

# Executiveaction

No. 226 January 2007

Mid-Market Management Trends . . .

# Citizenship and Sustainability: Doing Good Can Be Good for Business

by Theresa Sullivan Barger

While they may not be in the public eye as much as their larger counterparts, small and mid-size companies have a lot to gain by expanding their corporate citizenship and sustainability programs.

The signs that a growing tide of companies are embracing corporate citizenship and sustainability (CC&S) and corporate social responsibility (CSR) are unmistakable.

Surveys on corporate citizenship by The Conference Board, McKinsey & Company, and Cone show that company leaders, employees, and the public support the concept of good corporate citizenship.

Government and business leaders alike are declaring the need for notable changes in environmental policy. For example, the British government's Stern Report, which put a price on the cost of ignoring global warming; outgoing U.N. Secretary General Kofi Annan's reference to the report as proof of the urgent need to control greenhouse gases; NASA scientist Dr. James E. Hansen's report on climate change; and Morgan Stanley's announcement in October 2006 that it plans to invest \$3 billion in initiatives related to greenhouse gas emissions reduction over the next five years.

Companies that were once criticized for their supply chain practices are now leaders in transparency and practices that ensure fair wages and working conditions. CC&S has become so commonplace that a survey conducted by The Conference Board in October 2006 showed that 71 percent of responding companies report publicly on citizenship and sustainability performance.

Some are getting on board because they see it as the wave of the future.

"It was very profitable to have a slave system, but it was immoral," said David J. Vidal, director of research, Global Corporate Citizenship, at The Conference Board. "Society makes choices that markets do not, because of the nature of markets. Because society's choices are changing, the marketplace also changes. It's in that that we get sustainability."

Embracing CC&S principles is a smart business decision, he said, no matter a company's size. To those who say they can't afford it, Vidal says, "You can't afford not to. Since small businesses play a big employment-generation role in local communities, they have the opportunity to live or die to a greater extent given the excellence of their local standing in those communities."

#### Investing in the Global Community

"Corporations were always socially responsible, but in the communities where they were headquartered," said Richard Cellini, vice president of Integrity Interactive, an international consulting firm. Now, "they are reinvesting in their community. Their community is the world."

Shaklee Corp., a mid-size, Pleasanton, California-based business, was founded 50 years ago on good citizenship principles — living in harmony with nature and following the Golden Rule. Dr. Forrest C. Shaklee Sr. started producing and selling nutritional supplements in 1956, and the company now sells natural and environmentally safe cleaning, personal care, beauty, and nutritional products.

In 2000, after dozens of long-term partnerships focused on improving the health of people and the planet over the years, and sponsoring three expeditions to the North Pole to measure global warming, Shaklee U.S., a division of Shaklee, became the first company in the United States to be certified as "Climate Neutral" by the Climate Neutral Network. This certification recognized Shaklee for totally offsetting its greenhouse gas emissions.<sup>1</sup>

In 2005, the privately held business did \$500 million in sales in five countries, according to Shaklee Chairman and CEO Roger Barnett. It also announced a partnership with Wangari Maathai, a Nobel Peace Prize-winning environmental activist, to plant a million trees in Africa and North America.

Barnett said leadership from the top coupled with meaningful involvement from employees is integral to the company's dual success as both a business and a global citizen. "We get ideas from all of our employees," he said. "We're asking, 'How can we constantly innovate and take a leadership role?'"

While Shaklee's CC&S function is integrated among all departments, including operations, human resources, marketing, sales, and finance, they are just one part of a team that involves the CEO and the board, he said. "I spent time with Wangari Maathai on the tree-planting campaign. If you want to do great things, you can't delegate it to a staff person," he said.

For CC&S to work, companies need a long-term view, experts said.

"Do you want some 25-year-old analyst determining the future of your business because you care about the next quarter?" asked Vidal. Likewise, he asked, are you making long-term decisions to please shareholders who, on average, aren't holding onto your shares for more than a year?

<sup>&</sup>lt;sup>1</sup> For more information, see www.climateneutralnetwork.org.

Shaklee is growing at an annual rate significantly above the industry average because it is emphasizing its mission, Barnett said. "We do not do any short-term ROI on CSR," he said. "We take the long-term perspective."

And although the company has a long history of good citizenship, which fosters customer loyalty and employee retention, Shaklee is constantly looking at what "good" it can do next, Barnett said.

"I think it helps us make more money," he said. "And we think it's a critical requirement to being in business."

#### Making CC&S Work

A Conference Board survey in October 2006 of 198 companies shows their corporate citizenship and sustainability activities are faced with several challenges, notably:

- measuring results (75 percent);
- coping with limited financial and staffing resources (58 percent); and
- aligning their CC&S with business objectives (57 percent).

To measure results, experts suggest executives track what they can and listen to their gut to determine how well their companies are following through on CC&S principles.

Green Mountain Coffee Roasters, a Vermont-based, publicly traded company with \$225 million in annual sales is frequently named by experts as a leader in good corporate citizenship and sustainability.

Michael Dupee, vice president, corporate social responsibility at Green Mountain, said companies cannot expect the tangible return on investment that can be measured the way one would calculate the value in buying a new piece of equipment.

"We're trying to figure out how to measure the impact as opposed to the results," he said. For practices such as the company's living wage and corporate giving programs, there are still some unknowns, he said. The company can measure employee retention and customer loyalty, but not everything.

With CC&S, "you've got to make the connection and trust your gut," he said. It's somewhat analogous to advertising. "If it doesn't come with scientific certainty, that doesn't mean we're going to abandon the effort by any means."

One tool that companies have found helps them monitor strengths and weaknesses in their implementation is an annual sustainability, citizenship, or CSR report. In The Conference Board survey, 71 percent of respondents reported publicly on citizenship and sustainability performance, with 52 percent of these doing so in a self-sustaining annual report on CC&S.

#### Limited Resources

Executives shouldn't let limited resources stop their business from doing good, experts say. Mid-size companies may not be able to write as big a check as the Fortune 100 companies, but, by partnering with others and thinking big, they can get sizeable results.

"I'm not too sympathetic about the issue of not having a lot of resources. You can do a lot," said Kyle Peterson, managing director of FSG Social Impact Advisors, whose clients include private foundations such as the Gates Foundation and companies such as Shell, GE, and Nestle.

Mid-size companies should look at what they do offer, such as multinational locations, flexibility, or internal experts who can use their skills to help people or the planet in some way.

"Think of interesting ways to leverage the expertise of the company," the Boston-based consultant suggested. He cited Cascade Engineering of Michigan. Through determination and trial and error, the plastics manufacturer has successfully implemented welfare-to-work programs in its factory, convincing state lawmakers to devote more resources to help low-income welfare recipients trying to function in a middle-class work environment. With government support, not only has the program provided the company with a loyal workforce, it has saved taxpayers money and helped mostly single mothers stay off welfare.

By forming partnerships with other businesses, nonprofits or governmental agencies, businesses can do more collectively than they could do alone.

Take, for example, the partnership between the United States Department of Agriculture (USDA), the Notebaert Nature Museum in Chicago, the Chicago park service, and the middle-school children of Chicago, said Janice M. Hamilton, president of JMH Education Marketing, Inc. of New York City.

The USDA wanted to know whether the problem with a tree-destroying beetle, the Asian longhorned beetle, had been eradicated. Middle-school students were trained to know how to spot evidence of the insect's presence. The program worked and it is expected to be replicated in other cities.

#### Aligning CC&S with Business Objectives

Before determining whether a charitable cause would be a good fit with their companies, experts said, executives should do their homework. Research the issue they're thinking about taking on. Who is the audience and what does the company hope to gain by this endeavor? What are the challenges to success?

Many experts cite Avon's decision to sponsor breastcancer research. That's been successful for the cosmetics company for obvious reasons. But what about soda companies or food products companies trying to promote healthier eating and choices? Do executives avoid causes that could make them appear hypocritical and choose something safer? Of course not, said Alex Brigham, co-founder of the Ethisphere Council, which was created in 2006 by a group of corporations and their leaders who are "committed to the belief that ethics and profitable business are not mutually exclusive."

Pepsi and other soda companies have taken public criticism, especially for selling soda in schools. But in this culture of wanting to be part of the solution, Pepsi is piloting a campaign in Chicago to try to get consumers to change from fried chips to baked chips, Brigham said. They've also made the chips' serving size smaller and lowered the price. (PepsiCo owns Frito-Lay, which makes chips, crackers, pretzels, and other snack foods.)

"There's no question a lot of CSR efforts have been done in reaction to public pressure," he said. "There are certain companies, when they get public pushback, they take it as an opportunity to change their behavior."

While some may see this as disingenuous, businesses see this as an opportunity to mitigate some of the criticism against them—sometimes justified—and make money: Bottled water sales account for a sizeable portion of soda companies' revenues.

#### The Conference Board CC&S Survey

Ninety-two percent of companies that responded to a recent survey conducted by The Conference Board and regard corporate citizenship and sustainability as an opportunity and not a risk say they see these opportunities as significant to the company's overall success.

The October 2006 survey of 198 companies showed that 71 percent report publicly on their firm's citizenship and sustainability performance, with 52 percent of them providing this information in a CSR report.

The biggest drivers to respondents' citizenship and sustainability efforts were internal—the C-suite/board of directors (73 percent) and employees (71 percent)—not the external factors such as non-governmental organizations (NGO) and the media. Only 37 percent of respondents rated NGOs as extremely or very important to their citizenship and sustainability practices, and 27 percent credited the media with having a significant influence.

#### Seven Steps to Citizenship and Sustainability

For CC&S to work, companies have to be committed to it at every level. The philosophy has to permeate all operations and be integral to a company's culture. It requires involving others in decision-making, planning, forming partnerships, troubleshooting, responding to complaints, transparency, accountability, and consistency.

First, executives should start by defining their objectives, experts said. Look for ways to have a societal or environmental impact that also can help your business, such as changing packaging to reduce waste and lower your costs or sustaining farmers by paying a livable wage, while at the same time securing your supply chain.

"When you decide what it means to be a responsible citizen, that doesn't mean you become a religious order," said Dick Martin, author of Rebuilding Brand America<sup>2</sup> and a former executive vice president of public relations, employee communications, and brand management for AT&T. "It doesn't mean that you should take on all of society's problems. You have to find a point where your corporation's values and core purpose intersect with society's needs."

Second, leaders should be sure their CC&S efforts are integral to their company's culture and values.

"We think the highest compliment you can pay to CSR is to treat it like any other function within the organization," said Cellini, of Integrity Interactive. "It's important, but it's no more important than your accounting system or your human resources."

For example, Martin said, American Express focuses on hunger, and General Mills has taken on youth fitness.

"These are causes that are relevant to them and to their stakeholders," he said.

Colgate's CEO Ruben Mark made the commitment to significantly reduce oral disease in at-risk children, said Hamilton, the education-marketing consultant. Initially, the program reached 500,000 children, but by working with Head Start, dental and hygienist associations, health centers, and multiple departments from within the company, the program is now global and reaches 50 million children a year with oral health, self-esteem, and literacy programs.

To make it work, the company picked an ideal leader—a dentist with a passion for education—and leaders tapped into the expertise of people throughout the company, including its Hispanic marketing division and its African American marketing division, Hamilton said.

Third, although it seems obvious, experts advise companies to do their due diligence. Research the issue, the audience, the goals, the challenges, and the expected snares. Leaders can pilot something in a region to work out the kinks. Seek out well-respected experts to serve on your advisory board so you'll be successful, and, possibly, silence the skeptics, she said.

One of Hamilton's clients, a large food company that makes a variety of products, including snacks and desserts, wanted to work toward reducing childhood obesity, but knew it would face critics.

"The key really is putting together a program that is nonpromotional, that really reaches out and looks at different sides of the issue," she said. Ultimately, you'll be judged on the quality of your program.

"If you surround yourself with gatekeepers and advisors who are respected in the community or because of an issue," she said, that helps give you credibility. "You have to listen to those people. They can be so valuable in helping you not make mistakes."

<sup>&</sup>lt;sup>2</sup> New York: American Management Association, 2007.

Mindy Gomes Casseres, a director at Cone Inc., a Boston-based brand strategy and communications agency, suggests executives talk with all types of stakeholders, such as activists, employees, and community members.

"It's not good enough just to listen to them," she said. You have to respond to legitimate criticism in a way that shows you're listening.

That leads directly to a fourth crucial step, accountability.

Not only should companies set up a hotline where employees can leave complaints about internal practices they feel are unethical, but the company should issue a report letting employees know how those complaints were addressed.

Alex Brigham, from the Ethisphere Council, had a client that had a zero-tolerance policy against inappropriate relationships with suppliers. Employees complained when they saw the policy violated, and, from what they could see, nothing seemed to change. They told their coworkers how they complained about unethical behavior and that nothing was done.

In reality, the offending employees may have been disciplined or received pay cuts, but privacy laws prevented making that known. The solution was to produce a report annually outlining, in aggregate, the types and numbers of complaints, what the investigations found, and the kinds of consequences administered, such as how many people received pay cuts, how many were disciplined, how many were fired, and how many complaints resulted in no action.

Companies worry that something like this will get into the hands of the media, but Brigham says, "that's part of the risk you need to take," because this type of accountability to employees is highly effective.

"Year-over-year, they received double the number of calls to the hotline," he said. That doesn't mean there was more unethical behavior. "People are feeling more comfortable reporting it."

Hotlines are just a part of overall accountability. Companies also should publicly state their principles, train employees on these commitments, and put pressure on those within the supply chain to follow ethical and citizenship standards as well, Cellini said.

These days, many businesses are requiring their suppliers to abide by a CC&S code of conduct, but a lawyer for a firm that has a corporate social responsibility and risk management practice says that to adequately protect their reputations and legal interests, companies have to go far beyond having a policy.

"It's great to have a code of conduct, but that's just the starting point. Who's monitoring it? Are they asking easy or hard questions? What are the suppliers doing to respond to deficiencies?" asked Gare A. Smith, a partner with Foley Hoag, a law firm with offices in Boston and Washington, D.C.

For example, a sourcing company in China that says it's paying minimum wage and overtime to workers could show an auditor a sham factory and falsified papers about working conditions and pay, he said.

Mid-size and small companies that are not household names may not have to worry about their reputations as much as a company such as Nike, but if they want to sell their products to stores such as Costco, Best Buy, and Kmart, he said, they have to follow CC&S principles and norms in their operations.

Smith said his firm had a client that made mirrors and other furniture, which was supplied by a firm in China that wasn't meeting a national retailer's CC&S performance standards. The client couldn't sell to that retailer until it showed that its suppliers had cleaned up their acts.

A fifth big challenge many companies face is striking the right public relations balance. While companies may be proud of the good they've done and they want potential employees to know about them, they don't want to be accused of doing good just to look good.

"For most companies involved in this type of work, that's a continual challenge," said Green Mountain Coffee's Dupee. "How do we do it without coming across as being inauthentic?"

"We're all here to do something. We want to make money. We want to make the world a better place," he said. "We want to get beyond a place where you have to choose" between making money and doing good.

If companies are adopting CC&S principles as a marketing gimmick, stakeholders will see right through them, experts said.

It's okay for leaders to want their company's CC&S practices to help fuel their business's growth. Studies show companies with meaningful corporate citizenship and philanthropy attract and retain good people. A Cone study showed that given the choice of two products equal in price and quality, consumers will choose the more socially responsible brand.

Sixth, compile reports and post them on your website so the information is there for those who are looking for it, said Karen Albritton, executive vice president at Capstrat, Inc., a strategic marketing communications firm based in Raleigh, N.C. Some companies promote their CSR successes to specific audiences.

"It's not something they wear on their sleeves all the time," she said. "It's being authentic in what you're doing."

Finally, with the Internet, companies have to approach their operations with transparency. One consultant advises clients with ethical questions to ask themselves how they'd feel if The Wall Street Journal reported the issue on its front page.

"Transparency is such that very few things can be hidden anywhere," said Vidal, global corporate citizenship expert at The Conference Board. "Any employee who is mistreated can put stuff on YouTube and it's around the world."

Leaders really have to walk the talk, because inconsistency is easily uncovered and publicized.

After it was reported that Nike was buying from sweatshops in its supply chain in the 1990s, it initially tried to distance itself and say the suppliers were not employees, said Cellini. When that didn't work, Nike claimed ignorance, he said. Finally, Nike changed course. These days, Nike discloses its factories, its entire supply chain, and all its vendors, Cellini said.

While some businesses may squirm at the thought of releasing this information to the competition, Nike found it was necessary to regain credibility with its customers. "I think they've decided that CSR is good business for them," he said. Today, Nike is regarded as an innovator and leader in corporate responsibility—a direct result of this learning experience.

Other apparel manufacturers like Gap Inc. have had a comparable experience and are also releasing more supply chain information.

Transparency goes against ingrained patterns in private business. It can be quite a stumbling block, said Casseres, from Cone.

"Corporate responsibility forces companies to talk about things they don't normally talk about publicly," she said. "There has to be a discussion about how transparent they're willing to be."

While the experts say corporate citizenship and sustainability is a necessary good, there's mounting evidence that doing good is good for business.

#### Ethos Water - A CC&S Leader

Ethos Water typifies American entrepreneurship, but with a twenty-first century twist. It was started by two guys with a dream, a plan, a willingness to risk their savings, and a goal of donating 50 percent of their profits to charity.

Founder Peter Thum worked for six months in South Africa in 2001 and saw children suffering because they lacked clean drinking water. While working at his next assignment with a soft drink company, he saw the chance to create a brand of bottled water that could connect consumers to helping provide clean water around the world.

In 2002, he left his job and tapped his friend and former Kellog School of Management classmate, Jonathan Greenblatt. Greenblatt had spent five years in the Clinton Administration and the U.S. Department of Commerce working to develop international economic policy in emerging markets in Asia and Latin America. Like his friend Thum, he had seen the devastating effects of living without running water.

Greenblatt liked Thum's idea, he said. "More people die every year from water-related diseases than from AIDS, TB, and malaria," he said. "The leading killer of children under age 2 is diarrhea."

Women walk an average of 6 miles a day to get water for their families, he said. "It weakens social systems. It depresses economic development," he said. "It can create political instability."

The two sought investors for their business.

"We felt we could deliver a premium water, not on the basis of where it's from, but what it does," Greenblatt said. Most investors, who doubted the wisdom of competing with multinationals and donating half their profits, took a pass.

"However, we still believed," he said. "We just maxed out our credit cards, depleted our savings accounts, and bootstrapped the company."

They started the business in Greenblatt's Los Angeles home and began selling to natural food stores, health clubs, and coffee shops. The Comfort Café at Santa Monica's trendy retailer Fred Segal and Whole Foods began carrying Ethos Water, and they got the attention and financial support of investors Pam and Pierre Omidyar.

In 2004, Thum and Greenblatt entered discussions with Starbucks, hoping the chain would carry their water. After lengthy discussions, they agreed to let Starbucks acquire their brand in April 2005.

Ethos Water was not yet profitable, but it was already donating to clean water programs. Starbucks promised to commit 5 cents a bottle to charity.

"They set a goal when they acquired the brand to invest at least \$10 million over the first five years," he said. "This was 100 times what we could have done on our own."

In addition, he said, Starbucks' reach to 40 million customers per week offered an opportunity to educate people on the clean water issue.

Thum and Greenblatt joined Starbucks to lead Ethos Water there and joined the Starbucks Foundation board to help manage the Ethos Water Fund.

In June 2006, Starbucks and Ethos entered a joint-venture partnership with PepsiCo for the distribution of Ethos Water in the United States and Canada, an agreement that is expected to increase distribution to some 100,000 locations in North America.

Thum is now a vice president with Starbucks, leading Ethos Water's business and charitable work, but Greenblatt left in May 2006. With two children, ages 3 and 2, the commute from Los Angeles to Seattle was too much. He's serving as a strategic advisor to the United Nations Foundation on water issues and working on starting his next business, "another company that has a social purpose at its core."

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