



THE CONFERENCE BOARD



Conference *summary*

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Getting It Right Thinking Beyond “Corporate Citizenship” to “Corporation as Citizen”

by Meredith Armstrong Whiting, Senior Research Fellow, The Conference Board

Participants in the 2008 Leadership Conference on Global Corporate Citizenship took the issue of corporate responsibility in a new direction while addressing the staggering challenges ahead.

Speakers and attendees agreed that while business has a crucial role in addressing the serious challenges society and the planet face, concerted efforts by companies, governments, and societies alike will be required to solve them. In this context, the business case for corporate citizenship evolves into a new paradigm, where citizenship makes the case for business viability.

Replacing discussions that argued for integrating citizenship values into key business decisions were new deliberations centered around companies as members of their local, national, or global communities—and the responsibilities and opportunities this status presents. Speakers and participants considered the interdependence of societies,

governments, and businesses along with the dynamics of community membership and, in general, concluded that the key to continuing corporate vitality is ensuring an upward spiral of economic and societal growth in their communities, at all levels.

The ever-increasing stream of information about societal and environmental change adds urgency to this dynamic. For executives charged with guiding their companies through the citizenship maze, the challenge is daunting. This year’s conference was designed to help executives achieve a better understanding of important developments and trends and illustrate how leading companies are interpreting their roles as “citizens.”

The 2008 Leadership Conference on Global Corporate Citizenship, entitled “Winning Ideas for Tomorrow, Today,” took place February 26-27, 2008, at the Marriott Financial Center in New York.

To paraphrase one speaker—whose company has determined that its growth depends on reaching the “next billion” customers—the challenge in creating wealth for companies and shareholders lies in creating “affordable and accessible products that make sense to consumers.” Inherent in this premise is the assumption that societal and environmental conditions will affect the continuation and growth of commerce. Conference speakers discussed the need for business to understand conditions in every part of the world in which they operate and to work with governments and other organizations to create a healthy social and economic environment that will lift living standards and minimize environmental degradation.

A Call for Business to Intervene

Two internationally respected experts laid the groundwork for the conference sessions, with compelling presentations on the effects of greenhouse gas (GHG) emissions and dwindling natural resources, the need for urgency in addressing them, and the need for business to help lead the way.

Peter Senge, founding chair of the Society for Organizational Learning at the Massachusetts Institute of Technology, used climate change as a metaphor for the larger issue of global citizenship to deliver the message that “constraints often generate creativity.” Although scientific consensus has existed for years that climate change will constrain the planet’s ability to support life as we know it, the extremely short—and possibly shrinking—time frame for averting crisis and the extent to which the earth would be affected lends greater urgency to the issue.

For example, when considered in the abstract, the two degrees of global warming predicted under a scenario that cuts back GHG emissions by 80 percent (the rate scientists agree is necessary) seem small. But as the chaotic and even disastrous ramifications of such warming became clear—total shifts in agricultural and populated areas, flooding, rising sea levels, expansion of desert regions, and much more—the world began to work seriously on methods and tactics to reverse the trends of

ever-increasing GHG emissions. However, to achieve this drastic 80 percent reduction within the necessary time frame, by 2050, the rhetoric needs to be changed.

Much progress has been made, and many organizations are justly proud of the parts they have played in these efforts. But compared to what needs to be done, the progress to date means very little. The scenarios that shape our options, our strategic decisions, and our public policies are evolving rapidly as the scientific knowledge base develops, according to Senge. Without a drastic correction in our current path, the systems we take for granted—global shipping, commercial patterns, travel—will have to change to accommodate needs. And the growth of developing countries has raised the bar higher.

Senge closed by urging companies to take leadership roles as global corporate citizens and to work with external partners to identify both the obstacles to socio-economic equality and the opportunities that benefit both companies and society:

Our present and unsustainable systems have not only endangered the planet as we know it, they have increased the gap between rich and poor. Companies are already finding new businesses, new products, new markets that offer social and environmental benefits. The pace must accelerate and I am hopeful that it will. Just as constraint creates creativity, it can clarify new possibilities.

Larry Selzer, president and CEO of The Conservation Fund, led discussions on business’s status as one of the world’s most important segments of society, noting that under law companies have all of the rights, privileges, and duties associated with “citizenship.” Citing trust as the world’s “superglue,” he noted that while globalization and technology have generated enormous benefits, they have also worked to diminish trust in corporations as global citizens. “Companies are stakeholders in the global arena on an unprecedented scale, and their role is ascending further, at a time when the world desperately needs leadership,” he said.

The choices ahead are complex. In energy, for example, Indonesia has committed to increase its production of bio-fuels, but that means even further deforestation. The United States' renewable energy policy is not sustainable from any standpoint, according to Selzer; farmers are planting more and more corn, using more and more chemicals to stimulate production. The result is rising prices for a food staple, damage to our economy, and potential food shortages. Alternative bio-fuels exist, but there are no plants to process them. A sustainable energy standard must be hammered out, and the bureaucratic process is very slow.

The earth's water supplies, or lack of them, also cry out for leadership, Selzer said. Government reports predict that 32 states in this country will face water shortages in five years. It's likely the next wars will be over water, not politics, he added. Strategic decisions will have to be made about allocations for use by agriculture, business, and people. Bold steps toward conservation and recycling of water are crucial.

Finally, Selzer said, our children are badly in need of connectivity to the real world. Young people who do not spend time outdoors are less likely to have real life experiences and therefore less able to judge. We need a plan to "leave no child inside," Selzer said, adding that our children are being defined by high school dropout rates, obesity, shorter life spans, and no broken bones and their impulses to explore and experiment are stifled. Selzer posed the question, "Where are our free-range children?" The implications, he said, are severe for both our citizenry and our ability to compete.

The world faces a crisis in creativity. In Selzer's view it is a business imperative and must become a national priority, as well, to solve these major issues.

Move on Citizenship: Responsibility Meets Opportunity

The first plenary session of the conference focused on attitudes toward corporate social responsibility (CSR) at the very highest levels of business: what motivates companies to undertake large-scale CSR programs and

the relationship between community and enterprise and why the two cannot be separated.

Sheila Bonini, senior expert at McKinsey & Company, shared results of several recent surveys on corporate and public attitudes toward CSR. Findings show that business is increasingly being regarded as responsible for environmental and societal problems. This means tremendous responsibility, but the convergence of marketplace, governance, and social and environmental issues also offers competitive advantages for creative companies. Among the fundamental questions such companies are confronting regarding the continued vitality of their businesses are:

- Where can we find the resources we need?
- What standards should we measure against?
- Where can we influence policy so we can conduct business safely and fairly?

Addressing these issues can mean making bold changes in infrastructure, energy sources, and overall strategy, but the opportunities are sizable.

Companies are not only in a position to effect profound social and environmental change, but public expectations that business will deliver a set of ideas addressing water concerns, biodiversity, labor practices, human rights, healthcare, and education and the workforce are at an all-time high. A recent survey of CEOs indicates that they see climate change as the number one issue driving consumer behavior and shareholder value.

As seen by McKinsey, the primary barriers to success in creating new enterprises that will deliver economic and societal value include competing internal priorities, lack of understanding on the part of the financial world, and a company's failure to take the holistic view of the issues necessary to the visionary process. Nevertheless, companies are generally more aware of the need to act sooner and more effectively. The biggest gap in progress is among subsidiaries and in the global supply chain. Bonini closed by stressing the need for companies to parse climate change and citizenship through all aspects of their policies, processes, and external relationships.

Akhta Badshag, senior director, global community affairs, described **Microsoft's** long-term business planning goal in terms of changing the value proposition across the company and embedding it within a citizenship framework. “The idea that companies are all about wealth creation is not a valid one,” he said. “They are actually about creating affordable and accessible products that make sense to the consumers, so that wealth is created as a result.” Microsoft’s “Unlimited Potential” focuses on “flattening the pyramid” and working to capture the market in the middle:

We are figuring out the stepladder that will create an economic platform to support increased economic opportunity—we want to reach the next one billion people. We can only do that by transforming education, fostering innovation, and providing jobs; in other words, by marrying citizenship with product development.

Microsoft is working with tens of thousands of community and nonprofit partners toward this goal, with a special focus on infusing developing nations’ educational systems with computer expertise, enriching their curricula, and establishing and maintaining local tech centers. The company’s approach is based on the premise that learning technology is more a social issue than anything else, and that the elimination of poverty is not about philanthropy—it’s about building an economic engine for continual self-improvement.

Operating on its well-known slogan, “Tomorrow’s Legacy Today,” **SC Johnson** works “to make every community we operate in a better place,” says **Pat Penman, director, global environmental and safety actions**. Four platforms form the basis for action:

1. Using earth-responsible raw materials
2. Reducing energy use and greenhouse gas emissions
3. Advancing social progress and public health
4. Preventing insect-borne diseases

Within this framework, the company works for continual improvement of its brands, operations, and community relationships.

Its trademarked GreenList process provides ratings for more than 95 percent of the raw materials used to make products so consumers know they’re buying a product created with the environment in mind. The company’s largest plant has been retrofitted for cogeneration of 100 percent of its base load of electricity and steam from methane gas, and a second plant was just converted to derive half of the energy it uses from wind power.

Major public health initiatives have been developed for societies at the bottom of the economic pyramid. The first is structured around taking SC Johnson products to developing nations and simultaneously creating local jobs and entrepreneurial opportunities. The second program delivers education, research, and resources to fight insect-borne disease, especially malaria and dengue fever.

Philanthropy and Community: Getting a 10x Return

A panel including representatives from a social investing consulting firm, an NGO focused on corporate giving, and a major corporation considered the connection between philanthropy and corporate responsibility and whether (and how) societal and brand benefits can be multiplied when CSR and philanthropic programs are combined.

Mark Kramer, managing director of FSG Social Impact Advisors, pointed out that companies can multiply the effectiveness of their philanthropic programs by working with local governments and NGOs to create community resources where they did not exist before. While simply writing checks is effective in some instances, leveraging the strengths of partnering entities can more often be central to the survivability of a region. Kramer cited a GE initiative that responded to assertions from its African-American employees that the company was not involved in health conditions in Africa.

The pilot program identified a community that had no medical infrastructure, then partnered with local government and aid agencies and marshaled the resources necessary to build a fully equipped regional hospital. Under the auspices of an alliance formed to administer operations, the program is now expanding at the rate of one hospital per month. Other examples cited included Nestle's and Pfizer's direct intervention programs to create jobs and make a social difference. All of these adhere to strict standards of quality established by all of the parties involved, blurring the lines between business and NGOs.

Leveraging employee interests and contributions to multiply the impact of corporate programs can generate substantial returns both in terms of the effect of an initiative and in employee morale and loyalty, according to **Pamela Hawley, founder and CEO of UniversalGiving**. Offering employees the option to select a project also ensures their ongoing involvement in the implementation of the program. The bonus is that job satisfaction levels rise concurrently. This approach requires frequent communication regarding the progress of a program, but the rewards far outweigh the burden. The key to success, Hawley said, is establishing reasonable goals and aiming for low-input, high-impact projects that develop donor affinity.

Dow Chemical considers its citizenship initiatives to be a work in progress as it acts to achieve its goal of becoming the "largest, most profitable and respected chemical company in the world." **Bo Miller, global director, corporate citizenship**, outlined his company's plans for seeking out "more solutions, not more products, and achieving its goals through new business partnerships and global expansion" while maintaining a strong local presence where it operates. From a citizenship perspective, this translates into "establishing business-critical goals locally and globally, demonstrating that our science and knowledge add value, and segmenting our philanthropy to align with our business strategy." This approach has meant a thorough revision of the company's philanthropic activities.

Next-Generation Leaders Making an Impact

A panel led by **Andrew Horning, managing director of the Erb Institute for Global Sustainable Enterprise**, explored the dichotomy between market conditions and next-generation leaders regarding corporate responsibility. **Priscilla G. McLeroy, director and managing partner at Arthur D. Little**, emphasized the need to integrate sustainability and citizenship into companies' management and leadership principles. According to research McLeroy quoted, while issues of sustainable development are increasingly on executives' minds, most companies do not deliberately join high-performance management with inspired high-performance leadership, making value-driven responsibility a crucial component of their long-term viability—even though research shows companies that integrate sustainability into strategy consistently outperform.

Horning reported a four-fold increase in enrollments in graduate-level leadership programs that focus on ethics, integrity, altruism, and humanism. Close to 80 percent of MBA students believe sustainability and CSR should be an important part of the MBA curricula, and companies' CSR performance ranks among the top reasons why MBAs reject job offers. In contrast, corporate recruiters tend to list a commitment to CSR as the least important attribute they seek in job candidates.

Carolyn Berkowitz, Capital One's vice president, community affairs, confirmed the importance of employees' perceptions: associate research shows that a positive perception of how the company contributes to the community is the third-ranked predictor of employee engagement and retention. Managers, in turn, view volunteer activism by employees as a way to identify leadership skills, invigorate the job experience, and teach teamwork.

The Path to Carbon Neutrality and Carbon Offsets

Truman Semans, director for markets and business strategy, Pew Center on Global Climate Change, began a panel discussion on companies' decisions to go carbon neutral and the feasibility and effectiveness of carbon offsets, saying that "carbon neutrality is a powerful concept and physical goal that we must achieve just as soon as it is socially and economically feasible."

The basic steps to carbon neutrality are:

- Develop a comprehensive, widely scoped greenhouse gas inventory
- Reduce direct emissions to the maximum extent practical
- Carefully consider steps to reduce product footprint
- Purchase—and manage—a portfolio of high-quality offsets to address residual, unavoidable emissions

In the "reducing direct emissions" category, Semans said many corporations are taking steps to "organize the chaos of business process," which includes enhancing telecommuting, design review, energy efficiency, and using collaborative technology that reduces travel while coincidentally facilitating timely meetings. Some of the most effective practices center around incorporating technology to re-engineer the decision-making and support process.

Semans described the effects of purchasing voluntary offsets as small in terms of long-term needs, but said that they "start companies on a low-carbon trajectory that is critical to any near-term strategy" and that when properly communicated, these measures also serve to encourage others to change their own behavior patterns. He cautioned that it is vital to vet the offsets being purchased and the organizations from which they are derived not only to verify the nature of the projects, but to avoid "green wash" criticism. Similarly, it is very important not to "oversell" progress.

Mark Armitage, president, U.S., of the Carbon Neutral Company, suggested that carbon offsets are a critical element in any company's carbon reduction program:

While companies can and should pursue all possible energy efficiency paths, to pursue efficiency at any cost doesn't make sense economically. Emissions reduction programs are structured in terms of emissions reduction units, and a carbon offset is an extremely cost-effective emissions reduction unit.

Companies embarking on emissions reduction programs that include offset purchases should ensure that their purchases align with corporate strategy, Armitage added. Once the basis for the program is in place, all aspects should be assessed in terms of internal communications, periodic reassessment, reworking where necessary, and reporting. Accuracy in reporting is critical, Armitage said, as leadership brands working to reduce their emissions appear to be more vulnerable to criticism than those that are doing nothing, so they must be absolutely transparent in terms of the data and levels of achievement that are shared publicly.

Companies are increasingly finding that all of their stakeholders, from consumers to shareholders to recruits, are gravitating to brands that are leading the way toward carbon neutrality. Carbon offsets purchased to supplement other efforts add reputational value. To paraphrase Armitage's remarks, the key is to choose verifiable projects and providers who do their due diligence and adhere to global standards. There are a number of minefields to navigate, but it can work to a considerable advantage.

Green IT can significantly reduce companies' emissions, according to **David Knight, vice president of the WebExConnect Division of WebEx.** This is especially true for consulting, financial, insurance, or other service-oriented companies that rely heavily on travel and meetings to conduct business, where travel and meetings can compose 40 to 60 percent of the organization's footprint.

Audio and web conferencing allow people to meet virtually over the web for purposes ranging from reviewing presentations to engineering a project to participation in trade association and sales conferences. Technological developments and the increase in bandwidth have taken video to a new level, making it extremely effective for small group or one-on-one meetings. Knight added that this kind of collaboration technology offers another substantial benefit: it can significantly compress the amount of time it takes to go to the next stage of the sales process or to complete a new product design review since the necessity for travel is removed.

Bold Commitments with Big Returns

Directing the dialogue toward ways individual companies are addressing global challenges—with an eye to creating value—**Brian Boyd, vice president worldwide environment, health and safety, Johnson & Johnson**, discussed the company's approach to citizenship, which is based on its credo, written in 1943:

Johnson & Johnson is responsible first to doctors, nurses, patients, mothers, and fathers; secondly to its employees in terms of compensation, dignity, and safety; thirdly to its communities and environment, and finally to its shareholders...and when the company operates according to these principles, the stockholders should realize a fair return.

Because almost everyone will need healthcare and medicines at some point in their lives, the company's continued growth is likely. The other side of that, however, is the company's obligation to help those who can't afford medicines. Its Access to Wellness website helps people obtain prescription medicines when they are uninsured, and in the past five years the company has given \$6 million of J&J prescriptions to those who can't afford to buy them. Other initiatives include a global access HIV/AIDS royalty-free licensing agreement and the Campaign for Nursing's Future, which works to increase the nursing pool in the United States.

On the climate change front, J&J's Climate Friendly Energy Policy was created to facilitate a 7 percent reduction in the company's GHG emissions by 2010 from its 1990 base, Boyd said. A member of USCAP, J&J owns the country's largest corporate fleet of hybrid vehicles, is the largest user of solar energy, and is the sixth-largest purchaser of renewable energy.

Nestlé's guiding management principles forbid the sacrifice of long-term growth for short-term profit (the company refuses to list its stock on exchanges that require the posting of quarterly financial reports, and there is no tolerance internally for ethics breaches or shortcuts to make numbers). Those same guidelines mandate the same high environmental, health, and safety standards wherever the company operates and encourage initiatives to raise health standards globally.

As described by **Niels Christiansen, vice president, public affairs**, the company's citizenship goals are focused on creating shared values of reducing poverty, improving health, empowering people, and protecting the future through sustainability. Nestlé's most contributory citizenship programs involve water treatment plants, job creation in rural areas, quality medical care in developing nations (which also compose the company's most promising market potential), and carbon footprint reduction.

Christiansen cited examples that included Nestlé's work with other food industry leaders to respond effectively to the World Health Organization's appeal for solutions to obesity and the improvement of health globally, and its 46 percent reduction in water use and 17 percent decrease in GHG emissions over the last 10 years. In rural areas, Nestlé's programs empower local farmers and women entrepreneurs and teach nutrition, reaching 10 million people daily. The result is not only enhanced corporate reputation, but increased external valuation of the company. In the future, the company will target clean water, nutrition, and further rural development, with the goal of building sustainability into its brands and increasing global engagement on measurable objectives.

Sandra Taylor, president, Sustainable Business International, described the key performance indicators adopted by Starbucks, her former employer. Transparency and honest reporting, cross-industry and supply-chain philanthropic collaboration, and continuing consumer communications have established and continue to strengthen Starbucks's reputation for corporate citizenship. Starbucks's suppliers must meet standards for product quality, proof of economic accountability, social responsibility, and environmental leadership. The higher the supplier's score on these standards, the more of its coffee Starbucks purchases. The company views its strong retail presence as an opportunity to educate the consumer regarding sustainability and societal need.

Citizenship Strategies and Priorities for the Chief Executive Officer

The final session of the 2008 Leadership Conference on Global Corporate Citizenship focused on the role of the CEO in the company's philanthropic activities, beginning with a presentation by **Scott Noessen, director of sustainability, Dow Chemical Company**, and followed by remarks by **Jane Nelson, director of the Harvard Kennedy School's International Business Leaders Forum**.

Dow's long and varied involvement in sustainability began in the 1950s with the coining of the term "product stewardship" and continued through the establishment of the Responsible Care program after Bhopal and the formation of the Business Council on Sustainable Development in the early 1990s—always guided by its chief executive officer. Recent efforts include formation of scenarios of sustainable development for the year 2030. "This is the soft stuff," Noessen said, "and the hardest. We have to get it right." The company has created tools for managing its progress and is conducting ongoing workshops to refine its path. Much of its motivation is a desire for increased respect and a positive impact on its reputation, but equally for long-term business viability. "The concept of sustainability has

really come alive in our product innovation and stewardship," he said. "We are thinking about the external world and the consequences of our actions and the future reach of our products."

Nelson outlined the challenges, dichotomies, and opportunities inherent in global conditions. "Two themes capture the moment," she said, "The scale and speed of change we face today in global realities, attitudes, and expectations was unimaginable five years ago. And at Davos this year, corporate social responsibility issues were center stage as never before." Conflicts between sustainability measures, such as the endangerment of food supplies by the demand for biomass for fuel, pose huge challenges. And expectations of business by NGOs, governments, and the public are higher than ever. It is crucial to concentrate on core competencies and strengths and be absolutely transparent, Nelson said. It is the role of the CEO to carry that message throughout the company.

Summary of Conference Discussions

Nelson described four fundamental shifts now occurring that demand the integration of citizenship and business principles:

1. Climate change and shifts and shortages of food and water require an 80 to 90 percent reduction in GHG emissions. Demand for government action is growing, and the investment community is focusing heavily on CSR as an important element of business value.
2. Incredibly rapid explosion of the emerging markets. The competition for jobs will be huge, and we need to educate our young people. NGOs will be more critical of companies that operate in emerging markets and don't adhere to high standards. And companies have to adapt to the impact they will have on the developed world in terms of technology, jobs, and economics.
3. Demographic shift in diversity, aging, healthcare implications, and the youth culture of other nations.
4. Technological shifts, including IT, nanotechnology, and clean technology, will change the way we live, the products we make and buy, and the world's direction.

The six most significant challenges CEOs face in creating shared values for this new world are:

1. Clarity and focus—maintaining alignment to the core value proposition
2. Consistency between CSR goals and objectives and corporate strategy
3. Communicating this alignment in public affairs, communications, and investor relations
4. Collaboration within the supply chain and with business partners
5. Creativity—challenging employees to innovate and re-engineer
6. The C-suite—the CEO must promote the issue throughout all functions and the board of directors and create a structure to ensure its strategic focus

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The leadership challenge is enormous, but the opportunities are huge as well. The issues we've been discussing and care about are central to the future of the world. Our creativity can help meet the challenge and the world—and business—can reap the rewards.

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