ENVIRONMENTAL LEADERSHIP

Turnaround Companies

Richard MacLean

Could your company bounce back from a brand-crushing disaster—and not make the same mistakes again?

Companies with some of the most tarnished images have transformed themselves from being viewed as environmentally or socially irresponsible pariahs to darlings of the media, the public, and even activist nongovernmental organizations (NGOs). Other companies have accomplished this transformation in the short term, only to fail later on.

What are the key ingredients for a successful, long-lasting corporate makeover? To answer that question, it helps to understand something about the history of corporate attitudes on the environment and social responsibility.

Passion and Profit

For decades, entrepreneurs with passionate convictions about the environment and social responsibility have been starting privately held new businesses that built concern about these issues into their corporate culture. At these companies, it wasn't about marketing; it was about core values. Only later did the full marketing potential of their corporate culture become obvious. Companies such as The Body Shop, Stonyfield Farm, Ben & Jerry's, Full Sail Brewing, Timberland, and Patagonia come to mind.

The founding CEOs of these organizations were willing to incur extra costs, and they did not have to justify these expenditures to shareholders. For most companies, however—especially publicly held companies—environmental and social responsibility revolve around following the law, making payroll, and ensuring optimum shareholder returns.

The Not-So-Good Old Days

From the 1960s through the late 1980s, environmental and social responsibility initiatives were a tough sell at the vast majority of businesses. And the corporate-image dimensions of these issues were almost entirely reactive: Keep in compliance, maintain a low profile, and conduct damage control when necessary.

In those days, the strategy for most corporations amounted to defensive posturing rather than proactive positioning. The concept of purposely building an eco-friendly brand image or selling green products would have been seen as absurd.

Published online in Wiley InterScience (www.interscience.wiley.com).
DOI: 10.1002/tqem.20266

The Evolution of Corporate Green

But starting with the 1990s, a series of events occurred that would change this intransigent strategy forever. First, the environmental debate started to shift from legislating new regulations to the longer-term concept of sustainable development. This gave savvy corporations a chance to raise their public relations game. It's hard to put a positive spin on your company's compliance with a pollutant discharge limit. But there is plenty of maneuvering room when portraying your support for the much vaguer concepts of sustainability and social responsibility.

Second, the environment was visibly improving, at least in developed countries. So the public was more willing to listen to industry talk about its positive accomplishments. They felt less threatened that the next Superfund site, smokestack, or landfill would turn up in their backyard.

It's hard to put a positive spin on your company's compliance with a pollutant discharge limit.

Third, companies were finally getting their communications act together, hiring public relations consultants and proactively positioning themselves. For the first time, NGOs and activists were meeting their match when it came to winning the hearts and minds of the public.

Environmental Politics

Finally, there was the birth of modern environmental politics. Sure, there had been legislation, lobbying, and regulations in the past. Indeed, these were at the heart of the environmental movement's first wave. And certainly there had been industry damage control in the wake of catastrophic incidents, such as the Bhopal toxic release in India that killed thousands. In fact, disasters such as these spawned industry voluntary initiatives like Responsible Care.® But the new generation of environmental politics that arrived in the 1990s was more complex.

The Turning Point

British writer Peter Doyle believes the turning point was the 1995 protest movement that Greenpeace organized over the Brent Spar North Sea oil tanker buoy.[1] The operators of the buoy, Esso and Shell UK, planned to sink the decommissioned loading facility in British territorial waters. They had conducted extensive environmental studies and obtained the necessary permits, but that didn't stop Greenpeace from portraying the plan as environmentally irresponsible.

Although the facility was jointly operated, Greenpeace focused on Shell, initiating a widespread boycott of Shell service stations in Europe. Eventually, the plan to sink the buoy was abandoned because, as Shell stated, "The Spar had gained a symbolic significance out of all proportion to its environmental impact."[2]

While Shell was legally and technically in the right, its brand had been damaged. Commentators began to use terms like "eco-terrorism" and "environmental realpolitik" to describe the pressure that could be brought to bear on companies facing boycotts.

Shell went into high gear to bring back its brand—hiring top-tier consultants, conducting focus groups, and spending hundreds of thousands (if not millions) of dollars in the process. In relatively short order, they were attracting positive attention from NGOs and producing some of the most highly rated sustainability reports of the era, as documented in evaluations sponsored by the United Nations Environment Programme.[3]

Playing Hardball

Around the same time, Nike was being singled out by activists for its labor practices. The company was accused of human rights and labor law violations at overseas manufacturing facilities in countries such as Vietnam, Pakistan, and Cambodia.

Like Shell, Nike fought back. The company engaged in an aggressive advertising campaign and employed a network of independent auditors (such as university professors) to audit and verify working conditions.

Environmental and social activists had long played political hardball. But the Brent Spar and Nike cases made clear that their activism was now reaching new levels. And in the intervening years, the pressure has only increased.

Meeting the Threat

Businesses need to sharpen their environmental and social responsibility efforts if they want to stay ahead of this game. Doyle states, "[Companies] will have to work very much harder to establish their own environmental credentials with the media and the general public." And they "will need to include long-term environmental considerations up front with other business factors in their decision making processes before, and not after, embarking on new, large scale enterprises."

The first wave of environmental regulations was expensive for companies, but most found it possible to add control devices and not disrupt ongoing operations. Regulations were finite in scope, and corporations could hope to soften their impact through lobbying and political influence. Some companies successfully challenged legal requirements in court, winning arguments about "sound science."

But the new brand of environmental politics is much more threatening, expansive, and unpredictable. It can impact brands and initiate product boycotts that are aimed right at the bottom line. Moreover, it is frequently driven by strong emotions that bear little relationship to the facts. This last point is key because, in an emotion-driven environment, those who can shape and control messages have much to gain.

Controlling the Message

Companies have long known that lobbying—delivering their message to legislators—can be extremely cost-effective. Numerous research studies have shown the positive return on investment (ROI). For example, a 2009 study from the University of Kansas considered a case where companies lobbied successfully for a one-time reduction in the tax rate they had to pay on profits earned abroad. One company spent $8.5 million lobbying on the issue and saved a total of $2 billion in taxes. Overall, the study found that companies had realized an ROI of 22,000 percent on their lobbying expenditures.[4] Might lobbying (i.e., advertising) directly to the public yield similar positive results?

Until the late 1990s, most corporate efforts at environmental image enhancement focused on damage control in the wake of some major crisis. But then a dramatic shift occurred.

Companies now also recognize that they can use their resources to collaborate with the NGOs with whom they formerly battled in court over regulations. "Partnership" has become the new environmental buzzword. Cynics might say that NGOs have been skillfully co-opted. But the public, which reaps the benefits of an improved local environment, seems largely unconcerned.

Total Makeovers

Until the late 1990s, most corporate efforts at environmental image enhancement focused on damage control in the wake of some major crisis. But then a dramatic shift occurred.

Companies such as General Electric and Walmart were facing chronic image problems regarding environmental and labor issues, respectively. So they went beyond damage control. They initiated highly successful makeovers based in part on intensive advertising campaigns that stressed the eco-friendly aspects of their product or supply chains. BP initiated similar efforts to go "beyond petroleum." At the same time, corporate sustainability reporting was reaching new levels of transparency.

By that point, we had entered a new era of expectations for corporate environmental and social responsibility performance. It was much different from the world that earlier companies faced. In earlier days, environmental leadership was based on the core values of company founders. But the new green centered on business decisions that ultimately sought to increase ROI.

Turning It Around—Or Not

Exhibit 1 lists examples of companies that have successfully made themselves over. To date, these turnaround companies have been able to retain their new images.

Unfortunately, other corporations have not been so successful. Some initially turned things around, only to subsequently find their image damaged again—sometimes in spectacular fashion. **Exhibit 2** offers examples of image makeovers that fell short.

How did the successful companies do it? What went wrong at companies that couldn't maintain their new image? How do turnaround companies succeed or fail? The discussion that follows offers some insights into what works, and what doesn't.

Corporate Green Staying Power

Companies founded on core environmental and social responsibility principles have not lost

Exhibit 1. Turnaround Successes

Company	Issue(s)	Old Issues	New Dimensions
Chiquita Brands International	Human rights	Accused of creating the original "banana republic"	Case study in partnerships (Rainforest Alliance)
Talisman Energy	Human rights	Operated an oil company in Sudan, accused of supporting a government known for its human rights violations; divested Sudanese assets under pressure from NGOs	Elevated in 2006 to Dow Jones Sustainability Index
Nike	Labor	Accused of child labor and human rights violations	World-class workplace audits
Walmart	Labor	Labor issues	Greening the supply chain
BHP Billiton	Environment, human rights	Environmental issues at the Ok Tedi mine in Papua New Guinea	Industry leader; top sustainability reporter
GE	Environment	PCBs in the Hudson and Housatonic Rivers	Ecomagination program
Exxon Mobil	Environment	Exxon Valdez oil spill	Slowly repairing image; algae biofuels research is a potential game-changer
Duke Energy	Environment	Operator of coal-fired electric power plants; target of US EPA enforcement action under the Clean Air Act	Leader on climate change policy; supports cap-and-trade
Consolidated Edison	Environment	Explosions leading to deaths and, in one instance, a corporate felony conviction	Industry leader in innovation
Smithfield Foods	Environment	Target of US EPA enforcement action under the Clean Water Act; paid some of the largest penalties ever imposed under the law	Sector leader in environmental management systems
Rohm & Haas	Process safety, environment	Worker injuries, environmental enforcement actions	Responsible corporate citizen (now a Dow subsidiary)
McWane, Inc. (pipe foundry)	Safety	Accused of operating one of the country's most dangerous workplaces; numerous OSHA enforcement actions	One of the best records in their industry sector

Exhibit 2. Image Makeovers That Fell Short

Company	Issues	Start	+~5–10 years later	+~10–20 years later	Current
Shell	Environment, human rights	Brent Spar and product boycotts	Engaging stakeholders	Human rights issues; scandals	Top reporter, regaining credibility
BP	Environmental, process safety	Accused of being a "greedy/dirty" oil company	Beyond Petroleum	Spills; process safety issues, including explosions at Texas City refinery and Gulf of Mexico drilling rig	Top reporter; contract-worker exposure lawsuit under way; struggling to regain their reputation
Pacific Gas & Electric Company	Environmental	Industry environmental leader	Accused of contaminating drinking water (basis for the movie *Erin Brockovich*)	Low public profile	Utility industry environmental leader
Ford Motor	Environmental	Manufactured trucks and SUVs that are viewed as energy-inefficient and polluting	William Ford Jr.'s highly public green efforts	Emphasis still on producing SUVs and trucks	Missed opportunity with hybrids; in better financial shape than other U.S.-based automotive companies

their image. Probably the ultimate staying power has been demonstrated by DuPont, which has focused on safety for more than a century.

But far too often, an initial rush of attention to environmental and social responsibility issues can dissipate with time. Sometimes the change can happen almost overnight—for example, with the departure of a CEO. William R. Blackburn, author of *The Sustainability Handbook,* calls this phenomenon the "Tylenol Syndrome":

> Companies jump on board risk and crisis management and response programs in the wake of some headline disaster, but the resources and infrastructure for that fades year after year as no big, new disaster with business consequences shows up and as pressures to control costs and cut headcount continue. Eventually the infrastructure erodes away just in time for the next disaster to appear again, which prompts a scurrying around and re-building of all that withered away. If the company is lucky, the next disaster isn't theirs.[5]

These factors appear to be at the heart of many company turnaround failures. Organizations may take the right steps and say the right words in response to an obvious disaster, but their core values do not necessarily shift.

An advertising campaign launched to counter a brand crisis may have only a superficial relationship to what is really going on within the company. It is the company's actions over the long term that will ultimately decide whether the turnaround attempt succeeds or fails.

Making Change Permanent

Taking the initial step toward a higher level of green performance is undoubtedly important. Such a step can garner valuable attention and serve as inspiration for further improvement.

Quiznos' CEO Rick Schaden recently announced that the company would begin using bowls made of sugarcane pulp and napkins made from recycled materials. Quiznos is a privately held company with 4,000 franchise restaurants. The company's Web site states, "We know that packaging changes are a small step in the grand scheme of going green. But by taking this first step, we're creating a larger market for post-consumer materials and attempting to reduce the flow of packaging waste to landfills in 2010 and beyond."[6]

After taking these first steps, however, what can companies do to make sure their actions are meaningful and long-lasting? Here are seven suggestions.

Don't Overstate

Sometimes companies make inflated claims about being green based on minor changes, such as superficially improving one product line or installing a few solar panels. These overstatements can lead to charges of greenwashing. Quiznos did not make this mistake.

Companies establish themselves as sustainability leaders not by attempting to excel at everything, but by having their overall act reliably together and excelling in just one, or possibly two, specific niche areas.

Get Your Fundamentals in Order

Too many companies focus their green initiatives on marketing, only to be tripped up by embarrassing failures on basic issues related to environmental protection, employee safety, process safety, or social responsibility. To the public, these four areas represent a continuum, and a failure in one is failure in general.

Companies need to do more than just spend money on a marketing campaign. They also need to do what is required to make their core programs bulletproof when it comes to compliance and meeting the basic norms of corporate behavior.

Institute Effective Governance Systems

Outstanding governance and audit systems are essential to ensure that the company is complying with laws and regulations, internal company policies, and international standards of corporate responsibility. The motto must be "no surprises."

Align Your Messages Internally and Externally

To go green, a company must be consistent. The company's behind-the-scenes lobbying efforts and marching orders to middle managers (especially manufacturing managers) must be aligned with its public messaging.

Select an Area of Excellence That Fits Your Business Objectives

Notwithstanding the preceding two statements, a company does not need to be the very best in every single aspect of sustainability and social responsibility. Companies establish themselves as sustainability leaders not by attempting to excel at everything, but by having their overall act reliably together and excelling in just one, or possibly two, specific niche areas. *It is critically important, however, that the areas selected have a clear and direct connection to the company's overall business objectives.*

Go for the "Twofer"

The preceding italicized comment is important to keep in mind. An effort that is viewed internally as just another cost, the newest flavor of the month, or a marketing gimmick will have no long-term staying power. To be successful (and sustainable, as it were), initiatives must be seen as key components of a long-term business strategy.

Successful efforts serve two or more key business objectives. They do more than just promote sustainability and social responsibility. They also increase sales, enhance brands, improve employee morale, attract the best new hires, gain political leverage, or improve the reliability of the supply chain.

Offer Value

Surveys have shown that consumers love green products—but only when they offer an equal (or better) value proposition at little or no extra cost. Even if your company builds the perfect green widget, consumers will not necessarily buy the product if it is significantly more expensive. Value rules at the end of the day.

Fertile Green Grounds

In 2009, the *MIT Sloan Management Review* and The Boston Consulting Group surveyed more than 1,500 executives and managers about sustainability and business strategy. The overwhelming majority of respondents (92 percent) stated that their companies were "addressing sustainability in some way." But over 70 percent said that their companies had "not developed a clear business case for sustainability."[7]

In other words, there is a lot of talk about sustainability—and a great deal of advertising money directed at it—but very few companies have figured out what it means for their business over the long term. Therein lies the opportunity. If your company can get sustainability right (and align your core values for long-term staying power), you will have the most to gain.

Moreover, enhancing your green performance now can help your company weather the storm if a brand-tarnishing disaster occurs somewhere down the road. And don't assume that such a catastrophe can't happen to your business. In a recent article reviewing a long list of companies that had faced public relations debacles, *The Economist* noted, "Brand-threatening scandals are becoming a regular feature of the corporate landscape, thanks to a toxic mixture of globalisation, which scatters corporate activities hither and yon, and the internet, which allows bad news to spread like wildfire." The article went on to cite a study estimating that "executives have an 82% chance of facing a corporate disaster within any five-year period, up from 20% two decades ago."[8]

No matter how successful you are today, your company could be the next to stumble. How will you turn it around?

Notes

1. Doyle, P. (2009). The birth of environmental politics. Available online at http://www.ecobody.com/views13.html.

2. Royal Dutch Shell. (1995, June 20). Press release.

3. SustainAbility Ltd & the United Nations Environment Programme (UNEP). (1999). The oil sector report: A review of environmental disclosure in the oil industry. Available online at http://www.enviroreporting.com/others/unep_es_oil.pdf.

SustainAbility Ltd & UNEP. (1996). Engaging stakeholders (volume 1): The benchmark survey.

4. Eggen, D. (2009, April 12). Investments can yield more on K Street, study indicates. Washington Post. Available online at http://www.washingtonpost.com/wp-dyn/content/article/2009/04/11/AR2009041102035.html.

5. E-mail correspondence with author dated March 2, 2010.

6. See http://www.quiznos.com/subsandwiches/AboutTemplate.aspx?page=begreen.html.

7. The Boston Consulting Group & MIT Sloan Management Review. (2009, September). The business of sustainability: Imperatives, advantages, and actions. Available online at http://www.bcg.com/documents/file29480.pdf.

8. Brand rehab. (2010, April 8). The Economist. Available online at http://www.economist.com/business-finance/displaystory.cfm?story_id=15866025.

Richard MacLean is president of Competitive Environment, Inc., a management consulting firm established in 1995 in Scottsdale, Arizona; a principal at Independent Perspectives, a virtual consulting network supporting business management; and executive director of the Center for Environmental Innovation (CEI), a university-based nonprofit research organization. He can be reached at maclean@competitive-e.com. For more information, visit his Web site at http://www.Competitive-E.com.