# 9

# Consumers and Community

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## 9.1 Introduction

This chapter discusses some of the issues involved in addressing environmental matters raised by consumers and the community and how these groups can influence the actions of business organisations. The topics of green marketing (Section 9.2–9.4), community consultation (Section 9.5–9.7) and ethical investment (Section 9.8) are presented by experienced authors. Later chapters (13, 19) discuss the responses needed from business organisations.

## 9.2 Introducing green marketing

It is important to start out with a brief discussion of basic marketing to establish a common point of reference for marketing issues, within an environmental framework. The term marketing is used to describe activities that create value through voluntary exchange between parties (Kotler, 2003). This involves a business organisation designing an offering comprising a range of characteristics, referred to as the 4-P's (Product, Price, Place, Promotion). These can be combined in many ways to meet the needs of consumers or customers, which are evidenced by the diverse range of products available within a product category.

The marketing definition applies to environmentally responsible products as well, but organisations can operationalise this in many ways. Do they produce environmental and *traditional* products in the same category (Anonymous, 1990)? Do they shift their entire emphasise to produce *green* products?

The inclusion of environmental attributes into marketing activities has been discussed in a number of academic works in journals (Menon and Menon, 1997; Polonsky and Rosenberger III, 2001a), books focusing on this issues (Ottman, 1998; Fuller, 1999), as well as in the popular press (Anonymous, 1991). It would appear that organisations have taken a diverse range of approaches to using green marketing activities (Crain, 2000, Polonsky and Rosenberger III, 2001a) and have undertaken these activities for various reasons (Menon and Menon, 1997). In some cases organisations have embraced environmental issues because they have recognised that they have a duty to behave responsibly (Dimitri and Greene, 2002; Drumwright, 1994). E.g., the Australian producer Blackmores has had a longstanding environmental emphasis because of an ideological or emotive slant (Polonsky and Rosenberger III, 2001a).

Some organisations seem to have undertaken limited integration of environmental issues into their activities simply to differentiate themselves from competitors, without necessarily making any substantive change in their environmental activities (Polonsky et al, 1997). The rational for such superficial changes is that organisations believe consumers seek to make their consumption more responsible and will therefore be attracted to *green* products (Ottman, 1998). In many cases consumers rely on organisations' marketing activities for product environmental information, simply because it is difficult for them to evaluate products' environmental characteristics (Latvala and Kola, 2000; Morris et al, 1995), which is referred to as the credence characteristics of the information.

Unfortunately, organisations that position themselves as *green*, even when their activities are not green, or are no greener that competitors, result in general consumer skepticism of green claims, which in turn may lead to difficulties for all organisations who seek to leverage their products' environmental attributes in the market place (Carlson et al, 1996; Crain, 2000; Davis, 1993b; Polonsky and Rosenberger III, 2001a). Making environmental claims without any substantive support has been termed 'greenwash' and is one of the reasons that governments around the world have sought to regulate green marketing activities (Kangun and Polonsky, 1995).

## 9.3 Pressures to be green

There is an increasing realisation that humankind needs to consider its impact on the natural environment (Fuller, 1999). With six billion people in the world there are increasing economic and environmental pressures to meet these needs. It is suggested that these pressures will in fact get worse, as those in developing countries raise their consumption expectations to have lifestyles similar to people in the developed world (Singer, 1992).

The environmental consequences of such development will possibly be catastrophic, e.g. what would be the impact of China having a car ownership level equal to the US? There would be a massive increase in the production of greenhouse gasses from the use of automobiles and from their manufacture. In addition there would need to be a massive increase in expenditure on infrastructure to handle these levels of automobiles. While these activities might bring about economic 'growth' and improvements to living standards, there would also be substantial cost on society, increased road deaths, degradation of the natural environment and a congestion of cities, all of which could reduce the 'quality' of life.

Whose responsibility is it to ensure that human impact on the environment is 'managed' in a way that optimises the outcomes for humanity and the natural environment? It might be suggested that governments have the responsibility to maintain and protect the interests of their citizens of today and the future (Starik, 1995a), but there are numerous examples of where governments seeking to maximise economic outcomes discount the environmental impact of their decisions (Cook, 2002).

There is the added complexity that one nation's economic (and social) decisions impact on other countries. Early environmental problems such as acid rain were found to be unrelated to production or consumption activities in the countries affected, but were the result of production in neighbouring countries (Alm, 2000). One country cannot deal with global environmental issues, but rather there needs to be global coordinated environmental action. Such coordinated activities have had varying degrees of success, e.g. a number of countries have still not signed off on the Kyoto treaty to reduce greenhouse gases, which affect all countries (Gardiner, 2004). Other less publicised environmental agreements are also under dispute, e.g. there is a growing pressure to lift the moratorium on the commercial hunting of whales (Harrop, 2003).

A macro perspective assumes that governments can in fact drive consumer and organisational behaviour. However, even when organisations are required to modify actions they have a variety of alternative courses of action. Within the automotive industry there are different approaches being adopted in regards to the greening of automobiles e.g. Toyota has taken the approach of integrating environmental issues into its overall organisational philosophy and into its decisions (Polonsky and Rosenberger III, 2001a). This proactive stance results in a number of benefits; including these organisations being more innovative and thus able to cope with changes in business conditions, improving the efficiency of the production process and the products performance, while at the same time serving the needs of a broader cross-section of consumers. In this way environmental issues are a core part of decisions and not an afterthought. However, other manufacturers do not see greening as such a core issue and only seek to comply with national standards. This reactive posture results in organisations possibly being less innovative and thus less competitive in the long run (Porter and van der Linde, 1995).

Governmental policies also frequently seek to change consumer behaviour, but such changes are rarely universally embraced by the masses. Simple activities such as requiring consumers to recycle plastic bottles and paper, often encounters opposition from consumers, even when the effort and costs are minimal. Consumers are reluctant to change behaviour, which might partly be the result of them not understanding the implications of these changes. E.g., it is more cost and environmentally efficient for consumers to participate in schemes whereby they share goods, such as cars, yet for the most part consumers are hesitant to participate, because of a perceived loss of convenience or because they perceive that there is value from owning goods (Byrne and Polonsky, 2001; Oskamp, 1995). Changing the role of ownership of goods and consumption to purely utilitarian (i.e. functional value) is something that is counter to consumers self-identity and organisations' objectives of building brand equity, whereby that equity is reflected by status.

As such the greening of marketing needs to take a holistic approach that considers all stakeholders in the exchange process. An integrated approach will require a broader way of dealing with environmental issues and will most likely require compromise by many. The critical issue is that there is some inclusion of environmental issues and these do not become subservient to other financial objectives. There may need to be a system wide shift in thinking for this to occur (Fuller, 1999; Kilbourne et al, 2002). At the very least there needs to be a rethinking of the role of the environment in the broader exchange (i.e. marketing) process.

## 9.4 Green consumers

While there is some general scientific agreement that the environmental impacts of production and consumption are important, there are still varying degrees of consumer concern in regards to this issue (Kilbourne and Beckman, 1998; Ottman, 1998).

Leveraging the environmental issue with consumers is complex, especially when there are many complex issues that might be considered. Some consumers may be more concerned with issues associated with the production of greenhouse gasses, others with bio-diversity issues and others with water related issues. How are organisations to communicate complex sets of information to consumers in a way that is meaningful to these consumers? The difficulty is making these messages relevant to each group (or segment), but this assumes that consumer segments can be identified and communicated with, and that they will understand the information they are being provided, as well as act on the information (Kilbourne, 1995).

Evaluating a complex set of product information simultaneously is a complex process and environmental information is not considered in isolation to other information, such as price, quality, branding etc (Newell et al, 1998). In some cases 'environmental goods' are seen as having intrinsic value, which consumers are willing to pay for. E.g., eco-tourism is frequently seen as a more specialised and higher quality experience (Font and Tribe, 2001) possibly justifying higher prices. In other cases, even proven economic value does not encourage consumer purchases (Meijnders et al, 2001), e.g. consumers do not desire to 'invest' in long life light bulbs that have a significantly higher return on investment, as consumers traditionally only consider the 'purchase price' of the bulb and ignore the operating costs. As mentioned earlier consumers generally do not want to give up ownership of a car, even though it can be demonstrated that using public transportation and/or other private transportation (such as shared cars) is less environmentally harmful and less expensive. Thus consumers value their convenience, flexibility and possibly the prestige more than any environmental value (Byrne and Polonsky, 2001).

Getting consumers to embrace green product attributes or even include the environmental cost of owning/operating products in their purchasing process is something that will be difficult to achieve and may require long-term multiparty communication – business organisations, governments and non-governmental bodies. Unfortunately, most organisations do not see social change as part of their role, unless they see some direct organisational benefit. Thus, the majority of organisations do not seek to make such sweeping shifts in consumer behaviour and it is therefore unclear how such changes in behaviour will be brought about. In this less than ideal situation, one would expect that the majority of organisations will target the issues and activities that are most salient to consumers (Polonsky and Rosenberger III, 2001a). Real changes in attitudes and behaviors might require system wide 'shocks', such as the oil crisis of the 1970s, which resulted in a concern with automobile fuel efficiency.

## 9.5 Community involvement

'No man is prejudiced in favour of a thing knowing it to be wrong. He is attached to it in the belief of its being right,' (Thomas Paine 1792). Paine (2004) could easily have been describing the difficult process of community and stakeholder consultation. It is this strong attachment humans have to their beliefs and values that makes the process of consultation ironic – it both restricts our ability to negotiate in rational debate, yet it is the reason behind the need for consultation and communication. Community consultation sits within a framework of policy development, democratic process and government and industry decision making. The development of the process of community involvement in decisions that may affect people results in our current understanding of a community's 'right' to have 'a say'.

Out of a decade of struggle for urban renewal and poverty relief, Arnstein (1969) developed a theory on the various levels of community consultation. She described it as a scale of legitimacy, and it was subsequently called the ladder of consultation:

- degree of citizen power – citizen control, delegated power, partnership;
- degree of tokenism – placation, consultation, informing; and
- non-participation – therapy, manipulation.

Table 9.1 Benefits and problems of consultation

| A transparent and robust consultation might: | The consultation process may also result in: |
|---|---|
| • Identify the stakeholders | • Political paralysis |
| • Define the agenda | • Time and cost consumption |
| • Improve information | • The creation of a forum for unrealistic expectations or opposition |
| • Ensure views are exchanged | • The removal of representativeness |
| • Create better decisions and a legitimacy for decision making | • The spread of inaccurate information |
| • Result in compliance with implementation | • The silence of the majority and the vocal influence of a minority |
| • Avoid future challenges | |

*Source*: Based upon the NSW Government (1998).



The International Association for Public Participation (IAP2) defines consultation as: '...any process that involves the public in problem solving or decision making and uses public input to make better decisions. While there is an element of dispute resolution in all public participation, the essence of public participation is to begin a participatory process before the dispute arises' (IAP2, 2000a).

Reasons for undertaking community and stakeholder consultation include: making better policy decisions; seeking political support; trying to reduce environmental (including social and economic) impacts; and reducing the level of subsequent challenge to a decision. Benefits and problems of involving the community in decision making are shown in Table 9.1

## 9.6 Social and environment groups and consultation

Environmental groups have a strong role to play in community and stakeholder consultation. The importance of community involvement in decisions that may impact them has long been a key platform for such groups. The issues are increased transparency in decision making, and to ensure that the environmental impacts of a proposal, project or strategy are minimised.

The issue of scientific integrity and opinion is a critical one. Access to scientific opinion has increased sharply with household availability of the Internet. Diversity of scientific opinion has also increased – unlimited web publishing of reports, papers and 'positions'. This includes both accredited, tested analysis as well as unsubstantiated or untested information. Science is now readily available to counter science. It is difficult for many people to

**Case Study 1: Establishing environmental benchmarks**

The involvement of environmental groups in the development of the Sydney 2000 green Olympics bid was a good example. Greenpeace has been tracking the games for over a decade and in 1993 the NSW Government awarded Greenpeace Australia best design for the Athletes Village. Further, an Environment Committee was established that provided a partnering role for environmental representatives and the Olympic Organising Committee. The subsequent *Environment Guidelines for the Summer Olympic Games* were officially adopted. They were monitored by Green Games Watch 2000, a coalition of environmental groups, as a third tier of Audit (Nature Conservation Council, 2001).

understand they have to compare the assumptions made, or the scenario examined, with their base case, and it is all too easy to take up a conclusion and apply it to a completely different scenario.

In response, organisations must employ both 'good science' and, equally importantly, a high level of transparency. The latter demonstrates a willingness to have the science used for project development 'tested' and a willingness to share assumptions and ideas used. Environmental groups offer a high level of representativeness. They do not just stand for themselves but a philosophy, knowledge, ethos and amalgamation of ideas held by a larger, silent, group of stakeholders. Increasingly, government and business organisations are choosing to partner with social or environment groups. The notion is that these groups accompany decision makers through their assessment and development processes, and can then provide a public endorsement of the strategy or product. The methodology or the science behind the decision making has been reviewed by this independent group (with green credentials) each step of the way.

## 9.7 Consultation with the wider community

The best time to think about community and stakeholder involvement is at the beginning of concept development of a project (or program) when you will have the most project 'negotiables' and design decisions have not taken you down an irreversible path. It is at this point you can ask – who should be involved, who would *want* to be involved, how, and what are the project risks and benefits? Possible partnering initiatives can be considered at this point.

### Nimbyism

A community reaction to the pace of social and technological change is apparent. Embracing change is not an easy matter when, as a society, we are struggling with the nature, equity, frequency and speed of change. Change makes us question our social values – *'how does this new situation*

**Case Study 2: Establishing social benchmarks**

An example of consultation influencing company policy and product to meet social and environment outcomes is the Telstra Consumer Consultative Council, which constitutes a range of social and consumer advocacy groups: Federation of Ethnic Communities Councils Australia; Central Land Council (an Aboriginal community group); and Australian Pensioners and Superannuants Federation. This Council helped to develop the *Access for Everyone* program, which focusses on providing affordable communications and has a role in the subsequent monitoring of Telstra's performance. Consultations like these make Telstra's self performance evaluation that much more meaningful (Telstra 2004).

*affect me, my neighbours, or my community?'* It is easier for us to stick with those parts of our lives that are constant, be it a tax system or the street where we live.

The public rejection of strategies or projects led to project managers developing the acronym NIMBY, which stands for Not In My Back Yard. This term was applied to people that opposed a proposal that was located near them. This and several other inventive acronyms became a way for many project managers to avoid the issues at heart: has the project been properly explained; has it taken into account the interests of those that could be directly affected; was the process one in which people could participate and negotiate; was the best outcome achieved; and could there be project flaws?

Community consultation demands a shift in attention from substance to process. That is, instead of immediately focusing on a possible solution, the project manager is forced to evaluate: what is the need for the project? How do I quantify the outcomes we are seeking? What processes are needed to make a decision? How can I constructively involve stakeholders in such a decision?

## The public interest

Projects that affect sections of the community subsequently call into question the notion of 'public interest'. Consultation processes and public debate often pit an affected sub-group against a wider community, e.g. an abattoir is planned. Such a facility is needed by the wider community; it provides employment, an income for our shareholders, and food for the table. Yet when the wind blows in a certain direction over a relatively small amount of time each year, odours reach a nearby neighbourhood including a high school. What is in the public's best interest? How do we define the public interest?

The International Association of Public Participation definition is '...any group or individual, organisation or political entity with a stake in the outcome of a decision. They are often refereed to as external stakeholders.

They may be, or perceive that they may be, affected directly or indirectly by the outcome of a decision' (IAP2, 2000a).

### The timescale and resources required for public discussion

The timescale of planning should also be relevant to achieving the considered response of stakeholders and the broader community. Obtaining a good feeling of community opinion may take years compared to the relatively shorter timescale devoted to design, assessment and approval (whether internal or external).

The 'decide, announce, defend' system of project development rarely works, as the ownership of ideas is essential to effective consultation. However, instigating a process that results in the public ownership of good ideas has timetable considerations (Chapter 19).

## 9.8 Ethical investment

Traditionally, investors have not paid much attention to ethical and environmental issues in their investment processes. While it has always been possible to find a few fund managers with an understanding of the commercial relevance of environmental and ethical issues, the reality has been that, for most asset managers, matters of corporate responsibility have not traditionally enjoyed much of a profile. This has started to change with both the Australian (Deni Greene, 2002) and UK markets (Eurosif, 2003) showing significant growth in ethical investment in particular with fund managers harnessing their position as investors to directly influence corporate policy. This differs from the more traditional screening approach to ethical investment, where investors include or exclude stocks on the basis of compliance or non-compliance with specified ethical or other criteria (Eurosif, 2004).

While directors' remuneration and board structure and composition have long been recognised as issues for shareholder attention, corporate responsibility or environmental issues have had nothing like the same profile, despite evidence that social, ethical and environmental issues can have significant impacts on company performance e.g. tobacco and asbestosis litigation, environmental regulation, potential damage to reputation or brand, and company failure as a consequence of probity failings (cf Enron). It is not only financial relevance that has started to drive investor interest in these issues. Regulation has proved to be another key driver. In Australia, under the *Financial Services Reform Act* (from March 2002), product disclosure statements for products with an investment component must include disclosure of 'the extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention or realisation of the investment'.

This parallels the change in the *UK Pensions Act* in 2000, which requires occupational pension funds to state the extent to which they take account of social, ethical and environmental issues with regard to investment. This led a large number of UK pension funds to change their Statement of Investment Principles (SIPs) to express a positive intention to take due account of these issues. As pensions funds are the largest clients of most asset managers, this has also led to a commercial pressure on fund managers to ensure that they have at least a basic capability to address these issues. However, even though many pension funds have changed their SIP to include social and environmental issues most have been slow to translate these changes into action (Coles and Green, 2002). Many company pension funds, for example, have not done very much to ensure their revised SIPs are being fully implemented by their appointed fund managers. Nevertheless, the foundations are now in place in the UK for a fundamentally more productive investor role in corporate responsibility.

### Disclosure guidelines

One important development has been the suggestion that shareholders should hold companies accountable for effective risk management with regard to corporate responsibility issues. For example, the recently released Association of British Insurers (ABI) Disclosure Guidelines on Social Responsibility note that 'Institutional shareholders are also anxious to avoid unnecessary prescription or the imposition of costly burdens, which can unnecessarily restrict the ability of companies to generate returns. Indeed, by focusing on the need to identify and manage risks to the short and long-term value of the business from social, environmental and ethical matters, the guidelines highlight an opportunity to enhance value through appropriate response to these risks' (Association of British Insurers, 2002). The Guidelines state that companies should state in their annual reports whether the Board has:

- taken regular account of the significance of social, environmental and ethical (SEE) matters to the business of the company;
- identified and assessed the significant risks to the company's short and long term value from SEE matters and the opportunities to enhance value from an appropriate response;
- received adequate information to make this assessment and that account is taken of SEE matters in the training of directors; and
- ensured that the company has effective systems for managing significant risks, which, where relevant, incorporate performance management systems and appropriate remuneration incentives.

This approach has been welcomed by many shareholders, and many companies have responded positively. The risk approach is a valuable step but does not establish substantive standards for investors to measure corporate responsibility. This deliberate choice of the ABI was so that institutional shareholders should not put themselves in the position of making moral judgements which they are not qualified to make. There is, however, an ongoing discussion about the need for standards for holding companies to account. When faced with conflicting demands from pressure groups, customers, suppliers, governments and shareholders, companies want to know: what standards should legitimately guide their behaviour; when is there a genuine obligation for them to go further in addressing a problem: and when is there no such obligation. This is also a question for the shareholders because it is they who approve the appointment of the board, whose duty it is to conduct the company's business in the shareholders interests. When a company has either a genuine obligation to go further in meeting an ethical challenge or is facing illegitimate demands from extremist pressure groups, it deserves the full support of the shareholders.

Investor activity has been hampered by the lack of clear standards shareholders should expect of their companies. The most obvious answer is that companies should obey the law. In countries such as Australia, the abundance of regulatory protection for employees, consumers, the environment and the public means that if companies obey the letter and the spirit of the law, they should simultaneously meet their central corporate responsibilities. The law is not a perfect guide to corporate responsibility, but it provides an authoritative background of standards, against which shareholders can evaluate corporate responsibility. Unfortunately, this solution is not always effective. Recently severe criticisms with regard to corporate responsibility have arisen over companies' activities in developing countries. Corruption, conflict, poverty, disease, abysmal labour conditions, human rights abuses, and environmental problems – combined with the fact that many of these countries lack the capacity to impose effective business regulation – make it harder to do business responsibly in developing countries.

## Corporate responsibility standards

In the absence of regulation, should shareholders define their 'own' standards for companies? While shareholder activism on corporate responsibility is of growing importance, it is in everyone's interest that such activism is based on a coherent and legitimate set of standards. An increasing number of investors refer to the framework provided by international law e.g. the Universal Declaration of Human Rights (UN, 1948), the Rio Declaration (UN, 1992) and conventions on climate change and biological diversity. What makes the application of these principles to companies problematic is that international law has almost exclusively concerned itself with the responsibilities of governments. There has been progress and the following references illustrate important first steps in codifying the social and environmental expectations of companies: UNCHR (2002); OECD (2000); and ILO (1977).

Greater clarity about the standards of corporate responsibility is an essential complement to the risk approach of ABI because where corporate responsibility is concerned, there is a tight relationship between risks and standards. Companies face the greatest corporate responsibility-related risks when their behaviour is out of line with the standards of behaviour considered legitimate e.g. risks to reputation (breach of standards considered legitimate by customers or commercial stakeholders) and legal (breach of standards considered legitimate by courts).

Shareholders are increasingly scrutinising the corporate responsibility performance of companies in which they invest. Shareholders need to have confidence that these risks are being managed properly and they expect that the importance of these issues is recognised by companies, that appropriate systems and processes are in place to manage these issues and that senior management takes responsibility for managing these issues. More work is needed here, and this is perhaps where shareholder engagement with companies should focus. The more we can move to greater clarity and consensus between business, government, investors and other stakeholders (e.g. NGOs, trade unions) about standards, the more surefooted companies will be at managing matters of corporate responsibility and its associated risks.

## 9.9 Summary

In this chapter the four authors have discussed three diverse ways in which consumers and community may demonstrate their environmental attitudes (positive and negative) towards the actions of business organisations: buying or not buying green products; supporting or opposing projects and operational practices; and investing or not investing with socially responsible organisations.