



March 2008

**Assuring Social,  
Political &  
Economic Licenses  
to Operate**

## Sustainability: The New Green



### **Artemis and Sustainability: Our Unique Experience**

Sustainability issues and the corporate communications around them are one core thrust of the Artemis Strategy Group. Since our founding we have worked across multiple industry sectors conducting research and offering consulting services on messaging strategies and communications tactics.

This month the Wall Street Journal began a large Environment section piece by saying "The push to curb global-warming emissions is starting to redraw the industrial landscape, and in doing so it has already begun to create new winners and losers. Job One for a CEO: Exploit the opportunities and shift the costs to someone else."

That may be a bit of an exaggeration, but it is a fitting lead-in to our focus in this issue of *Perspectives* on the topic of Sustainability. We gain our perspective on this from the deep involvement with the issue on the part of Artemis Strategy Group partner Jon DeWitt, as well as from our friend and colleague Stephen Lovett, co-founder of Phoenix Strategic Solutions and a long-time expert on sustainability issues in the forest and paper products industry.

We consider sustainability to be an excellent illustration of a specific application of our general theme about the importance to industries and companies of assuring that they maintain their social, political and economic "licenses to operate". We focus on helping organizations understand the interactions among these operating license areas and helping to shape their communications to the constituencies that influence each area. So in this *Perspectives* we move from the evolution and meaning of sustainability into a blueprint for effective application in an organization.

### **The evolution to sustainability**

Beginning about twenty years ago being "green" emerged as a salient and differentiating variable in corporate reputation. The enduring frustration with this phenomenon is contained in the dichotomy between what the "green" label implies, and what corporations and industries are able to deliver. Green implies being a positive force relative to the environment. Very few corporations or industries can be truly positive relative to the environment. Rather, it is challenge enough for them just to avoid being overtly damaging to the environment.

So, despite (and perhaps because of) its name and the implied promise, the green movement relative to corporations and industry began and remains as an elimination of a negative whereby corporations and industries are judged less harshly for not harming the environment, but do not earn any tangible competitive success for their efforts. At some point every company or industry will disappoint environmental market campaigners who all too often are looking to be "disappointed".

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## 2 SUSTAINABILITY

**Industry needs three types of licenses to operate in order to exist and thrive:**

### Social License

No industry can survive long-term without a threshold amount of goodwill among the general public



### Political License

No industry can survive medium term without at least a lack of animosity among legislators and regulators



### Economic License

No industry can survive even short-term without a reasonably level playing field relative to competitor alternatives with respect to:

- Operating costs
- Access to raw materials
- Access to markets
- Operational regulations



But, events and smarter approaches have brought the concept of sustainability to the fore. The difference is more than nomenclature. The widespread acknowledgement of the impacts of global climate change creates more urgency in the marketplace. Sustainability is a more sophisticated concept for integrating environmental, economic and social forces; and it is a more reasonable ambition. Further, there is increasing evidence that consumers will reward corporations and industries that make good-faith, prolonged commitments. Sustainability is the new green.

## Defining the sustainability imperative

There is no single definition of sustainability or what it takes to become sustainable.

In broad brush strokes sustainability is the active management of enterprises through their processes, products and policies to minimize negative environmental impact while ensuring the social and economic continuity of the organization. As such, it doesn't require that a corporation or industry be good for the environment, just that it not have a lasting negative impact. To this more reasonable standard comes also a new recognition that environmental sustainability is a huge and complex goal particularly when applied to large corporations and diverse industries. Consumers and even some environmental market campaigners understand that sustainability requires an on-going process, and most accept approaches to improve processes, products and policies in ways that produce incremental, but provable net positive impact on the environment.

What this means in the real world is that targeting a few areas of improvement now means more to consumers and other stakeholders than blanket claims of being green. And, it means ongoing improvement on environmental performance garners more respect than flashy promises of green end-states. Finally, it means that transparent cooperation with divergent groups gains more customer goodwill than triumphant victory over them.

The urgency for sustainable practices has also increased. The vast majority of consumers have embraced the existence of long-term climate change. And, the notion of making lifestyle and consumer choice changes to mitigate the outcome of climate change is beginning to take hold in significant ways. Today, being "sustainable" is a positive differentiator for a business or industry. In the not too distant future, being sustainable will be more a hygiene variable that allows a business or industry to merely stay in the game, but nothing more.

## Strategic choices

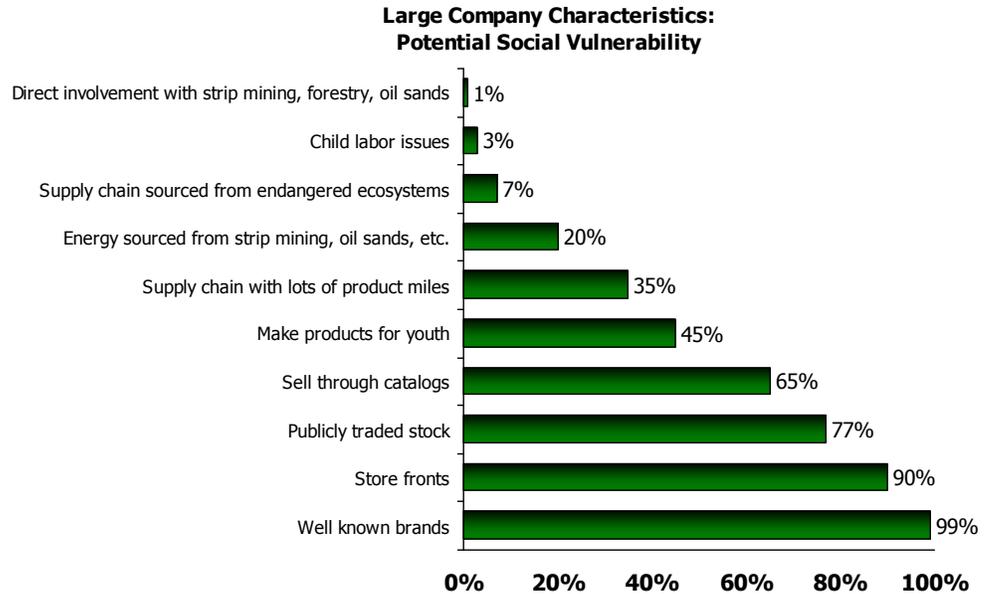
This is an over-simplification, but there are broadly two ways that companies or industries come to confront the idea of sustainability as it relates to their constituencies: as tactical capitulation or as strategic opportunity. In the former, a business or industry is (often) targeted by environmental groups that threaten market disruption, customer disruption or brand/reputation bashing if specific improvements/changes aren't made. Business efforts to ignore, placate, or combat the external challenge often meet with mixed results during which a sporadic, but protracted struggle for the "hearts and minds" of customers ensues, often to an inconclusive end.

### 3 SUSTAINABILITY



On the strategic opportunity side, recognizing the trend toward sustainability initiatives (and the real business benefits to more sustainable practices) a business or industry begins defining and developing its own sustainability program **before** being targeted by environmental or other groups.

While many companies probably view themselves as out of the line of fire, or at least farther down the list to be at risk of finding themselves in the “tactical capitulation” camp, there are a surprising number of factors, illustrated hypothetically in the following chart, that have the potential to put an organization on the defensive side of this equation.



### Developing a sustainability plan

Regardless of your starting point, it is useful to have a process for reaching the strategic choices and devising the actions to help a corporate sustainability program achieve not just its economic objectives but also its political and social objectives.

While each company will have its own unique needs, we find the following elements contribute to more successful sustainability planning and execution:

- corporate values and commitment to change;
- a vulnerability scan that includes homework with constituents and allies;
- a plan that links problem/opportunity, objectives, evaluations, costs and benefits – creatively, with a big idea;
- understand rules of engagement and potential green group partners;
- a communications program that delicately integrates corporate actions with market messages, and that monitors progress.

The big idea is the key. We briefly describe a couple of the supporting elements below.

*"Transparent cooperation with divergent groups gains more customer goodwill than triumphant victory over them."*

~ Stephen Lovett  
Phoenix Strategic Solutions

## 4 SUSTAINABILITY

### **Case Study: Forest & Paper Products**

In the mid 1990's the forest products industry faced big challenges. Social esteem diminished: 64% of Americans believed the industry harmed the environment. Political pressure hit a critical mass and economic conditions worsened with environmental regulations becoming a significant cost.

The industry responded effectively with the Sustainable Forestry Initiative (SFI) that combined strategic changes in processes and policies with disciplined messaging, and made great strides in alleviating the public's concerns over forest management practices. Today 74% of Americans believe a managed forest is superior to an unmanaged forest, and 68% believe the forest and paper products industry is a vital part of the solution relative to responsible forest stewardship.

## Corporate values and commitment to change

Sustainability plans and policies should not be undertaken lightly. Adopting a policy as a casual prophylactic measure will likely have little impact, and there have been cases where such action has actually put a company behind. The effort must be compelling and is best viewed as an opportunity to improve environmental impacts and achieve a host of benefits internal to the company. Some tangible change is almost always required – chances are the industry got in trouble because there is more than a kernel of truth behind the criticisms.

## Looking beyond the obvious: the vulnerability scan

Scans must focus both internally and externally to find vulnerabilities that could cause the company's products, brands, or reputations to become future targets. These are found at the intersection of public interest and company practices, and so both must be scrutinized through external research and internal audits.

A key in the vulnerability assessment is identifying and using research to hear from and assess the most appropriate audiences, those activist elements of civil society most in touch with the environmental and social concerns relevant to the company: community organizations, policy makers, foundations, NGOs, churches, labor unions, and naturally, the green groups themselves.

Quantifying costs and benefits can add clarity to a vulnerability scan. A few things to remember when estimating these costs and benefits:

- first, sustainability claims bring no price premiums though they may help keep and maintain market share;
- second, best practices and quality assurance approaches are probably not available, so it may take extensive research to discover what sustainability means for your company;
- third, because NGOs, government and industry harbor differing and (sometimes) misinformed notions of what sustainability is, they may make a conflicting variety of misguided demands on your company that are irrelevant to civil society. And beware those who demand their own preferred tools (like certification) to transfer the costs and responsibility for their own sustainability policies to your company.

The need to run a vulnerability scan may be a blessing in disguise, and the results of the experience can be positive.

## Partnering is better than the alternative

If an environmental partner sees the potential for a win-win in co-branding and marketing, there could be a clear pathway to extraordinary differentiation. But in an arena where confrontation is as often the practice as collaboration, it takes insight to the thought processes and priorities of those who might be opponents, and effective ways of reaching out to the right organizations, to craft an effective collaborative sustainability program.

### The benefits of a managed sustainability program

Whether your company's impetus for embracing sustainability is driven by the potential strategic opportunity or by tactical capitulation, the benefits of a well researched and well designed sustainability program are potentially many:

- Protect company reputation and brand positions;
- Improve staff and shareholder pride and morale;
- Improve efficiencies in sourcing and the operation of the supply chain;
- Answer activists' demands;
- Maintain or improve the cost structure; and
- Differentiate the company as a protector of the environment.

But it is not an easy process, and it is not simply a matter of forcing your suppliers to meet campaigner demands. If your company determines that an aggressive sustainability plan is desirable, it is critically important to understand the costs and benefits internally and throughout the supply chain.

In our experience, success also is more likely to come from building a policy around a big idea that fits with the company's corporate values and culture, and that can serve as the platform for external communications that bolster reputation.

**Artemis Strategy Group** ([www.ArtemisSG.com](http://www.ArtemisSG.com)) offers unique research and consulting approaches around what motivates behavior to help organizations make more thoughtful brand positioning, communications strategy and idea management decisions. We focus much of our attention on issues at the nexus of public policy and marketing. Sustainability is such an issue. We partner with like-minded organizations to bring powerful combinations of skills to business problem solving.

**Phoenix Strategic Solutions, Inc.** ([www.phoenixstrategicsolutions.com](http://www.phoenixstrategicsolutions.com)) is a public affairs firm specializing in issue management solutions to environmental and social license to operate challenges. The principals of the firm played a central role in the forestry industry's development of the Sustainable Forestry Initiative.

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