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Trust and Social Responsibility: Sustaining the Deal with Stakeholders

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Good morning ladies and gentlemen, as Bruce mentioned earlier, my name is Seb Beloe and I am a director of an organization called SustainAbility. While we have only been in the U.S. for two years, the organization was originally founded in London fifteen years ago. During our existence, our focus as a business has shifted radically from being primarily concerned with helping companies to understand and attend to the environmental impacts of their products, to one where the unit of analysis is now the whole corporation, and the range of impacts that we consider sweeps across the whole triple bottom line – that is the environmental, social and wider economic impacts of corporate operations.

This shift has also been reflected in the relationships that companies have with investors, employees - both current and future - local communities, governments, suppliers, and other stakeholders who are increasingly active in demanding to know how companies are managing their businesses. As Cor Herkstroter, a former chairman of Shell International, once put it: *"We are trying to come to terms with the realities of a new "show me" world. The days when people trusted business and government to take decisions on their behalf are over. Today, it's no longer enough for companies to simply say "trust me."*

Many companies have chosen to follow the lead of corporations like Shell, BP, DuPont, and Dow by opening their operations up to wider scrutiny. More than half of the world's 250 largest corporations now produce environmental – and in some cases – triple bottom line reports. Many more are now actively inviting external groups, including their critics, to review their operations - be it in person or on-line as Nike has done in providing web-site access to virtual factory tours of their operations in Vietnam.

Such efforts at greater transparency – be they corporate-level reports, or stakeholder engagement – are nearly always expensive and are invariably time-consuming. Critics of the practice have suggested that given these costs they are worse than useless and have questioned their validity as effective business tools. As one critic put it in a recent survey on attitudes to sustainability in corporate America:

“[Sustainability] will increase costs and dilute the focus on core business needs while providing very little incremental benefit to the company for the effort expended... This is a most pernicious fad.”

But whether or not sustainability reporting is a fad, the reporting itself is merely a response to a deeper trend in business. That trend is towards the growing business value of relationships with a broad set of stakeholders. As value is increasingly wrapped up in intangible assets such as human and intellectual capital, brand value, workplace culture and reputation, so the importance of relationships with the key groups who generate this value grows. John Browne of BP stated several months ago that he believed that while access to capital was a key strategic differentiator in the 1990's, *relationships* would be the main differentiator in the new century.

If we accept this position - that relationships with a wide set of stakeholders are likely to be increasingly important – then trust becomes a key element in maintaining those healthy relationships. In such a world – and there is evidence to suggest that we are already in it – those companies that are actively trying to maintain – or even create - trust in these relationships may well be better placed in the market than those who don't.

Unfortunately, creating trust is not an easy task, particularly today when the public at large is well-stocked with reserves of cynicism about corporate motives and behavior. Edelman, a public relations firm represented in this Society, dubbed Non-Governmental Organizations the fifth estate after research found that NGOs such as Amnesty, Oxfam and Greenpeace are trusted by the general public more than twice as much as major branded companies such as Bayer, and Microsoft. In the U.S., the research indicated that corporations are still marginally more trusted than NGOs, but bear in mind that this research was largely conducted before the WorldCom, Tyco and GlobalCrossing controversies really took off. More recent surveys in the US have found that these corporate scandals have been extremely damaging. One survey, done for the AFL-CIO, found that while on Labor Day 2001 42% of respondents viewed large corporations positively (as opposed to 25% who viewed them negatively), by Labor day 2002 – these statistics had been reversed with a majority of respondents viewing large corporations negatively. CEOs meanwhile are now viewed negatively by 58% of respondents. Indeed it seems the only groups who are regularly found to be less trusted than companies (and you've probably guessed it) are journalists and politicians.

In order to overcome these trust barriers, we are counseling companies to prioritize honest, respectful, and responsible behavior in their relationships with key stakeholders, and critically, to discriminate between what we view as being passive positions on these issues, and active positions. Where once passive honesty – by which I mean compliance with the letter of the law – would have been adequate, generating or maintaining trust today now requires *active* honesty. And by that I mean being true to the *spirit* of honest behavior.

Many corporations have policies that say that they will not knowingly violate environmental permit requirements leading to a situation in which managers follow an “ignorance is bliss” approach. Similarly in the field of advertising, sticking to the letter of the law allows

companies to show commercials that cleverly avoid regulatory requirements – like providing text that describes product limitations, but making this so small as to be illegible.

In the UK, regulation prevents companies from explicitly advertising cars or fuels that enable drivers to drive fast or aggressively. Advertising agencies are however, well-versed in searching for ways to outwit such regulations and in one campaign which we were asked to critique, the company presented the fuel in their campaign as a product that provides “performance when you need it.” The voice-over for the ad, of course, was provided by a well-known celebrity who hosts a UK television program show-casing fast cars. Clearly the strap-line “performance when you need it” was presented as a way of selling the high-performance characteristics of the fuel – but was subtle enough to sidestep the regulation. Passively honest, rather than actively so.

Equally, passive respect might be equated with traditional forms of respect for gender, race and religion. The active form would go beyond this, to recognize human weakness and to proactively ensure that vulnerable populations are not exploited by the company’s activities. Advertising alcohol to teenagers would obviously fall into this category, as would exploiting poverty and privation in recruiting child labor in developing countries to manufacture footwear, apparel and other products.

Responsibility is the third area that we are advising our clients to explore. Rather than passively complying with standards of behavior, trusted companies are likely to be those that are actively driving up industry standards – be it in the development of corporate environmental and social reporting, or in declaring stock options as expenses on their profit and loss statements.

I began this morning by talking about how the content of the work that my organization does has changed. Ultimately those early challenges around product impacts – issues that were once considered to be tactical – have turned out to be early warning signals of a much more fundamental question about the essential role of companies in society. This environmental tip to the corporate social responsibility ice-berg – if you will – which started out as an opportunity for companies to respond to their “green consumers,” has morphed into questions over whether companies should take on “government-like” responsibilities in protecting vulnerable populations and the wider environment.

While the question of whether companies that behave in the “active” mode as I have described, are likely to be rewarded in the market place is still not clear, it is abundantly clear that many of the world’s most pressing needs require that we – and by “we” I mean companies, governments, non-governmental organizations and other stakeholders – work together.



"Tell the public we don't want to hurt anyone. All we want is their money."

Source: New Yorker

Some of you may have seen a cartoon in the New Yorker magazine several years ago which showed a group of corporate executives gathered around a board table with the Manhattan skyline in the background. The CEO is standing at the top of the table lecturing his colleagues, "Tell the public we don't want to hurt anyone," he says. "All we want is their money."

As Henry Mintzberg argued in a recent article in Fast Company Magazine, surely for companies, the absolute *essence* of responsible management is to be able to judge the difference between short-term calculable gains and deeply-rooted core values.

The bottom line is that sustaining the deal with company stakeholders will require a framework that underscores this distinction. A trustworthy corporation must vigorously promote and reward behavior that is actively honest, respectful and responsible. It must communicate its intention over time, it must track its progress, and – very importantly – the company must respond to a base of stakeholders that is bound to change as the company adjusts to changes in markets, in political terms and in culture.

Virtually every company has the challenge of responding to customer tastes and expectations that vary from country to country and from culture to culture. All of us will surely agree – as was suggested by Professor Fukuyama earlier – that it would at best be arrogant, and at worst, devastating as a business strategy, to ignore the influence of culture – of the social capital that varies with the society – and to assume that “one size fits all” whether we’re talking about product, service, or employee relationships.

As Bruce Harrison suggested in forming the focus of this panel, there is a deal with stakeholders. Companies who understand the terms of the deal and who continuously communicate with all those affected will have the best chances of business success. If there is an opportunity in our discussion, I’d like to offer a framework that SustainAbility has found useful in several companies.

Thank you for your attention, and I look forward to a stimulating discussion.

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