HILL & KNOWLTON

All Things CORPORATE

THE WORLDWIDE CORPORATE PRACTICE NEWSLETTER

Articles in this Issue December 2003

Customer Relations, Effective Communications are at the Top of CEOs' Reputation Management Agenda
Harlan Teller, President Worldwide Corporate Practice and Global Chief Client Officer, Hill & Knowlton ,

A New Vision for Business-Social Sector Collaboration
Anamaria Schindler, Vice President for Strategic Partnerships, Ashoka International ,

Asian Companies Keep Pace with Evolving Best Practices
Vivian Lines, Chief Operating Officer, Asia Pacific, and Corporate / Financial Practice Leader Asia Pacific, Hill & Knowlton ,

Canadian CEOs and CSR: Leaders or Laggards?
Boyd Neil, Senior Vice President and Corporate / Financial Practice Leader, Canada, Hill & Knowlton ,

Sustainability: The Long-term Approach to Corporate Governance
Dr. Barbara Gothard, Adjunct Professor at the Anderson School of Management at UCLA and Counselor to Hill & Knowlton's Global CSR Group ,

Corporate Reputation: Raising Assessment to the Next Level
Jeffrey T. Resnick, President of Global Business Ventures, Opinion Research Corporation and Eric R. Wendler, Ph.D, Vice President, Opinion Research Corporation

The Wrong Way to do Business Right – Recasting Business Communication Amidst a Crisis of Confidence
Andrew Laurence, Corporate / Financial Practice Leader, EMEA and Deputy Chairman, UK, Hill & Knowlton

Reputation Matters to US Chief Executives – But Leveraging Corporate Social Responsibility Remains on the "To Do" List
Kevin Elliott, Senior Vice President and Manager San Francisco, Hill & Knowlton

Welcome to Hill & Knowlton's new edition of All Things Corporate, focusing on our recently released global survey of CEOs that we call "Corporate Reputation Watch". In this issue, we use "CRW" as the launching point to look at corporate reputation from a variety of different angles, and our contributing writers are drawn not only from our own senior management ranks, but also from outside the firm. For those of you who are new to ATC, we welcome your readership and would really like to hear your reaction to the content and format, as well as any suggestions you have for future issues.

In this issue, Kevin Elliott, head of our San Francisco office and one of our senior corporate people in the US, discusses the CRW findings in North America, noting that chief executives are not as bullish about corporate social responsibility as a business driver as he thinks they should be. Kevin argues for more C-suite level attention to CSR in American companies. Boyd Neil, the head of our corporate practice in Canada, points to the differences he sees between Canadian and US companies, contending that Canadian companies—particularly in the natural resources sector—take a more aggressive approach to linking CSR to corporate reputation.

Viv Lines, head of our Asia-Pacific corporate practice, notes the fairly close alignment between perceptions of Asian CEOs and those in the rest of the world, particularly their regard for the importance of corporate reputation in achieving business objectives. Viv finds that the CRW data reinforces the belief that Asian companies looking to access Western markets are taking seriously the increasing demands of corporate governance, disclosure and transparent corporate behavior.

Meanwhile, Andy Laurence, director of our European corporate practice, expresses his concern that CEOs, based on our research, are looking at corporate governance reforms as "boxes to tick" rather than a starting point for real reform and proactive reputation management. He contends that governance reforms without the CEO's active role in managing reputation and guiding behavior will not be enough to reestablish full trust that companies have their stakeholders' best interests at heart.

Jeffrey Resnick and Eric Wendler of Opinion Research Corporation are concerned that while CEOs accept the importance of reputation, not enough is being done to capture the information base necessary to manage it effectively. The authors also cite other research that would underscore the idea that investors are looking for more active management of reputation from the CEOs of companies in which they are investing. My own perspective piece also discusses the disconnect between what CEOs say and what they are doing, particularly in the area of measuring and holding themselves responsible for reputation management.

And, in another guest contribution, Anamaria Schindler, international vice president of strategic partnerships for the social entrepreneurial organization, Ashoka, discusses the power that can be drawn from the business sector and social sector collaboration to address vital community needs. Ashoka is our global pro bono partner, and our experience with this organization is instructive for clients and others who want to raise their profile in corporate social responsibility.

Guest contributor Barbara Gothard, formerly head of social responsibility programs for Dow Chemical Corporation and a consultant to Hill & Knowlton, makes a case for the link between business sustainability policies and the creation of competitive advantage, not to mention enhancement of corporate reputation policies. Ms. Gothard argues that Dow's financial success in the wake of its decision to infuse sustainability principles into the way it conducts business is proof that business sustainability and corporate social responsibility's time has come in large measure.

We hope you find this issue of interest and that it will provoke thought and discussion. And, if you have any comments or suggestions for future issues, please email me at harlan.teller@hillandknowlton.com. Thanks very much for taking a look.

Harlan R. Teller

Newsletter Articles

Perspective

Customer Relations, Effective Communications are at the Top of CEOs' Reputation Management Agenda

By Harlan Teller , President Worldwide Corporate Practice and Global Chief Client Officer, Hill & Knowlton ,

Harlan Teller has almost 30 years of public relations industry experience, with deep corporate relations expertise in areas such as crisis management, M&A transaction restructuring, public policy, litigation, labor relations, financial relations and employee communications. Prior to joining Hill & Knowlton, Harlan served as Chairman of Burson-Marsteller's US Corporate Practice. In addition to Harlan's corporate practice and client responsibilities, he also serves on Hill & Knowlton's Worldwide Executive Committee.

Editorial

CEOs Out of the Spotlight…

So, what's happened to the "celebrity CEO"—that rock star in our corporate midst whose exploits have been subject to *People* magazine-style media coverage, books and other forms of cultural homage? Is he or she still living among us, or have they gone underground?

The answer is a bit complicated. With the recent corporate scandals, celebrity has often morphed into notoriety, to the point where people are looking beyond the CEO to members of his or her "executive bench" to evaluate the behavior and character of a company. So, clearly, a CEO's reputation doesn't directly correlate to corporate reputation, nor do most companies want it to anymore.

> "...while CEO visibility may be transitioning into broader executive visibility, the responsibility for overall management of company reputation is still largely in the corner office, according to our latest Corporate Reputation Watch (CRW) survey of chief executives."

But while CEO visibility may be transitioning into broader executive visibility, the responsibility for overall management of company reputation is still largely in the corner office, according to our latest Corporate Reputation Watch (CRW) survey of chief executives. Our survey also reveals that chief executives are talking a good game about the link between reputation and achieving business objectives.

Customers Top of Mind for CEOs

> "CEOs overwhelmingly point to customers as the external force with the greatest impact on reputation..."

They are also telling us that a large part of effective reputation management is based on their getting close to the customer, as well as having strong communications skills. CEOs overwhelmingly point to customers as the external force with the greatest impact on reputation (78 percent), while of all internal factors that influence reputation, the ability to communicate (48 percent) is far and away the most salient. CEOs also consider product/service problems (50 percent) and customer criticism (40 percent) as two of the three biggest threats to reputation. So clearly, customers are a major preoccupation of CEOs in their effort to step in as corporate reputation managers.

The idea that customers drive reputation is an outgrowth of the increasing trend toward leveraging a company's corporate "brand" as a means of creating preference. The importance of communications relates to the CEO's growing recognition that employee satisfaction and motivation is linked to the ability to understand and buy into the CEO's strategic vision. Given the link between employee buy-in and delivering on the corporate brand promise, it's not surprising that CEOs consider recruiting and retaining employees (73 percent) as the business objective best achieved by corporate reputation.

Managing Corporate Reputation a Priority

The result of this preoccupation with customers—and the recognition that employee alignment with customers is crucially important—has led the CEO to take on more responsibility for reputation management then in the past, and taking it more seriously as a management discipline than ever before. An overwhelming majority of CEOs in our survey believe that corporate reputation is more important today than five years ago, and almost two-thirds are taking responsibility for this function themselves. That figure goes all the way up to 80 percent for North American CEOs, perhaps reflecting the close to celebrity status corporate chiefs have had in the US for a number of years.

Chilly Reception Awaits the "Tainted"

> "If you're a senior manager from a company with a "tainted" reputation, you may find it difficult gaining access to the C-suite at a more reputable company."

The flip side of celebrity is notoriety, and our survey showed that while CEOs may be enjoying less of the former, they have very little stomach for the latter, and are going to be reluctant to hand over the reins of power to anyone with even a whiff of scandal in their backgrounds. If you're a senior manager from a company with a "tainted" reputation, you may find it difficult gaining access to the C-suite at a more reputable company. Nine out of ten CEOs said "the corporate reputation of a candidate's current employer has a strong or moderate impact on the decision to hire." Evidently, CEOs believe there is some "guilt by association" between a senior executive and the company he or she works for, whether or not there is any specific individual wrongdoing.

A Call for Investment in Measurement

When it comes to measuring corporate reputation, though, most companies use media coverage (66 percent) to determine success or failure, while only half (51 percent) rely on customer or stakeholder research. If CEOs are going to take reputation management as seriously as they say they do, then a larger percentage must invest in research that will allow them to truly understand the positioning and effectiveness of their organization's reputation.

> "...you can't manage what you can't count..."

As we like to say, you can't manage what you can't count, and if CEOs are going to take on the laboring oar when it comes to reputation management, they're going to need to get beyond what the media is saying and where they rank on the Fortune "most admired" list if they're to truly understand where their company's reputation lies. It's worth the effort. And, they can start by polling customers and employees—the people that, according to them, are the drivers and key targets of corporate reputation.

Sustainability: The Long-term Approach to Corporate Governance

By Dr. Barbara Gothard , Adjunct Professor at the Anderson School of Management at UCLA and Counselor to Hill & Knowlton's Global CSR Group,

Dr. Barbara Gothard is a recognized leader in the field of Corporate Social Responsibility and corporate strategy for sustainable development. Barbara was formerly Global External Affairs Leader for The Dow Chemical Company and was an Implementation Leader for Dow's 12 Point Sustainable Development Operating Plan. She is Adjunct Professor at the Anderson School of Management at UCLA and former Adjunct Professor at Kenan-Flagler Business School at the University of North Carolina.

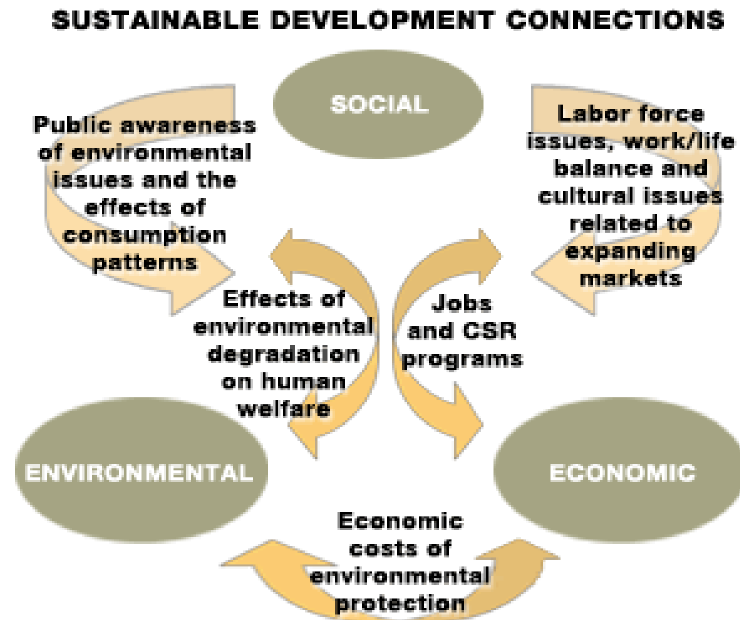
Business is entering a new phase of long-term strategic thinking. Not only must companies plan for their own economic wellbeing, but do so in a way that fulfills social obligations and environmental commitments. This is no longer a matter of choice, but increasingly mandated by government regulations and global protocols that set binding targets for business globally.

This raises several questions: How does business generate economic growth with greater resource efficiency? How does business minimize environmental impacts while increasing productivity? How does business address social needs without financial contributions? Clearly in the future, corporations will need to incorporate more "entrepreneurial" and "partnership" opportunities in the planning process. One example of an entrepreneurial approach is exemplified by ABB. ABB chose to tackle the frequently dismissed fringe technology of wind power and turned it into a commercially viable, middle-of-the-road source of energy. ABB also created a Wind Center in Denmark, which supports and coordinates research and development in other ABB countries. [i] Another example is Hindustan Lever Ltd. (HLL), a subsidiary of Unilever PLC, which altered its traditional business models to increase its declining market position and to meet the needs of the poorer people in rural India. HLL reformulated its detergent product; decentralized production, marketing, and distribution; and established partnerships with local government agencies, non-governmental organizations (NGOs), community leaders, financial institutions, and other companies. [ii]

Corporate Sustainability Strives to Increase Long-term Shareholder Value

> "...companies can contribute – and are contributing – to increased sustainability in enormously pragmatic ways. Companies have come to realize that corporate irresponsibility is not just detrimental to society but also to its own self-interest."

Not so long ago, the words "corporate" and "sustainability" were rarely used in juxtaposition inside the corporate boardroom. Rarer still was interaction with external stakeholders who attempted to enlighten their corporate counterparts about social and environmental issues. The corporate world was often accused of being the problem. But in reality, companies can contribute – and are contributing – to increased sustainability in enormously pragmatic ways. Companies have come to realize that corporate irresponsibility is not just detrimental to society but also to its own self-interest.



The following have emerged as critical components of sustainable strategy development: (1) economic integration, (2) technological progress and (3) market size enlargement.

Economic Integration: Growing Economically with Greater Resource Efficiency

Sustainability and corporate social responsibility (CSR) are transitioning from the old equation of "*profitability* + *compliance* + *philanthropy* [iii] = corporate success", to a new equation of "*economic* + *environmental* + *social investing* = *a clear competitive advantage* + *planning for tomorrow today*."

The old equation, "*profitability* + *compliance* + *philanthropy*" [iv]= corporate success, was the starting point toward sustainability. Through this model, companies could meet minimum standards in all company activities, government compliance, and writing checks for social causes, but the focus on innovation, new products for a changing world, and an appreciation for new markets were missing. The new equation, "*economic* + *environmental* + *social investing* = *a clear competitive advantage* + *planning for tomorrow today*" demands that business stay true to its mission to be profitable, because without profitability, the other elements of the equation are not possible. It also means that business leaders must be alert to the changing signals that will impact the future. By utilizing a more integrated approach to ensure that all environments – internal and external – are taken into consideration relative to product development, and by recognizing that social concerns are critically relevant to competitiveness, companies will innovate to improve current products and develop new products that will serve existing and future markets, and invest in partnerships with their new-found communities.

The new paradigm means business must factor into the planning and management process a range of critical issues – workplace ethics, corporate governance codes, stakeholder engagement, technological innovations, internal and external environmental changes, gender disparity and social ills. It also means developing innovative global supply chain processes to meet international standards for human rights and environmental performance. Failure to deal with these and related issues will affect customer loyalty, share price and reputation.

Translating Sustainability into Action

The Dow Chemical Company (Dow) is one company that is making sustainability real. Dow is a leading science and technology company that develops, produces and markets a diverse portfolio of products from chemicals and plastics to foods, personal care items and agricultural products in 170 countries. [v] Dow's journey toward sustainability demonstrates the long-term strategic thinking required to move a multinational corporation forward.

> "In 2001 came the adoption of Dow's Sustainable Development Operating Plan, which demonstrated an enlightened and disciplined management commitment to institutionalize sustainability throughout every company function."

The journey started with the 1987 World Conference on Environmental Development, followed by the 1992 adoption of the chemical industry's Responsible Care program and membership in the World Business Council for Sustainable Development. In 1995 Dow established aggressive Environmental Health and Safety Standards to meet by 2005 and formed its first Corporate Environmental Advisory Committee, followed by the adoption of voluntary programs. In 1998 Dow developed its core Sustainable Development Principles and its first Public Report in 1999. In 2001 came the adoption of Dow's Sustainable Development Operating Plan, which demonstrated an enlightened and disciplined management commitment to institutionalize sustainability throughout every company function.

Dow's 2003 Public Report, which follows the Global Reporting Initiative guidelines, refers to the company's ongoing commitment to a sustainability business model as "an evolution" and "a natural step." [vi] Dow's sustainability program is built upon a set of core corporate principles with aggressive economic, environmental and social goals. Integration of sustainable development principles into every business, function, site and personnel strategy has been achieved through workshops and training. Open and transparent reporting of results, even during difficult years, serves as a basis for stakeholder engagement and feedback, which in turn provides a new impetus for continuing the journey.

Dow reported a more than 150% increase in earnings to $0.36 per share in the third quarter of 2003, compared with $0.14 per share in 2002. This increase was achieved despite tough economic times and while committed to sustainable development. Such prosperity is consistent with the performance of well-managed and future-oriented companies committed to sustainability.

Dow's future orientation strategy began with recognition that higher aspirations can compel breakthrough performance. Setting aggressive Environmental Health and Safety goals, combined with an early commitment to Responsible Care, was a first step. The second step was to stay the course to meet these goals during the good times and the difficult economic times. The third step was to connect and align all activities into an integrated framework, and lastly to assimilate a sustainability mindset throughout every facet of the organization. Dow's 12 Point Sustainable Development Program was the result.

Within this framework, the difficult times proved to be an impetus for innovation. On the environmental side, this resulted in reductions in chemical emissions, wastes, and emissions of priority compounds, employing new catalyst systems and modifying processing equipment. On the business side, new discoveries evolved such as Spinosad, an environmentally friendly insecticide that is made from natural fermentation. On the social side, companies constantly evaluated their commitment to stakeholders. For Dow this resulted in a renewed desire to strategically align its commitment to its stakeholders through increased outreach and partnerships, as well as charitable gifts. The hard choices necessitated by difficult economic times were made without losing sight of the company's commitment to sustainability.

Technological Progress: Memorializing Environmental Impacts while Increasing Productivity

> "The integration of sustainable consumption and sustainable production is an essential element in a sustainability strategy...P&G described how the need to design waste out of manufacturing processes for both cost and environmental reasons resulted in savings of $505 million over the last six years."

The integration of sustainable consumption and sustainable production is an essential element in a sustainability strategy and has the potential to produce resource-efficient goods and services. In its 2000 Sustainability Report, P&G described how the need to design waste out of manufacturing processes for both cost and environmental reasons resulted in savings of $505 million over the last six years. In addition, the company reported that of all the ingredient and packaging materials that enter P&G plants, 94.5% is converted into packed product to improve consumers' lives. [vii]

Consumption patterns in the sustainability model incorporate life cycle assessment indicators and natural capital. See chart below. Life cycle management involves the product creation phase (materials, processing, product creation), the market phase, and the product use phase (maintenance, waste management, re-use, recycling and reevaluation). Xerox's early commitment to life cycle management incorporated a variety of new programs that would lead to recycling toner cartridges through improved asset management, design concepts, and innovative marketing strategies and partnerships.

> "Now corporations face the prospect that it is not the ability to produce man-made capital that is at risk but a growing deterioration of natural capital. An internalization of the costs means that each product should include the total cost of the product, man-made capital and natural capital."

Prior to 1970, most companies focused only on manufactured capital and excluded natural capital from balance sheets because of the assumption that there was such an over abundance of it that corporations did not need to include it. The access to natural capital, the resources we use, both nonrenewable (oil, coal, metal ore) and renewable (forests, fisheries, grasslands), represent the income derived from a healthy environment. Clean air and water, climate stabilization, rainfall, ocean productivity etc. was taken for granted. Now corporations face the prospect that it is not the ability to produce man-made capital that is at risk but a growing deterioration of natural capital. An internalization of the costs means that each product should include the total cost of the product, man-made capital and natural capital. For example, the price of gas may need to take into consideration the price of war.

Economic success has carried with it a heavy burden on the environment and the quality of life – a burden increasingly impacting areas in formerly underdeveloped locations around the world now expanding their economies and consuming more natural resources.

The counter point focuses on increased efficiencies from new technological developments that will enable companies to solve problems of the past that were driven by human interferences (increased greenhouse gases), loss of biodiversity (risk to ecosystems) and lack of access to fresh water resources (population increase of two billion people in 41 countries in 2002, to approximately five billion people in 53 countries by 2025). These issues will have greater impact on less developed countries, which increasingly represent the workforce and consumers of the future.

In addition, business is faced with environmental degradation from industrial accidents, deforestation, soil erosion, natural disasters and health risks resulting from agricultural and industrial emissions.

Sensitivity for the Future, Today

According to Michael Porter and Claas van der Linde, "The shift from pollution control to prevention is a good first step, but companies must go further." [viii] The solution is to find the balance between current operations and R&D to fulfill the needs of future operations while satisfying regulatory requirements.

Norwegian-based Norsk Hydro demonstrates how a company can effectively respond to critical outside pressure within a heavily regulated business environment. Norsk Hydro focused on environmentally sensitive and technically complex fields such as plant nutrients, offshore oil and gas, aluminum, magnesium and petrochemicals. Per the World Business Council on Sustainable Development case study:

> "… Norsk Hydro's environmental work evolved in four phases. In Phase 1, the 'repairs phase,' efforts were concentrated on cleaning up local pollution and amending 'sins of the past.' In Phase 2, the 'preventative phase,' the focus changed to developing and installing 'cleaner technology,' technology that prevents pollution from occurring in the first place. Phase 3, the 'business development phase,' concentrated on analyzing and minimizing environmental production and use, to their subsequent recycling or deposition. In phase 4, the 'globalization phase,' Norsk Hydro began addressing the challenges of globalization of economies and markets, as well as global environmental issues such as climate change and the Kyoto protocol." [ix]

Not unlike Dow, Norsk Hydro's journey began in the 1980s but was driven primarily by pressure from external stakeholders. Norsk Hydro's transformation was all the more impressive given an internal corporate culture that had historically maintained a closed-minded approach to environmental issues. The resultant changes are indicative of a new emphasis on sustainable consumption and production, incorporating life cycle management. This can result in plant modernization, product mix changes and pollution prevention and control measures. However, the environmental impact of consumption issues remains largely invisible to the consumer. Therefore, changes that companies make must be carefully articulated to the consumer to ensure their choices are based upon sustainable consumption principles. The resultant effect would be ongoing innovation development, access to new markets and increased wealth generation.

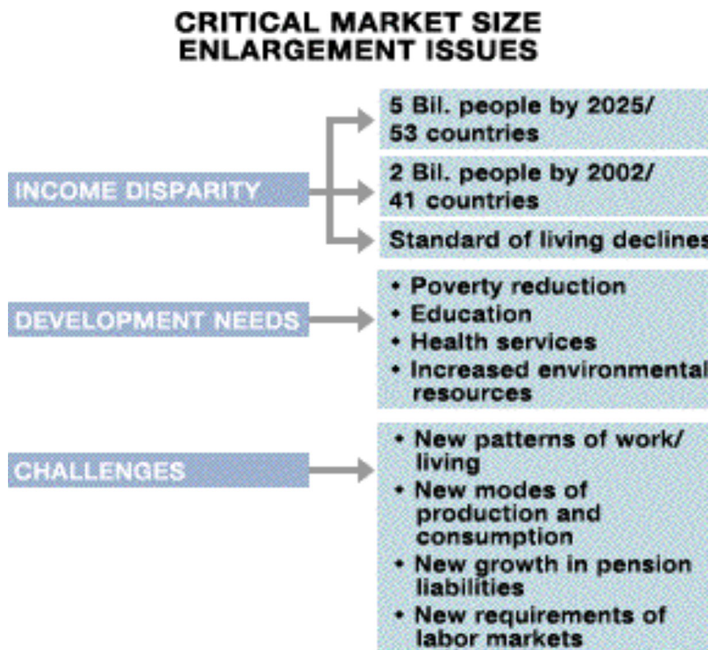
Failing to connect environmental issues with a core business strategy can have serious consequences and impact corporate reputation. In addition, failure to develop relationships with significant stakeholders can increase negative exposure.

Only the synergy of a number of technological developments, together with social learning and stakeholder outreach, will prepare business to seize new sustainability opportunities.

Greater production specialization and international finance flows, combined with environmental concerns and access to new markets, influence sustainability strategic planning.

Market Size Enlargement: Addressing Social Needs without Financial Contributions

One of the most difficult business functions to measure is the business value of stakeholder relationships and corporate social responsibility. There is increased interest and external pressure that transcends traditional financial measures for quantifying corporate social performance benefits. CEOs who take responsibility for their CSR programs question the best way to demonstrate how nonfinancial or intangible programs contribute to wealth generation "especially when increasing sales and enhancing stock price was mentioned more frequently as objectives of corporate reputation." [x]



One key measure of nonfinancial performance is the value of meeting social needs and stakeholder relationships. According to the Center for Innovative Management, it is important to establish these kinds of measures in order to "improve decision-making by helping managers understand and predict the links between activities and outcomes, enhance the ability of companies to manage stakeholder relationships and issues, and improve corporate accountability." [xi] Improved decision-making by informed managers leads to more creative approaches to social needs. Examples include, encouraging employee participation in community programs versus writing the proverbial contributions check, developing money management training programs for employees and their families or partnering with NGOs that provide input.

Local Perspectives in the Global Arena

According to its web site, the Coca-Cola Company (Coca-Cola) exists "to refresh and benefit everyone it touches" and is "meeting the demands of local tastes and cultures with almost 300 brands in nearly 200 countries." [xii] Founded in Atlanta, Georgia, USA, Coca-

Cola is the world's leading manufacturer, marketer and distributor of nonalcoholic beverage concentrates and syrups used to produce nearly 300 brands.

In India, where there are more than one billion potential consumers, a growing middle class and a very hot climate, one would expect the popularity of cold drinks to be a slam dunk. Ignoring the warning signs – overestimating the size of the market, misreading consumer tastes, fighting with government and overlooking local community needs – Coca Cola found itself with a third place ranking and an estimated market share of only 16% ten years after its reentry into India. [xiii]

By listening to local leadership and developing partnerships with local brands, a turnaround was possible. The increased use of local raw materials resulted in a 57% savings on import duties, and plant efficiencies are reported to have improved by 40% due to utilizing innovative bottling technologies, improving maintenance of facilities and increasing employee training.

Equally important was Coca-Cola's outreach to far-flung villages, in which the company established programs that would build a connection with the Indian people. Jobs were created locally. The local manager launched a more affordable product for rural areas and lower-income markets. Local distributors benefited from increased business and money management training. Community organizations benefited from increased employee interaction.

What Coca-Cola did was address the need to revitalize its operations in India by integrating its business and environmental agendas with the country's social needs. The results are an increasingly viable business operation that enjoys the loyalty and support of local communities and consumers. The company's attention to the needs of the local communities is an example of how business can achieve increased wealth generation and engage in real social responsibility. Balancing present and future prosperity while ensuring a measure of social equity for all are the keys to sustainability.

Sustainability: The Future is Now

Business in the future will be guided by economic, social and environmental trends that will likely be new to most industries. Business will be challenged by civil society to provide greater accountability and transparency. And, business will have the opportunity to access and develop resource-efficient products for markets that are populated by the four billion aspiring poor, as well as present markets, and do more than create shareholder value.

> "Diversifying portfolios by investing in companies that set industry-wide best practices with regard to sustainability is on the rise. The Dow Jones Sustainability Index reports 'corporate sustainability performance can now be financially quantified,'..."

Contrary to historical wisdom, sustainability and CSR are not contradictory to economic success. In fact, economic success can be enhanced with sound CSR. Yet another motivator for companies to systematically incorporate sustainability/CSR in the core business strategy is the investment community. Diversifying portfolios by investing in companies that set industry-wide best practices with regard to sustainability is on the rise. The Dow Jones Sustainability Index reports "corporate sustainability performance can now be financially quantified," which means that business now has "an investable corporate sustainability concept." [xiv] The City of London's London Principles developed to reinforce the need for financing for sustainable development to be more firmly embedded into the commercial mainstream, and Natural Investment Services, Inc. are other examples of the investment community's acknowledgement of the importance of sustainable development. Sustainability/CSR is consistent with increased profitability. The downside of neglecting sustainability/CSR development is enormous. Any negatives are offset by the benefits of increased brand value, improved reputation, employee loyalty and revenue generation.

---

[i] ABB Group Sustainability Report, June 2002
[ii] Prahalad, C.K. and Hart, Stuart L., The Fortune at the Bottom of the Pyramid, strategy+business, Issue 26
[iii] Watts, Phil, World Summit on Sustainable Development, August 2002
[iv] Watts, Phil, World Summit on Sustainable Development, August 2002
[v] The Dow Chemical Company, www.dow.com
[vi] The Dow Global Public Report 2002, www.dow.com
[vii] P&G, 2000 Procter & Gamble Sustainability Report 2000. www.pg.com
[viii] Porter, Michael E. and Claas van der Linde, Green and Competitive: Ending the Stalemate, Harvard Business Review, 1995
[ix] Case Studies, World Business Council on Sustainable Development, www.wbcsd.org
[x] 2003 Corporate Reputation Watch Survey, Hill & Knowlton and Korn/Ferry International, October 2003
[xi] Measuring theBusiness Value of Stakeholder Relationships, Center for Innovative Management, March 2002
[xii] Coca Cola, www.coca-cola.com
[xiii] Finally, Coke gets It Right in India: The company is finding its footing after years of missteps, BusinessWeek online, www.businessweek.com, February 10, 2003
[xiv] Dow Jones Sustainability Indexes, www.sustainability-index.com, 2003

A New Vision for Business-Social Sector Collaboration

By Anamaria Schindler , Vice President for Strategic Partnerships, Ashoka International ,

Anamaria Schindler has a Masters and Doctorate in Sociology from the University of Sao Paulo (USP) in Brazil. Earlier in her career, Anamaria worked as a researcher in the area of human rights and violence, and contributed to the launch of the Center for Study of Violence at USP. In 1996, Anamaria joined Ashoka, a global non-profit organization that identifies and supports social entrepreneurs around the world, to launch the Center for Social Entrepreneurship (CSR), a joint venture between Ashoka and McKinsey & Company. Anamaria writes a monthly column for Brazilian business newspaper Valor Economico and is a board member of several non-profit organizations in Brazil.

Overview

Ashoka is a leading organization in the field of *social entrepreneurship*. Social entrepreneurs are practical visionaries who possess qualities traditionally associated with leading business entrepreneurs - vision, innovation, determination and long-term commitment - but are committed to systemic *social* change in their field. Ashoka has invested in innovators and entrepreneurs all over the world. Social entrepreneurs are identified and supported by Ashoka when they are still "emerging" – typically the broader community, the media and other sectors still have not heard of them. Once selected, Ashoka welcomes these "Ashoka Fellows" into an international network consisting of more than 1300 members from all over the world.

In addition to building a strong network of social entrepreneurs, Ashoka has found that enormous value is created when ideas, skills and resources are transferred between the social and business sectors. These sectors, however, need to interact more effectively to realize the greatest mutual benefit. To this end, Ashoka has developed centers and programs to facilitate and improve these connections. In this article I will write about some of Ashoka’s experiences in building bridges between the private and social sectors, and about another initiative led by Swiss business entrepreneur Stephan Schmidheiny. Stephan is one of Ashoka’s most strategic partners, whose support and collaboration was key to Ashoka’s expansion in Latin America, the United States and Canada.

The Business-Social Bridge

> "...Ashoka has come to realize that social entrepreneurs are identical to their business counterparts – filled with vision, creativity and determination – except they apply their talents to social challenges, such as hunger, poverty, the environment, health, and housing – virtually every dimension of human need."

Business-Social Collaboration

Bill Drayton, a former McKinsey & Company consultant and assistant administrator at the Environmental Protection Agency, founded Ashoka in 1981. Over the last two decades, Ashoka has come to realize that social entrepreneurs are identical to their business counterparts – filled with vision, creativity and determination – except they apply their talents to social challenges, such as hunger, poverty, the environment, health, and housing – virtually every dimension of human need. Now, in the 21st century, we are in the midst of a rare, fundamental shift in the architecture of a significant part of society – the social (or citizen) sector. Led by social entrepreneurs, the citizen sector is undergoing a massive transformation from relative squalor and ineffectiveness to entrepreneurship and competition. These are the same forces that have propelled the business sector toward greater innovation and productivity, and are the core catalysts of today's most successful economies. Increasingly, the citizen sector is operating on the same principles as the business sector – an ongoing cycle of entrepreneurship, competition, and productivity. As the number of citizen groups multiplies in a given area, they become progressively interconnected and increasingly competitive. This is sparking many of the innovations needed to transform social needs into viable, thriving markets.

Strategic Cross-Sector Partnerships

Two of Ashoka's most successful efforts in building bridges between the private and social sectors, are our strategic partnerships with McKinsey & Company, established in 1996 and our partnership with Hill & Knowlton, established in 2001. For Ashoka, certain key characteristics define strategic partnerships. These relationships must be long term, be with global organizations (or at least active in most countries where Ashoka is operating), and share common values. The partnership must be beneficial to both parties and to their various stakeholders. The McKinsey and Hill & Knowlton partnerships are replicated in various countries, and involve transference of knowledge and technical support in the areas of management, public relations and social entrepreneurship.

Developing Naturally Beneficial Relationships

Ashoka has partnered with McKinsey and Hill & Knowlton for the purpose of bringing management, communications and marketing skills to leverage the development of social entrepreneurs. In addition to this clear social benefit, McKinsey and Hill & Knowlton are also giving their consultants and collaborators the opportunity to engage in community activities and to develop new models, which, although specific to the social area, may also find application in their day-to-day activities with clients.

In the partnerships between companies and non-profit organizations, joint activities are essential to the health of the partnership. It is critical that planning, implementation and evaluation are carried out with the involvement of both parties. More importantly, each organization should take specific responsibility for part of these activities.

> "Ashoka has observed that these cross-sector partnerships take on a strategic role..."

Ashoka has observed that these cross-sector partnerships take on a strategic role - with both companies working to incorporate socially responsible business practices into the fabric of the organization, and civil society organizations seeking to increase their social impact. Both parties must realize that the relationship offers mutual benefits – sharing of knowledge, methodologies and techniques, and maximizing impact in the social, human resources and financial arenas. Traditional, one-way corporate philanthropy is not adequate to sustain a true strategic partnership.

Joint Business-Social Ventures

> "Through joint ventures, business and social entrepreneurs must go to work to map out and implement hybrid value chains designed specifically to create new value for all partners and better serve all people."

The business and social sectors have much to learn from each other – and can best do so by finding effective ways to experiment and collaborate together. For example, working jointly, business and social organizations can find ways to deliver cheaper, better products and services to huge numbers of low-income people. Working together can also build collaborative values with a stronger and broader social impact. Reaching out to all consumers and producers requires that businesses and citizen groups develop a new vision for conceiving and organizing work. From designing products and services to processing raw materials, to transforming them into finished products and delivering them to consumers, innovation at each step of the value chain can create new and profitable market opportunities. Through joint ventures, business and social entrepreneurs must go to work to map out and implement hybrid value chains designed specifically to create new value for all partners and better serve all people.

Cemex: Developing "Assets Now"

A New Housing Solution

The first of such joint ventures has been developed in Mexico with Cemex, a global cement and building products company, through identifying new ways to deliver housing products and services to the poor. When asked if most poor people in urban slums can afford to build a home, traditional housing sector businesses and financial institutions have responded with a resounding "no." However, many of the poor families find ways to build their homes, even if it takes decades to complete them. They pay top prices for building materials, tend to hire untrained masons who use poor building techniques, and more often than not have to pay cash for all of it. Just as commercial banks used to claim, prior to the micro-lending revolution, that the poor were not bankable, manufacturers and distributors of building materials behave as if this is a market not worth addressing. Cemex has emerged as an exception in the industry with an alternative view toward the viability of the low-income sector. Through its Assets Now program ("*Patrimonio Hoy*"), Cemex is working to develop and deliver affordable products and services to the poor living in the slums of Mexican cities.

"Assets Now" in Action

> "Since it was founded four years ago, *Patrimonio Hoy* has given 20,000 families in Mexico a way to finance and build better housing in a timely manner."

Since it was founded four years ago, *Patrimonio Hoy* has given 20,000 families in Mexico a way to finance and build better housing in a timely manner. The average do-it-yourself homebuilder in Mexico spends US$1,527 and takes four years to build an average size room of 100-square-feet. But participants in Patrimonio Hoy can build the same size room, with better quality, in less time –1.5 years – and at two-thirds the cost (US$1,038, which includes the cost of materials, technical assistance from an engineer or an architect, and *Patrimonio Hoy* club fees).

As a result, customers of *Patrimonio Hoy* are able to build each new room at a faster pace with better quality and 20% lower costs than those using the traditional system. In only two years, *Patrimonio Hoy* is already serving 30,000 families. In contrast, the subsidized government program is delivering only 36,000 new homes annually. In a country of 100 million people, 40% of whom live in poverty, this represents a tiny fraction of the potential market for housing.

Business-Social Ventures: Onward and Upward

Ashoka is now working with Cemex in a partnership that aims initially to identify ways in which Cemex can leverage social distribution networks to accelerate the expansion of *Patrimonio Hoy*. In 2003, the partnership is focusing on implementing a pilot program in three different locations in Mexico City. From this experience, *Patrimonio Hoy* and Ashoka Social Entrepreneurs will be able to design, test and validate a set of models for low-income markets that in the coming years will create new value for hundreds of thousands of low-income clients in Mexico City alone.

Vision and Values: The Next Level of CSR

Although over the last two decades there have been advances in the establishment of bridges between business leaders and social entrepreneurs, and between companies and citizen sector organizations, the same cannot be said of social responsibility as the way to integrate the vision and values between these sectors. There is much more to discover, invent and test in the coming years. However, one concrete source of inspiration has been international business entrepreneur Stephan Schmidheiny, who has just developed a new way of thinking about and managing the integration of business and society. His relationship with Ashoka started almost ten years ago, on a flight over the Atlantic Ocean, when he read an article about how Ashoka invests in social entrepreneurs. He has since become a long-term strategic partner in various dimensions of Ashoka's growth.

Grupo Nuevo: Bringing CSR to Life

Schmidheiny is the architect and creator of Grupo Nueva, a company that produces piping systems for drinking water and sewage, irrigation systems, housing construction materials and wood and agricultural products. The company employs 13,000 people, and has commercial operations in 25 countries and has a particular focus on Latin America. Corporate social responsibility and sustainable development are key elements of Grupo Nueva's strategy.

For more than two decades, Schmidheiny has sought to implement a social and sustainable development approach in all that he does. The vision of Grupo Nueva includes this approach, in stating that they wish "to be recognized as a leading industrial group in Latin America, operating in a framework of ethics, eco-efficiency, and social responsibility, that generates economic value and improves our neighbors' and our region's quality of life."

Avina: Formulating Essential Partnerships

Learning of Ashoka's existence 10 years ago inspired Schmidheiny to create his own organization, Avina, which invests in social entrepreneurs in Latin America and the Iberian Peninsula. Its objective is to create partnerships in Latin America with pioneering individuals from society and the business world, and to support them in their sustainable development efforts. Stephan Schmidheiny's personal objective was to seek out initiatives committed to equality of opportunity, democratic processes, education, capacity-building programs, preservation of natural resources and eco-efficiency.

But his key innovation was yet to come, and finally arrived with a model that promises to revolutionize the way business is done. Like any other restless soul, Schmidheiny was not content with managing his businesses based on social responsibility and sustainable development, while creating his Foundation as a parallel but separate activity. It would be necessary to combine the two. His desire and action plan is to develop a close working relationship between business and social activities. To this end, he created a new group called VIVA – Vision and Values.

VIVA: Balancing Logical Objectives for the Future

VIVA pursues understanding and mutual respect between *business logic*, which tends to be vertical and linear with a fast temporal sequence, and *social logic*, which is horizontal and interrelated, with a long-term time frame. VIVA is already inspiring the two organizations – Grupo Nueva and the Avina Foundation – in their strategic orientation, at the same time that it supervises their behavior and efficiency and takes over responsibility as owner.

One of the more interesting pieces of Schmidheiny's jigsaw puzzle is the fact that he will no longer be the beneficiary of Grupo Nueva's dividends - VIVA will. VIVA will then turn its dividends over to Avina. In this way, Grupo Nueva's profits will not only benefit shareholders, but also society, as dividends are reinvested in the social arena. This is clearly a new and concrete solution that should inspire business people who are seeking to align social responsibility with traditional business objectives.

Ashoka continues to collaborate with Stephan Schmidheiny and his companies, believes strongly in the union of vision and values through VIVA, and is confident that this represents a new model for building a bridge between the private and social sectors. Ashoka is committed to sharing this concept and practice with all of our partners who seek a socially responsible approach to business.

Conclusion

> "The world and its consumers are now demanding a more sophisticated response, one where social responsibility is an integrated part of the business and unable to be separated from the realization of commercial objectives."

Examples like those highlighted here, show that it is not sufficient or sustainable for organizations to treat social responsibility as a discrete part of business strategy. The world and its consumers are now demanding a more sophisticated response, one where social responsibility is an integrated part of the business and unable to be separated from the realization of commercial objectives. It starts with an individual and personal decision that is made, one that is capable of inspiring the entire organization and all of its stakeholders. This long-term approach and commitment to creating a sustainable, responsible organization is quickly becoming the only solution for viable enterprises.

Corporate Reputation: Raising Assessment to the Next Level

By Jeffrey T. Resnick , President of Global Business Ventures, Opinion Research Corporation and Eric R. Wendler, Ph.D , Vice President, Opinion Research Corporation

Opinion Research Corporation undertakes market research and consultancy for both public and private sector organizations around the world. Jeffrey T. Resnick has served as strategic counsel to his clients for almost two decades in matters relating to the development and implementation of reputation monitoring systems that provide senior executives with the information necessary to effectively manage their corporate reputation.

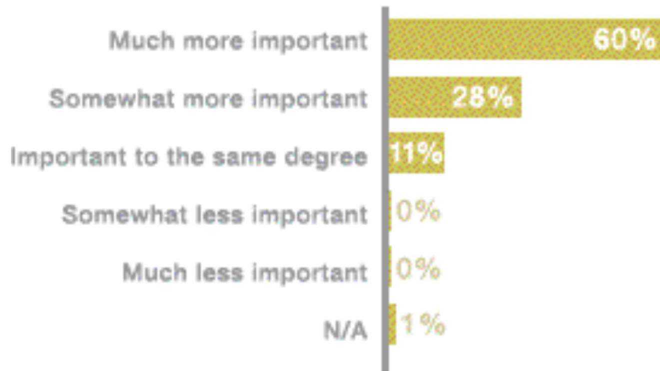
Opinion Research Corporation undertakes market research and consultancy for both public and private sector organizations around the world. Over the course of Eric R. Wendler's career in research and product management in the corporate world and his research work at ORC, his major attention has focused on the application and interpretation of qualitative and quantitative methods in strategic brand assessment.

> "...inconsistency between CEOs' stated importance of corporate reputation and how organizations act to create the information base necessary to effectively manage their reputation. A multi-stakeholder measurement approach is necessary to fully inform executives' decisions concerning their corporate reputation."

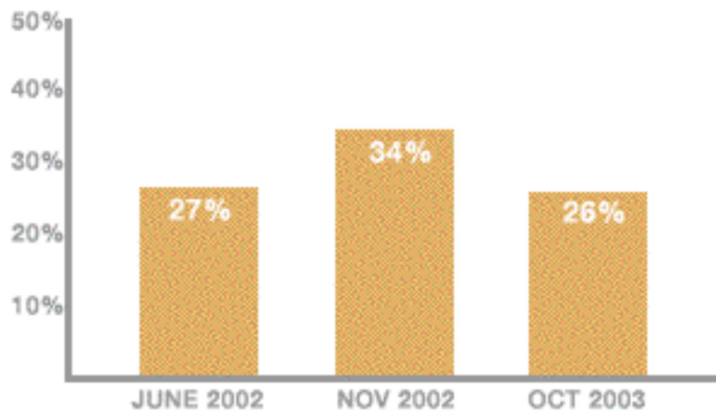
Corporate reputation impacts business results and as such should be treated with as much vigor as other business risk. However, findings of the 2003 Hill & Knowlton and Korn/Ferry International Corporate Reputation Watch (CRW) and other research suggest inconsistency between CEOs' stated importance of corporate reputation and how organizations act to create the information base necessary to effectively manage their reputation. A multi-stakeholder measurement approach is necessary to fully inform executives' decisions concerning their corporate reputation. At a minimum, it is essential for CEOs to understand their company's reputational strength among employees, customers, the media, and the financial community. These stakeholders are intersecting forces in the formation of a corporation's reputation.

The Increasing Importance of Corporate Reputation

One of the clearest findings to come out of CRW is that most CEOs in top corporations believe that a company's corporate reputation is considerably more important to the company today than it was five years ago. It has become increasingly clear that reputation can no longer be taken for granted. In the last few years corporate heads have witnessed unprecedented turmoil over bad business practices, with the reputation and success of many major companies going from great to abysmal seemingly overnight. Yet, when we examine other findings from CRW, it is not clear whether recognition of the issue has translated into the appropriate actions.



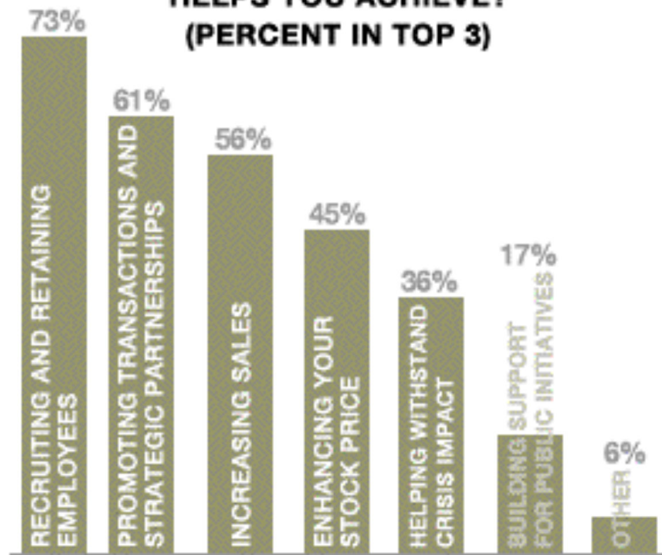
In CRW, the perceived importance of corporate reputation is particularly strong in Europe (with 97% saying it is "much more" or "somewhat more" important than five years ago, compared to 85% in North America). These findings are supported elsewhere by a November 2002 study by the Institute of Chartered Accountants of England and Wales and the Risk Advisory Group, which indicated that reputation risk is seen as one of the most important business risks among financial directors and other senior managers at FTSE 500 companies. Yet despite this recognition—at least in the US— only slightly more than one in four individual investors say CEOs are as concerned as they should be about the reputation of their company.



Source: June 2002, Nov 2002: Rating Research LLC, All Rights Reserved
Oct 2003: Opinion Research Corporation

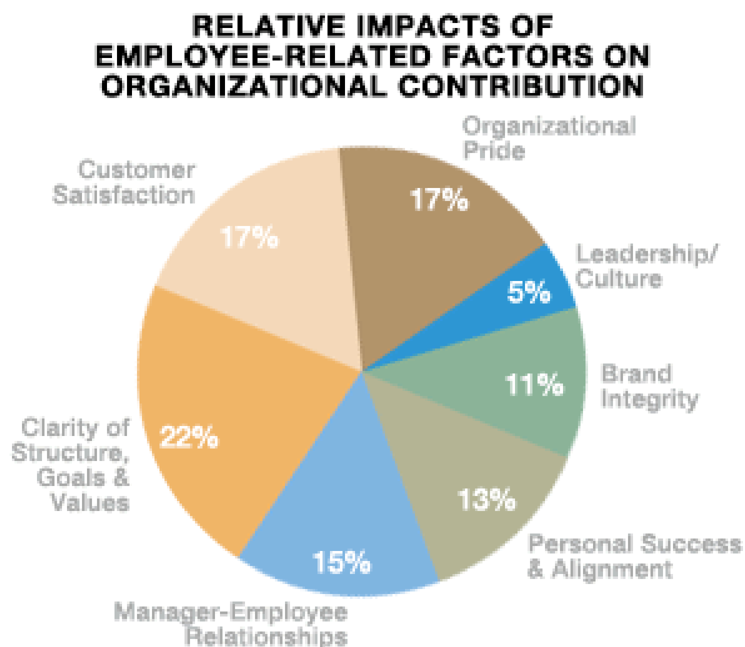
What is at Risk When Reputation Fails?

The CRW results also show that, from the perspective of CEOs, the two most often mentioned key objectives that corporate reputation can help achieve (and therefore, what they would consider to be most at risk when reputation declines) are recruiting and retaining the best employees, and promoting transactions and strategic partnerships. The traditional business results of increasing sales, enhancing stock price, building "insulation" against a crisis, and others were cited less frequently as outcomes accruing from a good corporate reputation.



Inarguably, however, it is precisely the quality of employees, strategic partnerships, and other often less tangible short-tem impacts that lay the foundation for achieving coveted business outcomes such as increased sales, enhanced stock price, goodwill among stakeholders, and so on. A company's reputation is the external manifestation of its people, internal practices, culture, management talent, and overall competitiveness. These are the critical factors that determine the leaders and laggards in the world of business. The mechanisms through which quality employees yield good customers, increased sales, etc. are well known—more effective employees can mean better products and services, more efficient operations, more positive "moments of truth" in customer interactions, and so on. Further, it is not just a person-to-person, employee-to-customer event that induces positive business results—for example, positive media coverage can intermediate as well by spreading the word about high-quality employees—or management—and their actions.

The "internal" aspect of reputation management is often either overlooked or approached with inadequate rigor. The chart below illustrates the relative impact of various employee-related factors within a company on business outcomes. This analysis was conducted by ORC as part of an employee research program performed for a major corporation. It shows that numerous factors impact organizational contribution, and suggests in particular that <u>individual</u> pride in the organization and personal success/alignment interact closely with other aspects that depend more on what <u>management</u> and the <u>organization</u> do—such as clarity of structure, goals, and values and brand integrity.



What Influences Corporate Reputation?

This last point is reflected in other findings from CRW, which show that among CEOs, communication and relationship issues are thought to be the top internal influencers of corporate reputation (other than financial performance, which is an assumed given influence on reputation). These issues include the ability to communicate, transparency, human values, and treatment of employees. This strongly reinforces the view that, overall, it is the operation of the organization—how employees act and how the organization provides the right environment for them to act—that has a significant influence on reputation. In this light people are key—not only is their character <u>influenced</u> by corporate reputation, but they are also key to <u>driving</u> reputation.

According to the CRW respondents, firms depend on customers more than any other external factor to achieve a positive reputation—customers are by far the most-mentioned external influencers of reputation. And certainly these internal and external forces interact. Presumably, customers will be a more positive influence on reputation if those internal issues of communication, transparency, values, and employee treatment are also in alignment.

(At this point it also is worth noting that the fact that CEOs believe such a variety of internal and external forces impact their companies' reputations strengthens our view that the complete assessment of corporate reputation must include focus on multiple stakeholders, as will be discussed later.)

Reinforced by the latest CRW results then, the following model illustrates the linkages among employees, organizational practices, customers, reputation and business success. This model provides at least a partial picture of what is believed by business leaders to produce corporate reputation and what they believe it can then accomplish.

which contributes to
Financial Success (Sales, stock price, etc.)
this leads to
A POSITIVE CORPORATE REPUTATION
The ability to recruit and retain high-quality employees and partners
What the people do, how they are treated, and how they communicate
Positive customers
this gives a firm
helps the firm to acquire and keep

Research has provided evidence supporting the importance of employees in this regard and has demonstrated that the strength of the link to corporate reputation can vary, depending, for example, on the industry. For instance, a retail firm, with a relatively large number of interpersonal customer transactions and other "moments of truth," would be expected to show a stronger link than would, for example, a manufacturing firm.

This model, describing the role that employees can play in reputation, further amplifies the importance of internal reputation assessment as a critical input into senior executive decision-making relating to building effective reputation management programs. As we shall further show, evidence also exists to highlight the need for reputation measurement to focus on some combination of other audiences as well.

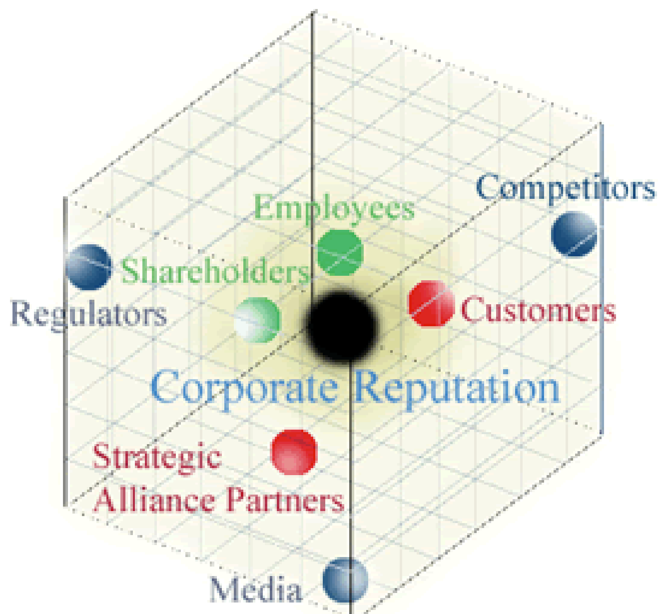
How Is and How Should Corporate Reputation Be Measured?

The CRW results reveal that a variety of measures are in place to assess corporate reputation. Most-mentioned are monitoring of media coverage and financial performance, as well as financial analysts and general word of mouth. Actual research on customers, employees, and other stakeholders is also being done, but this is not the most often-

mentioned measurement type. In fact, approximately half of the CEOs surveyed indicated that they do conduct stakeholder research or have created the measurement systems required to make decisions concerning the management of their company's reputation.

This seems contradictory to the stated importance CEOs ascribe to reputation, and given the high place that employees and customers hold in the chain linking employees, customers, and reputation. Taking together the evidence that has been seen—the perceived key place of customers and the "human side" of companies in determining corporate reputation, and the impact of reputation on employee retention and the ability to promote transactions and strategic partnerships—it appears natural that any assessments of corporate reputation should include measurement of at least these audiences.

In fact, as CEOs have indicated in the CRW results, and as other research has demonstrated, any company has multiple stakeholder audiences that indeed are central to its reputation. Among them, besides customers and employees, are strategic alliance partners, shareholders, regulators, competitors, media, and others that may be specific to a company or its industry. The relative centrality of each of these to the reputation of a given firm in a given industry will vary, and should be understood early in any complete assessment of corporate reputation. Regulators, for example, are usually assumed to be much more relevant to telecommunications, pharmaceutical, and utility companies than they are to retail companies.



Conclusion

> "...while CEOs today are more cognizant of the need to manage their company's reputation, many have not yet approached this issue with the vigor and completeness with which they protect their firms against other forms of business risk."

During the past few years, a number of events that have tarnished the reputation of—and in fact led to the demise of—many high-profile companies, have strongly reinforced the importance of corporate reputation. However, it also is clear that while CEOs today are more cognizant of the need to manage their company's reputation, many have not yet approached this issue with the vigor and completeness with which they protect their firms against other forms of business risk. Make no mistake about it—one of the hallmarks of the great CEOs of the next decade will not only be the effectiveness with which they manage the infrastructure of their businesses, but also the degree to which they build and use their corporate reputation as a competitive weapon. As professor Stephen Greyser, world-renowned marketing expert at Harvard Business School has said, "Where reputation is concerned, the CEO is the ultimate custodian."

Asian Companies Keep Pace with Evolving Best Practices

By Vivian Lines , Chief Operating Officer, Asia Pacific, and Corporate / Financial Practice Leader Asia Pacific, Hill & Knowlton ,

Vivian Lines joined Hill & Knowlton in 1984 and has particular expertise in designing and implementing strategic communication programs for multinational and local clients across multiple industries. Vivian is also an experienced crisis counselor, and undertakes regular crisis training and assessment programs in Asia for a range of clients.

In the wake of the Asian financial crisis and several high-profile corporate scandals in the United States, Asia has seen its fair share of developments on the corporate governance front.

From the reform of family-controlled conglomerates in Japan and South Korea, to crackdowns on financial sector corruption in China and regulatory developments in Singapore, Malaysia and elsewhere, Asian governments and companies seem to be heeding the clarion call of corporate responsibility.

Much of this is predictable in the current economic context. Any company that hopes to grow in this period of economic uncertainty must now at least appear to be responsive to shareholder interests and broader community concerns.

Governments Take (Some) Action

> "...law implemented in the United States has set the bar high for the reform of corporate reporting, boardroom practices and shareholder rights among US companies and their foreign investors – with Asian markets showing signs of following suit in spirit and in practice."

Governments and regulators are often leading the charge through various forms of enforcement and cajoling. The far-reaching Sarbanes-Oxley law implemented in the United States has set the bar high for the reform of corporate reporting, boardroom practices and shareholder rights among US companies and their foreign investors – with Asian markets showing signs of following suit in spirit and in practice.

The recent arrest of Shanghai tycoon Zhou Zhengyi in a fraud and stock manipulation scandal, as well as action taken by South Korean regulators to fine the country's five biggest conglomerates for illegal transactions between their units, shows that Asian enforcement officials are starting to protect the general interest more than the vested interests of state-run and family-controlled companies.

But there also appear to be limits on how far regulators are willing or able, to go. The recent investigation into the business practices of South Korean *chaebols* is evidence of this. The investigation was delayed for several months and had its remit narrowed amid fears that a severe clampdown could worsen the recession in Asia's third-largest economy. Also, in Hong Kong, officials have balked at recommendations from a government-appointed panel to pass the stock exchange's regulatory functions to the independent Securities and Futures Commission.

Corporate Reputation is a Growing Concern for CEOs

Given this backdrop, should Asian companies take action beyond what they are forced to do by regulators and (in rare cases) by activist shareholders and stakeholders? Many Asian chief executive officers are recognizing they can and should be proactive in protecting and enhancing the reputation of their businesses. Corporate reputation has emerged as a major and growing concern of CEOs globally – and it is increasingly being managed strategically in Asia at the highest corporate levels. This perspective emerges from Hill & Knowlton's annual survey of Corporate Reputation, which for the first time includes the views of Asian CEOs.

The survey reveals that CEOs see corporate reputation as increasingly important to the achievement of business objectives and, to a slightly lesser extent that Corporate Social Responsibility (CSR) initiatives can contribute to the bottom line. This signals a new level of sophistication and openness among top management in Asia where companies have traditionally been tightly controlled bastions of confidentiality, often led by a family patriarch. These encouraging developments still leave room for improvement, however, as a closer look at the responses of Asian CEOs indicates a lack of appreciation for certain benefits of proactive corporate reputation management.

Corporate Governance is Here to Stay

First the positive news: Asian CEOs are largely in step with their global counterparts, with a vast majority (more than 80%) agreeing that corporate reputation is more important than ever before. They also recognize that the recent emphasis on improving corporate behavior is more than just a passing fad. When asked if more stringent corporate governance and board oversight is going to be a permanent fixture in the corporate landscape, Asian CEOs (at 88%) rank higher than North American and European executives in responding affirmatively. In particular, Asian executives say the separation of Chairman and CEO functions will be a long-term outcome of the current focus on governance, and that the focus on corporate governance will result in improved ethical behavior.

We Care about Our Customers and Shareholders

There are also strong sentiments of accountability among Asian respondents. In responses to questions about external forces that most influence their companies' behaviors, customers and shareholders score highest among Asian CEOs, while Europeans choose the print media as most influential and North Americans give great weight to industry analysts.

With regard to the biggest threats to reputation, Asian CEOs identify unethical corporate behavior and product/service problems and complaints more often than "indirect" forces emphasized by their counterparts, such as media criticism that was cited highly among European CEOs. This indicates a healthy importance is being placed on transparency and customer service in Asia. Continuing to strengthen these areas is likely to help the bottom-line performance of companies as much as their corporate reputation.

Asian CEOs also display progressive attitudes when asked about the *internal* aspects of their companies, beyond financial performance, that influence corporate reputation. The leading responses among Asian executives include the ability to innovate, adaptability to change and transparency – all sound business practices. In contrast, the top response among European CEOs is the ability to communicate internally, while North American management emphasizes the treatment of employees.

But Do We Care about Our Employees and the Community?

Yet, it is in these "softer" areas of reputation management, such as internal communications and community relations, where concerns about the approach of Asian managers emerge. These areas consistently rank low among Asian CEOs in the survey responses, possibly signaling an inability to look beyond immediate business benefits flowing from core constituents such as customers and shareholders.

According to the survey, the most important objectives of corporate reputation management for Asian CEOs are more tangible: increasing sales, enhancing stock price and promoting transactions and strategic partnerships. North American and European CEOs lead with recruitment and retention of employees, and they prominently identify building support for public policy initiatives. The influence of interest groups and non-government organizations (NGOs) barely register among Asian CEOs – all of which indicate a lack of appreciation for the effects on business that can be driven by activists, the media and other stakeholders. David Webb for example, a former Hong Kong investment banker turned shareholder activist, has become a leader of several shareholder initiatives in the territory.

CSR Not a High Priority — Yet

Corporate Social Responsibility, a concept that embraces responsible and ethical corporate behavior and that recognizes that this extends to corporate actions to the environment and to society, is viewed by Asian CEOs as being most important for attaining good media coverage. In contrast, European and North American executives see greater advantage in more substantive employee and community relations, such as the ability to withstand the impact of a crisis.

> "While the trend is toward placing CSR responsibility in the boardroom, there is still a tendency among Asian companies to treat CSR as a fringe "image" issue, rather than as a key driver of corporate reputation and a fundamental responsibility of senior management."

The survey also reveals that the prime responsibility for managing CSR initiatives in Asian companies still rests disproportionately with public affairs / corporate communications staff as compared to the CEO and other senior management (19% for staff and 48% for top management among Asian respondents vs. 11% for staff and 73% for top management among North American companies). While the trend is toward placing CSR responsibility in the boardroom, there is still a tendency among Asian companies to treat CSR as a fringe "image" issue, rather than as a key driver of corporate reputation and a fundamental responsibility of senior management.

This is probably a short-term perspective and one that we anticipate will change dramatically over the next 12 months.

Pressure from Overseas

The drivers for change are likely to come from overseas, particularly the EU and North America, and be a mixture of economic forces (for example, trade agreements bringing tariff changes and forcing Asian companies to differentiate against competitors on other terms), political suasion (the loss of jobs in the US to Asian nations and companies is going to be a hot political potato in the coming Presidential election year), and legal necessity (oil companies have already been sued in the USA for their treatment of local nationals overseas and perceived support of totalitarian regimes).

We envisage these pressures will strengthen markedly for Asian companies, particularly those that are listed internationally or are trying to strengthen their brand profiles globally. Being prepared and, where possible, heading off problems before they become critical issues will require extensive help from a company's internal and external advisers.

Yet, there are signs in the survey that Asian attitudes and operations may soon improve further. For example, when asked about initiatives undertaken recently in the wake of increased public scrutiny, Asian CEO responses rank higher than their global counterparts in areas such as instituting ethics-related employee training and introducing enhanced ethical controls.

It appears then, that as corporate reputation management takes on increased importance worldwide in the drive to achieve business objectives, Asian companies are well positioned to keep pace with evolving best practices if top management continues to remain proactive.

The Wrong Way to do Business Right – Recasting Business Communication Amidst a Crisis of Confidence

By Andrew Laurence , Corporate / Financial Practice Leader, EMEA and Deputy Chairman, UK, Hill & Knowlton ,

Andrew Laurence joined Hill & Knowlton in 1989, and has since led international assignments for leading companies in the energy, technology, FMCG, financial and professional services industries. He has advised government on inward investment and image management, and large organizations on the communications aspects of organizational change. Prior to joining Hill & Knowlton, Andrew worked for the London Docklands Development Corporation where he was part of the team that took Canary Wharf from concept to construction.

Confronted by three years of bear markets, a tide of corporate scandals and claims of executive excesses, today's business leaders are under fierce attack. Standing accused of personal malfeasance and corporate wrongdoing, the roles and responsibilities of the C-Suite have been reshaped. Business chiefs are now judged on higher standards of ethics, business principles and accountability.

> "...if the regulatory and legislative response to the corporate scandals is without underlying behavioural reform, the standard-setters work will remain unfinished business."

The cries from activist shareholders, disgruntled investors, hardened regulators and corporate governance reformists are growing louder. This collective activism has resulted in an unprecedented number of corporate governance initiatives in the last twelve months. But if the regulatory and legislative response to the corporate scandals is without underlying behavioural reform, the standard-setters work will remain unfinished business.

Taking Corporate Steps

Caught in a crisis of confidence, corporate governance and reputation management have concentrated the minds of global bosses. These two themes have never been so valued or high on the boardroom agenda. This year's *Corporate Reputation Watch*, polling over 250 chief executives in Europe, North America and Asia, explores the steps taken by business leaders to help restore reputation and investor confidence.

Our survey finds that CEOs have installed rigorous checks and balances in response to heightened scrutiny on business practice: citing the top three priorities as improving internal controls (76%), reviewing auditor and accounting relationships (64%) and revising codes of conduct (55%). In Europe, business bosses point to scrutinising executive compensation and putting in place procedures to ensure board independence as further high priority initiatives.

> "...the general consensus is that the raft of new regulatory, legislative and investor pressures have reshaped the business landscape for the better, tomorrow's challenge goes deeper: the challenge will be to strengthen and entrench corporate governance, without suffocating entrepreneurialism and risk-taking."

But there is a counter-veiling force: just as the market looks to turn up, there is a danger that CEOs and Boards are becoming bogged down in the burdensome and bureaucratic codes of conduct to the detriment of taking business risks. While the general consensus is that the raft of new regulatory, legislative and investor pressures have reshaped the business landscape for the better, tomorrow's challenge goes deeper: the challenge will be to strengthen and entrench corporate governance, without suffocating entrepreneurialism and risk-taking.

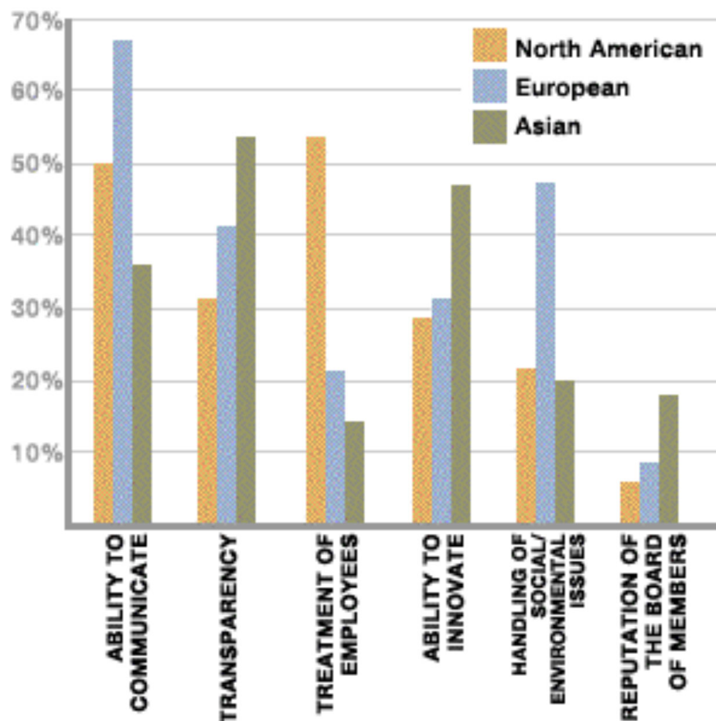
In the Business of Trust

Business leaders find themselves in a crisis of legitimacy, born of the extravagances of the dot com bubble, weak boardroom scrutiny, conflicts of interest and egregious malpractice scandals. With headlines like "Capitalism under scrutiny[1]" and "Badly in need of repair[2]", it is little wonder that CEOs have raised the (mis)trust issue as the number one boardroom priority. Behaviour and communication are key to restoring trust.

The durability and depth of the change depends on the behavioural reforms envisioned by chief executives. The change in behaviour starts with how bosses communicate the values, vision and aspirations of their companies.

While the internal checks and balances are crucial, reputation management swings on the chief executive's ability to communicate. Almost half of all bosses surveyed (48%) consider the ability to communicate effectively to be the most influential internal factor in building and protecting a company's reputation, consistent with previous studies commissioned by Hill & Knowlton. Putting communications front and centre is given even greater emphasis in Europe where two thirds of business leaders put it top of their priorities – ahead of ability to innovate, reputation of the board and treatment of employees.

Bedevilled by corporate scandals, CEOs also point to the influence of transparency to regain trust and protect the brand – in a 2002 Hill & Knowlton study transparency was ranked a lowly ninth place. This year, transparency is cited as the second most influential factor overall on a company's reputation (39%), with Europe higher than the overall average.



Jury Still Out

Such is the sweeping nature of the legislative reforms, an overwhelming majority of business leaders in Europe (81%), Asia (88%) and North America (78%) believe more stringent corporate governance is a permanent fixture in the corporate landscape rather than a passing fad. Nearly three out of four executives (74%) expect increased disclosure in the corporate world to remain, while over two thirds (68%) believe boards will include a higher proportion of independent directors in the future.

> "It is the responsibility of chief executives to infuse the values of the company throughout the organisation — such that corporate governance does not become a box–ticking exercise, but part of the organisation's DNA. "

European executives in particular highlight increased scrutiny of CEOs and the separation of Chairman and Chief Executive as a lasting legacy of corporate governance. Other immutable changes cited by business leaders included more activist shareholders, a decrease in incentive-based compensation for senior executives and shorter tenures for CEOs.

But while corporate governance reforms have been sweeping and swift, whether the tougher regulatory climate will actually result in a fundamental change in underlying business behaviour, remains undetermined. The Hill & Knowlton Corporate Reputation Watch finds that the stringent corporate governance standards have been greeted with

mixed reception: only 13% of CEOs in Europe (and 19% globally) strongly agree that the codes will lead to more ethical behaviour by companies.

The danger is that codes become boxes to tick, rather than principles of change. To rekindle trust and regain legitimacy, business bosses have to set the right tone at the top. Management behaviour sends strong signals to the company's stakeholders. Beyond financial reporting, chief executives need to provide leadership that embraces ethics, governance and creates an open and transparent environment in which to do business.

It is the responsibility of chief executives to infuse the values of the company throughout the organisation — such that corporate governance does not become a box–ticking exercise, but part of the organisation's DNA.

Paralysis in the Boardroom

The regulatory and legislative spasm following Enron, WorldCom, Tyco and other corporate miscreants has left tough codes in their wake. While few publicly challenge the reforms, there remain continued murmurings that the focus on governance is inhibiting business leaders from taking entrepreneurial risks have not been silenced. William Donaldson, chairman of the Securities and Exchange Commission, amplified this issue when he called on corporate America to move on. Donaldson said: "People are confusing business risk-taking with legal risk-taking, which is a mistake." Alan Greenspan, the head of the Federal Reserve, echoed this sentiment when he commented that "a pervasive sense of caution" was holding back investment and job creation[3]— two important voices at the vanguard of change.

Images of handcuffed executives, a scrum of photographers and ignominious individuals pleading the Fifth Amendment will linger long on our memories. Battle weary CEOs went to ground for fear of being attacked and vilified, especially in the press. Unsurprisingly, in Hill & Knowlton's survey European chiefs point to media criticism (53%) as a top threat to reputation, second only to unethical behaviour.

In the last twelve months the spotlight may have induced a state of paralysis in boardrooms, because of a misinterpretation of the legislation and a rampaging media.

A Question of Time

After the purge, came introspection and a 'back to basics' approach. But with geo-political conditions improving, a return to more bullish market sentiment and a restored belief in the machinery of the standard-setters, it is time for chief executives to once again seize the initiative.

Restoring the public's collective trust requires global leaders to lift their sights. A renewed sense of confidence in companies starts with a renewed belief and trust in their leaders. Business chiefs have taken positive steps to 'institutionalise' the reforms in their companies and should shout about it. But the attractiveness of a stock is more than corporate governance — as business leaders, CEOs are judged on both corporate governance and vision.

[1] *Financial Times*, 5 September 2003
[2] *The Economist*, 4 May 2002
[3] *Financial Times*, 24 July 2003

Canadian CEOs and CSR: Leaders or Laggards?

By Boyd Neil , Senior Vice President and Corporate / Financial Practice Leader, Canada, Hill & Knowlton ,

Boyd Neil has over 20 years of experience in the public and private sectors as a communications strategist, providing senior level counsel to a variety of clients. Boyd is especially skilled in reputation management around complex and sensitive public issues. Prior to joining Hill & Knowlton Boyd was a magazine journalist, and also held senior communication positions in government, the plastics industry trade association and consulting firms.

From a Canadian perspective, the most surprising outcome of the Corporate Reputation Watch survey, is the rather lukewarm response of North American CEOs regarding the influence of corporate social responsibility on a company's reputation. It would seem that only 26% of North American CEOs believe that corporate social responsibility initiatives contribute significantly to corporate reputation.

These findings reflect either naiveté on the part of CEOs in the United States and Canada . . . or a consequence of the heavy weighting of American CEOs in the "North American" survey cohort. American CEOs are much more preoccupied with issues of corporate governance, having been hit by major scandals in accounting methods, lack of Board oversight, executive malfeasance and the mandating by the Sarbanes-Oxley Act of new standards of Board conduct and control. The fact that North American CEOs identify the major corporate governance steps they have taken as "reviewing auditor /accounting relationships" (70%) and "enhancing internal controls" (72%), suggests they have turned inward to manage reputation.

> "'In many ways, corporate values . . . corporate character . . . corporate social responsibility are all about being fast and decisive and appropriate when there are no rule books, when the pressures to perhaps do the wrong thing are the greatest. And I think corporate social responsibility is not just about splitting hairs. It goes far beyond competitive differentiation – or feel good kinds of things, although doing the right thing always makes us feel good. It is fundamentally about how we behave when no one is looking!' *Carly Fiorina, HP Chairman and CEO.*"

There are exceptions, of course. In a recent speech in Toronto, HP chairman and CEO, Carly Fiorina spoke about the importance of companies being driven by values: "In many ways, corporate values . . . corporate character . . . corporate social responsibility are all about being fast and decisive and appropriate when there are no rule books, when the pressures to perhaps do the wrong thing are the greatest. And I think corporate social responsibility is not just about splitting hairs. It goes far beyond competitive differentiation – or feel good kinds of things, although doing the right thing always makes us feel good. It is fundamentally about how we behave when no one is looking!"

Leading the CSR Bandwagon

> "Having been leaders for many years in managing tough stakeholder relations with aboriginal peoples and local communities affected by resource extraction and transportation issues, Canadian natural resource companies have become leaders in developing and managing community-based social responsibility programs."

Although separate data for Canadian CEOs cannot be disaggregated from the Corporate Reputation Watch findings, I would argue that our CEOs probably tilt more in favour of their European colleagues when ranking the impact of corporate social responsibility on their reputation. Many of the strongest Canadian-headquartered companies are in the natural resource sector. Having been leaders for many years in managing tough stakeholder relations with aboriginal peoples and local communities affected by resource extraction and transportation issues, Canadian natural resource companies have become leaders in developing and managing community-based social responsibility programs.

Such Canadian resource companies as Nexen Inc., Suncor Energy Inc., Domtar Inc. and Alcan Inc. are recognized globally for their commitment to socially responsible behaviour. Mining company Alcan, for example, partnered with companies in India and Pakistan to develop a cost-effective method for removing arsenic from drinking water that is now in demand in eight other developing countries.

Even our leading financial services companies such as Royal Bank of Canada, the Bank of Nova Scotia and the Canadian Imperial Bank of Commerce have kept pace with their natural resource colleagues in committing to responsible behaviour. As Gordon Nixon, CEO of the RBC Financial Group said in an interview published this year in the Canadian CSR magazine *Corporate Knights*, "Corporations who focus too much on the shareholders and disregard the communities, employees and clients pay a very heavy price."

Seeing the Uncomfortable Truth

The one area in which Canadian CEOs can reasonably be grouped with their American colleagues is in underestimating the impact on corporate reputation of open and transparent business practices. According to the CRW survey, North American CEOs lag their European and Asian counterparts in recognizing the effect of transparency on reputation and financial performance.

Let’s be frank: Transparency is one of the least comfortable concepts with which CEOs can become engaged. It threatens exclusive control over business strategy and financial decision-making. It raises issues about the integration of stakeholders into major business decisions. It requires companies to assume values-driven decision-making. For many CEOs, it is inconceivable that such control would be loosened so easily.

This is not to say that there isn't a great deal of lip service being paid in Canada to principles of transparency, openness and truthfulness. But practice is lagging. Perhaps there is a failure to recognize that transparency is not a choice, or that transparency can be made a competitive advantage by embracing values-based decision-making and then opening those decisions to scrutiny.

As Canadians David Ticoll and Don Tapscott argue in their new book, The Naked Corporation, "Open enterprises are actively transparent, while carefully managing their critical competitive information and security. They understand that transparency is a corporate value that must be connected to principles of honesty, accountability, and consideration to sustain trust. They embrace networked business models and understand that relationships – reciprocal engagements with customers, employees, partners, shareholders, and the public – are critical to success."

Reputation Matters to US Chief Executives – But Leveraging Corporate Social Responsibility Remains on the "To Do" List

By Kevin Elliott , Senior Vice President and Manager San Francisco, Hill & Knowlton

Kevin Elliott is actively involved in the strategic planning and management of corporate communications and public affairs programs, as well as media and communications training, for a variety of Hill & Knowlton's clients in San Francisco and elsewhere. Prior to joining Hill & Knowlton, Kevin was Public Affairs Manager and Spokesperson for Unocal, President of Public Affairs for a west coast marine industrial engineering firm, and a Field Director for a US Senator.

"We get it."

That was the unspoken take-away from Corporate Reputation Watch 2003 – the annual survey of chief executives conducted by Hill & Knowlton in partnership with Korn/Ferry International.

Reputation Drives Business Objectives

No surprise that the vast majority of American chief executives fell in lock step with their peers around the world in their belief that corporate reputation is more important now that ever before. Most see it as their own responsibility and believe that the ability to manage reputation is critical in choosing a successor.

The majority of chief executives surveyed pegged reputation to the ability to recruit and retain employees and develop strategic partnerships. Slightly more than half connect reputation with driving sales, and about one third saw a correlation to the share price of their companies.

American Companies Need to Extract More from CSR Initiatives

When you drill down into one of the key drivers of reputation – corporate social responsibility (CSR) – a value disconnect begins to emerge suggesting that there is more work to do to obtain maximum return on the dollars invested in CSR. The leaders surveyed viewed CSR as having considerably less effect on many of the key business objectives cited in the study.

While 80% saw CSR as important to recruiting and retaining people, fewer than half see a positive impact from CSR initiatives on generating favorable media coverage, promoting transactions and partnerships and withstanding the adverse impact of crises. Only one third credit CSR initiatives with driving sales and only one fourth of the American chief executives find that their company's CSR programs are helping build public support for the policy initiatives they favor.

More Work to Do

The disconnect between their general belief in the importance of reputation and the perceived contribution of CSR initiatives suggest that there is more work to be done. The connection between the positive impact that a sound reputation can have and the CSR contribution to that reputation needs to be more transparent to the tenant in the corner office.

We know from other research that consumers prefer to do business with companies they believe are doing good for society, as well as for their employees and shareholders. We know that CSR is a visible component to reputation that is both tangible and measurable. What remains to be done is to make the general equation to preference based on "reputation" more specifically tied to preference based on corporate social responsibility. Chief executives will only believe that there is a real advantage to their companies from their CSR programs when they hear it from their customers and partners, and when they can measure it on their bottom line.

CSR Front and Center

Communications can play a role in providing better leverage for CSR programs. In fact, placing the CSR initiative at the center of the strategic communication program is mission critical to realizing its full value. Making CSR the centerpiece of communication implies other responsibilities as well. The programs have to be relevant and credible – relevant to the organization’s business and credible to outside stakeholders. The Ronald McDonald House is a fine example of relevance and credibility. The company’s most important customers are children and young people, so the work of Ronald McDonald House in support of seriously ill children makes sense and is believable.

It is only in going a step further than relevance and credibility by making the CSR initiative a true centerpiece program, that maximum value from dollars invested can be extracted.

If more companies placed the CSR program where it belongs, more chief executives would be able to recognize the impact of CSR on reputation and see the greater benefits on their business objectives -a worthy goal for communicators in the next year before the sixth annual Corporate Reputation Watch finds too many American companies still missing the boat.