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Managerial Insights

Effective Corporate Marketers Approach Sustainability as a Commercial Issue, Not a Moral One

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The success of any organization depends on its ability to recruit and align people around its agenda whether as customers, employees, users, volunteers, advocates, citizens or regulators.

Sustainability has been a relatively "easy sell" in the public and not-for-profit sectors because the orientation of these organizations is inherently pro-social – their reason for being is to deliver social progress.

Sustainability has been a more complicated "sell" to private sector companies because their primary motivation is prosperity rather than social progress. Companies are commercial entities whose purpose is to allocate resources to their most productive use, and this often involves sourcing the cheapest forms of input. Sustainability sounds expensive and, as the American writer Upton Sinclair astutely remarked, "it is difficult to get a man to understand something when his salary depends upon his not understanding it."

As a result, adoption of sustainable business practices has been slow. While certain business leaders have been motivated by the ethical aspects of sustainability (Anita Roddick, Yvon Chouinard and Paul Polman spring to mind) and the B Corp movement has achieved a certain level of scale, overall progress towards sustainable economic models has been disappointing. One need only look at how many of the commitments to "net zero" have been walked back over the past two years.

Corporate marketers recognize that the most effective way to advance sustainable business practices has been to frame sustainability in terms of corporate self-interest. They have acted on the observation by Adam Smith that "it is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest" (Smith, 1994, p. 15).

By recognizing the goals of prosperity and social progress as different vectors (See Figure 1), effective corporate marketers have defined the goal of sustainable marketing as being to create the conditions under which the pursuit of profit by private sector companies is aligned with the broader interests of society. They have acknowledged that good outcomes do not need to rely on good intentions – just well-designed incentives.

Figure 1 highlights how the motivation of the private sector differs from that of the public sector and the not-for-profit sector.

Private sector companies primarily care about the X axis - generating prosperity by ensuring that resources are allocated to their most productive use. They are engines of efficiency and technological advancement, but not necessarily social progress. Their commercial orientation means that they con-

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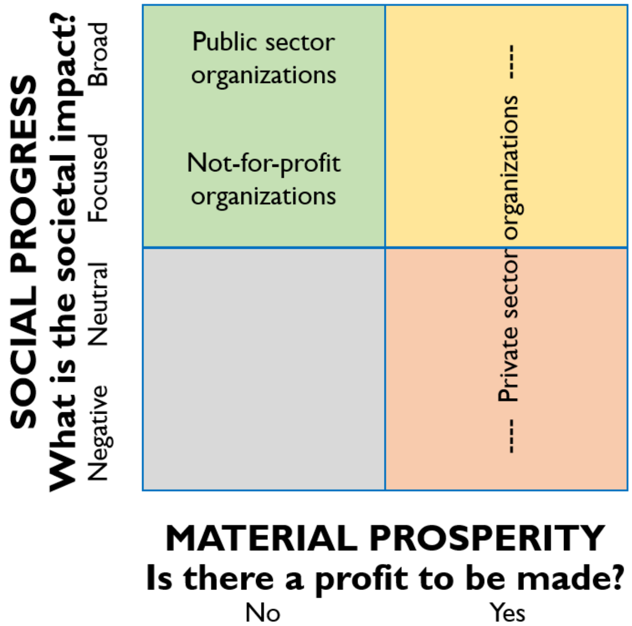

Figure 1. Organizational Motivation

sider social progress to the extent that it increases demand (through attracting customers, employees, partners and investors) or reduces risk (by avoiding regulatory or community opposition).

Public sector organizations care about societal progress – ensuring that public resources are equitably and efficiently used in pursuit of the mandate they have been given (whether to provide education, healthcare, defense, transportation, social services or collect taxes). Their orientation is non-commercial in the sense that they specialize in the "commons" – the provision of things that are of value to the majority of the population, and which form the basis of a desirable civil society.

Not-for-profit organizations complement the work of the public sector by focusing on minority interests that are overlooked by the public sector due to of their minority nature (such as rare diseases in healthcare or employment opportunities for marginalized individuals) and by the private sector (because there is no money to be made in serving these minority populations).

This exhibit clarifies the role of marketing in advancing sustainable business practices. It is to move profit-oriented companies that currently plot in the bottom right quadrant (orange) to the top right quadrant (gold) through incentives that align the pursuit of profit with the generation of positive social externalities (such as more inclusive workplaces) or by eliminating negative externalities (such as CO2 emissions or discrimination).

Sustainability therefore has a particular meaning for corporate marketers – it goes wider than the concepts of "risk factor reporting" (e.g. ESG reporting) or "impact reporting" (e.g. reporting on the UN SDGs) that view sustainability from a financial or reputational lens. Corporate marketers extend the sustainability perspective to encompass the entire universe of factors that enable a business to continue to find a ready audience for its products and services over the medium and long term. In other words, whatever contributes to the commercial sustainability of the business.

Marketing is the business discipline that studies how the competing interests of consumers, employees, suppliers, investors, communities, regulators, and other stakeholders interact to create the dynamic ecosystem within which the business operates and produce the incentives to which it must respond.

1. Creating the Right Incentives

There are multiple ways in which corporate marketers can affect the extent to which businesses impound pro-social considerations into the calculation of their self-interest:

1.1. By influencing consumer demand

Peter Drucker (Drucker, 1954) famously observed that "the purpose of a business is to create a customer". There is no more powerful lever on the behavior of businesses than changes in the purchase behavior of consumers. Corporate marketers have focused in two areas:

- The nature of products and/or their supply chain (e.g. fair trade, ethically-sourced, organic, non GMO, grass-fed, free range, no parabens); and
- Associating the product with a social cause (e.g. Dove and positive body image, Airbnb and belonging, Patagonia and the health of the planet).

These actions have resulted in effective market segmentation (identification of the consumer segments within each industry for whom sustainable business practices and social purpose are a primary driver of purchase) and the opportunity for at least one competitor in an otherwise functional product category to "seize the high ground" by establishing itself as the most sustainable choice (Patagonia in outdoor clothing; Tesla in electric vehicles; Orsted in electricity generation).

However, marketers have frequently over-reached in this area by running campaigns that associate their products with social causes that are tangential to the drivers of consumer preference in their category (examples include Hellmann's[1] suggesting that eliminating food waste is the purpose of a mayonnaise; Gillette[2] suggesting that eliminating toxic masculinity is the basis for choosing a razor, and Pepsi[3] suggesting considerations of racial justice drive soda preference).

Evidence suggests that most industry sectors are relatively neutral in terms of their moral valence. The industries are valued for the functional contribution they make to our lives by supplying the products (e.g. food, clothing, appliances) and services (e.g. utilities, education, entertainment) that we want. As consumers, our preference is for these to be produced sustainably, but few of us spend the time on being as purposeful and price-insensitive in our purchases as we would like to claim.

1.2. By influencing employee recruitment, retention and engagement

This is not the case with employees. Work is a core part of our individual identity, and our choice of employer is significantly shaped by our perception of their reputation and culture.

This makes sustainability and social inclusion a significant point of leverage for attracting, retaining, and motivating employees.

Research by Alex Edmans (Edmans, 2011) of London Business School indicates that the S is the only one of the ESG factors that provides a consistently reliable source of corporate outperformance (see his research based on the "Best Companies to Work For"). In contrast, companies actually benefit from poor environmental performance (they make excess profits while causing significant externalities) and the impact of good governance on corporate outperformance varies by context (for example, it matters more in non-competitive industries than in competitive industries because good governance is a table stakes requirement in the latter).

The importance of the S is consistent with the conclusion of my Harvard Business Review article "What is the Purpose of Your Purpose?" that a culture-based purpose is likely to be relevant no matter the sector, while a cause-based purpose may only be relevant in sectors where the pursuit of profit and social good are

[1] Hellmann's and food waste: https://www.youtube.com/watch?v=1L3h-PqlSso

[2] Gillette and toxic masculinity: https://www.youtube.com/watch?v=UYaY2Kb_PKI

[3] Pepsi and racial justice: https://www.youtube.com/watch?v=uwvAgDCOdU4

perceived to be broadly aligned (such as green energy and healthcare) (Knowles, 2022).

1.3. By attracting business partners

There is some evidence that companies that have emphasized the importance they place on sustainable business practices (for example, by certifying as a B Corp) are successful in attracting not just like-minded consumers and employees, but also suppliers and distributors.

1.4. By influencing regulators

Issues of social justice – especially ones that involve predatory pricing – are ones that can attract the attention of regulators.

When Mylan raised the price of its EpiPen and justified its behavior in terms of shareholder value maximization, the move was widely condemned across the political spectrum as harming vulnerable patients. Lawmakers did not accept that the pursuit of profit maximization was appropriate within the context of providing vital medicine to vulnerable groups. A similar reaction was provoked by Martin Shkreli when he raised the price of the lifesaving antiparasitic medicine, Daraprim (for which he had recently acquired the exclusive manufacturing license), by a factor of 54 times.

1.5. By attracting investors

The massive inflows of investment into ESG funds in the wake of the Business Roundtable's decision in 2019 to revise its statement about the purpose of a corporation is evidence that, just as employees would prefer to work for "good" companies, investors would prefer their savings to be invested in "good" companies.

Whether this has resulted in greater flows to impact-oriented companies is debatable. What it clearly led to was a flood of communications by corporations about their ESG credentials, with perhaps the most egregious example being Philip Morris International (the parent company of the cigarette brands Marlboro, Chesterfield, and Parliament) describing itself as a "lifestyle, consumer wellness and healthcare company".

This is a level of "purpose washing" that would make even Niccolo Machiavelli smile. In his classic 1619 book "The Prince", Machiavelli advised that "a leader doesn't have to possess all the virtuous qualities I've mentioned, but it's absolutely imperative that he seem to possess them." (Machiavelli, 1532/ 2009, p. 70).

The above discussion underscores that there are limits to the degree of leverage that marketers can achieve through social incentives to influence corporate behavior.

Second, but less commonly explored, avenue for influence by marketers is through regulation

2. Creating the Right Regulatory Context

Even Milton Freidman caveated that profit maximization by business needed to be pursued "while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom".

Freidman acknowledged that the job of government was to set "the rules of the game" – thereafter socially-optimal outcomes would flow from companies engaging in "open and free competition without deception or fraud."

Given that socially-optimal outcomes are not being generated – either because there is a lack of "open and free competition" due to excessive concentration, or because of outdated regulation (e.g. social media companies using Section 230 of the Telecommunications Decency Act of 1996 to avoid responsibility for curating the content on their platforms) - it may be time to update "the rules of the game".

Marketing is the study of how businesses interact with their markets, making marketers an important source of insight into how regulation can be used to achieve a better alignment between prosperity and progress.

The opportunity can be depicted as follows:

Corporations operate within the boundaries of the widest circle – the realm of what is legally permissible.

Sustainability advocates focus on the two smaller circles – first, by defining what responsible business practices look like (i.e., how to make the pursuit of profit as ethical as possible) and, second, by identifying how to design regulation to bring about higher standards of corporate behavior, whether in the areas of pollution,

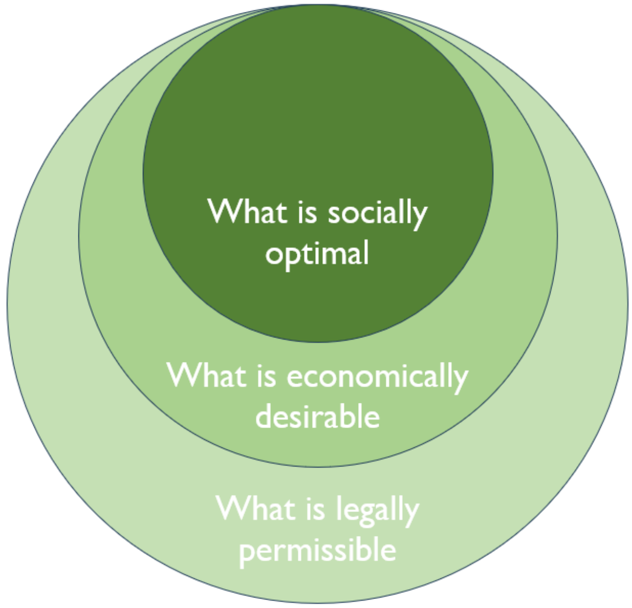

Figure 2. Three Standards for Assessing Behavior

discrimination, competition, or taxation.

Legislation naturally lags public sentiment. Child labor had become socially unacceptable long before the Fair Labor Standards Act of 1938 finally made it illegal. But it is important that social progress ultimately becomes enshrined in legislation to formally update the "rules of the game" to which corporations must adhere. These laws establish the minimum standards of corporate behavior in order for them to enjoy the social and legal "license to operate".

In the case of sustainability, current efforts rightfully focus on establishing an environment in which corporations internalize the economic costs that they create. Some of this is achieved by regulation (e.g., laws against pollution, discrimination, corruption) and some via taxation (e.g., the idea behind a carbon tax is to make the "cost of goods sold" reflect their true economic cost by internalizing what is currently politely termed "a negative externality").

3. Fostering the Right Innovation

A third area in which sustainable marketers can play a role is around innovation. Specifically, innovation that currently exists in the top left quadrant of the 2x2 above (the green quadrant). That is, innovation that produces socially desirable outcomes but is not yet economically viable.

Because marketers understand the non-commercial aspects of human motivation and satisfaction, and appreciate the complex interplay between the interests of different stakeholder groups, they are in a good position to identify and advocate for activities and technologies that will yield a high level of social return.

There are numerous examples of technologies (the internet, GPS, semiconductors, satellites, touch screens, space travel, nuclear power, mRNA) that were incubated through public sector investment before they were sufficiently developed to attract profit-oriented private investment.

4. Conclusion

Marketers understand the dynamics of how a business interacts with its market, and the complex web of relationships and forms of value exchange that create both a healthy company and a healthy ecosystem. There are three main ways in which marketers can contribute to creating the sustainable conditions for progress and prosperity to advance:

1. Authentic and responsible activation of consumer demand, employee engagement and social approval;
2. Advocating for legislation that updates the "rules of the game" to which companies must adhere for both prosperity and progress to advance;
3. Identifying innovations that can offer a high level of social return (independent of whether they can be monetized).

For corporate marketers, sustainability must be approached as a pragmatic, commercial issue rather than an ethical one. This is because the purpose of a business is to create a customer – and customers pay companies to produce the things they want to buy. Social incentives, regulation, and technology are the tools that marketers can use to ensure that corporations do as little damage (and, preferably, some good) in the process of generating the products we purchase.

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Editor's Note

From time to time, the Journal of Sustainable Marketing will publish commentaries from sustainable business managers and consultants, whose perspectives, while not academic in the strict sense, offer valuable insights and research questions for sustainable marketing scholars to examine using social science theory and method. Here is the first such commentary from Jonathan Knowles, Founder of Type 2 Consulting. Mr. Knowles' commentary is based on his presentation in a special session sponsored by the American Marketing Association Sustainable Marketing and Innovation Special Interest Group at the AMA Summer Academic Conference in August, 2023.

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