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Research Question:

How are companies integrating sustainability into their business strategies, creating cohesion between activities and balancing interests, in order to secure business benefit and move towards a sustainable future? - A comparative analysis of case studies within the Fast Moving Consumer Goods sector.

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1. Introduction

The sustainability agenda is very much in the business environment. Increasingly, for a business to remain viable it must consider its social and environmental impacts.

Current environmental and social trends are threatening access to resources that businesses are dependent upon. Public awareness of sustainability issues is increasing and affecting consumer and employee market behaviour. NGO and campaigning organisations continue to apply pressure, and government regulations are increasingly considering sustainability issues. Therefore, regardless of the ethos of the business, it is prudent for corporations to give ample consideration to the sustainability agenda.

‘Sustainable’ means the capacity to continue, to remain viable. ‘Sustainability’ refers to aspects that allow this continuation, including the ability to develop and change.

The sustainability agenda has three pillars to be considered – environmental, societal and economic (figure 1.1) The three pillars have “mutual dependency”¹ each relying upon the other for their success.² Activities should benefit all three otherwise they will result in long-term detriment to all three.³ Unfortunately business models prevalent today have been designed assuming infinite access to resource and waste assimilation⁴ therefore not considering the environment or society in business

¹ Porter, Michael E. & Kramer, Mark R. Dec 2006. *Strategy and Society: The Link Between Competitive Advantage and Corporate Social responsibility*. Harvard Business Review, 84(12), p84.

² Porter and Kramer talk of “inside-out linkages” (Porter, M. E. & Kramer, M. R., 2006, p83) and “outside-in linkages” (Porter, M. E. & Kramer, M. R., 2006, p84) between business, the environment and society, which represent a significant element of the “competitive context” (Porter, M. E. & Kramer, M. R., 2006, p84) within which the company attempts to carry out its strategy. The environment and society equally have profound impacts upon each other.

³ Porter, M. E. & Kramer, M. R., 2006, p84.

⁴ WWF-UK (2001) *To Whose Profit? Building A Case For Sustainability*. UK:WWF_UK, p14.

calculations. Too often, a ‘sustainability model’ will refer only to short or medium term ‘business sustainability’. This is not a sustainable position.

“Eco-system services”⁵ are being degraded by the very companies that rely upon them - for the provision of resources and ultimately customers. Environmental systems are required in order for societies to function. Income insecurity and inequality limit the present population’s ability to meet its needs. Looking forward, this is likely to be exacerbated by the effects of increased global population size⁶, increased consumption and climate change.⁷

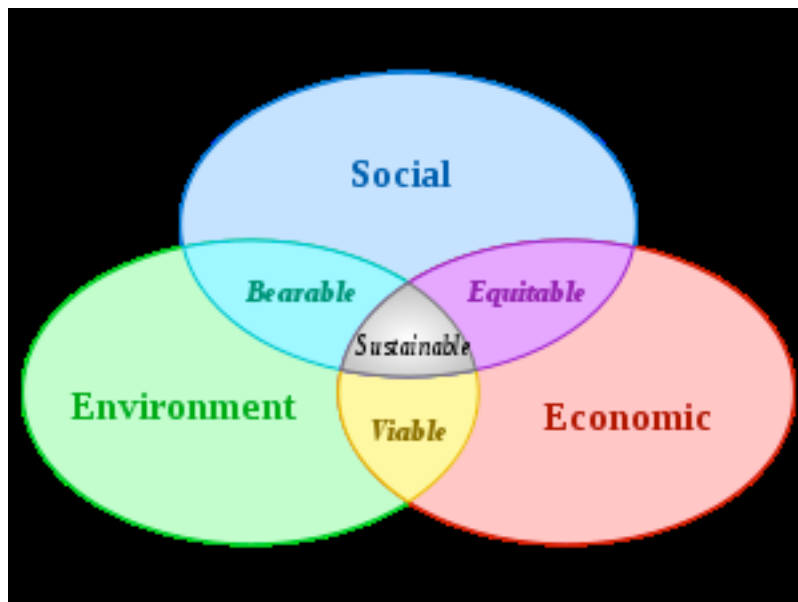


Figure 1.1 “Scheme of sustainable development: at the confluence of three constituent parts.”⁸

⁵ Forum for The Future (Oct 2007) Business Strategies: profitable today sustainable tomorrow. UK: Forum For The Future, p7.

⁶ “The planet will be home to nine billion people by 2050, with just under one billion extra people in the next 10 years alone.” (Forum for the Future (Oct 2007), p7)

⁷ It has been estimated that by 2050, with a world population of 9 billion, it will take the resources of five planet Earths” to allow them to consume as Americans today. (Savitz, A. W. & Weber, K., 2006, P102)

⁸ UCN (2006) *The Future of Sustainability: Re-thinking Environment and Development in the Twenty-first Century*. Report of the IUCN Renowned Thinkers Meeting, 29–31 January 2006

A widely accepted approach to achieving sustainability was put forward by The Brundtland Commission 1987: "In order for development to be sustainable, it must meet the needs of the present without compromising the ability of future generations to meet their own needs."⁹

Businesses play an important role in fulfilling the needs of people¹⁰ but in order to meet the needs of future generations it is necessary to establish business practices and models that do not deteriorate society or the environment.

Philanthropy and corporate activity have been used to compensate for damage caused by businesses but this does not equate to sustainability. Business practices need to be altered so that they are not causing this damage in the first place. Sustainability needs to be incorporated into the core business.

Integration of Sustainability into Core Business

The literature is in agreement¹¹ that for sustainability activities to have maximum impact, they must be integrated into the business strategy. This study considers how companies are integrating sustainability into the business strategy.

Fast Moving Consumer Goods (FMCG) companies are considered. As shareholder owned companies it is necessary for strategies to achieve business benefit, to avoid

⁹ World Commission on Environment and Development. Brundtland, G. H. (March 1987) *Our Common Future*. Oslo: World Commission on Environment and Development.

¹⁰ Savitz includes business viability in his definition of sustainability (Savitz, A. W. & Weber, K., 2006, p21)

¹¹ For example Porter, M. & Kramer, M. R., 2006, Prahalad, C.K. 2009, Forum for the Future (2007) and Grayson, D. & Hodges, A., 2004.

being overturned. Therefore this study focuses particularly on how sustainability activities are being integrated into the business strategy to achieve business benefit.

Within the current shareholder model, a shift towards sustainability is necessary rather than revolutionary change, balancing and cajoling an array of competing interests and objectives in order to maintain a viable business into the future. This research provides some insight into how this is being realised in practice.

The literature review is split into two sections. The first section explores how sustainability activities can be integrated into business strategy, looking at areas of mutual interest between the business, society and the environment. It is argued that fragmented activities are inefficient and ineffective at achieving business benefit as well as social and environmental benefit. Strategic networks of activities are superior.

Secondly, practical approaches to implementing this transition toward sustainability are considered, including 'green marketing' strategies and use of ethical messaging, certification schemes, and 'Bottom of the Pyramid' market approaches.

The research consists of five case studies: Nestlé, Procter & Gamble, Reckitt Benckiser, Unilever and Kraft Foods (including the recently purchased Cadburys). Interviews were conducted and documents analysed to gain data on how sustainability activities are being integrated into the business strategy and connected in order to achieve business benefit.

A comparative analysis of approach suggests that activities and approach vary according to the particular positioning of the business. Although there is considerable overlap between the cases studied, there are important differences in how they situate and implement these activities in the context of their overall business strategies. What becomes clear is that sustainability activities that support each other are superior at achieving business, social and environmental benefit, assisting the shift towards a sustainable future. In order to produce optimal benefit, sustainability activities must sit within a strategic framework that ensures activities create a coherent whole.

This study indicates fruitful areas for further research, and will be useful to companies seeking to balance stakeholder interests and business objectives in order to secure business benefit and move towards a sustainable future.

2. Literature Review

This review consists of two parts. The first explores the extensive literature on sustainability and business strategy. The second part considers practical approaches to integrating sustainability into the business strategy, including ‘green marketing’ strategies and the use of ethical messaging, certification schemes, and ‘Bottom of the Pyramid’ market approaches.

Part 2.1. Sustainability and Business Strategy

2.1.1. Integrating Sustainability into Business Strategy where Interests Intersect

- “Sustainability Sweet Spot”¹²

Literature agrees that for sustainability to achieve benefit to business, society and the environment, it must not be an add-on but be integrated into the business.¹³ In order to integrate sustainability into business strategy Savitz and Weber suggest establishing where areas of “mutual interest”¹⁴ lie, between business strategy and stakeholder interest. They term this the “sustainability sweet spot: the place where the pursuit of profit blends seamlessly with the pursuit of the common good”¹⁵ Businesses operate in an “interdependent world”¹⁶ therefore there is much scope for overlap between stakeholder and business interests (figure 2.1). Porter & Kramer¹⁷ agree, recommending companies focus on “the points of intersection”¹⁸ rather than the tension and frictions between business and society. Points of intersection arise, in

¹² Savitz, Andrew W. & Weber, Karl. 2006. *The Triple Bottom Line*. San Francisco: Jossey-Bass. p22.

¹³ For example Porter, M. & Kramer, M. R., 2006, Prahalad, C.K. 2009, Forum for the Future (2007) and Grayson, D. & Hodges, A., 2004.

¹⁴ Savitz, Andrew W. & Weber, Karl. Winter 2007. *The Sustainability Sweet Spot: How to achieve long-term business success*. Environmental Quality Management, 17(2): pp17-28.

¹⁵ Savitz, A. W. & Weber, K., 2006, p22.

¹⁶ Savitz, A. W. & Weber, K., 2006, p48.

¹⁷ Porter, M. & Kramer, M. R., 2006, pp 78-92.

¹⁸ Porter, M. & Kramer, M. R., 2006, p84.

product offering, along the value chain and in the competitive context, that provide opportunity for “creating shared value”¹⁹ Drucker has encouraged companies, since 1955, to “make the public good become the private good of the enterprise”²⁰ More recently, The Forum for the Future argues that “smart businesses”²¹ will profit from sustainability issues by “finding ways to give us what we need and want whilst maintaining the eco-system services on which we rely.”²²



Figure 2.1 The Sustainability Sweet Spot²³

Business Benefit

Points of intersection occur in product offering, throughout the value chain, and in the competitive context, providing much scope for sustainability activities. According to Savitz and Weber, sustainability activities have the potential to enhance your business in three ways. They can help to “protect it, run it, and grow it”²⁴ Although using

¹⁹ Porter, M. & Kramer, M. R., 2006, p84.

²⁰ Drucker, Peter F. 1955. *The Practice of Management*. Oxford: Butterworth-Heinemann. P386.

²¹ Forum for the Future (2007), p8.

²² Forum for the Future (2007), p8.

²³ Savitz, A. W. & Weber, K., 2006, p23.

²⁴ Savitz, A. W. & Weber, K., 2006, p33. Originally formulated by World Business Council for Sustainable Development.

different terminology, this concept is illustrated in figure 2.2.

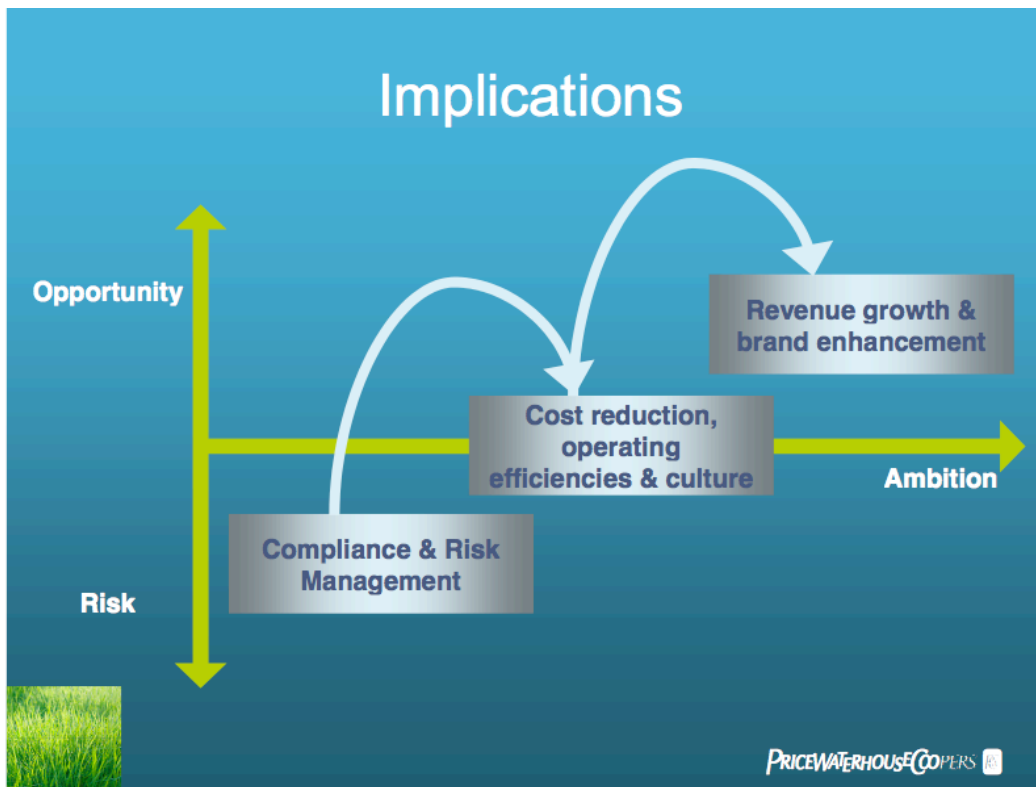


Figure 2.2 Business Benefit from Sustainability Activities.²⁵

“Protect it”²⁶ – Regulations and Reputation

Integrating sustainability into the business strategy reduces risk by ensuring compliance with existing regulations but also preparing for, influencing²⁷ and reducing the risk of impending regulatory interventions.²⁸ WWF and Smith add that engaging with stakeholders including Non-Governmental Organisations (NGOs) can reduce the risk of reputational damage,²⁹ negative campaigns and consumer boycott.³⁰

²⁵ www.pwc.co.uk

²⁶ Savitz, A. W. & Weber, K., 2006, p33.

²⁷ De Man, Reinier & Burns, Tom R. 2006. *Sustainability: Supply Chains, Partner Linkages, and New Forms of Self-Regulation*. Human Systems Management. 25(1): pp1-12.

²⁸ Savitz, A. W. & Weber, K., 2006, p33.

²⁹ WWF-UK (2001), p17.

³⁰ Smith, Craig N. Summer 2003. *Corporate Social Responsibility: Whether or How?* California Management Review. 45(4), p61.

De Man and Burns suggest supply-chain partnerships and codes-of-conduct manage risk by recouping control lost through globalization and outsourcing.³¹

The second two stages suggested by Savitz and Weber move from risk management to include opportunity maximization, reflecting the shift observed by Forum for the Future over the past decade.³²

“Run it”³³ - Operations

As expressed by Forum for the Future, “Pollution is waste, . . . it means that your company is paying for something it didn’t use”³⁴ Reducing costs, waste and inefficiencies in operations can increase profitability while keeping the company ahead of regulators. The improved environmental and social impacts can be beneficial for brand enhancement.

Porter agrees that “operational efficiency”³⁵ is important but argues that it is not sufficient to secure a viable business into the long-term. It can be quickly imitated,³⁶ shifting the “productivity frontier outward”³⁷ and raising efficiencies of the industry as a whole but providing “relative improvements for no one”³⁸ Without additional strategy this creates “pressures on costs”³⁹ and “mutually destructive competition”⁴⁰

³¹ De Man, R. & Burns, T. R., 2006, p3.

³² Forum for the Future (2007), P6

³³ Savitz, A. W. & Weber, K., 2006, p35.

³⁴ Savitz, A. W. & Weber, K., 2006, p35.

³⁵ Porter, Michael E. Nov/Dec 1996. *What Is Strategy?* Harvard Business Review, 74(6), p62.

³⁶ Porter, M. E., 1996, p63.

³⁷ Porter, M. E., 1996, p63.

³⁸ Porter, M. E., 1996, p63.

³⁹ Porter, M. E., 1996, p64.

⁴⁰ Porter, M. E., 1996, p61.

Environment Management Systems can assist reduction of resources used in production. But, as populations and therefore production expands, this reduction becomes ‘relative’ rather than ‘absolute’⁴¹. Environmental degradation continues to increase although businesses appear to be addressing the issue. Jackson terms this the “myth of decoupling”⁴² Improvements required for absolute decoupling of growth and material usage would require substantial economic investment, with a return-on-investment timeframe that would not pass traditional calculations. (see p?? walley and whitehead page)

“Grow it”⁴³ - Innovation and Marketing

Sustainability provides scope for growth activities including opening access to new markets, increasing share in existing markets, developing innovative new products and processes, increased consumer loyalty and satisfaction, increased scope for alliances and partnerships, and improvement to reputation and brand.⁴⁴

This area shall be considered in detail in Part 2.

In summary, sustainability can be integrated into business where there are areas of mutual interest between the business, environment and society. Areas of intersection occur throughout the value chain. Sustainability activities can provide business benefits such as: managing risk of regulation; managing risk of reputational damage in consumer, investor and employment markets; re-couping control lost through

⁴¹ ‘Normalised’ reduction refers to per unit of production. ‘Absolute’ reductions refer to the company as a whole.

⁴² Sustainable Development Commission. Jackson, Tim. (March 2009) *Prosperity Without Growth?* UK:Sustainable Development Commission, p47.

⁴³ Savitz, A. W. & Weber, K., 2006, p35.

⁴⁴ Savitz, A. W. & Weber, K., 2006, p35.

globalization and outsourcing; reduced operating costs; reputation and brand enhancement; product differentiation; access to new markets and increased share in existing markets; and providing a driver for innovation of product, process and business model.

2.1.2. Role of Strategy

Strategic Approach to Sustainability

Focusing on points of intersection has the potential to benefit the business alongside society and the environment. The danger is that sustainability activities become “fragmented”⁴⁵, “disconnected from the company’s strategy”⁴⁶, reducing the potential benefit to society, the environment and to the business and opening the company up to risks such as accusations of ‘green-wash’ (see 2.2.1). A fragmented approach leads to “contradictory practices”⁴⁷ that reduce the overall benefits produced. Instead sustainability issues should be analysed “using the same frameworks that guide their core business choices”⁴⁸ Approached strategically, sustainability becomes a source of progress for both society and the firm, being “a source of opportunity, innovation, and competitive advantage”⁴⁹ “as the business applies its considerable resources, expertise, and insights to activities that benefit society.”⁵⁰ Considered strategically sustainability activities can compliment and re-enforce each other, working together as a coherent whole.

⁴⁵ Porter, M. & Kramer, M. R., 2006, p80.

⁴⁶ Porter, M. & Kramer, M. R., 2006, p83.

⁴⁷ Utting, Peter. Nov 2008. *The Struggle for Corporate Accountability*. Development & Change. 39(6), p964.

⁴⁸ Porter, M. & Kramer, M. R., 2006, p80.

⁴⁹ Porter, M. & Kramer, M. R., 2006, p80.

⁵⁰ Porter, M. & Kramer, M. R., 2006, p80.

‘Integration’ and ‘Fit’

Sustainability activities can be realised throughout the business model,⁵¹ summarised by PriceWaterhouseCooper in figure 2.3.

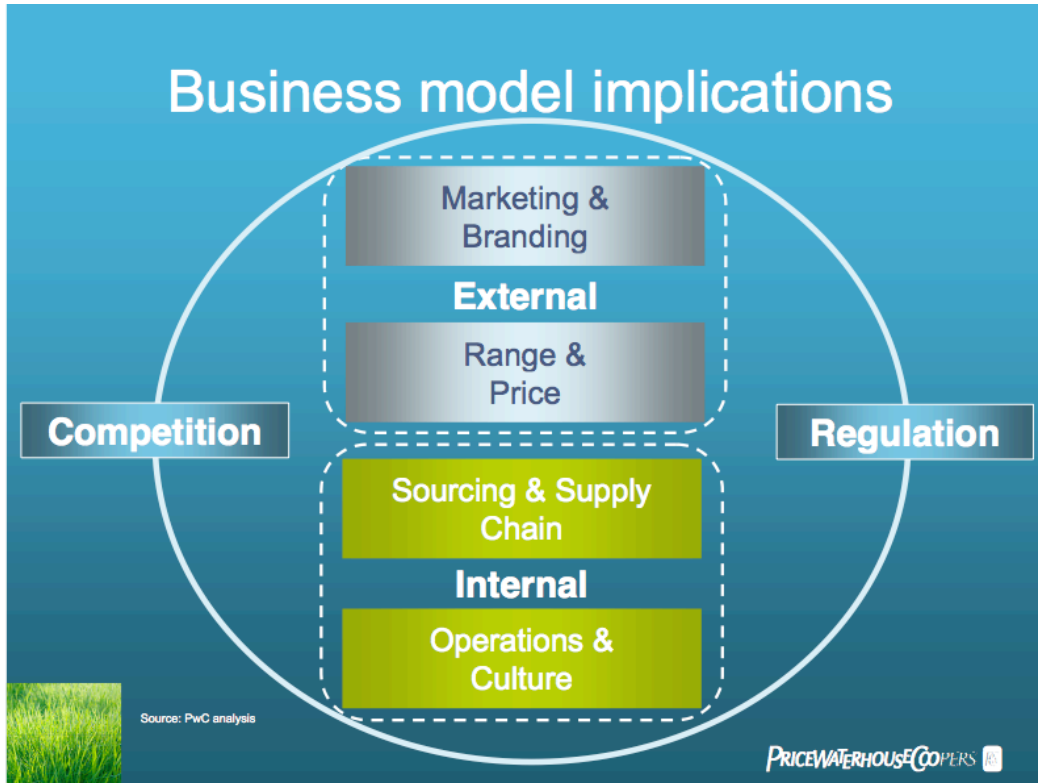


Figure 2.3 Sustainability Implications.⁵²

According to Drucker “The entire business can be seen, understood and managed as an integrated process”⁵³ “from raw material procurement...to customer service”⁵⁴

According to Porter, the role of strategy is to “tighten fit”⁵⁵ between activities and changes taking place. Strategy considers the company as a whole “activity system”⁵⁶, rather than individual activities, combining and configuring activities. “The success of

⁵¹ For full description see Savitz, A. W. & Weber, K., 2006, pp70-73.

⁵² www.pwc.co.uk

⁵³ Drucker, P. F. 1955, p363.

⁵⁴ Drucker, P. F. 1955, p363.

⁵⁵ Porter, M. E., 1996, p78.

⁵⁶ Porter, M. E., 1996, p74.

a strategy depends on doing many things well-not just a few- and integrating among them”⁵⁷ ensuring that activities are complimentary, having “consistency”⁵⁸, are “reinforcing”⁵⁹ and provide “optimization of effort”⁶⁰

Integrating individual sustainability activities into business units is an improvement from mere philanthropy, but real benefit is achieved when there is integration among activities so that they work together as a coherent whole, re-enforcing and supporting each other.

Balancing Stakeholder Interests and Competing Business Objectives

The business context contains a range of stakeholders⁶¹. FMCG’s are publicly traded companies⁶², therefore shareholders are among their key stakeholders, along with consumers, governments, employees, communities in which they operate, NGOs and the media. Inevitably conflict arises between stakeholder interests⁶³ especially when consideration is extended to future stakeholder interests, as required by the sustainability agenda⁶⁴

Porter and Kramer recognize that, like all business activities, sustainability activities require a degree of “balancing competing values, interests, and costs”⁶⁵ In some cases the “conflict of interest between shareholders and other stakeholders”⁶⁶ can be

⁵⁷ Porter, M. E., 1996, p75.

⁵⁸ Porter, M. E., 1996, p71.

⁵⁹ Porter, M. E., 1996, p71.

⁶⁰ Porter, M. E., 1996, p72.

⁶¹ ‘Stakeholder’ is a term attributable to Professor R. Edward Freeman (Freeman, R. Edward. 1984. *A Stakeholder Approach*, Boston: Pittman.)

⁶² Their stocks are sold through the stock exchange and are owned by many, disparate, investors.

⁶³ Savitz, A. W. & Weber, K., 2006, p85.

⁶⁴ World Commission on Environment and Development. Brundtland, G. H. (March 1987)

⁶⁵ Porter, M. & Kramer, M. R., 2006, p82.

⁶⁶ Porter, M. & Kramer, M. R., 2006, p38.

resolved by considering the long-term interests of shareholders⁶⁷ In some instances it is possible to create an overlap of interests through innovation⁶⁸, by “working to alter consumer preference”⁶⁹ or by lobbying for regulation that converges these interests. In some instances the activity should simply be halted. Smith argues that “stakeholder engagement must be at the core”⁷⁰ of sustainability strategy in order to ensure informed decision-making.

Competing business objectives can conflict. Without clear strategy it is likely that sustainability “trade-offs”⁷¹ such as costs will be postponed⁷² “which can lead to far greater costs when the company is later judged to have violated its social obligation.”⁷³ Although they do not explicate it, we can add that this postponement can also lead to severe costs to society and the environment. Porter identifies “the growth trap”⁷⁴ as a pressure that detracts from strategy, encouraging activities that are not coherent with the system as a whole.⁷⁵

A strategic framework allows decisions to be made, regarding competing interests and objectives, consistently across the business, maintaining the company’s “unique and valuable position”⁷⁶

In order to ensure that sustainability activities fulfill their potential, it is necessary to have them sit within a core strategic framework.

⁶⁷ Savitz, A. W. & Weber, K., 2006, p37.

⁶⁸ Savitz, A. W. & Weber, K., 2006, p85.

⁶⁹ Savitz, A. W. & Weber, K., 2006, p38.

⁷⁰ Smith, Craig N., 2003, p68.

⁷¹ Porter, M. E., 1996, p68.

⁷² Porter, M. & Kramer, M. R., 2006, p82.

⁷³ Porter, M. & Kramer, M. R., 2006, p82.

⁷⁴ Porter, M. E., 1996, p75.

⁷⁵ Porter, M. E., 1996, p75.

⁷⁶ Porter, M. E., 1996, p68.

In summary, sustainability can be integrated into all aspects of the business. A fragmented approach is inefficient at producing benefit and avoiding risk. But, when considered strategically, sustainability activities can compliment each other, working together as a coherent whole to benefit the business, society and the environment simultaneously. This is when maximum benefit is achieved. Strategy provides the framework for managing competing stakeholder interests and business objectives in a manner consistent with the business as a whole, strengthening the company's unique position.

2.1.3. Does The 'Sweet-Spot' Approach Lead to Sustainability?

Expectation of no Trade-offs

Walley and Whitehead express caution in allowing 'sweet-spots' to dictate sustainability strategy. They accept that 'win-win' scenarios exist but argue they are extremely rare and should not form the basis of a company's sustainability strategy.⁷⁷ Previous easy wins were achieved without making "truly fundamental changes in production processes or product design"⁷⁸ Once 'low hanging fruit' has been reaped, addressing sustainability issues becomes an increasingly "costly and complicated proposition"⁷⁹ that requires "long-term commitment and cooperation"⁸⁰ The occasional 'win-win' becomes insignificant when considered alongside the full costs of addressing sustainability issues. The expectation that no trade-offs are required leads to reduced commitment and cooperation when expected win-win's do not materialise and true costs are realised.

⁷⁷ Walley, Noah & Whitehead, Bradley. May-June 1994. *It's Not Easy Being Green*. Harvard Business Review, 72(3): p46.

⁷⁸ Walley, N. & Whitehead, B., 1994, p48.

⁷⁹ Walley, N. & Whitehead, B., 1994, p46.

⁸⁰ Walley, N. & Whitehead, B., 1994, p47.

Walley & Whitehead advocate “a more integrated way of thinking”⁸¹, focusing on the core strategy of the business in order to make “informed trade-offs between costs and benefits”⁸²

Business Model as a Whole

Focusing on ‘sweet-spots’ does not address the impact of the business model as a whole but makes modifications within. Utting argues that corporations have “skillfully placated the opposition”⁸³ using dialogue, engagement and sustainability activities, without effecting real change to business practices. Focusing on gradual mitigation of negative environmental and social impacts, or increasing positive impacts only to the extent that delivers medium term business benefit, may well provide the desired business benefits, and indeed provide some benefit to society, but results in the continuation of “current unsustainable trends”⁸⁴ Looking long term this is detrimental to shareholder value as well as to future stakeholder interests.

Jackson argues⁸⁵ that the constant pursuit of growth, through marketing and innovation⁸⁶, has led to unsustainable levels of consumption.⁸⁷ Companies are responsible for encouraging materialistic desires as well as for fulfilling them.⁸⁸

⁸¹ Walley, N. & Whitehead, B., 1994, p50.

⁸² Walley, N. & Whitehead, B., 1994, p50.

⁸³ Utting, Peter. Nov 2008. *The Struggle for Corporate Accountability*. Development & Change. 39(6), p960.

⁸⁴ MacDonald, Jamie P. May 2005. *Strategic Sustainable Development Using The ISO 14001 Standard*. Journal of Cleaner Production, 13(6): p640.

⁸⁵ Sustainable Development Commission (2009)

⁸⁶ As far back as 1954 Peter Drucker was arguing that the key purpose of businesses was to market and innovate. (Drucker, P. F. 1955, p21)

⁸⁷ Five planets would be required if current consumption levels of richer nations were achieved globally. (Leonard, A. 2002) Add to this an increased population size and it becomes clear that incremental improvements will not be enough to achieve sustainability (WWF-UK (2001), p12.)

⁸⁸ Sustainable Development Commission (2009) and Leonard, A. 2010.

Leonard argues that making the products a little less damaging will not achieve sustainability.⁸⁹ More sustainable patterns of consumption must be achieved⁹⁰ where prosperity is not reliant upon continued “consumption growth”⁹¹

Savitz does not deny that current efforts will not achieve sustainability, but he argues that we cannot make “extreme shifts”⁹² without “modest initiatives first”⁹³ to achieve buy-in from stakeholders essential to the viability of the business.

Creating a Sustainable Business Model

Drucker advocates asking “What is our business, what will it be, what should it be?”⁹⁴

The organisational structure and objectives should be designed to achieve this vision of the company, ensuring integration and consistency throughout, in order to achieve the goals of the business as a whole.⁹⁵

According to MacDonald, to achieve sustainability one must first have a vision of what sustainability would look like, which can then be planned towards. This “planning from principles of success”⁹⁶ or “back casting from principles”⁹⁷ matches Drucker’s view of strategy outlined above.

⁸⁹ Leonard, Annie. 2010. *The Story of Stuff: How Our Obsession With Stuff Is Trashing The Planet, Our Communities, and Our Health – And a Vision for Change*. New York: Simon & Schuster.

⁹⁰ WWF-UK (2001), p12.

⁹¹ Sustainable Development Commission (2009), p10.

⁹² Savitz, A. W. & Weber, K., 2006, p96.

⁹³ Savitz, A. W. & Weber, K., 2006, p96.

⁹⁴ Drucker, P. F. (1973). *Management: Tasks, responsibilities, practices*. New York: Harper & Row, p.119.

⁹⁵ Drucker, P. F. 1955, p347.

⁹⁶ MacDonald, J. P., 2005, p632.

⁹⁷ MacDonald, J. P., 2005, p635.

Envisioning a sustainable company provides the goal towards which the business structure and objectives can be designed.⁹⁸ This view is supported by Forum For the Future⁹⁹, who work with companies “with positive visions of a sustainable future; finding innovative, practical ways to help realise those visions;”¹⁰⁰

MacDonald recognises that interim targets towards achieving the goal of sustainability are useful but these should be planned within an “overarching strategy”¹⁰¹ and recommends a “10 - 30 year horizon”¹⁰²

2.1.4. Conclusion to Part 1

Much of the literature on sustainability recommends that companies look for areas of mutual interest between its various stakeholders and focus on integrating sustainability activities. ‘Sweet-spots’ are a vital tool in transitioning a company and its stakeholders towards a sustainable future, but this does not constitute a complete sustainability strategy. Sustainability activities and incremental targets must be set within an ‘over-arching strategy’ designed to achieve the vision of a sustainable company.

⁹⁸ Novel organizational structures have more effect than new technologies (Drucker, P. F. 1955)

⁹⁹ a not-for-profit organisation: www.forumforthefuture.org

¹⁰⁰ Forum for the Future (2007), p4.

¹⁰¹ MacDonald, J. P., 2005, p641.

¹⁰² MacDonald, J. P., 2005, p640.

Part 2.2. Practical Approaches - Moving Towards Sustainability

This section turns to practical approaches, used to integrate sustainability.

2.2.1. 'Green Marketing' and Use of Ethical Messaging

'Green marketing' is defined by Peattie as "activities which attempt to reduce the negative social and environmental impacts of existing products and production systems, and which promote less damaging products and services"¹⁰³ and is an area of potential 'sweet-spots' between business, society and the environment. Although the literature focuses upon environmental impacts, social impacts can be included within the same arguments.

Products that have reduced negative impacts, throughout their life-cycle, are developed. The market is encouraged to purchase these products thereby reducing the damage caused by the products they purchase and use.

Business benefit can be achieved through developing and positioning products for the 'green market', additional modes of differentiation can be used such as method of production including organic and fair trade¹⁰⁴, brand loyalty can be strengthened through 'green' reputation¹⁰⁵, costs can be reduced through increased efficiencies¹⁰⁶, and "price premiums"¹⁰⁷ can be added to 'ethical' items.

¹⁰³ Peattie, Ken. Winter 2001. *Towards Sustainability: The Third Age of Green Marketing*. The Marketing Review. 2(2), p129.

¹⁰⁴ Peattie, K., 2001, p133.

¹⁰⁵ Ginsberg, Jill M. & Bloom, Paul N. Fall 2004. *Choosing The Right Green Marketing Strategy*. MIT Sloan Management Review. 46(1): pp79-84.

¹⁰⁶ Banerjee, S.B. 1999. *Corporate Environmentalism and the Greening of Strategic Marketing: Implications for Marketing Theory and Practice*. In Charter, M. & Polonsky, J.M., editors, *Greener Marketing – A Global Perspective on Greening Marketing Practice*. Sheffield: Greenleaf, p37.

¹⁰⁷ Banerjee, S. B. 1999, p35.

Consumers can be encouraged to incorporate ethical considerations when making purchasing decisions, increasing the demand for these items and thereby reducing negative impacts.

Unfortunately it seems that in practice the purported win-wins of green marketing are difficult to realize. The environmental concern expressed by consumers in surveys has not translating into purchasing behaviour¹⁰⁸ reducing the expected business benefit of green marketing. Further studies suggest that consumers are rarely willing to pay significantly more for ethical produce.¹⁰⁹

Green Niche Vs Mainstream Consumer

FMCGs may contain niche brands but as a whole, are directed at the mainstream consumer market. For sustainability to have maximum impact on the business, environment and society, it must be incorporated into the mainstream offering of FMCG firms.¹¹⁰

The perception of 'green' products in the mainstream can actually be negative, inferring inferior performance, value for money or convenience. Therefore, Ginsberg & Bloom recommend exercising caution in using overt green messaging in external communications¹¹¹ as it may prove to alienate ones target market. They define a range of green marketing strategies, suitable depending on how substantial the company's

¹⁰⁸ Schaltegger, S., Burritt, R. & Petersen, H. (2003) *An Introduction to Corporate Environmental Management – Striving for Sustainability*. Sheffield: Greenleaf, p218.

¹⁰⁹ Gulbrandsen, Lars H. September 2006. *Creating Markets For Eco-Labeling: Are Consumers Insignificant?* International Journal of Consumer Studies. 30(5), p478.

¹¹⁰ It has been argued, by the likes of Annie Leonard and George Monbiot, that directing sustainable products at the niche simply appeases the conscientious green consumer, allowing mainstream products to remain unchanged.

¹¹¹ Ginsberg, J. M. & Bloom, P. N. 2004, p81.

green market segment is and how able the company is to differentiate itself on green attributes (figure 2.4).

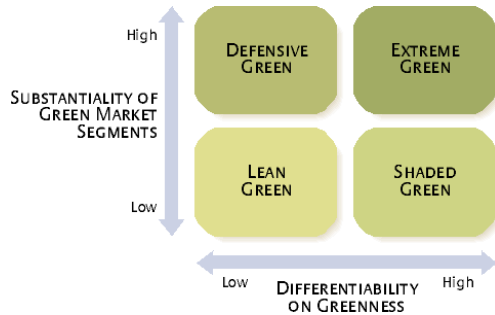


Figure 2.4 Green-Marketing Strategy Matrix¹¹²

FMCG companies tend to fit into the Defensive Green or Shaded Green category:

Defensive Green: Green marketing is used “as a precautionary measure, a response to a crisis or a response to a competitor’s actions”¹¹³ The green segment is recognised as significant but the company are not able to differentiate themselves on green issues so avoid overt green campaigns.

Shaded Green: This strategy involves investing significantly in long-term environmental improvements. The rationale being that sustainability is “an opportunity to develop innovative needs-satisfying products and technologies that result in competitive advantage”¹¹⁴ Although the capability to differentiate on green grounds is there, they instead opt to stress other attributes in order to appeal to the mainstream market. “Environmental benefits are promoted as a secondary factor”¹¹⁵

¹¹² Ginsberg, J. M. & Bloom, P. N. 2004, p81.

¹¹³ Ginsberg, J. M. & Bloom, P. N. 2004, pp81-82.

¹¹⁴ Ginsberg, J. M. & Bloom, P. N. 2004, p82.

¹¹⁵ Ginsberg, J. M. & Bloom, P. N. 2004, p82.

Peattie's Matrix: An alternative approach

Peattie by-passes the issue of green segmentation¹¹⁶, treating all consumers as green “all else being equal”¹¹⁷ The issue is whether ‘green’ products are considered equal to conventional counterparts. Peattie considers two variables involved when making a purchasing decision “the degree of compromise involved, and the degree of confidence generated in the environmental benefits of a particular choice.”¹¹⁸

Ginsberg & Bloom argue that green products are often perceived to require compromise, a “trade-off”¹¹⁹

According to Peattie's matrix, the level of trade-off a consumer is willing to make will be impacted by the confidence they have that the environmental issues is genuine and that purchasing the product will “make some sort of material difference”¹²⁰ in relation to this issue. Ginsberg & Bloom point out that for a ‘green’ product to compete in the mainstream it must require little compromise on “traditional product attribute, such as convenience, availability, price, quality and performance.”¹²¹

Peattie's argument adds that any compromise must be countered by consumer knowledge of the issue at hand and the products role in solving this issue.

Therefore, in order to increase business benefit from green marketing, companies must reduce perceived trade offs and educate consumers in regards to environmental

¹¹⁶ Despite numerous attempts, the green consumer have proved challenging to identify and segment. (Peattie, K., 2001, p132.)

¹¹⁷ Peattie, K., 2001, p138 Ginsberg and Bloom reaffirm this by stating that “consumers would prefer to choose a green product over one that is less friendly to the environment when all other things are equal” (Ginsberg, J. M. & Bloom, P. N. 2004, p79) Vogel refers to a survey showing that, all else being equal, 90% of consumers would prefer socially responsible products. (Vogel, D. 2005. p47)

¹¹⁸ Peattie, K., 2001, p139.

¹¹⁹ Ginsberg & Bloom referring to a 2002 Roper Survey in which “41% of consumers said that they would not buy green products because they worried about diminished quality” (Ginsberg, J. M. & Bloom, P. N. 2004, p79)

¹²⁰ Peattie, K., 2001, p138.

¹²¹ Ginsberg, J. M. & Bloom, P. N. 2004, p80.

issues and their products role in addressing these issues. This in turn can increase demand for ethical goods, further reducing negative impacts and increasing business benefit, shifting both consumers and the business towards sustainability. This is an area of overlap between civil society and business and therefore is an area suitable for collaboration between various organizations.

‘Green-wash’

Ethical messaging “has the potential to backfire”¹²² It can illicit unintended skepticism, creating damage to reputation that is difficult to reverse. According to Wicki and Van Der Kaaij¹²³, corporate reputation consists of “distinctiveness, authenticity, transparency, visibility and consistency”¹²⁴ When a company projects an image that is at odds with the perception of that company held by the public, an “authenticity gap”¹²⁵ occurs, creating space for accusations of “green-washing”¹²⁶ In order to reap benefits to brand from sustainability, the companies stakeholders must believe the claims to be authentic and representative of the business model as a whole. Building trust in ethical claims reduces the authenticity gap.¹²⁷ Ensuring messaging is coherent with business practices as a whole reduces scope for damaging accusations of green-wash.

In addition to this, a lack of consensus as to what constitutes ‘eco-performance’¹²⁸ and where the boundary of the firm’s responsibility lies¹²⁹ creates scope for accusations of

¹²² Smith, Craig N., 2003, p70.

¹²³ Wicki, Senem & Van Der Kaaij, Jan. Winter 2007. *Is It True Love Between the Octopus and the Frog? How to Avoid the Authenticity Gap*. Corporate Reputation Review. 10(4), p317.

¹²⁴ Wicki, S. & Van Der Kaaij, J., 2007, p317.

¹²⁵ Wicki, S. & Van Der Kaaij, J., 2007, p317.

¹²⁶ Wicki, S. & Van Der Kaaij, J., 2007, p316.

¹²⁷ Wicki & Van Der Kaaij, 2007, pp312-318.

¹²⁸ Peattie, Ken. (1995) *Environmental Marketing management: Meeting the Green Challenge*. London: Pitman.

green-washing. Claiming green credentials using standards less rigorous than expected by consumers and NGOs can result in overt green claims attracting criticism.

In summary, green marketing has potential for benefiting business, society and the environment, shifting these towards a sustainable future. But in order for overt ethical messaging to bring benefit to a company it must be perceived as authentic and representative of the business model as a whole. The issue must be understood as important and the product believed to be a solution.

2.2.2. Certification Schemes

Certification schemes provide independent verification that the company has met established minimum standards, usually assessed through third party audit.¹³⁰ Various certification standards have been established by a range of multi-stakeholder groups including governments, NGOs, industry and civil society members, with varying criteria, dependent upon the make-up of the founding group.

Certified companies are granted use of the certification label that can be incorporated into the marketing mix in order to add credibility to ethical claims and assist consumer purchasing-decisions. They provide an additional “brand that explicitly associates progressive practices with certain products”¹³¹ Certification therefore provides a marketing incentive for, and independent recognition of, ethical improvements. They provide a mechanism that connects consumer demand with

¹²⁹ Campaigns may concern issues that the firm is not formally liable for. If civil society deems them accountable then it is prudent to rectify actions. (De Man, R. & Burns, T. R., 2006, p3)

¹³⁰ Gulbrandsen, L. H., 2006. pp477-489.

¹³¹ Vogel, David. 2005. *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility*. Washington D.C: Brookings Institute Press, p102.

sustainable production, stimulating production.¹³² They provide a link between sustainability activities and brand perception, increasing business benefit to the business and connecting otherwise fragmented activities.

Certification schemes support green marketing by providing externally agreed standards as to what qualifies as ‘ethical’. Their approval adds credibility and therefore increases trust in ethical claims. In fact certification scheme organisations spend a great deal of their resources on raising awareness of the issues and positioning their scheme as a solution, building a market for verified products.¹³³ If companies successfully incorporate the certification logo into the marketing mix, without adding the perception of trade-offs, then the logo should translate into business benefit. Provided the reputation of the certification scheme is sound.¹³⁴

Issue of Scalability

Certification schemes have been criticised for lacking the scalability required to benefit more than a small minority of producers¹³⁵ and to meet the quantities demanded by mainstream business such as the FMCG sector.

Vogel acknowledges that the beneficial impacts of such schemes can “represent the difference between destitution and survival”¹³⁶ for producers, provides the “resources

¹³² De Man, R. & Burns, T. R., 2006, p4.

¹³³ According to Booth & Whetstone, Fairtrade spends 50% of its income on increasing awareness of its own brand. (Booth, Philip & Whetstone, Linda. (June 2007) *Half a Cheer for Fair Trade*. Economic Affairs. 27(2): 29-36.)

¹³⁴ RSPO and MSC have been called into question over the years.

¹³⁵ Although Actionaid acknowledge that certification schemes such as Fairtrade are valuable in improving situations for at least some producers and for increasing awareness of the difficulties faced by producers in developing countries. (Actionaid. Asfaha, Samuel. April 2008. *Commodity Dependence and Development*. UK: Actionaid, p25.)

¹³⁶ Vogel, D. 2005, p105.

to upgrade production”¹³⁷ and “promotes biodiversity”¹³⁸ But, he argues, these benefits are limited by the size of the “market for virtue”¹³⁹ Remaining “a niche rather than a generic strategy”¹⁴⁰ means that only a small number of producers can benefit from inclusion in the scheme.

Vogel argues that consumers are willing to boycott a company in response to media and NGO campaigns but only the niche are willing to pay a premium for responsibly produced products.¹⁴¹ Certification provides benefit only to those companies who are vulnerable to activism and reputational damage.¹⁴² This very much limits the scope of certification programmes.

Certification schemes can be perceived as a barrier to trade for the poorest of producers as they are not able to meet the criteria and costs associated with certification.

Destructive Business Models

Utting argues that “the control exercised by global corporations over global value chains is a means of locking in competitive disadvantage for SMEs and developing countries”¹⁴³ Companies who purchase coffee such as Nestlé, Kraft, P&G and Unilever are accused of being complicit in causing the price of coffee to fall

¹³⁷ Vogel, D. 2005, p105.

¹³⁸ Vogel, D. 2005, p105.

¹³⁹ Vogel, D. 2005, p162.

¹⁴⁰ Vogel, D. 2005, p3.

¹⁴¹ Vogel, D. 2005, p51.

¹⁴² For Vogel, certification schemes represent additional costs. Absorbing these costs into the business makes the business less competitive. This can be justified by those whose reputation is vulnerable to “civil regulation” (Vogel, D. 2005, p13) and political consumerism, while activism remains a threat. But, for improved standards to be sustained, “more responsible produced goods must enjoy some advantage in the marketplace” (Vogel, D. 2005, p109) either increased price or market share. De Man argues that legislation is the key to mainstreaming. (De Man, R. & Burns, T. R., 2006)

¹⁴³ Utting, P., 2008, p962.

increasingly below the cost of production¹⁴⁴ Business practices that prioritise low commodity price are creating the situation that certification programmes claim to provide a solution to. Without altering this element of business practice the benefits of certification schemes is limited and reduced to insignificant when compared to the negative impact of the business model as a whole, on the producer market.

Certification schemes require collaboration between a range of stakeholders including NGOs, government agencies and businesses. Through engaging with certification schemes, NGOs hope to effect change in the practices of multi-national companies, but a concern is that they become too close to be effective, operating within an agenda framed by big business interests.¹⁴⁵

2.2.3. 'Bottom of the Pyramid' (BoP) Marketing

A significant proportion of the world's population lives below the poverty line. This market has traditionally been considered by FMCG's to be unviable. The 'Bottom of the Pyramid' proposition¹⁴⁶ is that "If we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity can open up"¹⁴⁷ It is possible to "do well by doing good"¹⁴⁸ Products and business models can be developed that meet the needs of this market, providing access to products and means of income while the company benefits from access to new markets and a new driver for innovation. There is much debate regarding the role of corporations in development.

¹⁴⁴ Oxfam (2002), p3.

¹⁴⁵ Utting, P., 2008, p966.

¹⁴⁶ This concept was first expounded in Prahalad, C. K. 2002 article and later in more depth in Prahalad, C. K. 2009.

¹⁴⁷ Prahalad, C.K. 2009. *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*. New Jersey: Pearson Education, p25.

¹⁴⁸ Prahalad, C. K. 2009, p26.

Full consideration of this is beyond the scope of this study. Here we consider only how operating in the BoP market can provide benefit.

Prahalad argues that the private sector can play a key role in alleviating poverty by meeting needs as consumers and providing avenues for income as entrepreneurs and producers. Through “inclusive capitalism”¹⁴⁹ businesses are able to offer products and services¹⁵⁰, choice and self-esteem¹⁵¹, and increased income to those previously excluded from the system.¹⁵²

Prahalad argues that BoP markets provide the private sector with an opportunity for growth if incorporated into the core business strategy.¹⁵³ The “dominant logic”¹⁵⁴, that market-based solutions cannot result in poverty reduction while being profitable, is based on incorrect assumptions. “The BoP market potential is huge: 4 to 5 billion underserved people and an economy of more than \$13 trillion PPP”¹⁵⁵ High volumes allow for profit where the margins for individual units are low.¹⁵⁶

“In markets where profits are not possible, recognition is a proxy.”¹⁵⁷ Recognition acts as an additional incentive. In developed markets public expectation increasingly supports BoP activities¹⁵⁸, which result in improved brand reputation. In developing

¹⁴⁹ Prahalad, C. K. 2009, p29.

¹⁵⁰ Prahalad, C. K. 2009, p43.

¹⁵¹ Prahalad, C. K. 2009, p44.

¹⁵² Prahalad, C. K. 2009, p43.

¹⁵³ Prahalad, C. K. 2009, p30.

¹⁵⁴ Prahalad, C. K. 2009, p30.

¹⁵⁵ Prahalad, C. K. 2009, p46.

¹⁵⁶ Prahalad, C. K. 2009, p54.

¹⁵⁷ Prahalad, C. K. 2009, p19.

¹⁵⁸ Prahalad, C. K. 2009, p4.

markets increased recognition will result in increased profit as the market moves out of poverty and spending power increases.

Driver for Product and Process Innovation

To succeed in BoP markets it is necessary to “adapt and innovate”¹⁵⁹, designing business models and products specifically. “Retrofitting business models from the developed world will not work.”¹⁶⁰ Companies must develop the market, focusing on “converting the poor into consumers”¹⁶¹ by offering “affordability”¹⁶², “access”¹⁶³ and “availability”¹⁶⁴ and increasing capacity to earn and therefore consume. This requires innovation in product and service offering, distribution methods and business models.¹⁶⁵ A new “eco-system”¹⁶⁶ is required in which to operate, made up of local entrepreneurs¹⁶⁷ and enterprises, public sector and NGOs.

Innovations can be transferred to other BoP markets and back to developed markets also, increasing the benefit to businesses.¹⁶⁸

Criticism of ‘Bottom of the Pyramid’ Activities

Karnani claims that Prahalad has greatly over estimated the scope for profit¹⁶⁹ – over estimating spending power while underestimating the cost of serving the BoP

¹⁵⁹ Prahalad, C. K. 2009, p9.

¹⁶⁰ Prahalad, C. K. 2009, p10.

¹⁶¹ Prahalad, C. K. 2009, p40.

¹⁶² Prahalad, C. K. 2009, p43.

¹⁶³ Prahalad, C. K. 2009, p43.

¹⁶⁴ Prahalad, C. K. 2009, p43.

¹⁶⁵ Prahalad, C. K. 2009, p68.

¹⁶⁶ Prahalad, C. K. 2009, p13.

¹⁶⁷ Seelos, Christian. Sept 2006. *Bottom of the Pyramid: Alleviating Poverty While Making Money*. Ethical Corporation.

¹⁶⁸ Prahalad, C. K. 2009, pp51-52.

¹⁶⁹ Karnani, Aneel. Summer 2007. *The Mirage of Marketing to the Bottom of the Pyramid: How the Private Sector Can Help Alleviate Poverty*. California Management Review. 49(4), p91.

market.¹⁷⁰ In addition to this he is doubtful of the benefit that increased choice brings to those living in poverty. The restriction for those living in poverty is money, not a lack of choice. More choice will not allow more purchases, just different ones. This can be detrimental if one makes bad decisions¹⁷¹ and those living in poverty in developing countries “often lack the information and education needed to make well-informed choices.”¹⁷² Therefore BoP activities are beneficial to neither business nor society. BoP activity can be destructive if a large company dominates the market, putting small enterprises out of business. If the market is then found to be unviable and the company withdraws, the community is left with less access to income, products and services than previously.¹⁷³

BoP marketing focuses on the poor as consumers. Karnani argues that “the only way to alleviate poverty is to raise the real income of the poor.”¹⁷⁴ In order to alleviate poverty the focus should be on the poor as producers rather than consumers¹⁷⁵ Companies should “invest in upgrading the skills and productivity of the poor and to help create more employment opportunities for them.”¹⁷⁶ This will increase productivity and increase income. “this is the real fortune at the bottom of the pyramid”¹⁷⁷

¹⁷⁰ Baker, Mallen. Sept 2006. *Is There REALLY a Fortune at the Bottom of the Pyramid?* Ethical Corporation.

¹⁷¹ Karnani, A., 2007, p98.

¹⁷² Prahalad, C. K. 2009, p99.

¹⁷³ Christian Aid. Coghlan, Matthew (October 2009) *Getting Back On The Rails: The Private Sector and Development*. UK: Christian Aid Report, p8.

¹⁷⁴ Karnani, A., 2007, p91.

¹⁷⁵ Karnani, A., 2007, p102.

¹⁷⁶ Karnani, A., 2007, p109.

¹⁷⁷ Karnani, A., 2007, p109.

Partnerships and Collaboration

Many social and environmental issues provide opportunity for business but are too large to be solved by one player. According to Prahalad, a companies “collaborative capacity and integrative capacity”¹⁷⁸, to create a coherent whole with other organisations, is more important than “Investment capacity”¹⁷⁹ The objectives of governments, NGOs and community groups can be achieved using the resources and expertise of business, combining resources and capabilities resulting in benefit for all. Many are skeptical of the involvement of business, and the profit motive, in areas that are considered the role of the government¹⁸⁰ but others believe business play an important role in the alleviation of poverty.¹⁸¹

In summary, in order to operate profitably in the BoP market it is necessary to innovate and operate in collaboration with others.

2.2.4. Conclusion to Part 2

Practical approaches to integrating sustainability into the business strategy can provide business benefit. Trenchant critiques of some of these activities show that they can be problematic unless they are part of a coherent strategy that takes account of wider impacts. This again points to the need for integrating sustainability approaches into a wider business strategy.

¹⁷⁸ Prahalad, C. K. 2009, p14.

¹⁷⁹ Prahalad, C. K. 2009, p14.

¹⁸⁰ Utting, P., 2008, p963.

¹⁸¹ Christian Aid (2009)

3. Research Question

The literature agrees that for sustainability activities to achieve their full beneficial potential they must be integrated into the businesses activities. A great deal of emphasis is put on areas of mutual interest between stakeholders. This is indeed an area of business interest but fragmented activities represent inefficient use of resources. In addition to this, sustainability activities that do not represent the business model as a whole expose the company to reputational risk, such as accusations of ‘green-wash’.

Applying business strategy literature to sustainability, it becomes clear that sustainability activities provide maximum efficiency and effectiveness when part of a broader, coherent strategy. In order to maximize the benefit, to society and the environment as well as to the business, from sustainability activities it is necessary to ensure that sustainability activities within business units are interconnected, comprising a coherent ‘activity system’ with activities supporting and re-enforcing one another.

Businesses face the challenging task of balancing and shifting a variety of interests and objectives in order to move towards sustainability. This study investigates how companies are integrating sustainability activities into the business strategy, ensuring that business benefit is achieved, and shifting the company and its stakeholders towards a sustainable future.

3.1 Fast Moving Consumer Goods (FMCG) Industry

FMCG companies have been selected as examples of large, powerful¹⁸², shareholder owned, multinational companies. Their success depends upon responding to developing trends in the business environment. Their position of power allows a degree of influence in these developments, imputing into regulatory and cultural development. FMCG business models have not traditionally been sustainable, focusing on short to medium term profits and externalizing costs where possible.¹⁸³

Therefore FMCGs are able to facilitate a shift towards sustainability by altering their business practices - innovating products and processes for a more sustainable future, and by influencing the business context they function within - influencing public opinion, supplier operations and consumer behaviour. They are in a position of influence but significant change is required.

FMCGs have a range of stakeholder interests that must be considered in order to maintain a viable business, including shareholders, governments and consumers. In order to remain viable they must bring these stakeholders with them. FMCGs are ultimately shareholder focused but their value is in their brands therefore receptive to NGO and media pressure.

¹⁸² Savitz and Weber talk of the shift in power from public to private sector (Savitz, A. W. & Weber, K., 2006, p56) Also, "Of the world's 100 largest economic entities, 51 are now corporations and 49 are countries." (Institute for Policy Studies (Dec 2000) *Top 200: The Rise of Corporate Global Power*. Washington: Institute for Policy Studies)

¹⁸³ Although there have been moves towards 'triple bottom line'¹⁸³ that take into account environmental and social impacts, traditional business models account only for financial impacts upon the business. The full costs of production and consumption are not included in business analysis. Essentially companies are being "subsidised by the environment" (Peattie, K., 2001, p142) and communities who accrue the costs.

FMCGs are interesting in that they connect a wide range of activities and locations. They provide a link between raw material producers, manufacturing, distribution, retailers (their key customer) and consumers. Sustainability activities can occur in all of these areas. This research analyses how this is being approached and how these activities are being linked together to create a re-enforcing system of activities.

Research Question: How are companies integrating sustainability into their business strategies, creating cohesion between activities and balancing interests, in order to secure business benefit and move towards a sustainable future? - A comparative analysis of case studies within the FMCG sector.

3.2 Research Methodology

The research undertaken is underpinned by phenomenological paradigmatic assumptions. Therefore a qualitative methodology is followed.¹⁸⁴ Five case studies have been selected and analysed, providing the basis for a comparative analysis of approaches taken. The case study research aims to be both ‘descriptive’ - describing current practices, and ‘illustrative’ - highlighting where novel and innovative approaches are being employed by companies.¹⁸⁵

¹⁸⁴ Collis, Jill & Hussey, Roger. (2003) Business Research: A Practical Guide for Undergraduate and Postgraduate Students. Hampshire: Palgrave Macmillan.

¹⁸⁵ Scapens, R. W. (1990) Researching Management Accounting Practice: The Role of Case Study Methods. British Accounting review 22: pp259-281.

Data Collection

Preliminary research has been undertaken in order to gain comprehension of the study topic prior to interview¹⁸⁶ consisting of conversations with experts in the field, such as Management Consultants, independent from the specific case studies.

Documentary analysis and semi-structured interviews¹⁸⁷ have been used in order to extract 'rich' data pertinent to each case study.

Documentary analysis consist of company annual Sustainability Reports and reports compiled by external parties such as NGOs, consultancies and government agencies.

In-depth interviews have been conducted with top-level sustainability executives within each company. Interviews have been either face to face or via telephone depending on availability and location of the interviewee. Duration has varied from 45 minutes – 2 hours. Conversations have been recorded, after consent being sought from interviewee. Quotes to be included in this report have been submitted to interviewees and have received approval for inclusion.

Interviewees were willing to speak openly about their companies sustainability strategies, resulting in a great deal of rich-data being collected. It was not always possible to adhere to the semi-structured format (see Appendix 1) but all key topics were covered.

¹⁸⁶ Collis, J. & Hussey, R. 2003, p262.

¹⁸⁷ Collis, J. & Hussey, R. 2003, p168.

The data is presented in a brief summary of each case study, followed by comparative analysis of all five case studies. With phenomenological¹⁸⁸ research, data collection and analysis are not distinct¹⁸⁹ therefore data collected is reported upon in both the case study section and the analysis section.

3.3 Case Studies

These particular FMCG companies have been selected as case studies because they represent a spread of leading, global FMCG companies. Their portfolios include a range of FMCG categories and they are headquartered in a range of countries. Kraft Foods is the largest packaged food company in the world, headquartered in USA, with Nestlé a close second, headquartered in Switzerland. Procter & Gamble, based in USA, lead in beauty and personal care with Anglo Dutch Unilever a strong competitor. Reckitt Benckiser specialises in household care and is headquartered in the UK. The portfolio range of each company affects the sustainability issues they find material to their business.

Access to information was comparable for each case study and effected selection. An appropriate individual within each case study expressed willingness to participate in the study.

For each case study, key corporate information is summarised. Key drivers for sustainability are considered, followed by a brief summary of sustainability approach and illustrative examples of activities particularly relevant to this study. The

¹⁸⁸ otherwise referred to as 'qualitative'.

¹⁸⁹ Collis, J. & Hussey, R. 2003, p252.

summaries conclude with brief consideration of how these activities are received externally. The Business in the Community Index¹⁹⁰ considers sustainability approaches holistically and therefore is used as a useful gauge of how these are received by external bodies.

3.4 Expected Research Outcomes

Expected research outcomes include an illustration and analysis of current attempts to integrate sustainability in the FMCG sector, highlighting where attempts to create cohesion between activities is being made, in order to achieve business benefit. This analysis will prove useful in assessing companies' current positions and in developing recommendations for other companies seeking sustainability strategies linked to business benefit.

3.5 Research Limitations

1. The literature indicates that an integrated approach that links sustainability activities across different areas, and reflects the three 'pillars' of sustainability, will be more effective in securing business benefit and moving the company towards sustainability. The research comprises a comparative study of five FMCG companies to see how they are implementing their sustainability activities in light of this argument. More substantial research, including the analysis of business profitability and impact studies that would be required to substantiate the hypothesis for these companies, is well beyond the scope of this study. However, this study indicates fruitful areas for further research, and will be useful to companies seeking to balance

¹⁹⁰ Business in the Community (2009) *The Corporate Responsibility (CR) Index Results*, UK: Business in the Community.

stakeholder interests and business objectives in order to secure business benefit and move towards a sustainable future.

2. Due to word count limitations, a full description of each case study's sustainability strategy is not feasible. Instead a description of the overall approach is given followed by illustrative examples of key focus and activities. If a particular focus is not referred to in relation to a particular case, this should not be interpreted to mean that this area is not covered by their sustainability strategy. Key areas are focused upon in order to illustrate approach and should not be viewed as a comprehensive summary. One should not infer that other areas are not receiving significant attention.

3. Corporate reports and interviews have provided data for analysis. Both of these methods are affected by the company's ability and willingness to communicate effectively. Account also has to be taken of the inevitable bias towards representing the company in a good light. Sustainability is a complex area, measured and reported upon in a variety of ways. Communication and PR capabilities are distinct from sustainability capabilities yet the former influences the assessment of the latter.

4. Business benefits have been assessed via corporate reports and interviews, reports from external bodies and from indexes. Each of these sources contain their own biases and limitations. An attempt has been made to triangulate¹⁹¹ the sources in order to overcome bias.

¹⁹¹ The use of different methods in the same study to give greater validity. Denzin, N. K. (1970) *The Research Act: A Theoretical Introduction to Sociological Methods*. Chicago: Aldine, p78.

4. Case Study Overview

4.1 Kraft Foods (including recent purchase of Cadburys) Case Study

Case study based upon telephone interview conducted with David Croft, Head of Sustainable Agriculture – Kraft UK. UK, 10th Sept 2010 and document analysis, as referenced throughout.

Corporate Information

- Kraft Foods portfolio consist of Food and Beverage brands, a large proportion of which are classed as Confectionary (26%)¹⁹²
- Since purchasing Cadburys, Kraft Foods has become the leader in global packaged food, with 3.5% global market value share.¹⁹³
- They are headquartered in Illinois, U.S.A. and employ 140,000 people.
- Kraft Foods acquired Cadbury plc on February 2, 2010 making them the worlds second largest food company with annual revenues of \$48 billion.¹⁹⁴
- Company purpose: “to make today delicious”¹⁹⁵

Sustainability Drivers

Both Kraft Foods and Cadburys (pre-merger) seek to protect and enhance corporate reputation through their sustainability activities. Mitigating and preparing for future risk such as access to raw materials and climate change provides potential for additional benefits of competitive advantage and increased efficiency.

¹⁹² http://www.kraftfoodscompany.com/assets/pdf/kraft_foods_fact_sheet.pdf

¹⁹³ Euromonitor International (April 2010) *Kraft Foods Inc in Packaged Food – World*, Euromonitor International

¹⁹⁴ http://www.kraftfoodscompany.com/assets/pdf/kraft_foods_fact_sheet.pdf

¹⁹⁵ <http://www.kraftfoodscompany.com/About/index.aspx>



Figure 4.1 - Cadburys' Sustainability Pyramid¹⁹⁶



Figure 4.2 - Kraft Foods Sustainability Wheel¹⁹⁷

¹⁹⁶ Cadburys (2008) *Cadburys Corporate Responsibility & Sustainability Report 2007/2008*. UK: Cadburys. P6.

¹⁹⁷ Kraft Foods (2010) *Kraft Foods Responsibility Report*. USA: Kraft Foods, p9.

Sustainability Strategy

Although Cadburys' and Kraft's sustainability strategies are at differing levels of integration, the rhetoric is compatible. Both talk of integrating sustainability into core business and focus upon the environment and sustainable sourcing. Both companies have progressed in mainstreaming sustainable supply chains. Targets are set and performance measured against these.

The Cocoa Partnership and Fairtrade Certification

According to research commissioned by Cadbury in 2007,¹⁹⁸ social and environmental circumstances are threatening the future supply of cocoa from Ghana. Cadbury's Cocoa Partnership was established in 2008 and seeks to address the causes of production decline, investing £45 million over 10 years.¹⁹⁹ The Cocoa Partnership works with farmers, and local organizations,²⁰⁰ to address biodiversity and deforestation issues,²⁰¹ increase crop yields and income for farmers, and improve diversification of income streams and community development²⁰² - securing a sustainable supply of resource.

The work of The Cocoa Partnership meant that in 2010, Cadburys Dairy Milk could become Fairtrade²⁰³ in 5 key markets, communicating their sustainable sourcing activities to the consumer market. The Cocoa Partnership now not only mitigates risk,

¹⁹⁸ Business in the Community (July 2010) *Cadbury's Fairly Traded Cocoa*. UK: Business in the Community, p1.

¹⁹⁹ Business in the Community (July 2010), p1.

²⁰⁰ Collaborating "with local and national government authorities, development agencies, non-profit organizations, trade unions and community organizations" (Cadburys (2008), p51)

²⁰¹ Cadburys (2008), p51.

²⁰² Cadburys (2008), p50.

²⁰³ "Fairtrade is a tool for development that ensures disadvantaged farmers and workers in developing countries get a better deal through the use of the international Fairtrade Mark" (www.fairtrade.org.uk)

securing a sustainable supply of cocoa for Cadburys, but also enhances corporate and brand reputation.

Kraft Foods and Rainforest Alliance

Kraft Foods has been working with the Rainforest Alliance²⁰⁴, since 2003, particularly regarding coffee crops. The aim is to “promote the long-term viability of crops, the preservation of fertile soil, the economic well-being of farmers and farming communities, and the health of ecosystems”²⁰⁵ Rainforest Alliance certification allows Kraft Foods to connect the activities it is engaged in regarding sustainable supply with brand reputation and consumer demand.

Kraft Foods’ purchases from certified farms have increased incrementally each year, reaching 34,000 metric tones in 2009, compared to 2,500 in 2003.²⁰⁶ Nine coffee brands, in Europe and America, display the Rainforest Alliance logo and are received well by customers. These are not their mainstream products but specifically sustainable versions such as Kenco Sustainable Development.

In 2007 Kraft began to expand into Rainforest Alliance cocoa also and, according to the 2009 report, are the largest buyer of cacao beans and coffee from Rainforest Alliance certified farms.²⁰⁷

²⁰⁴ A certification scheme that “works to conserve biodiversity and ensure sustainable livelihoods by transforming land- use practices, business practices and consumer behavior” (www.rainforest-alliance.org)

²⁰⁵ Kraft Foods (2010), p10.

²⁰⁶ Kraft Foods (2010), p10.

²⁰⁷ Kraft Foods (2010), p11.

External Recognition

Although there were some mixed reactions to the advertising campaign that accompanied the Fairtrade Dairy Milk launch²⁰⁸, according to Croft Cadbury's consumer insight reports a positive reaction to Fairtrade certification. The actions were 'highly commended' by BITC in 2010.²⁰⁹

²⁰⁸ <http://www.ligali.org/article.php?id=2011>

²⁰⁹ Business in the Community (July 2010), p1.

4.2 Nestlé Case Study

Case study based upon telephone interview conducted with Hilary Parsons, Head of Corporate Affairs. Switzerland/UK, 6th August 2010 and document analysis, as referenced throughout.

Corporate Information

- Nestlé's portfolio consists predominantly of food and beverage brands.
- Nestlé is the second leading packaged food company with 3.2% global value share.²¹⁰
- They are headquartered in Switzerland and employ 265,000, across 42 countries. Stock is traded on the Swiss Exchange.²¹¹
- The company purpose: "The Company's priority is to bring the best and most relevant products to people, wherever they are, whatever their needs, throughout their lives."²¹²

Sustainability Drivers

Nestlé's strategy is driven by the pursuit of "joint value creation"²¹³ Nestlé have termed this approach 'Creating Shared Value' The idea is to identify areas where shareholder and societal interests intersect and focus attentions here.

Nestlé are reliant upon agricultural produce therefore sustainable supply is a driver for sustainability activities and an area for potential 'shared value' creation. Enhanced reputation and product differentiation is an additional driver for this activity.

²¹⁰ Euromonitor International (March 2010) *Nestlé SA – Packaged Food – World*. Euromonitor International.

²¹¹ <http://www.Nestlé.com/InvestorRelations/SharesADRsBonds/ShareAndADRprice/StockQuote.htm>

²¹² <http://www.Nestlé.com/AllAbout/AtGlance/Introduction/Introduction.htm>

²¹³ Nestlé (June 2010) *The Nestlé Corporate Business Principles*. Switzerland: Nestlé Ltd., p5.

A large proportion of Nestlé’s target market suffers from either micronutrient deficiencies or obesity therefore nutrition has been identified as an area with potential for ‘creating shared value’²¹⁴ Developing products and business models for this market can result in increased sales and in enhanced reputation.

Sustainability Strategy

Nestlé’s strategy begins with compliance and incorporates the Brundtland definition of sustainability, considering future generations. In addition to this they focus on ‘Creating Shared Value’ for society and their shareholders.²¹⁵



Figure 4.3 - Nestlé’s Sustainability Strategy²¹⁶

Nestlé value chain analysis determines that areas with highest potential for shared value creation are “nutrition, water and rural development”²¹⁷ Key Performance

²¹⁴ Nestlé (2009) *Nestlé Creating Shared Value Report 2009*. Switzerland: Nestlé Ltd., p35.

²¹⁵ Nestlé (2009) *Creating Shared Value Summary Report 2009*. Switzerland: Nestlé Ltd., p3.

²¹⁶ Nestlé (2009) *Full Report*, p2.

²¹⁷ Nestlé (June 2010), p5.

Indicators have been developed in line with these focus areas and performance is measured in relation to these.²¹⁸

The Cocoa Plan

The cocoa industry has suffered from a lack of investment and a subsequent decline in quality and productivity. The result is poverty for the producers and inferior supply for Nestlé. Nestlé's Cocoa Plan Initiative works with producers "to improve the quality of their yields and to diversify their activities, giving them higher incomes and helping Nestlé to secure a sustainable supply."²¹⁹ Nestlé will invest CHF 110 million into shared value initiatives over ten years, providing farmer training²²⁰ and micro-financing, working with farmer co-operatives and paying price-premiums, developing resilient and productive plantlets, working with partners to increase access to education, clean water and to eradicate child labour.²²¹

To communicate these activities to consumers, Nestlé committed to sourcing cocoa for Kit Kats in the UK, from FT certified sources, from January 2010, and presented the Fairtrade logo on-pack.

Nutritional Deficiency – 'Bottom of the Pyramid' Market

Nestlé have developed 3950 "Popularly Positioned Products"²²²(PPPs) aimed at the BoP market. These have been produced in suitable unit sizes and locally adapted distribution methods have been developed. This has provided job creation for local

²¹⁸ Parsons, Hilary. (2010) *Nestlé Interview with Head of Corporate Affairs*. [Interview] Switzerland/UK with Emily Jones. 06/08/2010.

²¹⁹ Nestlé (2009) Full Report, p76.

²²⁰ Nestlé has supported the training of 100 000 farmers over the past 10 years and plan to train another 130 000 over the next decade (Nestlé (2009) Full Report , p76)

²²¹ Nestlé (2009) Full Report, pp79-80.

²²² Nestlé (2009) Full Report, p35.

people, access to affordable and nutritious products in hard to reach markets, plus greater market penetration for Nestlé, “helping to generate worldwide sales of PPPs to the value of CHF 8770 million in 2009”,²²³

External Recognition

BITC has commended Nestlé for individual initiatives, such as with coffee growers in El Salvador²²⁴, but they do not feature on the BITC CR Index.

Fairtrade certification was not received well by campaigning organizations such as Greenpeace, as it did not reflect the activities of the company as a whole.

BoP activities may have increased sales but they have not provided additional benefits such as improved reputation.

²²³ Nestlé (2009) Full Report, p35.

²²⁴ Business in the Community (June 2007) *Nestlé Fairtrade Coffee – Ethical Supply Chain Management*. UK: Business in the Community.

4.3 Procter & Gamble Case Study

Case study based upon telephone Interview conducted with Peter White, Director for Global Sustainability. UK, 20th July 2010 and document analysis, as referenced throughout.

Corporate Information

- Procter & Gamble's (P&G) portfolio consists predominantly of beauty & grooming, health & well-being and household care brands, sold over 180 countries.
- P&G is the leader in global beauty and personal care with 11.7% value share in 2009²²⁵ and in global home care with 18.6% value share in 2009.²²⁶
- They are headquartered in Ohio, U.S.A. and employ 135,000 people, across 60 countries. P&G is a publicly owned company. Its stock is traded on the New York and Paris exchanges.²²⁷
- The company purpose: "We will provide branded products and services of superior quality and value that improve the lives of the world's consumers, now and for generations to come. As a result, consumers will reward us with leadership sales, profit and value creation, allowing our people, our shareholders and the communities in which we live and work to prosper."²²⁸

Sustainability Drivers

In 2007 P&G made their sustainable commitments explicit in the company purpose

²²⁵ Euromonitor International. (July 2010) *Procter & Gamble in Beauty and Personal Care – World*. Euromonitor International.

²²⁶ Euromonitor International (May 2010) *Procter & Gamble in Home Care – World*. Euromonitor International.

²²⁷ www.pg.com

²²⁸ http://www.pg.com/en_US/company/purpose_people/index.shtml

with the intention of driving innovation.²²⁹

Since 2005 P&G has experienced an increase in demand, from retailers - P&G's key customer²³⁰ providing an economic incentive for developing products with sustainability attributes. Consumers are unwilling to accept compromise on traditional attributes, particularly performance and value, therefore sustainability becomes a driver of innovation, a "core competency of the company"²³¹. P&G strive to develop products that are more sustainable but require no 'trade-off' for the consumer, offering superior value and performance.

Additional drivers for sustainability at P&G are corporate reputation protection and enhancement, within the employee and investor, as well as the consumer market.

P&G's growth strategy requires market development within emerging markets.

Sustainability activities can support this, adding another driver.

Sustainability Strategy

A new sustainability strategy was launched in 2007, covering five areas: "sustainable products, sustainable operations, social investment programs, employee engagement, and working with stakeholders"²³² each with a five-year sustainability goal²³³, the aim of which is to move towards "building sustainability into the rhythm of the

²²⁹ MacDonald Bob, *P&G A New Vision for Sustainability*, www.greenbiz.com, 27/09/2010, 16:00 GMT.

²³⁰ White, Peter. 2009. *Building a Sustainability Strategy into the Business*. Corporate Governance. 9(4), p388.

²³¹ White, P. 2009, p388.

²³² Tripoli, Lori. June 2010. Sustainability for the Rest of Us. *Journal of Record*. 3(3), p153.

²³³ White, P. 2009, p388.

business.”²³⁴

The focus of the strategy is environmental sustainability, and its subsequent social impacts. P&G consider the full life-cycle of their products²³⁵ when assessing where environmental impacts lie. P&G analysis illustrates that a significant majority of impact is made during product usage. Therefore product usage has become a key focus for innovation coupled with consumer education.

Product Innovation - Ariel Coolclean and Excel Gel

Ariel Coolclean and Excel Gel are examples of products developed in response to P&G’s sustainability strategy. They have superior performance²³⁶ at low temperatures. Ariel Coolclean, launched in 2006, performs well at 30°C, saving 40% energy usage per wash. This release was followed in 2008 by Excel Gel which performs well at 15°C (59°F) saving around 50% of energy used per wash. These products have the potential to save consumers money on electricity bills while also being better for ones clothes, providing value and performance. Excel Gel has a reduced environmental footprint throughout its life-cycle²³⁷ including in manufacturing, distribution and usage,²³⁸ which benefits the environment, society and P&G’s corporate reputation.

For product innovation to lead to consumer-usage impact reduction, it was necessary to instigate consumer behaviour change. In 2006 P&G partnered with the Energy

²³⁴ Tripoli, L. 2010, p156.

²³⁵ Procter & Gamble (2009) *PG 2009 Sustainability Report*. P&G Global Sustainability, p21.

²³⁶ Excel Gel was dubbed “the best detergent they’ve ever tested” by Which? – an independent consumer magazine (www.which.co.uk)

²³⁸ Tripoli, L. 2010, p154.

Saving Trust in the UK to run its ‘Turn to 30’ campaign²³⁹ to encourage consumers to wash at a lower temperature. Both organizations achieved their objectives.²⁴⁰

‘Bottom of the Pyramid’ Market Activity - PUR Purification System

PUR water purification was developed by P&G as a consumer product, to meet the needs of those living below the poverty line. Unfortunately it did not prove a successful commercial proposition. According to White - “The technology is the easy bit. The business model is not”²⁴¹

P&G have continued to develop business models that allow for its distribution as part of a social responsibility programme - the Children’s Safe Drinking Water Programme. The social benefit is clear. “It saves lives”²⁴²

The business benefits include improved employee morale and corporate reputation. According to White, the initiative is a clear example of P&G’s Purpose - to improve the lives of the world’s consumers. In addition to this there is a long-term benefit to operating in these markets. P&G are developing recognition, business models and practices that allow them to operate effectively in these markets. “At some point those people will want toothpaste and soap and you are the company that brought them clean water”²⁴³ P&G will have established brand recognition in these markets, whose

²³⁹ Business in the Community (June 2008) *Procter & Gamble – Ariel Turn to 30*. UK: Business in the Community.

²⁴⁰ Surveys suggest “In 2002 only 2 percent of UK consumers were washing at 30°C, by 2007 this figure had risen to 17 percent, with Ariel users more likely to have switched than users of other brands.” (White, P. 2009, p389.)

²⁴¹ White, Peter. (2010) *Procter & Gamble Interview with Director for Global Sustainability*. [Interview] London, UK with Emily Jones. 20/07/2010.

²⁴² White, P. (2010) [Interview] For example 4,000 children in developing countries die every day due to a lack of clean drinking water. PUR can be used to clean drinking water, “reducing diarrheal disease incidence in the developing world by up to 90%” (www.csdw.com)

²⁴³ White, P. (2010) [Interview]

spending power is predicted to grow. “There is long term business benefit from being in these markets”²⁴⁴

External Recognition

P&G were awarded a BITC Big Tick award in 2008 for Responsible Marketing and Innovation for its Ariel ‘Turn to 30’ campaign.²⁴⁵

The PUR brand and its partners have delivered 1.6 billion liters of water, including in humanitarian disasters, assisting relief efforts.

²⁴⁴ White, P. (2010) [Interview]

²⁴⁵ Business in the Community (June 2008)

4.4 Reckitt Benckiser Case Study

Case study based upon face to face interview conducted with Edward Butt, VP Sustainability. UK, 8th Sept 2010 and document analysis, as referenced throughout.

Corporate Information

- Reckitt Benckiser's (RB) portfolio consists predominantly of home (64% net revenue) and health and personal care brands (26% net revenue), sold over 180 countries.²⁴⁶
- A leading FMCG specialised in household care.²⁴⁷
- They are headquarter in the UK and employ 23,000 people across 60 countries and are listed on the UK stock exchange, ranking 23rd in the FTSE 100.²⁴⁸
- Company purpose: "Reckitt Benckiser is about passionately delivering better solutions in Household, Health and Personal Care to customers and consumers, wherever they may be, for the ultimate purpose of creating shareholder value"²⁴⁹

Sustainability Drivers

"The value of the business is in the brands"²⁵⁰ According to Butt, RB's sustainability strategy is designed to mitigate risk to reputation and to maximize opportunity to enhance reputation. RB focuses on product safety in order to avoid negative publicity

²⁴⁶ www.rb.com

²⁴⁷ Euromonitor International (April 2010) *Reckitt Benckiser in Consumer Health – World*. Euromonitor International.

²⁴⁸ www.rb.com

²⁴⁹ Reckitt Benckiser (2009) *RB Vision and Values Statement 2009*. Slough, UK: Reckitt Benckiser Group plc, p1.

²⁵⁰ Butt, Edward. (2010) *Reckitt Benckiser Interview with VP Sustainability*. [Interview] Slough, UK with Emily Jones. 25/08/2010.

and to protect reputation. Environmental impacts are reduced in order to enhance reputation and increase efficiencies.

Employees are “fundamental to business success”²⁵¹ and according to Butt, people increasingly wish to work for a company with strong ethical standards. Employee attraction, retention and motivation are a key driver for sustainability.

Sustainability Strategy

Key areas of focus are environmental impacts and product safety. Although RB considers all three pillars of sustainability, the environment has been selected as a key area of focus. They seek reduction in all impacts but give particular attention to carbon emissions.

Carbon20

In order to address RB’s impact upon climate change they introduced the Carbon20 programme in 2007. The objective is to reduce carbon emissions, across the entire life-cycle of their products, by 20% by 2020 (2007 base rate)²⁵² RB are aiming for leadership status by incorporating the full life-cycle into carbon reduction targets, measuring and reporting on these rather than simply referring to them.

Approximate life-cycle carbon footprint is illustrated in figure 4.4. RB strive for improvement in each of these areas but it is clear that reductions in Consumer Use and Raw & Packaging Materials can have the most profound impact.

²⁵¹ Butt, E. (2010) [Interview]

²⁵² Reckitt Benckiser (2008) *RB Sustainability Report 2008*. Slough, UK: Reckitt Benckiser Group plc., p1.

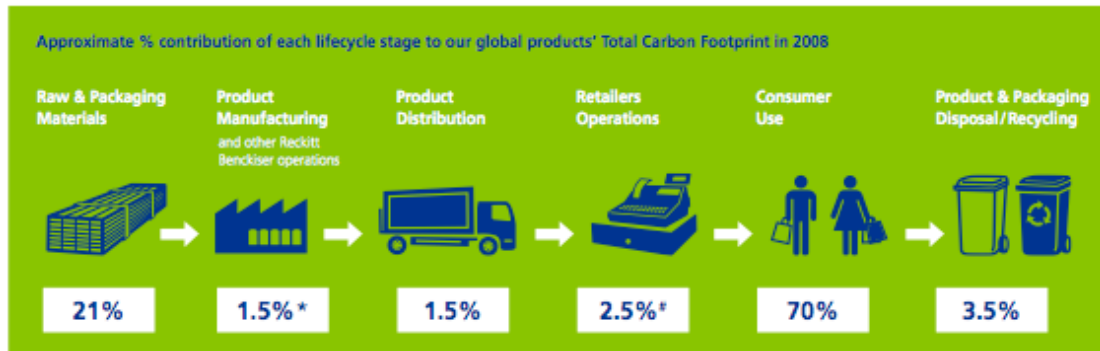


Figure 4.4²⁵³- RB Life-Cycle Carbon Footprint.

Consumer Usage -70%

RB use product labeling in order to encourage consumer behaviour change. Research suggests “the more information placed on labels the less likely consumers are to read it all”²⁵⁴ RB was concerned that consumers received different messaging from each brand, diluting the impact. Their solution was to seek industry collaboration. “Lets all put the same message, the same logo, on competing products”²⁵⁵ The result was an industry-wide voluntary label scheme that projected a unified message to consumers.²⁵⁶

The aim of the label is not to sell more of a particular product but to encourage behaviour change that reduces the total carbon footprint of the product. Therefore it was possible to collaborate rather than compete. “The benefit for the company is that stakeholders see our industry as responsible”²⁵⁷

²⁵³ Reckitt Benckiser (2008), p5.

²⁵⁴ Reckitt Benckiser (2008), p13.

²⁵⁵ Butt, E. (2010) [Interview]

²⁵⁶ www.saveenergyandwater.com

²⁵⁷ Butt, E. (2010) [Interview]

External Recognition

RB retained a BITC Platinum rating in 2009 which suggests they “have demonstrated continued board-level commitment to CR”²⁵⁸

²⁵⁸ Business in the Community (2009) *CR Index Results*.

4.5 Unilever Case Study

Case study based upon telephone interview conducted with Miguel Pestana, VP Global External Affairs. USA/UK, 23rd Sept 2010 and document analysis, as referenced throughout.

Corporate Information

- Unilever's portfolio consists predominantly of food, home care and personal care brands, sold in 170 countries.
- In 2009 they had 6.8% of world beauty and personal care market share²⁵⁹ and 10.2% of world home care market share.²⁶⁰
- They are headquartered in Holland and UK and employ 163,000 people, in 100 countries.²⁶¹
- The company purpose: "We meet everyday needs for nutrition, hygiene and personal care with brands that help people feel good, look good and get more out of life. Sustainability is at the heart of our business."²⁶²

Sustainability Drivers

In 2009 Unilever unveiled a new goal "to double the size of the company while reducing our overall impact on the environment"²⁶³

Unilever recognises sustainable sourcing of raw materials as a strategic concern.

Production has an impact upon, and is itself threatened by, climate change, water

²⁵⁹ Euromonitor International (July 2010) *Unilever in Beauty & Personal Care – World*. Euromonitor International

²⁶⁰ Euromonitor International (July 2010) *Unilever in Home Care – World*. Euromonitor International.

²⁶¹ www.unilever.com

²⁶² http://www.unilever.com/aboutus/purposeandprinciples/ourpurpose/?WT.LHNAV=Our_purpose

²⁶³ Unilever (2009) *Sustainable Development Overview 2009*. UK: Unilever Plc., p1.

shortage, and biodiversity loss. Growth will not be possible without addressing this issue. In addition to this, environmental and social impact has become a reputational issue for the business and brands. Retailer and consumer demand for sustainable products is also increasing providing a market driver.

Developing markets are recognised as a vital area for Unilever’s ambitious growth objective.²⁶⁴ Therefore BoP market activities have the potential to support business growth.

Sustainability Strategy

Sustainability began to be “formally integrated”²⁶⁵ into the business strategy in 1990, through a series of policies and programmes. Starting in 2005, sustainability has now been embedded into all major brands through the Brand Imprint process²⁶⁶ (figure 4.5)



Figure 4.5²⁶⁷ Brand Imprint Process.

²⁶⁴ “A strong presence in emerging markets, projected to drive growth” (Euromonitor International Report, *Unilever in Beauty and Personal Care – World*, accessed 27th Sept 2010.)

²⁶⁵ Unilever (2009), p6.

²⁶⁶ Unilever (2009), p6.

²⁶⁷ Unilever (2009), p6.

Unilever considers the full life-cycle of its products, sets macro-targets in line with ‘material issues’²⁶⁸ and measures performance against these.²⁶⁹ The brands then establish methods of meeting particular targets.

Unilever brands participate in initiatives, favouring working in partnership with others.

Lifebuoy Hand Washing Campaign

“Studies show that washing hands with soap is one of the most effective and inexpensive ways to prevent diseases”²⁷⁰ Providing the product in affordable quantities is not sufficient to affect change. They must be used appropriately.

Unilever uses its knowledge of consumer behaviour change to encourage hand washing. The aim of the Lifebuoy Hand washing Campaign is to “change the hygiene behaviour of 1 billion people by 2015 through the active promotion of hand washing with soap.”²⁷¹ Working with over 50 organisations across 23 countries, the campaign has reached 133 million people since 2002. In 2009 Lifebuoy was voted “one of India’s most trusted brands in a national consumer poll”²⁷²

²⁶⁸ Unilever define ‘material issues’ as issues that are “aligned with our business, brand portfolio and geography” (Unilever (2009), p8), that Unilever has some influence on, has “potential impact on our operations, sourcing or consumers” (Unilever (2009), p8) and is of importance to key stakeholders. (Unilever (2009), p8)

²⁶⁹ Unilever (2009), p9.

²⁷⁰ Unilever (2009), p14.

²⁷¹ Unilever (2009), p15.

²⁷² Unilever (2009), p15.

Shakti Distribution Network

A fifth of Unilever's products are sold through ten major retailers²⁷³ But, many communities, particularly in developing markets, are not served by these retailers. In order to increase product accessibility, novel distribution channels are required. These distribution channels create opportunity for local income generation. For example the Shakti distribution network in India, employs 45,000 women who sell affordable unit sizes in the villages in which they live. Making products more accessible to 800 million people living in villages but also "providing a livelihood, dignity and respect to many families along the way"²⁷⁴

Both of these initiatives provide measurable social benefit and therefore enhance corporate reputation. They also provide a vehicle for market penetration that will support Unilever's growth objective, particularly in markets benefiting from initiatives that increase income such as the work Unilever does to integrate small-holder farmers into the supply chain.

External Recognition

BITC has awarded Unilever Company of the Year 2010 status.²⁷⁵

²⁷³ Unilever (2009), p33.

²⁷⁴ Unilever (2009) p1 and p33.

²⁷⁵ http://www.bitc.org.uk/about_bitc/our_company_of_the_year/index.html

All Five Case Studies rely upon access to resources in order to conduct their business. Environmental and social conditions threaten the future of this supply therefore there is a clear business imperative for addressing these issues. Those particularly reliant upon agricultural and forestry commodities recognize that businesses are increasingly expected to address supply chain issues and come under increasing pressure from governments and campaigning organizations. Therefore sustainability activities are pursued to mitigate risk, protect brand equity and pre-empt regulation.

All 5 case studies rely upon their corporate and brand reputations in order to attract, retain and motivate employees. The reputation of the industry as a whole impacts upon legislation and consumer behaviour, therefore affecting the business context as a whole is a driver for collaborating on sustainability issues.

5. Research Analysis

This analysis section relates to the practical approaches discussed in the literature review, with examples to illustrate how the different businesses are using these techniques to achieve business benefit, and further integrate sustainability into the business strategy.

5.1. 'Green Marketing' Strategy

Green marketing, communicates the ethical attributes of a product or brand to the consumer. It can be used to command a price premium, to appeal to green segments, or to differentiate the product within the mainstream market. For FMCGs to have maximum impact they must target their sustainability activities at the mainstream market (figure 5.1) All case studies report an increase in consumer awareness of ethical issues but this does not necessarily mean ethical messaging is employed.

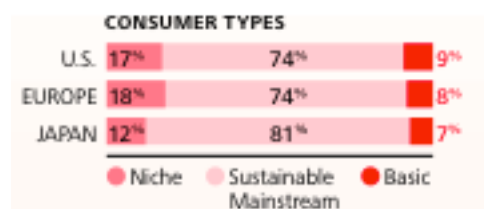


Figure 5.1 Consumer Types²⁷⁶

5. 1.1 Ethical Messaging

P&G do not consider the majority of their consumers (figure 5.1) willing to compromise on performance or value for the sake of sustainability. Therefore sustainability 'trade-offs' such as 'price premiums' are ruled out. White reflects the concern expressed by Ginsberg & Bloom that green messaging is actually interpreted

²⁷⁶ Procter & Gamble (2009), p21.

as negative by the mainstream market. He believes that many consumers assume that green products are of inferior performance or more costly.²⁷⁷ To have maximum impact sustainable products must be targeted at the mainstream²⁷⁸ but the mainstream are less likely to purchase products positioned in this way. If products are not purchased, their environmental benefits will not be realised.

Therefore P&G follow a “Shaded Green”²⁷⁹ (see 2.2.1) marketing strategy, investing significantly in environmental improvements, but as a driver of innovation in order to achieve competitive advantage rather than as a means of market differentiation in itself. P&G develop products that could be marketed on environmental grounds but opt for using this only as a supporting message.

RB does not aim to differentiate their products through green messaging either.

According to Butt, consumers spend a limited amount of time on each purchasing decision therefore, although they may be “sustainability aware”²⁸⁰, ethical considerations do not impact upon the purchasing decision.²⁸¹ Like at P&G, performance and value are considered the deciding purchasing factors.

Nestlé veer away from explicitly promoting ethical attributes due to concerns about accusations of green-wash. “If it is something that is going to be actively marketed it needs to be very concrete, it has to be perceived by the consumer as genuine to avoid being criticized for green-washing”²⁸²

²⁷⁷ White, P. (2010) [Interview]

²⁷⁸ Procter & Gamble (2009), p21.

²⁷⁹ Ginsberg, J. M. & Bloom, P. N., 2004, p82.

²⁸⁰ Butt, E. (2010) [Interview]

²⁸¹ Butt, E. (2010) [Interview]

²⁸² Parsons, H. (2010) [Interview]

Nestlé opt generally for a ‘defensive’ green marketing strategy (see 2.2.1) “as a precautionary measure, a response to a crisis or a response to a competitor’s actions”²⁸³

Unilever agree consumers prioritise value and performance when making purchasing decisions but have experienced an increase in consumer demand and interest in sustainability issues. In addition to this they have experienced an increase in demand from retailers. Retailers are demanding more sustainable products in order to enhance their own brand equity²⁸⁴ Unilever therefore plan to increase consumer communications containing sustainability messaging.²⁸⁵ Sustainable sourcing provides the opportunity for “brands to differentiate themselves to the growing number of consumers who choose products based on their sustainability credentials.”²⁸⁶

Kraft Foods (including Cadburys) have successfully employed ethical messaging to justify price premiums in the luxury market e.g. the Green & Blacks range²⁸⁷

Kraft Foods (including Cadburys) have also used ethical messaging within their mainstream marketing, an area where price premiums are less appropriate. For example, Cadburys have used Fairtrade logoing on their Dairy Milk product in the UK and included ethical messaging in advertising campaigns.²⁸⁸ Kraft Foods use

²⁸³ Ginsberg, J. M. & Bloom, P. N., 2004, pp81-82.

²⁸⁴ Pestana, M. (2010) [Interview]

²⁸⁵ Pestana, M. (2010) [Interview]

²⁸⁶ Unilever (2009), p18.

²⁸⁷ www.greenandblacks.com

²⁸⁸ www.aglassandahalfproductions.com/index.html#/paddock/cocoabeams

Rainforest Alliance logoing on products including Kenco. Kenco is available in re-fill pouches, positioned as “eco” and used within marketing campaigns.²⁸⁹

According to David Croft, the benefit to Kraft Foods (including Cadburys) is not so much in individual purchasing decisions²⁹⁰, but that the messaging demonstrates to the consumer that the brands are living their values. This “improves brand equity”²⁹¹ and reputation.

5.1.2 Influencing Consumer Behaviour

Peattie argues that any compromise in traditional product attributes must be countered by knowledge of the issue and the products ability to provide a solution. The case studies do report investing resources in educating the consumer but do not consider this a justification for compromise or ‘trade-offs’. For example, P&G ‘Turn to 30’ campaign educated the consumer about the environmental benefits of its product but the messaging was not used to justify a trade-off for the sake of the environment. The messaging was that “it works, and by the way, it is better for the environment”²⁹² Unilever also followed this approach with Persil²⁹³

For RB, P&G and Unilever, products have a significant environmental impact after purchase. For impact reduction, product usage is significant, but influencing consumer behaviour is challenging. Consumer motivations vary yet products have

²⁸⁹ www.kenco.co.uk/kenco2/page?siteid=kenco2prd&locale=uken1&PageRef=623

²⁹⁰ Although Fairtrade certification has had a positive effect here, being well received by consumers and opinions formers (Croft, D. (2010) [Interview])

²⁹¹ Croft, D. (2010) [Interview]

²⁹² White, P. (2010) [Interview]

²⁹³ www.persil.co.uk

“only one opportunity to send a message”²⁹⁴ Their approach is to attempt to appeal to numerous motivations, for example illustrating that actions that reduce impact upon the environment also reduce energy bills and improve performance. Unilever recognize that it is a challenge to make the consumer realize that the small decisions and actions they make cumulatively have a significant effect.²⁹⁵

RB sought collaboration within the industry in order to affect consumer behaviour change. The benefit brought to the company is not increased sales but improved reputation. Stakeholders see them as leaders in a responsible industry. This has the benefits of improved reputation with current and potential employees, investors, regulators and NGOs which impacts upon the success of the business and ultimate shareholder value – the core objective of RB.²⁹⁶

In summary, ‘green marketing’ provides business benefit but only as a support to product and process innovation, sustainable sourcing and collaboration.

Communicating to the consumer is not necessarily the driver for these activities.

5.2. Certification Schemes

The case studies acknowledged an element of consumer skepticism towards ethical claims made by businesses. Certification schemes provide externally agreed standards as to what qualifies as ethical and an independent assessment of a company’s claims. Their approval adds credibility to ethical claims. In addition to this, the certification schemes are brands in themselves with increasingly recognised logos. Once granted the use of a certification logo, this can be incorporated into packaging and promotion.

²⁹⁴ Butt, E. (2010) [Interview]

²⁹⁵ Pestana, M. (2010) [Interview]

²⁹⁶ Reckitt Benckiser (2009)

This provides a quickly understood message to the consumer, connecting consumer purchasing-decisions with activities occurring within the producer market.

Certification schemes receive criticism for lacking the scalability required for a positive impact on more than a minority of producers²⁹⁷ and to meet the quantity requirements of mainstream corporations.

5.2.1 Unilever and the Roundtable on Sustainable Palm Oil (RSPO)²⁹⁸

Unilever recognises that certification schemes are a useful tool in communicating sustainable activities to consumers, investors and NGOs and therefore collaborates with others to develop appropriate schemes.

For example, palm oil is a key resource for Unilever, purchasing 3% of the world's volume²⁹⁹. It is also of public concern due to the exposure of palm oil production causing deforestation and climate change.³⁰⁰ Therefore sustainable palm oil is a strategic as well as a reputational issue for Unilever. To address this, Unilever became a founding member of the RSPO in 2004³⁰¹ and continue to support the development of its certification scheme.

In order to stimulate the levels of sustainable production required to meet Unilever's sourcing target, Unilever encourages industry wide participation in the scheme "This in turn will reassure growers that they will get a return on their investment in

²⁹⁷ Oxfam (2002) *Oxfam Coffee Report – Mugged*. Oxfam International, p3.

²⁹⁸ www.rspo.org

²⁹⁹ Unilever (2009), p19.

³⁰⁰ Greenpeace (March 2010)

³⁰¹ All case studies are member of RSPO but Unilever are particularly active in their involvement. Nestlé have been criticised by Greenpeace for avoiding responsibility for their actions, hiding behind membership without addressing the issue within their supply chain.

sustainability certification”³⁰²leading to an increase in supply of certified resource. All the case studies have now committed to sourcing all palm oil from “certified sustainable sources by 2015”³⁰³

Unilever acknowledges that the scheme is not perfect but sees this as a driver for improvement and change rather than a reason to withdraw.³⁰⁴ Unilever works with certification schemes to assist their evolution, viewing them as a channel for innovation that can protect the brand and secure access to resource.³⁰⁵

5.2.2 Kraft Foods (including Cadburys) and Certification

Kraft Foods (including Cadburys) work with a variety of certification programmes, most notably Rainforest Alliance and Fairtrade. They recognise that certification logos are a useful “shorthand for the consumer market.”³⁰⁶ They communicate positive activities within the producer market³⁰⁷, resulting in enhanced reputation and increased demand for products with sustainable attributes.

Despite the growth of Fairtrade and Rainforest Alliance, only a minority of farmers are certified.³⁰⁸ This limits the numbers of farmers that benefit from the schemes and limits the quantities of sustainably sourced resources available to the company. Kraft Foods (including Cadburys) aim to increase demand in the consumer market, by certifying mainstream products. They also encourage scale within the producer market, by working with farmers to bring them into the Fairtrade or Rainforest

³⁰² Unilever (2009), p19.

³⁰³ Unilever (2009), p19.

³⁰⁴ Pestana, M. (2010) [Interview]

³⁰⁵ Pestana, M. (2010) [Interview]

³⁰⁶ Croft, D. (2010) [Interview]

³⁰⁷ Croft, D. (2010) [Interview]

³⁰⁸ Croft, D. (2010) [Interview]

Alliance schemes.³⁰⁹ Certification schemes are an important aspect of a wider sustainable sourcing strategy.

Encouraging consumers to incorporate ethics into their purchasing decisions increases demand for sustainable sourcing. Increased consumer demand for activities already engaged in, in order to secure sustainable supplies, provides Kraft Foods (including Cadburys) with competitive advantage, providing an additional driver for increased sustainability activities. As recognised by Croft, this assists the shift towards a sustainable future.

Since merging, Kraft Foods (including Cadburys) now works extensively with both Rainforest Alliance and Fairtrade. The schemes criteria and focus vary and are appropriate for different locations, crops and farming styles “Both schemes are about trying to engage consumers in the work of farmers at the origin”³¹⁰ Increased focus on certified products allows Kraft Foods (including Cadburys) to focus further attention on bringing additional farmers into the scheme. The two re-enforce each other. The combined impact of Rainforest Alliance and Fairtrade certification “helps to build scaled change”³¹¹

Pestana agrees that the particular certification scheme used is not important; it is the movement in general that is key.

³⁰⁹ Croft, D. (2010) [Interview]

³¹⁰ Croft, D. (2010) [Interview]

³¹¹ Croft, D. (2010) [Interview]

5.2.3. Nestlé and Certification

Although Nestlé do work with certification schemes such as Fairtrade and Rainforest Alliance³¹² on specific products, much of their sustainable sourcing activity does not result in certification. “You can have sustainable guidelines not necessarily linked to going on pack with a label”³¹³

Although Nestlé tend to avoid explicit ethical messaging, they made an exception in 2010 and embarked upon a campaign that incorporated the Fairtrade logo³¹⁴. Nestlé committed to using Fairtrade cocoa and sugar in 4-finger Kit Kat’s sold in the UK, from January 2010. The Fairtrade logo was displayed on packaging and marketing. This use of ethical messaging attracted skepticism, provoking a Greenpeace campaign regarding Nestlé’s use of unsustainable palm oil, undermining the reputational and brand benefits usually associated with the Fairtrade brand.

The Greenpeace Campaign

In 2009 Greenpeace exposed the environmentally and socially damaging practices of the Sinar Mas group, Indonesia’s largest producer of palm oil. Despite being a member of RSPO, Nestlé failed to halt trade with Sinar Mas and its subsidiaries³¹⁵

“In early 2010 Nestlé invested heavily in a UK TV and press advertising campaign for the launch of its new Fairtrade brand. While laudable, the Fairtrade brand accounts

³¹² Nestlé worked with the Rainforest Alliance to develop the Nespresso AAA Sustainable Quality Programme (Nestlé (2009) Full report, p77) and with The Fairtrade Foundation in order to certify cocoa used in Kit Kats sold within the UK.

³¹³ Parsons, H. (2010) [Interview]

³¹⁴ In addition to this they have a Fairtrade version of Nescafé, called Partners Blend www.growmorethancoffee.co.uk

³¹⁵ Greenpeace (March 2010) *Nestlé and Palm Oil: Caught Red Handed*. Amsterdam: Greenpeace International, p9.

for only 1% of the company's cocoa use, and while trying to position itself as a responsible corporate citizen, Nestlé continues to ignore the social and environmental crimes of its palm oil suppliers.”³¹⁶

Greenpeace launched an on-line viral viewed by 1.5 million people and “over 200,000 emails, hundreds of phone calls and countless ‘Face book’ comments have been sent to Nestlé”³¹⁷

In response to this campaign, Nestlé has partnered with The Forest Trust (TFT)³¹⁸ in order to address unsustainable Palm Oil supplies. Greenpeace commended this action believing TFT to be a credible partner to assess Nestlé's commitments.³¹⁹ “In this case there was a positive outcome that all sides are very pleased about”³²⁰

Presumably this was not the outcome initially sought when Nestlé committed to Fairtrade. The business benefits associated with Fairtrade certification were not forthcoming.

5.2.4 Fairtrade – Nestlé and Cadburys (pre-merger) Comparison

Both Nestlé and Cadburys (pre-merger) launched mainstream flagship brands as Fairtrade in 2010. Nestlé attracted criticism that undermined the business benefit of this activity, whereas Cadburys (pre-merger) did not.

³¹⁶ Greenpeace (March 2010), p10.

³¹⁷ Greenpeace Newsletter (Summer 2010) *Connect*. UK: Greenpeace, p10.

³¹⁸ www.theforestrust.org

³¹⁹ Greenpeace Newsletter (Summer 2010), p10.

³²⁰ Parsons, H. (2010) [Interview]

Cadbury's (pre-merger) have developed an ethical corporate reputation over many years, by considering a range of issues, proactively entering into dialogue with stakeholders in order to understand issues and develop solutions. The move to Fairtrade was therefore perceived as set within a comprehensive sustainability strategy, supported by other sustainability initiatives. It seemed representative of the company as a whole.

Nestlé had done significant work on improving the situation of farmers but this was not supported by activities in other areas, such as palm oil sourcing³²¹ or child labour³²². Therefore the Fairtrade messaging appeared unrepresentative of Nestlé as a whole. Nestlé were accused of hiding their destructive business practices behind the Fairtrade message.³²³

Nestlé's corporate reputation has been tarnished by previous and on-going activity such as the inappropriate and dangerous marketing of baby milk in developing countries.³²⁴ There was an 'authenticity gap' (see 2.2.2) between Nestlé's use of the Fairtrade label and the public perception of the company³²⁵ whereas Fairtrade better represented the perception of Cadburys (pre-merger). It would be interesting to see if such overt messaging would be so well received post merger with Kraft Foods.

Cadburys (pre-merger) fared better from the Fairtrade launch because this activity was supported by a coherent sustainability strategy that had developed an ethical

³²¹ Nestlé did not engage fully with the palm oil issue until the Greenpeace campaign required them to.

³²² <http://www.babymilkaction.org/action/Nestléfairtrade.html>

³²³ Greenpeace (March 2010)

³²⁴ info.babymilkaction.org/Nestlébriefing

³²⁵ Greenpeace has observed "A gap between what *they* think and what hundreds of thousands of their customers think" (www.greenpeace.org.uk/blog/forests/nestlé-mind-reality-gap-20100415)

reputation. Current activity was supported by previous and current sustainability initiatives. Nestlé's focus on areas of 'shared value' resulted in isolated activities unsupported by the whole.

Unilever have focused upon developing a strong reputation and coherent sustainability strategy. They too experienced a positive response to the launch of Rainforest Alliance certified Lipton Tea in Australia, resulting in 10% increase in sales,³²⁶ and are preparing to increase consumer communications regarding sustainability.

5.3. 'Bottom of the Pyramid' Activities

'Bottom of the Pyramid' (BoP) marketing is an area of potential interest overlap for business and society. Developing products and business models appropriate for those living in poverty can meet needs, and provide income avenues for the community, whilst providing access to new markets for companies. In addition to this, recognition of ethical activities in developing markets can improve the company's reputation in developed markets.

There is some doubt as to whether the BoP market is commercially viable and whether corporate activity in this area provides benefit to society.

5.3.1. Operating in 'Bottom of Pyramid' Markets

Developing countries are recognised as areas of growth potential by all five case studies. A large proportion of this target market lives below the poverty line. As

³²⁶ Pestana, M. (2010) [Interview]

countries develop, so too will the spending power of this segment. The particularities of the market mean that novel products, business models and practices must be developed in order to operate there.

Sustainability activities provide an opportunity to develop these innovations for future success while enhancing current reputation and providing solutions to social issues.

5.3.2. P&G – Recognition as Proxy to Profit

P&G's PUR water purification product was developed for the BoP market but did not prove commercially viable, supporting Karnani's criticism that BoP operations are not profitable (see 2.2.3). But, the PUR example does demonstrate that there are alternative potential business benefits to BoP activities.³²⁷

The activities demonstrate the company's purpose, improving corporate and brand reputation in developed markets. Recognition thereby provides a proxy for profit, as argued by Prahalad. Recognition also develops in the BoP markets themselves. As these markets develop and spending power increases, this recognition will prove beneficial to P&G. In the meantime P&G benefit from improved reputation and image. Learning's from developing products for BoP markets, such as Downy Single Rinse, have proved beneficial further up the pyramid also.³²⁸

³²⁷ P&G have developed additional products for developing markets. For example Downy Single Rinse. Knowledge gained from this has been transferred up the pyramid to influence product development for the developed market (MacDonald Bob, (Sept 2010) [Web Conference])

³²⁸ White, P. (2010) [Interview]

5.3.3. Nestlé – Profit but not Reputation Enhancement

Nestlé purport to be generating income through their PPP products (see 4.2), supporting Prahalad's claim that businesses can generate profit in the BoP market.³²⁹ But, Nestlé have not benefited from improved reputation in developed markets due to their activities in the BoP market.

Nestlé have experienced prolonged criticism in response to their marketing of baby milk in BoP markets.³³⁰ If BoP activities are not perceived as beneficial to society then improved reputation will not result. Activities will be perceived as business as usual. In this case many perceived Nestlé's BoP activities to be detrimental to society resulting in an extended boycott of Nestlé products in developed markets.³³¹ This damage to Nestlé's reputation has resulted in lost sales.³³² More crucially, it has also severely limited the business benefits available to Nestlé from other sustainability activities. Corporate reputation effects how additional sustainability activities are received. Nestlé may well generate income from its PPP products but it is debatable as to whether this truly represents a business benefit all else considered. This purported 'shared value' potentially provides little value for either the business or society.

³²⁹ Presuming that these truly are directed at the BOP market rather than the 'relatively poor' (Karnani, A., 2007)

³³⁰ www.babymilkaction.org.uk

³³¹ A 2005 GMI survey of 15,500 consumers in 17 countries suggested that Nestlé is one of "the most boycotted brands" and "the most boycotted brand in the UK" due to what responders perceive as its "unethical use and promotion of formula feed for babies in third world countries." (<http://www.gmi-mr.com/about-us/news/archive.php?p=20050829>)

³³² Although a healthy profit is maintained.

5.3.4. Over Coming Barriers to Operating in ‘Bottom of the Pyramid’ Markets

Consumer Education and Collaboration

Unilever recognise that it is not sufficient to provide accessible, affordable products. It is necessary to educate consumers about the benefits of that product. The Lifebuoy Hand washing campaign (see 4.5) provides social benefit by providing hygiene education, reaching 133 million people since 2002, and reducing preventable illness. Simultaneously they have increased awareness of the product and potential for increased sales.

P&G encountered the same barrier when promoting PUR. It was necessary to inform consumers that contaminated water was the cause of illness and that PUR was an available solution. Both companies partnered with local organizations in order to provide health education, reducing illness while developing the market for their products. P&G partnered with a diverse network of organizations, creating the Children’s Safe Drinking Water Programme, in order to provide education programmes and to distribute PUR sachets.³³³ – Part of their Live, Learn and Thrive initiative. Unilever’s Lifebuoy Hand washing Campaign works in partnership with 50 organisations across 23 countries (see 4.5).

Working with NGOs and development organisations ensures that BoP activities are perceived as beneficial to society, and therefore beneficial to corporate reputation. Collaboration can also provide access otherwise denied to corporations such as schools and hospitals. Working in partnership allows the objectives of both the

³³³ www.csdw.com/csdw/csdw_program.shtml

organizations and the companies to be achieved, providing social as well as business benefit, overcoming the main criticisms of BoP market activities.

Distribution

Distribution represents an additional barrier to operating in the BoP market. The Shakti Initiative (see 4.5) provides Unilever with a distribution network and communication channel in otherwise hard to reach markets. It simultaneously provides Shakti women with a source of income and dignity. This increased purchasing power in turn provides Unilever with an expanding commercial market. Shakti is an innovative distribution model that is not yet at scale but Unilever are already investigating exporting it to comparable markets.³³⁴

These activities work particularly well in unison with others. The market for Unilever's products has increased significantly in areas where they have initiatives aimed at increasing incomes and therefore purchasing power.³³⁵

5.3.5. 'Bottom of the Pyramid' and Supporting Network of Activities

BoP activities work most effectively when supported by additional activities. Improving productivity and access to income for producers and entrepreneurs raises them out of poverty. This creates a new market, with increasing purchasing power, for which to develop and position products. Providing health education and appropriate products to this market as they rise out of poverty will increase future profits while supporting the work on producer productivity. Improved conditions and productivity can also be used in order to differentiate products within developed countries without

³³⁴ Pestana, M. (2010) [Interview]

³³⁵ Porter, M. & Kramer, M. R., 2006, p90

requiring trade-offs such as increased price. This supports Prahalad's rebuttal of Karnani's criticism, that treating the individual as both producer and consumer provides real scope for profit.³³⁶

BoP activities are not necessarily profitable initially but are modes of investment for future growth. While not profitable, the activities can be positioned as ethical to developed markets thereby improving the company's reputation.

Linking activities with those of other organizations increases benefit also, ensuring that social goals are achieved and supporting corporate goals.

5.4. Summary

All five case studies have begun to integrate sustainability into their business strategies. Successes in areas of 'mutual interest' have assisted further integration of sustainability activities into the business strategy. Those who have incorporated sustainability into the core vision of the business, as an aspirational goal, have been able to integrate between activities more successfully, further imbedding sustainability. Although this by no means constitutes sustainability, it provides an 'over-arching strategy' to work towards that shields sustainability activities from the requirement to deliver short or medium term win-wins. Connecting activities to networks outside the boundaries of the firm provide additional benefit, for example with suppliers and consumers but also with governments and NGOs.

³³⁶ Prahalad, C. K., 2009, p21.

RB focuses on product safety and environmental impact. They have chosen to strive for leadership status in regards to incorporating total carbon emissions in reduction targets. This objective connects activities across the life-cycle of the product and has led to a focus on impact reduction in consumer usage, which would traditionally been considered outside the remit of the company.

RB does not use their activities to differentiate their products directly or to influence individual purchasing decisions. Instead they aim for reduction in consumer impacts, industry wide. The benefit they aim for is protected and enhanced brand and corporate reputation. This translates favourably in the employment market, attracting, retaining and motivating talent, which in turn improves the business. A positive corporate reputation is thought also to provide benefit in the investment market, strengthening shareholder value. It can also assist in influencing governmental legislation, assisting the development of the business context.

RB aim to reduce their total environmental impact per unit of consumption. Whether this will be sufficient to ensure an environment and society that supports the business in the future depends upon consumption levels. If consumption levels increase to an extent that outweighs these reductions then sustainability will not be achieved. RB may achieve a positive reputation in the short to medium term but without securing sustainability into the long term.

P&G recently incorporated sustainability into their core purpose, recognising that long-term viability should be considered. They are unwilling to compromise on consumer value or performance and therefore perceive sustainability as a driver of

innovation.³³⁷ Products are developed with reduced environmental impact through out their life-cycle. This reduces their contribution to climate change, water scarcity etc per unit of consumption, but will also prepare them for a operating in a business context with reduced access to resources such as energy and water.

In addition to this, P&G operate in the BoP market. The business benefit achieved is improved reputation in developed markets and improved recognition in developing markets. The business models that they use to distribute PUR are geared towards humanitarian work therefore will not translate into commercial distribution networks but brand loyalty will be significant.

Like RB, P&G are reducing the total environmental impacts of their products, per unit of consumption. Long-term impact will be dependent on global consumption levels. Growth strategies enhance increased consumption levels, therefore the success of this may outweigh the per unit reductions, resulting in continued environmental degradation.

Nestlé's sustainability strategy seeks areas of 'mutual interest', aiming to integrate sustainability by 'creating shared value' For example, they work to secure sustainable resource supply while improving income stability for producers. Unfortunately, as the examples of Baby Milk in the BoP market (see 5.3) and Fairtrade Kit Kat (see 5.2) illustrate, if these activities are not part of a broader, comprehensive strategy they are unlikely to provide optimal benefit to society, the environment or the business.

Fairtrade certification was not supported by a coherent sustainability strategy and

³³⁷ This was reiterated by Bob MacDonald - CEO, in a Green Biz Web conference, 27th Sept 2010. (MacDonald, B. (2010) [Web Conference])

therefore attracted negative publicity and damaged reputation. ‘Fragmented’ (see 2.1.2.) activities, unsupported by interconnected activities, are inefficient, increasing risk of green-wash accusations and reputational damage, as experienced by Nestlé. Sustainability activities unsupported by a coherent sustainability strategy and ethical reputation provide limited benefit to society and the environment and can be deleterious to the business.

Kraft Foods (including Cadburys). Cadburys (pre-merger) had developed a strong ethical reputation. Cadburys’ (pre merger) flagship initiatives have successfully created “win-win situations.”³³⁸ For example Cadburys’ (pre-merger) ‘Purple Goes Green’ Initiative improves the company’s environmental impact whilst reducing immediate-term operation costs and preparing the company for a low-carbon future.³³⁹ Cadburys’ (pre-merger) work with cocoa improves the lives of cocoa communities and biodiversity, which impact positively upon the company’s current reputation whilst securing the quality and quantity of cocoa in the future.

These successes have allowed internal stakeholders to observe “how sustainability links to other business activities”, providing a “snowball effect,”³⁴⁰ improving integration into the business. These leadership initiatives sat within a broader, joined up strategy. Not all activity is actively communicated to stakeholders but the result of a coherent strategy is that ethical messaging can be utilised without attracting accusations of green-wash. This messaging increases consumer awareness, strengthening the demand for sustainable products and thereby providing additional

³³⁸ Croft, D., (2010) [Interview]

³³⁹ Croft, D., (2010) [Interview]

³⁴⁰ Croft, D., (2010) [Interview]

support for the activities with producers, shifting both the company and society towards sustainability.

Kraft Foods (including Cadburys) have begun to look at their activities holistically, connecting sustainable supply activities with consumer communications and demand. They lack the ethical reputation that allowed Cadburys (pre-merger) to launch a mainstream product as Fairtrade without attracting excessive skepticism. It is possible that the benefit achieved through sustainability activities at Cadburys (pre-merger) will assist further integration into Kraft Foods (including Cadburys) core business strategy.

Unilever's goal is “to double the size of the company while reducing our overall impact on the environment”³⁴¹ Unilever's sustainability strategy is led by business imperatives but in securing a viable business into the future it also aims to provide social benefit and reduced environmental impact. The task now will be to ensure the business model and operations are capable of achieving this goal.

Unilever reports increasing consumer and retailer demand for sustainable products providing a market opportunity for sustainability activities. Sustainable sourcing, communicated via certification, enhances brand value. Improving productivity and yield secures resources while providing economic empowerment for the producer communities. This in turn provides a new and expanding market for Unilever brands to operate within.

³⁴¹ Unilever (2009), p1.

Unilever recognize the inter-linkages between activities within their own operations but also within the wider business context. They actively seek collaboration as they “cannot do this alone.”³⁴² Industry wide and governmental collaborations allow corporate Unilever to influence the business context. Unilever brands collaborate with organisations on the ground in order to meet complimentary objectives. Having built up a strong corporate reputation and a coherent sustainability strategy, Unilever benefit from innovative solutions for future success. According to Pestana, they now plan to expand consumer communications regarding sustainability activities. This will serve to link activities with increasing consumer demand, facilitating further integration into the core business strategy.

³⁴² Pestana, M., (2010) [Interview]

6. Conclusion

We live on a finite planet with business models that treat it as infinite. This is not a sustainable position for the environment, society or for the businesses themselves.

Businesses rely upon the natural environment for raw materials including agricultural, water and energy, as well as natural systems that assimilate waste, and ultimately the provision of customers and employees. The business relies upon society for the provision of skilled workers, customers, and the provision of regulations that support rather than hinder business viability. Therefore it is in the business interest to ensure the sustainability of these two pillars of the sustainability agenda while ensuring its own future viability.

Business plays an important role in ensuring that present and future generations can meet their own needs. But, current business models are unsustainable. Businesses must affect change in their business models in order to shift to a sustainable model.

Integration of Sustainability into Core Business

There is a general acceptance in the FMCG sector that companies must operate in a manner that meets “the needs of the present without compromising the ability of future generations to meet their own needs”³⁴³, and that in order to achieve this, sustainability must be integrated into the core business.

The literature review illustrates that integrating isolated activities into the business strategy, for example at ‘sweet-spots’ of mutual interest, does not provide maximum

³⁴³ World Commission on Environment and Development. Brundtland, G. H. (March 1987

benefit to society or the environment and can be detrimental to the business. For example, exacerbating accusations of green-wash and damaging corporate reputation, resulting in reduced sales, reduced talent retention, increased regulation and reduced capacity to benefit from additional sustainability activity.

Applying business strategy literature to sustainability, it becomes clear that sustainability activities provide maximum efficiency and effectiveness when part of a broader, coherent, supporting network of activities – a coherent strategy. Cohesion should be sought between sustainability activities and business objectives in general.

The literature review of practical approaches to integrating sustainability into the business strategy considered green marketing, certification schemes and Bottom of the Pyramid market activities. These approaches have the potential to provide business benefit but can prove problematic if not part of a coherent strategy that takes account of wider impacts, pointing to the need for integrating sustainability approaches into a wider business strategy, rather than isolated activities.

‘Fast Moving Consumer Goods’ Case Studies

The research considered five Fast Moving Consumer Goods (FMCG) companies. These are examples of shareholder owned companies. For a strategy to remain viable in a shareholder owned company, it must demonstrate benefit to the company. Therefore an incremental shift towards sustainability is appropriate, demonstrating to stakeholders that their interests are being met.

The comparative analysis looks at how these companies are integrating sustainability activities into their business strategies, creating linkages between them to create a coherent whole, bringing benefit to the business and facilitating the shift towards a sustainable future.

The research demonstrates that companies are at various stages of integration. The success of isolated sustainability activities provides evidence that sustainability is beneficial to the company, thereby assisting further integration into the business strategy. But ultimately sustainability activities are most beneficial when part of a broader, coherent strategy. The case studies that have begun to integrate sustainability into the core purpose of the company have proved most successful at positioning sustainability activities within a supporting network of activities and have therefore benefited most from these activities.

In summary, RB and P&G protect and enhance their corporate reputation through activities that demonstrate they are responsible companies. Nestlé focuses upon areas of mutual interest but suffer from a lack of supporting activities.

Cadburys (pre-merger) were able to successfully connect activities required to secure future access to resources with consumer demand, increasing the scope for further sustainability activities and integration into core business strategy. Now that Cadburys have merged with Kraft Foods it is possible that this success will assist further integration of sustainability into Kraft Foods (including Cadburys) core business strategy.

Unilever have incorporated sustainability into their growth strategy, acknowledging that considerable change is required in order to achieve this aspirational goal. They have successfully developed a coherent sustainability strategy that allows them to connect between activities. They have been particularly successful in linking their sustainability activities with those of other organizations, creating a wider network of activity that affects change within the business context. They intend to increase business benefit through overt ethical messaging in consumer communications.

The issue that is not being addressed sufficiently is that of unsustainable consumption levels. The success of growth strategies will outweigh the success of impact reduction per unit of consumption. A re-evaluation of business models as a whole is required, looking at consumption and growth, in order to shift towards a sustainable future.

6.1. Areas for Further Research

1. This study develops the hypotheses that an integrated approach linking sustainability activities across different areas, and reflecting the three 'pillars' of sustainability, will be more effective in securing business benefit and moving the company towards sustainability. Approaches are illustrated that will prove useful to companies seeking to balance stakeholder interests and business objectives in order to secure business benefit and move towards a sustainable future.

Further research, including the analysis of business profitability and impact studies, could be pursued in order to substantiate the hypothesis.

2. This study has considered how sustainability activities are being integrated into business strategy, focusing on how business benefit is achieved. The assumption is that this will move the company towards a future that is sustainable. The question remains as to whether these strategies are able to achieve a truly sustainable future or whether they are limited to achieving medium term business benefit. It is possible that making these incremental changes may achieve medium term business objectives but without achieving actually sustainability.

MacDonald³⁴⁴ recommends envisioning what a sustainable future would entail then working back from this in order to develop activities and strategies that are capable of achieving it. If sustainability were integrated into the core objectives of the business, rather than the rhetoric of sustainability used to achieve alternative ends, then the business structure and objectives can be designed in order to achieve this goal.

This more radical approach requires a re-evaluation, a “dematerialization”³⁴⁵, of how value is delivered to the consumer.³⁴⁶ The company must then establish how to deliver the same value but in a sustainable way. “Redefining the business in terms of the underlying service provided”³⁴⁷ Jackson concurs, arguing for transition to a new paradigm where prosperity is not dependent upon consumption growth³⁴⁸

³⁴⁴ MacDonald, J. P., 2005, pp 631-643.

³⁴⁵ (Savitz, A. W. & Weber, K., 2006, p39) and (MacDonald, J. P. 2005, p641) It is argued that ‘dematerialization’ of value is possible. It is not the object itself that provides the value, but the service that it provides. This allows new businesses models to be developed that offer the same value but with reduced consumption.

³⁴⁶ Re-imagining the company in this manner has occurred. Ray Anderson, the Chairman and Founder of Interface, attempts this approach. (Anderson, Ray. C. (1998) *Mid-Course Correction - Towards a Sustainable Enterprise: The Interface Model*. Atlanta: Peregrinzilla Press) His goal is to “eliminate any negative impact Interface has on the environment by 2020.” In order to achieve this goal Interface “completely reimagined and redesigned everything we do, including the most basic ways in which we define our business.” (www.interfaceglobal.com/Sustainability.aspx)

³⁴⁷ Savitz, A. W. & Weber, K., 2006, p242.

³⁴⁸ Sustainable Development Commission Report (2009)

There is evidence of a shift towards incorporating sustainability into the purpose of FMCG companies, as demonstrated by P&G and Unilever. It would be interesting and important research to establish what organisational structures, business models and objectives would deliver upon these aspirational goals, particularly within the complex but impactful FMCG sector.

7. Appendix 1

Example of Interview Guide Used

Each interview was tailored to the core business interests of each company. This is an example of the guide used when speaking with Miguel Pestana at Unilever.

Interview Questions for Unilever

Interviewee: Miguel Pestana - VP Global External Affairs at Unilever

Interviewer: Emily Jones. UK, 23/09/2010.

Hello and thank you.

Dictaphone and quotation usage explained and consent sought.

The study topic is regarding how FMCG firms are integrating sustainability into business strategy and how sustainability activities are being linked to business benefit, in the FMCG sector.

Sustainability and Strategy

Firstly it would be great to talk broadly about your sustainability strategy.

Q: What would you say are Unilever's sustainability leadership areas?

In 2009 you set yourselves a challenge, to double growth while reducing absolute environmental impacts. According to LCA Raw material production and consumer usage are key.

If we now focus on sustainable sourcing and the challenges and opportunities found here. Using RSPO as an ex.

Sustainable Sourcing/Certifications/RSPO

Unilever's long-term aim to source all raw materials sustainably.

For example, you have committed to purchasing "all our palm oil from certified sustainable sources by 2015" (report p19)

Q: Would you describe your participation in the RSPO? The journey/drivers/benefits/challenges/solutions

Q: This aim requires a great deal of certified palm oil. How are you tackling the issue of 'scalability'? Ensuring there is enough.

Q: Do the targets include the use of GreenPalm certifications³⁴⁹?

Q: and with tea? (Rainforest Alliance and working with smallholders)

Q: Do you use certification to appeal to consumers as well as to secure resource?

Q: Is Rainforest Alliance (tea) and Fairtrade (Ben and Jerrys) well received by consumers?

Q: What are the benefits of certification to Unilever?

BOP

'Bottom of the pyramid' markets are an area of potential business benefit through sustainability activities. Unilever have a significant presence in developing markets.

³⁴⁹ GreenPalm certifications are a useful tool for supporting the production of sustainable palm oil without the infrastructure available to segregate supply. You have committed to purchasing all of your palm oil from sustainable sources by 2015.

Q: How does this area factor into your ambitious growth plan? (to double size of company)

Q: What are the challenges to operating in this market and how do you approach these? (distribution, Shakti)

Q: What benefit do initiatives such as Lifebuoy Hand Washing Campaign bring here?

Q: A recurring theme in your report is 'working in partnership' with others. How does this support your Sustainability strategy?

And finally...

Q: what is it that sets your sustainability approach apart from competitors?

Q: Recommendations of articles or reports.

End

I have asked all the questions I wanted to. Do you have anything else you would like to add?

Thank you very much.

Quotes will be emailed prior to submission.

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