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Ethics and Brand Value: Strategic Differentiation

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Today's Ethics/Brand Assignment --

"A discussion of how brand and business ethics interact ... the ability to generate *'brand' value and reputation* by high standards of business integrity and social responsibility."

The Lead on this story

- Ethics Branding CAN add value ...
with selected audiences.

BUT ...

- It requires "niche communications."

DISTINCTIONS MUST BE MADE !

Ethics and Brand Value: The Tasks

- I. Define the terms.
- II. Scan the landscape and horizon.
- III. Defend "Ethics' Brand Value"
across the board.
- IV. Answer: What is to be done ?

I. Defining the Terms

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I. Defining the Terms

(A.) Ethics

“The system or code of morals of a particular person, religion, group or profession.”

“Ethics is what you *do*, not what you say.”

“Ethics” (compliance) of course. But “compliance ethics” isn’t enough. Applied ethics is the key.

I. Defining the terms

(B.) Brand/Reputation

Brand: What you 'stand for' in the public's mind. What they think they can expect from your *product or service... Your promise.*

Reputation: What people remember and say about an *organization*. What they identify with that *organization*.

"Brands that connect are grounded in values, culture, and authenticity."

I. Defining the terms

(B.) Brand/Reputation Management

Recognition -- and consequent policy formation and performance -- that brand and reputation can be enhancers, differentiators, or accelerators of organizational results.

I. Defining the terms

(B.) Brand/Reputation

Every time an organization makes a significant decision there are four broad sets of implications:

- Operational
- Financial
- Legal
- *Reputational (Brand)*

I. Defining the terms

(C.) Corporate Social Responsibility

“... business that embodies transparency and ethical behavior, respect for stakeholder groups, and a commitment to add economic, social and environmental value.”

— U.N. Global Compact/SustainAbility

II. Scanning the Landscape, Horizon

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II. Scanning the Landscape, Horizon

(A.) Landscape (Current)

Shall we overcome ...

Enron, Worldcom, Adelphia, etc. ?

“Ultimately the value of a company depends on how much faith people have in the organization ... That faith is fostered by an ineffable and scarce element ... called legitimacy.”

– Rakesh Khurana, Harvard Business School/
International Herald Tribune

II. Scanning the Landscape, Horizon

(A.) Landscape (Current)

- “Intangibles such as good governance, loyal customers, strong brands, a culture of innovation, well managed human capital and exemplary environmental practices are what drive *long-term corporate value*.”

— Thomson Financial

- Three–fifths of surveyed CEOs estimated that corporate brand or reputation represents more than 40 per cent of a company’s market capitalization

— World Economic Forum/Fleishman-Hillard

II .Scanning the Landscape, Horizon

(A.) Landscape (Current)

- “Failure to live up to stakeholder expectations can threaten corporate brands, reputations and long-term shareholder value.”
— The Conference Board, 2005
- “The newly revised U.S. Sentencing Guidelines are putting growing pressure on companies to develop effective compliance and ethics programs ...[here are] seven essential elements in making sure your compliance programs are effective.”
— The Conference Board, 2005

II. Scanning the Landscape, Horizon

(B.) Horizon

- Mainstream financial analysts are developing criteria to better integrate environment, social and governance issues into analysis, asset management and securities brokerage.

— U.N. Global Compact

- Codes of Conduct: "Our code was developed with maximum input from employees ... and relevant NGOs. The 'voice' of the code is largely that of the workforce, only partially that of the company."

— Rio Tinto (international mining company)

II. Scanning the Landscape, Horizon

(B.) Horizon

Question

- How does my company fit into the U.N. Millennium Development Goals on global poverty, disease, education, resources? Can we run a healthy business in a sick world?

Answer

- Balance market development with humanitarian commitments thru partnering with governments and/or NGOs. Good business with good citizenship.

An example: Hewlett-Packard's "I-Community"

II. Scanning the Landscape, Horizon

(B.) Horizon

“Brand identity is the common door into a relationship for all stakeholder classes – *which are converging.*”

— Patagonia

III.

Ethics' Brand Value "Across the Board"

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III. Ethics' Brand Value "across the board"

- Consumers/Customers
- Employees
- Investors

III. Ethics' Brand Value "across the board"

(A.) Consumers/Customers

The Ethics/Brand Dilemma of outsourcing and "The Consumer Society":

"Products are manufactured in China at a fraction of the cost of making them here, and Americans get great deals ...The problem is, *the choices we make in the market don't fully reflect our values as workers and citizens.*"

— Robert Reich, U.S. Secretary of Labor, 1993-97

III. Ethics' Brand Value "across the board"

(A.) Consumers/Customers

Paradox:

"While 84% [of consumers surveyed] said CSR would influence buying decisions, only 5% consistently buy brands on ethical grounds."

— The Business Communicator/MORI Research

III. Ethics' Brand Value "across the board"

(A.) Consumers/Customers

But then there's "LOHAS"

"LOHAS is an acronym that stands for Lifestyles of Health and Sustainability and describes a \$226.8 billion (*sic*) U.S. marketplace for goods and services that appeal to consumers who value health, the environment, social justice, personal development and sustainable living."

— *LOHAS Journal Online*

III. Ethics' Brand Value "across the board"

(A.) Consumers/Customers

Is the U.K. also a harbinger ?

"[1999-2003] demand for ethical goods and services has rocketed from 3.5 billion to 24.7 billion pounds [currency] ... It is clear that UK consumers are increasingly willing to take action through their wallets to support business they consider ethical and to avoid companies they consider to be unethical."

— *The Evening Standard*/Cooperative Bank Ethical Index

III. Ethics' Brand Value "across the board"

(A.) Consumers/Customers

Industry Responses (a few of many) --

- Autos: hybrid engines
- Pharma: drug discount cards
- Office products: green catalogs
- Food production: SA8000 certification
- Apparel: production codes with local monitors; organic fabrics

III. Ethics' Brand Value "across the board"

(B.) Employees

"If the brand is the promise, employees are the promise keepers."

"Internal communications can convey the benefits of the brand idea and encourage involvement ...There is always the temptation to see brands as something ephemeral – the realm of marketing... not the whole organization."

— The Holmes Report/"Living the Brand" by Nicholas Ind

III. Ethics' Brand Value "across the board"

(B.) Employees

Contribution to Brand Value:

- 1.) *Implementing* the brand: Employees must understand the brand and what it stands for – and their role in making the brand real.

III. Ethics' Brand Value "across the board"

(B.) Employees

Contribution to Brand Value:

- 2.) "*The Loyalty Factor*": If employees buy into the company's genuine brand, there's a better chance of retaining them (with consequent reduction of costly employee turnover).

III. Ethics' Brand Value "across the board"

(B.) Employees

Contribution to Brand Value:

- 3.) *Employee ethics training*, on the rise, can reduce costly, brand/reputation-damaging transgressions; and, under U.S. sentencing guidelines, result in lesser penalties.

III. Ethics' Brand Value "across the board"

(C.) Investors

Socially Responsible Investing (SRI)

- "SRI is the bow wave for a deep change in American consciousness"
— William Greider, "The Soul of Capitalism"
- Some \$2 trillion in SRI fund assets
- Comparable ROI. Reduced stock "churn"
- Negative, positive screens; moral values applied

III. Ethics' Brand Value "across the board"

(C.) Investors

Pension Fund Clout

- *One* state controller (NY), the pension fund trustee, has recovered over \$6 billion in "ill gotten gains" (corporate ethical-legal transgressions).
- CALPERS, other pension funds have helped remove CEOs, directors of corporate boards.

III. Ethics' Brand Value "across the board"

(C.) Investors

"Does Wall Street Need To Have Ethics Code?"

— *Wall Street Journal*

A potential code "should have basic principles with respect to who you're accountable to, and what your priorities are between yourself, your client and your regulators ...

"It's really something that has to be embedded in an organization all the way up and down."

— Felix Rohatyn, investment banker

IV. What is to be done ?

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IV. What is to be done ?

1. Ethics in the Brand

- At the Core or Integrated Element ?

2. Partnering

- A Critical Component

3. Required

- Special Communications Strategies

IV. What is to be done?

(1.) Ethics in the Brand

At the Core --

Case history: American Apparel Company

- “New Paradigm
- Scalable Business Model
- Environmental Commitment”

Value results: Financial success, rapid expansion

IV. What is to be done?

(1.) Ethics in the Brand

As an Integrated Element –

Case history: Whirlpool

- Market research: customer surveys documented value of CSR attributes in energy and environment.
- CSR data generated adaptation of regional emphases (U.S., Brazil, Europe)

Value results: Increased customer loyalty

IV. What is to be done?

(2.) Partnering

The challenge:

“A bird and a fish may fall in love but they will have a hard time finding a place to build a home.”

— Tevye in “Fiddler on the Roof”

IV. What is to be done?

(2.) Partnering

Why Consider a Partner?

- Credibility/Trust
- Vital Feedback
- Results

IV. What is to be done ?

(2.) Partnering

Some Potential Partners:

- “Causes” (Cause-related marketing/
“strategic philanthropy”)
- Non-Governmental Organizations (NGOs)
- Governments
- Competitors

IV. What is to be done?

(2.) Partnering

Case histories

- Cause/Philanthropy
 - Nokia/International Youth Federation
“Make A Connection”
- NGOs
 - Nike/Local Asian NGOs
Monitor company’s new workplace codes

IV. What is to be done?

(2.) Partnering

Case histories

- Governments
 - Coffee Industry/U.S. AID
Fair Trade Coffee
- Competitors
 - Global Mining Industry(via WBCSD, EITI)
 - Codes: environment standards, transparency

IV. What is to be done?

(3.) Communications Strategies

“Most companies do not *target* their CSR communications at *specific audiences*. The result is their CSR activities have minimal influence on their corporate brand or on consumer purchasing behavior.”

— United Nations Environment Program

IV. What is to be done?

(3.) Communications Strategies

First, be realistic. There are *potential* downsides. (But many can be refuted.)

- “Don’t raise your head over the trench”
- “CSR can be a cost disadvantage if competitors don’t do likewise.”
- “Most journalists aren’t interested.”

IV. What is to be done?

(3.) Communications Strategies

Be realistic:

- General media are largely uninterested.
- Trying to impress the general public is akin to “boiling the ocean.”

IV. What is to be done?

(3.) Communications Strategies

Use the “CSR trade media”

(they are sources for general media)

- Ethical Corporation
- Business Ethics
- CSR Newswire
- Covalence website
- Journal of Corporate Citizenship

IV. What is to be done?

(3.) Communications Strategies

Address “proximate publics” directly

- Consumers/Customers
 - Customer research, “P-O-P” etc.
- Employees
 - Intranet
- Investors
 - Analyst communications

IV. What is to be done?

(3.) Communications Strategies

Apply the new Information Technology creatively and consistently --

- Internet, websites, blogs, podcasts, etc.

IV. What is to be done ?

(3.) Communications Strategies

Benefit from shared experience:

- U.N. Global Compact
- Business for Social Responsibility
- Center for Corporate Citizenship
- World Business Council for Sustainable Development
- And, of course, academic centers/applied ethics

Conclusion

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Endpiece

“ CSR is no longer an option. It is an integral prerequisite to our long-term success ...

“Increasingly CSR means quality management.”

— From: *“Rio Tinto talks CSR to Mainstream Analysts
And the Investment Community Is Listening”*

Epilogue

At the United Nations Global Compact Learning Forum in Berlin --

“With the fast-spreading commitment to CSR, a case can be made that a fundamental new business model – one that respects stakeholder and shareholder values simultaneously – is evolving.”

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