Jochen Zeitz, PPR and Puma

Jochen Zeitz, CEO, Sport & Lifestyle, PPR and executive chairman, Puma

Traditional accounting is no longer adequate

Jochen Zeitz is chief executive of the Sport & Lifestyle Group within the French clothing and luxury goods group PPR, and he is PPR's chief sustainability officer. He is also executive chairman of PPR-owned Puma, having served 18 years as chairman and chief executive. In 2010, he introduced an ambitious sustainability plan at Puma that aims to reduce carbon emissions, energy and water use and waste by 25% by 2015.

Zeitz talked with Ethical Corporation's Steven Wilding. Additional reporting by Oliver Balch.

Born in 1963, Zeitz has a degree in international marketing and finance from the European Business School. On being appointed chairman and chief executive of Puma in 1993, he became the youngest chief executive of a public company in German history.

Among numerous awards, he has been named strategist of the year for three successive years by the Financial Times. He speaks six foreign languages, including Swahili.

Zeitz also invented and oversaw the introduction of an innovative environmental profit and loss account, first published by Puma in May 2011. He has since announced that an environmental profit and loss account will be implemented across PPR's Luxury and Sport & Lifestyle brands by 2015.

Ethical Corporation: PPR counts a number of high profile brands within its portfolio. How are you trying to integrate sustainability across all of these?

Jochen Zeitz: Every one of our brands has a clear vision in mind: to contribute to a more sustainable business model. My role is to engage a framework for implementing sustainability for all our brands, as well as supervising its implementation. This is something that I am personally very much focused on, together with my PPR Home team. [PPR Home is PPR's sustainability initiative.]

EC: Puma has set itself tough sustainability targets for 2015. What's your thinking behind these?

JZ: First of all, we want to be more efficient in terms of reducing our impact on the planet. So we have targets for reducing Puma's CO_2, energy, waste and water consumption by 25% by 2015. It's not all about efficiency, though. We want to be more effective too. That requires innovating through our products and services, as well as through our production processes. We're trying to find new sustainable solutions rather than just being more efficient with what we're already doing.

EC: How do you convince your investors of the value of sustainability?

JZ: It's something that can also stimulate sustainable growth, not just growth per se. In that sense, sustainability is part of the story we are constantly telling investors. Not everyone believes this is the right way to go, but as a corporation we want to be part of a new paradigm – a paradigm that moves towards a sustainable way of doing business. That's fundamental to Puma's strategy – as well as PPR's – and in the long run we think it will be good for our business.

EC: Puma has taken a lead in trying to cost out its environmental impacts. What's the motivation for this?

Now we can visualise the impact we are having on the environment in dollars and cents

Puma: environmental footprint

Total turnover: **€2,706m**
Total environmental impacts: **€145m**
Core operational impacts: **€8m**
Supply chain impacts: **€137m**
Tier 4 (raw materials) impacts: **€83m**
Greenhouse gas emissions: **€94m**
Land use: **€137m**
Air pollutants: **€11m**
Waste generation: **€3m**
Source: Puma EP&L (November 2011)

JZ: Traditional accounting is no longer adequate for the challenges that we face given the planet's finite resources and levels of environmental degradation. As corporations, we need to start internalising these impacts. That's the reason we've created what we call an EP&L [environmental profit and loss] account. We can overlay this with our normal financial accounting. The basic idea is to value our environmental impact and our use of nature's services in monetary terms. Until now, nobody has ever had to pay for these. Now, we can visualise the impact we are having on the environment in dollars and cents. That enables us to start mitigating [our impacts] and to find solutions that minimise these costs.

EC: It's a bold experiment. How accurate would you say the final valuations are?

JZ: It's obviously a process and we are the first to do it. Our methodology is very clear and we are transparent with our methodology. In terms of the final figures, we've been very conservative. So far the feedback has been incredibly positive. People seem to believe this is the right way to go. The EP&L also opens up our approach for discussion with other industries and with other companies. That helps us to evolve and improve our methodology. Let's now hope that others will follow suit. ■

Emerging markets

Top tips for developing economies

Toby Webb suggests ten lessons for large companies expanding their sustainability programmes into high-growth markets

NIKADA/ISTOCKPHOTO.COM

Fast movers can be winners

Lesson one: Corporate responsibility and sustainability issues are vastly different around the world. This is true even in Europe. There remain huge differences in priorities, for example, between richer, northern Europe and eastern and southern Europe, where many basic institutions remain under-resourced.

Outside the EU, India is as different from China as it is from the UK. Everything is local and culture counts.

Lesson two: Global principles with local implementation are the only way large companies can operate successfully and sustainably. Flexibility for business is essential. The fine balance is between global principles and maintaining consistency with both corporate values and local expectations.

Lesson three: The world is more left-wing than the UK and US. This is often hard to understand for UK companies, and particularly those from the US. Most democracies are much more like those of western Europe than they are the US. This means a very different set of expectations. Most notable is the paradigm that the role of business is to serve social structures, not the other way around.

Lesson four: Governments are unpredictable on sustainability issues. This is becoming clear to western companies. This does not just apply to sustainability issues. China, for example, rules by dictat, and companies had better get in line with the latest pay rise, transparency or five-year plan expectations, and fast.

Lesson five: Institutions as we know them often do not exist. The importance of institutions is perhaps the most undervalued area within the field of global responsibility thinking. We take our essential institutions for granted, from environmental protection to child education, and often forget they have taken hundreds of years and vast wealth to develop. Expectations, particularly around behaviour, are partly governed by them. Yet by comparison they barely exist elsewhere. This has consequences, both for how companies are expected to behave, and how they might respond to play a role in filling this gap.

Lesson six: Stakeholders are unpredictable. Issues can escalate very quickly. Myriad modern examples demonstrate this is true. Getting the government onside does not mean your project or investment is safe if stakeholder engagement is failing. Vedanta in India, Asia Energy in Bangladesh and Newmont in Peru are all cases that demonstrate how quickly stakeholder reactions can shut down big business operations. When stakeholder voices and protests hit government popularity or cause major social unrest, corporate influence wanes very quickly indeed.

Lesson seven: Culture counts. Local knowledge is essential. An executive in London does not necessarily understand what people in Yorkshire are thinking. The same is true of your managers in emerging economies. Just because your office in the capital says it understands what's happening in the regions does not simply make it so. Localised information is vital to understanding emerging stakeholder risk.

Lesson eight: Agendas are mixed, but skills, education and jobs are always number one. If there is one common theme that unites disadvantaged stakeholders, it is the basics of life. This does not mean a philanthropic focus on giving to education projects will maximise societal contributions: it won't. But it does mean corporate financial or lobbying influence can often be easily focused where it can have most impact. Partnerships with NGOs and measurement of the results will always make a greater difference than simply donating cash and hoping for the best.

When stakeholder voices and protests hit government popularity, corporate influence wanes very quickly indeed

Lesson nine: The greener agenda is understood and often consumers are less sceptical than in the west. HSBC/Climate Group research in 2010 found that 57% of Chinese surveyed said climate change is the biggest issue they worry about. There is often a myth that stakeholders in emerging economies do not care about the environment. This is totally untrue. They are on the frontlines of pollution, water shortages and climate change. But they often have less capacity to act or influence. Don't confuse awareness and perceived powerlessness.

Lesson ten: Get ready for a bumpy road ahead. Global business = global complexity. It's clear the large companies, now developing global policies and targets, are just beginning to think about how these will play out on the worldwide stage of their operations and sourcing capabilities. One thing is very clear: there is a difficult path ahead, and only consistent research, awareness, monitoring and stakeholder engagement will assist firms to navigate to lower risk and greater opportunity in emerging countries. ■

COLUMNIST: TOBY WEBB

Toby Webb is founder and chairman of Ethical Corporation, and chief executive of Stakeholder Intelligence, a research and training firm. He blogs at tobywebb.blogspot.com.

NGOs and big business

Too close for comfort?

CLUMPNER/ISTOCKPHOTO.COM

Arm's length is sometimes more effective

Campaigners can wield great power by working with rather than against the companies they want to influence. But they must always stay in control, says Brendan May

This issue's feature on WWF explores the fine line NGOs must tread when engaging with big companies. WWF is not alone in finding itself attacked by those who believe the conservation movement is at risk of "selling out" to the extent that it will no longer be effective.

Big global NGOs are particularly vulnerable here, as Conservation International discovered when one of its admittedly junior representatives was taped being rather too cosy with journalists posing as executives from an arms firm.

As with so many things, much of the debate boils down to money. It isn't engagement per se that bothers critics, it's the financial transaction that can come with it. Not to mention the apparent endorsement that can be "bought", often in exchange for little fundamental change in business practices.

This is one of the strongest arguments for independent certification programmes. Although many dissenters of eco-labels refuse to accept it, you cannot buy a Rainforest Alliance or Marine Stewardship Council logo, because certification is an arm's length assessment process, with practice measured against robust standards.

Yet even certification systems must be careful not to be seen to be piecemeal, allowing a logo on one product line while the rest of a business carries on pillaging as usual.

Can NGOs ever be effective engagers of business without taking the corporate shilling? The Greenpeace experience suggests they can. Some of the most significant sectoral changes have come about through Greenpeace campaigns. Soy and cattle in the Amazon, tuna companies raising their game and palm oil progress in south-east Asia are but a few. And some of the loudest and most valuable endorsements have come from Greenpeace. Never in exchange for cash, but in exchange for visible progress.

Some NGOs settle for less, participating in tokenistic projects. Others act like public relations firms – the more money you pay the more time and the more senior the person you get handling your "account". This won't do.

Transparent objectives

In order to be a business consultancy, you either have to be transparent about the fact you're out to make money – nothing wrong with that – or you have to set very clear boundaries about what you will and won't do. Many business consultancies themselves do this, so why not NGOs?

A possible blueprint a big NGO might consider to govern its corporate relationships could be as follows.

Any engagement on a product or issue must be part of a bigger process of systemic change across the whole company. There needs to be a long-term commitment to better performance in the round, including the abandonment of unsustainable business practices.

The NGO must be able to walk away at any point and have clear and published criteria for doing so. Otherwise their credibility has no foundation. We don't hear enough stories about NGOs walking away.

The NGO, as well as the company, must report regularly on progress, citing real and measurable achievements, as well as failures.

The NGO should identify no-go sectors. If there are none, it should explain why.

The NGO must be fully transparent about the decision-making process governing which companies it will engage. It should publish its decisions and the reasoning behind them. It should also publish decisions to refuse a corporate engagement. There must not be any perception that working with one company in a sector is an "exclusive" arrangement that bars an NGO from working with competitors.

Collaboration between NGOs and business is critical in the effort to tackle the planetary crisis

There must be full transparency on financial agreements between NGOs and companies. This is the only way to combat the shroud of cynicism and doubt that endangers big NGOs' reputations.

Partnerships must come with clear conditions. Recently, Sky TV ran green washing advertisements for Asia Pulp & Paper while promoting a partnership on rainforest conservation with WWF. Either the ads or the partnership should have gone.

Collaboration between NGOs and business is critical in the effort to tackle the planetary crisis. Engagement is essential, not least because government is so fundamentally useless on so much of the sustainability agenda. But increasingly vocal questions about how engagement happens are risking a return to old debates about whether to engage at all. It's up to the NGOs who choose to work with business to stop that happening. ■

COLUMNIST:
BRENDAN MAY

Brendan May is founder of The Robertsbridge Group, UK chairman of the Rainforest Alliance and a contributing editor to Ethical Corporation.

Open access

Apple has come out fighting in the face of criticism of working conditions in its supplier factories, which are mainly located in Asia. In mid-January the company published a list of 156 facilities that provide most of the components that go into its products. The list was published alongside Apple's supplier responsibility report, which details the 229 supplier audits the firm carried out in 2011, the violations it found of its code of conduct, covering workers' rights, and environmental and ethical standards, and the steps Apple took to rectify problems. Apple also said it would let US group the **Fair Labour Association** independently assess the standards of its suppliers. Apple's move showed its "commitment to greater transparency", the Fair Labour Association said.

Shoe shop floor

An Indonesian factory producing sports shoes for **Nike** has agreed to settle up with workers for 600,000 hours of unpaid overtime run up over two years. The settlement, worth $1m to the workers at the **PT Nikomas** plant, was finalised after extensive negotiations between the factory and the Serikat Pekerja National trade union. The victory is partial because workers have probably been doing unpaid overtime for much longer, but Indonesian law only allowed the union to claim for the past two years. Nike said it "commends the factory on their action plan and efforts to correct inadequacies".

Greener skies

Flights into, out of and within the European Union are likely to be marginally more expensive in 2012 because of a requirement that **airlines participate in the EU emissions trading system** (ETS). Participation means airlines will be given emission quotas, and must have enough carbon credits to cover them. Most credits are given to airlines for free but some have to be bought on the carbon market, and ticket prices will rise as airlines pass the costs on. Lufthansa, for example, has said it expects the scheme to cost it €130m in 2012, translating into a surcharge of €3-€10 for long-haul flights.

Analysis: partnerships

Partners in sustainability

By Stephen Gardner

Businesses and campaign groups are rising above the risks to work together towards common goals

Strategically driven business-type partnerships between companies and non-governmental organisations are on the rise. Recent research from C&E Advisory, a sustainability consultancy, found an increase of 10% in such partnerships over the preceding 12 months, while other types of partnerships declined.

Business-type partnerships are defined as NGOs and companies working together to improve corporate practices, or for social business development – partnerships for greater corporate responsibility, in other words. They contrast with other partnerships, such as cause-related marketing, simple endorsement or sponsorships.

Two recent examples illustrate the trend. First, American NGO ForestEthics has worked with banana giant Chiquita to eliminate from its vast transportation fleet fuel derived from Canadian tar sands. Tar sands produce "the dirtiest oil on Earth", the campaigners say, and it was pushing Chiquita to join other companies pledging to steer clear of it. The company has now put in place a policy to work with ForestEthics to trace its fuel supplies back to source, and sever links with tar sands crude refineries.

Second, Greenpeace and Facebook have agreed to collaborate on a project to switch the social network's data centres to renewable energy. The agreement comes in the wake of a two-year campaign to persuade Facebook to "unfriend coal", during which Greenpeace mobilised 700,000 supporters to message, poke and generally pressurise Facebook into changing its ways.

The campaigns both focused on single, high-profile companies with emblematic value. ForestEthics director Aaron Sanger says that creating such examples can motivate other companies. "It is important for all companies to follow leadership examples, especially if the leader and the follower are in the same sector. This helps competitors keep pace," he says.

Now for the big boys

ForestEthics now has Wal-Mart and US supermarket giant Safeway in its sights. Both "burn an enormous amount of gasoline and diesel to move their products in huge trucks all over North America," Sanger says. Persuading them to change their ways could have a real impact on demand for tar-sands-derived fuel. "Because of the corporate sector's public influence and buying power, when large brands take action on environmental or social problems in their footprint, they can help to bring about practical solutions," Sanger adds.

Mauricio Lazala, deputy director of NGO the Business & Human Rights Resource Centre, says such partnerships are "not necessarily a natural collaboration". He says such initiatives "require extra efforts on behalf of both the NGOs and the companies" because of their different cultures and objectives. There are also risks. Some NGOs might "consider that a partnership would undermine the credibility of any subsequent campaigning they undertake in relation to that company or sector", and due diligence is necessary.

DAN_PRAT/ISTOCKPHOTO.COM

Chiquita looking for cleaner energy sources

But companies and NGOs recognise that each has assets that can produce benefits when combined in partnership, and ultimately both have the same objective, which is to operate effectively within sustainable constraints.

Business-type partnerships can be "win-win", Sanger says. ForestEthics wants companies to "adopt a model of continuous improvement" in ethical terms. "As long as the company continues to make adequate progress, we will support that progress; and as long as the company insists on continuing destructive activities, we will work to change them." ■

Responsible investment: Uncomfortable truths highlighted by Henderson

Posted by Rory Sullivan [1] on Jan 10, 2012

The closure of Henderson Global Investors SRI research team raises questions about investment incentives and motives

In a recent article [2] for Ethical Corporation, Mike Tyrrell set what he saw as the challenges for the socially responsible investment (SRI) industry resulting from Henderson Global Investors' decision to close its highly regarded SRI research team.

Tyrrell's conclusions were essentially optimistic: that Henderson's decision was an isolated one (rather than one that had a implications for the wider responsible investment industry), and that we can rely on responsible investment industry to respond appropriately.

While there is much that is compelling about this argument, I am not swayed by his optimism. My view is that Henderson's decision actually exposes a set of uncomfortable truths about the incentives for responsible investment, and is likely to tell us much about the real motivations of investors.

Incentives for responsible investment

One of the most common complaints – which is often stated in private but rarely publicly – in the responsible investment industry is that clients (be they asset owners, IFAs, individual investors) pay limited attention to the SRI activities of their investment managers.

Generally, the complaint goes, they offer limited reward for those that do an excellent job of integrating environmental, social and governance issues into their investment processes, to those that proactively engage with the companies on environmental, social and governance issues, or to those that offer high quality SRI (or ethical) funds.

In fact, the pressures tend to be all in the other direction. There is consistent downward pressure on fees, there is limited explicit consideration of responsible investment factors in investment decisions, and there is limited weight assigned to responsible investment factors in appointment/reappointment decisions. Taken together, these pressures send a signal to investment managers that responsible investment is really not valued by the market.

Henderson's reasoning

Were these the realities that Henderson Global Investors encountered? It would be hugely valuable to know what the decision hinged on.

Was it primarily about Henderson's positioning and strategy – where it sees the greatest opportunities going forward, for example. Or was it about operational and resourcing issues –did Henderson's feel it could add more value to its investment processes through hiring non-SRI specialists). Or was it about the economic realities of running high quality SRI funds – eg how much demand is there for such products, and what does the cost base of such funds look like versus the fees that accrue?

Specifically, if it is Henderson's view – based on one of the most impressive track records in the City of London in this area – that the market demand for SRI funds is limited or that the costs associated with running such funds outweigh the revenues that such funds can generate, these are hugely important lessons for the responsible investment industry as a whole.

Industry response

Thus far, the response to Henderson’s decision has been predictable: a number of “ethical IFAs” have criticised Henderson’s decision and some have even threatened to move their investments to other investment managers.

But, as we all know, there is a significant difference between rhetoric, which is cheap, and action, which may, depending on transaction and other costs, be significant.

The questions that investors – both individual organisations such as asset owners, other investment managers and IFAs, and industry groups such as the UN-backed Principles for Responsible Investment – should be prepared to answer are:

- What are your views on Henderson’s decision?
- How exactly does Henderson’s decision affect your willingness to invest in (a) Henderson’s SRI funds, (b) Henderson’s other investment products?
- What changes have you made to your or your clients’ portfolios as a result of Henderson’s decision?
- If you have moved money out of Henderson’s funds, how much has actually been moved?

Of course, this call for transparency is unreasonable. There is no requirement for investors to make this kind of information publicly available (apparently it would undermine the ability of markets to function effectively), and voluntary disclosures never seem to provide this sort of specificity.

This problem is recognised by the Principles for Responsible Investment. Its new signatory reporting framework, which all PRI signatories will be required to report against, is likely to ask questions about how responsible investment-related factors are considered in manager appointment and reappointment processes. This will be in the requests for proposals that are issued, in the contracts that are awarded and in the manner in which investment managers are monitored. The reporting framework also encourages respondents to provide examples of how they have taken these issues into account.

A major contribution

These comments should not be seen as a criticism of Henderson’s decision. I agree with Mike Tyrrell that we should acknowledge the major contribution that Henderson Global Investors has made to the development of SRI over the past decade, and that we should also allow them the right to make the decisions that they see as in the best interests of their business.

Where I disagree with Tyrrell is that the responsible investment industry will respond appropriately. Henderson’s decision provides us with a huge opportunity to dig more deeply into the incentives (or lack thereof) for investment managers and other actors to invest time and resources in responsible investment.

This is not yet another call for transparency for transparency’s sake. Rather, it is that we have assumed there is a compelling case for responsible investment and that key actors will take action if/when needed. Henderson’s decision provides us with a real opportunity to test that assumption. If this assumption is not correct, we need to consider how to design rewards and incentives that strengthen the business case for progressive action in this area.

Dr Rory Sullivan is an internationally recognised expert on corporate responsibility, climate change and investment-related issues. He is strategic adviser, Ethix SRI Advisers, a senior research fellow at the University of Leeds and a member of the Ethical Corporation Advisory Board.

Links:
[1] http://www.ethicalcorp.com/users/rory-sullivan
[2] http://www.ethicalcorp.com/governance-regulation/rip-henderson-sri-what-now-0

Sustainability news roundup – February 2012

Posted by EC Newsdesk [1] on Jan 31, 2012

Moves from BASF, Apple, Nike and all the latest from other brands in corporate responsibility this month

In the pipeline
Meanwhile, a controversial plan for a pipeline to send Canadian oil to the Texan Gulf Coast received a setback in mid-January when the US president, Barack Obama, denied a request for a permit. Obama rejected the **Keystone XL** scheme on a technicality related to a deadline imposed by Congress, and project promoter **TransCanada** said it would file a new permit request. There has been widespread opposition to the scheme, including from the **American Sustainable Business Council**, which said in January that it would increase highly polluting oil production from Canada's tar sands, and would mainly benefit oil companies that would profit from the refining and re-export of the oil. Investment in clean energy would make much more sense, according to the council.

Global wish list

The **United Nations Rio+20** conference in June – the follow-up to the historic 1992 Rio Earth Summit – will prioritise discussion of 15 broad-ranging issues, according to the conference organisers. The list amounts to a summary of the mega-issues that humanity must deal with if the world is to be put on a sustainable path, and may give an indication of the areas in which conventions and commitments might be signed at the conference. The priority issues are chemicals and waste, cities, climate change, education, energy, food security, forests and biodiversity, gender equality, green jobs/social inclusion, land degradation and desertification, mountains, natural disasters, oceans and seas, sustainable development and production, and water. The topic list was decided on following a consultation process that included input from business groups.

Soy source

The **Netherlands** is backing its pledge to import only responsibly produced soy by 2015 with a €7m scheme that will help farmers in South America gain **Round Table on Responsible Soy** certification. The money is provided by business groups and the Sustainable Trade Initiative. If the Netherlands is to keep its promise, the amount of certified soy it sources annually will have to rise from about 500,000 tonnes in 2012 to 1.8m tonnes. Holland is Europe's biggest soy importer. The crop is used in foods and household products, and in cattle feed, but soy production has been associated with deforestation, expropriation of lands, and exploitation of workers.

Catalogue of catastrophe

Natural catastrophes cost humanity a record sum in 2011, according to data published by insurer **Munich Re**. At $380bn, the economic havoc wreaked by disasters smashed the previous record of $220bn in 2005. The most expensive events were earthquakes in New Zealand in February and Japan in March, and extreme flooding in Thailand during the rainy season, which caused extensive and prolonged disruption, including to about a quarter of the world's computer hard drive component supply. The overall number of events classified as natural disasters was down on 2010, but the overall trend is steadily upwards, driven by more frequent weather-related disasters.

Bitter harvest

German chemicals giant **BASF** has said it will close down its plant biotechnology business in Europe – because Europeans don't want genetically modified crops. The company said that **BASF Plant Science** would relocate to Raleigh, North Carolina, where it would "concentrate on the attractive markets for plant biotechnology in North and South America and the growth markets in

Asia". In Europe, "the majority of consumers, farmers and politicians" continued to resist GMOs, according to the company. The move to the US will cost 140 European jobs. Greenpeace said BASF would also find problems outside of Europe, with "China, India, the Philippines, Thailand and elsewhere" also placing limitations on GM cultivation.

Green groups attacked

Green groups are killers of good energy projects and threaten to undermine Canadian energy exports, the **Canadian minister of natural resources, Joe Oliver**, has said in a scathing open letter. According to Oliver, Canada's system for approving projects such as pipelines that would allow energy exports to Asia needs an overhaul because it is full of loopholes that can be exploited by organisations with a "radical ideological agenda". Environmental campaigners "attract jet-setting celebrities with some of the largest personal carbon footprints in the world to lecture Canadians not to develop our natural resources", Oliver says. If that fails, they will "take a quintessential American approach: sue everyone". Canadian opposition MPs and groups such as Greenpeace have criticised the remarks, saying that they served the interests of oil companies.

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Links:
[1] http://www.ethicalcorp.com/users/ec-newsdesk

Letter from America

Strategic cathedrals of confusion

Sustainability strategising is all very well, but it needs to be properly focused, argues Peter Knight


IVELINRADKOV/ISTOCKPHOTO.COM

The right strategy can be game changing

If the economy smiles kindly on America this year, expect a rash of sustainability strategies as more companies engage with the issue.

But the problem is that what poses as strategy is often nothing more than sloganeering. This is because strategy is much like love: a word widely used to create cathedrals of confusion.

A so-called sustainability strategy could be as follows.

- An operational strategy that ensures your business contributes to sustainable development. This should be the real thing.
- A marketing strategy to communicate your sustainability efforts to a mass audience. Slogans are important here, like Ecomagination and Smarter Planet.
- A stakeholder communications strategy – a plan to ensure influencers (eg NGOs, investors, raters/rankers, policymakers) are well informed about your sustainability efforts.
- A sustainability reporting strategy – a plan that defines how, and how thoroughly, you report on your sustainability performance.
- None of the above, but merely a list of vague sustainability promises branded as a strategy.

When talking strategy it pays to be clear what you mean by the word. For clarity, a strategy contains three essential and related elements, the Triple A: analysis, approach and action.

Analysis – A strategy tackles a problem. How do we revise insurance algorithms to accommodate climate change? How do we expand without decoupling growth from the negative impact on the planet?

These are very big problems. That's why the first step in developing a strategy is deep analysis that deconstructs the problem and provides a diagnosis. Only when you know the extent of the problem can you work out what needs to be done (your actions) to find a solution.

Approach – Before you make your action list, you need to decide on how you will approach the necessary actions. This is your style, your attitude, your principles that will govern the way you implement your actions.

Defining your approach is important because it helps you implement the actions, especially when things get rough. For example, your diagnosis could be that you are losing market share because you have the wrong product lines to meet changes brought on by, say, rising energy costs. This could mean that certain lines will have to be dropped, and with them go jobs. Your approach – your principles – will define how you deal with those job losses, and will help you remain resolute in implementing your planned actions.

Action – Only after you have completed your analysis, diagnosed the problem and agreed on your approach do you create your actions. This is when you set your long-term goals, short-term targets and plans to create the change that is needed. So many "strategies" are simply arbitrary lists of actions without the context of the analysis and diagnosis.

A true sustainability strategy will be difficult to differentiate from a good business strategy. For example, DuPont and Dow see the demands of sustainability shaping their markets and determining their product offerings. Unilever's Sustainable Living Plan goes to the heart of its business and diagnoses the problem as one where the company cannot grow unless it tackles the negative impact of ever-increasing consumption.

A true sustainability strategy will be difficult to differentiate from a good business strategy

GE's Ecomagination, while highly imaginative and effective, is more of a marketing umbrella than a true strategy. Ecomagination – as with IBM's Smarter Planet – successfully tackles the problem of market perception by bundling related product lines under a snappy brand. But there is no strategy to deal with the intractable problems of adapting the company to a sustainable path. This in no way diminishes the value of a branded bundle, but it would be wrong to pass these marketing ideas off as sustainability strategies.

US companies – even during the recession – have made great strides in recognising the business importance of sustainability. Steadily increasing numbers of significant companies are now world-class sustainability reporters and are starting to make a bigger play in their marketing communications about sustainability.

It is looking likely that the US economy will actually grow a little this year. With the American natural bent to big things up, we could see a rash of sustainability "strategies" launched in the coming months.

But it is likely that most of these "strategies" will be little more than marketing feel-good concepts: slogans for a better world. Let's hope for more than that. ■

COLUMNIST: PETER KNIGHT

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Sky Bigger Picture Review 2011

Elephant-sized cloud in the Sky

By Peter Mason

Sky reports impressively, if avoiding any mention of its company chairman

You will search in vain for mention of James Murdoch within the 117 pages of UK television company Sky's latest corporate responsibility report, even though he is chairman of BSkyB (which trades as Sky).

To be fair, the Bigger Picture Review covers the year to June 30 2011, a period that did not fully embrace the unsuccessful investor initiative to oust Murdoch over concerns that his links to the phone-hacking scandal at News Corporation would damage BSkyB's reputation. But a more ambitious organisation may have bitten the bullet and at least alluded to the affair.

It will be interesting to see how Sky tackles the subject in next year's report, if at all. Looking at this year's document, the suspicion is that it will be brushed under the carpet.

Why does this feeling arise? Sky has been producing generally commendable reports since 2002, yet one gets the sense that it would always rather accentuate the positive than contemplate anything of a negative hue. This is a common and understandable corporate trait. But unfortunately the tone of Sky's report suggests the relentless positivity is underscored by a degree of self-satisfaction.

Influence outreach

This is partly evidenced by the opening statement of chief executive Jeremy Darroch, who proclaims confidently that "with our own house in order" Sky now needs to focus its attention on influencing the behaviour of others. Even if this rightly recognises that as a UK and Irish broadcaster, one of Sky's key contributions is the persuasion it can wield through its programming and community efforts, it sounds dangerously complacent. It may also explain why the Bigger Picture Review gives only brief attention to some areas of potential impact that deserve more consideration.

There is, for instance, just one brushstroke paragraph on responsible gambling, even though Sky, through its Sky Bet subsidiary, is now a major player in the UK's sports betting market. And there is nothing of any note on the journalistic standards of Sky's news coverage, despite the debate raging on this – not least because of News Corporation's failings.

This air of "all is well, don't worry" extends to the review's treatment of various setbacks and challenges during 2011. For example, we discover that there was a rise in employee absence figures during 2010-11, but we are offered no interpretation, discussion or comment other than that Sky "will seek to address this in the coming year".

Easy ride?

More evidence of Sky giving itself an easy ride emerges in the environment section, where the review describes the company's 10 green targets as "very challenging". Figures in the data section suggest otherwise. Sky has set itself a target of a 20% increase in energy efficiency by 2020 on a 2008-9 baseline, yet it has already comfortably exceeded that figure – with eight years to go. It wants to cut CO_2 equivalent emissions by 25% by 2020, yet had already made reductions of 19% by mid-2011.

The over-riding sense that Sky would rather not look too critically in the mirror takes away from what is in many aspects an impressive report. As one would expect from a broadcaster, information is well presented, nicely illustrated, clearly written for the most part, and almost entirely jargon-free. It's an easy read.

The PDF version hangs together well, even if its web counterpart is rather less cohesive and tends towards duplication of information. Aside from the written material there is plenty of useful data – including a helfpul snapshot of performance against key financial indicators.

Throughout, there is a clear sense of what Sky wants to achieve and how it wants to get there, aided and abetted by a sensible framework articulated early in the document. In many places the review sets out the business case for making social and environmental improvements very clearly.

It also ably demonstrates that there is much for Sky to be proud of. The company has racked up some impressive achievements, and a corporate responsibility report is of course the right place to showcase these.

But Sky should leaven this information with more self-examination. It needs to ask questions about whether it is really making the great progress it seems to think it is making, and to look more deeply for potential problems hiding around the corner. If it can do this then it will improve its reporting immeasurably. It might even pluck up the courage to mention Mr Murdoch. ■

Snapshot

Follows GRI? Yes, GRI Content index published for the first time this year. C (self-declared).
Assured? Yes, for community and environmental data.
Materiality analysis? Yes
Goals? Yes
Targets? Yes, but mainly on the environment.
Stakeholder input? Yes
Seeks feedback? Yes
Key strengths? Good structure, clearly presented and well written.
Chief weakness? Lacks a warts-and-all approach.
Pleasant surprise? Impressive amounts of data.

Sky needs to ask questions about whether it is really making the great progress it seems to think it is

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Letter from America

Small is hitting the bigtime

J-Lo's watching her footprint

Peter Knight says straitened circumstances might inadvertently lead the average American to a more sustainable lifestyle

At the New York cupcake chain Melissa you won't find any of the monster cakes popularised in Sex and the City. Melissa makes colourful cakes no larger than a chocolate truffle – perfectly formed micro-cakes that sell for a dollar each and can be consumed in one, swift, guilt-free mouthful.

Melissa is not alone, merely ahead of the culinary fashion curve, which started with something called "small plates". Conventional American restaurants used to pride themselves on serving jumbo portions. A chef's salad, for example, contained so much finely chopped iceberg lettuce that even a hungry goat would demand a doggy bag.

High-end chefs came up with the wheeze of small plates, a sort of tapas arrangement that forced you to buy lots of individual dishes in order to have a moderate meal. The practice – excellent for the waistline but terrible for the wallet – is firmly embedded in US cities.

But the question is how will small plates play in Peoria? This saying – the equivalent of the Man on the Clapham Omnibus in the UK – emerged during the variety era when troupes would travel from New York to Chicago, stopping to test their acts in this Illinois manufacturing town situated in the agricultural heartland of the mid-west.

On a recent visit to Peoria I asked about the fortunes of a newish "locavore" restaurant – specialising in locally sourced products – that had been favourably reviewed in the Wall Street Journal. Apparently it is doing very well, but diners note that the delicious portions are disturbingly small.

Cars are shrinking too. Detroit used to hate small cars, much preferring the thirsty, more profitable monsters that epitomised the American dream. This attitude changed dramatically following the General Motors and Chrysler bailouts. Ford survived without government money, largely because it was better connected to its markets and had smaller, more fuel efficient vehicles to offer a cash-strapped nation facing ever-higher gasoline prices.

One of the best-selling domestic cars is the Chevy Cruz that appeals to commuting drivers who have to cover considerable distances. The recently launched Chevy Sonic has received wide acclaim because it looks good, has a bit of zip and is well appointed inside. All those attributes were lacking from earlier, ghastly small-car offerings from GM.

Low-emission diva

And guess who is selling the Fiat 500 in television ads? Jennifer Lopez. In the old days, this superstar diva would not have been seen in anything smaller than a Range Rover, the essential blacked-out transport for urban pop stars. But now we can watch J-Lo driving her Fiat back to her old 'hood where she and the itsy-bitsy 500 are adored by the street kids.

A Fiat 500! In America! In the 'hood! Truly A-mazing.

Reflecting this social acceptance of small from a totally different angle is the national icon of Coca-Cola, which proudly advertises its smaller-portion drinks, or what it calls its "mini can". You can now get 7.5-ounce (220ml), 90-calorie serving of Coca-Cola, Cherry Coke, Sprite and Fanta Orange. This shift was a response to pressure from the health lobby, which is concerned about the role of sugary drinks in obesity. The drive to small reverses an earlier trend to big drinks – or "gulp" sizes.

Past excesses have battered the economy and Americans are shrinking their consumption simply to get by

In government, both state and federal, small is definitely trending big. Under relentless pressure from fiscal conservatives, libertarians and the far-right Tea Party, legislators are trying to cut the size of government, and in so doing, shrink the deficit.

Small government is hot at the moment, and calls for it to get much, much, smaller play very well in Peoria. Presidential contender Rick Perry's now famous brain freeze during a TV debate was triggered by his inability to remember the three departments of federal government that he was promising to cut.

A nation eating smaller portions from smaller plates, driving smaller cars while drinking smaller Cokes, and being ruled by a smaller government sounds rather sustainable. But unfortunately the slimming of America has got nothing to do with the realisation that the world's dominant economy should really reduce the size of its bloated environmental footprint for the greater good of the planet. That could be the consequence but it's not the impetus.

Small is big in America because past excesses have battered the economy and Americans are shrinking their consumption simply to get by. The good news is that this will benefit the environment while helping the nation adapt psychologically to playing a smaller role in the world. Make mine a single. ■

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