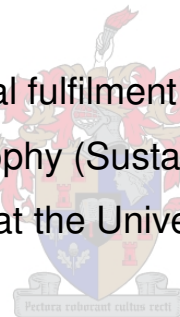


# **Leveraging Customer Loyalty in the Short Term Domestic Insurance Industry through a focus on Product Stewardship**

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Thesis presented in partial fulfilment of the requirements for the degree of Masters of Philosophy (Sustainable Development, Planning and Management) at the University of Stellenbosch



Supervisor: Professor Mark Swilling

December 2007

**DECLARATION**

I, the undersigned, hereby declare that the work contained in this thesis is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

Signature: .....

26 November 2007

## ABSTRACT

The objective of this study is to test out the possibility of a synthesis between sustainable development, more specifically corporate citizenship, and customer value, a major focus of business strategy, which if correctly achieved nurtures customer loyalty.

This synthesis as defined in this thesis is product stewardship. Product stewardship is the design and promotion of products and services that aim to positively impact the environment and society through the creation, consumption and disposal of such a product or service.

In an increasingly competitive global environment, crafting business strategy that successfully nurtures customer loyalty is a vital component of long term business success. The delivery of products and services that customers trust and that fully satisfy customer expectations is a prerequisite for loyalty.

Intense competition however squeezes profit margins and floods the market with homogeneous products and services. Competition now becomes price centred which drives both a decrease in product quality and a quest for operational efficiencies in an attempt to reduce overheads. Further, capturing a share of the consumer's wallet becomes more difficult for corporations, forcing a heavy reliance on the brand and company image.

In such circumstances, the delivery of customer value that fully satisfies expectations is hard to achieve and business strategy, concerned primarily with the delivery of exceptional customer value, becomes a major focus for most corporations. However, as all corporations strive for a similar end goal, competitive differentiation becomes harder to achieve.

Simultaneously, in the context of greater environmental and social consciousness, including the progression of sustainability science, corporations have the added challenge or obligation to adopt these emerging

themes. Scrabbling with these new ideas, few corporations are having a real profound effect in curbing the pending ecosystem crisis.

Corporate social responsibility, corporate social investment and corporate citizenship have tended to focus on the company and how it is perceived; a kind of self-centredness that explodes into the gross exaggerations communicated by the brand. Product stewardship, as defined in this thesis, shifts the focus away from THE COMPANY and its BRAND, to the product being designed, produced, communicated, consumed and then wasted. The values of a better world articulated by sustainable development and the aspiration to find a better business strategy are fused into a focus on the product.

The company and its brand, therefore is constructed not by a promotion of itself as 'good' but rather by the virtues and benefits of the product communicated relationally which, in turn, indirectly builds the reputation of the producer. Loyalty therefore is no longer loyalty to the brand, but to an experience of the product.

A number of corporations, both local and international, in South Africa are displaying behaviour characteristic of a product stewardship approach. These behaviours or claims are recorded in case studies on four such corporations, namely; Toyota, Sasol, Woolworths, and the South African Breweries Limited. Each case demonstrates how the application of product stewardship can and does reduce negative impacts on both the environment and society while simultaneously nurturing exceptional customer loyalty.

A number of critical questions about the design and promotion of short term domestic insurance products are raised to demonstrate how the application of a product stewardship approach could unlock the potential to nurture superior customer loyalty for corporations in the South African short term domestic insurance industry, a service industry plagued by a declining industry image, low customer loyalty and intense competition.

The application of a product stewardship approach to a service orientated industry is significant as services are seldom analysed for their effects on the environment and society, as promoted by sustainable development theory. Instead, in an attempt to display the values of a better world, service industries expend huge resources engaging in activities peripheral to their core businesses, while adjustments as highlighted by a product stewardship approach, to their core offerings, their services, could deliver meaningful change for the environment, society, the corporation and ultimately the customer.

Based on the real possibility of a synthesis between sustainable development and customer value as highlighted in this thesis, a further more in-depth study is proposed to determine the direct business effects, quantified, of improved customer loyalty nurtured through the application of product stewardship.

## OPSOMMING

Die doelwit van hierdie studie is om die moontlikheid van 'n sintese te ondersoek tussen volhoubare ontwikkeling, meer spesifiek korporatiewe burgerskap, en gehalte aan die koper; die hoofokus van alle sakestrategie wat koperslojaliteit kweek indien dit korrek aangewend word.

Hierdie sintese, soos gedefinieer in dié tesis, is die rentmeesterskap van produkte. Die rentmeesterskap van produkte behels die ontwerp en bemaking van produkte en dienste wat daarop gemik is om 'n positiewe uitwerking op die omgewing en gemeenskap te hê in die skep, verbruik en verwydering van so 'n produk of diens.

In 'n wêreldwye omgewing wat daagliks meer kompetender raak, is die daarstelling van sakestrategie wat koperslojaliteit kweek, 'n uiters belangrike komponent vir die langtermynsukses van 'n sakeonderneming. Die lewering van produkte of dienste wat die koper vertrou en wat ten volle voldoen aan die koper se verwagtings, is 'n voorvereiste vir lojaliteit.

Sterk kompetisie oefen egter druk uit op winsgrense en oorstrom die mark met soortgelyke produkte en dienste. Die kompetisie fokus dus op pryse en dit lei tot die afname in kwaliteit van produkte en die soeke na bedryfsvaardigheid in 'n poging om oorhoofse kostes te verlaag. Dit beteken dat dit al hoe moeiliker word vir korporasies om elk hul aandeel van die verbruiker se beursie te bekom, en forseer hulle om al hoe meer op handelsmerke en die beeld van die maatskappy staat te maak.

Onder dié omstandighede is dit uiters moeilik om produkte van gehalte aan die kopers te lewer wat aan hul verwagtings voldoen, en daarom word sakestrategie, wat hoofsaaklik toegespits is op die lewering van uitstekende gehalte aan die koper, 'n belangrike fokuspunt vir die meeste korporasies. Maar, omdat alle korporasies na dieselfde doelwit streef, word dit al hoe moeiliker om mee te ding met produkte wat hulself onderskei.

En daarmee saam, binne die konteks van 'n groter omgewings- en gemeenskapsbewustheid, asook die vooruitgang van die studie van onderhoubaarheid, word korporasies gekonfronteer met 'n bykomende uitdaging, of word hulle verplig om hierdie temas wat ontstaan, te inkorporeer. Terwyl daar met dié nuwe idees rondgespeel word, is daar min korporasies wat 'n daadwerklike uitwerking het in hul poging om die naderende krisis in die ekosisteem in toom te hou.

Korporatiewe sosiale verantwoordelikheid, korporatiewe sosiale investering en korporatiewe burgerskap was geneig om te fokus op die maatskappy en die beeld wat uitgedra word; 'n soort van selfgesentreerdheid wat opgeblaas word tot 'n buitensporige oordrywing, soos oorgedra deur die handelsmerk. Die rentmeesterskap van produkte, soos dit in dié tesis gedefinieer word, verplaas die fokus vanaf DIE MAATSKAPPY en die HANDELSMERK, na die produk soos dit ontwerp, vervaardig, oorgedra, verbruik en verwerk word. Die waardesisteem van 'n beter wêreld, soos verwoord deur volhoubare ontwikkeling en die strewe na 'n beter sakestrategie, word in 'n fokus op die produk self gekombineer.

Die maatskappy en die handelsmerk word dus nie ontwikkel deur homself as 'goed' te bemark nie, maar eerder deur die deugsamheid en voordele van die produk binne verband oor te dra, wat op sy beurt indirek 'n goeie naam vir die vervaardiger skep. Lojaliteit is nou nie meer aan die handelsmerk gekoppel nie, maar wel aan die koper se ervaring van die produk.

'n Aantal korporasies in Suid-Afrika, sowel plaaslik as internasionaal, toon in hul werkswyses 'n benadering wat karaktertrekke van die rentmeesterskap van produkte weerspieël. Hierdie werkswyses of bewerings is aangeteken in gevallestudies van vier soortgelyke korporasies: Toyota, Sasol, Woolworths en die Suid-Afrikaanse Brouery. In elke geval word daar gedemonstreer hoe die aanwending van rentmeesterskap van die produk die negatiewe uitwerking op sowel die omgewing as die gemeenskap verminder, en terselfdertyd buitengewone lojaliteit by kopers kweek.

'n Aantal pertinente vrae omtrent die ontwerp en bemarking van huishoudelike korttermynversekeringsprodukte word geopper, ter illustrasie van hoe die aanwending van 'n benadering wat rentmeesterskap van produkte insluit, die potensiaal kan ontsluit vir alle korporasies in die Suid-Afrikaanse huishoudelike korttermynversekeringsbedryf, om buitengewone lojaliteit by kopers te kweek. 'n Diensbedryf wat getreiter word deur 'n afname in bedryfsbeeld, swak verbruikerslojaliteit en sterk kompetisie.

Die aanwending van 'n benadering wat rentmeesterskap van produkte insluit in 'n diensgeoriënteerde bedryf is uiters waardevol, aangesien diensverskaffing selde geanaliseer word om die uitwerking op die omgewing en gemeenskap te bepaal, soos dit bemark word as volhoubare ontwikkelingsteorie. In plaas daarvan bestee die diensbedryf groot bedrae en raak betrokke by aktiwiteite wat op die randgebied van hul kernsakeondernemings val, in 'n poging om die waardesisteme van 'n beter wêreld uit te beeld, terwyl aanpassings in hul kernaanbiedings en dienste, soos uitgelig in die rentmeesterskap van produkte, kan lei tot betekenisvolle verandering vir die omgewing, gemeenskap, die korporasie en uiteindelik die koper.

Gebaseer op die daadwerklike moontlikheid van 'n sintese tussen volhoubare ontwikkeling en gehalte aan die koper, soos uitgelig in hierdie tesis, word 'n verdere dieptestudie voorgestel om die onmiddellike uitwerking op sake-ondernemings te bepaal, gestaaf met syfers wat stygende koperslojaliteit, soos gekweek deur die aanwending van rentmeesterskap van produkte, weerspieël.



## **DEDICATION**

To my amazing wife, Lindsay, whose endless support and encouragement made all this possible.

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## CHAPTER ONE

### INTRODUCTION

"The single-minded pursuit of short-term profitability for shareholders or owners does not justify a 'couldn't care less' approach to people and the planet. Responsible resource stewardship is a universal requirement for all of us", (Dunphy et al, 2003: 4).

"A profound, but silent, transformation of our society is afoot. Our industrial system is generating more goods and services than at any point in history," (Prahalad & Ramaswamy, 2004: 1).

"There has been a 12 fold increase in world trade since 1945, dominated by a small number of global corporations," (World Bank cited in Zadek, 2001: 5).

Corporations have become significant role players in our world to the extent that 51 of the 100 largest economies in the world today are corporations, (Andersen & Cavanagh cited in Zadek, 2001: 5). When such statistics are cited the effect that corporations have in shaping the society and community in which we live becomes staggeringly clear. At the same time, the world is currently experiencing massive population growth, climate change, globalisation and a massive rise in the influence of corporations. These stark realities raise crucial questions about the role of corporations in today's world.

Coupled with this massive rise of the corporation as a major world player, has been an increase in the intensity of competition amongst corporations worldwide and a shrinking of profit margins (Prahalad & Ramaswamy, 2004: 2). With information and technology so easily accessible, what was a competitive advantage yesterday is merely entry to the game today. Zadek (2001: 152) suggests that, "managers have never had such difficult job. They have to steer

their organisations through waters that have more unexpected low-lying rocks, unexploded mines and frenzied sharks than ever before.”

“Being in business these days is a lot like falling down a rabbit hole. The latter, if you remember Lewis Carroll’s classic *Alice’s Adventures in Wonderland*, is a chaotic and confusing place to be. All the tried and tested rules of the past don’t seem to work so well anymore,” (Sunter & Visser, 2002: 17). The contemporary business landscape has certainly become a very challenging place for corporations.

The rise of corporations as major world players and the resulting intense and chaotic competition amongst them has resulted in consumers having access to a range, bigger than ever seen before, of product options. Merely trying to navigate through the purchase options available to a consumer is increasingly more difficult and confusing. The paradox of the twenty-first-century as highlighted by Prahalad & Ramaswamy, (2004: 2) is that consumers now have more choices that yield less satisfaction.

Consumers have, through an explosion of communication channels, and easy access to these, become more informed about products and services and about the companies that offer these. “With access to unprecedented amounts of information, knowledgeable consumers can make more informed decisions, (Prahalad & Ramaswamy, 2004: 2).

With the huge amounts of information available to consumers and the massive rise in customer choice, a corporation’s value proposition and thus the reciprocal loyalty shown by the customer is fast becoming a major focus for corporations. Educated customers have become accustomed to knowing what they deserve and what they can expect. They reward companies with loyalty and their hard earned cash for excellent value offered and punish those that do not offer real value.



Collins (2002: 1-2) from his research on enduring great companies, discusses the role played by self directed people who went about the daily tasks of building a successful enterprise: they try to build sustainability, create innovations that make a contribution, and add value. They are the ones who built enduring great companies. The question then is; are enduring corporations necessary? Andriof and McIntosh (2001: 16) suggest that, "the most socially responsible thing a business can do is to be profitable. By being profitable a business can provide sustainable jobs for its employees, good returns for investors and prosperity for the communities in which it operates." A responsible corporation will therefore focus on longevity through the lens of exceptional customer value for it will be rewarded with loyalty and continued turnover. Ghoshal et al (2000: 140) says that; "we must create shared destiny relationships with all our stakeholders: customers, employees, suppliers, governments and the communities in which we operate. It is not altruism, it is commercial self-interest."

A corporation that acknowledges it has a responsibility to more stakeholders than it's primary stakeholder, the shareholder, places the corporation in the corporate citizenship arena. Many corporations adopt or at least claim to adopt such a focus for the purpose of gaining favour with customers. This concept of corporate citizenship, which engenders feelings of trust, caring and responsibility is not synonymous with narrow community investment of corporate social investment, but considers the rights and responsibilities of corporations within a broader societal context (Triologue, 2004: 8).

Andriof et al (2002: 9) argue that "in today's societies successful companies are those that recognise that they have responsibilities to a range of stakeholders that go beyond mere compliance with the law or meeting the fiduciary responsibility inherent in the phrase 'maximising returns to shareholders'. Corporate Citizenship is a focus on creating value for all stakeholders."

## 1.1 Motivation

Shareholder, employee, and the community all receive a large amount of focus under the banner of corporate citizenship. Customer value however, at the very heart of a corporation's focus receives an equal amount if not more, focus, but this focus tends to be blinkered. Corporations offer their customers value by satisfying their needs. How well they fulfil needs and a cognisance of the wider impacts of their offering need greater attention.

McIntosh (2003: 21) suggests that "corporations and others need only make small, but distinctive, changes in order to show courage and leadership, but this requires more time for reflection – time to stand and stare. What assumptions am I making that I don't know I'm making? is probably the most useful question to ask." Looking at the product or service offering through lenses other than that of shareholder value will shape the way corporations deliver value to their clients.

A move away from the caveat emptor; "let the buyer beware" approach (Andriof et al, 2002: 9) to one of real caring and interest in the service or product offering, and the impacts of that offering will assist corporations with their understanding of their primary offering, their target market, and the wider community that houses their specific market. The quest is on to offer excellent customer value to ensure the longevity of the corporation. Longevity however implies that customer value needs to be offered over a protracted period of time. Customer loyalty, which implies a desire and willingness of customers to remain with a specific corporation, therefore becomes a major focus.

In an increasingly overtraded market characterised by intense global competition, decreasing margins and increasing efficiencies, most often at the expense of product quality, gaining the respect of consumers and building their trust through the delivery of products that enhance as opposed to impair the lives of

consumers is a vital ingredient in the quest for customer loyalty and therefore business success.

This quest for customer loyalty and the resultant business success has seen an adoption by business of a plethora of fashionable business tools broadly defined as business strategy. Core competence, competitive advantage, value propositions, scenario planning, strategy canvasses and systems thinking are just some of these tools that assist businesses in delivering real customer value.

Businesses are recognising the growing importance of sustainable development, but more importantly, the importance customers are placing on sustainable business practices, have responded with the adoption of sustainable development thinking as yet another strategic tool in the quest for gaining customer loyalty.

This thesis intends to show the possibility of a direct advantage for both business and the consumer through the incorporation of a sustainable development philosophy in the core business offering as opposed to more superficial, business sugar coating, investments in corporate social initiatives most often peripheral to the core business.

The concept of product stewardship emerging from the field of sustainable development, as will be demonstrated in this study, focuses attention on core business practices, seeking to reduce both negative social and environmental impacts, enhancing customer value and satisfaction and ultimately business success. A product stewardship approach encourages an expanded view of product offerings. It encourages business to analyse the effects of production on both people and the environment. It looks at the suitability and appropriateness of products for particular target markets and finally it considers the ethics associated with the promotion and advertising of products.

This expanded view and the associated additional design criteria are generally viewed as additional costs that in a world of rapidly declining profit margins are quick to be dismissed as unnecessary expenses. It is however beginning to emerge that companies who do factor in these additional product stewardship driven design criteria are beginning to deliver superior customer value while meeting both environmental and social safety demands. The fundamental premise is that businesses can do well by doing good. In an environment of intense business competition and increasing environmental concerns, the adoption of product stewardship as a strategic business tool could seriously position a business facing the pressures of a global economy, for long-term success.

## **1.2 Problem Description**

There is currently no tested connection between sustainable development and customer value. Literature on corporate citizenship compels business to adopt additional constraints or design criteria but none directly links sustainable development and more specifically corporate citizenship with enhanced customer value, the primary focus of business strategy.

## **1.3 Research Objective**

The objective of this study is to test out the possibility of a synthesis between sustainable development, more specifically corporate citizenship, and customer value.

## **1.4 Clarification of Concepts and Terms**

Corporate citizenship: “A narrow definition of citizenship might simply imply compliance with the laws of the land. But in the context of sustainable development, corporate citizenship goes much further. It considers the rights

and responsibilities of companies within a broader societal context,” (Freemantle & Rockey, 2004: 8).

Product stewardship: as defined by Freemantle & Rockey (2004: 92-93) has three component focus areas. Firstly to actively consider, assess, measure and manage the impact of the companies’ products or services on the marketplace and society. Secondly to give specific consideration to the suitability, range and appropriateness of products and services, and thirdly to give specific consideration to the ethics associated with promotion and advertising.

Stakeholders: “A stakeholder in an organisation is (by definition) any group or individual who can affect or is affected by the achievement of the organisation’s objective,” Freeman cited in Andriof et al, (2002: 13).

## **1.5 Research Methodology**

This study followed a qualitative approach with both non-empirical and empirical components. The non-empirical component included a literature review consisting of two parts. The first part consists of a review of scholarship in the globalisation, sustainable development, and corporate citizenship fields. The second part consists of a review of business strategy and customer value literature with special reference to ‘product stewardship’ and the context in which this concept has gained impetus. The empirical component of the research involved two parts consisting firstly of content analysis of company documents and secondly case studies, a technique of an ethnography, to provide an in-depth description of the behaviour of companies that can be described as a product stewardship approach. Ethnographic research “is the genre of writing that presents varying degrees of qualitative and quantitative descriptions of human social phenomena, based on fieldwork,” (Wikipedia, 2007). The meaning of ethnography is expanded by Chass (2007) who says that it “is a form of research

focusing on the sociology of meaning through close field observation of sociocultural phenomena.”

More specifically, the case study technique is according to Chass (2007) “a time-honored, traditional approach to the study of topics in social science and management.” Flyvbjerg cited in Wikipedia (2007) suggests that, “Rather than using large samples and following a rigid protocol to examine a limited number of variables, case study methods involve an in-depth, longitudinal examination of a single instance or event: a case. They provide a systematic way of looking at events, collecting data, analyzing information, and reporting the results. As a result the researcher may gain a sharpened understanding of why the instance happened as it did, and what might become important to look at more extensively in future research. Case studies lend themselves to both generating and testing hypotheses.” Individual topical interviews were therefore used to narrowly focus on product stewardship or processes displaying product stewardship characteristics.

### **1.5.1 Literature Review**

The selection of sources was driven by the major themes of the proposed research. The literature review is intended to provide theoretical insights into the proposed study, which can be tested by undertaking an empirical study (Mouton, 2004:180) of the ethnographic: case study design.

The Literature reviewed falls within three areas, namely sustainable development, business strategy, and product stewardship. Sustainable development primarily investigates balancing long term requirements with short terms needs, while business strategy is primarily concerned with maximising profit. Product stewardship is an idea that seeks to both satisfy the profit motive of business while simultaneously satisfying the demands susitainable

development The following section will provide a brief summary of literature reviewed and a reason for its inclusion in this study.

### **1.5.1.1 Sustainable Development**

#### ***Globalisation***

Globalisation provides the context for the massive amount of energy and resources being devoted to a growing sustainable development field. It highlights the state of the world and the need for reform.

#### ***Sustainable Development***

Sustainable development investigate the choices that need to be made and by whom in order to enjoy and ensure a good quality of life for all species both now and in the future.

#### ***Corporate Citizenship***

Corporate citizenship looks at the contribution corporations have made to the state of the world. It challenges the idea of limited liability and encourages corporations to adopt a more responsible way of operating, factoring in all costs of production and ensuring that real value is delivered to all stakeholders.

### **1.5.1.2 Business Strategy**

#### ***Customer Value as the Primary Focus of Strategy***

In an environment of increasing intensity of competition, corporations dedicate huge resources to business strategy in order to maximise value for shareholders. All activities are however ultimately directed at creating differentiated value that will capture the attention of consumers.

### ***The Link between Customer Value and Loyalty***

The centrality of the customer in product design and delivery appears to have been lost in the scramble amongst corporations to succeed and win. The delivery of real value that completely satisfies customers is integral in nurturing trust between customers and the corporation and eventually loyalty.

### ***The Emergence of Product Stewardship***

Product stewardship evolving from the sustainable development field is a concept that can be applied to product design and delivery that seeks to minimise the negative impacts of products on stakeholders and enhance the delivery of products that contribute positively to the consumer, the environment, and the business.

## **1.5.2 Content Analysis of Company Documents**

Company documentation such as annual reports, specific topical reports and sustainability reports as well as specific company websites were scanned and analysed for references to product stewardship or processes displaying product stewardship characteristics. The selection of companies was based on the following criteria: The design, production or use of a product, preferably a physical product that could have or does have potentially negative effects on both the environment and people. Companies scanned included:

- Daimler Chrysler (Motor Vehicles),
- Ford Motor Corporation (Motor Vehicles),
- Toyota Motor Corporation (Motor Vehicles),
- Volvo Group (Motor Vehicles),
- Sasol (Oil and Gas),
- BHP Billiton plc. (Mining),
- GlaxoSmithKline (Pharmaceuticals),
- Merck & Co. Inc. (Pharmaceuticals),



- The South African Breweries Limited (Alcohol),
- British American Tobacco (Tobacco),
- Woolworths (Clothing, Food and Homeware),
- Pick'nPay (Clothing, Food and Homeware),
- Allianz (Insurance).

### **1.5.3 Selection of Companies for Case Studies**

Of the initial companies, scanned, four were chosen for in depth analysis and further study based on four criteria:

- Firstly; the availability of, and access to suitable company information.
- Secondly; the application of different elements that constitute a product stewardship approach,
- Thirdly; each company should represent a different industry to ensure as wide a representation as possible.
- Fourthly; the probability of gaining access to the individuals, involved in these specific initiatives in the reviewed companies, for personal interviews.

Companies therefore selected for further study and the reasons for their inclusion are as follows.

#### **1.5.3.1 Sasol**

Sasol is an integrated oil and gas company which has focused on developing cleaner fuels and finding renewable sources of energy. They are striving to advance the fuels of the future. Much of their activities are driven by legislation and the impending cost of carbon usage. They are however making a positive contribution to society and the environment through cleaner safer fuels.

Information sources both searched and used for this particular case study included the following:

### **Personal Interview**

- Sasol Technology Environmental Manager Group Safety, Sasol Technology, Sasol Limited, Secunda. (2006) **Personal Interview**. 30 November, Secunda. The interviewee requested to remain anonymous. A recording of the interview is however available on request.

### **Primary Data**

- Sasol Group Corporate Affairs (2006) **Annual Review and Summarised Financial Information 2006**, Johannesburg: Sasol.
- Sasol Group Corporate Affairs (2006) **Reaching New Energy Frontiers Through Competitive GTL Technology**, Johannesburg: Sasol.
- Sasol Group Corporate Affairs (2006) **Sasol Facts; Your Quick Guide to the World of Sasol 2006**, Johannesburg: Sasol.
- Sasol Investor Centre (November 2006) **Joint Media Release – Sasol, CEF and Siyanda Biodiesel**, retrieved 29 November 2006 from the World Wide Web:  
[http://www.sasol.co.za/sasol\\_internetfrontend/navigation.jsp?articleId=16200002&navid=3&rootid=3](http://www.sasol.co.za/sasol_internetfrontend/navigation.jsp?articleId=16200002&navid=3&rootid=3)
- Sasol Investor Centre (November 2006) **Transparency and clean fuels win prestigious awards for Sasol**, retrieved 29 November 2006 from the World Wide Web:  
[http://www.sasol.co.za/sasol\\_internet/frontend/navigation.jsp?articleId=16300001&navid=3&rootid=3](http://www.sasol.co.za/sasol_internet/frontend/navigation.jsp?articleId=16300001&navid=3&rootid=3)

- Sasol Safety, Health and Environment Centre (2005) **Sustainable Development Report 2005**, Johannesburg: Sasol.

### **Secondary Data**

- No secondary data available
- A SABINET Database search for Thesis and Dissertations at South African Universities was conducted using the following key topics:
  - Sasol and Product Stewardship: NO RESULT
  - Sasol and Corporate Citizenship: NO RESULT
  - Sasol and Corporate Social Responsibility: NO RESULT
- The search revealed 52 research theses that are available on Sasol, but no result for the combination of Sasol and one of three key topics.

### **1.5.3.2 Toyota Motor Corporation**

The Toyota Motor Corporation has the aim to enrich society through car making. The commitment displayed in influencing product design so that the impact of their vehicles on both the environment and society is reduced is viewed by the Toyota Motor Corporation as a requirement for long term success. As with Sasol, much of their activities are driven by stringent European legislation governing emissions and recycling. The commitment however displayed by the Toyota Motor Corporation in the design of the world's first production hybrid vehicle, the Prius, highlights the importance they place on developing a solid product stewardship approach that not only reduces the impact on society, but shapes society to be more receptive to this new paradigm of life.

Information sources both searched and used for this particular case study included the following:

### **Personal Interview**

- Personal Interview with Fitzsimons, H. Environmental Manager: Group Safety, Health & Environment, Toyota SA Motors (Pty) Ltd., KwaZulu-Natal. (2006) **Personal Interview**. 7 December, Johannesburg.
- Olivier, R. General Manager: Group Safety, Health & Environment, Toyota SA Motors (Pty) Ltd., KwaZulu-Natal. (2006) **Personal Interview**. 7 December, Johannesburg.

### **Primary Data**

- Environmental Affairs Department (2006) **Sustainability Report 2006; Towards a New Future for People, Society and the Planet**, Japan: Toyota Motor Corporation.
- Toyota Motor Corporation (2006) **Message From Top Management; Harmony with People, Safety and the Environment**, retrieved 21 November 2006 from the World Wide Web: <http://www.toyota.co.jp/en/vision/message/index.html>
- Toyota Motor Corporation (2006) **Toyota Design**, retrieved 21 November 2006 from the World Wide Web: <http://www.toyota.co.jp/en/vision/design/index.html>
- Toyota Motor Corporation (2006) **Toyota Prius – Hybrid car**, retrieved 06 December 2006 from the World Wide Web: [http://www.toyota.co.uk/cgi-bin/toyota/bv/generic\\_editorial.jsp?BV\\_SessionID=@@@@0307736439...](http://www.toyota.co.uk/cgi-bin/toyota/bv/generic_editorial.jsp?BV_SessionID=@@@@0307736439...)
- Toyota Motor Corporation (1995) **Hybrid Synergy Drive**, retrieved 06 December 2006 from the World Wide Web: <http://www.hybridsynergydrive.com/en/benefits.html>

### **Secondary Data**

- No secondary data available
- A SABINET Database search for Thesis and Dissertations at South African Universities was conducted using the following key topics:
  - Toyota and Product Stewardship: NO RESULT
  - Toyota and Corporate Citizenship: NO RESULT
  - Toyota and Corporate Social Responsibility: NO RESULT
- The search revealed one research thesis available on Toyota, but no result for the combination of Toyota and one of three key topics.

#### **1.5.3.3 Woolworths**

Through a thorough understanding of the science behind the food, Woolworths has been able to remove or reduce particular harmful ingredients from their food products. This understanding coupled with a product redesign has enabled Woolworths to remove all Tartrazine and Mono Sodium Glutamate from their products. In addition, Woolworths has also embarked on a project to remove all unnecessary sugar and salt from their products which in excess lead to obesity and heart disease respectively. This acute focus on product design is considered by Woolworths to be a key ingredient in the development of trust between themselves and the consumer.

Information sources both searched and used for this particular case study included the following:

### **Personal Interview**

- Ferreira, J. Head of Woolworths Food Technology, Woolworths. (2006)  
**Personal interview.** 19 December. Cape Town.

**Primary Data**

- Woolworths (2006) **The Environment**. Retrieved December 12, 2006 from the World Wide Web:  
[http://www.woolworths.co.za/Casia.asp?Page=ITB4\\_RHConText&Post=C O-Environment\\_Recycling](http://www.woolworths.co.za/Casia.asp?Page=ITB4_RHConText&Post=C O-Environment_Recycling)
- Woolworths (2006) **The Good Food Journey**. Cape Town: Woolworths.
- Woolworths (2006) **The Organic Journey; more and more good choices**. Cape Town: Woolworths.
- Woolworths Holdings Limited (2005) **How do we deliver sustainable products and services ?** Retrieved November 10, 2006 from the World Wide Web:  
<http://www.woolworthsholdings.co.za/sustainability/pfproducts.asp>
- Woolworths Holdings Limited (2005) **2005 Annual Report**. Cape Town: Woolworths Holdings Limited.
- Woolworths Holdings Limited (2006) **Sustainability Report 2006**. Cape Town: Woolworths Holdings Limited.
- Woolworths Holdings Limited (2006) **2006 Annual Report**. Cape Town: Woolworths Holdings Limited.

**Secondary Data**

- No secondary data available
- A SABINET Database search for Thesis and Dissertations at South African Universities was conducted using the following key topics:
  - Woolworths and Product Stewardship: NO RESULT

- Woolworths and Corporate Citizenship: NO RESULT
  - Woolworths and Corporate Social Responsibility: NO RESULT
- The search revealed four research theses available on Woolworths, but no result for the combination of Woolworths and one of three key topics.

#### **1.5.3.4 South African Breweries Limited**

Combating liquor abuse is a license requirement for the South African Breweries Limited. Their commitment however to both combating misuse and abuse and promoting responsible drinking goes beyond that which is required. They recognise that in order to be successful, the communities in which they operate need to be healthy. Responsible drinking initiatives, including the Draw the Line campaign, are therefore both a license requirement and a requirement for success.

Information sources both searched and used for this particular case study included the following:

##### **Personal Interview**

- Fourie, M. Regulatory Affairs Manager, South African Breweries Limited, Johannesburg. (2006) **Personal Interview**, 22 January 2007, Johanneburg.

##### **Primary Data**

- SABMiller (2006) **Annual Report 2006**, retrieved 12 December 2006 from the World Wide Web: <http://www.sabmiller.com>
- SABMiller (2006) **Sustainable Development Report 2006**, retrieved 12 December 2006 from the World Wide Web: <http://www.sabmiller.com>

- SABMiller (2006) **Responsible Drinking**, retrieved 12 December 2006 from the World Wide Web:  
[http://www.sabmiller.com/sabmiller.com/en\\_gb/Our+responsibility/Responsible+drinking/](http://www.sabmiller.com/sabmiller.com/en_gb/Our+responsibility/Responsible+drinking/)
- South African Breweries Limited (2006) **Stepping up to The Future, Sustainability Report 2006**, Johannesburg: Corporate Affairs, South African Breweries Limited.
- South African Breweries Limited (2006) **Everything You Wanted to Know about Taverner Training**, Johannesburg: South African Breweries Limited.

### **Secondary Data**

- No secondary data available
- A SABINET Database search for Thesis and Dissertations at South African Universities was conducted using the following key topics:
  - South African Breweries and Product Stewardship: NO RESULT
  - South African Breweries and Corporate Citizenship: NO RESULT
  - South African Breweries and Corporate Social Responsibility: NO RESULT
- The search revealed ten research theses available on South African Breweries, but no result for the combination of South African Breweries and one of three key topics.

### **1.5.4 Data Collection Techniques**

Individual topical interviews were used to narrowly focus on product stewardship or processes displaying product stewardship characteristics. Individuals



responsible for a particular project displaying product stewardship characteristics or who had working knowledge of these projects were interviewed. The interviews were recorded where possible. Where interviewees did not permit recording due to the sensitivity of the material being shared, detailed notes were written and read into a recording for reference purposes. The recordings are available on the attached CD ROM Labelled CHAPTER FOUR CASE STUDY INTERVIEWS. The views expressed by the interviewees are their own perceptions and do not necessarily represent the companies for which they work. Some of the interviewees wished to remain anonymous and as such only the company name and date are given as references in the particular case study.

### **1.5.5 Insurance as the Motivation for Research**

A review of insurance related information was conducted to highlight the state of the industry, challenges facing both suppliers and intermediaries and the criticisms levelled by consumers. Aside from eco-friendly buildings, great staff management, investment in corporate social investment projects, and the procurement of stationary from responsible sources, most service orientated companies are perceived to fall outside the sphere of a sustainable development approach. The application however of sustainable development criteria to the entire business including their products could better position these businesses for long term success, curb the criticisms of consumers and ultimately improve industry image.

Professor Robert W. Vivian from the University of the Witwatersrand, Risk and Insurance Faculty, was approached for sources of general information concerning the industry, references to which are included in the study. A conference focusing on the opportunities and threats to insurance in the new South Africa, hosted by the South African Financial Services Intermediaries Association (SAFSIA), was attended in November 2006 to gain further

information on the state of the insurance industry and references to this information are also found in the study.

### **1.5.6 Discussion**

An inductive approach, within the qualitative ethnographic research: case studies methodology, which studies a limited number of cases with the objective of providing a specific understanding of the product stewardship approach.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

This literature review focuses on two main bodies of knowledge; sustainable development literature and business strategy literature. The former highlights the state of a globalized world, the rapidly pending carrying capacity overshoot of the earth, the emergence of sustainable development thought and the call for corporations, undoubtedly the biggest contributors of problems highlighted by the sustainable development field, to build the capabilities for good citizenship. The latter, business strategy literature, highlights the increasing intensity of competition facing corporations, the need to build competencies for the delivery of differentiated customer value and the importance of completely satisfying customers to gain their loyalty and trust.

This literature review culminates with a focus on product stewardship - a concept emerging from the sustainable development field that calls for corporations to have an expanded view of their product offerings - a view that considers the health of the environment and the community as necessary for long term business success. For corporations seeking to completely satisfy their customers in a quest to leverage customer loyalty, this concept of product stewardship is a useful strategic business tool.

### **GLOBALISATION, SUSTAINABLE DEVELOPMENT AND CORPORATE CITIZENSHIP LITERATURE REVIEW**

When last have you found a worm in your juicy green apple? Does it not strike you as a little disconcerting that the tomatoes most supermarkets stock are perfectly round and uniformly red, standing to attention like disciplined soldiers in their cardboard packaging? Almost every aspect of our daily lives has been commoditised, packaged and is on sale somewhere. You can now buy almost

everything from healthcare to leisure, sport, juicy green apples and perfect tomatoes. Have you ever stopped to wonder why you no longer find worms in apples or why tomatoes have become so perfectly round and uniformly red? The answer can largely be attributed to the increasing intensity of competition amongst businesses to capture the attention of consumers. Pesticides, synthetic fertiliser and genetic modification are delivering these almost too perfect for comfort produce to our kitchens. Corporations are increasingly resorting to any means possible, often at the expense of real value, poor service and health, to capture and maximise their share of consumers' wallets in this global war for attention.

In order to provide a backdrop to the issues of sustainable development, the state of the global economy and the effects of globalisation need to be clearly articulated. Sustainable development will then be defined along with the concepts that lend meaning to this philosophy. Corporations who play a major role in shaping the world of today and who have dramatically shaped the last 100 years of humankind will be explored through the lens of their responsibilities to society as good corporate citizens. The jostling for space amongst these corporations and the strategies they employ to simultaneously manage the achievement of short term profit targets and the long term visions provide some interesting insights into the stances these corporations are taking, or rather learning, that are necessary for such success. Finally, no business can be successful without customers and therefore what attracts customers and keeps them coming back again and again warrants exploration.

## **2.1 GLOBALISATION**

“Most frequent international business travellers have had an experience like the following. She arrives on her British Airways flight, rents a Toyota from Hertz, and drives to the downtown Hilton Hotel. In her room, she flips on the Sony TV, and absentmindedly gazes out at the neon signs flashing “Coco-Cola,” “Canon,”

and “BMW.” The last episode of “Friends” is flickering on the screen when room service delivers dinner along with the bottle of Perrier she ordered. All of a sudden, a feeling of disorientation engulfs her. Is she in Sydney, Singapore, Stockholm, or Seattle?” (Bartlett & Ghoshal, 2000: 3). It is astounding to realise the impact that corporations and their offerings have on our everyday lives. Hawken (1993: 6) comments that, “No empire – Greek, Roman, Byzantine, British, or any other – has had the reach of the modern global corporation, which glides easily across borders, cultures, and governments in search of markets, sales, assets, and profits. This institutional concentration of human energy and creativity is unparalleled in history.”

For a fifth of the Earth’s population life appears so perfect. Good health care is available 24 hours a day, the average person lives in a three bedroom house and owns two cars, flies half way across the world to relax on a tropical beach and never has to think about where their kitchen refuse goes once it is collected by the refuse truck every Thursday evening. This is reality for a large portion of the world’s population. Unfortunately however, for the even larger, remaining portion of the world’s populations this is not the case. “The cornucopia of resources that are being extracted, mined and harvested is so poorly distributed that 20 percent of the earth’s people are chronically hungry or starving, the top quintile in developed countries, about 1.1 billion people, currently metabolize 82.7% of the world’s resources, leaving the balance of 17.3% of the resources for the remaining 4.5 billion,” (Hawken, 1993: XII). It is clearly evident that corporations have both a great positive and negative influence on the quality of life. Dunphy (2003: 3) comments that, “the critical situation in which we find ourselves has been brought about by multiple causes but one important contributing factor is the rise of the corporation. Corporations are the fundamental cells of modern economic life and their phenomenal success in transforming the earth’s resources into wealth has shaped the physical and social world in which we live.” It is clear therefore that globalisation has touched everyone and continues to

touch everyone in both direct and indirect ways, but what exactly is this elusive concept called globalisation?

### **2.1.1 Globalisation Defined**

“5.8 billion people are breeding exponentially. The process of fulfilling their wants and needs is stripping the earth of its biotic capacity to produce life; a climatic burst of consumption by a single species is overwhelming the skies, earth, waters, and fauna... Making matters worse, we are in the middle of a once-in-a-billion-year blowout sale of hydrocarbons. They are being combusted into the atmosphere at a rate that will effectively double-glaze the planet within the next fifty years, with unknown climatic results,” (Hawken, 1993: XII). Globalisation could therefore be defined as the rapidly growing world population and the massive rise in the ability and power of corporations to supply an insatiable demand. As a result we are experiencing a transformation of our social space.

### **2.1.2 Consumer Monoculture**

The uniqueness of nations and cultures appear to be moulding into the familiar as opposed to the novel, spurred on by multinational corporations, ease of travel and radically improved communication. Korten (1995: 121) suggests that our new economic order is driven in part by “a globalized consumer mono-culture.” Every place on earth is beginning to look like every other place on earth with the same brand names available globally. Scholte cited in McIntosh (2003: 49) “supports the idea that we are now talking about social space as much as territory when we refer to globalisation” and continues to comment that, “globalisation is understood as transformation of social space marked by growth of the supraterritorial connections between people.” Supraterritorial connections refer to the connections that span across borders. Zoeteman (2003: 111) confirms this by highlighting that “many financial transactions are carried out in virtual space, which has no territorial barriers.”

### **2.1.3 Rise of the Corporation**

There appears to be a new form of social fabric emerging, one that should not be referred to as nationality, but rather globality. Multinational companies are certainly playing a major role in catalysing these connections. Korten (1995: 121) describes this new breed of social fabric as “the most rapid and sweeping institutional transformation in human history. It is a conscious and intentional transformation in search of a new world economic order in which business has no nationality and knows no borders.” Corporations and multinational corporations through their sheer size have a major influence in moulding society and the governance thereof. Zoeteman (2003: 111) comments that, “globalization is reducing the power of governments of nation-states,” and continues to say that, “the economic size of quite a few multinational companies has grown far beyond the economic size of many states.”

### **2.1.4 Infinite Resource Supply**

Zoeteman (2003: 104) proposes that, “globalization is not inevitable. It is manmade.” Corporations have certainly been the dominant factor, in this phenomenon called globalisation. Goldsmith (2000: 19) describes the development of the global economy as “a new era of corporate colonialism that could be more ruthless than the colonialism that preceded it.” Cecil Rhodes speaking on colonialism cited in Goldsmith (2000: 21) declared that, “We must find new lands from which we can easily obtain raw materials and at the same time exploit the cheap slave labour that is available from the natives of the colonies.” Corporations do this today by focusing on finding the lowest cost factors of production in order to package the best price to value ratio that attracts buyers and therefore secures their longevity. The manner in which corporations create and package their offerings is of growing concern in the world today. Dunphy (2003: 7) suggests that, “Throughout corporate history many corporate

chieftains have used their power rapaciously and irresponsibly ... In fact, there is a growing divide between those corporate leaders who have embraced the responsibilities of corporate citizenship and those who, through ignorance or design, continue to exploit natural and human resources.” Many corporations have and continue to exploit the world’s natural capital rapaciously for the sake of their progress.

It was not an unreasonable abstraction during the formative years of economic theory to consider environmental sources and sinks as being infinite relative to the demands of the economy (Daly, 1996: 34). Generally accepted economic theory therefore accepted and even encouraged the exploitation of environmental sources. The scale of the economy and therefore corporations have risen to a great position of power in our lives to the extent that, “almost everything we depend on in our modern world is the product of corporations – from the food we eat, the clothes we wear to the phones and computers we use to communicate with each other. We cannot do without corporations,” (Dunphy et al, 2003: 8). This reliance on corporations and the resultant phenomenal growth in the scale of the economy is beginning to raise the issue that environmental “sources and sinks ... are obviously scarce,” Daly (1996: 34).

### **2.1.5 Carrying Capacity Overshoot**

Hawken (1993: 24) argues that, “because resource supplies are declining, we as a species are exceeding our ‘carrying capacity’ – the uppermost limit on the number of species an ecosystem or habitat can sustain, given the supply and availability of nutrients.” Boulding cited in Daly (1996: 57) says, “when something grows it gets bigger! The economy has gotten bigger, the ecosystem has not.” There appears to be a concern that the world economy is out-growing the carrying capacity of the natural world. Acid rain, global warming and ozone layer depletion are evidence that the human population and their activities may have already exceeded the earth’s carrying capacity. Hawken (1993: 25) says that,



“natural and human history are full of examples in which animals or humans exceeded carrying capacity and went into steep declines, or extinction.” He continues to describe how in 1944 when 29 reindeer had been imported to the small St. Matthew Island, in the Bearing Sea, specialists had calculated that the island could support a total population of between 1600 and 2300 reindeer. By 1963 the population had exploded to 6000. The carrying capacity was exceeded and the population was soon decimated by disease and starvation.

### **2.1.6 Overshoot Solutions**

The human population and its activities may well have exceeded the carrying capacity of the earth. The solution to this carrying capacity problem could come naturally through disease and natural disasters as a result of global warming, or alternatively, humans could temper their ‘growth-mania’ through an intelligent search for alternative, less resource and waste intensive means to live and develop. Solutions, the natural and man-made are already spawning in small pockets around the world. A popular idea, although unsubstantiated, suggests that the Human Immunodeficiency Virus (HIV) that causes the Acquired Immune Deficiency Syndrome (AIDS), bird flu, rising sea levels and tsunamis have been argued to be part of the earth’s natural mechanism to correct this overshoot in carrying capacity. Lovelock (2006) cited in Gare (2007: 1) supports this idea by suggesting that “the global ecosystem functions to maintain the conditions for life on Earth.” He continues, “that over the next one hundred years it is likely there will be a massive collapse of life, with only several hundred million people living near the North Pole surviving in a vastly degraded environment that will take more than 200,000 years to recuperate, because even before global warming humans had inflicted so much damage on their environment.” On the man-made side, corporations and individuals alike are starting to embrace the notion of limited supply of resources and sinks through a recycling and eco-efficiency based culture. Daly (1996: 35) however comments that, “wisdom is drowned out in the drumbeat of the see-no-evil optimism of growth-mania.” Many corporations

and individuals choose not to include the environment and social fabric into their frames of reference, but operate on a micro-scale instead, and as such, do not see the emerging issue of scarcity facing the world today. Daly (1996: 34) suggests that, “many economists hang onto the infinite-resources assumption in one way or another, because otherwise they would have to admit that economic growth faces limits, and that is unthinkable.”

### **2.1.7 Intensity of Competition Increases**

Progress and development is continuing unabated, the world population continues to rise and corporations are beginning to rule the world. Dunphy (2003: 8) commenting on corporations suggests that, “what is important, however, is that we exercise sufficient collective control over the way in which they operate to ensure they support rather than destroy the ecological and social fabric we depend on.” The problem is that coupled with this massive rise of the corporation as a major world player, has been an increase in the intensity of competition amongst corporations worldwide and a shrinking of profit margins (Prahalad and Ramaswamy, 2004: 2). Competition has forced corporations to become extremely scientific in the way they organise themselves. They have in fact become experts at organisation. Universities and business schools have spawned and flourished in response to an increasing need by business to organise themselves effectively and efficiently. Korten (1995: 112) commenting on market conditions in America at the beginning of the 1900’s says that, “competitive battles between the most powerful industrialists were cutting into profits.” In the markets of today, worldwide, competitive battles amongst businesses of all sizes are cutting into each others’ profits.

In the corporate war for capital, being granted by the investor who receives the best return in the quickest possible time, corporations need to be highly efficient, act with speed, and maximise profits. The socially responsible corporation that invests in the long term, keeps sufficient reserves to cushion against economic

downturns and provides employees with secure, well paying jobs is an endangered species (Korten, 1995: 207-208). Korten (1995: 207) continues to say that these socially responsible corporations “do not, however, yield the instant shareholder gains that computerized trading portfolios demand.” These companies as a result run the risk of being out competed on price as they factor in costs not considered important by other corporations and they run the risk of being cannibalised by their competitors. Korten (1995: 214) suggests that our rogue financial system “is virtually feeding on the socially responsible” corporations.

### **2.1.8 Internalising Externalities**

Companies who actively internalise their externalities (Daly, 1996: 45) are at a disadvantage in our current global economic model as such a focus incurs additional costs in terms of time and money. In a world, where consumers seek speed of service and the lowest possible cost for the best value, companies that do not factor in and manage the effects of their activities on both the environment and society, externalities, are those that will offer the best price to value ratio in the short term. Hawken (1993: 121) says that, “business is correct to defend its right to act in order to produce a vigorous and engaging prosperity. But it is wrong if it forgets that this freedom can only be experienced within the discipline of social responsibility.” The business of business is business but businesses also need to take serious cognisance of the fact they do have responsibilities that extend beyond returns to shareholders. Dunphy (2003: 4) takes a strong stance on corporations not acting responsibly in the comment that, “corporations are instruments of social purpose, formed within society to accomplish useful social objectives. If they do this, they have a right to a continued existence, a license to use resources, and a responsibility to produce socially beneficial products and services. However, if they debase human life, act with contempt for the community of which they are part, plunder and pollute the planet, and produce ‘bads’ as well as ‘goods’, they forfeit their right to exist ...The single-minded

pursuit of short-term profitability for shareholders or owners does not justify a 'couldn't care less' approach to people and the planet "

### **2.1.9 It is Time to Shapeshift**

The world population is growing exponentially and corporations have risen to the challenge of supplying the needs of people everywhere with beneficial products and services. Corporations have been so effective at fulfilling needs that they have become a major influence in moulding society, threatening the power of nation states as corporations develop the largest economies in the world. Along with this increase in power has come an increase in the intensity of competition as corporations devise intricate strategies to capture the wallets of consumers globally. This increase in intensity has forced corporations to act with precision, efficiency, and speed, to ensure their survival and as such have failed to act responsibly, not taking into account the impacts of their activities on resources, the earth, and society. The earth has begun to show the symptoms of an overshoot in carrying capacity but our challenge remains to convince economists that resources and sinks are finite. Our economic system does not encourage long term investing, but rather short term gains that externalise as many costs as possible. The challenge facing the world today is the realisation that our current tangent of growth and development may be coming to an abrupt end. The options that such a realisation presents are few. Continue on the existing tangent and watch the world become increasingly toxic and dysfunctional or "shapeshift" (Visser & Sunter, 2002: 78) to a new tangent; one that recognises limits, responsibilities, the environment, society, ethics, and the direct impact of existence.

## **2.2 SUSTAINABLE DEVELOPMENT**

The glaring reality of rapidly growing world populations, the rise of a market economy to meet the demand of the world's now six billion inhabitants, and the

resultant damage from a dominant economic system that does not recognise the limits of the earth's resources or sinks, inspired the sustainable development philosophy or movement that encompasses “as diverse group as you can imagine – academics, avant-garde entrepreneurs, mother-earthers, pop singers, students, housewives, activists in nongovernmental organisations (NGOs), organic farmers, green scientists, politicians, etc. They all share one thing in common: an interest in improving human wellbeing by seeking a proper balance between social, economic and environmental change,” (Visser & Sunter, 2002: 15). Sustainable development touches life in a very unique way. The philosophy embraces a genuine caring across all spectrums of life ranging from corporations to governments, individuals, and the environment. Sustainable development searches for alternative models of living from what we eat to organisational behaviour of corporations, energy supply, waste management, and where our children will play in the future. This section will explore some of the glaring facts facing the world, the definition of sustainable development, the stakeholders involved in the sustainability drive, the various approaches to sustainable development, and the efforts required to fulfil this need.

### **2.2.1 Glaring Facts Facing the World**

Humans and their genetically endowed motives have and are changing the world on an unprecedented scale. A motive according to Hawkins et al (1998: 366) “is a construct representing an unobservable inner force that stimulates and compels a behavioral response and provides specific direction to that response. A motive is why an individual does something.” All Humans have motives that have been inherited and then shaped by their social interactions. Maslow cited in Hawkins et al (1998: 367-368) highlights a hierarchy of needs that all humans possess and which can be seen as a good guide to general behaviour. The hierarchy articulates needs from the very basic physiological needs, for food and water, to the need for safety, belongingness, esteem, and finally self-actualisation which involves the desire to become all that one is capable of becoming. It is this

motive to become all that one is capable of becoming that drives progression and development. "Human change is distinguished from natural change ... by its wilfulness and purposefulness. As the only creatures known to plan change, we boldly dip into our history and alter the course of our own development," (Brown et al, 2001: 190).

Global Environment Outlook 3 (2002: xx-xxv) highlights some of the remarkable changes that the world is experiencing as a result of human wilfulness and purposefulness; "in the 1980's, it was estimated that about 10 million ha of irrigated land were being abandoned" due to inefficient irrigation schemes, "the net loss in global forest area during the 1990's was about 94 million ha (equivalent to 2.4 per cent of total forests), ... about 24 per cent (1130) of mammals and 12 per cent (1183) of bird species are currently regarded as globally threatened, ... 1.1 billion people still lack access to safe drinking water and 2.4 billion lack access to adequate sanitation, ... globally sewage remains the largest source of contamination, ... during the El Nino of 1997-98, extensive coral bleaching occurred on coral reefs worldwide, ... acid precipitation has been one of the most prominent environmental concerns over the past decades, ... thousands of lakes in Scandinavia lost fish populations due to acidification, ... the concentration of CO<sub>2</sub>, one of the major greenhouse gases, in the atmosphere has increased significantly, contributing to the greenhouse effect known as 'global warming,' ... about half of the world's population (47 per cent) now live in urban areas, compared to little more than one-third in 1972," ... and while the number of geophysical disasters has remained fairly steady, the number of hydrometeorological disasters (such as droughts, windstorms and floods) has increased." The above facts and figures are merely a taste of how humans have dipped into the world's patrimony to the extent that change is obvious and continues to be a permanent condition of our collective future.

### 2.2.2 Boiled Frog or Leapfrog

However glaringly obvious the facts may be, change to a more responsible purposefulness appears to be very slow and is considered a competitive burden. Visser & Sunter (2002: 19) highlight that, “like all animals, we are biologically programmed to react to visible, immediate danger through an in-built fight-or-flight mechanism.” Failing to distinguish the long term effects of gradual changes however may result in being boiled alive. “If a frog is placed in boiling water, it immediately jumps out (providing it is free to do so). However, if the water temperature is cool to begin with and then gradually increased, the frog fails to register a threat to its wellbeing and consequently allows itself to be literally boiled alive,” (Visser & Sunter, 2002: 20). The world can be likened to a frog that is being boiled alive which is a very apt metaphor considering the earth is being heated through global warming. Humans due to a ‘gradual heating of the water’ are failing to distinguish the long term effects of their actions and are therefore contributing to a global deterioration of ecosystems and social fabric.

Small islands of understanding and change are however starting to develop in a sea of self-actualising development and progression. Brown et al. (2001: 190) highlight that, “civil society, business, and government each have an important and distinctive role to play in what is arguably the most exciting moment in human history. But each sector needs to become sophisticated in the language and mechanics of change. Each needs to learn to think strategically – a great challenge for a species that is biased towards the immediate and the local.” Rather than being boiled alive, “leapfrogging” as referred to by Brown et al. (2001: 6) into a more secure, healthier future is a real possibility. Leapfrogging implies a commitment to leap coupled with a burst of energy to make the leap. A direction to leapfrog into, is however necessary. What direction should be leapt into is interpreted differently by different individuals depending on their interests and circumstances. The common thread however is the realisation that current

models of development are not sustainable and alternatives are desperately required.

### **2.2.3 The Emergence of Sustainable Development**

The concept of sustainable development was “conceived as an attempt to bring environmentalist ideas into the central area of policy, which in the modern world is economics,” (Dresner, 2002: 63). It has provided a meeting point for both environmentalists aiming to encourage responsible environmental management, and developers emphasising the need for progression and development. It does not challenge the idea of growth directly, but seeks to modify the kind of strategies pursued (Dresner, 2002: 63). Although there is no one definition of sustainable development and the concept is vague it does allow those grappling with the idea to feel their inclusion rather than exclusion as it seeks to include rather than exclude stakeholders.

The core ideas of sustainable development, which requires of us to change our lifestyles, “were first articulated as a response to the life-threatening realities of global environmental degradation,” (Hattingh, 2001: 19). Since then the concept has been interpreted differently by different sectors of society. The core ideas however remain the same. “The World Summit on Sustainable Development that took place in Johannesburg in September 2002 once again highlighted the fact that the concept of sustainable development is still in the process of being defined. This was evident from the differing agendas of the negotiating blocs and of the bodies representing civil society,” (Du Toit, 2003: 1). Dresner (2002: 63) says that “although there is much disagreement at present, with time the meaning will become clearer as people learn a new environmental language.”

The lack of a succinct definition is encouraged and welcomed by some as extremely positive. It furthers the pursuance to include rather exclude and develops a commonality that can only be found through muddling with the core



ideas of sustainable development. Hattingh (2002: 19) suggests “that it would be a disaster to find one definitive conception of sustainability/ sustainable development, since it would entail the imposition on the whole of society of an ideology serving in all probability the interests of only certain powerful sectors of society.” It is clear therefore that the concept of sustainable development is relatively new and continues to develop, it seeks to include rather exclude stakeholders and although it lacks agreement of definition, the core ideas provide a commonality of purpose.

#### **2.2.4 Stakeholders**

A stakeholder is anyone who has a vested interest in, or who is affected by an entity or object. Most stakeholder theory investigates stakeholders of corporations. Stakeholders are however not limited to those of a corporation. Individuals or groups can be stakeholders of anything provided they have an interest in it. An individual or group can therefore be a stakeholder in an object, a life, an organisation, the environment, a community, the earth and the universe. It is important to note that ownership is not the defining criteria. A corporation’s shareholders are stakeholders but so are the team, customers, suppliers, government, society and the environment. All of these have a vested in or are affected by the life of a corporation and are therefore stakeholders.

Dunphy et al (2003: 68) raises the issue that “there are differences of opinion expressed ... about whether to confine the definition of stakeholder to those individuals and groups who are vital to the survival of the firm or to expand it to a wider set of groups whose interests are affected by the firm’s actions.” Two sets of individuals or groups are highlighted; those who are indispensable to a firm or those who are affected but not indispensable. The focus of most corporations is to remain competitive which directs efforts at the immediate sphere of influence to ensure survival. A wider set of groups whose interests are affected by a firm’s actions are not habitually factored into the healthy functioning of a corporation.

“The potential list of stakeholders includes shareholders and owners, suppliers, customers, government, the community, future generations and the rest of nature: that is, all 20 million or so species on earth,” (Dunphy et al, 2003: 68). Defining a boundary of responsibility to stakeholders becomes difficult. Dunphy et al (2003: 68) categorises stakeholders into two groups called primary and secondary stakeholders; “primary stakeholders are those engaged in some transactions with the firm and without whom the firm would cease to exist. Secondary stakeholders are those who are not essential for the firm’s survival but who can influence the firm or who are influenced by the firm (or both). The distinction makes it clear that, to pursue its own immediate self-interest, the firm must concern itself with the expectations of primary stakeholders; however, it also has ethical responsibilities to secondary stakeholders.” A corporation has responsibilities to both primary and secondary stakeholders.

The stakeholder debate therefore highlights “the two major uses of the word sustainability, which cause considerable confusion in the field: (a) the firm’s ability to sustain itself versus (b) its impact on the sustainability of its social and ecological environment,” (Dunphy et al, 2003: 68). Emphasis will shift depending on the group or individual concerned. Environmentalists and socialists will tend towards the second definition of managing the impacts of a corporation on its external environment, whereas a corporation will view sustainability as the ability to sustain itself. Corporations are beginning, through consumer pressure, legislation, and business sense, to factor in their effects on their external environment. The realisation that factoring in external impacts is vital for the continued longevity of a corporation is of particular interest for this study.

The sustainable development agenda spreads its net further than the corporation to look at stakeholders that have a particular interest in the world. “Within the world population of an estimated six billion people, there is a complex organisation of buying and selling, of surviving and progressing and of rules and

regulations. This complex organisation is driven by four main groups of stakeholders, namely: Civil society, corporations, governments and research institutions. These four main groups have the ability and power to direct and encourage meaningful change in the right directions,” (Staak, 2003: 3). At present however, these main groups all operate individually and face individual constraints to collectively affect wholesale change. Brown et al (2001: 205-206) highlights that “in the effort to steer our cultures toward sustainability, civil society, business, and government all have powerful points of leverage available to them. Each also faces particular constraints: fragmentation limits the influence of civil society, the pursuit of profit reduces options for business, and competing interests tie the hands of government.”

A distinction needs to be made between stakeholders from the perspective of a corporation and from the world. Stakeholders in the world include all species on earth and are broadly represented by three main groups namely civil society, business, and government. What is important for corporations to understand is that they have a responsibility to both primary and secondary stakeholders as opposed to the historical responsibility to only primary stakeholders. It would be impossible for corporations to factor into their business planning every one of the 20 million species on earth, but it is possible to consider a responsibility to a collective of these individual species. This collective group can be classified as the environment. Other collectives also qualify as stakeholders and include shareholders and owners, suppliers, customers, government, the community and future generations. With an understanding of the various stakeholders that represent the world and those to whom corporations have a responsibility, each with their own motives and constraints it is understandable that the concept of sustainable development remains difficult to define. The following section will highlight some of the main approaches to sustainable development from the perspectives of the different stakeholders.

## **2.2.5 Sustainable Development Defined**

There are many definitions of sustainable development ranging from the very anthropocentric to the very eco-centric and from the more business orientated approaches to approaches that focus on moral concepts. Pezzoli (1997: 549) argues that, “The literature on sustainable development has burgeoned. Over the past decade, concern about sustainability has been raised within such a wide range of social and natural science discourses that a comprehensive overview of this work is hard to find.” Within the range of discourses however there are very specific approaches or definitions of sustainable development that are developing. The most widely-cited definition of the concept comes from *Our Common Future*, a report written in 1987 by the World Commission on Environment and Development, “also known as the Brundtland Commission” (Du Toit, 2003: 2). The definition states that “sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs,” World Commission on Environment and Development cited in Pezzoli (1997: 549). This approach and others that are emerging will be discussed in the following section.

### **2.2.5.1 Human Needs Approach**

The very anthropocentric definition stated by the Brundtland Commission identifies the “crucial elements of sustainable development as meeting basic needs, recognizing environmental limits, and the principles of intergenerational and intragenerational equity,” (Dresner, 2002: 67). The definition acknowledges the idea of limitations, yet encourages development. The main focus is on meeting needs of people in a way that does not compromise existing and future generations.

### **2.2.5.2 Moral Choices Approach**

Hattingh (2001: 7) suggests that sustainable development incorporates “a moral imperative that goes far beyond merely encapsulating scientific statements about

physical limits and ecological carrying capacity – which we in any case cannot escape. Sustainability and sustainable development rather challenges us to make certain moral choices.” In order to reach a state of sustainability, “a drastic change in lifestyles would be required,” Achterberg cited in Hattingh (2001: 7). This change in lifestyles goes beyond meeting needs in a responsible manner, but looks at moral choices that could drastically alter existing patterns of consumption and therefore economies of the world. Hattingh (2001: 7) highlights the core ideas of this moral challenge as a choice for:

- **Inter-generational justice**

This is a concern for the well-being of future generations that requires of us not to compromise their abilities to meet their needs.

- **Intra-generational justice**

This is a concern for the well being and development of the poor of the world that requires of us to ensure a more equitable distribution of resources in the world.

- **Environmental protection and respect for life**

This is a concern about the manner in which we impact on natural systems sustaining our lives; this requires us to assume an environmental ethic in which an attitude of respect for nature in its own right, over and above the mere use or resource values that it has for us humans, is fostered.

The moral concept approach entails the choices facing humans based on three ethical notions; Inter-generational justice, intra-generational justice and environmental protection and respect for life. These notions expand the Brundtland Commission definition by placing greater effort on growing divide between rich and poor in our current generation, as well as a protection of the environment above its resource value.

### **2.2.5.3 Deep Ecology and Green Approaches**

The deep ecology and green approaches are on the opposite end of the continuum to the approaches that promote responsible development or sustainable development. The Deep ecology and the green approaches strive for conservation and an understanding that the environment has a right to exist just because it does, regardless of an assigned economic value. These approaches also see the interconnectedness of everything and suggest that life is intricately balanced. “They began to look at wholes instead of parts, at processes instead of substances. They discovered that these wholes – be they cells, bodies, ecosystems, or even the planet itself – are not just a heap of disjunct parts, but are dynamically organized and intricately balanced ‘systems,’ interdependent in every movement, every function, every exchange of energy and information,” (Macy & Young-Brown 1995: 40). Destruction of one element in the system could have catastrophic effects for the healthy functioning of the entire system.

Deep ecology sees humans as members of a living system that needs to be protected in order to ensure continued survival of everything. Macy & Young-Brown (1995: 46) say that “deep ecology questions fundamental premises of the industrial growth society. It challenges the assumptions ... that humans are the crown of creation and the ultimate measure of value. It offers us a broader and more sustainable sense of our own worth, as viable members of the great evolving community of Earth.” These approaches do not offer solutions for growing divide between rich and poor, but do suggest that without a healthy living system, no future is even imaginable.

### **2.2.5.4 Natural Capital Approach**

The natural capital approach does not discourage development, but rather encourages sustainable development that “is progressive social betterment without growing beyond ecological carrying capacity,” (Daly cited in Wackernagle & Rees, 1996: 33). Like the human needs approach, the natural capital

approach does encourage development but emphasises the need to keep natural capital stocks intact. "To use an economic metaphor, humankind must learn to live on the income generated by remaining natural capital stocks," Wackernagle & Rees (1996: 36). The human needs approach infers that future generations should not be compromised, but does not specifically refer to natural capital stocks.

Natural capital as defined by Wackernagle & Rees (1996: 36) "includes not only all the natural resources and waste sinks needed to support human economic activity, but also those biophysical processes and relationships among components of the ecosphere that provide essential life-support services." Hawken et al. (1999: 2) expands on the concept of natural capital to say that it "includes all the familiar resources used by humankind: water, minerals, oil, trees, fish, soil, air, ... but also encompasses living systems, which include grasslands, savannas, wetlands, estuaries, oceans, coral reefs, riparian corridors, tundras, and rainforest. The Natural Capital approach puts a value on living systems, and the resources within the system. It also aims to create the understanding that the economic process is firmly tied to its environment at both ends; resources come from somewhere and waste goes somewhere. Current world economic models do not at present take into account the impact of resource procurement and the cost to the environment of disposing waste.

Natural capital is being eroded away at an alarming rate. Resource companies are extracting minerals in huge proportions, fish stocks are decreasing and forests are being wiped out. Hawken et al (1999: 3) suggest that "humankind has inherited a 3.8-billion-year store of natural capital. At present rates of use and degradation, there will be little left by the end of the next century." While it would be irresponsible to suggest a depletion of natural capital, debate as to the substitutability of natural capital with man made capital has led to the emergence of the concepts of weak and strong sustainability. Weak sustainability suggests that losses of natural capital are acceptable if

compensated through the substitution of an equivalent amount of value of human made capital. Strong sustainability however strives to conserve or enhance natural capital stocks Wackernagle & Rees (1996: 36). What is important is the realisation that natural capital stocks are being depleted and that efforts need to be made by all stakeholders to conserve the world's store of capital. Hawken et al (1999: 8) suggest that "if there is to be prosperity in the future, society must make its use of resources vastly more productive – deriving four, ten, or even a hundred times as much benefit from each unit of energy, water, materials, or anything else borrowed from the planet and consumed."

The natural capital approach calls for strategies to improve resource use with the view of minimising on all forms of capital. Hawken et al (1999: 10) outline four strategies for "ensuring a perpetual annuity of valuable social and natural processes to serve a growing population." These include the more efficient use of resources and therefore a reduction in pollution, the elimination of the idea of waste, therefore encouraging businesses to become zero waste producers, a shift from an economy of goods and purchases to one of service offerings and a continual receipt of quality, and finally, the reinvestments in stocks of natural capital. This approach focuses attention on responsible resource stewardship and an even closer focus on delivering quality that consumers desire, that is appropriate and that does not clutter their lives. Innovative thinking is required to improve efficiencies, reduce waste, redesign businesses around services as opposed to products, and to enhance natural capital stocks. The approach calls for an understanding that development impact natural capital and highlights strategies to both enhance natural capital and reduce impacts on natural capital. Such an approach could be produce a formidable business case for sustainable development if innovation is applied to deliver the strategies suggested above.

#### **2.2.5.5 Triple Bottom Line Approach**

The triple bottom line approach has been adopted by business as a way of embracing and balancing their responsibilities to both the environment and



society. It suggests that both social and environmental impacts need to be quantified and reported on in the same way that bottom line profit is accounted for and reported in the annual financial statements. Business relate to the language of 'bottom line' as this is and has been the primary focus for business. The World Business Council for Sustainable Development cited in Du Toit (2003: 2) "acknowledges that the concept encompasses three linked elements" namely economic, social and environmental and hence the metaphor; 'triple bottom line.'

Although this metaphor of triple bottom line raises the consciousness of environmental and social issues amongst business, in a language that they understand, it dangerously implies that economic elements are completely separate from social and environmental issues. It could potentially be perceived that investment in social and environmental initiatives could balance irresponsible economic activity. Such an approach may be "unintentionally giving companies a new reason to produce, advertise, expand, grow, capitalize, and use up resources. The rationale is that they are doing good. But flying a jet across the country, renting a car at the airport, air-conditioning a hotel room, gassing up a truck full of goods, commuting to a job – these acts degrade the environment whether the person doing them works for the Body Shop, Greenpeace, or Siemens," (Hawken, 1993: xiii). This approach strikes a chord with business in a language that business can understand. It is raising the consciousness amongst corporations about environmental and social issues, and provides a simple, yet effective way of thinking about impacts. It has however the potential of giving business a license to operate rapaciously which is then balanced by them, in accordance with their interpretation of the metaphor, with corporate investment in environmental and social initiatives.

### **2.2.6 Stakeholder Commitments**

It is clearly evident that the approaches to sustainable development vary considerably. These approaches range from meeting basic human needs to

making a moral choice, from pure conservationist mindsets and systems thinking, to the importance of cautiously using limited natural capital, and finally to the business approach of triple bottom line that corporations relate to. Each approach varies in its objective, but all recognise the unsustainable behaviour of the world's population and economies. They all contribute to a complete definition and understanding of sustainable development from different perspectives, and attempt to guide society towards a more sustainable path. Such guidance however requires behaviour from stakeholders to affect meaningful change. Civil society, governments, corporations and the general public all have their scripts for the sustainability performance. Pezzoli (1997: 569) suggests that "the behaviour of entire societies towards the biosphere must be transformed." Action from all stakeholders will be needed to transform the behaviour of entire societies.

Civil society as according to Brown et al (2001: 194) "has little formal power compared with government or business. But civil society is crucial in a campaign for sustainability." Its members are passionate about their causes, and do spark change on a multitude of fronts. Civil society, although passionate, is fragmented and struggles for survival, always on the search for funds to progress their work.

Governments of the world can play a major role in developing behaviour congruent with sustainable development thinking, through the provision of funding, laws and regulations, taxes and incentives, and awareness campaigns. Brown et al (2001: 193) say "the most common approach is for societal authorities to use the force of law." Laws and regulations are important tools to shape and steer behaviour along desired paths. They assist with the interpretation of a consistent value system across a country. Taxes and incentives can also guide behaviour. According to Dresner (2002: 97) the long term effect of ecological tax reform, taxation on energy use, would be to restructure the entire economy. Dresner's optimism that an entire economy can be restructured shows a faith in the power of incentives to affect meaningful

change. Governments can also fund civil society groups who spend a large portion of their energy on searching for funds as opposed to affecting change. Finally governments can promote the implementation of campaigns that raise the awareness of sustainability issues among their citizens to develop a ground up sustainable development movement.

Civil society, although passionate is fragmented and lacks financial resources. In the pursuit of sustainable development, governments are also plagued by the constraints. They have competing interests which engage their time and resources and therefore lack clear focus. Business on the other hand has access to huge financial resources and is increasingly putting some of this to work on environmental and social issues in response to consumer pressure and a growing recognition by business that a responsible approach can yield good business results. Corporations have experience in managing for the long term while satisfying short term goals, and as such have an advantage when grappling with sustainability issues as these also focus on both short term, intra-generational, and long term, inter-generational, goals. Corporations through their global operations, and massive economies, have a huge sphere of influence, not only touching the lives of individuals, but shaping entire societies. They have the potential to use this influence to educate and positively affect billions of individuals around the world. Corporations are also engines of innovation. Businesses employ smart people to continuously seek for innovative ways to develop and enhance competitive advantage. The design criteria given to strategists could be expanded to include sustainability issues from the outset.

It is ironic that corporations, who are the largest contributors to globalisation and the negative affects associated with it, are the stakeholders that have the largest potential to affect meaningful change and improve both their own longevity and that of society. This potential of corporations includes access to large financial resources, experience in managing for the long term while satisfying short term goals, a huge sphere of influence, and their engines of innovation. For many

corporations however, sustainability issues do not fall within their spheres of reference either by choice or negligence. There is however a gradual adoption of good citizenship qualities by corporations that are yielding amazing results for the company, the environment and societies.

### **2.3 CORPORATE CITIZENSHIP**

Corporations have been heralded as the biggest contributors to globalisation and its associated negative effects and the world is now seeking serious reform. Visser & Sunter (2002: 13) say that "bluntly put, we are seeking for a reformation in business along the same lines as the one precipitated by Martin Luther in 1517 ... which he nailed to a church door. His basic point was that the church had become too interested in enriching itself at the expense of its true mission of providing spiritual leadership". In much the same way, the person in the street has lost confidence in the modern corporate world. Visser & Sunter (2002: 13) continue to say that "the high priests of business - the board of directors - are perceived as just another example of a group of privileged people driven by unreasonable greed and feathering their own nests. The customers and shareholders come a poor second and other stakeholders trail even further behind."

World populations however continue to rise and corporations have risen to satisfy our every demand. Andriof & McIntosh (2001: 16) suggest that "one of the most socially responsible things a business can do is be profitable. By being profitable a business can provide sustainable jobs for its employees, good returns for investors and prosperity for the communities in which it operates." Without the ingenuity, innovation and technology provided by corporations, our world would be a very different place today. Almost everything we depend on in our modern world is a product of a corporation. In order to meet our demands, corporations strive to make a profit to ensure that this obligation can be met sustainably into the future. Harris (2003: 1) says that "nowadays many think profit a dirty word

and few understand it as the source of all human growth and prosperity". Business therefore, to further increase prosperity, needs to remain in business with a keen focus on delivering consistent profit. Friedman cited in Andriof & McIntosh (2001: 13) says that "the business of business is business". This pursuit for profit and resultant rise in competition amongst corporations for the attention of customers has driven a focus on creating a well-oiled, highly efficient business machine. "The well-managed corporation is the most significant commercial invention of the 20th century - more significant than electrical lighting, the Model T, jet aircraft, the computer or the Internet. Without well-managed corporations, we could not have had these innovations in the first place, at least on a large scale", (Collins, 1991: 1). It's clearly evident then that corporations have shaped our world and continue to shape it through the pursuit of profit.

Hawken (1993: 8) has a somewhat tainted view of the successes of business. He suggests that "succeeding in business today is like winning a battle and then discovering that the war was unjust". "Businesses externalise many costs of ongoing operations to the community, the environment and future generations", (Dunphy *et al*, 2003: 1). Corporations have become extremely efficient at supplying goods and services but they have also become great producers of 'bads', practices or products that negatively affect social and environmental capital. McIntosh (2003: 27) says that "organisations should understand their social and environmental impact, as well as their financial performance." Chief executive officers, managers and team members of organisations are largely rewarded on profit generated. Behaviour is therefore firmly fixated on maximising profit, the measure of success. Nature and society are simply not factors in the definition of economics. Dunphy *et al* (2003: 20) suggest "the discourse of business and economics largely defines out ecological and community issues. Hence in the most significant business decisions, these issues are ignored because they are invisible." Invisible as these issues may be in the decision making of businesses, the effects on both society and nature are completely visible.

A glimmer of hope does however shine through the darkness of the future. There are some corporate leaders who are beginning to factor in considerations broader than their financial performance. Moy (2003: 38) says that "there are individuals and companies that are already moving in this direction, some inadvertently, some through pressure, some through informed choice." Whatever the motivation for the broadening of perspective, the momentum for change appears to be working. Hawken (1993: 2) suggests that "we have the capacity and ability to create a remarkably different economy, one that can restore ecosystems and protect the environment while bringing forth innovation, prosperity, meaningful work, and true security". The first step in a move towards this new economy is the ability to create an image and comprehension of this new future. Moy (2003: 8) highlights a theory of altruistic capitalism which "aims to create a comprehension and psychology in business." Such theories are vital to paint a picture of the possibilities, spark debate and spur action. "Business requires more than criticism. It needs a plan, a vision, a basis – a broad social mandate that will turn it away from the linear, addictive, short-term economic activities in which it is enmeshed and trapped", (Hawken, 1993: 54). "The emphasis on rational thought in our culture is epitomised in Descartes celebrated statement 'Cognito ergo sum' – 'I think, therefore I exist' – which forcefully encouraged western individuals to equate their identity with the rational mind rather than with their whole organism....Retreating into our minds, we have forgotten how to 'think' with our bodies, how to use them as agents of knowing. In doing so we have also cut ourselves off from the natural environment", (Capa, 1983: 23). This particular theory of Moy (2003: 35) suggests that "the more we adhere to sound practices in areas such as environmental sensitivity, safety procedure and ethical behaviour, the greater the corresponding result will be in increased profits." This theory suggests that inclusion of environmental and social issues will not necessarily increase costs, but that improved business operations will actually increase profits. A reconnection between people and the natural environment is a necessity for future survival. In addition to this

reconnection will be the need to imagine a new future, the benefits it will offer and to radically revise ideas to get the momentum going.

Change however will not be easy or painless for business. Capra (1983: 33) commenting on the pain experienced in radically revising ideas says that "when physicists extended the range of their investigations into the realms of atomic and sub-atomic phenomena, they suddenly became aware of the limitations of their classical ideas and had to radically revise many of their concepts about reality. The experience of questioning the very basis of their conceptual framework and of being forced to accept profound modifications of their most cherished ideas was dramatic and often painful for those scientists." Quantum physics continues to challenge classical ideas and continues to painfully force scientists to accept profound modifications. Business will also need to go through a transformation, factoring in considerations never before to have entered their frame of reference. For Visser & Sunter (2002: 28) "the changes needed in order for business to survive and thrive in an age of sustainability are so fundamental that they are akin to changing its identity, its underlying nature."

A fundamental change in the identity of business, however painful to accept, will be the most cherished idea of the future. Prahalad (2005: 2) encouragingly says that "the bottom line is simple: It's possible to do well by doing good." Hawken (1993: 9) suggests however that "when environmental issues are presented to business people as one more cost and one more regulation, 'doing the right thing' becomes burdensome and intrusive." Business in its current identity will certainly consider these factors burdensome and intrusive. Business however that can break free from "the power of dominant logic" (Prahalad, 2005: 6) will be able to shapeshift into tomorrow's companies. Visser & Sunter (2002: 28-29) say that "Shapeshifting is a magical or spiritual phenomenon contained in the beliefs of many of the world's ancient cultures and indigenous peoples. It refers to the ability of ancestors, gods, animals and gifted humans to change their form and take on the shape or the characteristic of a particular animal". They continue to

say that it is a "mode of transformation, based on the particular vision of the future". The emerging vision of business of the future is based on that of a good citizen. Corporations need to become good corporate citizens.

The following section will deal with the notion of corporate citizenship, the ethical dilemmas facing both individuals and business every day, the limited liability enjoyed by corporations, the different levels of corporate citizenship entrenchment, terms both synonymous and confused with corporate citizenship, an overview of the stakeholders embraced in the definition, key focus areas of a corporate citizenship approach, and finally a focus on active collaboration amongst stakeholders to breathe life into this new animal or vision of the future.

### **2.3.1 The Notion of Citizenship**

Investment in altruistic projects peripheral to core business practices is considered by many businesses as a way of balancing the impacts they have on society and the environment. "More contributions to philanthropic projects will not suffice. Penance cannot be paid for acting irresponsibly. Corporates must inherently become good citizens", (Staak, 2003: 6). Andriof & McIntosh (2001: 20) also suggest that "they are concerned that the core content of social responsibility may be lost in favour of a narrow, voluntaristic concept of community service."

Citizenship is much more than community service. "Citizenship is defined as the rights and duties of a member of a country. Companies, as independent legal entities, are members of countries and can be thought of as corporate citizens with legal rights and duties. All companies are therefore, corporate citizens", (Andriof & McIntosh, 2001: 14). The definition as highlighted above refers to both rights and duties, and a specific territory. Corporations of today however transcend territory operating supraterritorially. They are therefore both members of countries and the global economy. Corporations should therefore be



considered as global corporate citizens whose responsibilities spread far wider than the borders of individual countries.

Rights and duties imply responsibility and identity in accordance with rules and regulations as laid down by the State. Responsibility, however according to Staak (2003: 6) "goes so much further than compliance, it is part of a far greater culture of life within a state. Living the unwritten, implicit, ethical and moral code of society. Without a doubt, there are those who oppose any form of collective consciousness, but reality has moulded these unwritten codes over many centuries to a generally accepted way of life." It is clear then, that as members of countries and the global economy, corporations do have responsibilities wider than rules and regulations of the State. In the context of sustainable development, corporate citizenship "considers the rights and responsibilities of companies within a broader societal context, and is therefore concerned with the contribution a company makes through its social and environmental impacts as well as its economic contribution", (Freemantle & Rockey, 2004: 8).

The definition as provided by Freemantle & Rockey broadens the concept of citizenship to consider impacts on both society and the environment while balancing economic performance. Kotler & Lee (2005: 208) support both these definitions by saying that "socially responsible business practices are where the corporation adapts and conducts discretionary business practices and investments that support social causes to improve community well-being and protect the environment. Key distinctions include a focus on activities that are discretionary, not those that are mandated by laws or regulatory agencies or are simply expected." Corporate citizenship is therefore a responsibility to both society and the environment that goes beyond the rules and regulations of countries while balancing the financial performance of the corporation. It implies a responsibility wider than that to shareholders.

McIntosh (2003: 17) suggests that corporate citizenship is "like a ladder to the moon...It has a sense of the unreal, the illusory, the absurd. For some it is mission impossible; for others an obvious metaphor for the new role and responsibilities of business in society." McIntosh's comment highlights the huge challenge inherent in the concept of corporate citizenship including both the recognition that such issues are important and secondly, rising to make a positive contribution. Coleman (2002: 17) suggests that "corporate citizenship is concerned with bringing about change". To put it succinctly, corporate citizenship is about the immense challenge of bringing about change in the corporate world.

### **2.3.2 The Grey Area of Ethics and Forces for Change**

Change that transcends that which is required by laws and regulations must be driven by either a motive, be it good or bad or a value. Corporate citizenship is a concept which is to a large extent not directed by rules and regulations, but is a path corporations are beginning to travel down, in response to growing consumer pressure, an understanding of the business case, and a growing sensitivity to issues broader than the self. "Ethics ... refers to 'rules of conduct' or the code of moral principles and values that direct the behaviour of an individual or a group in terms of what is right or wrong and good or bad in behaviour and decision making," (Staak, 2000: 1). Ethics lie between enforceable law and free choice in an area not governed by specific laws. Behaviour is directed but not enforced. Ethical questions are therefore often referred to as 'grey areas' as there is usually much disagreement about their consequences. The concept or philosophy of corporate citizenship in its "early stage of development" (Coleman, 2002: 17) is an attempt to add meaning and clarity to the grey area of corporate behaviour. The way in which corporations have and continue to operate falls unquestionably within the grey area not governed by rules and laws. Corporations are in fact finding the business world an increasingly "chaotic and confusing place to be. All the tried and tested rules of the past don't seem to work so well any more",

(Visser & Sunter, 2002: 17). Corporations are therefore searching for new rules to both survive the current conditions and thrive into the future.

The search for clarity in the grey area of corporate development has been spurred on by forces in society. To fully understand the direction corporations are moving into, a grasp of the forces spurring this search for clarity needs to be explored. McIntosh (2003: 18) says that "the world of corporations is challenged by increased stakeholder activism, by the democratisation of information and by corporations seeming inability to conduct themselves honestly and humanely." In addition as mentioned earlier, corporations are adopting corporate citizenship approaches in response to growing consumer pressure, an understanding of the business case and a growing sensitivity to issues broader than the self. De-regulation and globalisation in conjunction with rapid advances in communication technology, which has allowed information to be relayed around the globe almost instantaneously and with minimal cost, as resulted in what many refer to as the information age (Andriof & McIntosh, 2001: 17). "Consumers and employees are now well informed about the challenges facing the world, they have little faith in government's ability to change things, they acknowledge the corporation as the most powerful social construct of the present era and, most importantly, they are willing to reward corporations who are responsive to their concerns." (Andriof & McIntosh, 2001: 17).

It's clear therefore that globalisation and the massive rise in access to information has led to the rise in power of the consumer, who is now pressurising business to change old practices. Corporations are also starting to see the business case for change in the chaos of the new rules. Those who change will be handsomely rewarded by consumers. Corporations are increasingly receiving pressure from a range of stakeholders disgruntled by the inability of corporations to conduct themselves honestly and humanely and there also appears to be a growing sensitivity amongst individuals of issues broader than the self. Individuals are seeking more than just products or jobs. They want to feel part of and contribute

to a greater purpose. These elements, some in isolation, others in combination with each other provide the force to clarify a new set of rules for corporations that will ensure continued support from customers and therefore ensure its longevity.

### **2.3.3 Limited Liability**

"October 1856 was a key moment in world history. For during that month, the seeds of the modern cult of artificial personality were sown, when the foundations of modern corporations were laid down," (Evans, 2003: 1). Companies were given personalities and therefore became members of society. Companies like individuals are expected to behave within a responsibility framework as constructed by society. This legal persona afforded to corporate entities creates obligations, as members of society, to behave as, and respect other members. McIntosh (2003: 10) however, says that "let us not be fooled; corporations are not citizens. They are not people; they have been created by people in their own image. The term corporate citizen is only ever a half-useful metaphor." Corporations are created and run by individuals who have their own aspirations and dreams. Freemantle & Rockey (2004: 2) say that "by creating legal entities, we turn individuals into collective corporate citizens. But where individuals are responsible for their own actions, the problem is that the legal persona potentially removes individual liability from the equation. It therefore allows individuals to conduct themselves differently when wearing their 'corporate hat' than they might otherwise do as individuals". This could be likened to mob hysteria when collectively people act in ways they would not individually. Business strategies motivate employees to treat resources differently. "It enables them to operate from behind a corporate veil that potentially changes their world view of what is ethical, what constitutes responsible practice, and to whom they are accountable", (Freemantle & Rockey, 2004: 2).

Company law has tragically, from a citizenship perspective, afforded companies limited liability for its actions. The artificial personality afforded to companies is

called a juristic personality. Companies, or juristic persons, although afforded a personality of their own cannot act without natural persons who do so on their behalf. Evans (2003: 1) refers to corporations as abdroids. "The common feature of abdroids is that they are treated by law as persons in their own right, possessing most of the legal capacities of natural persons. The sci-fi term droid was devised by authors to describe a slave mechanism, a robot devoid of reasoning powers, wholly subordinate to the beck and call of natural persons." Corporations, as slave mechanisms, have provided an avenue to natural persons to rape and pillage without being held accountable. "Limited liability can mean that sometimes shareholders singly do not care, as long as they are financial beneficiaries." (McIntosh, 2003: 33).

"In the intervening 150 years, artificial personality has spread throughout the world generating both advantages and grave disadvantages," (Evans, 2003: 1). The advantages are evident all around us to the extent that we now find "ads on benches in national parks as well as on library cards in public libraries ... we live in a sponsored life is now a truism", (Klein, 2000: 1-12). "The concept of limited liability was developed to protect wealthy individual investors against the risk of financial ruin, in the event of a firm's collapse", (Evans, 2003: 4). This limited liability of corporations has encouraged investment, risk taking and enterprising development but has conversely created so many problems that the world is becoming so acutely aware of. "The bottom line is that society no longer trusts business to do the right thing. The spate of recent media reports on corporate corruption, fraud, poor governance, and environmental and social mismanagement has eroded the faith stakeholders have in companies." (Freemantle & Rockey, 2004: 3). In a move to restore this trust, Evans (2003: 3) suggests that "the time has come for governments to clean up company law globally ... five principles should be on the agenda, seeking to address the five principle problem areas, namely secrecy, autocracy, indiscriminate incorporation, the wrongful evasion of corporate liability, and the abuse of power". How then, is the question that must be asked, can a caring culture be promoted in this

environment of limited liability and rapid change, where corporations are already galloping in survival mode? Freemantle & Rockey (2004: 3-4) suggest that "society feels it can no longer rely on capitalist institutions to regulate and keep check on themselves. And so society wants to understand what companies are doing; how they are improving or damaging lives or the environment; what they are doing to ensure resources and the business themselves are set up for the long run." The concept of corporate citizenship attempts to fill the gap between regulation and free choice by offering a framework of what is expected and necessary for survival and long-term success in today's world.

### **2.3.4 Company Stakeholder Groups**

Earlier discussions of stakeholders in this study highlighted both stakeholders from a sustainable development perspective and stakeholders of a corporation. The sustainable development agenda spreads its net further than the corporation to look at all stakeholders that have a particular interest in the world. The corporate agenda has to date focused narrowly on the shareholder. In the continuing war for capital, shareholder returns have become the primary focus of corporations. Without the continued commitment of capital, a corporation becomes a lifeless abstract. The emergence of the concepts of sustainable development and corporate citizenship has expanded the focus of corporations to include a range of stakeholders beyond that of the shareholder. Freeman cited in Andriof *et al* (2001: 12-13) suggests that the stakeholder concept was built on the realities of the changing environment in the 1960s, and the resultant acknowledgement that there are people and organisations other than shareholders who are affected by the operations of a firm. Andriof *et al* (2001: 15) continue to highlight that Freeman, "explicitly linked stakeholder theory to strategic planning, suggesting its centrality to the mission and purpose of the firm ... asking the question "what do we stand for?"

In the search for the answer to the question 'what do we stand for?' corporations are now considering and consulting a range of stakeholders. Freeman cited in Andriof *et al* (2001: 15) defines a stakeholder in an organisation as "any group or individual who can affect or is affected by the achievement of the organisation's objective". These groups or individuals include "shareholders, employees, suppliers, customers, partners, government, and equally important, a range of external stakeholders representing broader societal interests that are key to a particular business's long-term success", (Freemantle & Rockey, 2004: 12). These broader societal interests are given voices through civil society groups. Not all interests are however adequately represented by civil society, yet are important considerations in the strategic planning equation. Future generations are an interest very seldom given a voice but do definitely fall within the list of company stakeholders. What is important to note however is that corporations are beginning to, and must continue to factor into their planning, stakeholders wider than the shareholder. Attention must be paid to identifying those groups or individuals that are affected or who do affect the corporation and then the systematic inclusion of these stakeholders in strategic planning.

### **2.3.5 Understanding the Terminology**

Corporate citizenship, corporate social responsibility, corporate social investment and triple bottom line are terms commonly used interchangeably amongst business people. These terms are commonly perceived to be related to a company's social investments or environmental management practice. Whilst this may be true for some of the terms, corporate citizenship is both of these things and a great deal more.

#### **2.3.5.1 Corporate Citizenship (CC)**

"Corporate citizenship considers the rights and responsibilities of companies within a broader societal context, and is therefore concerned with the contribution a company makes through its social and environmental impacts as well as its

economic contribution." (Freemantle & Rockey, 2004: 8). Corporate citizenship is the term that is most encompassing. Freemantle & Rockey (2004: 8) continue to highlight that the impacts and contributions referred to in the definition relate to

- *managing the enterprise* - how efficiently and ethically the company governs, controls and manages its operations.
- *workplace practices* - how it manages its employees, workplace conditions and employment practices.
- *third party interactions* - how it engages external stakeholders in the company supply chain, market place, government, and community.
- *environment* - how it controls its impact on the environment.
- *transformation* - how South African companies meet their obligations to help all citizens become meaningful economic participants.

A good corporate citizen therefore operates ethically, meets legal requirements and shows consideration for society, communities and the environment.

### **2.3.5.2 Corporate Social Responsibility (CSR)**

Corporate social responsibility is the term most commonly interchanged with corporate citizenship. Kotler & Lee (2005: 208) propose that "socially responsible business practices are where the corporation adapts and conducts discretionary business practices and investments that support social causes to improve community well-being and protect the environment." Socially responsible business or corporate social responsibility also emphasise the business response to economic, social and environmental considerations but the "emphasis on social in the term can be misleading, since it emphasises one of the triple-bottom-line elements over others", (Freemantle & Rockey, 2004: 9). The term corporate citizenship is therefore more encompassing not factoring out, through definition, important considerations.



### **2.3.5.3 Triple Bottom Line**

The term triple bottom line, easily understood by business, was "coined in response to business' tendency to focus on the financial (single) bottom-line when they measure and report on performance, the triple-bottom-line considers the social and environmental contributions a company makes to society, alongside its more traditional economic contribution" (Freemantle & Rockey, 2004: 7). This term, although closely aligned with both the focus of corporate citizenship and corporate social responsibility, is limited by the separation of the three elements of economic, social and environment. The metaphor of triple-bottom-line conjures up a mental model of three distinct areas giving the idea of three distinct focus areas. Corporate citizenship however attempts to integrate sustainable development concepts and thinking into core business practices. It does not seek to supplement or balance the financial bottom line with environmental and social projects.

### **2.3.5.4 Corporate Social Investment (CSI)**

Many corporations invest in projects, socially or environmentally orientated, that are peripheral to their business activities. While the benefits of these investments must not be discounted, investments of this nature are often done as penance for core business practices. Corporate social investment has to do with how a certain amount of profits are spent on worthy causes, corporate social responsibility is primarily about how those profits are made in the first place. Freemantle & Rockey (2004: 9) define corporate social investment as "a company's contribution to society and community that are extraneous to its regular business activities – whether such investment is monetary, or in the form of other corporate resources or time." Corporate social investment is an important subset of corporate citizenship but is not synonymous with this term.

### 2.3.6 Corporate Citizenship Adoption Levels

How corporations embrace the corporate citizenship concept varies considerably. The embrace ranges from none at all, to a complete adoption of a new way of operating. Some corporations only see the threat of extinction as a motivator while others see the pull of increased customer loyalty and therefore the opportunity to thrive. Dunphy *et al* (2003:14) outline a sustainability phase model which "outlines a set of distinct steps organisations take in progressing to sustainability. There is a progression from active antagonism, through indifference, to a strong commitment to actively furthering sustainability values, not only within the organisation, but within industry and society as a whole." Corporate citizenship does not need to be viewed as "burdensome and intrusive" (Hawken, 1993: 8), but fully integrated into company vision and values can help build competitive advantage so desperately searched for in the current highly competitive environment.

The model outlined by Dunphy *et al* (2003: 14) includes six phases. The model does not suggest that a corporation necessarily needs to move logically through the six phases, but can rather adopt the characteristics of a phase, out of logical sequence. This is similar to what Visser & Sunter (2002: 28-29) refer to as "shapeshifting" a "mode of transformation based on the particular vision of the future which that individual has". Corporations who are therefore enlightened of the merits of sustainable development may make a value shift from non-responsiveness to complete entrenchment. The phases outlined by Dunphy *et al* (2003: 14) include:

#### **1. Rejection**

"Rejection involves an attitude ... that all resources - employees, community infrastructure and the ecological environment - are there to be exploited by the firm for immediate economic gain".

**2. *Non-responsiveness***

"Usually results from lack of awareness or ignorance rather than from active opposition to a corporate ethic broader than financial gain. Many of the corporations in this category embody the culture of the past century, concentrating on business as usual".

**3. *Compliance***

"Focus on reducing the risk of sanctions for failing to meet minimum standards as an employer or producer".

**4. *Efficiency***

"Reflects a growing awareness ... in the corporation that there are real advantages to be gained by pro-actively instituting sustainable practices. In particular, human resource and environmental policies and practices are used to reduce costs and increase efficiency".

**5. *Strategic pro-activity***

"The firm's strategic elite views sustainability as providing a potential competitive advantage. Consequently they try to position the organisation as a leader in sustainable business practices. With advanced human resource strategies that help make the organisation an employer of choice, with corporate citizenship initiatives that build stakeholder support and with innovative, quality products that are environmentally safe and healthy. The commitment ... however, is strongly embedded in the quest for maximising longer-term profitability, that is, it is motivated by intelligent corporate self interest.

**6. *The sustaining corporation***

"The strategic elite have strongly internalised the ideology of working for a sustainable world. If it is a 'for profit' company, the organisation still proves the traditional business objective of providing an excellent return to

investors, but voluntarily goes beyond this by actively promoting ecological sustainability values and practices in the industry and society generally. Its fundamental commitment is to facilitate the emergence of a society that supports the ecological viability of the planet and its species and contributes to just, equitable and social practices and human fulfilment".

Dunphy *et al* (2003: 14)

The last three phases of the sustainability phase model highlight the pull or incentives of embracing sustainable development concepts. The first three phases on the other hand are merely business as usual or a burden for the corporation. The difference between phase three, compliance, to that of phase six, the sustaining corporation is the difference between burdensome and real advantage for both the corporation, society and the environment. The difference is also the difference between embracing the concept half-heartedly or completely. Complete embrace appears from the model, to herald great benefits, a half-hearted embrace appears to only offer a burden and frustration. This difference therefore finally appears to come down to a decision to embrace or not to embrace.

Ilbury and Sunter (2001: 74) discussing the usefulness of scenarios to change mindsets say that "to shift a person's paradigm or a nation's mind-set requires the affected party to have a shock to the system (not smart) or develop an understanding of what may lie on the other side before the shock happens (smarter)." Phases or scenarios three to six; efficiency, strategic pro-activity and the sustaining corporation, as offered by Dunphy *et al* (2003: 14) could be the understanding, or mental images, of what may lie on the other side before the shock happens. That is why the scenarios are so useful. By offering a glimpse of the possible, they act as a catalyst to achieve the leap of understanding necessary for movement". The sustainability phase model offered by Dunphy *et al* does paint both push and pull scenarios for an embrace of sustainable development by corporations. This study will continue to focus on the pull factors

or positive glimpses of the possible, as a motivation for the adoption of a corporate citizenship mind-set.

### **2.3.7 The Business Case for Corporate Citizenship**

The motivation for good corporate citizenship "should not only be a reaction to the fear of exposure for wrong-doing" (Freemantle & Rockey, 2004: 15), or the incentive of increased business revenue from greater customer loyalty. Andriof & McIntosh (2001: 15) say that corporate social responsibility "arises from a deeply held vision by corporate leaders that business can and should play a role beyond just making money." While this would be an ideal mind-set, business still needs convincing to consider factors previously never considered in business operations. Regardless of the level of adoption by business, Freemantle & Rockey (2004: 16) say the "collective business case is growing stronger by the day."

Sustainable development, development that meets the needs of our current generation without compromising the needs of future generations is a similar balancing act to that which business grapples with every day. Business needs to remain profitable in the short term but investment in training, development and infrastructure is required to cope with future growth. Holliday *et al* (2002: 15) commenting on business say that "some warmed to the idea as they compared the issues involved in sustaining the planet with those involved in sustaining a corporation. Both required balancing acts between managing for the long term and managing for the short term." Business therefore has a practical knowledge and experience of balancing short term and long term requirements successfully. The corporate citizenship and sustainable development agendas therefore involve the same challenge as managing a business, but the focus has been expanded to include social and environmental considerations.

"For many years, community development goals were philanthropic activities that were seen as separate from business objectives, not fundamental to them; doing well and doing good were seen as separate pursuits. But I think that is changing" (Fiorina cited in Kotler and Lee, 2005: 1). Businesses are beginning to change their fundamental way of operating in an attempt to attract customers and as a pure responsibility as citizens. Andriof & McIntosh (2001: 16) say that "the thinking behind companies becoming involved in these issues represents a marked departure from traditional ways of doing business. This fundamental shift in thinking and acting is underscored by a series of 'new beliefs' which are common to most socially responsible businesses". These new beliefs as highlighted by Andriof & McIntosh (2001: 16) include, in addition to a caring for the environment, the importance of managing for the long term which means forgoing short term profits in favour of long term benefits, the recognition that companies function best over the long run when the community they are in is healthy and has a below average crime rate, and finally the awareness that a company's reputation is becoming more and more important in purchase decisions by both consumers and investors. With the adoption of corporate citizenship principles and the new belief of managing for the long term, a healthy community and the importance of reputation, companies have begun to experience a range of bottom-line benefits. Fiorina cited in Kotler & Lee (2005: 1) continues to say that "cutting edge innovation and competitive advantage can result from weaving social and environmental considerations into business strategy."

The business case deals with both managing risk and more importantly opportunities. The business case includes compliance with laws and regulations, managing risk, reduced cost of capital, licence to operate, decreased operating cost, enhanced reputation, attracting quality employees, improved market penetration. Each of these elements will be discussed in the following section.

### **2.3.7.1 Compliance with laws and regulations**

Corporations who have adopted a corporate citizenship approach will be more likely to comply with the plethora of mandatory laws and regulations. Freemantle & Rockey (2004: 18) say that "whilst more and more difficult to comply, companies can benefit by identifying priorities, developing co-ordinated and integrated responses, and implementing appropriate systems ... that enable them to comply, deliver and achieve appropriate recognition."

### **2.3.7.2 Managing risk**

Actively engaging in corporate citizenship issues broadens a corporation's perspective beyond good governance and financial affairs to include social and environmental risks. Freemantle & Rockey (2004: 18) say that "failure to identify and quantify all types of material operational risks, courts operational disaster, resulting in discounted value, increased cost, or distrustful relations with stakeholders."

### **2.3.7.3 Reduced cost of capital**

A well managed corporation that actively seeks to identify and manage all types of material risk be they financial, social or environmental will be more attractive to investors. Kotler & Lee (2005: 10) say that research done by a leading non-profit organisation, 'Business for Social Responsibility' highlights "increased appeal to investors and financial analysts", of the bottom-line benefit of corporate citizenship. Freemantle & Rockey (2004: 18) say that "Investors and leaders are prepared to pay a premium in the case of companies that quantify their risks and report in a transparent way. Risks that are measured can be managed, and investors are likely to stay the course if assured that a company is responsible run."

### **2.3.7.4 Licence to operate**

Corporations wishing to grow and expand will need to seek approval from regulators, government and licensing authorities. How these controlling bodies

perceive the corporation will have an influence on the level of co-operation the corporation enjoys. A positive image will greatly assist a corporation with both current and future licences to operate.

#### **2.3.7.5 Decreased operating cost**

Sustainable development encourages both the minimisation and efficient use of natural resources. "Companies and designers are developing ways to make natural resources - energy, metals, water and forests - work five, ten, even one hundred times harder than they do today", (Hawken *et al*, 1999: 12). Decreased operating costs result from user efficient material and energy use as well as increased consumer education and the shift to selling services as opposed to products. Kotler & Lee (2005: 125) say that "social marketing campaigns can even contribute to corporate profitability by influencing behaviour that can reduce operating costs or expenses. Prime examples are in the ... health care and insurance industries where health promotion and injury prevention can save costs of delivering health care." Holliday *et al* (2002: 23) commenting on the trend towards services that "the relatively straightforward concept of eco-efficiency has already encouraged some companies to make radical shifts from maximising sales to selling nothing at all ... instead of selling things, they sell services, or they lease things, or both." Decreased operating cost can therefore be realised through improved efficiency of energy and material use, improved consumer education and the trend towards selling services as opposed to things.

#### **2.3.7.6 Enhanced reputation**

Andriof & McIntosh (2001: 16) suggest that "a company's reputation is becoming more and more important as consumers and investors consider reputation and performance as being as important as price when making purchasing decisions." A corporation's reputation is built up over many years through clients' interaction with the product or service and marketing campaigns. This reputation that builds over years can be destroyed or seriously changed "with reports of misconduct, social malpractice or environmental mismanagement", (Freemantle & Rockey,



2004: 18). Actively pursuing all elements of corporate citizenship builds reputation as all stakeholders gain trust in the corporation to act responsibly.

#### **2.3.7.7 Attracting quality employees**

Attracting, motivating and retaining employees is a function that is not taken lightly by corporations. Quality employees are integral to the success of a corporation. Corporations therefore compete for talent as much as they would compete for the attention of consumers. Freemantle & Rockey (2004: 19) suggest that skilled individuals "considering their career and employer-of-choice increasingly look beyond the job function itself to companies' value systems and operational practices ... companies that have a reputation as good corporate citizens ... are sought-after employee destinations."

#### **2.3.7.8 Improved market penetration**

Consumers now have more choices that yield less satisfaction. In addition, consumers appear to be becoming more disgruntled with the products they purchase as they experience these lower satisfaction levels. Trust between corporations and consumers is therefore gradually eroding over time as consumers interact with their products. A focus on corporate citizenship can steer a corporation in a direction that restores trust as opposed to eroding it. Kotler & Lee (2005: 119) commenting on social marketing campaigns linked to corporate citizenship say that "many of the potential benefits for the corporation are connected to marketing goals and objectives; supporting brand positioning, creating brand preference, building traffic and increasing sales." Improved image eventually leads to increased sales. Freemantle & Rockey (2004: 19) say that "consumer and customer sensitivity to sustainability issues is posing new challenges to companies concerning how products and services are manufactured, positioned, packaged, performed and distributed ... By positioning products and services appropriately, companies can enhance their appeal." Corporations can therefore use corporate citizenship as a tool to rebuild genuine

trust and out of necessity in response to consumer sensitivity, incorporate the principles in product design and promotion.

### **2.3.8 Corporate Citizenship Elements**

Freemantle & Rockey (2004: 184) say that "corporate citizenship is a relatively new concept for businesses, which is still being interpreted, understood and 'internalised' by caring companies." As such, the elements comprising citizenship approach are still being moulded, defined and refined. Most businesses relate corporate citizenship with both good governance and corporate social investment, while the concept encompasses a great deal more. The metaphor or concept of triple bottom line has assisted corporations with channelling focus into the three distinct areas of finance, society and the environment. These focus areas, although providing some direction, still lack specifics and leave the practitioner to deal with a vast amount of interpretation and investigation. Freemantle & Rockey (2004: 33) suggest that "a functional approach to good citizenship might therefore be more instructive for the manager wanting to understand and implement appropriate practices." This approach as outlined by Freemantle & Rockey (2004: 33) "considers citizenship in the context of the company's upstream (supply chain) relationship, internal business practices, downstream (customer or product) influences, and broader social and environmental impacts, respectively."

Corporate citizenship elements relating to a company's upstream relationship include supply chain stewardship, preferential procurement and enterprise support. Internal business practices include good governance, skills and training, workplace equity, employee practices, and health and safety. Corporate citizenship elements of downstream influences include product access and product stewardship. Finally, elements that relate to broader social and environmental impacts include social investment, environmental impact and society consideration (Freemantle & Rockey, 2004: 135). For the purpose of this

study it is important to briefly outline the focus for each of these elements. Specific attention however will be directed at the element of product stewardship and relates to the specific focus of this study.

#### **2.3.8.1 Upstream Relationships**

Corporate citizenship elements that relate to upstream relationships include supply chain stewardship, preferential procurement and enterprise support. Supply chain stewardship involves corporations continually monitoring their supply chains to check that business partners are themselves responsible citizens. Preferential procurement, driven largely by the need for furthering transformation in the South African context, focuses procurement from small and medium enterprise businesses and disadvantaged individuals. Lastly, enterprise support, once again largely driven by transformational issues, but not limited to these, “should be designed to provide both financial support and guidance to small and medium enterprise entrepreneurs, by sharing information and market knowledge and by transferring skills”, (Freemantle & Rockey, 2004: 103).

#### **2.3.8.2 Internal business practices**

Corporate citizenship elements that relate to internal business practices extend beyond good corporate governance. Employee conditions and opportunities are increasingly being seen as a vital element for the enjoyment of ongoing success. “Good governance requires a company to identify all risks to the business, and the role of the board of directors is to understand and manage such risks” (Freemantle & Rockey, 2004: 36). Good governance provides the backbone for all company operations. Poorly managed risks in one area of the corporation can lead to collapse. Skills and training is a necessity for businesses wishing to ensure their longevity. Training both assists with transforming the country's economic landscape and develops employees who can contribute more and therefore increases an individual's sense of self-worth. Workplace equity and employee practices largely in response to labour laws and employment equity regulations focus attention on creating a workforce that is representative of the

country's race groups, cultures and languages. Employment practices focus specifically on embracing fair human resource practices. Finally, health and safety, although driven by clear guidelines underpinned by legislative requirements, is becoming a "more critical business consideration, even in low-impact businesses", (Freemantle & Rockey, 2004: 75). Health and safety aims to reduce and manage the seriousness of accidents and hazards.

### **2.3.8.3 Downstream influences**

The elements of corporate citizenship that comprise downstream influences include product access and product stewardship. Product access focuses on "offering relevant products to under-serviced markets" (Freemantle & Rockey, 2004: 98), namely the poor mass-market. Prahalad (2005: 4) highlighting examples of companies making a real difference in the poor mass-market says that "the strength of these innovative approaches, ... is that they tend to create opportunities for the poor by offering them choices and encouraging self esteem." Prahalad (2005: 24) continues to say that innovation for the poor mass-market "can become a source of innovations for the developed market as well." Product stewardship the second element of downstream influences looks at 'the product in terms of its contribution to society', and "the way a product is promoted, advertised, distributed and sold".

### **2.3.8.4 Social and environmental impacts**

The elements that relate to social and environmental impacts are straightforward to understand and are the most widely considered and applied. Social Investment is a "voluntary corporate effort to improve the lives of less privileged individuals, uplift communities external to the organisation, or improve the environment in which they live", (Freemantle & Rockey, 2004: 125). Society and environmental consideration however seeks to identify, measure, manage the effect of company operations on both citizens and the environment.

### 2.3.9 Building Capabilities for Citizenship

A thorough understanding of corporate citizenship, the underlying beliefs, the business case and the various elements that comprise the total concept, is not enough to ensure the adoption and implementation of corporate citizenship principles. Corporations need to build the capabilities for the inclusion of corporate citizenship in the core business. Thomas (2003: 34) says that "companies working in today's business climate undoubtedly need innovative methods and frameworks to cope with the emerging citizenship agenda." A mind-set or culture change, probably one of the most difficult things to change in a company will need to be changed. Ghoshal *et al* (2000: 126) say that companies will need a new management philosophy that explicitly articulates a view of companies as value-creating institutions of society." Zadek (2001: 151) adds to this by saying that "a civil corporation is one that takes full advantage of opportunities for learning and action in building social and environmental objectives into its core business model by effectively developing its internal values and competencies." A new philosophy, one that sees the corporation as value creating will need to be integrated into the core business before real change will occur.

McIntosh (2003: 51) suggests that Stephen Covey's seven habits for highly effective people are also principles at the heart of corporate citizenship. The habits include: be pro-active, begin with end in mind, put first things first, think win-win, seek first to understand then to be understood, synergise, and sharpen the saw. Companies are for instance, encouraged to think of their total impact on society which requires upstream and downstream thinking (the end in mind), to consult with and report to a range of stakeholders (understand then be understood), and find common ground (synergise). In addition to the ideas offered by McIntosh, Visser & Sunter (2002: 77-121) suggest "seven critical dimensions in which shapeshifting needs to occur in order to create sustainable companies." These include expanding what is valued to include both social and

environmental issues, imagining a new vision for the future, creating a workplace that enables employees to express their own inherent magic, adopting principles of good governance, nurturing relationships with a range of stakeholders, becoming excellent communicators and finally the creation of products and services that create value over their entire life cycle. The suggestions offered above appear to question every aspect of corporate life and the search for alternatives or an expansion of thought. This curiosity for alternatives, an expansionary though process, and the questioning of fundamentals is the starting point for the integration of corporate citizenship into a business. Chowdhury cited in McIntosh (2003: 51) argues that "the twenty-first century leader's most valuable asset will be the ability to dream."

A thorough understanding of the need for corporate citizenship, focused on the benefits for society, the environment and the business, the progression of a corporation through the phases of sustainability, and an outline of the huge amount of energy being poured into each of the individual elements of corporate citizenship, brings this discussion to the conclusion that the fundamental reason why corporations entertain the massive expenditure on corporate citizenship is the belief that the benefit will outweigh the cost. Corporations embrace corporate citizenship in the expectation that they will survive to continue adding value. Hardy (1998: 9) suggests that "the only justifiable purpose of a business is to create an added value, to make something happen that wasn't there before ... A successful business is, therefore one that continues to add value – forever."

## **CHAPTER THREE**

### **BUSINESS STRATEGY AND PRODUCT STEWARDSHIP LITERATURE REVIEW**

#### **3.1 CUSTOMER VALUE AS THE PRIMARY FOCUS OF BUSINESS STRATEGY**

The increasing pressure of competition, largely driven by globalisation, has forced an acute focus on winning. In an attempt to secure and attract shareholder capital a corporation seeks, over the long-term, to earn a return on its capital that covers its cost of capital. In essence, shareholders seek a profit (Grant, 1991: 33). The "simple, yet realistic assumption that business enterprises pursue a single dominant objective - profit" (Grant, 1991: 35), combined with the increasing pressure of competition has fuelled the emergence of an increasingly scientific field called business strategy. The field of strategy guides businesses to an understanding of the competitive environment, an objective appraisal and development of resources and the need to create a competitive advantage.

##### **3.1.1 Competitive Convergence**

As corporations compete head on head in established market spaces, prices are forced downwards and efficiencies are increased in conjunction with lower product qualities to reduce the cost of production. According to Kim & Mauborgne (1999: 83), "most companies focus on matching and beating their rivals and, as a result, their strategies tend to converge along the same basic dimensions of competition." Porter (1996: 63) commenting on competitive convergence says that, "the more benchmarking companies do, the more they look alike." As companies become more and more alike, so do their product or service offerings. Price therefore becomes the main differentiator. Kim &

Mauborgne (2004: 3) suggest that, "this situation has inevitably hastened the commoditisation of products and services, stoked price wars, and shrunk profit margins." As price competition amongst corporations intensifies, corporations have responded by dramatically improving operational efficiencies. Operational efficiencies have however only exacerbated the price problem as corporations, now armed with superior efficiencies, have begun to produce more products and services. "Technological advances have substantially improved industrial productivity, permitting supplies to produce an unprecedented array of products and services .... At the same time, there is little evidence of any increase in demand, at least in the developed markets, where recent United Nations statistics even point to declining populations. The result is that in more and more industries, supply is overtaking demand." (Kim & Mauborgne, 2004: 2-3). There are now more goods and services available to consumers than ever before and prices are continually reducing. In such a situation, Surowiecki (1999: 78) says that, "industries become more efficient without individual companies becoming more profitable".

Businesses have fallen foul of operational effectiveness as their driving ambition. Companies become more alike, products across the industry become commoditised, prices reduce and companies become less profitable. Porter cited in Sorowiecki (1999: 78) says that, "operational effectiveness means you're running the same race faster ... but strategy is choosing to run a different race because it's the one you've set yourself up to win." Strategy is therefore not about operational effectiveness but about companies positioning themselves differently from their competitors. By focusing on the competition, corporations direct their energy to "confronting an opponent and driving him off a battlefield of limited territory," (Kim & Mauborgne, 2004: 3). "Influenced by its roots in military strategy" (Kim & Mauborgne, 2004: 3), corporate strategy focuses on winning against rivals. A keen focus on competition encourages beating the competition at their own game, operational effectiveness, as opposed to creating a new



game, or points of real differentiation. Strategies are now beginning to devote their attention to this differentiation challenge at the very heart of strategy.

### **3.1.2 What is Strategy?**

Porter (1996: 64) suggests that, "competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of values." The words unique and value are important in this strategy equation. In order to attract the attention of consumers, a corporation's offering needs to be unique or at least different. In order to make a profit, corporations need to persuade consumers to exchange their money for something they value more, the product or service. Consumers need to perceive greater value in order to give up what they value less and corporations need to rise to this challenge, not through deception or unethical practices, to offer real value. Grant (1991: 32) also says that "business is about creating value". Grant (1991: 32-33) continues to comment that profitability is the underlying goal of the firm. The creation of value is therefore a means to make profit and strategy is therefore a quest for profit. The quest is profit but the means is value. Campbell & Alexander (1997: 42) concur with both Porter and Grant by highlighting their view that the basic ingredient of a good strategy is "insight into how to create more value".

Value creation does not happen in a vacuum. Moore (1993: 75) says that "innovative business can't evolve in a vacuum." Consumers make assessments of the value offering from different corporations, and corporations make assessments of their offering against similar competitors in the industry. Porter (1979: 2) suggests that, "the essence of strategy formulation is coping with competition." Coping with the competition has, however, as highlighted earlier, led to a focus on operational effectiveness creating a situation of hyper-competition, "a self-inflicted wound" as according to Porter (1996: 1). Coping should be directed at creating more differentiated value. Campbell & Alexander (1997: 46) add to their view of the basic ingredient of a good strategy by saying

that this ingredient is "insight into how to create more value than competitors can." Finding a strategic position that offers differentiated values more than competitors is however only part of the solution for success. Porter (1996: 69) says that, "a strategic position is not sustainable unless there are trade-offs with other positions." Positions that are not compatible with the value equation need to be eliminated. A corporation cannot do both without bearing major inefficiencies (Porter, 1996: 69).

Strategy is clearly, primarily concerned with creating value in the quest to make a profit. Value created should be more than competitors and differentiated, to attract customers. This focus by corporations on differentiation requires of the corporation to make trade offs with other strategic positions, which are necessary to ensure complete focus and the sustainable offer of value. In order to design and deliver this differentiated superior value companies need a thorough understanding of their competitive environment, an objective appraisal and development of resources, and an aspiration or purpose that drives behaviour." Establishing competitive advantage requires that the firm match its internal strengths and resources and capabilities to the key success factors in the industry", (Grant, 1991: 336). Nasser & Vivier (1993: 18) concur with Grant by saying that the "new generation organisations are characterised by a strong sense of purpose, in comparison with routine operation. They continually search for insight into three, but simple essential questions: How effectively does the organisation engage its markets? How effectively does the organisation mobilise its capabilities? Does the organisation have the will-power (mental energy) to succeed?" The field of strategy provides guidance on these three areas; firstly an analysis of the industry environment, secondly an analysis of the corporation's resources and capabilities, and thirdly the need for and importance of a purpose, will-power or aspiration.

### 3.1.3 Analysing the Industry Environment

A thorough understanding of the competitive environment of a corporation greatly assists the corporation to define or alter a strategic position. Porter (1979: 102) states that, "the state of competition in an industry depends on five basic forces .... The collective strength of these forces determines the ultimate profit potential of an industry ... whatever their collective strength, the corporate strategist's goal is to find a position in the industry where his or her company can best defend itself against these forces or can influence them in its favour." With a thorough understanding of the environment, the corporation can take advantage of gaps in the market and build defences against its weaknesses. Grant (1991: 53) says that, "the prerequisite for effective environmental analysis is to distinguish the vital from the merely important ... for the firm to make profit it must create value for customers. Hence, the firm must understand its customers. Second, in creating value, the firm acquires goods and services from suppliers. Hence, the firm must understand its suppliers and how to form business relationships with them. Third, the ability to generate profitability from value-creating activity depends on the intensity of competition among the firms that vie for the same value - creating opportunities. Hence, the firm must understand competition." Environmental analysis must therefore focus on the customer, suppliers and competitors. Collins (2001: 69) commenting on companies that moved from good to great says that "breakthrough results come about by a series of good decisions". Collins (2001: 69) continues to say that these decisions were based on disciplined thought, the entire process was infused with "the brutal facts of reality". A focus on the brutal facts of the environment is vital for carving out a competitive position, defending it and influencing it over time.

Although the primary focus of the firm should be on its relationships with customers, suppliers, and competitors, micro-level factors such as general economic trends, changes in demographic structure, or social and political trends are important to strategy analysis. These factors may be critical determinants for

the threats and opportunities a company will face (Grant, 1991: 53). By focusing on particular industries, strategists can map out the macro-economic forces influencing these particular industries. Corporations need to map out which forces are critical and which are not. Strategy formulation therefore needs to build these factors into operational areas and product offerings, the core business of the corporation. Grant (1991:58) for example suggests that, "for most firms, global warming is not a critical issue. For the producers of automobiles, oil and electricity, it is important since government measures to restrict the production of carbon dioxide and other greenhouse gases will directly affect the demand for their products and their cost of doing business." Macro-economic forces include the international and national economies, technology, government, demographic structure, social structure and the natural environment. For oil and automobile companies not taking cognisance of these forces could spell their demise.

In addition to an awareness of macro-economic forces, Porter (1990: 155) suggests that, "in a world of increasingly global competition, nations have become more, not less, important .... Ultimately, nations succeed in particular industries because their home environment is the most forward-looking, dynamic, and challenging." A highly competitive environment is therefore, as according to Porter's theory, a strong catalyst for the success of a corporation. Porter's diamond of national advantage highlights our broad attributes of a nation that contributes to the success of particular industries. Porter (1990: 166) says that these attributes are factor conditions, demand conditions, related and supporting industries and firm strategy, structure and rivalry.

Factor conditions include labour, land, natural resources, capital, and infrastructure. In addition, Porter (1990: 172) says that "a nation does not inherit but instead creates the most important factors of production - such as skilled human resources or a scientific base." Secondly, Porter (1990: 174) suggests that, "a nation gains competitive advantage in industries where the home

demand gives their companies a clearer or earlier picture of emerging buyer needs and where demanding buyers pressure companies to innovate faster and achieve more sophisticated competitive advantages than their foreign rivals." Hawken (1993: 157) on the very point of demand conditions suggests that "companies large and small must transform their customers so that the company can change. No businesses do this better than the Japanese, which compete to spoil the customer .... By training their customers to have only the highest expectations, the Japanese have made their companies the most competitive in the world." Sull (2003: 97) echoing a similar sentiment to that of Hawken with a theory of stretch relationships says that "Most managers are familiar with strategy, resources, and processes as possible anchors to transform their organisation. Few, however, recognise the power of stretch relationships. Managers use stretch relationships by committing to leading-edge customers, demanding investors, or accomplished partners. Most managers avoid such stretch relationships because they disrupt the status quo by placing 'unreasonable' demands on the organisation." In carving out a strategic position, a corporation needs to carefully assess these attributes raised by Porter and the very possibility of shaping them over time for the benefit of the corporation is highlighted by Hawken and Sull.

The third attribute of the diamond of national advantage according to Porter (1990: 176) is that of related and supporting industries. Access to these as well as their focus on innovation and upgrading can dramatically increase competitiveness of an industry. Lastly, firm strategy, structure, and rivalry, the fourth element of the diamond is important in stimulating dynamic improvement as opposed to static efficiency (Porter, 1990: 181). The diamond of national advantage highlights the need for an awareness of a nation's attributes for stimulating competitive advantage in particular industries. This model further informs a corporation's decisions when making important trade-offs and the awareness that their actions, over time, can shape each of the attributes, to the benefit of the industry and therefore the corporation. Corporations can benefit

from the existence and development of "strong domestic rivals, aggressive home-based suppliers, and demanding local customers", (Porter, 1990: 155).

Environmental awareness does not end on the knowledge of macro-economic forces and the competitive attributes of nations, but extends further to actively assess the forces within a particular industry that determines the level of profitability enjoyed by that particular industry (Grant, 1991: 54). Grant (1991: 55) elaborates saying that "by examining the principal structural features and their interactions for any particular industry, it is possible to predict the type of competitive behaviour likely to emerge and the resulting profitability". Although entire industries may be more or less profitable, an awareness of the forces shaping profitability is necessary for individual corporations in these industries to "stake out a position in its industry that is less vulnerable to attack", (Porter, 1979: 1). Porter (1979: 1-10) in his five forces of competition framework highlights the forces that influence industry profitability. These include supplier power, buyer power, the threat of potential new entrants, the threat of substitute products and rivalry amongst existing firms. Factors that reduce profitability include high bargaining power of suppliers and buyers, low barriers to entry for new competitors, a high threat of substitute products and intense competition amongst rival corporations. A model like Porter's five forces of competition firstly expands a corporation's frame of reference to include necessary factors, probably previously not considered or at least not systematically considered and secondly it assists a corporation in developing points of differentiation based on an awareness of the various players, demands and general industry attractiveness.

Strategy guides the attention of corporations towards a thorough understanding of the total environment in which a corporation operates. Important considerations include the macro-economic forces, the elements that contribute towards a nation's competitiveness in particular industries, and the forces of competition within a particular industry. Such an awareness and focus can assist

a corporation to carve out points of differentiation, defend their positions and alter them if conditions change. Lastly, and very interestingly, is the idea that corporations can shape their environments for the benefit of entire industries and ultimately the corporation.

### **3.1.4 Analysing Resources and Capabilities**

Strategy also serves to guide business in the development of both required resources and those that can deliver competitive advantage. Like humans, industries have certain basic needs or requirements often referred to 'as entry to the game' requirements. To sustain life, the basic level of needs, the physiological needs including "food, water, air, shelter, clothing, sex - all the biogenic needs", (Schiffman & Kanuk, 1997: 97) need to be satisfied. Physiological needs form the base of a pyramid of needs referred to as Maslow's hierarchy of human needs. Maslow's theory suggests that individuals seek to satisfy lower-level needs before higher-level needs emerge (Schiffman & Kanuk, 1997: 96). Similarly, businesses and industries have needs that need to be met just to be in the industry. Corporations need to ensure that the basic needs are met to remain in business. Corporations, further, need to assess which resources and capabilities need to be developed in order to deliver real value, a competitive advantage, to customers.

Resources and capabilities can therefore be separated into two camps. Those that are 'entry to the game', a minimum requirement to be in business, and those that differentiate or that create a distinction between the corporation and others. Grant (1991: 118) says that "Selznick used distinctive competence to describe those things that an organisation does particularly well relative to competitors". Hamel & Prahalad (1990: 82) refer to "core competencies". The term 'core competence' refers to "those capabilities fundamental to a firm's performance and strategy", (Grant, 1991: 118). It is also important to draw a distinction between resources and capabilities. Grant (1991: 111) says that individual

resources of the firm are "items of capital equipment, the skills of individual employees, patents, brands and so on." Resources however are not productive on their own". We use the term organisational capabilities to refer to a firm's capacity for undertaking a particular productive activity", (Grant, 1991: 118). It is the interaction of resources and capabilities that create value for the firm and the customer. Strategy first of all assists in assessing these resources and capabilities and then provides pointers for the development of core competencies or capabilities which deliver competitive advantage.

Grant (1991: 111) says that "drawing up an inventory of a firm's resources can be surprisingly difficult .... The corporate balance sheet provides a partial and distorted picture of a firm's assets. A useful starting point is a simple classification of the principle types of resources into tangible, intangible and human resources". Tangible resources include financial and physical resources like buildings, land or raw materials. Over time tangible resources become less important to the firm in terms of their value added (Grant, 1991:115). Reputation, including brand names, and technological resources, including patents, copyrights and trade secrets become very valuable in attracting and retaining customers as the firm matures and develops. Finally, human resources offering the firm their "skills, knowledge, and reasoning and decision-making abilities", (Grant, 1991: 116) need to be thoroughly appraised.

An assessment of resources needs to be conducted in combination with an assessment of capabilities. Grant (1991: 119) suggests two main approaches for an examination of the firm's capabilities. The functional classification approach and the value chain approach. Functional classification identifies organisational capabilities in relation to each of the principle functional areas of the firm. This would typically include the functional areas of manufacturing, product design, marketing, sales and distribution, research and development, and financial management. The value chain approach on the other hand separates activities of the firm in terms of the transformation of raw materials to product and then to



interaction with the client. This would typically involve the activities of inbound logistics, operation, outbound logistics, marketing and sales and service. These primary activities will also be supported by central services or support activities that include human resource management, technology development and procurement. Regardless of the approach chosen, strategy encourages the assessment of resources and capabilities and the subsequent development of these in accordance with the requirements for a particular industry. Merely fulfilling entry to the game requirements for a particular industry will provide a corporation with a licence to operate. To ensure the success of a corporation over time however, core competencies will need to be developed that create points of differentiation.

### **3.1.5 Developing Core Competencies**

There is a requirement of any corporation in business that it is at least competent in all necessary capabilities for the effective functioning of the corporation. Active focus on particular capabilities however will spur points of differentiation. P. Laburn (personal communication, May 20, 2006) said that a company can realistically focus on excelling in only three or four areas out of all the 'entry to the game' requirements. The focus on these three or four areas should help a company remain competitive. Drucker (1994: 100) says that, "assumptions about core competencies define where an organisation must excel in order to maintain leadership". Excelling in particular capabilities therefore appears to be a requirement for industry leadership. Grant (1991: 118) says that "Selznick used distinctive competence to describe those things that an organisation does particularly well relative to competitors ... Hamel and Prahalad coined the term core competencies to distinguish those capabilities fundamental to a firm's performance and strategy". Core competence development appears to be at the very heart of a long-term strategy. Hamel & Prahalad (1990: 81) say that "in the short run, a company's competitiveness derives from the price performance attributes of current products ... In the long run, competitiveness derives from an

ability to build, at lower cost and more speedily than competitors, the core competencies that spawn unanticipated products."

It is clear that developing core competencies is key for the prolonged success of a business. How to identify and develop these core competencies is important to investigate. Collins (2001: 95) suggests that "the essential strategic difference between the good-to-great and comparison companies lay in two fundamental distinctions. First, the good-to-great companies founded their strategies on deep understanding along three key dimensions - what we came to call the three circles. Second, the good to great companies translated that understanding into a simple, crystalline concept that guided all efforts." The intersection of the three circles highlights the area in which a business should focus to develop meaningful enduring capabilities. Collins (2001: 118-119) says that, "to go from good to great requires a deep understanding of three intersecting circles". The three circles represent three dimensions that include; "what are you deeply passionate about", "What you can be the best in the world at" and lastly, "what drives your economic engine", (Collins, 2001: 118). Companies that can focus attention at the interaction of all three circles, that fulfil all three dimensions, are those that display an important attribute of a good to great company. Deeply questioning competencies in an assessment of a corporation's ability to be the best in the world at these, will highlight which competencies should be labelled core competencies, and further developed. Collins (2001: 118-119) says that "the 'best in the world' understanding is a much more severe standard than a core competence. You might have a competence but not necessarily have the capacity to be truly the best in the world at that competence." The model proposed by Collins directs thinking about competence. Truly successful, great companies are those that seek to develop capabilities where all three circles intersect. The intersection is then translated into a simple crystalline concept that guides all activity.

Hamel & Prahalad (1990: 83-84) also provide guidance on the identification of core competencies in a company. They suggest the application of three tests. "First, a core competence provides potential access to a wide variety of markets .... Second, a core competence should make a significant contribution to the perceived customer benefits of the end product .... Finally, a core competence should be difficult for competitors to imitate." Once again, the intersection of these three dimensions will provide corporations guidance on which competencies should be developed into core competencies. The identification and development of core competencies will, once they spurn new products, significantly benefit the customer and assist in carving out a competitive position for the enterprise. Hamel & Prahalad (1990:91) conclude that, "core competencies are the well spring of new business development. They should constitute the focus for strategy .... we believe an obsession with competence building will characterise the global winners." The identification and development of core competencies are vital for ensuring success. However, only when these competencies spurn new products will the corporation stake out tangible competitive advantage in the market. When corporations "shape the evolution of end products", (Hamel & Prahalad, 1990: 85) through core competencies, their economic engines will be powered-up, customers will receive significant benefit and competitors will find it difficult to imitate the corporation, all of which contributes to the development of competitive advantage.

### **3.1.6 Developing Competitive Advantage**

"The objective of the entire new generation is to be obsessed with creating value for the customer. New generation organisations have discovered that the only source of competitive advantage is an all consuming drive to create customer value, and eradicate value limiting activities - everything else is peripheral detail", (Nasser & Vivier, 1993: 18). A corporation's activities and capabilities must be directed at creating real customer value. Hamel (1996:70) says that "what is required is not a little tweak to the traditional planning process, but a new

philosophical foundation: Strategy is revolution; everything else is tactics." Hamel (1996:72) continues that revolution includes "radically improving the value equation. Price to value."

A corporation's primary goal is the creation of profit. Sustainable profitability however can only be generated through the creation of sustainable competitive advantage which involves a focus on real customer value. Grant (1991: 174) defines competitive advantage as follows: "when two or more firms compete within the same market, one firm possesses a competitive advantage over its rivals when it earns a persistently higher rate of profit (or has the potential to earn a persistently higher rate of profit)." Competitive advantage is therefore the ability to out-perform rivals. Grant (1991: 175) says competitive advantages emerge through both internal and external sources of change. Changing customer demands, prices and technology will drive corporations to inspect their businesses. Corporations can also, through a high degree of internal innovative and creative capability, spurn new sources of competitive advantage." Innovation not only creates competitive advantage, it provides a basis for overturning the competitive edge of other firms", (Grant, 1991: 178). Schumpeter cited in Grant (1991: 178) views innovation as "a gale of creative destruction". Corporations can choose to either compete on price or differentiation. Price competition is usually very short-lived and only leads to lower profitability in the long run. Differentiation however, through innovative and creative internal capabilities can deliver real value to customers, radically improved from that of competitors, and superior profitability for the corporation.

Porter (1996: 61) says that "operational effectiveness ... means performing similar activities better than rivals perform them." Competitive strategy however is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value", (Porter, 1996: 64). In today's overtraded markets, operational effectiveness is 'entry to the game' but will not ensure long-term success. Kim & Mauborgne (2004: 6) commenting on corporations who

create blue oceans, new and uncontested market space, say that "the creators of blue oceans, in sharp contrast to companies playing by traditional rules, never use the competition as a benchmark. Instead they make it irrelevant by creating a leap in value for both buyers and the company itself .... Perhaps the most important feature of blue ocean strategy is that it rejects the fundamental tenet of conventional strategy: that a trade off exists between value and cost." Blue ocean corporations therefore make a leap in value at lower cost, deliberately not benchmarking on rival corporations.

Campbell & Alexander (1997: 43-44) say that "companies must win and claim some loyalty from each of their active stakeholders: shareholders, customers, employees, and suppliers. Without support from all four groups, companies cannot function." In order to win and retain this loyalty, corporations "must give a stream of value to each stakeholder that the stakeholder views as being at least as good as the stream of value offered by competitors", (Campbell & Alexander, 1997: 44). Finally, "a company can only afford to deliver sufficient value to all stakeholders if it has competitive advantage. As a result ... companies have as one of their driving objectives, or constraints, the search for and creation of competitive advantage", (Campbell & Alexander, 1997: 44). In order to enjoy continued success, a company must win and retain loyalty from stakeholders, in order to win this loyalty superior value needs to be delivered and in order to deliver this value, a company needs a competitive advantage. Campbell & Alexander (1997: 44) say that a stream of value needs to be offered to stakeholders that is "at least as good as the stream of value offered by competitors." Value only at least as good as that offered by competitors may not be sufficient to retain loyalty in the long term. Differentiation will be necessary for the long term success of the corporation.

Corporations with the desire and aspirations to carve out a sustainable competitive position, offering value to all stakeholders will need to focus on creating a competitive advantage that radically improves the value equation

through differentiation. Campbell & Alexander (1997: 48) suggest that there is no best way in developing insights into how to create competitive advantage. What is required however is the relentless search for new ways to create radical differentiated value, blue oceans of uncontested market space where all stakeholders enjoy superior value and remain loyal to the corporation.

### **3.1.7 Aspirations are Key**

"Why do some companies redefine the industries in which they compete, while others take the existing industry structure as a given?" (Hamel & Prahalad, 1973: 76). At the heart of a corporation's competitiveness, behind all the analysis, strategy guidance, and value creation are aspirations that drive behaviour. Hamel & Prahalad (1993: 77) suggest that some companies have "insufficient stretch" in their aspirations and as a result do not redefine industries. Mintzberg (1994: 109) says that "strategies only take on value as committed people infuse them with energy". Collins (2001: 202) coined the term 'BHAG', short for 'Big Hairy Audacious Goal'. "A BHAG serves as a unifying focal point of effort, galvanizing people and creating team spirit as people strive towards a finish line". Energy of people is important to breathe life into strategies. BHAG's as proposed by Collins are one of many ways to infuse energy and aspirations across an entire term. Finally, "long-term competitiveness depends on managers' willingness to challenge continually their managerial frames", (Hamel & Prahalad, 1993: 76). Aspirations for success need to have a window on the world. Strategies and tactics may change in response to industry analysis, macro-economic forces and industry trends, but the quest for profit through the deliverance of real differentiated value remains crucial for the continued success of the corporation. Hamel & Välikangas (2003: 2) say that "successful companies ... find it extraordinarily difficult to reinvent their business models. When confronted by paradigm-busting turbulence, they often experience a deep and prolonged reversal of fortune". The quest for resilience is "about having the

capacity to change before the case for change becomes desperately obvious", (Hamel & Välikangas, 2003: 2).

### **3.2 THE LINK BETWEEN CUSTOMER VALUE AND LOYALTY**

"Today's organisations have become extraordinarily vulnerable by neglecting to consistently factor in customer expectations and preferences, they have essentially disenfranchised the customer from the determination of value .... what's more, seeing how little value such businesses place on their interests, customers today have become unpredictable free agents; increasingly disappointed, disgruntled, devalued and ultimately disloyal", (Carbone, 2004: xxi). A corporation that directs activities to completely satisfy consumers will be rewarded with increased retention and loyalty. The activities and ideas that contribute to complete satisfaction and customer delight will be discussed in this section. Supporting this discussion, the idea that the customer is king will be explored along with deteriorating customer experiences, branding as meaningless value, how value can be created, the meaning of satisfaction and loyalty, and finally the application of these ideas in products and services.

#### **3.2.1 Customer is King**

The term 'Customer is King' is commonly used in business today to express the centrality of the customer. Without customers to please, the quest for profit will be fruitless. Schiffman & Kanuk (1997: 82) say that "needs are the essence of the marketing concept". Customer needs drive product development, organisational structure and strategic planning. Schmitt (2003: 1) says that "companies of all kinds acknowledge that their customers are important; that customers are the company's most valuable asset; that the company survives only when it has customers and grows when it can retain them and recruit new ones; and that the company therefore, should be structured and managed around the customer." This focus on and realisation that customers are the

company's most valuable asset is further supported by Nasser & Vivier (1993: 25) who say that "the objective of the entire new generation organisation is to be obsessed with creating value for the customer." Although businesses are crafted almost entirely on an obsession for the customer, Carbone (2004: xix) suggests that "in recent years, many businesses - many entire industries, in fact seem to have lost their sense of balance in this regard. In trying to maximise the value of customers to their businesses, they appear to have lost sight of the need for their organisations to create value for their customers." It appears that the centrality of the customer has lost its leading role in shaping entire businesses and industries.

### **3.2.2 Disappointed Customers**

As customers interact with products their perceived expectations very often do not match up to the real value experienced. Wiersema (1996: 10) says that "you don't have to look too far to spot unmet needs of customers today. They are everywhere: in products and services that weren't carefully designed and therefore fall short of their potential". So many of the products offered to customers have the potential to completely satisfy needs but with focus not directed at the customer, maximum value is forfeited. Schiffman & Kanuk (1997:82) say that "there are countless examples of products that have succeeded in the marketplace because they fulfilled consumer needs; there are even more examples of products and companies that have failed because they did not recognise or understand consumer needs." Business failure therefore is a real possibility if customer needs do not drive product design. Many corporations deliver meaningless products that consumers will never use or alternatively never fulfil needs with what they desire. Wiersema (1996: 10) says that "customers either don't get what they need, or they get what they don't need." Either way, consumers are left feeling disgruntled and disappointed as a result of their experience with the product.



Harrison *et al* (2005: 4) say that "food, clothing, accommodation, and consumer durables have become familiar commodities. Where it was previously a public provision, we increasingly buy or at least want to choose education, health care, pensions and care when elderly. We can now buy our exercise, our entertainment or our children's party." Purchasing now dominates lives and the experience of purchasing influences lives. Ollman cited in Harrison *et al* (2005: 4) says that "of the amount of time thought and emotions spent in buying and selling, and in preparing for (including worrying about) and recovering from these activities - the market has become a dominant, if not the dominant influence in how people act and think throughout the rest of their lives." The disappointment of purchases therefore influences people's thoughts and actions. The influence of the market has created both a culture of purchasing and has exacerbated the influence of an experience associated with purchases. Corporations need to be extremely sensitive as to how their products can affect lives.

When making purchase decisions, consumers generally experience some form of discomfort while making, either consciously or sub-consciously, cost to benefit trade-offs. "According to cognitive dissonance theory, discomfort or dissonance occurs when a consumer holds conflicting thoughts about a belief or an attitude object", (Schiffman & Kanuk, 1997: 271). They continue to say that "when cognitive dissonance occurs after a purchase, it is called post-purchase dissonance. Because purchase decisions often require some amount of compromise, post-purchase dissonance is quite normal. Nevertheless, it is likely to leave consumers with an uneasy feeling." In normal purchase circumstances, people feel some sort of discomfort or emotional strain. If consumers are further disappointed by poor product experiences, this strain will be greatly exacerbated which will result in poor associations with the product and the corporation. Corporations should strive to reduce the post-purchase dissonance their customers experience, not increase it.

Schmitt (2003: 4) says that "in fact, the problem is not just with a few companies here and there, entire industries seem to have caught the disease of customer mismanagement and abuse: car dealers, insurance companies, and electronic retailers are on the list of customer abusers for many people. Disappointed customers are becoming the norm as opposed to the exception and customers are coming to expect poor experiences. Life as a customer can be really tough, sometimes it may seem as if you just have to live with inferior goods and poor service : C'est la vie", (Schmitt, 2003: 5). Disappointment, therefore, has become a way of life that greatly affects how people act and behave. Trust between corporations and individuals appear to have broken down completely to the extent where customers have come to expect poor service as a way of life.

### **3.2.3 Branding as Meaningless Value**

"Let's turn our differentiated offer into a strong brand. Let's value the brand and improve the brand image. Let's change the brand's personality. Such initiatives normally lead nowhere .... changing the logo, stationery, and advertising, many brands still fail to connect with the customer and don't sell. Management then realises that the logo, signage and advertising were only insignificant parts of the problem", (Schmitt, 2003: 33). The promotion of a product and brand identity both help to attract first time buyers of a product. A customer's experience with the product is at the very heart of a corporation's value proposition. A poor product, regardless of brand identity or promotion will lead to disappointment. Weinstein & Johnson (1999: 119) commenting on company promotion and advertising express that, "there is still a concern that most of the attention is spent on wooing new customers or the great 'one-night-stand'."

Inappropriate promotion and advertising can serve to widen the expectation gap of consumers. This is the gap between what is portrayed versus what is experienced by consumers. Wide expectation gaps, although effective at luring customers, will only create increased disappointment and distrust. Carbone

(2004: 48) says that "you can put bug-ridden software in a pretty box ... but as soon as customers have their experiences, their word of mouth reviews will define your future." Product design and the associated promotion, if not centred on the consumer, can lead to the failure of the corporation. As the level of trust between corporations and consumers is eroded, "consumers are increasingly likely to look further than the truth claims of advertising campaigns", (Hodgson, 2001: 122). It is now clearly evident that consumers no longer trust corporations to have their best interests at heart. Prahalad & Ramaswamy (2004: 133) commenting on how the experience of a product is more revealing than the brand, say that "active consumer communities are studying, evaluating, and discussing what companies do, and making independent judgement about what they see and hear. More and more companies have no clothes like the emperor in the proverbial fairy tale - though many do not recognise it yet." In order to win the eyes, ears and evaluations of consumers, corporations need to ensure that the heart of their offerings deliver real value. Luring promotions will only serve to widen the expectation gap of consumers and increase disappointment which eventually leads to distrust.

### **3.2.4 The Creation of Value**

Carbone (2004: 47) says that "because the customer is the ultimate arbiter of value, smoke and mirrors won't induce people to be loyal to a brand. Customers value the reality they perceive and feel. They will reward or punish you by voting with their feet (or fingers on the phone or in cyberspace) returning to organisations that create experiences that connect with their deeper needs and desires; and walking away from those that don't." The real value delivered by a product, not the value portrayed, will determine the loyalty shown by consumers. "An organisation noted for its intense focus on the customer is SAB Breweries. When Group Chairman Meyer Kahn was asked to identify the key focus point over the next ten years, he simply commented: I can't see that anything has changed. The business starts with a product. At the end of the road consumer-

goods businesses are like politicians. We have an election every day of our lives. Our consumers vote with their throats. We count the cash. Everything starts and finishes with the product", (Nasser & Vivier, 1993: 30). In order to ensure that consumers vote in favour of a corporation, its products, brand and reputation, it is important to understand the meaning of value and to highlight a number of ways in which a corporation's attention can be focused on designing products that meet and exceed customer expectations.

Weinstein & Johnson (1999: 4) offer an explanation of what value really means by saying that "In early barter transactions, buyers carefully evaluated seller's offerings; they agreed to do business only if the benefits (products received) relative to the cost (items traded) were perceived as being fair (or better) value. Hence, value is the satisfaction of customer requirements at the lowest total cost of acquisition, ownership and use." At the very heart of the definition offered by Weinstein and Johnson is that value is the satisfaction of customer requirements. Consumers feel and perceive value when as a minimum, their expectations have been fulfilled and their requirements met. The problem of today's market is that consumers find it increasingly difficult to evaluate a seller's offerings prior to a real interaction with the product. Prahalad & Ramaswamy (2004: 1) say that "the burgeoning complexity of offerings, as well as the associated risks and rewards, confounds and frustrates most time-starved consumers." These pre-purchase frustrations are very often compounded with frustrating product experiences leaving customers feeling devalued.

Weinstein & Johnson (1991: 4) offer three more definitions of value: "Value means relative worth or importance .... Value implies excellence based on desirability or usefulness .... Values are the abstract concepts of what is right, worthwhile, or desirable". These three definitions reveal the words, importance, desirable and excellence. From these definitions of value and values, outside the customer perspective, it appears that value goes beyond mere satisfaction of requirements. As a minimum, the satisfaction of requirements is necessary, but

for customers to feel real value, a corporation's offering may need to be excellent, meeting desires beyond requirements. Szwarc (2005: 10) suggests that "what many companies had failed to realise in the 1980s was that customer satisfaction was not necessarily a reflection that customers were feeling positive about their organisations; rather it was that they were not feeling negative about them." What Szwarc is alluding to is that customers were satisfied but not necessarily ecstatic about their experiences of the product. Similarly, customer value is equated with positive feelings as opposed to feelings of indifference, delight as opposed to contentment.

In an attempt to meet and exceed customers' expectations, to offer them real value, a corporation's attention needs to be focused. In working through techniques that focus and guide this attention, Kim & Mauborgne (2004: 152) suggest that, "instead of searching within the conventional boundaries of industry competition, managers can look methodically across those boundaries to find unoccupied territory that represents real value innovation." Kim & Mauborgne (2004: 161) continue to comment that value innovators often cross boundaries. "They think in terms of the total solution buyers seek, and they try to overcome the chief compromises their industry forces customers to make." The thinking as suggested by Kim and Mauborgne represents a complete focus on the customer, seeking solutions, and regardless of what industry they fall in, to satisfy needs.

Ideas to focus attention on value creation range from a simple checklist, a zero based audit, an emotional end frame, to the industry value innovation model. Weinstein & Johnson (1999: 11) suggest that corporations use a customer value checklist. The checklist includes the following questions: "Do your goods and services really perform? Does your firm stand behind its work with service warranties? Do your advertising and promotional materials give customers the necessary facts?" However simplistic these questions may seem, they provide an effective and easy to understand guideline. The questions assess whether a product offers real value, if it is of a reasonable quality that the company is willing

to endorse through warranties, and finally, if the product is being promoted and sold correctly and ethically in such a way that allows consumers to make an informed choice. The three areas as proposed by Weinstein and Johnson would obviously need thorough investigation by the corporation but the ideas are easy enough for all team members to understand.

Druker (1992: 273) suggests as another method to focus attention on customer value, is a zero-based audit. He says that "the key to innovation is to sit down every three years and systematically put every aspect of the company on trial for its life: every product, service, technology, market, and distribution channel." A zero-based audit is useful for pulling a corporation out of their comfort zones. Corporations often take long established products and process for granted. These continue unchanged for years purely because that is the way they have always been. They are unquestionably part of the corporation. Or are they? The zero-based audit forces a rigorous series of questions that may challenge the fundamentals of the corporation but will align products and services appropriately with what the market demands.

Carbone (2004: 49) commenting on managing the total customer experience, which includes the interaction with the product, says that corporations should "identify emotions customers want to feel as a result of an experience. Then work back to what the organisation has to do to get that emotional end frame." This approach as highlighted by Carbone directs attention at the actual interaction between the customer and the corporation. This interaction is the corporation's product or service. Carbone (2004: 50) says that "the organisation acknowledges that its structure and future prospects hinge on the value its consumers distil from their experiences." Assessing and crafting a corporation's products to deliver the expected experience will help a corporation secure its future prospects. "Moving from a make-and-sell world to a new perspective based on sense-and-respond won't be easy. But it is definitely possible - and an extraordinary opportunity", (Carbone, 2004: 55).

Finally, the approach proposed by Kim & Mauborgne (1999: 85), the industry value innovation model aims to create new market space for the corporation through the delivery of new solutions or value. Kim & Mauborgne (2004: 5) say that through this approach corporations seek to "make the competition irrelevant", "create and capture new demand", "break the value/cost trade-off", and to "align the whole system of a company's activities in pursuit of differentiation and low cost." Differentiated value at below average cost and the alignment of all activities to achieve this delivery is at the core of this model. The model asks four questions and forces a corporation to make trade-offs which focuses attention. The questions include: what factors should be reduced well below the industry standard? What factors should be raised well beyond the industry standard? What factors should be eliminated that industry has taken for granted? What factors should be created that the industry has never offered? (Kim & Mauborgne, 1999: 85). What product factors therefore should be reduced, raised, eliminated and created that will deliver uncontested market space and deliver differentiated value to customers. The model proposed by Kim and Mauborgne is very efficient and effective at channelling thought towards an assessment of product design as a way of delivering superior value and ensuring the longevity and competitiveness of a corporation based on differentiation of value as opposed to operational effectiveness.

Customer value creation is not limited to the ideas proposed in the checklist method, zero-based audit, emotional end-frame, and industry value innovation model. These concepts do however provide relatively simplistic and easy to understand techniques for ensuring that customers are delighted with the value received and that the corporation remains competitive as a result. Whatever insight corporations choose to experiment with, the central idea must be focused on meeting and exceeding the customers' expectations not through promotions or packaging, but through the total experience with the corporation, of which the product is central.

### 3.2.5 Customer Satisfaction

Weinstein & Johnson (1994: 4) say that "value is the satisfaction of customer requirements at the lowest total cost of acquisition, ownership and use." Customers will feel satisfied when their requirements are met at the lowest total cost. Schmitt (2003: 17) however says that "what managers need is an approach that takes the customer seriously - finally. Such an approach would provide a view of the total customer experience. It would focus not only on functional product features and functional transactions but also on anything else that provides value during decision making, purchase and usage." Meeting a customer's basic requirements will lead to satisfaction. Complete satisfaction however would include a focus on anything else that provides a consumer value during decision making. It is therefore safe to say that there is a distinction between being satisfied and completely satisfied.

Kotler cited in Weinstein & Johnson (1999: 119) says that "the key to customer retention is customer satisfaction." Weinstein & Johnson (1999: 119) say that "he notes that satisfied customers stay loyal longer, talk favourably about the organisation, pay less attention to the competition, are less price sensitive, offer service ideas to the organisation, and cost less to serve than new customers." Customer satisfaction delivers great value to both the customer and the corporation who is rewarded with increased retention levels and lower servicing costs. McCarthy cited in Szwarc (2005: 9) commenting on a customer response survey conducted by Xerox, says that "after analysing over 500 000 responses collected over the years, management discovered that loyalty rates among satisfied customers were six times less than among completely satisfied customers." Szwarc highlights that not only is there a distinction between satisfied and completely satisfied customers, but that there is also a distinction in the effect of being satisfied or completely satisfied. Customers are either loyal or extremely loyal. Szwarc (2005: 12) highlights the subtle distinction between



satisfied customers and loyal customers by saying that "they contribute to the company profitability in different ways. Satisfied customers are more likely to promote the company, because satisfaction is about something people will talk about. Loyal customers however are more profitable because they are more likely to buy additional products, often without shopping around for the best price." Completely satisfied, loyal customers which the corporation has successfully managed to delight are a huge asset to the corporation from both a cost and revenue perspective positively affecting company profitability.

### **3.2.6 Customer Loyalty**

Weinstein & Johnson (1999: 120) highlight that the link between exceeding a buyer's expectations and increased market values for the company is customer loyalty. They say that "a one-time buyer is really a tryer rather than a customer. To move beyond the transaction stage, organisational experiences must meet or (preferably) exceed the buyer's expectations. Repeated incidents of high satisfaction are sought ... leading to higher customer loyalty. Loyalty (which results from the quality of the customer-company relationships) in turn leads to improved business performance ... and increased customer retention rates. Furthermore, the ability to retain customers successfully results in increased market values." A consumer however will only move from a one-time buyer or tryer to a loyal customer if expectations have been met or exceeded and importantly if the consumer sufficiently trusts the corporation.

Trust is a vital element in development of loyal customers. Weinstein & Johnson (1999: 137) say that "trust is an important factor in the development of marketing relationships and exists where there is confidence in an exchange partner's reliability and integrity." A corporation's reliability and integrity as perceived by the consumers is an important contributor to trust which is a necessary element of a loyal relationship with a corporation. Prahalad & Ramaswamy (2004:30) say that "companies have traditionally benefited from information asymmetry

between the consumer and the firm. That asymmetry is rapidly disappearing. Firms can no longer assume opaqueness of prices, costs, and profit margins. And as information about products and techniques and business systems become more accessible, creating new levels of transparency becomes increasingly desirable." Transparency of information is not only desirable but "is necessary to create trust between institutions and individuals", (Prahalad & Ramaswamy, 2004: 32).

The benefit to the corporation of increased loyalty is significant. Schmitt (2003: 206) says that "because using the company's goods and services helps customers lead more rewarding personal or business lives, they will in turn reward the company financially by doing business with it, being loyal, and over time, bringing in new business. The value of the customer to the firm, referred to as customer equity, will increase, and the company will grow and be profitable." Weinstein & Johnson (1999: 76) echo this sentiment by saying that "quality pays in the form of customer retention. Considering that the average business today loses 10 to 30% of its customers each year, customer defections represent a significant cost to companies .... Bain and Co. found that reducing customer defections by 5% can double profits." Customer loyalty therefore clearly has a serious business case behind its motivation.

Completely satisfied consumers, those whose needs have been met and exceeded by a corporation will begin to trust the corporation, that repeat incidents of interaction will yield the same or similar high satisfaction experiences. In addition, a corporation that openly provides information that allows consumers to make informed choices, is reliable, has a high degree of integrity and shows a genuine concern for the consumer, will foster increased levels of trust between the consumer and the corporation. This trust leading to customer loyalty has great benefits for the corporation.

### 3.2.7 Co-creation of Value

In order to offer a consumer repeated incidences of high satisfaction experiences requires of the corporation a thorough knowledge of consumer demands, preferences and perceptions. This knowledge however requires a customer intimacy that will sense consumer's desires. Wiersema (1996:6) says that "customer intimacy doesn't call for increasing customer satisfaction. It requires taking responsibility for customer's results. It doesn't impose arm's length goodwill. It requires down-in-the-trenches solidarity, the exchange of useful information, and the co-operative pursuit of results." Customer intimacy requires a willingness to connect with and understand the consumer intimately. It involves a genuine caring for the consumer, what they think and how they behave. Wiersema (1996: 7) continues to say that "customer intimate companies bring an entirely fresh perspective. They discover unsuspected problems, detect unrealised potential, and create a dynamic synergy with customers."

Prahalad & Ramaswamy (2004:37) say that "like all humans, business managers are socialised into a dominant logic - shaped by the attitudes, behaviours, and assumptions that they learn in their business environment. Unfortunately, most managers seem to forget that they are also consumers." Dominant logic, shaped by a rising intensity of competition met by improvements in operational effectiveness, is currently focused on the value of the customer to the firm. Corporations however need to begin focusing on the value offered to customers. "We must explicitly recognise how deeply etched ways of thinking limit our ability to shift into co-creation mode. We must understand the differences between 'company think' and 'consumer think' that will drive success in the twenty-first century", (Prahalad & Ramaswamy, 2004: 38). Corporations that make the shift to 'consumer think' will, according to Schmitt (2003: 46), "need to become more responsible to customers and incorporate customer insight into their strategies and implementations. They need to use customer input when they design the brand experience, customer interface, and when they launch new

products." 'Consumer think' should mould the entire corporation. Prahalad & Ramaswamy (2004: 23) suggest that the building blocks of the co-creation of value with consumers involves a combination of four elements: dialogue, access, risk assessment and transparency. "Dialogue is more than listening to customers. It entails emphatic understanding built around experiencing what consumers experience, and recognising the emotional, social, and cultural context of experiences .... Dialogue creates and maintains a loyal community", (Prahalad & Ramaswamy, 2004: 23). Access, the second element of co-creation deals with the ownership of products. Prahalad & Ramaswamy (2004: 25) say that "increasingly, the goal of consumers is access to desirable experiences - not necessarily ownership of the product. One need not own something to access an experience." The third element of co-creation; risk assessment, deals with the probability of harm to the customer. Prahalad & Ramaswamy (2004: 27) say that "managers have traditionally assumed that firms can better assess and manage risk than consumers can. Therefore when communicating with consumers, marketers have focused almost entirely on articulating benefits, largely ignoring risks." Lastly, transparency, the fourth element of co-creation involves the need to supply new levels of information to consumers: about products and technologies and business systems", (Prahalad & Ramaswamy, 2004: 30). Co-creation of value therefore involves a deep connection with the consumer, including awareness that ownership may not be necessary to access an experience, and consumers are increasingly interested in full product information including knowledge of all the risks. Co-creation will draw corporations closer to the consumer and command a new level of respect between "two equal problem solvers", (Prahalad & Ramaswamy, 2004: 25).

The co-creation of value that builds trust between the corporation and the consumer, where each party respects and values the other for the contribution they make will be a pre-requisite for business of the future. Getting intimate with consumers, understanding their emotions, perceptions and treating them with respect will positively shape product offerings creating huge leaps of value for all

stakeholders. Prahalad & Ramaswamy (2004: 238) say that the ideas of co-creation "may ultimately portend the emergence of a truly democratic global society in which human rights, needs and values are predominant - not the demands of institutions. We see a world of co-creating emerging on the horizon, one that we hope you will co-shape actively. Welcome to the future of competition and the opportunity to co-create that future." Finally, Carbone (2004: 215) suggests that corporations should accept the ongoing responsibility of stewarding customer experiences. "Stewarding isn't simply a matter of monitoring and measuring. Neither is it a new twist on the familiar tenets of quality management, although it fosters and embraces continuous improvement. It implies a high level of forward-looking leadership to evolve experiences to create ever-increasing levels of value for the customer, which in turn, returns ever increasing levels of value for the organisation."

### **3.2.8 Satisfaction and Trust are Key Links**

Satisfaction in the value offered by the corporation and a deep trust in the corporation are the key links between customer value and loyalty. Repeated incidents of high satisfaction experiences combined with a sense of trust evolved through a genuine caring for an involvement of the consumer will breed customer loyalty. Ensuring that customers feel completely satisfied requires of the corporation a commitment to design products that offer real value, that are safe and of a quality that the company will endorse with protracted warranties. Trust between a corporation and a consumer evolves over time when repeated incidents of product interaction yield complete satisfaction and when the ideas, concerns and perceptions of a consumer consistently shape the products offered. Placing the consumer at the centre of product design requires a process of co-creation of value between both the corporation and the consumer. Designing and delivering a product that both yields complete satisfaction and builds trust in the process will be rewarded with unprecedented levels of loyalty. Carbone (2004: 47) says that "customers value the reality they perceive and feel."

Attractive packaging and clever marketing may deliver short-term financial gain for the corporation but these will be short-lived once a consumer interacts with the product not designed with the consumer as the central design criteria. "Systematically managing the whole customer experience represents an unprecedented and untapped source of competitive advantage", (Carbone, 2004: xxiv). This competitive advantage delivers a leap in value to both the consumer and the corporation that is difficult to imitate and delivers sustained financial results.

### **3.3 PRODUCT STEWARDSHIP**

The fields of both sustainable development and business strategy are desperately calling for a reform of dominant business logic. There appears to be a consensus on the need for reform but the motives for this reform differ. Sustainable development seeks reduced environmental and social impacts while the motive for changes in business strategy are about responding to declining profits in a globalised world where value for both the consumer and the business is derived more from the experience or idea of the product than from the actual production and consumption of it.

An expanded view of product offerings that considers the health of the environment, the community and the customer could be the reform of dominant logic both fields seek. Reduced environmental impacts, healthier communities and satisfied customers are the potential primary outcomes of an emerging expanded view of product offerings that have been designed, produced and marketed in accordance with an approach that could be called 'product stewardship.

Product stewardship is an idea that requires of business a keen focus on the context broader than the sale of products. It is a view that requires of business a willingness to actively manage and minimise the negative effects on the

environment, the community and the customer. Product stewardship implies a way of operating we instinctively know is right but that competition forces us to compromise.

This expanded view of product offerings cuts through the dominant logic of business to offer a back to basics approach to value. A back to basics approach is the idea that the quality and value of the product is what must sell the product, not the amount of money pumped into the brand and the message. In a world of the Internet, where e-relations make verbal communications about value extremely powerful, and undercut the power of mass communicated brands, such a back to basics approach is vital for success. Success is now pinned on products that are safe, appropriate and that fully satisfy customer expectations as opposed to a way of business heavily reliant on marketing to push products of decreasing quality, that clutter our lives, frustrate the user and that further contribute to a growing list of health concerns. Visser and Sunter (2003: 116) say that "it will no longer be acceptable or successful to follow the ... approach of producing midgets and flogging them to a market brainwashed by advertising whilst ignoring the damage they cause along the way."

Product stewardship requires an intensely intimate awareness of both customer expectations and business impacts and the willingness to make changes to meet and exceed expectations and eliminate as far as possible all negative impacts. The advantages are numerous for a business doing what it knows is instinctively right. Reduced environmental impact, improved efficiencies, lower costs, healthier community, improved employee productivity, fully satisfied customers, greater levels of trust and increased repeat purchases from loyal customers. This may sound like the ultimate business nirvana and while many businesses have instinctively found the winning formula, others with similar aspirations have adopted one business system innovation after another, from total quality management to systems theory, more often than not improving operational

efficiencies in an attempt to reach this nirvana but missing the very essence of a back to basics product value-adding approach for the consumer.

Intense global competition has unfortunately forced a compromise of such an approach. For businesses however, searching for competitive advantage and customer loyalty the adoption of a back to basics product stewardship approach that puts them acutely in tune with the emerging demands of their environment and their customers could be the differentiator all businesses so desperately seek.

Corporate social responsibility and corporate citizenship have tended to focus on how a business is perceived, a kind of self-centeredness that explodes into the gross exaggerations communicated by the BRAND. Product stewardship shifts the focus away from the COMPANY and its BRAND, to the product being designed, produced, communicated, consumed and then wasted. Through product stewardship, the values of a better world articulated by sustainable development literature and the aspirations of the business world to find a better strategy, are fused into a focus on the product. This is the real breakthrough here. The company and its brand, therefore, is constructed not by a promotion of itself as 'good', but rather by the virtues and benefits of the product which indirectly builds the reputation of the producer. Loyalty, therefore, is no longer loyalty to the brand, but rather loyalty built through the positive interaction with a product.

This focus on the product, fusing the aspirations of sustainable development and business strategy, is emerging through various concepts and ideas. The following section will investigate these emerging components of product stewardship and the ideas that have influenced the concept of product stewardship. It will also investigate practical clues for the implementation of this concept.



### 3.3.1 Impact on the Environment and Society

Dunphy *et al* (2003: 4) argue that "corporations are instruments of social purpose, formed within society to accomplish useful objectives ... However, if they debase human life, act with contempt for the community of which they are part, plunder and pollute the planet, and produce 'bads' as well as 'goods', they forfeit their right to exist." Corporations can reduce their impacts on society and the environment by altering product or service designs. For many companies, the main harmful effects on the environment with which they are associated actually occur outside their fences - either upstream in the raw material generation and supplier processing phase, or downstream in the product use or disposal phases", (Holliday *et al*, 2002: 87). To ensure that they do not forfeit their right to exist, corporations will need to develop capabilities to assess the impact of their products or services on the environment and society. "*The single-minded pursuit of short-term profitability for shareholders or owners does not justify a 'couldn't care less' approach to people and the planet. Responsible resource stewardship is a universal requirement for all of us*", (Dunphy *et al*, 2003: 4) (Emphasis added). Dunphy's notion of 'resource stewardship' is a key conceptual precursor to the notion of 'product stewardship'. Product stewardship, however, is a stronger concept than resource stewardship as it implies a focus not only on mitigating the impact of products but also the need for product design itself that mitigates impact.

Product stewardship is not limited to corporations only producing physical goods. Companies that sell products that could cause harm or are heavy polluters are the first to come under the spotlight when the impact of products or services on the environment and society are considered. The concept also most definitely extends to intangible, service orientated, products which include those offered by banks, micro-lenders, and insurance companies. Freemantle & Rockey (2004: 93) for example say that, "pyramid schemes ... provide zero benefit (other than for the scheme originators) but impose a high cost on society. Clearly the

concept is completely unsustainable." Most tangibles are now packaged within a total product the majority of which is the brand, message, experience and identity. Assessing the design of a product is therefore no more difficult than the assessment of a service which similarly is composed of constituent parts of an intangible nature. The following section will investigate a number of concepts that have both influenced how companies assess their impacts and provide clues to how product or service design should be altered. These include life cycle analysis (LCA), eco-efficiency and sustainable consumption.

### **3.3.1.1 Life Cycle Analysis**

Life cycle analysis is an approach that is based on the recognition of the interconnectedness of life. Capra (1983: 432) says that "the systems approach to economics will make it possible to bring some order into the present conceptual chaos by giving economists the urgently needed ecological perspectives. According to the systems view, the economy is a living system composed of human beings and social organisations in a continual interaction with one another and with the surrounding ecosystems on which our lives depend". The systems view connects the economy to the ecosystem highlighting the need for an awareness of where product materials are being sourced, the affect of a product in use and where a product is disposed. Products have an impact on the ecosystem, an ecosystem "our lives depend on" (Capra 1983: 482). The need therefore to manage this impact is vital. Visser & Sunter (2002: 117) argue that under the life cycle approach, companies are accountable for their products and services from 'cradle to grave'. Dunphy *et al* (2003: 176) cite a recent example relating to the Xerox Corporation, "where proactive designers and managers working in teams generated new products that were recyclable and re-usable. This approach adopted by Xerox defied current trends that build in product redundancy and therefore waste. The team's zero-waste vision resulted in the establishment of a manufacturing plant that created virtually no waste". Visser and Sunter (2002: 118) commenting on Xerox point out that "in 1995 alone, the company recovered 80 000 (two thirds) of the photocopies

disposed of in Western Europe, with savings of virgin raw materials exceeding £50 million and the avoidance of disposal costs for over 7 000 tons of material.”

Corporations are beginning to incorporate life cycle thinking into their product designs as they become more aware of their interconnectedness with society and the ecosystem. Kotler & Lee (2005: 207) highlight the inclusion of this theme in Motorola's environmental vision statement. An extract from the statement reads as follows: "Motorola envisions a future in which our factories are accident-free, create zero waste, emit only benign emissions, use energy in highly efficient ways and use our discarded products as feed for new products ... We are on the threshold of a new era in which all of us - corporations, individuals, government, and other organisations - can join together to co-operate on the healing of our earth. We can no longer afford to view ourselves as separate. We're all interconnected and part of the whole and what we do matters and affects the whole." Such thinking and articulation represents a very mature approach to corporate citizenship clearly highlighting the recognition of business, that business operations and more specifically product design are both affected by and affect the environment and society. An awareness of the impact of products 'outside the fences' of the corporation can lead to positive impacts for both the corporation and the ecosystem.

### **3.3.1.2 Eco-efficiency**

Eco-efficiency is based on "the idea that actions preventing pollution and avoiding waste pay off financially" (Visser & Sunter, 2002: 117). Eco-efficiency is not limited to preventing pollution or avoiding waste but also includes improving resource efficiency. In effect, doing more with less. Visser and Sunter (2002: 117) refer to a term called Factor Four coined by Ernst Ulrich von Weizsäcker, Amory B Lovin and L Hunter Lovin. "The concept refers to doubling resource efficiency (put another way, halving material intensity) and halving waste outputs, thereby effectively reducing the environmental impacts by a factor of four." Ecological footprint, a concept that measures a wide array of human

activities in terms of their ecological impact or footprint, makes it possible to compare their separate ecological impacts (Wackernagte and Rees, 1996: 55). Ecological footprint, although clumsy and blunt, is a tool that can further assist corporations with raising an awareness of the impacts of their products and then steer decisions of what needs to be improved, reduced or changed.

The World Business Council for Sustainable Development (WBCSD) has identified seven elements that business can use to improve their eco-efficiency. These elements are as follows; reduce material intensity, reduce energy intensity, reduce dispersion of toxic substances, enhance recyclability, maximise use of renewables, extend product durability and lastly to increase service intensity. The seven elements are concerned with three broad objectives; firstly reducing the consumption of resources, secondly reducing the impact on nature including waste reduction as well as fostering the sustainable use of renewable resources and thirdly, increasing the product or service value (Lehni cited in Holliday *et al*, 2002, 87). A reduction in material intensity, a reduced impact on nature through waste reduction and the use of renewable sources, and increasing the value or durability of products or services will significantly reduce costs for the corporation, make a meaningful contribution to the environment and improve value for the customer. Increasing the durability of products or services, a concept called sustainable consumption will be discussed further in the next section.

Hawken *et al* (1999: 8) in their book *Natural Capitalism* suggest that "if there's to be prosperity in the future, society must make its use of resources vastly more productive - deriving four, ten or even a hundred times as much benefit from each unit of energy, water, materials, or anything else borrowed from the planet and consumed." They continue to say that "Achieving this degree of efficiency may not be as difficult as it might seem because from a materials and energy perspective, the economy is massively inefficient". Hawken *et al* (1999: 10-11) in response to their statement on resource productivity suggest four strategies to

enable countries, companies and communities to operate by behaving as if all forms of capital were valued. These strategies include radical resource productivity, biomimicry, service and flow economy and investing in natural capital. Radical resource productivity focuses on increasing the productivity of natural resources in product design, biomimicry looks at redesigning industrial systems on biological lines - eliminating the idea of waste, service and flow economy calls for a shift from an economy of goods and purchases to one of service and flow - an economy based on the flow of services opposed to products and lastly, investing in natural capital works towards reinvestments in sustaining, restoring, and expanding stocks of natural capital.

Eco-efficiency therefore in summary seeks to, through an expanded view of the economy, reduce resource use, reduce waste as far as possible, invest in renewable resources, increase the durability of products and services and shift the economy from being focused on selling products to selling services. These initiatives will greatly improve prosperity for society, the corporation and the consumer. Holliday *et al* (2002: 25) say "the relatively straightforward concept of eco-efficiency has already encouraged some companies to make radical shifts from maximising sales to selling nothing at all - and being cleaner and more profitable in the process. Instead of selling things, they sell services, or they lease things, or both." Service orientated corporations should take note of how product orientated corporations are shifting to satisfying needs with services as opposed to products. A shift to satisfying needs with services however increases the challenge of building the initial trust of consumers. An idea as opposed to a product is offered to a consumer. It is however only once a consumer begins to derive value from a purchase through interaction with it that real trust will develop. Very few service orientated corporations actually deeply consider what needs they are fulfilling. Holliday *et al* (2002: 174) say that "very few customers come out and say, 'I want products that help the environment'. But if we listen hard we might hear them say, 'I want to do more with less. I want my life to be more simple. I don't want to waste'. The words have strong eco-efficiency

undertones - and give us the initiative to keep delivering more value with less resources."

### **3.3.1.3 Sustainable Consumption**

"Sustainable consumption has been defined by the Organisation for Economic Co-operation and Development (OECD, 2002a) as the consumption of goods and services that meet basic needs and quality of life without jeopardising the needs of future generations" (Cooper, 2005: 52). The definition implies a reduction in throughput of resources so that future generations will not be compromised. Cooper (2005: 54) highlights that eco-efficiency as discussed in the previous section, "may not adequately reduce environmental impact of consumption", thus there is also a need to reduce the throughput of products and services in addition to resource or eco-efficiency. The throughput of products and services refers to the durability or lifespan of products or services. If goods last longer it can reasonably be assumed that the impact on the environment in terms of production, use and disposal will be far less as people would purchase fewer goods and services in their lifetimes. Holliday *et al* (2002: 181) say that "some argue that the advertising industry has an obligation to try to influence patterns of consumption along a more sustainable path, as it is often accused of contributing to the problem of over-consumption". Corporations have been accused of pushing products that people in fact do not need. Staak (2000: 3) suggests that "many consumers are pushed into buying new and improved products because of planned product obsolescence. Intentionally designed obsolescence involves designing a product, or a crucial part, to wear out within a given period of time." This obsolescence is not limited to the physical product but also the psychological aspect of a product. The product may still be completely functional, but the release of a newer model and associated advertising can create a yearning for the updated model. This yearning for a newer model is referred to as psychological obsolescence. Cooper (2005: 57) says that "until the middle of the 20th century consumer durables were generally viewed as investments and, within reasonable cost boundaries, were designed to last as

long as possible. Since then however, planned obsolescence, the deliberate curtailment of a product's life span, has become commonplace, driven by, for example, a need for cost reductions in order to meet 'price points', the convenience of disposability, and the appeal of fashion." Planned obsolescence, both physical and psychological, push consumers to purchase products and services. These purchases in turn reduce resource efficiency and therefore act contrary to what corporate citizenship is attempting to achieve.

Staak (2000: 6) says that "from a consumer's perspective, obsolescence is definitely not an advantage, but for the producer, numerous benefits exist." Producers do benefit from lower production costs through reduced quality, and higher turnover from increased sales, but it can be argued that these benefits will be short-lived. As consumers become gradually more disgruntled with a corporation's products or services, loyalty will be directed elsewhere. Corporations adopting a sustainable consumption approach and who as a result create product and services with extended durability will argue higher costs and lower turnover. Cooper (2005: 55) however suggests that "a shift to a more highly skilled, craft-based production method and increased repair and maintenance work would provide employment opportunities to offset the effect of reduced demand for new products." This is significant as production tends to favour vertically integrated multinational corporations, whereas repair and maintenance tends to involve far more decentralised businesses and small to medium sized businesses who provide significant employment opportunities.

There exist many laws and regulations that govern product safety. Durability however falls outside these. Cooper (1994: 14) suggests that "over the past fifty years people's expectations of durability have, for many products, fallen. However, just as they now expect products to be safe, there's no reason why they should not expect them to be durable." As consumers interact with products and services, the satisfaction gained appears to be reducing as durability decreases. Cooper (1994: 15) comments however that "manufacturers which

increase the design life of their products and offer comprehensive after-sale services such as repairs and upgrading are likely to be rewarded with increased customer loyalty and this would strengthen their position in the market." Increasing product durability through reducing obsolescence can therefore have positive impacts on both consumers and the environment. Hawken (1993: 154) suggests that "sustainable business create objects of durability and long-term utility." Durability is however not limited to physical products. "When it comes to services, durability has an analogous meaning. Following the definition of information as the difference that makes a difference, durability may be seen as the service that makes a difference ... Durability in service informs or changes the customers in a way that frees them up from commercial dependence", (Hawken, 1993: 155). The shift to durability of service places the risk and obligations on the service provider for continual service delivery. Technology change and the problems of obsolescence shift to the provider as opposed to the consumer.

Corporations who integrate the sustainable consumption concept into their core business offering, be it a physical product or a service, will have a reduced impact on society and the environment and will be rewarded with loyalty from customers who feel satisfied with the purchases over the long term. Jackson (2005: iii) however cautions that "changing behaviours - and in particular motivating more sustainable behaviours - is far from straightforward. Individual behaviours are deeply embedded in a social and institutional context. We are guided as much by what others around us say and do and by the 'rules of the game' as we are by personal choice. We often find ourselves locked in 'to unsustainable behaviours in spite of our own best intentions."

Through a keen focus on identifying and managing the impacts of a product or service on society and the environment, corporations can radically reduce the effects of products and simultaneously increase customer loyalty through improved interactions with the product, increased product satisfaction over time



and the sense that the corporation cares. In identifying a corporation's impacts, the concepts of life cycle assessments, eco-efficiency and sustainable consumption assist with focus areas. These concepts also highlight possible actions that a corporation can take to incorporate a product stewardship approach.

### **3.3.2 Suitability, Range and Appropriateness of Products and Services**

Corporations need to actively assess whether the products or services they supply fulfil needs, if the offering delivers real value and thirdly, if the product and services are appropriate for an individual. Jackson (2005: 11) says that "the social critique of consumer society tends to point here to the power of commercial marketers to 'dupe' consumers into buying things that do not serve their needs at all." The challenge is to persuade corporations to actively assess their product for how well they fulfil needs. Staak (2000: 10) argues that from a consumer perspective, "the next time someone tries to sell you a pet rock associated with a cute message, you may actually stop and think about the 'use' of a useless rock." Corporations need to assess if their products are offering real value in line with consumers expectations and perceptions.

Hawken (1993: 154) insists that "if we forgive the unnecessary products already on the market ... the gummy bears and injection moulded refrigerator magnets, the 'green forest' ecological toilet paper towels, the nacho-flavoured, shrink-wrapped, ready-to-eat popcorn, the perfumes made of aromatic hydrocarbons refracted from Texas Crude - and look ahead, it is possible for new companies to sidestep the commercial Tower of Babel that spills forth such irrelevant abundance, wastes so much, and does so little." Many of the products that are offered to consumers are bulked up with extra features and great designs that do so little or will never be used. Consumers purchase products for their core purpose in attempt to fill a specific inherent need. The clutter of useless features only serves to further confuse a consumer already confused by the large amount

of information and product offering in the market. Hawken (1993: 154) continues to say that "Since it is a free market, nonsense will always be sold, but new enterprise has the grace and opportunity to provide items of clarity and simplicity, products that cut through the clutter of our lives and allow us to perform the daily acts of living in a more satisfying way." Holliday *et al* (2002: 174) suggest that if we listen hard, we might hear consumers say, "I want to do more with less. I want my life to be more simple."

Dunphy *et al* (2003: 71) commenting on sustainable development principles, say that it "has an external as well as an internal focus. It involves adopting a strong and clearly defined corporate ethical position based on multiple stakeholder perspectives. It identifies key stakeholders ... builds positive relationships with them or their representatives, listens to their concerns, identifies with their needs .... This ethical commitment also makes good business sense in that it provides, for example, an up-to-date customer knowledge base which signals previously unidentified customer needs or emerging interests." Corporate citizenship and in particular product stewardship focuses attention on the specifics of a product offering to ensure that customers receive real value that is relevant. Dunphy *et al* (2003: 71) continue to say that a focus on sustainable development principles "also builds customer loyalty. Customer and other key stakeholders ask: Why would we go elsewhere when our needs are being identified and met so effectively here?"

Appropriateness of product or service offering is also another consideration encapsulated in the product stewardship approach. Corporations should assess whether their offerings are appropriate for a selected target market or individual. It would be unethical to sell products or services to individuals that leave little or no bearing on their lives. Alternatively, Freemantle & Rockey (2004: 14) highlight the scenario where a salesman sells more life insurance than an individual can realistically afford. A particular finance institution in South Africa playing off the back of escalating property prices offers consumers to re-finance their properties

at the higher values, giving the individual access to cash, the amount of which equals the difference between the old and new property prices. Such an offering benefits the corporation through increased finance charges but burdens the consumer with additional costs and extra debt. In a country where savings are being encouraged and the population over-stretched with debt, such an offering is inappropriate.

Similarly, faced with a growing divide between the rich and the poor, corporations need to carefully assess whether products tailored for higher income groups are suitable for the poor mass market and vice versa or alternatively, are products designed for the poor mass market, well received, valued and fulfil needs. Prahalad (2005: 24) suggests that "a new philosophy of product development and innovation that reflects the realities of the bottom of the pyramid market will be needed. This philosophy must represent a different perspective from those that we have grown accustomed to in serving Western markets." Prahalad (2005: 6-20) continues to say that corporations have dominant assumptions about the poor that are incorrect. The poor are brand conscious and value conscious out of necessity. Corporations can offer products that restore dignity and rebuild trust between these consumers and the corporation. Prahalad (2005: 6) cautions that "all of us are prisoners of our own socialisation. The lenses through which we perceive the world are coloured by our own ideology, experiences and established management practices." Product stewardship encourages a deep understanding of consumers, their needs and desires and the supply of appropriate products that are 'value-orientated' from the consumer's perspective", (Prahalad, 2005: 55). Such focus creates additional challenges for the corporation but can also be a major source of innovation. "Companies may have to develop new ways of buying, manufacturing, packaging, marketing, distributing, advertising and charging - the same old business problem, with new solutions", (WDCSD, 2005: 2).

The assessment of suitability, range and appropriateness of a corporation's products or services is a vital component of product stewardship. Corporations should assess whether products offer real value that do in fact fulfil needs or are products cluttered with useless value, or non-value, that consumers will never use and that will have no influence in their lives. In practice this becomes tricky especially for addictive products such as drugs, alcohol and cigarettes. If corporations cease to offer these, the production and supply will go underground and the government will cease to collect the revenue from these sales. It is clearly evident therefore that in the assessment of products along a product approach and the subsequent decisions that are taken to alter the design of the offering, many opposing forces are at play. In addition to an assessment of value, corporations should also consider the appropriateness of products or services for their selected markets. Product stewardship encourages a closer relationship with consumers which may assist in challenging the dominant assumptions held by corporations. Finally the focus on value and appropriateness can drive major innovation and effectively fulfil needs of customers which build customer loyalty. Prahalad (2005: 55) suggests that radical new solutions will be needed by saying that "markets at the Bottom of the Pyramid also focus on the need for 30 to 100 times improvement on price performance. Even if the need is only 10 to 20 times improvement, the challenge is formidable. The bottom of the pyramid can become a major source of innovations".

### **3.3.3 Ethics associated with Promotion and Advertising**

"Are we, as consumers, deceived, and lured into buying various products and services for which we very often have little or absolutely no need? Are we manipulated into choosing brands on the basis of ... colourful packaging and promises of a better life?" (Staak, 2000: 1). As corporations have infiltrated every aspect of our lives, the answers to these questions are yes. Hawken (1993: 156) suggests that "many businesses operating today treat customers as

wallets disguised as human beings, assets that conform to demographic trends, passive consumers ready and willing to be manipulated." The reality of the situation is that corporations do entice and lure customers to purchase goods for which they have no need or alternatively, the perceived fulfilment as per the image portrayed by the corporation, does not materialise. Flisi cited in Holliday *et al* (2002: 181) says that "advertising agencies decline responsibility for promoting over-consumption, saying they have to respond to their clients ... Other advertising agencies claim that they want to be part of the solution, not by discouraging consumption so much as encouraging a more refined view of it." The above quote highlights the recognition by advertising agencies that consumers are lured into over-consumption. Where the responsibility lies for the refinement of consumption still lies in the balance.

Freemantle & Rockey (2004: 94) say that "clearly, blatant false promises, over-selling and unethical advertising all damage a product's contribution to society." Corporations fail to think through how their advertising might be misrepresentative or even insensitive and offensive to certain stakeholder groups (Freemantle & Rockey, 2004: 94). The effects of unethical promotion and advertising therefore extends beyond the realm of the individual consumer to that of society. There appears to be a growing distrust amongst both individuals and society in general, and corporations who supply need fulfilment. Product stewardship focuses attention on the assessment of advertising and promotion in order to responsibly position products and services so that they add value to individuals and society as opposed to remove value from their lives. Freemantle & Rockey (2004: 94) say that "the product owner remains responsible for how that product is represented."

Sohn cited in Freemantle & Rockey (2004: 94) suggests that "savy marketers will weave their good citizenship into the 'DNA' of their brands to gain customer loyalty." Corporate citizenship can be weaved into advertising through the assessment and management of unethical advertising and promotion techniques,

the increased disclosure of product information and the inclusion of consumer education in the product bundle. Unethical advertising and promotion techniques include false promises and over-selling. Marketing aimed at children is open for debate, with some corporations "establishing guidelines for marketing to children to ensure responsible communications and appropriate distribution channels", (Kotler & Lee, 2005: 210). The drive for full product disclosure appears to be gaining intensity. Consumers are demanding information on the potential dangers, content and source of products. Holliday *et al* (2002: 174) suggest that, "if business believes in a free market where people have choices, business should accept responsibility for informing consumers about the social and environmental effects of those choices. Since consumers want information to be provided, it can build market share and customer loyalty." In an environment of growing ethical consumerism (Freemantle & Rockey, 2004: 95) non-disclosure will only breed mistrust. Kotler & Lee (2005: 208) suggest that, "the bar for full disclosure appears to have been raised, moving potential customers from a 'consumer beware' attitude to an expectation that they will be fully informed regarding practices, including product content, sources of raw materials, and manufacturing processes." Clear product labelling, that is trustworthy, is becoming a major consideration in dealing with full disclosure requirements. Through an inclusion of carefully designed education campaigns in their products, corporations can have a huge impact on society. Education on the product features and functionality will reduce the gap between the perceived and real features. Education on the dangers of a product will reduce the number of accidents associated with that particular product and finally education on correct product usage will increase satisfaction levels associated with the product. Hawken (1993: 155) suggests that "sustainable businesses change consumers to customers through education".

A careful consideration of a corporation's advertising and promotions is a vital component of product stewardship. The unethical positioning of a product or service will only breed mistrust between the corporation and consumers. In

addition, consumers want to be able to make decisions based on criteria wider than price. In a growing environment of ethical consumerism, full disclosure is a necessity for developing loyal customers. Consumers also need to be warned of potential dangers associated with products or services and a focus on this will demonstrate a caring nature. Finally, weaving product stewardship concepts into the DNA of a corporation's advertising, promotions and brand can gain customer loyalty. Customers will feel more satisfied, informed and cared for.

### **3.3.4 The Contribution to Society and Individuals**

Porter & Kramer cited in Kotler & Lee (2005: 235) say that "companies do not function in isolation from the society around them. In fact, their ability to compete depends heavily on the circumstances of the location where they operate." The World Business Council for Sustainable Development echoes this sentiment by saying that "business cannot succeed in a society that fails", (WBCSD, 2004: 1). The concept of product stewardship applied has and can continue to make a huge difference to society. Corporations are encouraged to actively assess their products and services for harmful effects, both upstream and downstream, and to make the necessary design changes to reduce or remove these negative effects. Product stewardship further encourages the assessment of a corporation's offerings for the value offered and the appropriateness of products or services. Consumers are rewarded with safer, healthier products, appropriate for their needs. How these products are promoted and advertised also falls under the spotlight of product stewardship. Corporations are encouraged to assess the ethics associated with promotion and advertising and to ethically represent products, avoiding false promises and over-selling but rather focusing on full product disclosure allowing consumers to make informed decisions, which meet their expectations. Hawken (1993: 155) says that "people, if given honest information, not only about price, but about cost, will make intelligent and appropriate decisions that will improve both their own lives and life around them.

Whoever has the most intelligent customer will flourish, and this is true for countries as well as companies."

### **3.3.5 Product Stewardship Defined**

Product stewardship therefore, through the design and promotion of a product or service, tries to mitigate negative effects on both the environment and society, offer appropriate products that satisfy needs and finally to represent products ethically, managing potential dangers and offering full disclosure that allow consumers to make informed choices that do fulfil needs. Product stewardship clearly has benefits for society, the consumer and the corporation. Impacts on society and the environment are reduced, consumers feel more satisfied, informed and cared for and the corporation benefits from increased loyalty.

A comprehensive definition of product stewardship needs to consider the effects of the creation, consumption and disposal a product or service on the environment, society and the consumer. Such a definition should not be limited to the source of raw materials or inputs and to the disposal of the product at the end of its useful life, but should also consider impact of consumption. Current approaches displaying product stewardship characteristics tend to focus on manipulating or influencing the input and disposal phases of a product while the basic product or service offering remains completely unchanged. Greater control can however be gained across all phases of a product or service lifecycle through an intimate focus on product design and promotion.

The design of a product directly influences what resources are required, the value a product delivered and its ultimate disposal. Further a keen focus on the promotion of a product or service will ensure that needs are adequately fulfilled with the correct value. Too little value delivered will frustrate the user, while too much will only cutter his or her life in an already chaotic world.



Product stewardship can therefore defined as the design and promotion of a product or service that aims to positively impact the consumer, society and the environment through the creation, consumption and disposal of such a product or service.

## **CHAPTER FOUR**

### **CASE STUDIES**

The case studies concentrate on four companies all displaying various elements of a product stewardship approach or who have elements of the definition of product stewardship incorporated in their core business. Product stewardship is the design and promotion of a product or service that aims to positively impact the consumer, society and the environment through the creation, consumption and disposal of such a product or service. The following case studies have been compiled from various company sources and present each company's internal perspective of initiatives or claims that display elements of a product stewardship as defined above. Companies include; Sasol, Toyota, Woolworths, and South African Breweries.

#### **4.1 CASE STUDY ONE:**

##### **SASOL - ADVANCING FUELS OF THE FUTURE**

Sasol, "an integrated oil and gas company with substantial chemical interests," (Sasol Group Corporate Affairs, 2006: 2) appears to be tackling environmental concerns head-on through an active environmental focus on both processes and products. Sasol Safety, Health and Environment Centre (2005: 64) states that, "Recognising the risk management and marketing benefits associated with environmentally preferred products, particularly in the context of the global policy shift towards addressing the risks and impacts of products rather than processes alone, Sasol is committed to adopting a cradle-to-grave approach to all the products we develop, manufacture, use, distribute and sell"

##### **4.1.1 Fossil Fuels Touch Life**

Fossil fuels provide the input for an astounding number of products that we take for granted everyday in the normal functioning of our lives. The term

Fossil fuels is associated primarily with fuels for propulsion, be it jet fuel, diesel for trucks and trains or petrol for passenger vehicles. It is important therefore to note that fossil fuels have a far wider influence on life than most people think or would ever imagine. Sasol sells, from South Africa alone, more than 200 products to customers in more than 120 countries, (Sasol Group Corporate Affairs, 2006: 2). The Annual Review and Summarised Financial Statements 2006 states that, "Our treasure chest of products touches the lives of millions of people around the globe each day, whether we are working, sleeping, playing, reading, travelling or communicating. We manufacture many of the ingredients in products that contribute to our quality of life – from unleaded petrol for transport to polyethylene bags, and from computer and cellphone microchip coatings to paints, toiletries, medicines and sport equipment," (Sasol Group Corporate Affairs, 2006: 53).

Sasol clearly touches life and appears to be dedicated to touching life responsibly. It's far reaching influences on the global population, through end consumer products which are manufactured using Sasol's inputs and the processing of these inputs, are now being actively managed on a multitude of fronts by Sasol. These fronts include; improving workplace safety, group-wide reduction targets for greenhouse gas (GHG) emissions and volatile organic compounds (VOC) emissions, increased transparency on economic, social and environmental challenges, significant investments made in a clean-fuels programme, and a successful rollout in South Africa of the Sasol HIV/ Aids Response Programme, (Sasol Safety, Health and Environment Centre 2005: 3-7).

#### **4.1.2 A Strategic Business Philosophy**

Although Sasol was formed in 1950, the company appears to have only had an earnest focus on environmental issues since 1994, starting with the decision to become a Responsible Care Signatory which "is the chemical industry's global voluntary initiative under which companies, through their national associations, work together to continuously improve their health, safety and environmental performance, and communicate with stakeholders

about their products and processes in the manufacture and supply of safe and affordable goods that bring real benefits to society,” Responsible Care (2006). Twelve years later, in November 2006, “Sasol was announced the winner of the prestigious Ernst & Young Excellence in Sustainability Reporting annual award,” Sasol Investor Centre (2006). The media release to announce the award continues to say that, “Sasol, the world-renowned alternative fuel producer, is setting new benchmarks in stakeholder transparency and is also being recognised for excellence in the production of clean energy.” The milestones as highlighted below tell the story of Sasol’s ever increasing commitment to sustainable development albeit it only for the last twelve years in a 56 year history.

**1994** Sasol becomes a Responsible Care signatory

**1996** Group obtains its first ISO 14001 certifications for environmental management systems

**1996** Sasol stops producing chlorofluorocarbons under the Montreal Protocol

**1997** Group commits to black economic empowerment by forming Exel Petroleum

**1999** Sasol safety, health and environmental (SHE) centre established

**2002** Group participates in the World Summit on Sustainable Development

**2003** Sasol HIV/Aids Response Programme launched to further reduce the impact of Aids in the workplace and host communities

**2004** The introduction of natural gas at Sasolburg eliminates hydrogen sulphide emissions and reduces other emissions into the atmosphere

**2005** Sasol publishes its third biennial corporate sustainable development report based on the sustainability guidelines of the Global Reporting Initiative and we undertake to publish our sustainable development reports annually

(Sasol Group Corporate Affairs, 2006: 52)

Sasol has progressed from a company focused on producing fuels to one that produces fuels in a responsible manner and is starting to see the benefits for the longevity of the company. "In the 1950's the idea was to make sure there was petrol ... but things have been changing now," (Sasol Technology, 2006). Sasol Technology (2006) continues to comment that "people are saying;...Sasol petrol is low in sulphur". The connection is being made by the public that Sasol is making an effort to reduce the emissions from Sasol fuel. Sasol Technology (2006) views the sustainability report as the starting point of the sustainability drive for Sasol. "The idea behind the report was that we should know where we stand in terms of greenhouse gas, carbon dioxide, and sulphur emissions and then to set targets based on that. Of course we were now driven by being conscious of environmental issues" (Sasol Technology, 2006). The report provided an understanding of the impacts of Sasol's operations and products and played a pivotal role in communicating the awareness of sustainable development issues amongst Sasol stakeholders.

Sasol now views sustainable development issues as strategic for the business. Pieter Cox, deputy chairman and chief executive of Sasol highlights in the Sasol Sustainable Development Report 2005 that Sasol's commitment to sustainable development is "a strategic business philosophy," (Sasol Safety, Health and Environment Centre 2005: 6). Sasol views the concept of sustainable development as an enabler to "deliver lasting benefits to current and future generations of shareholders, employees and all other stakeholders," (Sasol Safety, Health and Environment Centre 2005: 14). A commitment of this nature however comes at a cost as highlighted by Sasol Technology (2006), "it is expensive but emissions are being reduced and it is a great achievement." Sasol continues in the Sustainable Development Report 2005 to state that, "We are committed to managing sustainable development as a strategic issue, going beyond legal compliance when this creates competitive advantage and makes business sense. The connection between acting responsibly as a good corporate citizen and the benefits to the business has definitely been made by Sasol.

### **4.1.3 Benefits of Sustainable Development Investment**

The staff, company, reputation, economy, environment, and society benefit from investment in sustainable development. Public perception of the company is viewed as being an important reason to invest. "People are saying that Sasol petrol is low in sulphur ... You want people out there, when...driving..., to prefer Sasol to the competition," (Sasol Technology, 2006). Products are positioned favourably in the marketplace, contributing to improved reputation and sales while at the same time contributing to improved environmental sustainability. Improved operational efficiency and therefore cost reductions termed "eco-efficiency" (Sasol Safety, Health and Environment Centre 2005: 4) have been gained through cleaner production programmes. Monitoring of emissions resulted in a realisation that Sasol was losing valuable product. Technology employed therefore reduced both product loss and harmful emissions (Sasol Technology, 2006). A reduction in environmental impacts and therefore improved environmental sustainability is also an advantage of such investments. This is not a direct advantage, but one that stems from "being conscious of environmental issues" (Sasol Technology, 2006) and that has indirect benefits for the company through a healthier society, but direct benefits for those societies and the global population.

In addition to enhanced reputation, improved environmental sustainability, and eco-efficiency Sasol states that sustainability practices make good business sense as "it encourages us to identify and manage our risks," it provides a "Licence to operate...Being seen as a responsible company assists us in securing permission to expand or build new facilities...we are more likely to attract and retain the best employees at all levels," and can "improve access to financial markets and reduce the cost of capital," (Sasol Safety, Health and Environment Centre 2005: 4).

#### 4.1.4 Safer and Cleaner Products

Of particular interest for this study is the focus on designing and developing safer, cleaner products as a contribution to sustainable development as opposed to safety in processing plants, corporate social investment in education or great staff management. It is the incorporation of sustainable development practices within the core business that makes the Sasol story an interesting one in the field of sustainable development.

Sasol is completely reliant on fossil fuels as the foundation of its business. Fossil fuel use has however significantly contributed to global warming and air pollution through the emission of many volatile organic compounds that are released into the atmosphere during consumption. Sasol has in recognition of the negative effects of its products and the production of its products developed a position statement for the group which highlights actions that will be taken to reduce these negative effects. In its greenhouse gas position statement for the Sasol group, Sasol states that it will “strive to reduce the GHG emissions per unit of output of existing extraction, production and distribution processes. We will focus these efforts on improving the energy and carbon efficiency of the technologies we develop and the products we supply...implement renewable energy and raw material sources to replace or supplement existing sources. We will focus these efforts on the use of renewables in our synthetic fuels business,” (Sasol Safety, Health and Environment Centre 2005: 58). The statement clearly refers to both improving efficiency of existing products and the development of its biodiesel programme. Sasol is showing a commitment to its GHG position statement through progress in the area of product design and source. This progress includes the production of synthetic fuels through its gas-to-liquids (GTL) and coal-to-liquids (CTL) technology (Sasol Group Corporate Affairs, 2006: 1), a focus on bio-diesel research and development to produce “more environmentally benign forms of diesel,” (Sasol Group Corporate Affairs, 2006: 27), an active drive to reduce emissions from existing fuels (Sasol Group Corporate Affairs, 2006: 27), and its group wide product stewardship approach that aims to measure and manage the effects of products as they

move through their lifecycles (Sasol Safety, Health and Environment Centre 2005: 64).

### ***GTL Diesel a Synthetic Fuel***

Sasol, through its gas-to-liquids (GTL) and coal-to-liquids (CTL) technology using its propriety Fischer Tropsch technology is bringing to the world innovative and viable energy solutions, (Sasol Safety, Health and Environment Centre 2005: 1) Although, the GTL and CTL processes still on fossil fuels for the production of diesel, the GTL diesel produced “has virtually no sulphur (less than five parts per million), a low aromatic content (less than 1%) and a high cetane number (70 versus the 45 – 55 of conventional diesels). These properties enable reduced tailpipe emissions of nitrous oxides, sulphur oxides, carbon monoxide, aromatics, unburnt hydrocarbons and particulates from compression-ignition engines,” (Sasol Safety, Health and Environment Centre 2005: 60).

The business case for GTL technology appears to be extremely compelling, although the input, natural gas and coal, for these processes still have a massive negative. The process is in no way reducing or stabilising the net effect of carbon emissions on the Earth’s atmosphere. The main argument for the compelling case appears to be energy security, in a world where “more countries are seeking greater security of energy supply,” (Sasol Group Corporate Affairs, 2006: 1). Demand for cleaner fuels by world markets is perceived to be a factor (Sasol Technology, 2006) for the compelling case but appears to be secondary to that of energy security. GTL diesel is not only cleaner and more efficient than conventional diesels but can also be used in all modern diesel engines, is compatible with established fuel distribution infrastructures, and its high-quality properties result in reduced noise (Sasol Group Corporate Affairs, 2006: 6). The product is certainly attractive from the view of its reduced emissions, and countries which regulate emission levels will benefit from such a fuel. GTL diesel has the potential to be the main fuel used in compression-ignition engines while reliance on conventional diesel will be reduced. Conventional diesel may instead be used as input for



products, like plastics and medicines, other than liquid fuel, which will not be combusted and therefore emissions will be less.

### ***Bio-diesel Opportunities***

A bio-diesel study, although not given much exposure in the sustainable development report 2005 and the annual review and summarised financial statements 2006, "has been formally approved by the group executive committee to proceed to a full-scale feasibility study. This study is aimed at establishing a technically and economically feasible process for producing a high-performance diesel from a renewable source such as soybeans," (Sasol Safety, Health and Environment Centre 2005: 60). The bio-diesel project that delves into renewable sources is the first of its kind for Sasol (Sasol Technology 2006). Although the initial feasibility studies project rates of return below acceptable levels as required by the group and the cost to build the plant was almost double what was initially budgeted. Sasol is intending on going ahead with the project, however the challenge is to make it viable with the required rates of return (Sasol Technology, 2006). The challenge is further exacerbated when the costs, both financially and to the environment of producing soybeans are factored into the equation. Water is a precious, limited resource while chemical inputs required for producing large volumes of soybeans could have serious environmental repercussions.

The current cost of bio-diesel production is much higher than normal diesel production and the business case not nearly as compelling as the production of GTL diesel. Sasol Technology (2006) however reports that "the reason is not because of profit but environmental concerns." In terms of the Kyoto Protocol, Sasol will have to buy carbon credits to offset its high carbon emitting products and operations. Sasol Technology (2006) however say that, by investing in bio-diesel produced from soybeans, a renewable source, Sasol will be able to apply for carbon credits for this operation which will net off the credits it will be required to purchase for its other operations. Sasol considers soybeans to be a renewable fuel source as opposed to fossil fuels on which its entire business is currently based. This requirement for carbon credits could indirectly be the business case for the massive investment in bio-diesel.

Aside from the carbon credit requirements, the bio-diesel product has excellent properties from an environmental perspective. "Bio-diesel is a very clean fuel," it is "sulphur free", has a "high density" which reduces evaporation, has "good lubricity," is "odour free," and is "biodegradable," (Sasol Technology, 2006). Sasol Technology (2006) says that one of the main attractions to biodiesel is that it has reduced net carbon emissions in comparison to fossil fuels. When soybeans grow they use capture carbon dioxide from the atmosphere. When the Bio-diesel is consumed carbon dioxide is released. The net carbon position in the atmosphere is therefore zero. What was captured has been released. (Sasol Technology, 2006). Such statements by Sasol, with a focus only on the fuel itself, is in essence correct. The cost however of all required inputs, transport and importantly water need to be factored in. The total carbon cost of fossil fuel extraction and use could well be lower than the production of soybeans, the extraction of biodiesel from it, and its ultimate combustion. Sasol does however make it very clear that it views soybeans as a renewable source.

Investing in a renewable source also stimulates the economy through the increased demand for soybeans. "Current production is at 422 kilo-tons," (Sasol Technology, 2006). The proposed plant will require 600 kilo-tons to produce the desired output of 100 kilo-tons of bio-diesel (Sasol Technology, 2006). Local production will therefore have to increase to meet both Sasol's demand and the demand for local consumption. A further benefit to the country is the substitution of imported oil-cake used as animal feed with soy-meal, a by-product of bio-diesel production (Sasol Technology, 2006).

Bio-diesel appears to be an extremely attractive fuel option. It has a potentially reduced harmful effect on the environment, has no harmful emissions, is odour free, biodegradable if spilt, can be used in ordinary diesel engines, stimulates the local economy and contributes to an improved Sasol brand reputation. "Bio-diesel blended with conventional diesel will make Sasol's diesel the cleanest in the country...everyone will really prefer Sasol," (Sasol Technology, 2006). Although feasibility remains a concern Sasol

remains committed to making this renewable source project viable clearly focused on the benefits. This shows commitment to environmental issues beyond the business case.

### ***Developing and Promoting New Generation Fuels***

Sasol has played and continues to play an active role in introducing new generation fuels to the market. Sasol invested R6 billion to ensure it complies with South Africa's stricter diesel and petrol specifications that have become mandatory from January 2006 (Sasol Safety, Health and Environment Centre 2005: 60). Although the drive for cleaner fuels was stricter government specifications, Sasol continues to support such initiatives through its operation of "the Sasol Advanced Fuels Laboratory, at the University of Cape Town, for formulating and testing improved automotive fuels," (Sasol Group Corporate Affairs, 2006: 27).

The challenge is not only in the production of cleaner fuels, but also the promotion of such products. Sasol has a fuel research and development group focused on the development of a GTL fuel marketing and support strategy (Sasol Group Corporate Affairs, 2006: 27). The Sasol Sustainable Development Report 2005 reports that "consumers have responded enthusiastically to these new products, particularly Sasol turbodiesel™, which is considered to be the cleanest diesel currently being sold at South African forecourts," (Sasol Safety, Health and Environment Centre 2005: 60).

### ***Product Stewardship***

Sasol having recognised the risks and impacts of products rather than processes alone has taken steps to measure and manage the inherent risks of the products it sells. These steps include the development of harmonised material safety data sheets, significant chemical testing, the adoption of internationally recognised codes, and ongoing product life cycle assessments (Sasol Safety, Health and Environment Centre 2005: 64). Each of these initiatives is significant in its own right and warrant further explanation.

***Harmonised Material Safety Data Sheets***

Every product that Sasol manufactures is sold or transported with a Material Safety Data Sheet (MSDS). The MSDS provides buyers and transporters with information on the hazards, chemical composition and disaster management instructions (Sasol Technology, 2006). Sasol reports that “progress has been made in coordinating the development of harmonised material safety data sheets (MSDS) throughout group based on...recent legislative developments...and that addresses customer requests,” (Sasol Safety, Health and Environment Centre 2005: 64). The development of harmonised MSDS across the group will ensure consistency of vital information that customers will need in emergency situations and that has been requested by customers. The company is therefore aware of the potential negative impacts of its products and is making attempts to mitigate these across its global operations.

***Significant Chemical Testing***

Sasol is engaged in significant chemical testing efforts which include more than 20 industry consortium efforts aimed at evaluating the hazards of high production volume chemicals (Sasol Safety, Health and Environment Centre 2005: 64). Taking an active role in understanding the hazards of a product is the first step in being able to manage these. The engagement in more than 20 industry consortium efforts clearly highlights Sasol’s commitment to managing and mitigating its risk and the risk to the environment.

***Responsible Care Signatory***

As part of Sasol’s commitment to the global voluntary initiative, Responsible Care, the company must “communicate with stakeholders about their products and processes in the manufacture and supply of safe and affordable goods that bring real benefits to society” (Responsible Care, 2006). Product information and the dissemination of this has therefore become a focus along with the drive for safer products. The adoption of such an initiative has certainly provided focus for Sasol in terms of understanding and managing product risk. Such measurement and management comes at a cost for Sasol both in terms of resources and time. Data collection and reporting on a

variety of issues is comprehensive and must be verified by an external auditor (Sasol Technology, 2006).

### ***Life Cycle Assessments***

The final initiative worth commenting on that falls within the theme of measuring and managing the risks and impact of products is that of life cycle assessments. These assessments measure the “impacts caused by producing, transporting and using the fuels, from well to wheels,” (Sasol Safety, Health and Environment Centre 2005: 64). They highlight emission levels, efficiency of the fuel, health impacts and waste generated in the refining process of different products that fulfil similar functions. GTL diesel, for example, was recently compared to conventional diesel and the study highlighted that GTL fuel refining, transportation and use had far less impact environmentally than conventional diesel (Sasol Safety, Health and Environment Centre 2005: 64-65). Sasol have a dedicated life cycle assessment team that focus solely on this work on an ongoing basis (Sasol Technology, 2006).

#### **4.1.5 Sasol’s Commitment**

As a global company, Sasol has recognised it has a role to play as a responsible corporate citizen and is showing tremendous commitment to managing the risks and impacts of its products. Sasol’s greenhouse gas position statement clearly highlights Sasol’s recognition that it is contributing significantly to greenhouse gas build-up in the atmosphere and spells out what it undertakes to mitigate the effects of these gases. Sasol also recognises as a signatory of Responsible Care, that it has an obligation to measure and manage the risks inherent in the manufacture and selling of chemicals.

Sasol’s commitment on setting up a bio-diesel plant is of particular interest especially since the initial feasibility studies have shown that the project will not produce the desired rate of return and that the cost to build the plant is double what was initially expected. Such commitment shows a genuine, one

billion rand, commitment to environmental and societal issues. Alternative energy sources in a world at war over securing energy supplies can be argued as the primary motivation for the huge investments in bio-diesel. A firm commitment to corporate citizenship however, appears to be the primary motivation.

Sasol's investment in cleaner new generation fuels, more efficient GTL diesel, bio-diesel plants, and product stewardship initiatives that span across all its products clearly shows recognition that its products have both real and potential negative effects and the commitment to both measure and manage these for the well-being of its customers, end product users, the societies in which it operates, the environment, the economy, the brand, and therefore the ongoing success of the company.

## **4.2. CASE STUDY TWO:**

### **TOYOTA – ENRICHING SOCIETY THROUGH CAR MAKING**

The Toyota Motor Corporation (2006: 1) states that “Since its founding, our company has been aiming to enrich society through car making...Continuing in the 21st century, we aim for stable long-term growth, while striving for harmony with people, society and the environment.” Toyota views itself as not only a corporation that produces vehicles, or more specifically mobility, but a corporation that produces vehicles and enriches society in so doing. It appears to have embraced the interconnectedness of society, particularly a healthy society, and the long term growth of the corporation. The Toyota Motor Corporation (2006: 1) states that they “strive for cleaner and safer car making, and work to make the earth a better place to live.”

#### **4.2.1 A Dedicated Corporate Philosophy**

Toyota’s dedication to the environment and society is entrenched in its corporate philosophy encompassing its global vision for 2010 and beyond, the guiding principles and the Toyota Way that embraces continual improvement and teamwork. These concepts and ideas shape and guide both current and future production processes and product design.

#### **4.2.2 Global Vision 2010**

The Global Vision 2010 is, “centered on the basic theme of ‘Innovation into the Future - A Passion to Create a Better Society,’” (Environmental Affairs Department, 2006: 5). “The Global Vision 2010 proposes the corporate image which Toyota should strive to achieve in 2010 and beyond,” based on an assessment of “what society is expected to be like from 2020 to around 2030,” Environmental Affairs Department (2006: 5). Olivier (2006) suggests that Toyota assesses how the world will function and what values the world will respect in 2010 and beyond and transforms the business to reflect this.” This look into 2020 and 2030 highlights the arrival of a revitalized recycling based society, the ubiquitous network society, an expansion of motorization on a

global scale, and the advent of a mature society (Environmental Affairs Department, 2006: 5). Toyota responds to this scenario by positioning itself to both shape such a society and to ensure it is perceived by society as a corporation that shapes society. It appears to be moulding society and its future into one.

This moulding to help create a more prosperous society is achieved through the challenge of four main themes. These are worth listing to highlight just how pivotal, environmental and societal issues are and will be, to the success of Toyota in both 2010 and beyond.

“To achieve this, we are taking up challenge in below themes:

- 1) Be a driving force in global regeneration by implementing the most advanced environmental technologies
- 2) Create automobiles and a motorized society in which people can live safely, securely and comfortably
- 3) Promote the advantages of cars throughout the world and attract more Toyota fans.
- 4) Be a truly global company that is trusted and respected by all people around the world. “

(Toyota Motor Corporation, 2006: 1)

The themes focus broadly on care for the environment and society, a world of attractive motorization, and finally a corporation that is both respected and trusted. Toyota appears to believe that it will be both respected and trusted by people through a genuine caring for both society and the environment, which ultimately, if done sincerely, will secure its position in the markets of the future. Olivier (2006) believes that an approach like Toyota's, if carried out with “sincerity, really backing up what you say,” will be successful. Toyota Design (2006: 1) comments that “drivers are not satisfied with cars that are simply fast and comfortable. Today, more drivers are concerned about safety, ecology, and social responsibility. Our design message and expression have evolved to meet such persistent demands of society. The purpose of design



is not only to provide answers that are relevant to current values, rather to lead by proposing new possibilities that ultimately lead to the realization of a better society. Once again the message is clear that Toyota not only intends to respond to current demand of society, but to play a pivotal role in shaping society. Olivier (2006) suggests that this may “sound a bit far fetched, a little bit of an idealistic situation, “ but continues to say that he has been “amazed at how correct Toyota has been with strategy in the past.”

### **4.2.3 Guiding Principles**

“Toyota has continuously strived to contribute to the sustainable development of society through the manufacturing and provision of products and services that lead the times. The foundations of these endeavours are the Guiding Principles at Toyota” (Environmental Affairs Department, 2006: 4). Of the seven guiding principles that cover aspects from customers to shareholders, local communities, environment, global society and philanthropy, principle number three is of particular interest for this study as it focuses specifically on the design of products. Principle number three states that Toyota will “dedicate ourselves to providing clean and safe products and to enhancing the quality of life everywhere through all our activities.” Enhancing the quality of life everywhere appears very ambitious and utopian, but Toyota is perceived to be committed to this. Olivier (2006) highlights the success that they have had with introducing the hybrid, which everybody was laughing-off at the beginning,” but has now “set the trend in the motor industry and given them a competitive advantage.” Toyota developed technology counter to popular opinion but has remained committed to its goal and is now reaping the rewards.

### **4.2.4 The Toyota Way**

The Toyota Way “clarifies the values and business methods that all employees should embrace in order to carry the Guiding Principles at Toyota” (Environmental Affairs Department, 2006: 6). Olivier (2006) suggests that the pillars of ‘Kaizen’, continual improvement, and respect for people, that

embraces teamwork, is the key to Toyota's forward looking approach and continual search for improvement. He continues to suggest that the concept of 'Genchi Genbutsu', which gives the instructions to "go to the source, find the facts, get consensus, and act with speed" adds real understanding to ideas and concepts through the search for facts that can be used to prove or disprove an idea. It implies a genuine hands-on approach that seeks thorough understanding through measurement. To really understand a situation, measurement is necessary (Olivier, 2006).

#### **4.2.5 A Corporate Philosophy Shaping the Future**

Toyota, through its Guiding Principles, clearly focused on society, the environment and the corporation, delivered through the values of continuous improvement and respect for people, and an image of what society will demand and look like in 2010, 2020, and 2030, is making huge strides to address the environmental impacts on our planet as a result of its existence. Toyota states that it is "working to reduce environmental impact at all stages from vehicle development to production, use, disposal, and recycling" (Environmental Affairs Department, 2006: 10). Toyota clearly recognises the need to address its impact but also sees the adoption of such principles as a prerequisite for a successful business in the 21<sup>st</sup> century. On this note, Toyota continues to say that "to ensure that its products are accepted and well received around the world, Toyota has positioned the environment as a priority management issue" (Environmental Affairs Department, 2006: 10).

#### **4.2.6 Environmental Action Plan**

Toyota's long term goal of "zero emissions and zero waste ... and to finding ways of making new vehicles as recyclable as possible," (Van Zyl 2004: 1) highlights this corporation's deep commitment to a healthier environment. Toyota have already made and is continuing to make huge inroads into this arena as reported by Olivier (2006) that, "zero waste has been possible, it has already been done. There are three or four Toyota Motor Corporation (TMC) plants that are standing on zero waste, as in waste to landfill. Everything is

either recycled or no waste what so ever ... and all parts coming in are in returnable containers.” Olivier (2006) continues to report that Toyota has a direct interest in changing the resistance that may build up against vehicles. This is as a result of the bad publicity motor vehicles and the manufacturing of motor vehicles receives all over the world due to high levels of carbon dioxide emissions. Toyota therefore has a business interest in managing its impact and therefore its longevity.

Toyota’s commitment extends across the entire life-cycle of a Toyota vehicle, from cradle to grave, from the sourcing of materials to the dismantling of the vehicle once it has reached the end of its useful life (Environmental Affairs Department, 2006: 10). The design and development, use and disposal of vehicles remain a key focus area. The environmental plan, known as “the Eco Project”, is extended to all Toyota dealers. Dealers have all been issued with comprehensive environmental guidelines that will support the initiatives of TMC and Toyota SA. This comes down to matters as diverse as the planting of indigenous plants in dealership garden areas to the safe handling, storage and disposal of substances such as oil, oil filters, engine coolant or old batteries” (Van Zyl, 2004: 2). Toyota is aware that the use of their vehicles creates waste that needs to be carefully managed. Recycling of dealer waste is generally not a problem in urban areas. Coordination of financially viable recycling options for the rural areas is an area that Toyota South Africa is working on (Fitzsimons 2006).

Toyota also manages the materials that go into their vehicles and expect their suppliers to adopt their standards. Van Zyl (2004) comments that, “suppliers have had to adopt Toyota SA’s guidelines on Substances of Concern, which ban the use of lead, mercury, cadmium and hexavalent chromium in components.” Olivier (2006) adds to this by saying that all suppliers must be compliant with ISO 14001, the environmental management system adopted by Toyota, in addition to their supplies meeting Toyota’s environmental purchasing guidelines. Toyota also has a supplier school in South Africa which assists with production processes and their quality evaluations.

Toyota's concern does not stop with suppliers and dealers. It also focuses considerable energy into product design and development with almost half of the 22 environmental action plans focused on product design and development. Olivier (2006) confirms this by commenting that most actions on the environmental plan are focused on product design. All activity, regardless of focus, is driven by the four main topics of Energy/ Global Warming, Recycling of Resources, Substances of Concern, and Atmospheric Quality (Environmental Affairs Department, 2006: 13). These themes will be discussed below along with the specific initiatives to make more environmentally friendly vehicles which is according to Van Zyl (2004: 2) the "major thrust" for Toyota.

#### ***Four Main Topics of the Environmental Action Plan***

The first topic of Energy/ Global Warming "promotes the development of technologies to achieve the best fuel efficiency performance ..., clean energy vehicles ..., and the diversification of energy and fuel sources (Environmental Affairs Department, 2006: 13). In an executive message in the Sustainability Report 2006, Katsuaki Watanabe, President of the Toyota Motor Corporation, says that the focus on these technologies aims to "reduce carbon dioxide emissions" (Environmental Affairs Department, 2006: 2). The Recycling of Resources topic promotes "the effective use of resources to further contribute to the realization of a recycling-based society," the Substances of Concern topic promotes the "management and further reductions in the use of substances of concern," and the last topic of Atmospheric Quality aims to reduce emissions to improve air quality in urban areas" (Environmental Affairs Department, 2006: 13). These topics guide the application of Kaizen – a way that Toyota views continual improvement, along a particular tangent to achieve the desired benefits for the environment, society and ultimately the corporation.

#### ***Economic Effects of Environmental Initiatives***

Toyota monitors very closely the costs incurred to implement environmental initiatives. It also calculates the savings and income from such initiatives in an attempt to quantify the results of the environmental action plans. "Toyota

calculates actual effects by adding savings, such as from reduction in energy costs ... to income, such as that from sales of recyclable goods” (Environmental Affairs Department, 2006: 23). Olivier (2006) suggests that the reason for such calculations and quantification is that Toyota is “into the business to make money”, so initiatives have to make sense from a business perspective. He continues to suggest that “they will not do anything where they will indefinitely lose money. They will not do something for the sake of being the green guy. It must have some sort of pay-off at some point.” Olivier (2006) continues to comment that “Toyota is starting to calculate CO<sub>2</sub> emissions out of our logistics operation ... with the aim of being able to save money ... it is not only about the environment. ” The comments made by Olivier (2006) certainly highlight Toyota’s focus on the business case. It can therefore be assumed that somewhere in Toyota’s motives for a strong environmental approach is a selfish intent to progress as a company. Toyota’s approach however, to shape a better society, softens the selfish connotation of self preservation. If the company does well however, it can better shape society.

### ***The Ecological – Vehicle Assessment System***

In an attempt to manage the environmental risks inherent in the production and use of a motor vehicle, Toyota has had to develop a way to assess and measure the environmental impact across the entire life cycles of particular vehicles. This assessment is called the Eco-VAS, Ecological Vehicle Assessment System. Toyota claims that through the application of this approach to ten vehicle series that were new or underwent complete redesign, “comprehensive environmental performance was enhanced” through assessing the “total volume of CO<sub>2</sub> and other air-polluting substances released throughout the entire lifecycle of its vehicles,” (Environmental Affairs Department, 2006: 29).

### ***The Vehicle Enhancement Pipeline***

Toyota has a multitude of projects focusing on different aspects of product design and enhancement in progress with the aim of being more environmentally friendly and thus closer to its Global Vision 2010. Many of

the initiatives are driven in part by legislation governing emissions, fuel efficiency, substances of concern, noise levels, and end of life vehicles. Toyota however is taking considerable steps to meet standards imposed by legislation before the implementation target dates. "In FY2005, eight out of ten Toyota vehicle series that were new or underwent complete redesign cleared the 2010 Fuel Efficiency Standards," (Environmental Affairs Department, 2006: 24). That is a clear five years ahead of compliance date.

Along the same theme, Olivier (2006) commented that substances of concern were removed from all International Multipurpose Vehicles (IMVs) ahead of the European Union regulations due to come into effect in June 2007. This activity by Toyota is in part driven by legislation, new standards, and regulations, but also in part by Toyota's understanding of what customers will demand in 2010 and beyond and how it needs to position itself in 2010 to earn the respect of and therefore attract such a market. This is perceived by Olivier (2006) as the reason why Toyota actively goes beyond compliance with regulations. Olivier (2006) continues to report that Toyota "always will try and be better than the legal standard," once again highlighting Toyota's commitment to moulding a better society. Toyota's project pipeline includes initiatives to reduce emissions, noise, volatile organic compounds (VOC), substances of concern, and improving vehicle design to make it more recyclable.

### ***Reducing Emissions***

Exhaust emissions are reduced by Toyota through a focus on improving fuel efficiency. Toyota has increased fuel efficiency through the development of more fuel efficient engines, a high-efficiency transmission and initiatives to reduce the air resistance of vehicles (Environmental Affairs Department, 2006: 25). Development has gone into intelligent transmissions, that reduce fuel consumption in higher gears, and vehicle design that "reduce the overall air resistance of the vehicle body by using flusher surfaces, reducing the difference in surface height between the windows and the body, using a rear spoiler, and making the floor panels flatter through the use of various types of air flow control parts," (Environmental Affairs Department, 2006: 25). These

additions and developments obviously add considerable cost to Toyota's vehicles but the corporation appears to recognise that it is a cost of doing business in the 21<sup>st</sup> century.

### ***Reducing Noise***

External automobile noise is also a concern for Toyota. Gone are the days of hearing a thunderous growl from under the hood. Toyota has taken several initiatives to reduce noise through using engine undercovers with a sound-absorbent material, reinforcing engine blocks and utilising sound-absorbent materials in the engine rooms (Environmental Affairs Department, 2006: 27). This highlights Toyota's commitment not only to driver comfort inside the vehicle, but to the general public outside who are exposed to traffic noise.

### ***Reducing VOCs Inside and Outside***

The amount of VOC's generated, both inside and outside, of vehicles have been reduced by Toyota. "Toyota has reviewed the materials, adhesives and processing methods used for interior parts to limit the amount of volatile organic compounds generated," (Environmental Affairs Department, 2006: 29). Van Zyl (2004: 2) comments that VOCs in the paint process have been "reduced by 30% in South Africa." Olivier (2006) says that "by 2007 the painting process will be 100% water based with no solvents being used at all. Olivier continues to comment that this is both a cost reduction and an expense for Toyota. The reduction in solvent is obviously a cost reduction, but the water based acrylic paint is more expensive but is considerably less harmful to the environment and health of people. A focus on environmentally friendly alternatives does not necessarily mean an increase in cost. An investment in time and technology is however required to find the alternatives.

### ***Reducing Substances of Concern***

Van Zyl (2004: 2) comments that "our suppliers have had to adopt Toyota SA's guidelines on Substances of Concern, which ban the use of lead, mercury, cadmium and hexavalent chromium in components" and continues to say that "a 97% reduction was achieved in the use of Substances of Concern." Once again Toyota has "voluntarily established the goal of early

elimination of the use of four substances of concern,” (Environmental Affairs Department, 2006: 37) ahead of the end of 2007 date set by the regulators. Toyota has also voluntarily reduced the amount of polyvinyl chloride used in the inside of its vehicles and on the outside by completely eliminating polyvinyl chloride from the undercoats. It is clear that Toyota is taking steps to reduce substances of concern from both the inside and outside of vehicles. These actions are in part driven by regulations by also in part a willingness to comply beyond the regulation.

### ***Enhanced Recyclable Design***

Toyota is incorporating the concept of recycling into its product designs and the materials that are used in its products. Its efforts in this area have been driven by a vision of society in 2030. Toyota comments that “a dwindling supply of natural resources and the need for environmental preservation on a global scale is intensifying the need for switching to a sustainable, recycling-based society,” (Environmental Affairs Department, 2006: 36). Toyota has proactively developed an easy-to-recycle polymer called Toyota Super Olefin Polymer (TSOP) which is used in the interior and exterior parts of all new vehicle series or those that underwent complete redesign. Toyota has also included recycled sound proofing products in five vehicle series and has included design for recycling (DfR) features into new vehicles. These DfR features include the easy to dismantle marks on all vehicles parts which indicate efficient dismantling points (Environmental Affairs Department, 2006: 36-37). Olivier (2006) comments that, “vehicles are pulled apart at an incredible speed.”

### ***Significant Effects on Existing Paradigms***

A reduction in emissions, noise, volatile organic compounds (VOC), substances of concern, and an improvement of vehicle design to make vehicles more recyclable certainly demonstrates commitment to environmental issues and therefore Toyota’s longevity in our progressing world. These initiatives have all been designed, developed and applied to the existing paradigm of mobility, the internal combustion engine vehicle. Toyota however has taken this commitment one step further in the development of its



hybrid Prius. In so doing it is not merely responding to a changing society, but is moulding society into what it envisions for the future. The design, development and sale of the world's first hybrid vehicle, the Toyota Prius, represents according to Toyota, "the power of a good idea," (Toyota Prius – Hybrid car, 2006).

### ***A New Breed of Vehicle – The Toyota Prius***

In designing the vehicle of the 21<sup>st</sup> Century, Toyota identified the environment as its design criteria (Olivier, 2006). The hybrid vehicle was designed as a vehicle that will not only reduce the impact on the environment, but one which will support the environment (Olivier, 2006). The hybrid Prius is powered by "the revolutionary Hybrid Synergy Drive system," which is the "intelligent combination of an electric motor and a petrol engine," resulting in "powerful performance, outstanding fuel efficiency and exceptional environmental awareness," (Toyota Prius – Hybrid car, 2006). Environmental awareness is demonstrated through compliance "with the world's most stringent regulation, AT-PZEV (Advanced Technology Partial Zero Emissions Vehicle) Regulation of the State of California of the USA," (Hybrid Synergy Drive, 1995).

The "Hybrid Synergy Drive delivers world class performance in terms of fuel efficiency, low emissions, driveability and quietness desired of cars today," (Hybrid Synergy Drive, 1995). Through outstanding fuel efficiency, highly efficient combustion and devices to clean exhaust gases, the Prius realizes one of the world's cleanest exhaust emissions. Although the Prius delivers outstanding fuel efficiency, it also offers driving performance through seamless acceleration and powerful acceleration. The Prius can also drive silently through residential areas late at night as the electric motors deliver quiet running (Hybrid Synergy Drive, 1995). The Prius is a remarkable vehicle that does not compromise current performance standards expected by individuals. What the Prius does however deliver is unparalleled fuel efficiency and environmental safety in addition to performance. Toyota have successfully managed to increase the value of the Prius to both customer and the environment. Fitzsimons (2006) suggests that, "the Japanese really do have sense of ethics with regards the environment, but they realise as well

that if you want to make a difference, you have to fit it into corporate logic.” The comment by Fitzsimons clearly highlights the realisation by Toyota that business logic must prevail. Vehicles still need to deliver performance and driveability.

Toyota’s commitment to the Prius was a heavy investment for the company with uncertain results, and breakeven points projected much further than other projects. Olivier (2006) comments that, “I know with the Prius, the hybrid technology, especially in the beginning, they were not making any money on it what so ever. It was actually subsidised by the other production to get the whole process going ... the economies of scale are only now kicking in.” This has been a 16 year process to date for Toyota which can be considered fairly long-term in today’s ever changing world. The initiative is perceived to have been adopted well by society, with production of a hybrid vehicle in a Chinese plant to reach approximately 200 000 units per annum, and the use of hybrid technology in a series of Toyota vehicles including the Camry and Toyota’s luxury brand the Lexus GS450h. Toyota has reportedly been approached by Ford and other Manufacturers to purchase the technology applied in the Prius (Olivier, 2006). Such a move by other manufacturers also shows the positive demand and adoption of such a concept.

Toyota has commenced with the building of its first large scale Hybrid vehicle plant in Beijing, China in response to an ever increasing toxicity of the Beijing air. Toyota believes that its Prius can have a positive effect on the air quality in Beijing as well as achieve great sales (Olivier, 2006). The Toyota Prius is definitely the start of a long journey towards the creation of a better society, and the security of longevity for Toyota, as it is trusted and respected by society, through the moulding and illuminating of a common future. Streatfield (2006: 3) makes the comment on hybrid vehicle technology that “these topics are just a candle-like glimmer in illuminating the dark space of the future.” Olivier (2006) comments that “the technology in Japan is very much entrenched already, so it is going to be the vehicle Toyota will take to the market in the future.”

#### **4.2.7 Sincerity**

When asked what makes an approach like Toyota's successful, Olivier (2006) responded with one word; "sincerity." Recognition by Toyota that it does mould society and that it can sincerely mould society for the better, earning the trust and respect of society and therefore a serious competitive advantage that is very difficult to copy, is a focus area most corporations of the world completely overlook as society and the environment are not considered vital stakeholders. Synergising the requirements of all stakeholders or as put by Toyota design (2006), "synergizing contradictory elements in harmony" is central to the way Toyota moulds a better society. It is important to note however that Toyota's entire paradigm is based on a private car market. Yet as urbanisation continues unabated and cities grow to house the majority of the world's population, private cars may not be future. Toyota, although clearly shaping society to be more receptive to and demanding of cleaner, safer vehicles, may need to begin shifting their focus to city orientated public transport vehicles that will provide an even more environmentally appropriate product.

### **4.3 CASE STUDY THREE: WOOLWORTHS - THE GOOD FOOD JOURNEY**

Woolworths, a South African food and clothing retailer, has articulated a journey towards safe food and healthier lifestyles. The journey has been labelled The Woolworths Good Food Journey. It is "a multi-faceted, long term commitment in response to the key issues facing our world. The good food journey encompasses care for the environment, animal welfare and consumer food issues. Through this programme, Woolworths aims to meet the increasing demand for food that is safe, healthy, and produced without damage to either the environment or other species", (Woolworths Holdings Limited, 2005: 1). This journey places emphasis on managing the impact of both the production and consumption of food sold through the Woolworths retailers. This case study will highlight the start of the journey, the perseverance towards a goal, the commitment by Woolworths, the many initiatives that encompass the journey, future plans and the factors that point to the success of such an approach.

#### **4.3.1 A Journey**

Although the journey is now very clearly articulated, it has not enjoyed any formal design but has rather grown from the passion of consumers, team members and suppliers for doing what they feel is right (Ferreira, 2006). For this very reason, initiatives that fall under the good food journey appear ad hoc, unlinked, and difficult to group into clear strategic imperatives. Ferreira (2006) comments that the journey has been largely steered by a passionate group of stakeholders, called customers, who take their products very personally. These same customers are becoming increasingly cynical and are better educated (Ferreira, 2006). The journey has therefore been shaped in response to comments and suggestions made by, to a large extent, consumers over the last eight years. Ferreira (2006) makes it very clear that this is a journey Woolworths is on. They have not covered the full spectrum of products and suppliers, but are making in-roads. Woolworths feels that although the final destination has not been reached, it is necessary to

communicate their initiatives which now fall under the banner of The Woolworths Good Food Journey.

### ***Growing Trust***

The Woolworths brand amongst South Africans is synonymous with quality (Ferreira, 2006). This image has developed by design through customer interaction with the Woolworths products and carefully crafted marketing messages. Although quality is now an entrenched attribute of Woolworths goods, Woolworths communication has shifted to "woolworths, the difference" (Woolworths, 2006: 1) reinforcing their image of a retailer that is different from the standard outlets. Ferreira (2006) comments that the attributes of quality associated with Woolworths food appears to have shifted to one of trust. This, however, has not been by design through marketing messages but has rather developed over time through customers' interaction with Woolworths' products and the resultant word of mouth dissemination of the good food journey initiatives. Ferreira (2006) continues that this trust has developed "almost by default" through specific product initiatives. No major communication on the good food journey was put together and according to Ferreira (2006) was "probably the best technique to build consumer trust". Woolworths consumers trust that the products they purchase from Woolworths will be of a good quality and this trust continues to grow they begin to learn of the initiatives that Woolworths is taking to deliver safer food and healthier lifestyles.

### ***Industry Backlash***

The Woolworths Good Food Journey has not gone unnoticed by other retailers in the industry who, according to Ferreira (2006) disputed claims that Woolworths Ayrshire milk, produced by Ayrshire herds, are never treated with rBST. "Cows naturally produce a hormone called BST that helps them produce milk. rBST is a synthetic version of BST, often given to cows to produce more milk", (Woolworths, 2006: 7). This claim has however, according to Ferreira (2006) been "backed up by an audit process that has been approved by both Onderstepoort", a veterinary education facility in South Africa, and "the Department of Health."

An approach such as this carries a risk of being disputed in the public eye. Woolworths therefore go to great lengths to back up their claims. Ferreira (2006) says that "in order to ensure that we are correct, we conduct audits and we find the very best people in the world, who are specialists in these fields, to walk with us every step of the way". In a competitive market, industry backlash is almost expected. What is important however, and Woolworths embraces this, is to ensure that claims are correct.

### ***The True Cost of a Chicken***

Woolworths food is generally more expensive than that of other food retailers in the country. Ferreira (2006) says however, with respect to the price of Woolworths chickens, that the price charged by Woolworths is the "true or real cost of a chicken". The cost borne by Woolworths to ensure that the birds are reared with a focus on animal welfare and more caring farming practices is higher than food production that does not adopt these principles. Across the Woolworths range of food, time and energy is directed at delivering safer food, healthier lifestyles and care for the environment (Woolworths Holdings Limited, 2006: 9). Both the time, energy and expertise directed at finding techniques to deliver safer food and improved care for the environment, and the techniques themselves come at a premium for Woolworths and therefore also their customers. So although prices are higher at Woolworths, these prices reflect the true costs of producing food naturally, that is safe, and with care for the environment. Ferreira (2006) says that the price differences between Woolworths' food and the industry is, however, reducing over time.

### ***Increased Short Term Cost***

With every purchase decision, consumers go through a cost benefit analysis, consciously or sub-consciously, of the product about to be placed in the shopping trolley. With an increased cost of production, prices offered to the consumer are also marginally higher. If prices are too high however, where the cost outweighs the potential or perceived benefit, consumers will choose an alternative product at lower cost. When Woolworths embarked on the Ayrshire milk project in response to a consumer's suggestion, they realised

that yields per cow could potentially be lower than cows treated with the synthetic hormone that increases milk production (Ferreira, 2006). This lower yield per cow would increase the cost of milk. Woolworths however realised that consumers would pay a premium for this milk, but should costs increase beyond the perceived benefit, consumers would not purchase the product.

### ***Preparedness to Cover Shortfall***

Woolworths at the outset of the Ayrshire milk initiative set up a fund to cover the shortfall in revenue from the milk versus the cost (Ferreira, 2006). They were effectively prepared to subsidise the sale of the Ayrshire milk. Ferreira (2006) comments that "the fund to cover the shortfall in yield versus price has never been needed." This is because the average dairy cow on the synthetic hormone rBST will lactate on average 1,7 times in its life while the Woolworths Ayrshire cows lactate on average 3.4 times in their lives. So although yield per lactation is lower, yield over the lifespan is the same, if not higher. Initial estimates showed yields of the Ayrshire cows to be lower per lactation and working on an average of 1,7 lactation in a lifespan, costs would be considerably higher. Woolworths however were pleased to discover that their cows lactated on average 3,4 times higher than expected, which considerably reduced cost estimates. So although Woolworths were prepared to cover a shortfall in revenue versus cost, natural farming techniques proved only marginally more expensive and the fund has never been needed.

### ***The Scenes Behind the Food***

"Out of 219 people in the food division, 57 of these are skilled scientists" (Ferreira, 2006). The number of skilled scientists working on delivering the Woolworths food to consumers is an indication of Woolworths's commitment to quality of delivery. Ferreira (2006) continues to say that "you need to understand the science behind the food to be able to manage the food." Woolworths understand the importance of intricate product knowledge to both meet and exceed customer expectations, and to manage the design of the product to be safer and healthier. The challenge is to develop food that "tastes good but is also good for you", (Ferreira, 2006). Eating quality must therefore be carefully monitored while adjusting microbiology factors.

***Traceability***

The process of delivering safer, healthier food not only requires a thorough understanding of the science behind the food but also knowledge of the origins and life stages of a product. A thorough understanding of the science of food provides clues about what should be adjusted, or removed from food, understanding where a product comes from is an assurance that required changes to a product or production process have been made and continue to be made. Ferreira (2006) comments that "traceability is important" from the origin of a product through to the final product.

***Relationship with Suppliers***

Woolworths being a retailer is heavily reliant on supplies to implement more responsible production techniques, and new product designs. Woolworths therefore consider all supplies to be partners in business seeking improved avenues for ensuring success (Ferreira, 2006). Woolworths does take cues from suppliers who show a real desire to change production methods. Woolworths supported a Stellenbosch farmer who expressed a desire to no longer produce eggs laid by hens that are kept in cages. With support from Woolworths and increasing demand from consumers, both Woolworths and the supplier have never looked back (Ferreira, 2006). Aside from the partnership relationship, Woolworths also conducts due diligence on supplies to ensure techniques are being implemented and adhered to (Ferreira, 2006). These due diligence processes are a vital assurance that product claims can be backed up.

**4.3.2 A Genuine Commitment**

The time and energy Woolworths have invested in the Good Food Journey over a protracted period of time, clearly indicates a genuine commitment by this corporation to delivering safer food and healthier lifestyles without damage to the environment. This commitment is reflected in a willingness to listen to consumer perceptions, involved audit processes, the creation of a fund to cover the shortfall in revenue versus cost of responsible initiatives, 57



skilled scientists who work to understand the science behind the food in order to adjust food design for the better, a focus on traceability of products and finally a partnership approach with suppliers who deliver quality produce. Woolworths is however faced with the challenge of higher production costs and therefore higher prices to consumers as well as backlash from industry competitors disputing their product claims. The commitment however appears to be rewarded with growing consumer trust - an invaluable advantage in a very competitive market. "Despite operating in an ever-more competitive environment, this focus on good food, innovation, quality and convenience has paid dividends", (Woolworths, 2006: 41). Although the motive for such a good food journey is sales (Ferreira, 2006), the commitment by Woolworths is genuine and far reaching.

#### **4.3.3 Good Food Journey Initiatives**

"The good food journey is the name we've given to our ongoing quest to bring you food that's better for your health. It's produced by people who regard animal welfare as deeply important, believe that a healthy sustainable environment is vital; and are absolutely passionate about bringing you the best possible trade experience", (Woolworths, 2006: 1). Woolworths have a clear focus on the environment and the impact of food on the lives of individuals. Many of the good food journey initiatives focus on reducing the effects on the environment while others aim to remove harmful product attributes or suggest alternative consumption patterns. As highlighted earlier, initiatives of the good food journey are difficult to group into clear strategic imperatives. These initiatives can however be grouped into three areas: care for the environment, safer food and healthier lifestyles.

##### ***Care for the Environment***

Care for the environment encompasses managing the impact of food production and the purchase of produce from well managed sources. Woolworths acknowledge that the impact on the greater environment of their supplier base needs to be sustainable and as such say that "we are encouraging these businesses to develop their own sustainable strategies",

(Woolworths Holdings Limited, 2006: 9). A major drive for Woolworths is the development of organically produced alternatives, to conventionally farmed ranges. Woolworths (2006: 2) say that "we are drawn to certified organic production because it provides you with more options of food that you can trust and produce that are produced without harming the Earth." The switch to organic food is both a drive to reduce environmental impacts through the supplier base and in response to a "greater demand for responsibly produced food products", (Woolworths Holdings Limited, 2005: 37). Woolworths (2006: 1) continues in their book on the organic journey to say that "You can enjoy the peace of mind knowing your family eats food that is not treated with synthetic pesticides, fertilisers and other chemicals."

Care for the environment initiatives include; a dedicated switch to organic production methods, the elimination of genetically modified organism (GMO) ingredients wherever possible, a reduction in chemical additives in conventionally farmed ranges, and the sourcing of hake from Marine Stewardship Council (MSC) approved suppliers an assurance that the hake is from well managed fisheries (Woolworths Holdings Limited, 2005: 37-38). Although according to Ferreira (2006), "no formal structured environmental strategy for Woolworths exists", initiatives that resonate with individuals in the company and in response to consumer pressure appear to be continuing in earnest. Ferreira (2006) continues that "Woolworths has recognised that through the production of food, it has a huge impact on the environment. As such, Woolworths has identified three themes that it manages its effect on. These are soil, water and biodiversity." Woolworths is in the early phases of calculating its ecological footprint. On the basis of this, it intends to offer suppliers a framework for the stewardship of land in partnership with Woolworths (Ferreira, 2006). The recognition by Woolworths that through its supplier base, it has a huge impact on the environment provided the starting point for what appears to be a complete paradigm shift in food production for the corporation. The business case however remains integral to such a paradigm shift. Woolworths Holdings Limited (2006: 9) state that "we are convinced this makes good commercial sense and is deeply in tune with our customer's sense of the world today". Responding therefore to consumer

trends and behaving responsibly pays dividends for both the environment, people and Woolworths.

### ***Safer Food***

The drive to design and develop safer food includes the removal or reduction in the use of chemical fertilisers, pesticides, hormones, antibiotics and genetically modified organisms, and the removal of unnecessary additives (Woolworths Holdings Limited, 2005: 37). Woolworths (2006: 37) say that "Woolworths free range broiler chickens never receive routine antibiotics", and "Ayrshire dairy products are all guaranteed free of added hormones". Both the broiler chicken and Ayrshire dairy examples are scenarios where inputs at production stage have been reduced. Woolworths is also, at packaging stage, removing all unnecessary additives.

In communicating with customers, one of the main themes to emerge has been a desire for food that is less processed and contains fewer additives (Woolworths, 2006: 9). "Tartrazine and monosodium glutamate (MSG) has been removed from all our food", (Woolworths Holdings Limited, 2005: 37). Ferreira (2006) says that "although there is no scientific proof that these additives affect health, Woolworths has, due to consumer concerns, decided not to add them to any food they sell". It was very easy for Woolworths to remove tartrazine and MSG from some products but with others it took two and a half years to completely remove. In this instance, intimate product knowledge was a key success factor (Ferreira, 2006).

Fresh produce is not irradiated, except for certain herbs and species where there is no other way of controlling potentially harmful micro-organisms (Woolworths Holdings Limited, 2005: 37). Consumer perception is that the radiation both stays in the fresh produce which can have harmful effects on individuals and that it destroys the nutrient content of the produce. For these reasons, Woolworths has decided not to, where possible, irradiate any produce.

"Sulphur dioxide has been removed from all Woolworths fruit juices ... and this year Woolworths launched the first South African organic chenin blanc wine that has no added sulphur dioxide", (Woolworths Holdings Limited, 2005: 37). International studies have shown that this preservative adversely affects many people (Woolworths Holdings Limited, 2005: 37). This initiative was not driven by consumer perception but rather from evidence that sulphur dioxide is a harmful additive.

"Preservatives and gelatine are not added to our yoghurts", (Woolworths Holdings Limited, 2005: 37). The removal of gelatine has been driven by the demand for food that is Halaal. Although non-animal gelatine versions can be sold, Halaal consumers have a negative perception with regard to any form of added gelatine (Ferreira, 2006). Preservatives however, like potassium sorbate and pimaricin, commonly added to fruit yoghurt to extend shelf life, are not friendly to live probiotic cultures which help restore and maintain the body's natural intestinal flora balance (Woolworths, 2006: 8). The fact that preservatives reduce the goodness of yoghurt was in this case the motivation to remove the unnecessary additive.

The Woolworths sustainability report 2005 states that "in the coming year, we plan to look at ways of reducing the sugar and the salt content of our products", (Woolworths Holdings Limited, 2005: 37). Sugar and salt are two ingredients not generally considered harmful which is surprising that Woolworths states the intention to reduce both of these ingredients in their products. Ferreira (2006) however says that "Woolworths have recognised that South Africa is facing a rising obesity problem and that sugar intake has been directly linked to obesity". The problem according to Ferreira (2006) is the "hidden sugar" in products. This is the sugar that has been added to products to make them more acceptable to consumers. Consumers are not aware of how much added or hidden sugar they consume on a daily basis. Similarly, salt that has been linked to heart disease is also added to products to make them taste better. The removal of both salt and sugar from products has obvious benefits to consumers but leaves Woolworths with the challenge

of maintaining taste, the acceptability of products, without these unnecessary additives.

In recognition of the perceived or proven negative effects, Woolworths has removed all tartrazine and monosodium glutamate from all products, sulphur dioxide from fruit juices and an organic chenin blanc wine, and the preservatives and gelatine from yoghurt. Current focus is to reduce the sugar, linked to obesity, and salt, linked to heart disease, from the Woolworths products. Irradiation is also not permitted except on certain products for which there is no alternative. Once again, initiatives clearly highlight the vastness of resources dedicated to the good food journey.

### ***Healthier Lifestyles***

In response to market trends of low fat and higher fibre, Woolworths launched a range of Slimmers Choice foods (Ferreira, 2006). The inclusion of vitamin and mineral-rich un-refined ingredients such as brown rice, lentils, oatbran, fruit and vegetables makes the meal more nutritionally sound (Woolworths Holdings Limited, 2005: 37). In addition to the Slimmers Choice foods, Woolworths also offers "healthier snacks including minipacks of dried fruit and nuts as alternatives to sugar based confectionery", (Woolworths holdings Limited, 2005: 37). Through both yoghurt and yoghurt drinks, Woolworths is further positively impacting lives. An immune boosting culture, HOWARU, has been added to Woolworths dairy, soya and goats yoghurt, and the Benecol yoghurt drinks include a cholesterol lowering additive (Woolworths Holdings Limited, 2006: 9). The design of products that have a positive impact on lifestyle appears to be a key focus of Woolworths.

This design goes beyond the packaging of products, but also attempts to change behaviour and inform purchase decisions. Woolworths Holdings Limited (2005: 1) say that "we give detailed information which conforms to and goes beyond current legislation and helps our customers make informed buying decisions. "Sugar content is now also listed in addition to the usual information further assisting consumers with purchase decisions. Lifestyle assistance therefore includes the delivery of healthy alternatives, immune

boosting foods, cholesterol lowering drinks and detailed product information that can assist purchase decisions.

#### **4.3.4 Touching Life Uniquely**

The way in which Woolworths touches life in response to environmental issues, consumer perceptions and lifestyle trends builds consumer trust and therefore loyalty. Ferreira (2006) suggests that "younger people, today, are concerned with broader issues", that include care for the environment. He continues to say that "staff at Woolworths feel as if they are contributing to something bigger, a greater purpose", than the delivery of food. The successful delivery of the good food journey however requires a huge dedication of resources to understand the science behind the food, engage with suppliers, find alternative products and techniques, scan both local and international markets for trends and to constantly be in touch with the consumer. Through care for the environment, safer food and healthier lifestyles Woolworths touches life in a very unique way.

#### **4.3.5 Passion and Genuine Caring**

The ultimate motive for the Good Food Journey as according to Ferreira (2006) is "sales". Woolworths have made and continue to make the connection between increased consumer trust and growing sales. "Despite operating in an ever-more competitive environment, this focus on good food, innovation, quality and convenience has paid dividends", (Woolworths Holdings Limited, 2005: 41). Investment in the three pillars of the good food journey has to date been huge highlighting Woolworths's commitment to this particular journey. Ferreira (2006) highlights however that the success of such a journey is above all, as a result the "passion of the people in the company" to make a difference and "really caring about what people think". People who are passionate about the good food journey initiatives drive the projects in response to consumer trends and suggestions. A dedicated focus on keeping in tune with customers and a genuine caring for their livelihoods

and of their environment appears to be an effective recipe for the success of Woolworths.

#### **4.4 CASE STUDY FOUR: SOUTH AFRICAN BREWERIES LIMITED (SAB) – DRAW THE LINE CAMPAIGN**

Commenting on the centrality of sustainable development to the success of the business, South African Breweries Limited (2006: 6) says that “SAB’s vision is to be the most admired company in South Africa. Excellence in sustainable development plays a key role in helping SAB realise its vision and at the same time ensuring that our reputation is indivisible.” SABMiller, the parent company of the original brewing company, South African Breweries Limited, “has brewing interests or major distribution agreements in over 60 countries spread across five continents”, (SABMiller, 2006: 3). The parent company spread across these five continents has far reaching social and environmental impacts. Water consumption, energy footprint, waste reduction and respect for human rights are some of the areas considered a priority for the company”, (SABMiller, 2006: 7). SABMiller (2006: 4) says that “it makes sense ... to understand our social and environmental impacts and, more than that, to have plans in place to ensure we minimise negative impacts and optimise positive ones.”

In the South African context, South African Breweries Limited, the local brewer, “represents over 3% of the nation’s GDP. With over a million people employed in the beer and soft drink value chain, the jobs of 1 in 15 economically active adults are generated through our operations”, (South African Breweries Limited, 2006: 12). For a company that contributes 3% to the GDP of any country, the management of its social and environmental footprint is a vital ingredient in the enjoyment of continued customer support and company longevity. This is clearly articulated by Graham Mackay, the Chief Executive of SABMiller plc through his statement that “all of our operations are aware that environmental and social issues are integral to our day-to-day work and that our programmes are not just ‘good for the community’ but good for profitability”, (SABMiller, 2006: 6).



#### 4.4.1 Sustainable Development Priorities

SABMiller have identified ten sustainable development priorities that are most relevant to them. “SAB’s approach to sustainable development is aligned to SABMiller’s 10 priority issues for sustainable development”, (South African Breweries Limited, 2006: 6). These are the need to:

- discourage irresponsible drinking
- make more beer but using less water
- reduce our energy and carbon footprint
- have a vibrant packaging reuse and recycling economy
- work towards zero waste operations
- have supply chains that reflect our own values and commitment to sustainable development
- have respect for human rights
- bring benefit to the communities we serve
- contribute to the reduction of HIV/Aids within our sphere of influence
- be transparent in reporting our progress on these environmental and social sustainable development priorities

(South African Breweries Limited, 2006: 6)

Discouraging irresponsible drinking is at the very top of the list of priorities. Fourie (2006) says, the reason for this is, that “the product is at the forefront of the business. It is the very essence of the business. To ensure the sustainability of the business, we need to manage the effects of our products.” This is echoed in the SABMiller Sustainable Development Report 2006 which states that “Our overriding commitment within our sphere of influence is to discourage irresponsible drinking and to promote responsible drinking by those who have chosen to consume alcohol beverages”, (SABMiller, 2006: 4). Amongst all initiatives, managing the effects of their products is considered by SABMiller to have priority status.

#### **4.4.2 Our Commitment**

Recognising the potentially negative consequences of irresponsible consumption, SABMiller (2006: 1) articulates its commitment as follows, “We acknowledge that the vast majority of consumers drink responsibly, but we are concerned by the potentially negative consequences of irresponsible consumption and are committed to addressing misuse and abuse. In this regard we believe we have an important role to play in partnership with governments, NGOs and public health community.” The commitment and associated codes as articulated by SABMiller (2006: 1) “sets a consistent worldwide standard that all group companies must meet or exceed” and SABMiller (2006: 1) continues, that “is integral to how we do business.”

#### **4.4.3 Motivation**

Combating liquor abuse is regulated by law. “The liquor act of 2003, section 13 stipulates three criteria for the license to operate. These include the need to firstly combat liquor abuse, secondly to promote black economic empowerment and thirdly to support pro-competitive practices”, (Fourie, 2006). South African Breweries Limited’s commitment is therefore not entirely voluntary however Fourie (2006) says that “SAB has been promoting responsible drinking beyond regulation requirements for over 20 years and continue to support responsible drinking through a commitment that exceeds what is currently required.” Fourie (2006) continues to say that “South Africa is a member country of the World Health Organisation (WHO) which has a global drive, based on a resolution passed in May 2005, to promote responsible drinking. Member countries therefore need to ensure that initiatives are in place to promote responsible drinking.” Pressure therefore to address misuse and abuse of alcohol is from both a license perspective and a Department of Health perspective driven by the World Health Organisation’s May 2005 resolution.

License requirements are the primary driver for the commitment to combating liquor abuse. SABMiller (2006: 4) however says that “Our ability to be successful is inextricably linked with the health and prosperity of the communities in which we operate. These benefits are in addition to the basic desire to minimise our negative impact on the global eco and social footprint and to ensure that SABMiller has a sustainable future.” SABMiller recognise that in order to enjoy longevity as a company the communities in which they operate need to be healthy. “Behaving responsibly also has other ‘softer’ benefits including improved employee morale, better relationships in communities where we operate and enhanced brand reputation. All have a direct impact on SABMiller’s profitability”, (SABMiller, 2006: 4).

The motivation for promoting responsible drinking is, in addition to the regulations and World Health Organisation resolution, a recognition that managing the negative impacts of a product is necessary for long term business success, as well as improved brand reputation, employee morale and community relationships. The motivation given by SABMiller is more encompassing than the reason given by Fourie (2006) who says that the reason huge resources are committed to responsible drinking initiatives is that “SAB wants to be beyond reproach in any way.” The primary reason for these initiatives is to be beyond reproach, to secure a license to operate. A broader perspective however as given by SABMiller highlights that the motivation extends beyond license requirements to that of a business requirement. Responsible drinking initiatives are vital for the development of a healthy community and therefore the continued success of the corporation.

#### **4.4.4 Draw The Line Campaign**

“The Draw the Line campaign in South Africa was launched in December 2005 and included consumer messages overtly discouraging underage drinking, drinking and driving or drinking when pregnant. The campaign included TV, Billboard and radio coverage and point of sale material at over 40,000 outlets”, (SABMiller, 2006: 9). Fourie (2006) adds to the extent of the campaign by saying that “the radio advertisements were translated into 11

official languages and broadcast on 19 radio stations across South Africa.” Fourie (2006) continues to say that “The draw the line campaign recognises that responsible drinking is not only about drinking and driving, but focuses on encouraging choices based on positive messages. Most responsible drinking campaigns use shock tactics including fear appeals and messages portraying doom and gloom to discourage negative behaviour. Research however has shown that people do not respond to negative messages. This campaign however uses simple stories that people respond to and promotes making positive choices” The advertisements are based on mechanism that uses a line to highlight the choices individuals can make. Examples of the billboard advertisements include:

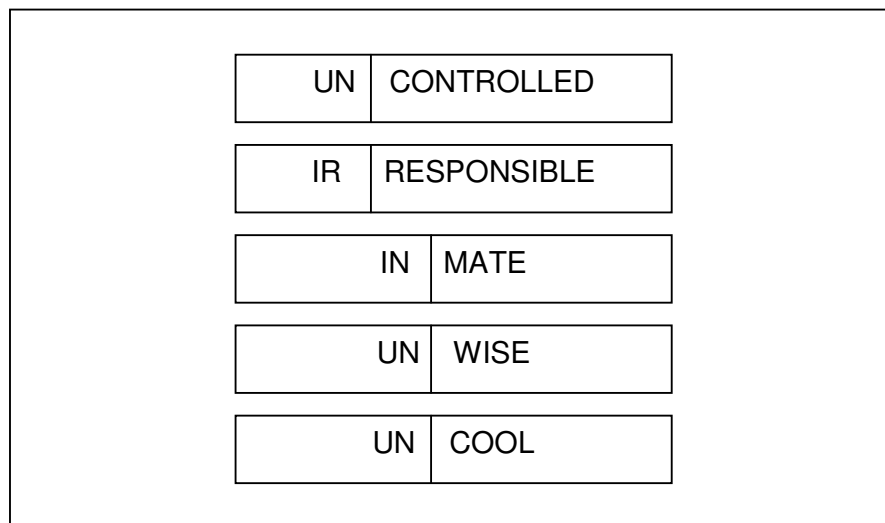


Figure 1

“The Draw the Line campaign started out of the desire to show responsible drinking in a positive light”, (Fourie, 2006). The preceding campaign was “centred around the theme; ‘there is so much to live for’ focusing on choices that do not compromise life”, (Fourie, 2006). The Draw the Line campaign was an evolution from the ‘there is so much to live for’ campaign with a continuation of the theme that encourages positive choice (Fourie, 2006). When tested for its success or failure, likeability amongst consumers was very high for the Draw the Line campaign advertisements. Fourie (2006) comments that this response from consumers was unexpected and strange for a responsibility advertisement. Fourie (2006) continues to say that “both

consumers and suppliers reported feeling pride in the advertisements and that people in the company also responded very positively to the campaign.”

#### **4.4.5 Tip of The Iceberg**

The Draw the Line campaign, probably due to its high visibility is receiving much attention, but is “only the tip of the iceberg of the responsible drinking initiatives” (Fourie, 2006) pursued by The South African Breweries limited and the parent company SABMiller plc. “As a multinational company which sells 176 million hectolitres of beer a year, SABMiller is proactive in discouraging irresponsible drinking. Alcohol consumption by those not at risk can be compatible with a healthy, balanced lifestyle but excessive drinking when pregnant , underage drinking and drinking and driving, for example, impact negatively on society in many ways. It is therefore in our interest to make every effort to discourage irresponsible drinking within our sphere of influence”, (SABMiller, 2006: 9). Other initiatives to combat liquor abuse include both employee training and the education of the retailer trade who are at the point of sale to consumers (Fourie, 2006). In recognition of the need to promote responsible drinking, both for license requirements and the success of the business, The South African Breweries Limited and SABMiller plc are pouring huge resources into this commitment with direct consumer responses to date, being ones of pride in the brand and likeability.

#### **4.5 PRODUCT STEWARDSHIP DISPLAYED**

Each of the four companies as represented in the case studies are displaying activities, or claim to be displaying activities, that are characteristic of a product stewardship approach. Product stewardship can be defined as the design and promotion of a product or service that aims to positively impact the consumer, society and the environment through the creation, consumption and disposal of such a product or service. The four case studies have depended completely on company sources; both official company sources and the perceptions of individuals, within the companies, who are intimately involved in the activities displaying product stewardship characteristics. Although the claims have not been verified through third party sources, it is significant to find four unrelated companies telling similar stories. Stories that embrace various elements of a product stewardship approach.

Sasol, focused on advancing fuels of the future, claim to be actively developing safer, cleaner fuels that have less impact on the environment. In the search to balance Sasol's dependence on fossil fuels, less harmful alternatives, according to Sasol's perspective; bio-diesel from soybeans, have enjoyed the dedication of large company resources. In addition, Sasol claim to have designed a synthetic fuel that when consumed has fewer harmful emissions than a conventional diesel. The search for better product designs, synthetic fuels and bio-diesel, that aim to reduce the negative impact through both the creation and consumption of these products is characteristic of a product stewardship approach.

Toyota who claims to be enriching society through car making have begun, in response to their vision of the future, designing and manufacturing vehicles that are cleaner, safe, recyclable and simple to use. Toyota's design specifications now extend to include managing the effect on the environment, society and the user. Cleaner vehicles equate to reduced emissions. Safer vehicles consider both the user and society. Improved safety for the occupants of the vehicles, but also for pedestrians in the event of a collision

between a vehicle and pedestrian. Recyclable vehicles as a target recognises that inputs are both scarce and finite and that sinks are filling rapidly. Recyclable vehicles reduce the impact on sinks and improve resource use thereby reducing the impact on the environment at both input and disposal phases of a product's lifecycle. Finally the design of vehicles that are simple to use recognise the consumers' desire for real uncluttered value. Consumers who receive value that meets or exceeds their expectations will tend to reward companies with loyalty. Toyota's keen focus on product design to positively impact the environment, society and the consumer is another great example of a product stewardship approach.

Woolworths who are steaming ahead on their good food journey, are actively striving to reduce both the perceived and real impacts of food production and consumption. Woolworths have begun responding to consumer desire for safer healthier food. In order to deliver this, Woolworths have developed an intimate knowledge of the science behind the food which enables them to change both the product and their production techniques. Organic farming techniques require fewer chemical input which reduces the impact on the environment while delivering a chemical free product to consumers. In addition, Woolworths have assessed what product ingredients have adverse health effects and have taken huge strides in removing these from their product designs. Woolworths claim that all foods sold in their stores is free of the preservative tartrazine and the flavourant monosodium glutamate. In addition to removing known harmful substances from their food, Woolworths has begun removing both unnecessary salt, directly related to heart disease, and sugar, directly related to obesity, from their products. Elements of a product stewardship approach are clearly evident in Woolworth's approach. A focus on product design has reduced the impact of production and positively impacted on the health of the consumer.

The South African Breweries Limited, through their draw the line campaign have gone beyond legislative requirements to promote responsible drinking. Recognising that their product has inherent health risks which impact both the individual consumer and society. The South African Breweries Limited has

begun promoting responsible drinking. Product design remains completely unchanged, the promotion of the product has however been altered to mitigate the inherent risks to the consumer and society. The South African Breweries Limited's draw the line campaign, which considers the ethics associated with the promotion of beer, is therefore characteristic of a product stewardship approach, which includes a scrutiny product promotion to reduce negative impacts.

Each of the four case studies clearly highlight how these companies are aiming to positively impact their consumer, society and the environment through a focus on their product; it's design and promotion. Many companies seek to positively impact their consumers, society and the environment through investment in activities peripheral to their core business. While the benefit of such investments cannot be ignored, these companies fail to see the potential of real, positive impact, poised in their product offerings.



## CHAPTER FIVE

### THE GREAT ESCAPE OF SERVICES

This chapter serves to highlight how some corporations, and in particular service orientated corporations, miss the potential poised in a corporation's product or services, to positively impact the environment, society and the consumer. Many companies dedicate huge resources to activities and organisations peripheral to their core business in an attempt to positively impact their consumers, society and the environment. These companies fail to see the potential of real positive impact poised in their product or service offerings.

A desire to positively impact their consumer, society and the environment can however begin with a little introspection, a closer look at their product or service offerings. Such an approach may not only satisfy a corporation's desire to positively impact and to portray the correct image, but also appears to be an important strategic business tool to improve consumer trust and therefore loyalty.

A brief delve into the insurance industry in South Africa, which is currently enjoying great levels of demand, but very poor customer satisfaction and retention levels, is necessary to demonstrate that this industry, and the challenges it faces, was the seed for an in-depth study of product stewardship as attempted by this thesis. Poor satisfaction levels, declining industry image, and low customer retention could well be improved through an adoption of a product stewardship approach.

Service orientated companies seldom analyse their offerings along a product stewardship approach because their offerings are not perceived to be linked to any obvious direct physical negative effect. Services are however no more difficult to analyse than physical products. A dedication of resources to such an approach could positively impact the consumer, society and the environment,

thereby improving how a corporation is perceived, consumer trust which leads to loyalty and therefore improved business.

The following sections will explore why the effects of physical products appear more direct and therefore scrutiny of these products is almost expected, versus service offerings whose effects appear indirect and therefore escape scrutiny. This chapter will continue with an overview of the South African insurance market, highlighting good consumer demand amidst rising crime levels. It then continues to raise the issues facing both insurers and brokers and then concludes with some critical questions, highlighted by a product stewardship approach, about the way the insurance industry designs and delivers products.

## **5.1 The Obvious Impact of Products versus Services**

Heavy polluters and producers of physical products that can, and do, have negative impacts attract the attention of regulators and the public as their impacts are visible, real and easily identifiable. Fossil fuel usage increases the levels of carbon dioxide in the atmosphere causing global warming. Vehicle use contributes to both air and noise pollution. A poor diet contributes to poor health conditions including heart disease and obesity. Alcoholic beverages if consumed irresponsibly have serious health consequences and finally tobacco smoke has been linked to lung cancer and emphysema. For the producers of the highlighted products, managing the negative impacts of their products is considered both obvious and necessary. A product stewardship approach evolving in the sustainable development field is therefore a natural intervention both required and necessary for the continued support of consumers and regulators and therefore the enjoyment of continued success of such businesses.

Aside from eco-friendly buildings, great staff management, investment in corporate social investment projects, and the procurement of stationary from responsible sources, most service orientated companies are perceived to fall

outside the sphere of a sustainable development approach. The application however of sustainable development criteria to the entire business including their products could better position these businesses for long term success. The argument here is not that services are not as easily analysed as physical products, but rather that service orientated corporations fail to see the link between their service and potential or real effects on the environment, society and the consumer.

The literature review and case studies serve to highlight the reasons for and the benefits of a product stewardship approach. Such approaches are currently only embraced by the producers of physical goods that have negative impacts, and usually only by those who are most at risk of negative publicity. The application however to a service, and in particular the short term insurance market, can assist such service orientated companies in the systematic review of their products and ultimately a re-design that takes into account the effects of the service on individuals and society, the appropriateness of the service and finally how the service is marketed. Such an approach could provide service orientated companies who face the challenge of client retention and declining industry image with insights on how to re-design offerings that fully satisfy consumers.

One such industry challenged by client retention and declining image (Laburn, 2005: 1) is the South African short term domestic insurance industry. In order to fully understand the motive behind the potential application of product stewardship to a service, and in particular to insurance, a brief overview of the South African insurance market, the context in which the industry operates, challenges facing both insurers and brokers and the rise of the vociferous consumer are necessary.

## 5.2 Overview of the South African Short Term Insurance Market

South Africa's Insurance markets are very well developed in comparison to the rest of Africa and the world. Engels cited in Vivian (2006: 677) says that "South Africa's life insurance market accounts for 95% of premiums on the African continent, while its property and casualty market accounts for 57% of premiums. Property and casualty in this context refers to short term insurance. Vivian (2006: 677) continues to argue that "In the world market, South African insurance markets are important for at least two related reasons. First, South Africans spend more per GDP purchasing life insurance than any other country in the world (Birkmaier and Codoni 2004). It is important to note however, that this figure is misleading since much of South Africa's life insurance market involves savings, not risk products. Second, South Africa does not have a substantial state social security pension system. In turn, the South African government is not facing a pension crisis similar to those faced by most other developed countries. In fact, South Africa is in the position many other countries aspire to reach - a fully-funded privatized pension system. Thus, the South African insurance industry should be of considerable interest to other nations." Although Vivian refers mainly to the purchase of life insurance as opposed to short term insurance, it is important to highlight the self sufficiency attitude adopted by the general population with regards to risk management.

A survey conducted by Finscope highlights that in South Africa, short term insurance purchases are significantly lower than that of life insurance purchases (Finscope, 2005: 29). Vivian (2006: 713) however highlights that the gross short term premium income for South Africa in 2003 was R 35.64 billion. This is a fairly substantial premium income for a developing country but could be significantly higher if consumer penetration increased. Vivian (2006: 713) however cautions that "Since a single power station costs R 30 billion to replace, it should be clear that South Africa's short-term insurance market is not large enough to cover all South Africa's risks."

Commenting on the number and types of insurers in the country, Vivian (2006: 713) says that “There were 89 primary (direct) short-term insurers registered in South Africa in 2004. These are conventional direct or primary insurers, reinsurers, cell-captives insurers, captive insurers, and bank insurers .... A recent development had been the establishment of bank insurers (i.e., each of the banks establishing their own insurers). These insurers are positioned to pick-up insurance from the bank’s clients.” The above clearly highlights that although the short term insurance market is relatively small and penetration is low, South Africa has a plethora of categories of insurers all vying for a piece of the market.

Distribution of products has generally been through insurance brokers. However, banks are becoming a major distribution mechanism as are retailers, and direct call-centre based insurers that do not rely on intermediaries. “Internationally, trends in the 1990’s showed a move towards more direct insurance, because overseas brokers didn’t add sufficient value. Today this has reversed and brokers have chipped back a significant level of the market”, (Vermaak, 2005: 15). Despite the entrance of new distribution mechanisms, Vivian (2006: 721) confirms that “The South African short-term market is traditionally considered to be a broker dominated market, i.e., most of the business is placed via independent insurance brokers.

From the above therefore, it can be seen that the very high levels of life insurance purchases by South Africans indicate a desire to manage risk. Short term insurance penetration however is significantly lower than that of life insurance with a large number of insurers vying for a piece of the market. The South African insurance market is dominated by the broker distribution mechanism but this dominance is slowly being eroded by new mechanisms including the banks, retailers and direct call-centre based insurers.

### 5.3 The Operating Context

Leon Vermaak (2005: 15), the Chief Executive Officer of Auto & General Insurance says that “The market in which Auto & General operates today is very different to that in which it operated when it was launched 20 years ago. The country was in the grips of apartheid when Auto & General was established. Today, an emerging market has evolved, introducing a whole new group of consumers requiring insurance. Added to that is the country’s sound structural economic policy, which leads to stability, laying the foundation for the future.” The scenario painted by Vermaak is one of opportunity and prosperity for insurance companies going forward. The South African Insurance Association (2006: 14) highlight that “The economic environment in which the short-term insurance industry, as all other sectors of the economy, found itself during 2005 was exceptionally positive .... In the short term insurance industry insurers reported slightly lower profits than the year before, however, if one remembers that 2004 was a record year for the short-term insurance industry, this is not surprising. The 2005 figures in general still show a short-term insurance market in a very healthy state!”

Vivian (2006: 722) contends that “the South African short-term insurance market is probably enjoying some of the best years in its history.” The context in which insurers operate however is somewhat of a contrast from the results that they are enjoying at present. The results may however be linked to the very high demand for insurance driven by tidal waves of crime engulfing the country at the present moment. Mark (2006: 5) commenting on the dangers and crime in South Africa says that “Catastrophe modelling is a risk management tool that uses computer technology to help insurers, reinsurers and risk managers predict the potential losses that may be caused when future natural and man-made catastrophes occur. We in South Africa don’t need to model anything, why spend time on predictions when it’s possible that our biggest catastrophe has already arrived and is happening outside your window, right now.” Mark (2006: 5) continues to

say that “In South Africa a serious crime is committed every 17 seconds, and it is our insurance companies (and ultimately our policyholder clients) who are paying the cost.” Despite the high crime levels and dangers inherent in South Africa, insurers are still enjoying record years. The increasing cost of crime however as highlighted above is ultimately being carried by policyholder clients not insurers.

#### **5.4 Challenges Facing Brokers and Insurers**

The domestic short term insurance industry in South Africa is currently experiencing major changes and challenges. Leach (2005: 1) commenting on the overall insurance industry including the life insurers says that “The insurance industry has reached a watershed. Insurers and insurance brokers face a proliferation of regulation, rising political pressure to extend appropriate insurance products to the under-insured, criticism of the up-front commission structure and competition from new players in what is already a flat market.” The industry has seen two new entrants offering a previously unavailable direct insurance option. The Legislative requirements, governing the fit and proper requirements of being a financial advisor or intermediary, have been onerous, and the channels for customer complaints appear to be increasing. The industry carries a perceived bad reputation, and insurance is labelled as a grudge purchase. Switching between insurance companies on the basis of price is perceived to be high giving the indication that customers are not loyal to any one company.

The negative perceptions of, and challenges faced by the insurance industry, as highlighted by various owners and staff of insurance related businesses during strategy planning sessions, are as follows: “Industry image is declining,” (Laburn, 2005: 1). “Reputation of the insurance industry is declining rapidly – decline in perceived ethics, and a historical lack of policyholder focus,” (Laburn, 2005: 1). “Consumerism is increasing rapidly – reducing loyalty. Consumers want a better deal, new generation of policyholders looking for something different,” (Laburn,

2005: 1). “New demands on brokers – What value is being added for the new disclosed cost?” (Laburn, 2005: 1).

A survey by PricewaterhouseCoopers on emerging trends and strategic issues in South African insurance highlights the views of 25 insurance companies in South Africa. Criticisms of South African insurance as revealed by this report include; overly complex product designs, a failure to deliver on expectations, and a lack of transparency surrounding fees and commissions (Metcalf, 2006: 10). The top three most pressing issues that insurers face out of 37 issues as highlighted by the survey include retaining existing clients, building a customer base, and recruiting and training competent staff (Metcalf, 2006: 19).

Both insurance brokers and insurers have recognised the need to retain consumers, build a customer base and become more policyholder centric yet consumer satisfaction appears to be poor with criticism being levelled that products are; too complex, fail to meet expectations and are difficult to assess as a result of poor disclosure. Financial results of both insurers and brokers have been good as premiums increase to meet rising dangers on the roads and increased levels of crime. Policyholders are however not satisfied, they feel disgruntled and are not loyal.

Coupled with the challenges of customer retention has been an increase in regulations adding considerable onus on financial advisors and intermediaries. Vivian (2006: 685) says that “Over the past decade or so, the FSB (Financial Services Board) embarked on an extensive legislative program, probably the most extensive in the history of South Africa.” Leach (2005: 1) commenting on the pressures of the new regulations says that “The introduction of the Financial Advisory and Intermediary Services Act and the Policy Holder Protection Rules has placed a new and substantial regulatory burden on intermediaries. Although the new regulatory environment enhances consumer protection, the costs of



compliance can make a difference between viability and non viability of a small broker.”

These increased regulatory pressures are forcing efficiencies which could erode customer interaction while ironically; the regulation encourages improved client service. “Quinten Matthew, Head of Broker Services at Santam, says brokers have to become leaner, more cost conscious and focused on compliance in order to meet their customers’ needs in the current consumer-focused environment”, (RiskSA, 2006: 32). Such cost consciousness ultimately reduces value delivered to clients. Prices continue to rise while value to clients decrease. This could result in lower satisfaction and the search for cheaper insurance hence a competition based on price, or a search for an alternative product altogether that can fulfil the need for security.

## **5.5 The Rise of the Vociferous Consumer**

“In addition to the client’s experience of your product, their experience with your staff can make or break their impression. As SA consumers have become more vociferous about customer service issues, the need for companies to focus on this area has grown”, (Haggiyannes, 2005: 16). Both insurance related companies and regulators recognise the growing demands of consumers. Yet insurance related companies being slow to respond have had to deal with increased regulations with the aim of improving client satisfaction. RiskSA (2006: 32) says that “Generally speaking, a more regulated environment expects brokers and insurers to place the client at the centre of their strategy.” Maggs (2006: 20) however says that “the reality is that we really make money by keeping our customers satisfied. No matter what margin we may earn up front, it’s only through client retention and persistency that we really amortise the costs of client acquisition and gain the benefits that accrue out of loyalty.”

Although South African consumers are not unfamiliar with the purchasing of insurance products, the purchase of short term insurance is low in comparison with that of life or savings products. Consumers do however show a keen desire to manage risk. Insurance products are provided by a large number of insurance companies all competing for a similar if not the same segment of the market. The level of crime and danger in South Africa is high resulting in both high premiums and good demand for insurance services. The increased costs are ultimately carried by consumers while insurers benefit from increased demand. Both insurers and brokers are faced with increased legislative burdens that significantly increase costs which are forcing efficiencies. Coupled with these challenges, insurers and brokers are criticised for rising premiums levels, complicated products, poor fulfilment of expectations, and a lack of transparency. Clients are becoming more demanding yet the market conditions are driving efficiencies which erode customer value, premiums are increasing as a result of high levels of crime and competition is now primarily based on price. Short-term domestic insurance is necessary or at least prudent in the current context, however consumer penetration is low and real value is not felt.

## **5.6 Critical Questions about Product Design**

Product stewardship can be defined as the design and promotion of a product or service that positively impacts the consumer, society and the environment, through the creation, consumption and disposal of such a product or service.

An assessment of a short term domestic insurance product and the associated services, along a product stewardship perspective will highlight a poised potential to improve the service package. Before some critical questions about the way the insurance industry designs products are posed, it is necessary to explore the essence of a short term domestic insurance policy.

An insurance product is in effect a promise by the insurer to put the insured back in the same position they were in prior to a loss, should a loss be experienced. This promise is rendered in exchange for a monthly premium, paid by the insured. The insured receives a contract highlighting the terms and conditions of this purchased promise and the obligations that need to be fulfilled by each party.

Although the mechanics of a domestic short term insurance policy are fairly simple, it is necessary to explore why an individual may purchase such a promise or contract. Insurance aims to fulfil a need to mitigate risk; financial risk and trauma in a time of crisis. A purchase is made in response to a fear of a loss. In an ideal situation, an individual would never need to call on the insurer. However, in a world of uncertainty and risk, losses do occur.

The review of a domestic short term insurance policy through a product stewardship lens as defined by this thesis will provide an expanded critique of such a product. Specific questions within the following themes need to be explored:

1. The appropriateness of the product and associated service.
2. The ethics associated with the promotion of such a service.
3. The impact of such a product on society and the environment.

### **5.6.1 The Appropriateness of an Insurance Policy**

The very basic need for financial security is the motivation for the purchase of an insurance policy. If financial security means cover for an individual's major assets, the first question that must be raised is; *Does the policy cover all major assets and potential liabilities?* Secondly; *Are the sums insured correct?* Too little cover will jeopardise the individual and too much will be a waste of resources. Thirdly, and linked to having the correct sum insured, is the question of sum insured adjustments for both appreciation and depreciation. *Is the insurer providing an accurate mechanism to ensure that sums insured are accurately*

*increased for appreciating assets, like property, and accurately decreased for depreciating assets, like vehicles? Forthly; Are excess structures, the sum borne by the individual if a loss occurs, appropriate for the sum insured, or are these disproportionate? Too high an excess will not provide sufficient financial security while too little an excess will not invoke the correct behaviour from insureds. Excesses indirectly encourage risk minimisation behaviour as insureds are contracted to cover the first part of every loss.*

The fifth question that needs consideration is; *Whether the policy provides unnecessary cover?* Omitted cover could once again seriously jeopardise an individual's financial security, while excessive, unnecessary covers only serve to both complicate the policy and encourage the individual to claim for items that he or she would normally not have claimed for. Additional add on covers have been used by the industry as a marketing tool to attract customers. As a policy is seldom called upon, the add on covers provide an avenue for insureds to claim more frequently and thus have the opportunity the experience value. These add on covers do not however fulfil the fundamental need for financial security and only serve to complicate the product, encourage undesired behaviour from the insured and increase administration for the insurer.

The time and energy expended in offering inappropriate cover and then administering the resultant claims could be better utilised to offer an insured improved value as opposed to a complicated product. This idea of value leads to a sixth question. *Does the client experience value?* A client that experiences a covered loss and who receives a payout for a legitimate claim definitely experiences the value of the product, especially if the loss is significantly large. Clients however that do not experience the loss will not benefit from the true value of the product. The challenge then is for the insurer to find ways of making the insured feel as if value is being delivered. In essence the value is the very heart of the contract, the promise by the insurer to cover losses. Clients however do feel, and especially those who do not claim, that the value delivered or

promised is disproportionate to the value of their monthly premium payments. Ongoing value delivery to clients aside from additional unnecessary covers offered, as already explored, will need to be invested in. Local insurers and brokers have begun offering their clients advanced driver training programmes and free installations of burglar bars and alarm systems thereby mitigating their risk and adding tangible value.

Finally, the seventh question, and closely linked to the question of value delivery is; *Whether the value added is durable?* The greater the durability of a product or service, the greater the impact for an individual who has purchased it. Durability also reduces the resource wastage and improves efficiency of both time and energy. A durable service should positively impact an individual long after the delivery of that service. A durable insurance service could therefore be one that educates clients on risk minimisation and management as opposed to the current paradigm of risk transfer. Risk minimisation and management could aim to find a more appropriate balance of risk avoidance, risk minimisation and risk transfer as opposed to an almost complete reliance on risk transfer to the insurer. The delivery of such durable value could encourage greater individual responsibility and ownership of personal risk management which could build an improved community of the same.

An assessment of the appropriateness of a short term domestic insurance policy could therefore pose the following questions:

- i. Does the policy cover all major assets and potential liabilities?
- ii. Are the sums insured correct?
- iii. Is the insurer providing an accurate mechanism to adjust sums insured for appreciation and depreciation?
- iv. Are excess structures appropriate?
- v. Does the policy provide unnecessary cover?
- vi. Does the client experience value from the service?

vii. Is the value added durable?

These questions are by no means definitive but do attempt to cut to the core of a product stewardship approach. Has an individual received a product or service appropriate for his or her needs that is simple to use and one that delivers a durable service? A failure to offer this will result in disgruntled customers, an insufficient utilisation of resources and a lost opportunity to positively impact society.

### **5.6.2 The Ethics Associated with the Promotion of an Insurance Product**

How a service or product is promoted and sold from a product stewardship perspective needs to be explored. Insurance policies are most often sold on the basis of fear. A fear of loss. The loss of financial security. Although fear appeals do sell product and services, the ethics of heightening this sense of fear in society comes into question. Insurers should therefore ask themselves; *Is selling on the basis a fear appeal appropriate?* Insurance products however that aim to offer durability of service, as in risk management education, could positively appeal to customers. Positive promotional appeals could create a proactive risk management responsible culture as opposed to one of reactive fear.

Secondly, the motivation for the purchase of insurance is usually a very serious one that affects an individual's life very personally; the search for financial security and therefore peace of mind. The sales process of a short term domestic insurance product is however mostly insufficient to cover the vital aspects of an individual's most treasured possessions and life. Poor upfront selling that does not take enough time to capture client information and needs correctly, in addition to clear explanations of the obligations of all parties to the contract results in incorrect client expectations of the policy that manifests at claims stage in discontentedness when claims are declined. The question here is; *Are insurers*

*and brokers taking the time to accurately sell a policy in proportion to the seriousness of that policy to an individual's life?*

Closely linked to the second question of accurate selling that highlights the obligation of all parties to the contract and accurately recording all necessary client information is the remuneration structure of sales staff. The sale process is often only the symptom of such remuneration structures. Commission structures encourage both a high number of sales and a desire to record inflated sums insured, both of which will increase the sales persons income. Salaried staff may be a solution in this instance. The question is therefore; *Do the remuneration structures of the sales staff generate the desired sales process?*

The general theme that focuses on the ethics associated with the promotion of a product or service as highlighted by a product stewardship approach raises three specific questions related to the sale of short term domestic insurance policies:

- i. Is selling on the basis of a fear appeal appropriate?
- ii. Is the time taken to accurately sell a policy in proportion to the seriousness of that policy to an individual's life?
- iii. Do the remuneration structures of sales staff generate the desired sales process?

These questions are once again not definitive, but do attempt to apply an element of product stewardship to a short term domestic insurance product. An improvement to the sales process, product offering, and remuneration structures could however have a vast positive impact on a customer's peace of mind and the responsible proactive culture of society versus a reactive, fearful one.

### **5.6.3 The Impact of a Short Term Domestic Insurance Product on Society and the Environment**

A review or critique of a product that goes beyond the primary customer/company relationship could raise questions that radically influence design criteria. An appropriate starting point would be to ask; *What are both the positive and negative effects of an insurance policy on society?* An immediate positive response could include the peace of mind insurance provides as well as the financial stability it offers, which in turn develops a positive growing society. On the other hand, in a society like South Africa, that seeks financial security so desperately, pure risk transfer in exchange for an ongoing monthly premium may not be appropriate. As an alternative, a policy that encourages financial security through a combination of savings, risk management and risk transfer may be the answer to true individual empowerment and an improved society. A product that assists an individual to both manage risk and save for eventualities could improve an individual's life and their society. More money will remain in a more responsible individual's hands through such an idea.

A product stewardship perspective also considers the impact of product design on the environment. In this instance a short term domestic insurance product has very few direct effects on the environment. However, the effects of suppliers in the delivery of such a product are enormous, and the choice of these suppliers could both radically increase or decrease the effect on the environment. An appropriate question would therefore be; *What are the positive and negative effects of the value offered by an insurance policy either directly or indirectly on the environment?*

Premiums received by the insurer are required to remain liquid so that these premiums can be used to pay claims. Such premiums can only be held in interest bearing accounts of banks, not in shares or in fixed assets. Choice of investment is therefore limited for a short term insurer, but the choice of bank in which to



deposit funds is not. In an attempt to reduce environmental impact an insurer could select a bank that has guiding principles on the way it invests its clients' funds. Guiding principles, that consider the state of the environment and society. In addition to the choice of bank, an insurer could offer a product whose service will be delivered entirely by suppliers who ascribe to similar minimum environmental values. These could include for instance panel beaters who only use environmentally sound paints and builders who recycle building waste.

In addition to a product whose value is delivered by environmentally friendly suppliers, could be a product design that through incentives, either financially or otherwise, encourages environmentally friendly behaviour of clients. Discounted premiums for hybrid vehicles would immediately generate greater interest in these vehicles. An individual's choice to purchase such a vehicle would be seriously reinforced through the support of such a purchase by the insurer.

In consideration of both society and the environment, an insurer, when designing and insurance offering to clients could ask the following questions:

- i. What are the positive and negative effects, directly or indirectly, of the value offered by an insurance policy, on society?
- ii. What are the positive and negative effects, directly or indirectly, of the value offered by an insurance policy, on the environment?

Once again the questions posed should not be definitive but do attempt to apply another element of a product stewardship approach. Socially and environmentally aware companies and more specifically product design specifications could seriously improve product offerings while simultaneously not only reducing the impact on society and the environment, but positively effecting it.

#### 5.6.4 Improved Designs Offered by a Product Stewardship Lens

A product stewardship perspective applied to an insurance policy could unlock a vast potential to greatly improve the declining image of the insurance industry, value offered to clients, and customer retention. Specific questions raised have been based on the central theme of positively impacting the consumer, society and the environment through the creation, consumption and disposal of a product. Questions posed have been based on a combination of an intricate knowledge of both short term insurance and product stewardship. An assessment of other unrelated products will require a similar in-depth knowledge of the particular industry and the willingness to challenge the fundamental paradigms, as raised by a product stewardship perspective, that such an intimate knowledge provides.

A summary of the questions raised in the previous sections is necessary to highlight the potential of the application of a product stewardship perspective. The questions posed include:

- i. Does the policy cover all major assets and potential liabilities?
- ii. Are the sums insured correct?
- iii. Is the insurer providing an accurate mechanism to adjust sums insured for appreciation and depreciation?
- iv. Are excess structures appropriate?
- v. Does the policy provide unnecessary cover?
- vi. Does the client experience value from the service?
- vii. Is the value added durable?
- viii. Is selling on the basis of a fear appeal appropriate?
- ix. Is the time taken to accurately sell a policy in proportion to the seriousness of that policy to an individual's life?
- x. Do the remuneration structures of sales staff generate the desired sales process?

- xi. What are the positive and negative effects, directly or indirectly, of the value offered by an insurance policy, on society?
- xii. What are the positive and negative effects, directly or indirectly, of the value offered by an insurance policy, on the environment?

The application of the above 12 questions to an insurance policy could deliver a product that we know is inherently right. A back to basics approach that respects the individual, society and the environment. An approach that recognises this respect as key for long term business success.

### **5.7 An Application for both Products and Services**

An application of a product stewardship perspective to a domestic short term insurance policy has highlighted the potential for such an application to other related and unrelated service offerings. The producers of physical products, and especially those products that have obvious physical negative effects, are the corporations who both apply and are expected to apply a product stewardship perspective to their product offerings. The potential and real, positive and negative effects, of service offerings are however less obvious than those of physical products. The application however of a product stewardship perspective to service offerings can certainly guide an expanded assessment of a service. In theory therefore, service companies now have an avenue to apply sustainable development to their core offerings. They have the opportunity to redesign their services to incorporate the questions raised by a product stewardship perspective. An opportunity to offer a back to basics approach that respects the individual, society and the environment.

## CHAPTER SIX

### DISCUSSION AND CONCLUSIONS

The massive rise in the ability and power of corporations to supply an insatiable demand of a rapidly growing world population has shaped the physical and social world in which we live. The uniqueness of nations and culture appears to be moulding into the familiar as opposed to the novel.

The rise of corporations as massive world players and the resulting intense and chaotic competition amongst them has resulted in consumers having access to a range of product options bigger than ever seen before. This increasingly overtraded market has decreased margins and driven increasing efficiencies at the expense of product quality and the ecosystem.

Corporations are the biggest contributors to globalization. They shape the world. It is for this reason that corporations are integral in altering the course of our own unsustainable development that is driven by a see no evil optimism of growth-mania.

The willingness and purposefulness of human change experienced by the world to date suggests that the move to a new tangent of development is possible. A tangent that recognizes limits, responsibilities, the environment, society, ethics and the direct impact of existence.

The glaring reality of rapidly growing world populations, the rise of a market economy to meet the demand of the world's now six billion inhabitants and the resultant damage from a dominant economic system that does not recognise the limits of the earth's resources or sinks, inspired the rise of a sustainable philosophy.

Sustainable development recognises that development in today's global context is a given. It therefore encourages development that does not compromise the needs of both current and future generations. Corporations facing the challenges of this new context have responded with initiatives that have been labelled as corporate social responsibility, corporate social investment and corporate citizenship.

These approaches call for corporations to behave as good citizens. They call for corporations to embrace the triple bottom line; to appropriately balance the focus on the economics of the business with a focus on both society and the environment. Many of these initiatives embraced by corporations do not impact the core business. Instead, they are embraced in response to a need to portray the correct image. An image that recognises the importance of both society and the environment. Branding is therefore the motive.

A synthesis however of sustainable development and business strategy literature proposes a new approach. An approach that is not just about branding the company to look good, but rather focuses attention on tangible and intangible products that are produced, consumed and disposed. This approach is product stewardship. Product stewardship can be defined as the design and promotion of products and services that aim to positively impact the consumer, society and the environment through the creation, consumption and disposal of such product or service.

Corporations are very experienced in managing for both the long term and short term, a finely honed skill useful for preventing the boiled frog syndrome; a failure to recognize the long term effects of gradual changes. The accumulation of these gradual changes has spawned a dominant logic responsible for the success of business today. Success which can however be likened to winning an unjust war.

With a keen focus on the future, corporations do have the ability to imagine a new future. A more inclusive future not bound by dominant logic but one that will alter it. A new logic based on the premise that it is possible to do well by doing good.

Building knowledge of a product across a multiplicity of contexts beyond the primary driver of business success is proving to be an entry to the game criteria demanded by an increasingly connected consumer. This expanded knowledge requirement is currently seen by business as another constraint while it may just be a source of serious competitive advantage and a way to alter dominant logic.

Business strategy is concerned primarily with maximising consumer value with the aim to increase loyalty. Satisfaction in the value offered by the corporation and a deep trust in the corporation are the key links between consumer loyalty and value. Ensuring that customers feel completely satisfied requires of the corporation to design products that offer real value, that are safe and of a quality that the company will endorse with protracted warranties. Trust between a corporation and a consumer evolves over time when incidents of product interaction yield complete satisfaction and when the ideas, concerns and perceptions of a consumer consistently shape the product offered. The concept of product stewardship promotes the active identification, measurement and management of a product's impact, use and finally disposal. The adoption of this approach delivers to the consumer a product that is more meaningful, trusted and valued. The result is that the two fields of business strategy and sustainable development cannot be separated.

Product stewardship is an idea that requires of business a keen focus on the context broader than the sale of products. It is a view that requires of business to actively manage and minimise the negative effects of their products or service offerings on the consumer, society and the environment. Product stewardship implies a way of operating we instinctively know is right. A product stewardship

approach focuses specifically on the design and promotion of a corporation's product or service offering.

Many corporations grappling with the inclusion of a sustainable philosophy, driven by consumer demands, compliance with developing laws, requirements for access to capital, the need to secure an operating license, employee demands and finally the pursuance of enhanced reputation, have embraced various approaches that could potentially deliver these results. Corporate social responsibility, corporate social investment, corporate citizenship and the triple bottom line approach are the approaches most commonly embraced. Corporate citizenship calls for the adoption and display of good citizenship behaviour in the management of the enterprise, work place practices, environmental interaction, and social transformation. Corporate social responsibility encourages the investment in business practice and social causes to improve community well being and protect the environment, while corporate social investment directs investment in social or environmental projects extraneous to regular business activities. Finally the triple bottom line approach seeks the appropriate balance of the economic bottom line with social and environmental considerations.

While it is clearly evident that each approach seeks a greater consideration of both social and environmental issues, none specifically focuses attention on the heart of the corporation; the core product or service offering. As such, activities embraced under the banner of the above approaches are often peripheral to the core business and while the benefits of these activities cannot be discounted, the core offerings however remain the biggest contributors to the world's ecosystem crisis. Product stewardship however focuses attention acutely on a corporation's core offering including consumer, social and environmental concerns to further the aims of both sustainable development and business strategy.

A number of ideas found in both corporate citizenship and sustainable development literature have contributed to and shaped the definition of product

stewardship. These include life cycle analysis, eco-efficiency and sustainable consumption. Life cycle analysis highlights the need for an awareness of where product materials are being sourced, the effect of a product in use, and where a product is disposed. This idea clearly highlights the need to consider the full product life cycle from cradle to grave. Eco-efficiency considers the ideas of improving resource efficiency and the reduction of waste. It considers the possibility of doing more with less. It aims to reduce resource use, reduce waste as far as possible, invest in renewable sources, increase the durability of products and services, and shift the economy from being focused on selling products to selling services. Finally, sustainable consumption seeks to reduce the throughput of products or services to reduce environmental impact. Reducing throughput would involve increasing the durability or life span of a product which would therefore increase the efficiency of resources. These three ideas; life cycle analysis, eco-efficiency and sustainable consumption focus heavily on reducing environmental impact through the consideration of a product's input resources, its design and finally its disposal.

Further to these ideas the impact of a product on both the individual consumer and society has been raised in the literature review. Are products appropriate for the purchaser? Are products being promoted responsibly and what effects are products having on society? These ideas do not have an environmental focus but are rather slanted heavily in favour of delivering an appropriate product to both the consumer and society.

Both sets of ideas, the environmentally focused ideas and the consumer/society focused ideas, recognise the need to manage a product to reduce or eliminate negative impacts. The choices available to a corporation to reduce negative impacts range from the selection of raw materials, product design, product efficiency, durability, recyclability, packaging, and promotion. All of these are however directly linked to the design and promotion of a product. Most control over a product's impact can be exercised at the design stage. The design of a



product can take into consideration additional criteria as raised by the ideas contributing to the concept of product stewardship. Design criteria can stipulate resource type and efficiency, recyclability targets, durability standards, product safety and quality, the intended value to be derived, and the most appropriate user.

Product stewardship therefore as defined in this thesis focuses on the centrality of design as having the largest potential impact. The definition focuses on the impact across the entire product life cycle, from cradle to grave, and includes the consumer, society and the environment as potentially affected parties. Finally the promotion of a product has been a vital consideration. A well designed product used inappropriately will either insufficiently satisfy needs or will be a waste of resources. Product stewardship can therefore be defined as the design and promotion of a product or service that aims to positively impact the consumer, society and the environment through the creation, consumption and disposal of such a product or service.

This focus on the design and promotion of a product or service across its entire life cycle to positively impact the consumer, but also society and the environment, is a new perspective. A perspective that makes sense of key initiatives being implemented by the four researched companies.

Each of the four companies researched; Sasol, Toyota, Woolworths and The South African Breweries Limited are actively building a knowledge of their products across a multiplicity of contexts and are actively managing the negative effects of their products highlighted to them by this new knowledge or broadened perspective.

Each of these companies have dedicated huge resources, well beyond what is required in some instances by law, to initiatives that can be labelled as product stewardship. The products of each of the researched companies do potentially

have negative consequences for one or a combination of the consumer, society, and the environment. Although the motivation to actively identify, measure and manage potential negative effects of their products differs from company to company, each of the four companies are benefiting from the process.

Through the delivery of safer, healthier products that are appropriate and that fully satisfy consumer expectations, the researched companies are gaining the respect of their consumers, potential consumers and their staff. This respect and increased perceived customer value is an essential ingredient in the recipe for building consumer trust which ultimately leads to increased loyalty and business success, the very goal of business strategy.

For the domestic short term insurance market of South Africa, that is plagued by a poor reputation, low customer retention, distrust and intense price competition, a thorough analysis and management of a product as described by the product stewardship approach could provide the benefits of improved customer value, satisfaction, and loyalty as claimed to be experienced by Sasol, Toyota, Woolworths and The South African Breweries Limited. Chapter five raised, through the application of this new product stewardship perspective to a short term domestic insurance policy, a number of critical questions that could redefine such a product offering. A redefinition that could deliver a product that we know is inherently right. A back to basics approach that respects the consumer, society and the environment. An approach that recognises this respect as key for long term business success.

Sasol, focused on advancing fuels of the future, are actively developing safer cleaner fuels that have less impact on the environment and society. As a result they are gaining the respect of their customers and securing their own future. Sasol's projects to develop both GTL diesel, a synthetic fuel, and bio-diesel from soybeans can be labelled as product stewardship initiatives. Both these projects focus on creating a new fuel whose raw input has supposedly reduced

environmental impact. Further, both fuels when consumed, combusted in an engine, have according to Sasol, reduced emissions. These projects therefore aim to reduce environmental impact at both input and consumption phases of the product life cycle. Caution must however be paid to the claims Sasol make. While GTL diesel does burn cleaner than conventional diesel and bio-diesel is produced from soybeans, a widely perceived renewable resource, environmental costs to produce these fuels may well be greater than conventional diesel once the cost of water, transport, and chemical fertilisers are taken into account. Although the two mentioned projects are at face value good examples of product stewardship initiatives they may well be attempts to correctly position the company's image. Through the two initiatives of GTL and bio-diesel Sasol do claim however to be gaining the respect of their consumers.

Toyota who claims to be enriching society through car making have begun, in response to their vision of the future, designing and manufacturing vehicles that are cleaner, safer, recyclable and simple to use. Toyota have imagined a new future and are training their customers to demand it while simultaneously building the capacity to deliver it.

Toyota has taken initiatives to both reduce negative impacts and enhance positive impacts on the consumer, society and the environment, across all phases of their products' life cycles. These initiatives all impact the actual design of its vehicles. Consideration has been given to reducing emissions through improving fuel efficiency achieved through the development of more fuel efficient engines, high efficiency transmissions, and initiatives to reduce the air resistance of vehicles. Product design has been enhanced to reduce impact on both society and the environment. Toyota has also made design enhancements to reduce external noise, reducing impact on society while the product is in use. Further, design enhancements include the reduction in the use of volatile organic compounds both inside and outside the vehicle thus reducing the impact of these compounds on the user and the environment. Toyota, in recognition of the ever

growing scarcity of resources and the challenge of the disposal of a product at the end of its useful life, has designed its vehicles for quick dismantling and material re-use. Once again designs have been modified to reduce impact at both input and disposal phases of the product life cycle.

Toyota's display of product stewardship type initiative does not end with enhancements to existing designs. The corporation has also developed a new breed of vehicle powered by its revolutionary hybrid synergy drive system, a system which intelligently combines an electric motor and a petrol engine. This design aims to reduce the impact on the environment while the vehicle is in use.

The many initiatives of Toyota to enhance product design have clear product stewardship characteristics. They aim to reduce impact on the consumer, society and the environment through the creation, use and disposal of a product. Although Toyota's vision of the future appears to be based on a private car market, while resource efficiency would encourage a shift to a more public transport orientated model. It is however encouraging to see a corporation embracing the opportunities to reduce negative impact on the consumer, society and the environment through all the phases of its products life cycle.

Woolworths who are steaming ahead on their good food journey, are actively striving to reduce both the perceived and real impacts food production and consumption. As a result, the company enjoys enormous consumer trust and exceptional employee morale.

Woolworths has recognised that the production of food can have a negative impact on the environment and society. This recognition has spurred the search for more suitable production methods. These have included the switch to organic production methods, the elimination of genetically modified organism ingredients wherever possible and a reduction in chemical additives in conventionally farmed ranges. This search for alternative product offerings; a move away from

genetically modified organism ingredients, a switch to organic produce, or chemical free products which require alternative production methods is characteristic of a product stewardship approach that seeks to reduce the impact through the creation phase of a product.

Woolworths has further recognised that the consumption of its food could potentially have and does have adverse health effects on its customers. It has therefore firstly spent time understanding the science behind the food to secondly make design enhancements that reduce or eliminate these negative effects. Woolworths has taken steps to eliminate all tartrazine and monosodium glutamate from all its products, Ayrshire dairy products are all guaranteed free of added hormones, and fresh produce is not irradiated. In addition Woolworths has recognised the direct link between obesity and sugar as well as the direct link between salt and heart disease. As such, Woolworths claims to be taking steps to remove all unnecessary salt and sugar from all their products to reduce the potential negative effects on its consumers. Such examples of product design enhancements as being implemented by Woolworths are clear examples of a product stewardship perspective. A design of products to reduce the negative effects on the consumer through the consumption of the product.

Woolworths claims that these initiatives are building a great deal of customer trust. Customers trust that the corporation has their interests at heart, and that it is receptive to their perceptions. They will therefore reward it with loyalty.

The South African Breweries Limited, through their draw the line campaign have gone beyond legislative requirements to promote responsible drinking. As such, they are gaining greater respect from the public and their staff.

Although this corporation has not altered its product design, it is aware that the use or misuse of its products have serious consequences for both the consumer and society. As such, The South African Breweries Limited has paid careful

consideration to the promotion of its products. The draw the line campaign of this corporation attempts to positively encourage the consumer of its products to make responsible choices with respect to the consumption of alcohol. Consumers and suppliers reported feeling pride in the advertisements and staff responded positively. The careful consideration of a corporation's promotion of its products to reduce the impact on the consumer and society is yet another clear example of a product stewardship perspective.

The initiatives taken or being taken by each of the four researched corporations as summarised above are clear examples that all display product stewardship characteristics. Through the careful assessment, measurement and management of potential or real negative effects on the consumer, society and the environment through the creation, consumption and disposal of such a product or service, these corporations have made enhancements to both product design and promotion to reduce these negative effects. The result is the delivery of products that are more meaningful, trusted and valued. In an overtraded market, characterised by abundant choice, the development of trust between a corporation and a consumer through the delivery of exceptional value that completely satisfies consumer desire is the key to consumer loyalty and therefore business longevity.

The adoption of a product stewardship approach, whether adopted out of necessity or moral obligation is delivering benefit to all four of the researched companies. An embrace of the product stewardship approach could provide other similar corporations striving to enhance customer value and therefore loyalty, the edge necessary to thrive in our increasingly competitive global economy. The application of such an approach should not differ for a service orientated corporation. All corporations, including service corporations, can now apply a sustainable development philosophy through a product stewardship perspective, to their products and services to unlock poised potential enhancements that not

only improve customer value, but that positively effect society and the environment.

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