

ROTTERDAM SCHOOL OF MANAGEMENT, ERASMUS UNIVERSITY

▶ **How design can improve company performance**

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Introduction



It is through inspired thinking and academic excellence that the frontiers of management research are advanced. Congruously, looking to the future and going beyond the traditional borders of business is essential for organisational success in a world where change and uncertainty are constants.

In this issue of RSM Insight, we present four articles, each summarising inspired academic investigations conducted by RSM faculty members and each exemplifying our conviction that the school and its world-class experts are leading the way in expanding the boundaries of practical management research.

These are findings that will have a profound impact on business now and in the years ahead and reinforces not just RSM's commitment to excellence in management research, but also its vision of being the business school that thinks and lives in the future.

With best wishes,

George Yip
Dean

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How design can improve company performance

by Jan van den Ende, Marina Candi and Gerda Gemser

Emphasising design and including designers in product development teams contributes to new product success. Likewise, involving designers in developing websites and corporate visual identity helps to improve firm image. When taken together this can contribute to improved company performance. These are the main findings of research conducted in a survey of nearly 400 managers in Dutch firms from both manufacturing and service sectors.

Design plays an important part in all of our lives. Apple products are held up as paragons of successful design, but there are many other companies that excel at the ergonomic design of their products. Even services are increasingly designed from a customer experience perspective, for example healthcare. For researchers and marketers it is increasingly essential to understand how design can influence the emotions and expectations experienced by those who interact with it. For firms, it's important to gain insight about the effectiveness of design. For example, to what extent does emphasis on different aspects of design in products or services pay off in customer satisfaction, market share and financial performance?

In approaching our research on design effectiveness, the first major issue was to determine what was

actually meant by 'design' as the term can be interpreted in numerous ways (Fig 1). When developing our research model, specific attention was paid to the management of design as well as to other factors that could explain when design processes work and when they

don't. For example, are processes impacted positively when designers are given greater creative freedom? Does it help to combine experiential design – which is about appealing to the senses and emotions – with functional design – the ergonomic and technical aspects?

Measuring performance

Project performance compared with competitors was a key area covered by the business manager survey. Three performance factors were identified. Firstly, *product financial performance* provides a measure of the financial returns gained from a product. Secondly, what we refer to as *product experiential quality* encompasses a product's sensorial and symbolic quality. Third,

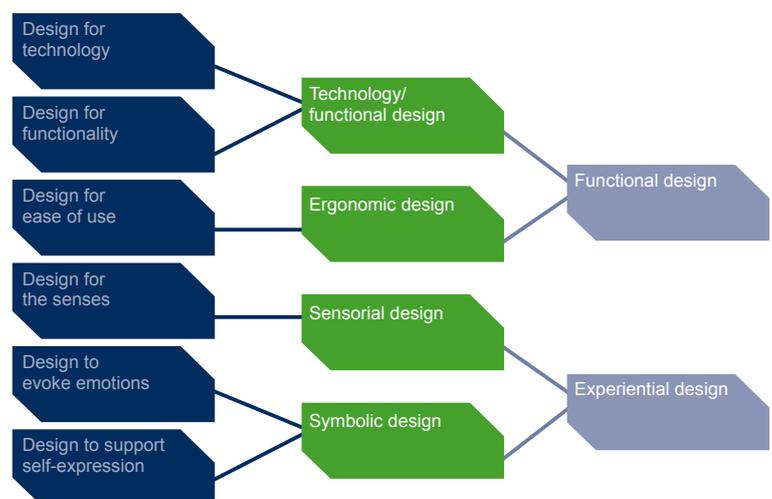


Fig 1: Different types of design

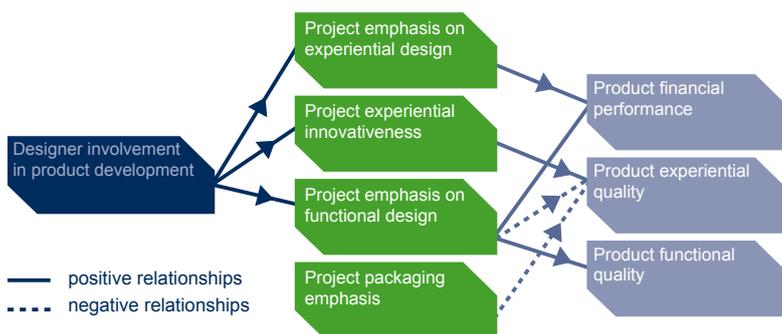


Figure 2: Relationships between the project level (left) and the project performance level (right) for new product development.

product functional quality: the quality of a product's technology and functionality and its ease of use.

The contributions of designer involvement and design emphasis to product performance are shown in Fig 2. In summary, the greater the designer involvement in a product development project, the greater the project emphasis on both experiential and functional design.

Detailed analysis revealed that the relationship between designer involvement and the emphasis on functional design primarily rests on the relationship between designer involvement and emphasis on ergonomics rather than functionality and technology.

Experiential design emphasis and functional design emphasis are relatively equal in what they contribute

to financial performance. Our analysis indicates that, on average, new product development projects with a high emphasis on experiential design will result in 9% better financial performance than those that have only medium

“Products with high emphasis on functional design will have on average 10% better financial performance than those with medium emphasis.”

emphasis on experiential design. Similarly, products with high emphasis on functional design will have on average 10% better financial performance than those with medium emphasis.

Other specific effects are particularly interesting for the insights they offer businesses. For example, project

emphasis on functional design and packaging has a negative effect on the experiential design quality. Of course, trade-offs between technology and aesthetics are not uncommon, but the implications are that if a firm is more concerned with the experiential quality of a product – something that can be relevant to the entertainment, hospitality and cultural sectors – it should emphasise experiential design over functional aspects.

Furthermore, we found that placing a greater emphasis on experiential design contributes more to financial performance if the experiential design of a product is innovative. We also find positive effects and short-term benefits in experiential design quality when designers are given creative freedom

to explore concepts and ideas that might go beyond the scope of the project. Long-term benefits may result from allowing designers to pursue ideas outside the scope of the project at hand as their ideas may lead to new opportunities being identified for future development projects. ▶

How design can improve company performance (continued)

by Jan van den Ende, Marina Candi and Gerda Gemser

Another interesting outcome, and one that was somewhat surprising, is our analysis showed that the combination of customer involvement and a high emphasis on experiential design weakens the impact of experiential design on experiential quality. One possible explanation for this is that if customers are involved in

perception of it. Our research shows that the greater the involvement of designers in both website and corporate visual identity development, the better the outcome in terms of customer perception. Designer involvement in house style development is positively related with all perceptions of the firm.

“Firms should consider design right from the inception of the project.”

product development they are likely to focus on what they already know; they will have a conservative preference for what is tried and tested rather than favour innovative design. However, these outcomes might depend on how customers are involved in the product development process. This is an area in which further work must be done, but our findings fit very well with other recent research on innovation in design.

Corporate visual identity

The performance of companies' websites is another area in which we have found a positive effect emanating from the involvement of designers at specific stages of the development process. Particularly, this relates to corporate visual identity and customer

Designer involvement in web style development is positively related with perceptions of social responsibility, emotional appeal, financial success and the impression that a firm was a good employer. We also found relationships between the performance of products and websites with overall firm performance.

Conclusions

A core industry insight that came out of our research is the categorisation of different elements of design. The six design emphases can serve as a useful checklist for organisations. Furthermore, the main practical implication of our study is the evidence that shows the importance of design, and the value of integrating design and designers into the product development process.

Many firms see design as one of the final stages of development: they conceptualise the product, analyse its potential, its markets, and then actually design it. Our research shows that this is the wrong approach to take. Instead firms should consider design right from the inception of the project.

The fact that we have been able to show empirically that emphasising design in product and service development really does contribute to the financial performance of businesses – as well as shedding light on how this can best be achieved – should be useful to help businesses to positively reassess the design emphasis of their new product development projects. ■

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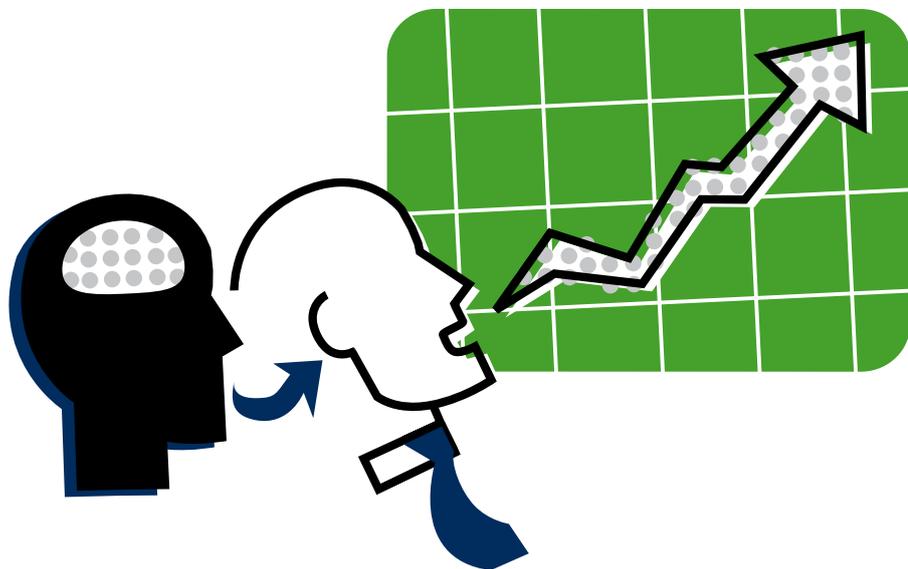
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Trusted advisers build business success

by Vanessa M. Strike

The role of the trusted and most loyal adviser has been a crucial one to family concerns throughout the ages. During the Korean Joseon Dynasty, Kim Cheo-Seon, a eunuch, advised successive kings wisely. Sir Francis Walsingham, Principal Secretary to Queen Elizabeth I of England, is remembered still by history as a powerful adviser unwavering in his loyalty to the throne. Popular culture portrayed the role dramatically in the film *The Godfather* in which the character Tom Hagen serves as consigliere to the Corleone family's underworld empire.



Many family-controlled firms (FCFs) benefit from the professional and personal advice of someone outside of the family. That person, through a mix of trust, integrity, respect and experience, is accepted within the family's inner circle and becomes their

most confidential adviser and counsellor. It is a role I have designated as the *Most Trusted Adviser* (MTA).

The MTA differs from other types of advice provider. There is often a hidden role that many people do not know exists. The MTA is privy to the most

confidential of information pertaining to both the family and the business. I use the term to refer to someone who usually advises to one family only on both business and family matters, and who is often employed full-time by that family.

But why is this of interest? Family-controlled firms are the dominant organisational structure in the world. Estimates of their economic impact vary depending on the definition used. However, researchers agree that these businesses have a significant impact on economies all over the world. Obviously then, the role of the MTAs and their importance in guiding significant numbers of businesses to success is enormous.

In starting out the study, it seemed logical to begin with the basics and identify who this person was, what they do, and what value they brought to the family business in their role as adviser. As straightforward as those goals might seem, right from the outset there was great difficulty in getting access to these people. Not only are most family businesses very private by their very nature, but also the identity of the MTA is not usually known outside of the family circle. This is further blurred, as the role of MTA is not explicit: these people do not have an office inside the firm with their job title on the door. Although not every FCF has this type ▶

Trusted advisers build business success (continued)

by Vanessa M. Strike

of adviser, whether through choice or lack of opportunity, the number that do is surprising, especially among larger family businesses.

The FCFs in this study came from Canada. The firms ranged from 30 years to over 100 years old and they operate in six different industries: transportation, telecommunications, investment management, packaging life sciences, and multi-industry. To give a sense of scale, the businesses ranged from quite small in terms of employee numbers, but with considerable assets, to multinational enterprises that rank among the biggest in the world.

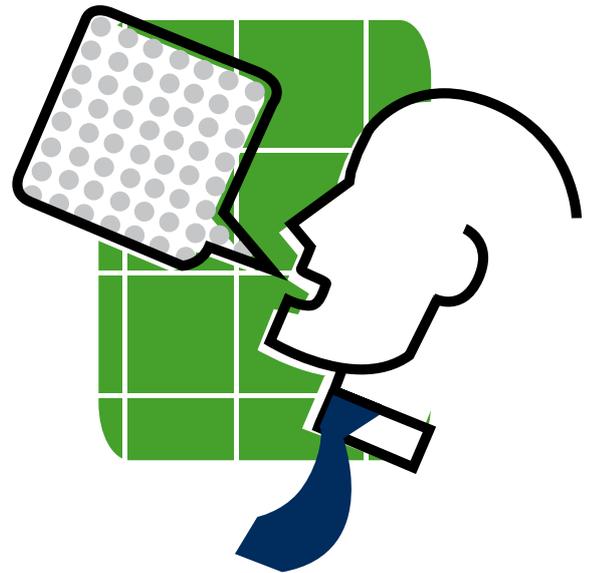
An essential ability of the MTA is to be able to *capture the attention* of the decision maker. This is achieved through qualities I have determined as *Voice* and *Weight*. *Voice* can be defined as a relational characteristic that has several qualities associated with it. For example, the MTA places the interests of the family above their own: a strong sense of integrity – being true to one’s own values – is essential for an MTA, as is absolute trustworthiness and self-awareness. *Weight* relates to competencies based on the breadth and depth of the MTA’s experience and gives the MTA legitimacy and ‘the right to be heard’.

It is interesting to note that the majority of MTAs are tax lawyers or tax

accountants. In part, this stems from their professional training, which teaches them the crucial questions to ask to quickly get to the heart of business issues – an immensely practical ability for a confidant to have.

In addition, the tax lawyer or tax accountant is entrusted with the most intimate financial details of both the business and family. This provides the MTA with a unique understanding of how the organisation is functioning and its possibilities as a going concern. Having an intimate knowledge of family-specific financial arrangements, such as wills, deeds, and investments, places them in a very unique position to understand the relationship between the business and the family.

When capturing the attention of the business owner a process of *attention influencing* takes place. A critical part of influencing attention is *decision bias to others* – this requires the MTA to follow the family leader in decisions even though they may not agree with the choices being made. Loyally, the MTA will provide unwavering support and advise on pitfalls that might await. Even when the MTA’s advice is not taken, rather than damaging their standing, evidence suggests that accepting and committing to a decision with which they may not necessarily agree further strengthens their position.



Mindful governance

By capturing the attention of the decision-maker, and with the qualities of *Voice* and *Weight*, MTAs enable an environment of *Mindful Governance*. This can be described as an increased awareness of the thoughts, actions and motives of the decision making process and the methods by which those decisions are implemented or not implemented.

This can be seen through two aspects: *crafting more encompassing decisions* and *collective direction*. The first reflects how the guidance offered gives reason for the decision-maker to stop and reflect upon an impending action. Consequently, and because of the insights or advice the MTA has proffered, a better decision is reached.

MTAs also help the heads of family-owned firms to understand the greater implications of a decision. This is particularly important as strong business leaders and entrepreneurial types have a tendency to make decisions very quickly. They tend to not necessarily see the broader ramifications of a course of action, for example, the effect it may have on family members.

Collective direction, the second aspect of Mindful Governance, has an effect in respect to collective decision-

structures, and so should prove useful to family-owned ventures and decision makers at all levels of business.

Key findings

One of the key findings to come out of this study is that the process of advice giving, as opposed to the advice itself, is what really matters. Having the character qualities, the Weight and Voice, are prerequisites for the role of MTA; otherwise the ability to capture attention and influence will not exist.

“Succession in family businesses is another area where the MTA can prove invaluable.”

making within the family business, and particularly so when more than one generation of family members is active in the firm. The key lesson being that together they stand, divided they fall. Again, it is because the MTA has the Voice and the Weight that they command the respect of all members of the family and so can help in collective direction setting.

The conceptual model of Mindful Governance presented in the full research paper upon which this article is based offers insights and implications into how FCFs may establish more effective and efficient governance

The findings also offer a different view from that given by other management research into the role of advisers generally. Typically, a manager providing advice to a senior executive may lose significant credibility if that advice doesn't work out. Not so with the MTA, who can instead expect their standing within the inner circle of the family owned business to be strengthened even further. MTAs are in a unique position of trust. They know everything about the family and are in a position to take advantage of that information if they so wished. However, they do not and instead use their

privileged position to help the family, to provide checks and balances against every decision or speculated action.

Not all business owners want someone to fit the role of MTA, and some are just not open to having a person in that role. For it to happen, there must be a suitable environment to begin with. Owners of FCFs must be open to input from people outside of the family's business circle. The same is true where siblings are involved in the business. Siblings have to be as open and as willing to listen to the advice of the adviser just as much as the business founder or owner is. Succession in family businesses is another area where the MTA can prove invaluable, especially where there are several siblings in the firm.

The MTA helps make more issues and answers available to the decision-maker; they question assumptions and norms and encourage the decision-maker to craft encompassing decisions. They also help manage family dynamics and the interrelations between group members, assisting members to understand their respective roles and interactions, resulting in collective direction. ■

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Consumer choices: Going green to be seen

by Bram van den Bergh, Vladas Griskevicius and Joshua M. Tybur

What motivates consumers to buy eco-friendly products? Are people's choices linked to their concern for the environment and thus to be viewed as expressions of altruism, or are motives fragile and self-serving reflections of concern about social status within the community?

Such questions were raised when investigating how consumers respond to tactics used by marketers to encourage them to 'go green'. Environmental concern is a motivating factor for consumers, so by emphasising the eco-friendly benefits of a product or service, marketers can influence consumer behaviour by encouraging them to believe that they are contributing towards a better world and that their choices matter.

In a series of experiments, we tested people's reactions towards 'green' choices, and their motives for purchasing them, through exposure to a variety of scenarios that caused them to reflect upon their social status or reputation. After this motive manipulation came a further test in which participants simply had to decide between a 'luxury' product and a 'green' equivalent. The products on offer in luxury and 'green' versions included a washing machine (value US\$1,100), household cleaning fluid (US\$7), and a car (US\$30,000).

The luxury version of the car came with leather upholstery, expensive sound system and everything else you would expect from a model at the top of its price range. The eco-efficient vehicle was in the same price bracket and came from the same manufacturer.

Which would they choose? Traditional theories predict that when primed to think about status, our social motives direct us to pick the bigger, flashier option: we would want, for example, a Mercedes over a Toyota Prius any day. Counter-intuitively, the people in our tests expressed a greater preference for the 'green' alternative.

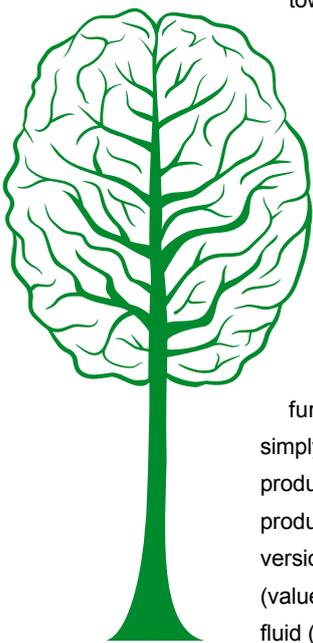
But why might this be so? Evolutionary theories offer us some clues about this paradox through the understanding of altruism, or prosocial behaviour. In some species of the animal kingdom, and indeed with certain tribal cultures, we see a phenomenon known as *competitive altruism*. Simply put, it's a case of striving to outdo your neighbour, not through bigger and better material

goods, but by bigger and better acts of selfless concern, and by incurring costs (a show of wealth) whilst doing so.

But how could we show that competitive altruism came into play, and that status motives were a factor in 'green' purchasing decisions? When repeating our earlier experiment, we changed the relative price of the two products to ascertain if status motives did indeed influence the desirability of 'green' products. This time the 'green' option was presented as being more expensive than the luxury one. If altruism functioned as a social signal, in part because it is a public show of one's wealth, then increasing the price of a 'green' product might actually cause it to be more attractive for individuals motivated to gain status. Indeed, this is exactly what we found.

This goes against the grain of traditional marketing wisdom: that is, to make environmentally friendly products more attractive to consumers, they need to be priced lower. To the contrary, our findings show that status motives can lead to consumer preference for 'green' products that are more expensive than their 'non-green' equivalents.

However, this does resonate with observations made in the United States. A good example is when the tax breaks for hybrid cars were abolished. Prices increased as a result and unexpectedly



sales started to skyrocket. Making hybrid car more expensive suddenly made them more attractive to people. So dramatic was this effect that we can only describe the Toyota Prius as a self-promoting billboard of pro-sociality. To prove if 'green' products really could function as a personal signal to show how pro-social individuals are, we manipulated our luxury versus 'green' choice further and sought to see if people would make the same choices if their purchases were made privately.

In the privacy of their own homes, out of the view of others, we discovered that most people's apparent altruistic concern for the planet suddenly disappears and eco-friendly choices are forsaken in favour of luxury items. Have them make the purchase out in the open where others can see and the consumer is magically motivated to prefer the 'green' product to the ostentatious choice.

This shows us that status can actually motivate some consumers to buy eco-friendly products. Whilst they may indeed be genuinely concerned about such issues, at least a part of their motive relates to status and their desire to be seen as a good person in society. Making the purchase is a blatant show of wealth. It sends a message that the purchaser can afford the goods financially, and is prepared to sacrifice

luxury for the sake of the environment. We call it "Going green to be seen".

Asking society to 'go green', to become more environmentally aware and to make conscious decisions based on eco-friendly motives, is unquestionably very important. Understanding the strategies public policy makers and others can use to greatest effect in promoting such campaigns becomes then the hinge upon which their success swings. We have investigated just one tactic that can be used to encourage people to make more eco-friendly choices through the manipulation of social motives. Other tactics are available, such as the economic benefits mentioned earlier.

It should be noted that to encourage people to become more environmentally motivated over the longer term, it is far better to motivate them intrinsically rather than extrinsically. If you want people to adopt a greater degree of pro-environmental behaviour then awareness and concern for 'green' matters need to be engendered as personal issues rather than as matters of incentive.

Beyond tactics for stimulating behavioural motives, what we learn is that the pricing of 'green' products can create paradoxical results in consumers. Typically businesses would expect demand to rise as prices go down.

Instead, we find that the opposite can be true. Comparisons can be drawn between eco-friendly and luxury products: if Louis Vuitton, Gucci or Cartier items were priced at Walmart levels overnight, then their desirability would disappear with the rustle of a cheap carrier bag. Make the price of the eco product more expensive, and for consumers that product becomes more desirable.

As we have found, when social motives are stimulated, consumer preference is for the 'green' option rather than the supposedly aspirational product – but only when that choice is made publicly. As consumers, being concerned for the environment is, it appears, something that some people prefer to engage in when their actions are at once conspicuous and good for their reputation. ■

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How companies can help in the transition to low carbon cities

by Gail Whiteman

Greenhouse gas emissions are a significant contributor to climate change with our cities producing approximately 75-80% of all CO₂ worldwide. Understanding the burden, large-scale city initiatives are leading the way in tackling a global problem at an urban level. Industry is a major contributor to the problem, but can learn much from the municipal approach and by partnering with city authorities locally and internationally.

As a species, at least 50% of our populace is gathered in urban centres and so it follows that it is in those places where we will feel many of the impacts of environmental change. Almost everything that we buy, use and consume has a direct connection to emissions and thus to corporate activity. Therefore the problems associated with climate change represent considerable strategic challenges - and opportunities - for businesses.

Forward-looking organisations realise that climate change brings with it an inevitability of increased environmental legislation – legislation that can bring regulatory risk. Likewise, there is investor risk. The Carbon Disclosure Project, a trillion-dollar group of institutional investors, is asking Fortune 500 companies to report on their carbon emissions. Compliance is voluntary, but with such

a heavyweight group of investors involved companies cannot but help feel a certain amount of pressure to participate. Indeed, a recent Ernst & Young report shows that nearly three-quarters of global firms with more than US\$1 billion each are planning to increase their climate related investments.

Of course, consumer pressure also stimulates companies to rethink their environmental strategies. In addition, many companies have come to the simple realisation that eco-efficiencies are good for the financial bottom line and that as the world transitions to a lower carbon environment, innumerable business opportunities will present themselves with the concomitant wave of innovations.

As researchers, we have spoken to many senior executives, including those that comprise the RSM Advisory Board, and have found many to be very supportive of our work on the management challenges and opportunities of climate change. More importantly, senior executives support RSM in prioritising this field as a key strategic area for education and research. By making such a commitment, RSM reinforces the message that climate change is a critical business issue and one that needs to be addressed seriously. Companies, however, cannot shoulder



the burden of responsibility alone and, where urban environments are concerned, they must share the burden with local government.

Numerous large-scale efforts, such as the Clinton Climate Initiative's cities programme, and the Large Cities Climate Leadership Group (also known as C40 Cities), exist globally to reduce urban emissions and tackle the challenges of climate change in cities. Such initiatives have sprung up out of a sense of need. These organisations have chosen not to wait for governments around the world to finally reach some form of consensus before responding to climate issues. Instead they are taking action and leading the way at the municipal level.

Rotterdam is one such city: it has set up the Rotterdam Climate Initiative. This is a very good example of a medium-sized city with a positive and proactive local approach to a global problem. Here, city authorities have set an ambitious target of a 50% reduction in greenhouse gas emissions by 2025. Bearing in mind the sheer size of the port facilities and this becomes a significant challenge for the city.

Not many companies are considering how to tackle the problems of climate change at the municipal level; at least not yet. Instead, companies tend to look at a product line and try to figure out how its environmental footprint can be

reduced. For example, companies might look to reduce the carbon emissions produced by their top-selling brand of laundry detergent. Whilst this is valuable, companies need to do more than just take a product or category perspective on carbon. Instead, they should consider the urban CO₂ footprint of their products and services since it is in cities that they are consumed the most.

This begs the obvious question: why should companies care about what happens to cities in terms of climate change, especially if they are already taking a 'global view'? First of all cities are where the majority of customers

sector-city link-ups are natural opportunities waiting to be developed. Companies like Siemens, Cisco, and Philips are good examples of firms that are already trying to help urban municipalities transition to low carbon cities. However, for these opportunities to be realised communications between municipal authorities and businesses must begin in earnest.

To come back to Rotterdam, the local governmental authorities have developed a detailed assessment of the climate-related challenges the city may face over the next 20 years and beyond, and has strategies in place to tackle them. Rotterdam faces a major

“For companies that want to be at the front of tackling climate issues, local government represents a potentially overlooked partner.”

are for many companies. It's where companies typically have their headquarters and major regional offices; it's where employees, board members and investors live. Quite frankly, if the effects of climate change impacts major cities then it's just not going to be good for business!

For companies that want to be at the front of tackling climate issues, local government represents a potentially overlooked partner. Such private

risk of flooding from three sources: the sea, the Maas, and deluge. The city authorities are well aware of this. Ask multinational businesses based in and around the city, however, and they may not be aware of the threats at all.

London is a city that has long been a progressive leader in contingency and mitigation planning and is home to countless international business headquarters. Based in London, HSBC is one of the biggest investors in climate ▶

How companies can help in the transition to low carbon cities (continued)

by Gail Whiteman

research: it has recently invested US\$100 million over a five-year period with four leading non-governmental organisations (NGO's). However, when our students talked to HSBC recently, executives were less aware of the localised strategies being pursued by the City of London to address climate change. HSBC, a global organisation, is looking at the problem of climate change at a global level, and not a local one.

This highlights the need to strategically share environmental data between cities and companies. Promisingly, the cities of San Francisco and Chicago have set up business advisory groups and this will help to bring business and local government together. Part of the reason for this lack of partnership and communication is that it requires new ways of working as well as an increased willingness to try new governance approaches. When speaking to urban ecologists in many cities, I find that they rarely if ever exchange information with business bodies such as the local or national chambers of commerce.

At the recent Copenhagen Climate Summit, countless heads of state received much global media exposure. At the same event, the Copenhagen Climate Summit for Mayors received less media exposure by comparison. December 2010 will see

another global summit, this time in Cancun, Mexico, and again a mayoral summit is part of a parallel track. Of particular interest here is that we are starting to see multi-national companies showing up at these mayoral meetings. Siemens, for example, was the corporate sponsor of the mayoral summit in Copenhagen. This indicates that multinational companies are recognising that such conferences are not just about commercial opportunities, but that there is a major role for business in mitigating climate change at the city level.

Companies can go beyond reducing their own ecological footprint by helping others, including cities, to achieve the same. As researchers, we have a major role to play in this. If a company wishes to be a frontrunner in addressing climate issues then we need to study how they take a systems perspective. By that we mean an urban view of the social, ecological and economic environments in which they operate.

What we are seeking to do is highlight the opportunities and challenges. However, trying to determine, for example, what the combined corporate footprint is, even in a medium-sized city like Rotterdam, presents a major challenge in itself. To do so, new corporate reporting methods are needed so that companies include data on a city-by-city basis. It would

tell us which organisations or sectors have the greatest carbon footprint in any given city and enable us to formulate tailored strategies for working with them.

At the Copenhagen Climate Summit we saw how difficult it is for governments to move forward and to reach consensus. Cities have the opportunity to achieve progress locally and make a difference collectively through global initiatives. Not only do city authorities have an incredible amount of localised power to implement and create change, but they also have the opportunity to experiment, to see what works and what doesn't.

Business has great resources available that can be shared with common goals in mind. Through mutual cooperation, data, best-practices and lessons learned can be more easily shared. Researchers can assist in making sense of that shared data, and by developing further scientific studies so that individually and collectively, real progress can be made in truly understanding the effects that may be wrought by global climate change and the solutions needed to help prevent them. ■

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RSM INSIGHT

3rd Quarter 2010

RSM Insight is published by
Rotterdam School of Management,
Erasmus University

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