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How brands can compete in the reputation economy

| By Mark Stapylton

Sustainable, socially-responsible business has been practiced by some companies for more than 30 years. The implementation of sustainable, socially-responsible business models - captured in full cost-accounting methods known as the triple bottom line (TBL) and commonly paraphrased as "Profit, People and Planet" - has slowly and incrementally progressed from early-adopter, eco-friendly businesses to industrial companies and finally to major consumer and packaged goods companies.

Now, seemingly overnight, sustainable business is everywhere. In a one-month period in the fall of 2013, for example, these were just some of the headlines that made news:

- Unilever launches its first corporate brand campaign in the U.K. targeted directly at consumers, saying: "This is about having a broader ambition and purpose for the company ... that shows all Unilever brands that have contributed to making the world better."
- P&G announces a corporate campaign in the U.K., positioning sustainability as innovation, saying: "The Holy Grail is connecting sustainability with brand equity. If we don't then it won't appeal to our customers."
- Here in the U.S., retail giant Target announces it will create a sustainable products index, significant because it will allow shoppers to compare products then, through their purchase decisions, directly impact the sustainability policies of manufacturers and producers.
- Ford Motor and The Coca-Cola Company announce a collaboration using an interior fabric for a Ford Fusion plug-in hybrid made from the same renewable material used to produce plastic bottle packaging.
- BMW announces the new BMW i3 made with a carbon fiber shell, in a move toward "future-proofing our business."
- Levi Strauss launches Wellthread, a Dockers brand that is sustainably sourced and manufactured.
- Howard Schultz, Starbucks CEO and long-time poster child for sustainability, is quoted as saying "Profit is a shallow motive."
- A survey of institutional investors finds that sustainability is increasingly a governance issue. *The Guardian* newspaper reports that sustainability is a core business strategy. A survey of "aspirational consumers" finds that sustainable consumption is cool. A Carton Council of North America survey finds that the vast majority of American consumers expect food and beverage packaging to be recyclable.
- And in case we didn't get the point already, Wharton reminds us that sustainability has high salience.

More and more companies have put aside doubts and are inventing new models of business.

- They are walking away from traditional models that assume unlimited resources and focus on the narrow interests of profit and shareholders.
- They are moving beyond corporate philanthropy and corporate social responsibility initiatives that look and feel good but aren't solidly integrated into or driving their business strategy.
- They are leaning forward into an awareness that public opinion increasingly demands the value they create must be sustainable, that all stakeholders are important - not just shareholders - and, because business is part of society and is not separate from it, that profit supports a purpose.

Companies are also responding to the paradigm shift - fuelled by social media and global digital connection and provoked by the global financial crisis - that has occurred between brands and customers and between companies and stakeholders. Much influence has been transferred from companies to consumers. Consumers have been empowered.

Changing their stance

Just as companies are changing their stance towards consumers, so too are consumers' expectations of companies changing. Studies show that consumers want to feel good about the companies and brands they have a relationship with. They expect companies to act responsibly. Some will get involved and participate actively, making shared value a reality. Harris Interactive's 2013 Reputation Quotient survey shows that the attributes consumers ascribe to "great companies" that have increased the most in importance over the past two years are "plays a valuable social role," is "a good company to work for" and have "a good feeling about the company." The survey also shows that the American public is now more likely than in the past to proactively try to learn more about the companies they hear about or do business with.

Companies are finding academic and theoretical support for their new models from many sources, including Michael Porter's thinking on shared value; the work of Edward Freeman, John Mackey and others on conscious capitalism; and of course, from stakeholder theory.

Ready to compete

So it's a good time to be a sustainability officer but also a challenging time. The Reputation Institute's 2013 global reputation leadership survey shows nearly 80 percent of corporate executives think we now live in a "reputation economy" but only 20 percent say their company is ready to compete.

For companies adopting sustainable business models, there are now numerous cases that can be studied and companies to benchmark. Organizations such as the Global Reporting Initiative offer guidelines, processes, frameworks and reporting tools that can be adapted to the needs of most businesses. Most useful of all, the ISO 26000 voluntary international standards on social responsibility, introduced in 2010, provides a complete roadmap, best practices and "practical tools for all three dimensions of sustainable development: economic, social and environmental."

At the center

Graphic visualizations of TBL typically put sustainability at the center of three intersecting circles: the three bottom lines of Profit, People and Planet.

- The Profit sphere is financial and relates, as it always has, to economic success and prosperity. The very familiar metrics include revenue, margin, sales growth, ROI, cash flow and job creation among others.
- The People sphere is social and relates to stakeholder value. The focus can vary dramatically, depending on the nature of the business, but commonly includes employee welfare and retention; labor practices; fair trade; community and human rights impacts; cause marketing; and product responsibility. Some of these can be objectively measured; others can be quantified using survey-based interviewing techniques.
- The Planet sphere is environmental and relates to sustainable use and stewardship of resources (e.g., air and water quality, energy consumption and resource and waste management). These can usually be objectively measured.

Effective measurement of the TBL dimensions enables companies to examine and learn not just from their performance on each sphere but also the trade-offs they make between spheres. For example, how equitable is our financial performance, given our commitments to stakeholders? How bearable is our use of resources, given our stakeholders' needs? How viable are our financial targets, given the sustainability of the resources we consume?

Perception is reality

While much measurement can be objective or evidence-based, there is one key area where a company's scorecard performance is judged not by the company itself or by objective assessment. Just as beauty is in the eye of the beholder, sustainability is in the eye of the stakeholder. In effect, what stakeholders subjectively judge as the company's performance, is the company's performance. Perception is reality. In this sense, sustainability is a reputational issue and a company's reputation is a perceptual equity that the company can manage but not ultimately control.

So how do stakeholders influence reputations, why is sustainable development a reputational issue and how can a company measure and manage its reputation for sustainability and social responsibility?

Stakeholders are commonly defined as any group or individual who can affect or be affected by the achievement of the company's purpose. A company should maintain its own stakeholder map as a way to understand and manage their reputation among the stakeholders who are relevant to their business. Relevant internal stakeholders will include owners, managers and employees. External stakeholders include customers, shareholders, creditors and suppliers. Other external groups - government, the local community, society at large, media, NGOs, activists, future generations and in fact, anyone who chooses to have an opinion - may also be relevant.

Businesses create (or destroy) value for stakeholders. In turn, stakeholders influence the reputations of businesses. A company's reputation is the totality of the perceptions and expectations that relevant stakeholders have about it, seen not through the company's lens but in relation to the stakeholders' own agenda. Fortunately, most companies find that most stakeholder opinion is favorable or at least benign.

But a company's reputation, and this includes its record of sustainability and social responsibility, can be impacted by anyone who chooses to have an opinion about it or who has an opposing agenda or who simply lacks actual knowledge or experience with the company. So the company's reputation needs to be carefully nurtured and managed.

Desirable business outcomes

When effectively communicated to stakeholders, TBL practices and reporting have a number of highly-desirable business outcomes. Chief among them are:

- enhancing corporate reputation, brand equity and consumer-brand relationships;
- competitive advantage;
- securing a social license (i.e., community approval) to operate;
- attracting and retaining high-caliber employees (employees increasingly demand jobs that feel good as well as look good);
- reducing the risk profile (i.e., better risk management, avoiding litigation, attracting investment, etc.);
- identifying potential cost-savings (as a result of continually measuring and monitoring performance);
- encouraging a culture of innovation; and
- creating a meaningful basis for conversation and dialogue with stakeholders.

Many companies find that conducting a regular program of opinion research among key relevant groups on the stakeholder map is an invaluable means of monitoring and managing how their sustainability and social responsibility commitments and their TBL reporting are being communicated and received.

Getting appropriate credit

Communicating the triple bottom line via an annual report, a Web site or a corporate or brand advertising campaign is essentially corporate communication with stakeholders that describes how the company manages the economic, social and environmental aspects of its business. Survey-based reputation research can help companies understand if they are getting appropriate credit for their performance and can be an integral component of their reporting.

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