakeholders and exchanging information on a subject of broader interest to the industry. The aims of such a meeting are communication of activities, agenda setting and facilitating inter-stakeholder communication. BAM, a construction and property services enterprise with activities worldwide, made active use of this (see chapter 6).

Roundtable discussions

Roundtable discussions are a specific form of dialogue. They exist for a variety of products, including the Roundtable on Sustainable Palm Oil (RSPO), the Roundtable on Responsible Soy (RTRS), the Common Code for the Coffee Community (CCCC), the Better Cotton Initiative and the Better Sugarcane Initiative. These round tables are increasingly used to agree on sustainable criteria for certification standards. Roundtable structures are particularly suited to tackling issues which a company cannot deal with alone. More information is available from the website of the Partnerships Resource Centre (www.partnershipsresourcecentre.org) and other sources.

Stakeholder experiences from Bavaria

Dutch family owned brewing company Bavaria uses ISO 26000 for its social policy, taking stakeholder dialogue as a central tenet. Bavaria's approach is simple: listing company stakeholders and determining which ones have the greatest influence on Bavaria and vice versa. Bavaria then began conversations with all relevant stakeholders, including customers (e.g. retail organisations), service providers, transport entrepreneurs and local societies and charities. During the conversations Bavaria stated what they considered important and asked stakeholders about their expectations regarding CSR. Stakeholders were interested in local involvement, low energy and water use, and limiting food miles. Bavaria used the results of the conversations to shape their CSR policy and goals for the coming years. In November 2010 all stakeholders were invited to a special meeting. The event took place at the home of the 6th generation of the Swinkels family, owners of Bavaria. At this meeting feedback was given on the stakeholder meetings and the group looked to the future with challenging presentations. Many stakeholders were inspired by the event and have since taken steps with Bavaria to improve CSR performance. Examples include service providers actively working with ISO 26000, transport companies working with Bavaria to reduce CO₂ emissions and local societies and charities working with Bavaria to encourage development of nature.

(source: Junggeburth at www.nenblog.nl/2011/04/18/Bavaria-en-iso-26000-de-stakeholderdialog/NEN).

Partnerships

Partnerships, defined as intersectoral collaboration between parties with a sustainability goal (Van Huijstee et al., 2007), are the most institutionalised form of dialogue and interaction with stakeholders. Where the dialogue has previously been quite informal, partnerships often

serve a predetermined goal. They are non-hierarchical but more formal than many kinds of dialogue, with agreements, goals and contracts. The more proactively companies deal with sustainability issues, the more use they make of partnerships. In the next section we look at this in more detail.

From 'normal' stakeholder engagement to 'transformational partnerships'

The United Nations, in collaboration with a number of large multinationals, including a few leading Dutch companies, such as Unilever, DSM, KPMG, Shell and TNT, emphasise the development of partnerships in dealing with stakeholders:

“UN-Business collaboration is not new, but the models of partnership have been evolving. New patterns of development involve partnerships and alliances shaped by common interests and shared purpose, and bounded by clear principles that encourage autonomy and synergy. Over the past two decades, a vanguard of UN entities and business leaders has been leading the way, with important progress made in areas such as anti-corruption, HIV/AIDS, clean water, food security, and the environment. Partnerships originally grounded in dialogue and learning have matured, leading to concrete action and progress. Much more needs to be done, however. The UN has set ambitious targets and significant obstacles remain in terms of achieving the scale and systemic impact necessary to hit these targets. In particular, new and more effective partnership models are needed... Problems are addressed holistically, often across multiple sectors. Additionally, transformational partnerships leverage core competencies of participants, and are designed for scale and sustained impact. As a result, these partnerships can deliver transformative impact across sectors and geographies, addressing both public and private objectives through changes in policy, market structure, and/or social norms.” Here a number of essential characteristics of transformational partnerships are given:

- Addresses a systemic issue
- Leverages core competencies of all partners
- Involves the appropriate set of stakeholders
- Has in-built capacity to reach scale and lasting impact

Source: Catalyzing Transformational Partnerships between the UN and business, UN Global Compact, 2012

5.6 AN INCREASINGLY COMPLEX PLAYING FIELD

With the intensified quest among companies, governments and NGOs for meaningful forms of collaboration a new phase of sustainability has clearly been reached. At the same time this raises two problems: (1) overlap in initiatives and (2) expanding portfolios of partnerships for individual companies.

Every company engages in more or less formalised consultation with key stakeholders. Most companies occupied with sustainability participate in roundtable discussions, platforms and partnerships in which a multitude of stakeholders are represented. Stakeholder engagement increasingly becomes ‘multi-stakeholder engagement’ (see examples in table 5.1 above).

Research into the effectiveness of these kinds of platform and partnership shows that they do not always function well. This is firstly because too many stakeholders participate, creating an administrative problem. Secondly the right stakeholders may not participate: key stakeholders

are missing, perhaps because otherwise the alliance could not be formed at all. Platforms are normally a 'coalition of the willing', but that is not necessarily the best form of coalition. What initially looks like an easy platform later becomes burdensome, with participants appearing to collaborate but retaining ingrained perspectives. More fundamental challenge in this case relies on coupling partnerships with specific issues. If the issue arises from a lack of regulation, it is dangerous not to involve the government in the collaboration. In a later phase it could frustrate every solution.

Various initiatives may overlap, causing competition between platforms. This is not always problematic, as competing initiatives spur participants on to higher ambitions, but overlap often leads to confusion. Well known examples of this problem are partnerships relating to brands and labels, which cause confusion and bring the sustainability agenda to stagnation after the first phase of encouragement. In these collaborative relationships complex governance problems can arise. Who leads, who profits the most from the collaboration, and how can one best harmonise conflicting interests?

Finally these alliances form an evaluation task: how to assess the impact of the partnership and ascertain whether other forms of collaboration would have been more effective. There is much progress to be made when it comes to monitoring and evaluating partnerships.

Another more concrete management challenge emerges. A company such as Unilever led the way in the Netherlands in engaging stakeholders. Formal partnerships were soon formed to address a number of strategic challenges. An example is the Marine Stewardship Council (MSC). Later Unilever formed partnerships in many areas, sometimes due to defensive considerations to keep criticism at bay, but increasingly in order to formulate new rules to the game and come up with methods for tackling knotty problems facing both the company and society.

This creates a management challenge: how to deal with the expanding range of stakeholder contacts and portfolio of partnerships. For example in recent years Unilever formed partnerships with stakeholders from industry, government, international organisations, society and academia. Figure 5.7 gives a rough impression of the resulting 'topology' of Unilever's partnership portfolio. Under this worldwide alliance strategy there is also a network of national and sometimes even regional stakeholder networks. What is immediately obvious on a global level is the enormous complexity of Unilever's portfolio. There is considerable diversity of subjects and variable intensity in the relationships (indicated by line thickness). Some initiatives also appear to overlap or work towards similar goals.

A company's partnership portfolio often does not come into being based on well considered choices. It develops over the years, so there will be alliances for which the logic is no longer clear. There is also little harmony between the various partnerships (often established with different departments), so that there are internal as well as external alignment problems. Where an extensive portfolio of partnerships is a precondition for movement to the next phase of sustainability, a badly managed portfolio is a barrier to progress. Many companies appear not to consider what the partnership means for their partners, and are then surprised when the partner treats the collaboration differently from the company.

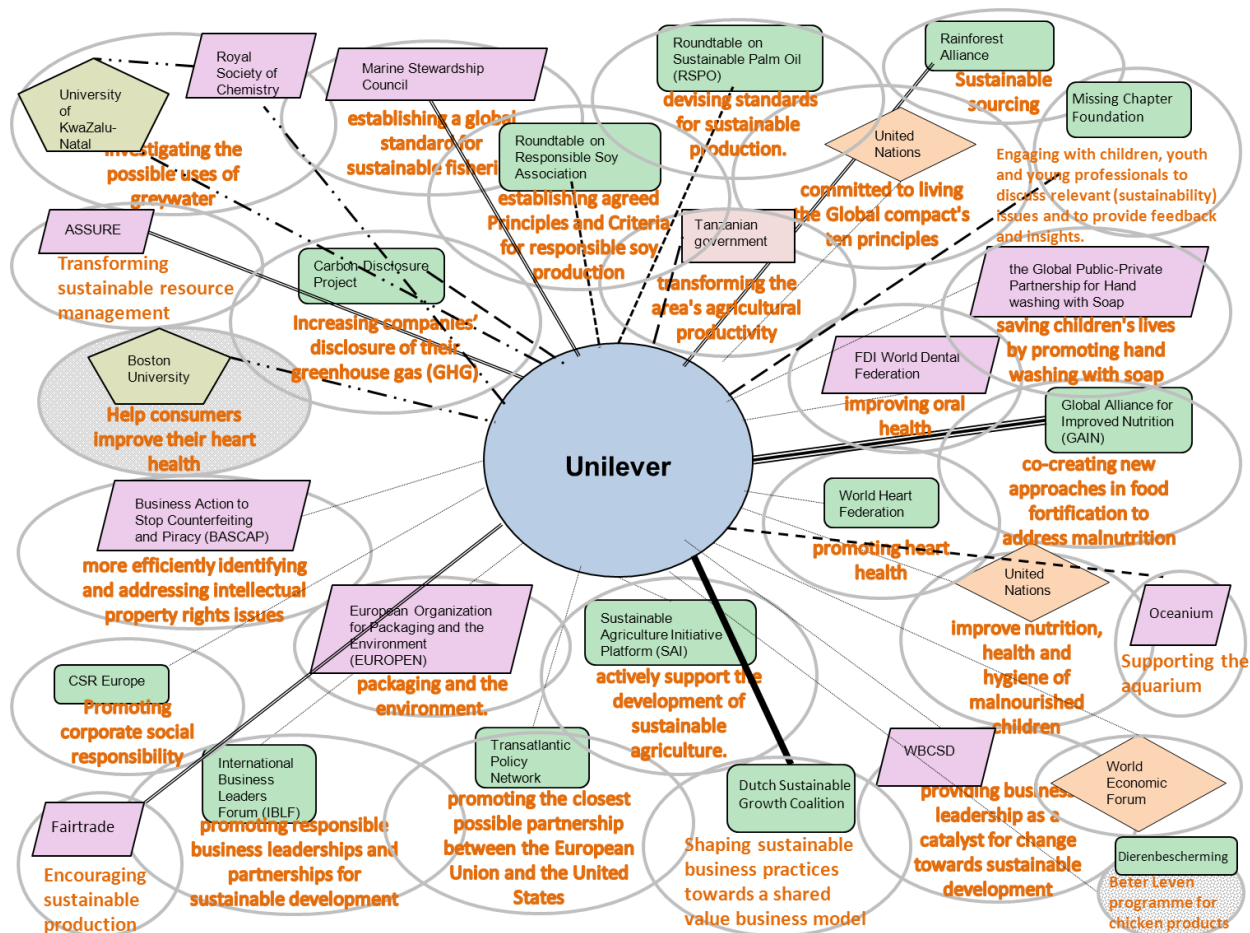


Figure 5.7 Unilever's key partnerships

© Partnerships Resource Centre (PrC) ; Based on Unilever Sustainable Living Plan, 2010, supplemented with information from the website and the company

The following evaluation framework was developed (figure 5.8) based on research by the Partnerships Resource Centre into the partnership portfolio strategies of the world's largest companies, which on average had 20 large alliances, to help managers evaluate the effectiveness of their existing portfolio of alliances, platforms and partnerships.

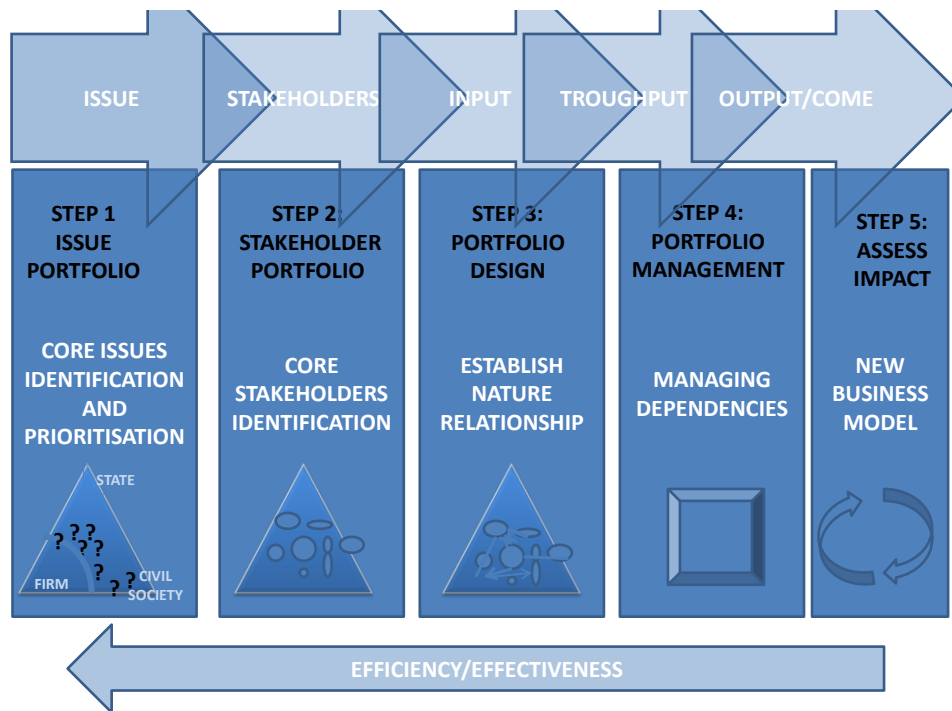


Figure 5.8 Partnership Portfolio evaluation model
(c) Partnerships Resource Centre (PrC) at RSM

A proper evaluation of the portfolio begins with the priority issues for the company (both now and in the future). This leads to a portfolio of issues on which the company must work (see section 5.4). It can happen that in this step it is already clear that a number of important issues are not covered by the existing portfolio of partnerships. It can also be the case that relatively unimportant issues are well covered. For every issue a group of primary and secondary stakeholders is identified as the core group. The portfolio of stakeholders, spread over diverse issues, can include overlap. Here efficiency gains can be made for company and stakeholder. The question is then how far the relationship fits the stakeholder issues. This is the deciding factor in the effectiveness and efficiency of the portfolio design.

The next step is actual management of the partnerships: firstly individually, then as a whole. The foundation and coordination of the various partnerships over different departments presents a challenge very similar to those of general internal alignment between the different departments within an organisation. Many sustainability partnerships in large companies are formed with the CSR department. The ease with which partnerships or roundtable discussions can be managed and used depends on the position of this department within the organisation and the communications skills and strategic prioritisation of the managers concerned. In the end, once all these steps are mapped out, the impact of the strategy must be considered. Does the partnership deliver? Does it solve a problem, for the partners and the company? Given that the most strategic stakeholder relationships and those most clearly directed at sustainable transformation must fit in with the company's core activities, this last evaluation step has consequences for the business model. The impact of the partnership can be measured in terms of changes to the business model as a whole and in a new formulation of the business case for sustainability.

5.7 CONCLUSION: TIMING AND COORDINATION

As stated in the introduction to this chapter, both critical and constructive styles of stakeholder management have a function in companies willing to change. However, they are often badly timed by both companies and social organisations, and bringing together the right stakeholders in the right way also matters. If one party thinks in terms of a partnership, while the other only wants a dialogue, or if both agree on strategic dialogue, but it quickly transpires that one is only interested in information exchange, this is problematic. The dialogue then becomes what Verhoeff (2010) calls a ‘collective monologue’. Misuse or misalignment in stakeholder engagement is a risk here. This can be part of an assumed plan among unwitting participants, a problem which generally occurs when stakeholders and companies are reactively engaged. Research by the authors of this book, however, shows that this is far from always the case. Inappropriate framing of an activity can lead to false expectations and the interaction can fail. Worse still, if dialogue starts out badly, there may be no way of scaling up the collaboration, something which is often needed to make an initiative truly sustainable. It is therefore crucial that form, content, involvement and expectations of stakeholders are adequately connected. It is important for realising the full potential of these activities that companies consciously choose who they enter into dialogue with, as well as why and how.

The checklist in table 5.3 sums up the most important features, ambitions and goals of stakeholder engagement, and can be used to facilitate this process. Important tipping points in the relationship with stakeholders occur at three points of transition:

- 1 *inactiv*→*reactive*: from information exchange with a few stakeholders to a real dialogue or debate in which each party states its own case and tries to win the other party over;
- 2 *reactive*→*active*: from a simple dialogue or debate with the noisiest stakeholders to a dialogue with the most important stakeholders, where the initiators develop their own vision based on interaction with primary stakeholders;
- 3 *active*→*proactive*: from stakeholder dialogue to *strategic* stakeholder dialogue in which the solution to or prevention of the issue is the focus. Here the process is central and primary and secondary stakeholders set mutual goals.

At the same time this transition increases the need to further formalise engagement: from bilateral session, via multi-stakeholder roundtable discussions, to platforms and eventually partnerships in which different sectors (government, companies and society) are represented. Expectations must be managed according to the ambitions of the parties; this depends on the extent of trust between parties, or the need to actively work on building trust. As shown in the following chapters, every form of stakeholder engagement involves different attitudes and needs for coordination between parties.

In order to achieve a successful transition to more strategic forms of stakeholder engagement, important stakeholders must make the transition with the company from confrontation to cooperation. Sometimes this demands that the company work with different stakeholders, sometimes it can be achieved with the same stakeholders, who also think and act more cooperatively as the issue and relationship mature. Mutual commitment, problem sharing and goal setting are necessary conditions for effective dialogue. Only then is the tipping point reached in the stakeholder approach. As will be shown in the chapters to come, such transitions are far from easy: firstly because the organisation must allow it, and secondly because the external stakeholders must also cooperate. As shown in this chapter this is a relevant and inspiring challenge, but far from easy. It is almost always worth the effort!

Table 5.3 Checklist: Aligning form, ambition and issue [source: Van Tulder, 2011]

	Unilateral information exchange	Dialogue	Multi- stakeholder dialogue	Strategic stakeholder dialogue
Multi-stakeholder platform	+	++	+++	+/-
Multi-stakeholder partnership	+/-	+	++	++
Effort/attitude	Inactive	Reactive	Active	Pro-active
Alignment need	negligible	low	medium	High

Logical organisational format	bilateral	Compact, Process, Roundtable	Platform, Initiative, Covenant	Cross sector Partnership
Management of expectations need	Not	low	medium	High
Nature of the engagement	Informative	Problem addressing, Empathy	Problem-investigating, creating support	Problem-solving, creating new solutions and directions
Nature of negotiations	No negotiations; dilemmas	Information sharing; puzzles	Trade-offs, compromise	Problem and dilemma sharing: paradoxes, joint solutions
Interest-vision	Interest-based communication	Interest-based dialogue	Interest-based negotiations	Vision-based
Nature of the problem	Simple, sectoral problem	Inter-sectoral problem	Cross sectoral problem	Wicked problems
Trust	Indifferent; PR related	Source trust	Low, but growing; process trust	Average and growing; source and process trust;
Prime justice orientation	none	Corrective/retributive justice	Distributive justice	Procedural justice
Transaction costs	Low	Relatively low	Relatively high	Average
Embeddedness in organization	Public Relations	Public affairs	Communication; issues management	Strategic communication/ issues management; strategic management; leadership
Time span	Undetermined; temporary	Short-term	Middle-long-term	Long-term; permanent
Location of debate	no	Where the issue appears	Threat of debate leads to dialogue	First phase strategic dialogue in which values and positions are investigated
Complexity issues	low	Low-average	Average	High
Mutual commitment	indifferent	low	Average	High
Willingness to change/ learn	indifferent	low	Average	High
Basis of relationship	None	Communication	Interest articulation	Partnership, shared ambition
Required transparency	limited	Limited	Average	High
Realistic expectations partners needed?	Unimportant-cynicism	Unimportant/construtive	Slightly important	Very important
Clear rules of the game needed?	no	Somewhat	Yes	Very important, but can change over time

Power balance?	Not present	Not necessary	Preferred, but not necessary	Very much preferred but not always attainable
Orientation	operational	Operational-tactical	Operational-strategic	strategic

Tips for implementing dialogues

Good stakeholder dialogue requires time and thought. A good stakeholder dialogue is a balanced dialogue with representative stakeholders. It is not necessary to speak with all stakeholders personally. Having a conversation with one stakeholder from each relevant group is a good start; more is of course better.

A good way to conduct a dialogue is to integrate it into regular communication channels. Senior account managers can set sustainability on the agenda in their most important customer meetings. Corporate communications and the board of directors have a role to play conducting a dialogue with large social organisations such as Amnesty International or Greenpeace. In practice there is sometimes an intermediate phase in which these conversations are conducted in conjunction with the CSR manager and others in a company. What could be more logical than an investor relations manager communicating with investors about sustainability? This now happens at Philips, after a process of growth. The thinking was that investors must be interested in sustainability, but they did not demand it. Philips researched the subject, initially finding that investors had a limited interest in sustainability. After a second study found the same result, the company made an active leap based on the idea that if sustainability was not currently in demand, the company should ensure that it was in future. Sustainability was successfully highlighted in 'investor roadshows', and when the subject was laid on the table there turned out to be interest.

For this to work companies must pay attention to a good balance between asking questions and stating their own case. This balance is also important in conversations with stakeholders. Companies learn the most from conversations when they ask open questions and listen carefully, so that stakeholders know their voice is heard. This can also be seen in the developments around CSR reporting. If these reports were initially purely directed at transmitting a message, adjusting to stakeholder requirements is an important development. CSR reports on the internet are good for this.

Another important balance is between communicating success and challenges: of course stakeholders can be told what improvements the company has made and what is next on the agenda, but companies must avoid giving stakeholders the impression that they are in a sales pitch. Increasingly in CSR reporting, where initially reports centred on success stories, they develop to detail dilemmas and challenges. A mature dialogue begins with listing mutual challenges, making it easier to set mutual goals and map the route forward, be it in one-off dialogue, regular dialogue, a platform or even a partnership.

Balance between good preparation and an open attitude are also important. Before every conversation and meeting, decide who will represent the company. Think about the conversation partners: what are they working on, what interests them, what does the company want to know, what does it want to communicate and what should it keep to itself? A good stakeholder dialogue means asking questions and listening to the answers, but it is also

important to be prepared for questions from stakeholders. Persistence is needed in asking what stakeholders expect, to make themes concrete and explore potential win-win situations. Follow-up talks can take place if necessary. Developing a good stakeholder dialogue requires commitment; every question put to a stakeholder can bring a question in return. Ideally all sides should work with respect and trust.

Strong foundations are valuable in working through results. The dialogue can be usefully extended by allowing a stakeholder to supplement a report. If a meeting is held, give feedback on the results to each group. Processing the results is a matter of finding balance between serving stakeholders and the company. Not everything stakeholders suggest can be followed up. Make an overview and a selection based on relevance and feasibility, and provide feedback on activities in the dialogue.

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CHAPTER 7

FROM REACTIVE TOWARDS ACTIVE

THIS CHAPTER IN 2 MINUTES

The essentials

In the reactive phase companies begin to listen more systematically to society's expectations, putting their houses in order and taking disciplinary measures to ensure the health and sustainability of the business.

They become aware of the freedom to change and the responsibility to take a new step. The value of sustainable enterprise is perceived, but in many cases more focus is needed. The transition to the active phase is characterised by reflection on the company's role in society and contributions based on a sense of responsibility.

External demands no longer dominate. Instead companies are led by the opportunities they see to add value to society. This begins a phase of introspection and internal alignment, in which different departments must adjust to one another.

Activities & Interventions

- Initially choosing themes which the outside world demands. Later determining the focus based on core competencies.
- Initially formulating key performance indicators. Later formulating measureable goals based on these KPIs.
- Introducing sustainability management systems.
- Publishing a sustainability report and improving on this.
- Focusing on acquiring external recognition for sustainability performance.
- Initially approaching suppliers with codes of conduct. Later also entering into dialogue.
- Internal workshops and meetings to discuss strategy.
- Collaboration with influential social organisations.

Departments involved

Purchasing, sales, HR, operations, communications, public affairs

Most important tipping points

- From defensive issue-identification from a company perspective to a proactive approach to issues from a social perspective.
- From reacting to third party initiatives to persisting when this pressure disappears.
- From confrontation with stakeholders (NGOs) to cooperation with NGOs on chain management themes.
- From badly integrated CSR efforts (misalignment) to well integrated CSR efforts (co-alignment).

7.1 ACTION AND REACTION

Action and reaction: that qualification may be typical of companies and their employees in the reactive phase, the driving in this case coming largely from external stakeholders, to which companies react. The initiative for movement comes from outside. Companies in this phase consider whether a particular initiative represents value to them, taking their reputation into account. It is not only the accountants who react; public affairs also have a say. Companies may not yet feel deeply responsible for social or environmental problems related to business operations, but they are open to discussion on such issues. They recognise the legitimacy of the outside world, and that an appeal has been made to the company to improve its sustainability performance.

This does not mean that such calls, from customers, employees or social organisations, are always followed up. Sometimes a company's reaction in this phase consists of an explanation for its current behaviour. This is certainly common in the case of calls by secondary, non-contractual stakeholders. Companies tend to follow up on calls from direct stakeholders, which they consider to have a more legitimate say. The issue is not really internalised and actions are sometimes grudgingly seen as necessities.

A good illustration is the effect of the CO₂ Performance Ladder set up by Dutch railway infrastructure manager ProRail in 2009. ProRail offered contractors the prospect of an advantage of up to 10%, in the form of a notional discount on the registration price for those with an optimal climate policy for their tenders. The process was specified in a manual. Contractors who, despite the urgency of the climate issue, had previously been uninterested in the earth growing a couple of degrees warmer, decided en masse to draw up a CO₂ footprint and reduction programme. After all, ProRail was an important customer. Almost every one of ProRail's contractors came on board, a clear example of a reactive attitude to demand from a legitimate stakeholder.

Pressure from social organisations can push a company into this phase because it is clear that negative public opinion will harm the company's reputation. Around the turn of the millennium there was a prominent difference of opinion between the largest environmental organisation in the Netherlands (Natuur & Milieu) and one of the world's largest dairy cooperative (Campina). The issue at stake was sustainable soya beans. Initially the dairy company saw no way of addressing the issue, believing that the extra costs for this would not be recouped. Natuur & Milieu was not satisfied with this response and used the media to inflame public opinion and change Campina's mind. Greenpeace also moved emphatically into the campaign against genetically modified soya beans. In the Belgian municipality of Aalter a factory was blockaded by demonstrators. Increasingly environmental organisations worked together to increase the pressure. At a certain point Campina realised that the situation was no longer tenable; the pressure on their reputation was too great. Instead of the original resistance the company changed tack, even deciding to go a step further. From then on Campina cows ate sustainable soya. That was the result of the principle agreement between the dairy cooperative, the Worldwide Fund for Nature, Solidaridad and Nature & Milieu. Campina was the first large dairy cooperative to decide on this step. In fact this step went even further than demonstrators had demanded. This externally oriented commitment set Campina definitively in the reactive phase, with prospects for further growth. There was no going back. That meant a substantial boost to the sustainability policy.

A comparable parallel was observable at pension fund PGGM - one of the largest pension funds in the world. The company is also a cooperative and oriented itself decisively towards sustainable investing. Previous years had seen sustainable investing and banking firmly established in a number of niche markets. Banks such as Triodos and ASN cropped up, enabling customers to invest sustainably. Various regular banks also launched sustainable investment funds, and the movement touched institutional investors, such as pension funds. In spring 2007, the investigative journalists of a critical Dutch broadcaster (VPRO's TV programme Zembla) researched the way in which pension funds invest their assets. It turned out that different pension funds indirectly invested in companies involved in manufacturing prohibited cluster munitions. The report which followed gave the impression that pension funds directly earned their money from criminal activity. This set the tone. PGGM received many questions on the subject from customers and employees. Various parties called on the funds to be more transparent. In line with the existing policy for sustainable investing, PGGM decided to use the momentum to go a step further: a few months later the company published all investments on the internet. Anyone can now check where the pension funds are invested. PGGM set an example for others in pension territory, passing a point of no return in terms of sustainability and transparency. Publishing this list encouraged the question of where the company set its boundaries, and how the sustainable investment policy would be systematically developed further. PGGM in fact had already made this step before the Zembla programme, listing five themes to be integrated into the investment portfolio: climate change, health, corporate governance, human rights and weapons. These are the subjects on which the company is willing to be approached; this does not mean that PGGM can be considered fully responsible for everything in which it invests.

In this way these organisations use external pressure to move to the next step in their transition towards sustainability. In keeping with this idea, Campina and PGGM developed CSR departments. In both cases this moved things beyond stakeholder demand, allowing the companies to regain control. External appreciation for this enabled sustainability to grow further; positive media feedback was a welcome encouragement and proof that it was worth developing further. The way back was also effectively closed off. These can serve as examples to other companies. A public conflict initially appears annoying but can provide the opportunity to move forward.

7.2 GROWTH THROUGH THE REACTIVE PHASE

Once a first justification for a sustainability policy is in place, most companies appear to work actively in subsequent years to integrate and guarantee sustainability. The focus in this phase is often on setting internal business operations in order. This is a logical choice, because before a credible appeal can be made to suppliers, companies should first look at themselves. First remove the beam from your own eye.

7.2.1 Introduction of a CSR department

One of the first things we see companies in this phase do is specifically allot resources to the issue. All kinds of different titles are used: sustainability coordinator, CSR manager, CSR director, or sometimes the issue is allocated to an existing HSE (health, safety and environment) manager. At manufacturing locations the latter option is common: an HSE manager takes on the task of CSR alongside aspects such as licensing and occupational risk assessments. Often these functions fit well together. These are generally people with a deep

knowledge of the manufacturing process. For example at Bavaria, Desso, Tata Steel and Campina we saw similar solutions at the start of the process. At listed companies with many locations we often see this role brought under the wing of corporate communication. KPN (telecom), KLM (airlines) and BAM (construction) all took this option.

For a real acceleration of the process, the sustainability portfolio must be specifically accommodated in this phase. Someone must be assigned the task, not to do everything alone, but to represent the subject. In the end sustainability is a subject which overlaps with many business disciplines. The challenge is to guarantee it systematically in all departments. The appointment of a coordinator is an essential intervention.

Because the subject is so broad, the coordinator should not work alone for long. Many companies in this phase eventually set up a CSR working group, inviting departments which encounter sustainability issues in their everyday work: a line manager in operations, HR managers for staffing matters, a purchaser, an HSE manager, a communications representative and ideally someone from the board of directors as chair. This group serves as a sounding board for the CSR manager. This way the lines are drawn so that plans and measures can be shared out.

The first task to be completed is a clear and explicit mandate from the top, something to override possible resistance. CSR will not happen automatically: there will be barriers to cross. Purchasers who have to make sustainability demands on suppliers will not necessarily welcome the change; anything that reduces their freedom to negotiate is likely to be met with resistance. Plant managers who are suddenly required to report sustainability data annually or more frequently often have 'more important things to do'. Visible and explicit support from the top is indispensable in such cases, not so that all decisions are pushed upwards, but to ensure that the interests of the organisation are served.

A conscious choice should be made about the type of CSR manager appointed. What role is expected of him or her? If innovation and step changes from existing patterns are intended, it makes sense to appoint a candidate with a proven record in this kind of work. Herman Wijffels, CEO of Rabobank, made a conscious choice to appoint the former founder of Triodos Bank as director of sustainability, to bring in pioneering and innovative ideas. This would get things moving. If the plan is gradual, systematic change, then an internal candidate familiar to the organisation and aware of sensitivities, ideally with a proven track record, is a good choice, as we saw in the case of BAM.

One of the first things a newly appointed sustainability manager can do is make a good plan for the coming years. Core questions to be answered are:

- What are our CSR themes?
- Who are our important stakeholders and what do they expect of us?
- What are we already doing about CSR?
- What do we want to achieve for each theme?
- Who do we need to involve (internally and externally)?
- What activities, projects and programmes belong to the process?
- What results do we want to achieve?
- What are the milestones for the coming three years?

CSR organisation: KLM example

Airline company KLM wants to be as sustainable as possible. At the same time they realise that there must be sufficient attention for the subject, that the issues are complex and that collaboration must be organised and multidisciplinary.

Initially, in 2007, they chose to incorporate CSR into communication. CSR coordinators were also appointed by the management in business and operations, people who were passionate about the subject and would implement the CSR policy in their own departments. In 2009 CSR became an independent department, combined with environmental strategy (formerly part of the Schiphol strategy department). The CSR and environmental strategy department covers CSR management, targets and reporting on issues such as biofuels, collaboration with WWF and social issues. The department also seeks to engage KLM staff, through initiatives such as inspiration sessions and events. As for the support from the top, since 2008 a CSR Council has served as a sounding board under the leadership of the Managing Director. Since 2010 there has also been a CSR council within the cargo division.

7.2.2 From KPIs to reporting

Many companies start this phase by listing their most important themes. What are the key issues within the broad domain of People, Planet and Profit? Companies appear to do this in different ways, ranging from a more pragmatic, ad hoc approach to a well thought-out analysis. In the first category are companies which designate all staff matters to their People dimension. Performance indicators relate to sickness absence, training hours, accident figures and sometimes gender diversity. When it comes to the environment we see indicators such as use of energy, water and materials, emissions, waste and pollution. It only takes a few spare moments to determine the sustainability indicators. Companies at the other end of the spectrum construct a careful plan based on influential sustainability guidelines. The Global Reporting Initiative (GRI) offers a methodology for systematically selecting sustainability themes and indicators, a materials assessment, which asks about the relevance of a particular social issue for a stakeholder and the extent to which the company has influence in that area. Subjects which score high on both counts are identified as important for the company's sustainability policy. The GRI guidelines then offer indicators for each theme.

Global Reporting Initiative

The Global Reporting Initiative (GRI) is an independent international organisation established to set uniform guidelines for sustainability reporting. Since the GRI was founded, the guidelines have developed to be the international standard for sustainability reporting. There is a general set of indicators aimed at disseminating information about a company and its reporting history, as well as indicators for different themes, relating to ecological, social and economic performance. Sector supplements have also been developed, with additional indicators on which companies can report. Companies can choose level A, B or C for social reporting and have this externally tested (leading to a '+' after the level indicator). In 2011 the Global Reporting Initiative published the latest G3 guidelines for social reporting, version G3.1, followed by G4, the new generation of guidelines.

For up to date guidelines see www.globalreporting.org.

The international guidelines for corporate social responsibility, ISO 26000, offer a systematic approach to selecting relevant issues. These guidelines focus much more on stakeholder expectations and their influence on the company. Ambitious aspirations to comply with ISO 26000 demand a proactive approach.

ISO 26000

ISO 26000 is the international set of guidelines on CSR. ISO 26000:2010, Guidance on Social Responsibility, was launched in 2010 as the new, complete set of CSR guidelines. These build on existing international agreements such as ISO 14001, GRI and ILO and offers comprehensive guidance on embedding sustainability in a company. The guidelines were built up from seven core issues within a set of seven general principles. 37 issues are listed under seven headings (including the environment, human rights and doing honest business), with expectations to be translated into activities. Stakeholder involvement is a central principle of this approach. The guidelines are a response to demand for greater unity and standardisation in CSR.

ISO 26000, however, is not certifiable, and therefore only a set of guidelines, not a standard. NEN, the organisation which manages ISO 26000 in the Netherlands, has launched the Dutch Practical Guideline (Nederlandse Praktijkrichtlijn, NPR 9026), a set of guidelines for self assessment, leading to a declaration. This allows companies to show what they have done to apply ISO 26000. A platform has also been developed to allow organisations to publish their declarations and supporting information.

Sources and further information: <http://www.nen.nl> en www.iso.org.

By determining and measuring performance indicators, companies are making an important first step towards systematising sustainable enterprise. This might seem a simple step, but in practice it can be problematic.

For instance, Philips published its first environmental report in 1999. In 2003 the company expanded its report to make it the first sustainability report to supply data on the company's social and economic performance, in addition to environmental results. Worldwide collection of this information turned out to be far from simple. It took years before all locations were able to deliver unambiguous, coherent and reliable data. Of course that was partly due to different circumstances in different locations. For example, the company had to synchronise definitions for accidents, absence due to sickness or the number of hours of employee training, which are done differently in different countries. In the Netherlands it was not difficult to collect data on absence and accidents, as employers are required to do this by law. In Asia this was a new approach. The same applied to registering energy consumption. KPN reported similar experiences.

Many companies consider this first step in registering sustainability data to be an important step for guaranteeing improvement. This is not an earth shattering development, but it is essential to create management attention for sustainability. Since many managers are familiar with expressing company performance in figures, sustainability should be subject to the same system, to instil discipline and guarantee results.

In the first instance companies report their performance annually in a separate sustainability report. Often the first report only mentions achievements. With a few exceptions, goals are barely mentioned. The second year is generally different. Sometimes readers from social organisations and shareholder representatives respond to the report by asking about goals, because without these it is not clear where the company is going. In the reactive phase, these new questions from the outside world can make space for measurable goals. The report then functions as an internal tool for improvement. It was partly for this reason that Rabobank published its first report. An externally published document like this could elicit responses from the outside world to help the process move further. Philips also consciously aimed for such criticism from the outside world and produced a more complete report each year, an unmistakable sign that the company had reached the reactive phase. Publishing and gradually improving this report was a strong spur to establish and improve on sustainable policies.

Critics sometimes unfairly denigrate the value of sustainability reports, suggesting that they are only read by industry professionals and the producers themselves, and that investors and customers are uninterested. This undervalues their internal function: companies that start external reporting set themselves the obligation to give internal attention to sustainability performance. Often simply comparing figures between different locations finds great opportunities for improvement. Everything that receives attention grows, including sustainability. For employees too, this is a recognisable signal, showing that the company values sustainability. Although not all investors or shareholders will read the report from cover to cover, it does work its way, via intermediary indices, into the attractiveness of the share price. Inclusion in the Dow Jones Sustainability Index is almost impossible without a good sustainability report. Reporting instils discipline and a sense of obligation to keep to goals, announcements and communicated resolutions. Listed companies must produce a report a year later on what has been achieved, removing any sense of informality in a sustainability policy.

A report of this kind fulfils the requirement for transparency; not as a goal in itself, but as a means of offering insight into how companies handle social problems. It enables society and stakeholders to judge the companies and compare them with their competitors. Honest and transparent communication of an organisation's effect on society is a core concept in sustainability.

Publishing a voluntary external environmental or sustainability report does not prove that the company is in the reactive phase. In 2003 brewery Bavaria, convinced of its good environmental performance, published its first external environmental report. Shortly afterwards, Natuur & Milieu published a report comparing the environmental performance of different breweries. In the eyes of Bavaria, Natuur & Milieu was not comparing like with like, and had not treated the Brabant family business's environmental performance fairly. The figures had been interpreted wrongly and Bavaria had not been properly judged on its merits. The company therefore decided to stop publishing reports for the time being, a sign that the company had not yet passed the tipping point for the reactive phase. Years later, in 2010, the company published its first full sustainability report, which was well received.

Companies working seriously towards sustainability gradually improve their reporting in this phase. More indicators appear in the report, the tone becomes more businesslike, external verification by accountants is introduced and gradually a higher level of application of the GRI is achieved. The GRI has three application levels: entry level C, middle level B and top

level A. The latter two levels demand a visible and continuous cycle of improvement. Level B also requires an explicit management approach. Internal pleas for a higher GRI level can inspire a new drive for improvement. Telecoms provider KPN chose to grow gradually towards A+. This was not only a visible improvement to the outside world; internally the performance oriented company culture also recognised that only the highest level would do. This internally set ambition helps to raise the level of sustainability policy. The highest GRI level demands that companies report all material GRI indicators. These include issues such as fines and salary differences between men and women, often information which companies would not publish spontaneously. KPN's sustainability reports make this information public. It is also remarkable that KPN not only set the goal of engaging in a number of stakeholder dialogues, but also explicitly stated in its 2010 report that it aimed to participate in ten other companies' stakeholder dialogues. This illustrates their concept of reciprocity, giving as well as taking. It says something about the level of maturity of the company's thinking on sustainability.

Simultaneous publication of financial and CSR reports, and, a step further, integrating these into one report, push reporting, and the activities behind it, to a higher level. This gives a clear signal that sustainable enterprise is important. This may be going too far for companies in the reactive phase, but it is a process to work towards.

Analogous to this development, companies in this phase give attention to structured performance management. Certifiable management systems play an important role here. For instance KPN in the Netherlands introduced an ISO 14001 system, to improve environmental performance and make this externally demonstrable. In addition to introducing ISO 14001 and the equivalent standard for safety conditions OHSAS18001, Bavaria chose the certifiable CSR Performance Ladder and ISO 26000 guidelines. Philips also decided on a worldwide roll-out of ISO 14001 in this phase. In the distant past the company even took the initiative in creating the standard. This kind of intervention appears appropriate for moving through the reactive phase. Companies reaching this phase still have an attitude of liability. The choice of certificate may be voluntary, but achieving it provides proof that a company is doing everything it can for the optimal management of environmental problems and safety at work.

Little by little companies in this phase begin to perceive the benefits of sustainability. There is a gradual shift from a focus purely on liability to a sense of responsibility. Voluntarily chosen management systems allow for the ambition to work towards sustainability. Sustainability is seen less as a threat, and more as an opportunity. Customers reward the company, sometimes unexpectedly, or announce that they will take sustainability into consideration in their contracts. This mix of increasing responsibility and incipient market incentives is a good basis for the introduction of management systems. For recognition of sustainability, external, independently observed sustainability results are more important. Management systems are one example, but other options include labels, such as FSC wood, the EKO food label or an A- to F label for energy-consuming products such as cars or white goods. This lays the foundation for the following active phase.

7.2.3 Internal financial interventions

Monitoring and reporting efforts eventually lead to real improvements in social and environmental performance. This will not happen without work. Certain investments needed for this cannot be earned back at the operational level of departments, branches or business units within agreed periods. Working from the classic business case, these measures would be

vetoed for financial reasons. In this phase, however, companies also consider the benefit of the measures to their reputation, which is particularly visible at the corporate level, less so in individual branches or departments. Some companies in this phase create a system for financial contribution from a management level for such measures. In the mid 1990s Philips decided that Dutch environmental standards must be applied to all branches worldwide. A fund was made available in the head office to help local factories facing disproportionately high costs. Dutch railway company NS also introduced a system of this kind to make old workshops greener.

FrieslandCampina encouraged pasturing among its farmers. External orientation sessions showed the company that pasture-feeding cows was an issue which weighed heavily in society's assessment of the dairy company's sustainability. This was presented in many interactive sessions to countless farmers in the cooperative. Few farmers were pleased with the idea. Was this really relevant to sustainability, and would it justify increased costs? In order to find a decisive answer, external research was carried out, surveying consumers on the relevance of all kinds of sustainability issues relating to dairy farming. This showed that 75% of respondents considered this a crucial sustainability issue, because this would be better for the cow. The issue was settled: clearly this was an important item on the social agenda. The problem of added costs remained. Cows on pastureland are in some cases more expensive than cows in a stall. The reputational advantage of course benefited the sector and the company, while the efforts and costs fell to the dairy farmers. In order to address this problem, FrieslandCampina made a financial contribution to dairy farmers who would encounter higher costs as a result of pasturing their cows.

Setting up a temporary fund to bridge local level costs which can be absorbed at the corporate level appears in this phase to be a good intervention to ensure sustainability. A large effort is also required at the retail end, to convince this department to allow the added costs of pasturing to filter through to consumers, who in return receive a beautiful landscape with cows grazing the meadows.

7.2.4 Building employee engagement

Employees make the organisation. Building on sustainability therefore requires that employees move with the company. This can be achieved in many different ways and with different goals. After a few hard years of reorganisation KPN was no longer seen by employees as socially responsible. The company took the opportunity to start a large social initiative calling for employee volunteering (see also chapter 6). The Mooiste Contact Fonds was established and managers and employees were actively invited to contribute to the company's social profile.

Other companies use the inventiveness and creativity of employees to shape their sustainability policy. After PGGM had made important steps in sustainable investing, they decided to make their own business operations sustainable. At the New Year reception the chairman announced the start of this and invited everyone present to write their ideas on a large whiteboard during the reception.



Image 7.1 **PGGM's sustainable resolutions**

Other companies went to work in a focussed manner, seeking out ambassadors for sustainability within the organisation, trend setters and opinion leaders who could support the move to a more sustainable policy. This approach can be more effective in a company in which support has yet to be found than where the majority of employees can already be expected to support such a trajectory. The solution must be tailored to the situation. For instance Siemens held a number of sessions for its purchasers and KLM set up inspiration sessions for employees to start the dialogue about sustainability. Social media, of course, can also play a large role in employee participation. Internal social media platforms can provide a low-threshold opportunity to share ideas and viewpoints.

A big advantage in involving many employees is that it increases engagement in their own organisation. It adds colour to the work and people feel proud of company initiatives. As we described in chapter 3, this has been confirmed in the literature. This sort of initiative makes an employer more attractive.

7.2.5 The beginnings of supply chain management

The further companies move through this phase, the more they become outward facing, often initially upstream in the supply chain. This is partly inspired by advances within the company's own operations, which gives them a sense of the right, as a customer, to demand sustainability from suppliers. On the other hand there is often also external pressure. The Dutch Association of Investors for Sustainable Development (Vereniging van Beleggers voor Duurzame Ontwikkeling, VBDO) assesses sustainable chain management on an annual basis. No one wants to end up ranked lowest for this benchmark, considering how sensitive companies are about their reputations in this phase.

Another motivation for active sustainable chain management is the opportunity to raise the company's profile for sustainability. For instance Philips saw an opportunity for green marketing. The company wanted to develop more and more products which would lead to better environmental performance throughout the supply chain. In its second five-year EcoVision programme this ambition already shone through. At the same time Philips realised that the first steps must be made towards suppliers. How they dealt with the environment and social problems would feed into the sustainability performance of the company. Despite the high level of ambition for approaching consumers, Philips therefore started by encouraging sustainability among its suppliers. Direct suppliers were required to fulfil internationally recognised standards for labour conditions, the environment and human rights. This made way for an active approach to the market on this issue.

The importance of context:

Effective problem solving for international sustainability?

Many of the smaller open economies, like the Netherlands or Denmark, Finland, Austria and Sweden, share a number of beneficial characteristics that help relatively smooth transitions towards a more active stance on sustainability. In many instances there are well-developed institutional platforms in which the most important societal stakeholders negotiated relatively constructive on important issues. Where this context lacks, the transition process tends to be more adversarial (cf. Van Tulder with Van der Zwart, 2006).

In a national TV programme (Buitenhof, March 2012) departing chairman of the Social and Economic Council of the Netherlands (SER) Alexander Rinnooy Kan was asked what SER actions he was most proud of from the time of his chairmanship. The chair of the SER is considered to be the most influential person in the Netherlands. After some hesitation (a true leader is always wary of making such proclamations) he chose the SER recommendation regarding international corporate social responsibility (ICSR). The SER is one of the most institutionalised forms of stakeholder dialogue in the world – typical of the Dutch neo-corporist model. The SER forms a platform for tripartite consultation between government, employers, employees and society. In December 2008 central employer and employee organisations signed a declaration on ICSR prompted by the recommendations in *Sustainable globalisation, a world to be won* (*Duurzame globalisering, een wereld te winnen*). The declaration commits the business community to intensifying ICSR efforts, including international supply chain management.

Whereas SER declarations are usually quite general, the ICSR declaration also contains a framework of standards (based on OECD guidelines and the ILO labour standards) as well as the promise to map out progress. Rinnooy Kan's pride is also inspired by the fact that large Dutch companies are leaders in ICSR. Has this stakeholder platform reached the tipping point? SER's own reports indicate its status. One of the mechanisms which is important for sustainability is transparency and verification, with attention for sustainable purchasing as an indicator of ICSR. SER's study of the biggest Dutch companies gives a mixed picture with respect to transparency in responsible international supply chain management (60% of companies describe their policies with respect to responsible supply chain management, only 40% give information on chain activities, a third giving more specific information). There is a big difference between the leaders and those lagging behind, but even among the leaders only half report on sustainable supply chain management. SER indicates that Dutch leaders stand out in a

positive light against internationally recognised industry leaders and that many companies do more than their reports indicate. In the second 2011 progress report SER concludes that it is “not realistic to state precisely how far company responsibility reaches along the supply chain.

The interpretation of responsibility is a dynamic process whereby dialogue with the surrounding area highlights abuses in the chain which require attention. This ensures ‘problem-driven’ sustainability efforts” (SER, 2011). However, there remain many companies with no policy on sustainable purchasing. Here there is a role for industry organisations, according to SER, which illustrates that relationships between companies are a limiting factor in reaching the ICSR tipping point. The SER focus is on the extent to which competition law limits further realisation of sustainable development. In the SER recommendations ‘Working more on sustainable growth’ (‘Meer werken aan duurzame groei’) it is acknowledged that a great deal of collaboration between companies is needed, but competition law does not always permit this. In practice there are few known cases in which competition law has really frustrated collaborative relationships for sustainability. However, the government approach limits efforts to tackle sustainability to relatively inactive methods. The SER calls for competition authorities to work proactively with companies to fit their efforts towards sustainability into the confines of competition law. The tipping point has not yet been reached.

The SER declaration has been a positive stimulus for companies to work more on ICSR. One of the reasons for this is the biannual publication on progress, but another important reason comes from the need for policy makers in government, industry organisations and social organisations to emulate the SER advice.

For more information: <http://www.ser.nl/nl/publicaties/overige/2010-2019/2011/b29637.aspx>.

7.2.6 The importance of recognition

All this effort towards a disciplined approach, from reporting to management systems and the supply chain, brings the first signs of recognition as its reward. Often the first effect is seen on the market. For example, when BAM received its CO₂ Performance Ladder certificate, it was easier to win contracts for ProRail. In December 2010 the Infratechniek division received the highest level certificate. This led to a 10% advantage on every tender for ProRail.

Dow Jones Sustainability Index

The Dow Jones Sustainability Indices (DJSI) have been produced by the Dow Jones Indices and Sustainable Asset Management (SAM), a company focused on sustainable investing, since 1999. They combine worldwide and regional indices and indicate how large multinationals (the 2500 largest companies from the Dow Jones Index) score on issues such as governance, environment and social policy (so that investors can choose shares based on sustainability performance). Only companies that are leaders in their industry from an economic, environmental and social perspective are included. Every company is monitored on critical factors and can be removed from the index in the case

of problems such major scandals.

The DJSI is based on the results of an annual survey of companies, reports, contact with the companies, an analysis of media treatment, stakeholder comments and other publicly available information.

Sources and further information: www.sustainability-indexes.com.

In this phase we see large listed companies such as Philips, Siemens, KPN, Air France-KLM and Unilever actively working to be included in the Dow Jones Sustainability Index. Some of these companies have been listed as the most sustainable company in the world for their industry. For all these companies aiming for this league was a conscious choice. After all the efforts to integrate sustainability into business operations, if the company is to continue down this path, external appreciation and affirmation are crucial as proof that sustainability is good for the company. Internally this can help to push the process further. Such indices address sustainability issues which the company must attend to if it is to be included. It can also be a source of pressure to improve. For CSR managers in large listed companies within the spectrum of the Dow Jones Sustainability Index, aiming for inclusion in the index can be a good benchmark. Directors are often sensitive to such recognition and it is also a sign to shareholders that the company has additional value on a market index. This can also be used as a building block for the business case. The listing allows company shares to be included in more funds, thereby winning more positive evaluations from institutional investors.

A similar development can be seen in the Netherlands. In 2004 the Dutch Ministry of Economic Affairs set up the Transparency Benchmark, an annual publication assessing the quality and transparency of social reporting by large Dutch companies. Although the benchmark relates to the quality of reporting, not the social policy itself, many companies in an advanced stage of the reactive phase strive for higher positions on this list. In 2010 40% of the companies we surveyed were in the leading group on this ranking. Companies state that this ranking, although it is not a goal in itself, provides an independent means of assessing transparency.

We should remember that many of these benchmarks are particularly aimed at assessing *large* companies. They demand a great deal in terms of efforts for reporting. But larger companies are also better placed to fulfil these than smaller companies. This can give the impression that larger companies perform better than well-intentioned SMEs, which is by no means necessarily the case. SMEs may simply not have the resources to report their performance.

These recognitions are mainly significant for interested institutional parties, from investors, shareholders and customers to government and suppliers. They help companies orient themselves so as to make sustainability valuable. The flipside of this focus on recognition is that it can become a goal in itself, instead of a temporary means to help the company progress. Systems such as the Transparency Benchmark, Dow Jones Sustainability Index and CSR Performance Ladder risk distracting companies from their strategic focus on sustainability. The tools do not always make customised systems for individual companies equally easy. They may advance sustainability in the broad sense, but there is a chance that companies will focus too much on conditions for recognition and forget their own focus. For this reason, after receiving these recognitions, companies approaching the active phase progress to a more focused CSR policy, based on their own core competencies, strategic priorities and potential. The recognition enforces confidence in the sustainable course of action and the company feels

it has more freedom to shape that course for itself. Affirmation and lists of recognitions remain important but become lower in priority; they have played their part.

7.2.7. GROWTH IN SIGHT

With all these initiatives, eventually the active phase comes into view. The big step is the move from *liability* to *responsibility*. A purely reactive organisation will not make the first move with stakeholders but will only respond when confronted. The reactive attitude revolves around informing external stakeholders on request and reacting to what happens in the outside world. An active company, by contrast, takes responsibility for social problems. Companies recognise the social tasks confronting them and their significance for themselves. The active entrepreneur takes a more moral, strategic attitude to sustainability, regardless of society's response. An active attitude is often coupled with a more outward facing, almost evangelistic attitude, along with influence on the external context, setting up and working according to one's own intrinsically motivated agenda. Sustainability activities fit into the strategy and the business model of the company.

When is this time for growth? What conditions characterise this tipping point? Our survey highlighted many signal moments.

For example, after a number of years focusing on sustainability, companies find they are ready, and that the novelty of the process has worn off. External recognition has been received and the company is gaining confirmation and confidence in the added value of sustainability. Leaders appear more often on committees meeting with other leaders who embrace sustainability. If a certain level of internalisation is reached among crucial opinion leaders and key figures within a company, management is likely to take action. This allows space not only to comply with the demands of the outside world, but also to engage in deeper introspection on the company's social role. In discussions on sustainability personal reflections will arise more often than the continual demand for value for the organisation. For example, in the reactive phase Rabobank set up an ethical committee to discuss credit lending dilemmas. The committee addressed the issue of a mushroom farm asking for credit; most of the employees were women from eastern Europe working in terrible conditions, which were not illegal but only just legally compliant. The committee discussed at length whether Rabobank should lend to the farm. It was strictly legal, but morally debatable. One committee member asked a colleague a simple question which crystallised the decision: "Would you want your wife to work there?" The answer was no, and if we would say no personally, why entertain the idea as an organisation? This personal intervention indicates the beginning of the active phase: people make decisions more from their own moral standpoint.

Rabobank is also transparent about its dilemmas. On the website and in the annual reports these are clearly described, including considerations which played a role in decision-making. The more explicit and nuanced the communication of dilemmas, the more support there is for a meaningful strategic stakeholder dialogue. Sharing dilemmas is always one of the most important first steps in the creation of successful partnerships. If the parties involved are not able or prepared to do this, as is often the case, effective collaboration is very difficult.

Ready for the next step

What are the signs of an opportunity to move to the active phase? Many companies making this move found that, after a few years of disciplined work, the emphasis on their own business operations seemed complete. They had found support, improved performance,

picked the low-hanging fruit and received the first signs of recognition. At this stage there may be a pervasive feeling that it is time for something new. After four years of consistent work on three internal themes (flexible working, keeping people connected and responsible energy use) KPN decided it was time to bring sustainability efforts and performance closer to their primary business and to the market. That led to a much more market-focused approach. Caterer Albron made a similar move. After successfully applying ISO 26000 and achieving CSR Performance Ladder level 4 (see chapter 8), the sustainable portfolio could be demonstrated much more actively to customers. In this phase Philips decided the time was ripe for the launch of its green products: for every product line an extra sustainable variant was developed, the 'Green Flagships'. FrieslandCampina connected sustainability expressly with the Route2020 strategy and focused on a sustainability policy to reach the market.

The desire for renewed focus is common to many companies. In this reactive phase, CSR initiatives are taken in all kinds of areas, but these do not have good visibility to the outside world because companies in this phase are led by guidelines and standards which push indiscriminately for completeness. A CSR Performance Ladder offers at least 33 indicators and the complete list of GRI indicators even more. A survey by a sustainable ratings institute for investors consists of hundreds of questions and the Transparency Benchmark demands the description of tens of subjects. The risk here is loss of focus and efficiency.

This may be the most important characteristic of the transition from reactive to active; the sustainability policy has reached a certain level of maturity and must now affect the market performance, not only in terms of marketing opportunities, but in the form of a broader notion of company responsibility. The sustainability manager has succeeded in allocating tasks and responsibilities to the relevant departments. Sustainability data is managed by departments such as corporate control in a manner analogous to financial data, the audit department checks the data for consistency and accuracy, purchasing managers apply sustainability demands to contracts and corporate communications sets the sustainability message powerfully in the limelight. Sustainability is truly guaranteed and the company can turn to conquering the market and connecting corporate strategy with its own vision of a sustainable contribution to customers.

Employee attitudes to sustainability

In our survey we asked employees from the 20 frontrunner companies about the phase in which they would place their own company. The completed questionnaires (N=1936) show a number of clear patterns:

- **Gender.** Men have a more positive estimation of the sustainability phase of their own company than women in the same company. This may be influenced by the fact that women in general exhibit a more critical attitude than men.
- **Age.** Employees in the age group 26-35 have a much more negative view of their company's sustainability performance than those over 61 years of age. However, it is not the case that the older the employee the more positive their judgement, as the group under 26 is more positive than the 26-35 year-old group.
- **Experience.** Employees who have been in service for a shorter time (0-5 years) judge their company's sustainability strategy significantly lower than those with more than 11 years of service. Those with more than 30 years' service have the most positive estimation of their company's own sustainability strategy. NB: this may also suggest that this group sees the company through rose-tinted glasses.

- **Leadership.** For managers, the number of employees they manage also correlates with their estimation of the company. The larger the group, the more positive. This is particularly significant for employees who do not manage anyone, as compared to those who manage more than 100 people. At the typical middle management layer (26-100 employees), the differences are less clear.
- **Individual.** Some personal characteristics also affect appreciation for a company's sustainability strategy. The survey included questions on an employee's own attitude to sustainability. Employees who are themselves active for good causes, buy local organic products, are honest and/or take environmental criteria into account in their travel and want to work proactively with others for this aim, generally have a higher opinion of their company's sustainability strategy.
- **Education.** There were no significant correlations with level of education, but in general a higher lever of education (beyond secondary school) leads to a more positive opinion.

7.3 LEAVING THE REACTIVE PHASE BEHIND

Growth to the active phase is a very conscious process. In our research FrieslandCampina, Philips and Dutch national railway company NS provided good examples of this.

7.3.1 Case: FrieslandCampina

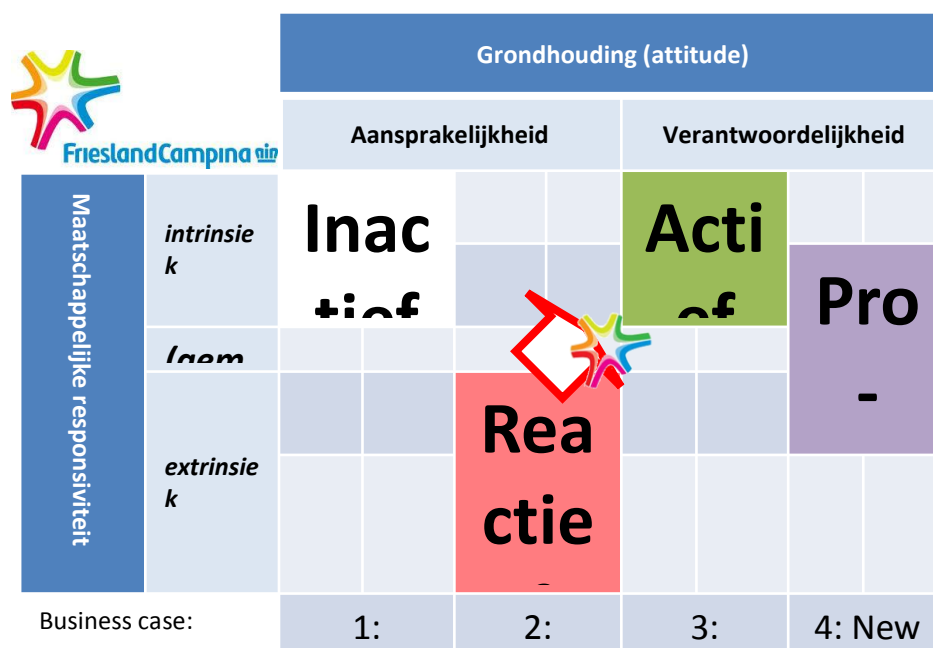


Figure 7.1 FrieslandCampina's transition

In 2009 Dutch dairy companies Friesland Foods and Campina merged to become the biggest dairy cooperative in the world, FrieslandCampina. The reason for the merger was the need for new volume to accommodate expected growth in demand for dairy products worldwide. The companies had different attitudes to sustainability. Campina had set up a partnership with the

environmental movement for sustainable soya beans, as well as regular internal and external sustainability reporting. Friesland Foods, on the other hand, was still having trouble with environmental organisations, including the sustainable soya lobby. Friesland Foods first published an external sustainability report in 2006, but in 2008 the company came into conflict with Natuur & Milieu, which described its new sustainable soya initiative as ‘green washing’. To allow the synergy and potential of the merger to blossom, the new cooperative Royal FrieslandCampina started a new strategy, Route2020. The basis of this strategy was a comprehensive environmental analysis. Big social problems facing the world, such as climate change, population growth, availability of water, animal welfare, protein and nutrient scarcity, and ageing were explicitly included as factors affecting the company’s continuity. The significance of these trends and problems was analysed in detail over many strategic sessions. In order to gain an independent view on the organisation and involve the outside world more effectively, this was actively supported by an external party.

The result of this exercise was Route2020, with sustainability as one of its fundamental building blocks. By designing sustainable development more actively the company would enable further growth. This was one of the motors and binding forces behind the new organisation. The company did not shy away from ambitious goals. The planned growth was to be climate neutral, due to energy saving and sustainable energy generation from the supply chain (from dairy farmer to factory). It was not all plain sailing. Not all dairy farmers were delighted when the company proposed the transition. After a long history of licensing conflicts between agricultural entrepreneurs and local government (see chapter 6), some perceived sustainability to be an expensive impediment to business. In 2010 and 2011 there were in-depth discussions with members of the cooperative. Ultimately they are the owners of the company and they elect the members of the highest decision-making body, the board of directors and the members’ council. Many tense, emotional sessions were organised for talks on the necessity of this transition to sustainability. The sessions reflected on external developments: how sustainability was growing among consumers, how energy scarcity could affect cost price, and how retailers and food companies were setting their sights on sustainability, all of this as far as possible supported by hard figures.

Eventually the company won the approval of the member dairy farmers to set the programme in motion. The cooperation with dairy farmers centred on four themes: energy and climate, animal health and welfare, biodiversity and pastureland. FrieslandCampina (the milk processor) redefined corporate social responsibility in a framework with four main strands: Health & Nutrition, Responsible Dairy Farming, Sustainable Supply Chain, and Dairy Development Asia and Africa. This choice was based on what stakeholders demanded of FrieslandCampina and on an in-depth environmental survey of the company and reflection on its own responsibility and opportunities. Where can the company find opportunities to make the difference based on its own characteristics? The focus of development was on shaping these themes. In order to guarantee the credibility of the initiative, FrieslandCampina partnered with a respectable social organisation, such as the Worldwide Fund for Nature or the Red Cross, for each theme. In contrast to the reactive phase, the company itself sought out this collaboration. The previously disjointed CSR policies from the two merged companies became focused into one coherent line. This also meant rejecting some themes, such as their educational initiatives. The new focus added power to communications. Support for Route2020 was support for sustainability, and vice versa. Where originally the contentful, knowledge intensive disciplines had led the way towards sustainability, in this phase the newly established sustainability office was the guide. Now the idea had to be sold to the account managers who talked to big business customers in the retail and food industries. Here

they had to capitalise on the value of sustainability; a better price for better, more sustainable dairy products.

In this phase bridges are built to other departments, such as human resources, marketing and sales. This bridging function is the domain of the sustainability office along with internal communications. Here it is largely a matter of searching for the connection between interests of the departments involved. Pushing sustainability rarely works; it is necessary to search for ways for sustainability to contribute to the needs of HR and sales. Figures on the value of sustainability, for instance demonstrating to HR that sustainability contributes to employer attractiveness or to others that it brings market success, help enormously.

FrieslandCampina tackled this phase as if it were a puzzle, forming a clear picture from all kinds of small, partially connected, existing initiatives. The contours of the sustainability policy were made explicitly visible. In order to communicate this actively to the outside world, in addition to various other communication channels, FrieslandCampina introduced a mobile app to make sustainability visible to the consumer.

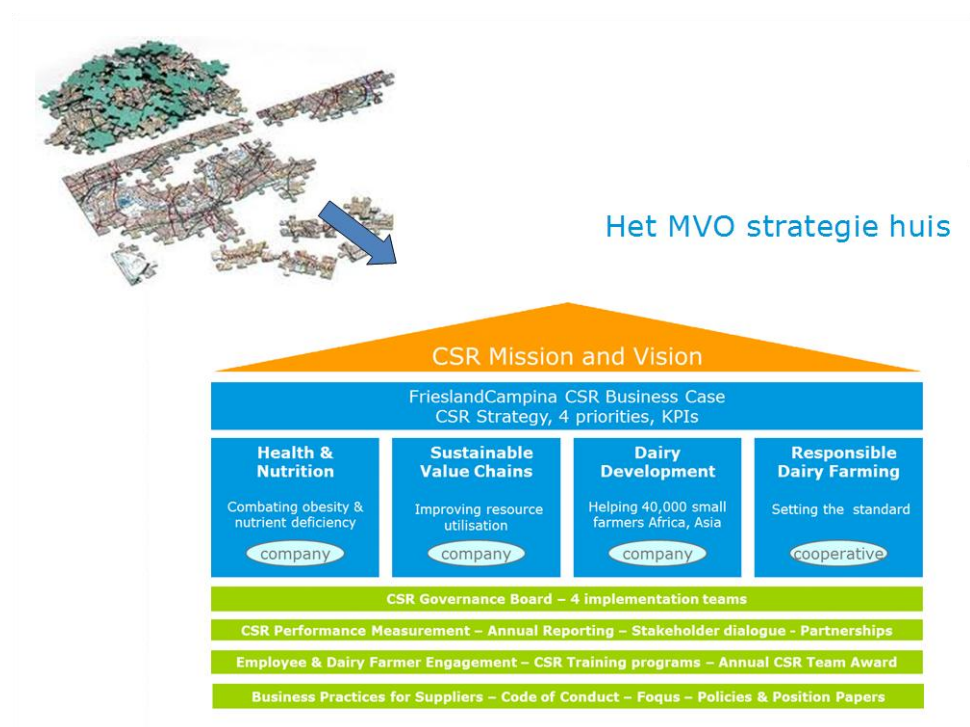


Image 7.2 Development of FrieslandCampina's CSR house

A variety of successes were achieved on the way to this transition. In November 2011 FrieslandCampina announced that it would work with Unilever towards the further development of sustainable dairy products. A few months later the company joined the consortium of Dutch companies to announce the formation of the Dutch Sustainable Growth Coalition at the World Economic Forum 2012.

Table 7.1 Key case interventions and tipping points	
Interventions	
• Enter partnership with social organisation and go beyond original demand (surpass stakeholder expectations) • Appointment of director of corporate communication with strong sustainability background in multinational companies • Establishment of a dedicated sustainability office, with the director of external communications as part time director, raising the sustainability profile internally and externally • Explicitly setting sustainability on the radar when formulating new strategy • Deciding focus based on core competencies • Gathering evidence in the case of internal differences of opinion • Explicit role for corporate communication as bridge builder • Large number of internal workshops and meetings to discuss strategy • Working with influential social organisation for each sustainability theme chosen	
Tipping points	
• From punishing unethical companies by price, to rewarding ethical companies by price (Trudel & Cotte, 2009) • From explicit to latent demand • From badly integrated CSR efforts (misalignment) to well integrated CSR efforts (co-alignment) • From a simple sustainable purchasing policy to organisational learning, improved suppliers and lower costs (Carter, 2005) • From confrontation with stakeholders (NGOs) to cooperation with NGOs on chain management themes • From stakeholder information to stakeholder involvement • From negative, control oriented codes of conduct to positive change oriented codes of conduct • From defensive issue-identification from a company perspective to a proactive approach to issues from a social perspective • From licence to sell and produce to licence to operate (static) and licence to change (dynamic change processes)	

7.3.2 Case: Philips

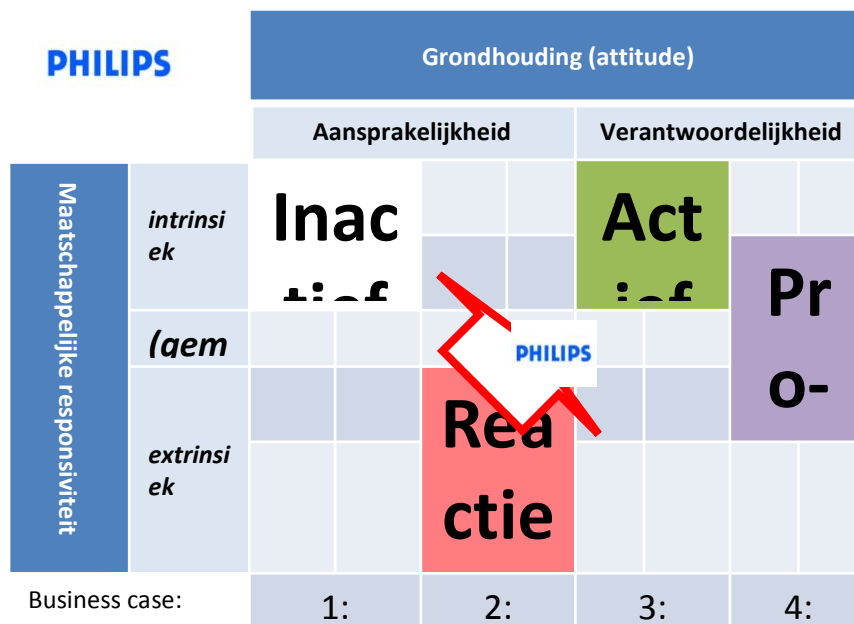


Figure 7.2 Philips' transition

Philips' transition came at the end of the 1990s. In previous years the company had made efforts to bring its factories up to scratch environmentally and socially. Energy and water efficiency programmes were rolled out and environmentally damaging chemicals in products were replaced before the law made it compulsory. On an international social level, important steps were made. With the ambition of actively setting green products on the market, Philips realised it would first need to clean up its own back yard. Since the company had moved many activities to Asia, where many of its suppliers were also situated, it seemed likely that working conditions were not up to standard in all factories. In the 1990s various global companies had come into painful conflict with pressure groups which brought issues such as child labour and underpaid work to the greedy attention of the media. Philips' CSR director realised that such publicity could harm the company enormously. For this reason the board of directors was convinced they needed to persuade suppliers to ensure compliance with fundamental labour and environmental standards such as ILO or the OECD Guidelines for Multinational Enterprises. With this mandate from the top, the purchasing and procurement departments developed a methodology for expanding sustainability to the key first line of suppliers. The company started by identifying the risky suppliers, those most likely to be in violation of these standards, and asking them to declare in writing that they would comply with the suppliers' code of conduct, which gave a comprehensive description of standards for environment, social aspects and integrity. Without a legally binding contract no business could be conducted. Philips then introduced an auditing programme: social and environmental aspects of business would be assessed as part of the regular supply audits. Where misconduct was found, proportional measures were taken. Suppliers would have the opportunity to improve, but repeated violations would lead to the company parting with the supplier. This

programme, regulated by purchasers with the support of the CSR department, gave Philips active control over the entire supply chain. A condition for green marketing was fulfilled.



At the same time Philips felt that there were too few rankings for international companies to be judged on their sustainability from a brand perspective. For investors there was the Dow Jones Sustainability Index, but nothing at the brand level. Philips therefore proposed that Interbrand, a brand consultancy which compares the value of the world's biggest brands on an annual basis, should take sustainability into account. This proposal was accepted and a few years later Interbrand integrated sustainability into its evaluation. This led to the launch of the Green Brand Ranking in 2011. Such initiatives allowed Philips to create a new valuation or recognition committee for its sustainability efforts. These efforts meant that around the turn of the millennium Philips felt able to make the step to green sales. The CSR department turned emphatically to the product development chain, involving research & development, innovation, market intelligence and marketing. Whereas in evaluating suppliers an authoritative, top-down approach was considered best, in this new phase the company opted for a bottom-up approach. In managing suppliers for sustainability the main issue is averting a real risk of reputational damage, whereas in introducing green products the opportunities were more central. Product development and marketing were also less central than reputation and risk management. Firstly they thoroughly researched the potential demand for green products: did consumers want this, and were they prepared to pay for it, even if it cost more? When market research came to a positive conclusion, the company began to build internal support for the next step. After many internal sessions and studies, the EcoVision programme was launched, with the promise of developing one really green, energy efficient product for each of the ninety product categories, enabling Philips' customers to choose sustainability, not so much because the customer or outside world made a clear demand for it, but because the company's analyses showed there was far more profit in an energy efficient product in the use phase than in energy friendly production. This was consistently followed through. The next step was to formulate concrete annual targets to achieve the necessary turnover for these products. In the annual sustainability report concrete goals were set for these Green Flagships. Each year an externally verified report was produced, to give stakeholders an overview of progress. A few years later the directors' pay packages were attached to this. Gradually the portfolio of sustainable products grew and Philips' efforts not only contributed to operational cost savings and protection of reputation, but increasingly also to market success, the true heart of the company. In 2011 Philips launched the fifth version of EcoVision. In addition to environmental ambitions, the company also announced social goals for products. Philips' efforts did not go unnoticed in market evaluations. In 2011 Interbrand launched its first

version of the Green Brand Global Brands, with Philips as the highest ranked Dutch company. This was also educational for other companies: if something is missing you can take the initiative in creating it. Compare BAM's initiative (chapter 6) in educating the market to demand sustainability in tenders.

Table 7.2 Key case interventions and tipping points Philips	
Interventions	
–	Sketching reputational risks based on analysis by the directors
–	Setting up supplier codes of conduct, auditing programmes and improvement initiatives for high risk suppliers
–	Advancing methods of measuring green brands
–	Researching potential demand for green products
–	Involving commercial and product development chain in green products
–	Externally communicated annual goals for green products
–	Attaching rewards for the directors and top management to sustainability targets
Tipping points	
–	From shareholder value to stakeholder value (Peloza, 2009)
–	From products with simple features/value to products with complex features/value (Green & Peloza, 2011)
–	From explicit to latent demand
–	From promotion to institutionalised strategy (Pirsch et al., 2007)
–	From sustainability/CSR as voluntary part of reward structure to integral part of functioning and pay (with clear key performance indicators)
–	From local to integral optimisation of the entire supply chain (Linton et al, 2007)
–	From negative, control oriented codes of conduct to positive change oriented codes of conduct
–	From a simple sustainable purchasing policy to organisational learning, improved suppliers and lower costs (Carter, 2005)
–	From separate to integrated sustainability reporting
–	From corporate social responsibility to corporate social innovation (Kanter, 1999)

7.3.3 Case: national railway operator (NS)

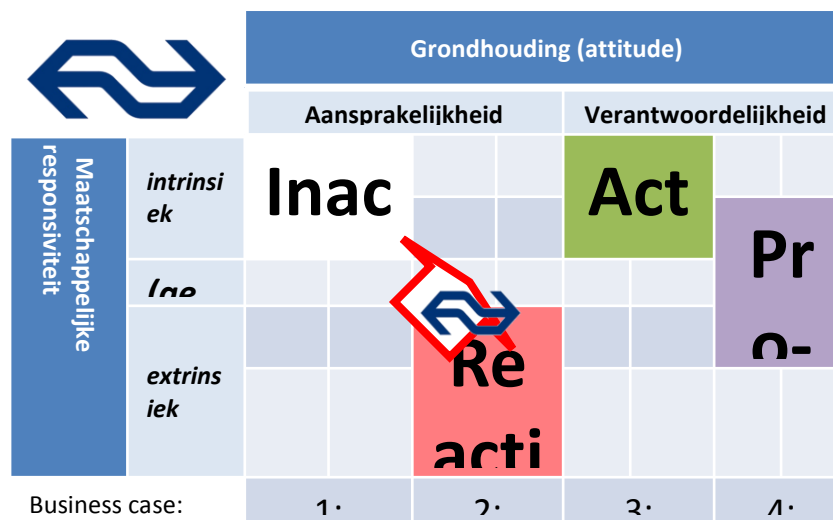


Figure 7.3 NS's transition

NS also recognised the need to take sustainability to the next level. The railway company made efforts to improve its environmental performance. On the environment side the company focused on systematic reduction of waste, noise and energy use, while on the social side strain in labour relationships sometimes dominated public opinion. The sustainability policy fulfilled the demands of the outside world (energy use, gender balance in the company and such issues), and was still very reactive in nature. In this phase, a change of directors meant the arrival of a director for corporate social responsibility, a new member of the board of directors. He felt it was time to breathe new life into the sustainability policy. The CSR working group came to the conclusion that the company lacked a sense of urgency for sustainability and needed to set its sights higher. There was an idea that trains were environmentally friendly by definition, so the sustainability box had already been ticked. A greater sense of need must be created before sustainability could reach the next level, especially given the fact that more than 10% of passengers chose to travel exclusively by train because they thought this was more environmentally friendly than cars.

The CSR working group set up an external session with Achmea Averro, where NS employees discussed the context of sustainability with external experts in a creative setting. The focal point of the discussion was the idea that energy and CO₂ should be NS's central themes. For every passenger kilometre 31g of CO₂ were emitted, whereas the average driver would clock up the same emissions in 250 metres. This in itself demonstrates the potential gain with the train. The more travellers move from the car to the train, the greater the reduction in emissions, and the better NS's financial performance. The business case parallels the sustainability gain, all the more reason to value and nurture this unique selling point, more than the company was doing at the time. Of course the car also forms part of NS's mobility chain and the train is not always a real alternative, so NS went in search of collaboration, for instance providing good parking facilities and the option of hiring electric Greenwheels cars. NS also works with lease companies to make the choice between car and train easier for drivers on lease schemes. The car industry is innovating at a high rate too. Every year new models are launched with lower CO₂ emissions. The Netherlands has been made an experimental area for electric cars and climate competition. In the short term NS seemed to have a comfortable lead, but on closer inspection we realise that trains last forty years;

replacement and innovation is therefore very slow. If an average car lasts ten years then this means that the entire fleet of cars in the Netherlands are replaced four times as fast as the trains.

This was graphically represented in the workshop (Figure 7.4) If the CO₂ emission reduction curve of the car industry continued as it was at the time, in approximately 20 years' time NS would have lost its lead. Good news for the climate, bad news for NS.

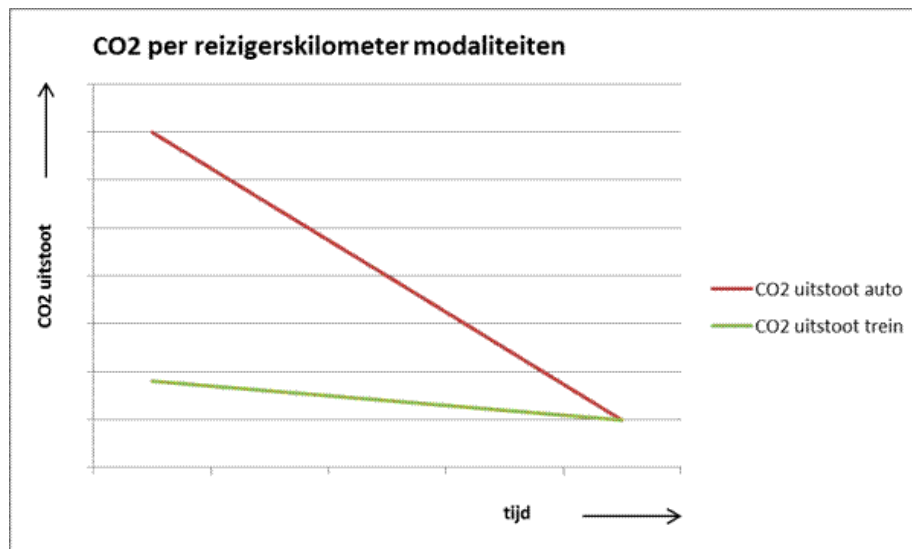


Figure 7:4 CO₂ per passenger kilometre for different modes of transport (red line: cars, green line: train) (Source: NS)

This communally developed insight and ideas for raising sustainability at NS to the next level brought real positive change. This was communicated on many levels and committees, building support for the CSR policy. More than reacting to questions from the outside world, NS developed an active energy policy, taking energy saving and use of green energy as a starting point. In a broader context, sustainability was listed as one of six strategic focal points, making the company's choice for sustainability visible to the entire organisation and the outside world. This was depicted in a strategy cube, each surface reflecting one aspect of sustainability. The next step is for NS managers to integrate this into their regular activities. The low-hanging fruit has largely been plucked; now NS must reach higher for sustainability goals which better fit society's need for sustainable mobility.



Image 7.3 NS strategy cube

Table 7.3 Key case interventions and tipping points	
Interventions	
–	Allocation of sustainable enterprise to new director
–	External CSR inspiration session for deciding strategy and business case
–	Developing long term energy policy
–	Sustainability explicitly mentioned as one of the six strategic starting points
–	Visualisation of sustainability in strategy cube
Tipping points	
–	From promotion to institutionalised strategy (Pirsch et al., 2007)
–	From partially to completely integrated approach (Pagell & Gobeli, 2009)
–	From CSR for cost reduction (environment) to CSR for market creation
–	From competitive advantage to sustainable competitive advantage

7.4 SUMMARY CONDITIONS AND INTERVENTIONS TOWARDS THE PROACTIVE PHASE

In the course of the reactive phase we have seen that companies make efforts to get their houses in order. Sustainability themes are made manageable with the introduction of management systems, sustainability reporting and employee participation.

When it comes to specific themes, there are divergent and convergent phases. Companies which have moved through this phase are inspired by the ideas of suppliers, customers, external advisors and industry organisations. Ideas are gained from all sorts of sources, from

conferences, Cradle to Cradle® promotional DVDs, industry organisation projects, customer comments in one-to-one discussions, and the list continues. The emphasis is very much on good organisation of sustainability themes from the perspective of liability, checking that the list is complete, that the company has an overview of expectations, and that it is fulfilling those expectations. These are the questions and challenges of this phase.

From the perspective of company management an important initial intervention is appointing a CSR manager and providing a task and a mandate to get started. This person can focus on drawing up a sustainability policy, carrying it out and monitoring it. Communication skills are crucial in this phase. This is mainly a matter of bridging the gap between sustainability policy and other management disciplines, such as purchasing, marketing, innovation, and research and development. That requires empathy from the CSR manager when it comes to identifying the interests of colleagues involved and how sustainability can contribute to these.

Their point of departure can be drawing up a clear business case. In contrast to the inactive phase, in which the emphasis is on costs and efficiency, the CSR manager does well to shed light on the reputational risks: what reputational damage should be avoided through sustainability, or what opportunities does sustainability offer?

The market becomes more important: which customers demand sustainability? What do they want? A short survey of customer expectations can work wonders. Don't wait until customers demand sustainability: demand it yourself.

Introduction and systematic improvement of a sustainability report is a valuable intervention for many companies in this phase. Communication (externally and internally) leads to recognition and new input. Internally it helps the organisation progress because it enforces a structured approach, mapping out performance, monitoring, analysis and management.

The management disciplines involved will shift from operations management to corporate communication, at least in large multinationals. To the CSR manager, passing through this phase means convincing many different disciplines of the sustainability focus, from communications to investor relations, from purchasing managers to accounts and marketing. It is the phase of internal alignment. The trick is to convince the different departments. There is no easy answer. Pushing sustainability rarely works; it is necessary to search for ways for sustainability to contribute to the needs of the disciplines involved. Figures on the value of sustainability for departments such as HR help enormously, showing how sustainability contributes to employer attractiveness, or how sustainability improves market performance. For companies in our study, learning about stakeholder expectations in particular inspired more reluctant employees to take action, department by department, and sometimes individual by individual.

After a few years, forms of recognition come within reach and can become important milestones. These might involve recognition from investors, or from the market in the form of special trademarks. Choose the form which best suits you. Are ecofriendly labels valued by your customers? Is appreciation for the annual social report attainable? This could come in the form of a good ranking for the Dutch Ministry of Economic Affairs, Agriculture and Innovation (Ministerie van Economische Zaken, Landbouw en Innovatie, EL&I) Transparency Benchmark.

We are not making a case for going all out for the highest possible position on the rankings. There are many checklists in the sustainability world and the number is growing. There is a danger that these, often generic lists become guiding principles, leading companies to pay too little attention to determining the issues and activities with which they can really make a difference. However, it is clear that for marketing value (i.e. free publicity) and associated support, internal and external recognition of value are needed in this phase. They can spur companies on to follow through on improvements which in turn lay the foundation for the next step.

If recognition has been acquired, the chosen themes are well set up and have seen improvement, there is an opportunity for further growth. The company management will often have developed a greater sense of real responsibility for social aspects of business during this process. As a logical result there may be a review of the company's role in society. Previously chosen spearheads are held up to the light again; no longer in reaction to explicit demand from others, but instead from introspection on the opportunities in society. Generally companies make choices and find solutions in which their core competencies can be used responsibly to make a sustainable contribution. The primary business of the company comes into focus.

Below we summarise the opportunities for directors and managers to move the company from the reactive phase to the active phase:

For directors

- Appointing a CSR manager and setting out tasks and a mandate to set these in motion. Choose the person based on the role expected of him/her.
- Emphasise the importance of sustainability in all communications at all times; this helps enforce the message internally.
- Be open to input from external parties on the company's role in society.

For CSR managers

- Explain the reputational aspect of sustainability efforts:
 - o Positive: give examples or look for customers who choose sustainability.
 - o Negative: sketch risks, perhaps giving examples based on NGO pressure on competitors.
- Support the claim that customers demand CSR with research and surveys.
- Begin with monitoring: choose themes, list KPIs.
- Publish a sustainability report (use GRI and the Transparency Benchmark as a framework).
- Consider working with systems such as ISO 26000, the CO₂ Performance Ladder and the CSR Performance Ladder.
- Watch out for forms of recognition within reach and go for them, but do not lose sight of your own plan and ideas.
- Look for opportunities to integrate CSR into products and services.

Departure from the reactive phase will become a fact when the company itself has revised its sustainability strategy and translated it into primary business operations. In the next phase, the truly active phase, the task is to continue with what you have achieved and to move on to the proactive phase. More on this in the next chapter.

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