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Conference*summary*

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Citizenship as a Growth Driver for the 21st Century

by Meredith Armstrong Whiting

In The Conference Board's 2007 Leadership Conference on Global Corporate Citizenship, participating executives agreed that companies are on the threshold of a significant change for the global business enterprise. Having successfully made a business case for corporate citizenship and sustainability, some leading companies have moved on to integrate these values into their key business decisions and long-term strategic planning.

Three Tenets

Three tenets underpin the approaches to corporate citizenship that were described during the conference's two days of dialogue and presentations:

- It is okay to "make money while doing good," financial success is an essential pillar of corporate citizenship.
- As companies reach the point where citizenship is a part of their DNA, then sustainable enterprise status, reputation, and stakeholder respect materialize.
- Sustainable economies are built on a foundation of mutual respect among communities and companies – wherever companies do business.

Co-Creating Sustainable Economies: Companies and Communities Share the Rewards

Stuart Hart, S.C. Johnson Chair of Sustainable Global Enterprise at Cornell, led a discussion that analyzed the huge business opportunities and community responsibilities within the population of four billion people at the "bottom of the pyramid" (BOP). Business growth in this market requires innovative thinking and attention to local needs and customs.

Achieving success at the base of the pyramid requires a mindset that goes far beyond "greening." The new focus is on co-creating mutual economic well-being, sustainable growth, and human development by deploying new business models, tools, and technologies. Companies are exploring how to do business in radically different ways.

Though much of the thinking to date has been focused on a top-down approach, the future for Western businesses lies in creating mutual value by working with BOP communities to develop new models (“BOP 2.0”) that involve:

- Deep listening and dialogue;
- Building capacity at the local level;
- Leapfrogging to a next-generation way of doing things; and
- Developing an ecosystem of local partners.

Companies working to develop “native capability” in partnership with emerging communities make it possible to jointly produce something that neither party can do alone. By building innovative businesses that marry the competencies of multinational companies, local entrepreneurial capacity, and existing infrastructures, companies are creating enterprises that generate jobs, well-being, and sustainable business returns.

In the context of such an entrepreneurial approach, **Scott Johnson** of **S. C. Johnson & Son, Inc.**, described his company’s pilot program in an urban area in Nairobi. The company partnered with existing youth development groups to create a business in which youths would provide insecticide spraying services “by the squirt” in the homes of the poor, using S.C. Johnson products, such as Raid™. With appropriate pricing, residents could receive the benefits of the products without having to pay the full retail price of a Western product, and the young people would earn commissions for providing the service, thus creating revenue – and often a living – for the youth.

Challenges surfaced through the pilot program, and much learning took place. The experience to date suggests that the model for the experimental business is valid, and there is a huge potential for scaling the business *outward*. Yet before that can happen, key issues must be addressed to understand how best to create opportunities within the BOP market – considering the range of expectations, and exploring the very nature of the products themselves and how they are designed, packaged, and priced. If the local enterprise is to flourish, “deep listening and dialogue” must continue. The key is to develop trust and respect on both sides of the equation by working closely with local

communities to develop a business plan that works for everyone, and co-creating a network of supporters, partners, and potential customers. S.C. Johnson and its local partners have high hopes for the business, both as a specific business and as a broader model for BOP business design and development. The learning to date is extraordinarily valuable for all involved, and S.C. Johnson looks forward to long-term success.

Profitable Growth – Creating Tomorrow’s Winning Brands

Peter Senge, **Chair of the Massachusetts Institute of Technology’s Society for Organizational Learning**, opened a rich dialogue with Nike and The Coca-Cola Company, by saying: “The best thing that can happen is for the term ‘CSR’ [and its variants] to disappear. The real goal is to be a good business today, and in 30 years. CSR is part and parcel of what a company is – not an add-on.” He pointed to the magnitude of the challenges facing global society and business, stressing that the pace of change must accelerate faster than any current projections, and citing the need to deal with daunting challenges: for energy and climate change, food and water, and materials.

Corporate leaders need to align “responsibility strategies” with the “DNA of the business” – its very core – so that commitment to them will be passionate. If a company can achieve that status, the path forward can be easily defined as the competitive edge evolves.

The Coca-Cola Company’s commitment to sustainable communities was discussed by **Karen Flanders**. As a “local business” in more than 200 countries, Coca-Cola is focused on sustainable water supplies – allowing for provision of safe water to communities, managing the agricultural supply chain, closing the leaks in wastewater treatment, and building water stewardship at all possible levels. “This provides a strategic context for our business going forward. Our business will succeed in communities that thrive.” Building on its passionate commitment, Coca-Cola works closely with its 300 + bottling partners worldwide to strengthen environmental performance.

Hannah Jones of **Nike** described her company's approach to the future in the context of relevant emerging macro trends including:

- Environment and the constraint on natural resources;
- Poverty and engagement in emerging markets;
- What is happening to youth as the result of massive migration, unemployment and large pockets of exclusion;
- Health issues, including epidemics/pandemics, the demise of traditional sports and fitness in young peoples' lives, and threats to overall well-being of children and adults because of obesity and diabetes; and
- The effect of the Internet on people's lives and business.

Nike believes that incremental progress is not enough — disruptive transformation and total reinvention are necessary. The company's sustainability strategy goes to "the core of what the company is all about." Its management strategy is to embed sustainability leaders ("leads") in key functional areas with dual reporting to functional managers and the vice president of corporate responsibility. The overall strategy is named "ROI²" — understanding your footprint and aligning business goals and societal goals with their core competencies. A major near-term goal for Nike is to design manufacturing processes to eliminate waste.

Key themes for citizenship and sustainability leaders echoed by both companies include the "need to know the business better than the business knows itself" and to understand "organizational appetite" — when the organization is ready for a next step. Measurement is another important challenge that requires embedding non-traditional criteria into traditional rewards for performance (Coca-Cola) and a total cost approach (Nike) because "problems and solutions often sit in different cost centers."

If the first step for assuring sustainable brands is to recognize the challenges facing their own companies and to develop strategies and management approaches to

execute them successfully, Coca-Cola and Nike provide valuable case studies. Peter Senge closed the discussion with a metaphor: "There is a lot of wind blowing out there... you may not like the direction or the speed, but you have to learn to sail!"

Building a Lasting Reputation

Philanthropy, community, and employees: Getting a 10x Return was the subject of a panel session moderated by **Evan Hochberg** of **Deloitte Services LP**. Deloitte recently implemented three strategic directives to guide its community activities, which has revolutionized the ways in which the company views its community activities:

- Move from an "input" to an "output" mentality — considering not the money donated or hours volunteered, but what the social outcomes are expected to be.
- Define and celebrate the interrelationship between social outcomes and business value.
- Manage the business's core competencies to multiply the social good.

Panelist **Anna Eleanor Roosevelt** of **Boeing** described the company's internal focus on adjusting its philanthropic programs to align them with business goals to create a seamless corporate entity that addresses social change issues effectively. The premise is that if citizenship and business performance are equally integral to companies' missions, both reputation and long-term viability will be exponentially secure.

Andrea Taylor of **Microsoft** discussed another approach to integrating core competency and philanthropic initiatives. The company's signature *Unlimited Opportunity Program* is a community-based grant initiative that strives to reach a quarter billion people who want and need to develop IT skills. Microsoft has invested more than \$250 million in cash, services, and volunteerism to implement a basic IT curriculum. Initially, the company worked through a network of small community-based organizations but now it is working with larger organizations to reach as many needy people as possible.

Unilever recently implemented a strategy for maximizing the effect of its philanthropic activities through the collection and analysis of information on its community programs worldwide and the establishment of a best-practices-sharing mechanism among business units and corporate offices, according to panelist **Mandy Cormack**, a CSR practice advisor for the company and former manager of that function there.

A concurrent session explored new ways that companies are realizing business value from citizenship and sustainability commitments. **Mark Tercek** of **Goldman Sachs** began by discounting Peter Drucker's famous admonishment that "if you find an executive focused on CSR ... fire him, and fire him fast." Goldman works to adapt the company's "core capabilities" for application to big problems, a strategy the company believes is "smart for its investors." He cited the company's role in the recent TXU buy-out agreement as a case in point: "The only way to do the deal was environmentally correctly."

For Goldman, recruiting is paramount. To compete successfully around the world, it needs to attract and retain the proverbial "best and brightest" — and increasingly, these are the young people who are most committed to citizenship and sustainability. So this focus is "enlightened self-interest." Goldman's management approach is to embed thinking and understanding in its business units, with a senior executive, Tercek, providing overall leadership. So far the approach is catching on well in investment banking, for example, but mainstream investment analysts — especially in the U.S. — have not yet fully embraced these values.

"If you don't like what's happening in energy, you definitely won't like what's going to happen with water and fish" So counseled **Nicholas Parker** of **Cleantec Group**, as he described the company's investment philosophy, which is focused on "clean water" and "clean air" rather than "green water" and "green air." Cleantec's goal is to invest in technologies that are both ecologically and economically sound and that achieve the desired ends of both business and society. They have seen a dramatic increase in their business recently, and Parker —

a Canadian resident — cited the rapid growth in venture technology as indicative of "where the puck is going."

Mark Kramer of **FSG – Social Impact Advisors**, also noted that Drucker had it wrong when he stated that business and society are "entirely independent." Traditional justifications for CSR — moral obligation, sustainability, license to operate and reputation — are not sufficient business incentives. There is a more fundamental interdependence between business and society: the competitiveness of companies and the health of a society. Such societal attributes as the availability of skilled workers and "trusted rule of law" interact with and support companies that can create wealth, underscoring this synergy.

Social and environmental issues fall into three major categories, according to Kramer: generic, value chain, and competitive context. The company's focus — especially on social issues — has traditionally been on generic issues (usually through philanthropy or volunteering.) That approach is shifting rapidly as companies become more strategically committed to citizenship and sustainability. For individual companies, the balance between these schools of thought will vary depending on what business they are in, but the trend is increasingly toward integrating social and environmental commitments and activities with strategic business objectives. Kramer referred participants to his recent *Harvard Business Review* article, written with Michael Porter, for details on how companies are transforming theory into real business advantage, citing Nestle and Whole Foods as examples.

During this session's closing Q&A, the issue of a clean technology "bubble" was raised. Tercek's comments on this were memorable: "If you are an investor, be careful; but if you're simply an observer, enjoy...the technological developments will be exciting... look at what happened in the technology bubble!"

Responsible, Profitable, and Sustainable Growth

In an insightful discussion of pragmatic supply-chain solutions to environmental challenges, two manufacturers and a supplier discussed the values realized through innovative supply-chain relationships.

John Delfausse of **Estee Lauder** shared his “win-win-win” approach for reducing materials use in packaging, enhancing package design, and saving money in the process by working closely with suppliers. As an example, he cited a case study involving a shampoo product in which post-consumer recycled content in plastic bottles was increased to 80 percent, saving \$1 million in annual packing costs while the product enjoyed increased leverage in the marketplace.

Don Droppo of **Curtis Packaging Corporation** – a small, high-quality packaging manufacturer – cited the benefits his company has realized by partnering with paper mills (e.g., Mohawk Fine Papers, which produces high recycled post-consumer resin (PCR) paper using wind energy) and attracting new high-end customers, such as The Estee Lauder Companies, Inc. With the increased interest in both recycled content and low-carbon-footprint manufacturing, Curtis Packaging has nearly doubled its business over the past four years.

John Frey of **Hewlett-Packard Company (HP)** provided a somewhat different approach to realizing similar supply-chain benefits, as a key player in the development of the Electronic Industry Code of Conduct (EICC). Together with other leading electronics firms, HP has helped to reduce the life-cycle impact of manufacturing electronic components and equipment while improving working conditions for suppliers around the world. The net benefit for the industry has been a dramatic increase in productivity per worker and a similarly dramatic decrease (30 percent +/- over 5 years) of the need for rework, resulting in reduced costs and waste. At the same time, hours per worker have gone down, and total workers’ pay has increased by approximately 20 percent.

These productivity improvements benefit all in the industry, as well as consumers, and improve the overall readiness of the supply chain. HP has leveraged its leadership role in the initiative to enhance company reputation and improve the quality of engagements with governments and stakeholders around the world.

Terry Kellogg of **One Percent for the Planet** began the panel discussion focusing on new generation business models and blueprints for a greener future. He pointed out that *Fast Company*’s list of businesses that they predict will do best in the coming years includes companies that depend on clean technology and carbon management for their competitive edge.

Lisa Frantzis of **Navigant Consulting** described the changing landscape of renewable energy manufacturing, citing the entry into the market of much larger companies as well as the expansion of the technologies themselves. These range from wind to photovoltaics and geothermal power, biomass gasification, and tidal power. The market for renewable energy equipment is valued at more than \$20 billion, and renewables are rapidly taking their place as valid power grid replacements.

U.S. Power Generating Company was formed in 2000 to manage and plan for the transformation of aging, inefficient power plants to viable, innovative forms of generation. The challenge is continuing to meet the ever growing needs of their New York borough customers while addressing carbon emission and environmental concerns.

Craig Hart stated that the only practical path for the present is a move to more gas conversion. He emphasized the need for a federal energy policy to level the playing field and to produce continuing, long-term results.

Mike Newman, of **ReCellular, Inc.** addressed the issue of product life cycle and disposal, describing his company's cellular phone re-use processes. ReCellular is the leading collector of donated used phones, which are then remarketed globally – especially in developing countries. Some 140 million phones will be replaced each year; currently, ReCellular recycles about 4 million of these. The challenge to growing that percentage is consumer reticence, and both manufacturers and retailers are working on creative solutions.

Consensus among the session's panelists was that the most exciting directions in the path toward sustainability today are the diversification of the initiatives, the intense public attention focused on the issue, and watching the increasing engagement of large and small companies.

Bold Commitments, Actionable Steps

The appointment of a new CEO at **Pfizer** was the genesis of an unprecedented commitment to transparency that has revolutionized the company's interaction with virtually all of its stakeholders, from regulators to physicians to consumers and the governments who have become the largest "payers" for pharmaceuticals. As described by **Robert Mallet**, the new approach was developed to address widespread industry conditions and includes:

- New levels of transparency in the company's clinical trials, including conducting them on diverse populations
- New ways of considering the effectiveness of drugs, including how a patient feels when taking them, not just evaluating their end results
- Being open to new ways of communicating with doctors and hospitals and cutting back sales forces
- Voluntarily submitting advertising to the FDA for review before publication
- Engaging with physician organizations before introducing new drugs to ensure that underserved populations are provided access to them

For Pfizer, this new way of doing business is a way of meeting the company's obligations while fulfilling its own mission.

Karen Johnson outlined **Weyerhaeuser's** belief that without strong communities businesses will fail, which has traditionally been manifested in strong support of hospitals and social services, and ongoing government liaison on behalf of the areas in which the company operates. More recently, Weyerhaeuser's environmental commitment comprises a multi-faceted program that is working to reduce greenhouse gas (GHG) emissions by 20 percent by 2020 through the use of biomass, to reduce the environmental impacts of the building of logging roads, and to use new logging techniques that extend the forest life cycle, among other initiatives. All new operations, including in Latin America, are managed to the company's U.S. standards, and a forest management education program is instituted at each new location.

Johnson Controls Inc.'s focus on supplier diversity has paid significant dividends in both societal good and business development since its inception four years ago.

Reginald Layton explained that the company works with minority-owned business organizations to identify and engage with historically underutilized suppliers. The engagement process often extends to sending the most promising suppliers to good business schools or entering into joint ventures with them — which helps fill a long-recognized societal need. The other side of the strategy is business-growth-oriented, however more than half of the under-30 U.S. population are people of color, and minority companies tend to hire minority employees, who also buy equipment for their own automobiles. Their positive experiences with Johnson Controls products are more likely to influence their product choices. This proven premise has been distilled into the company's operating mantra: Make money, make it ethically, and make a difference.

Bob Corcoran discussed GE's by now universally known ecomagination program, conceived and implemented three years ago. The program is a sustainability-based business strategy founded on a ten-point mandate:

- make money
- make it ethically
- make a difference
- engage your people
- engage your communities
- engage your critics and stakeholders
- practice good governance
- practice helping governments
- save the environment
- save the cheerleader, save the world

GE expects to double its sales of independently certified green products from \$10 billion to \$20 billion in five years. Research into development in green products will double in the same period. And it has committed to reducing its carbon footprint by 30 percent by 2012.

China's planned market-economy goal of being a well-to-do society in 20 years integrates business development and citizenship on a grand scale and on a compressed schedule, and its economic liquidity (\$2 trillion in personal savings alone) makes the goal achievable. **David Wang**, president of **Boeing China**, described its determination to be China's first choice in aviation as the nation evolves into the world's second largest aviation market, by aligning its citizenship, philanthropic, environmental, and safety programs with China's overall social development objectives.

On the subject of developing products to meet the needs of a citizenship and carbon-concerned world, **James Press**, president of **Toyota Motor North America**, began his presentation with what was perhaps the most powerful message of the conference: "I have nothing to contribute to a discussion on citizenship or sustainable development – it's just the way we do business. At Toyota, we have short-term goals and long-term goals – short-term is my lifetime, and long-term is 100 years."

He described the family-owned enterprise's original entry into the marketplace as a move to help Japan become a viable society. In later years, the Prius, the first mass-produced and marketed hybrid car, was launched to address concerns over looming world conditions, from the perspective of the future, not of the stock market. Toyota believes that the most important outcome of the Prius success is its implied statement that it is okay, and even cool, to buy a car that does the right thing and that it is okay for the company that makes the automobile to make money.

At the End of the Conference, Remarkably Consistent Thinking

Virtually all of the companies and issue experts present voiced their belief that:

- The potential for change is enormous for both business and society.
- The more companies that enter the space, the greater the possibilities.
- Societies and companies are interdependent for long-term viability.
- Meeting societal needs and business development are complementary goals.
- Under-served societies not only have the most need, they also hold the most potential for market growth.
- Entirely new ways of doing business must be developed to be successful.
- New technologies and products to help solve social and environmental dilemmas must be developed as quickly as possible.

Businesses that work to integrate these concepts into their operations and behavior will be the best performers in the long term. They will create businesses that society will want to exist. The companies that were represented in New York are leaders in this new prototype for business; they have undertaken the challenge of doing business to do good, not for the sake of doing good alone, but in the expectation that their efforts will produce rewards in the form of increased market share and long-term growth.

The Conference Board Center for Corporate Citizenship & Sustainability was established in 2007 and is committed to advancing practice and thought leadership to strengthen the rationales for business models and decisions that produce both private and public value. This report exemplifies Center goals to share best practices, give exposure to leading-edge ideas, and find integrated solutions to corporate citizenship and sustainability issues. For additional information or to become a member of the Center, please visit www.conference-board.org/ccs

About the Author

Meredith Armstrong Whiting has served as a Senior Research Fellow of The Conference Board since 1987. She authors research on topic relating to public policy, environmental issues, and corporate citizenship, and organized the Board's first council for chief environmental, health, and safety executives.

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