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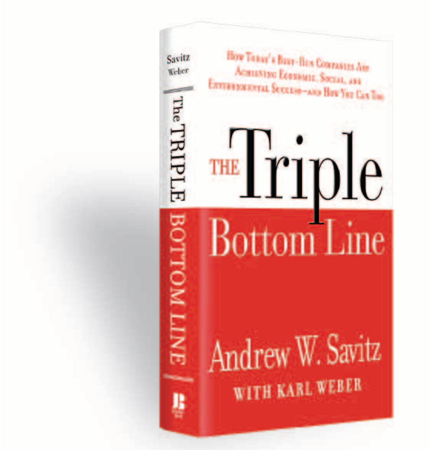

By Andrew W. Savitz with Karl Weber

How Today's Best-Run Companies are Achieving Economic, Social and Environmental Success – and How You Can Too

THE TRIPLE BOTTOM LINE

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THE SUMMARY IN BRIEF

Expectations around corporate responsibility have been increasing for decades and people today are perhaps more concerned about corporate behavior than at any time since the Great Depression.

While the recent focus has been on financial integrity, the scope of corporate responsibility has been growing steadily since the 1960s when companies first began to play a leading role in assuring the safety of their products and the sanctity of the environment. Corporations today must answer not only to concerned investors, but to a variety of increasingly empowered stakeholders demanding that they promote diversity, eradicate poverty, foster public health, guard against child labor, protect human rights, oppose corrupt regimes, eliminate hunger, measure and report their results and actively engage with them about all of it.

Call it the age of accountability: corporate leaders that want their companies to survive for the long haul must develop a more integrated, responsible and sustainable way of doing business – driven not by philanthropy or government regulation but by the hard and fast truths of succeeding in a global economy. They must find ways to provide an array of benefits to the world even as they enrich their shareholders.

What you will learn in this summary:

✓ ***How to create an enterprise that is truly sustainable.***

✓ ***How to do business in an interdependent world.***

✓ ***How sustainability is different and more important than corporate social responsibility and corporate philanthropic efforts.***

✓ ***How companies can become more profitable by doing the right thing.***

✓ ***How to measure the impact of an organization's activities on the world.***

✓ ***How companies are reaching out to their harshest critics and seeking new forms of collaboration, innovation and partnership to improve results with startling success.***

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THE TRIPLE BOTTOM LINE

By Andrew W. Savitz with Karl Weber

— THE *COMPLETE* SUMMARY

PART ONE: THE SUSTAINABILITY IMPERATIVE

The concept of sustainability originated around a growing awareness in the 1980s. It has since come to denote a corporation that creates profit for its shareholders while protecting the environment and improving the lives of those with whom it interacts. It operates so that its business interests and the interests of the environment and society intersect. ■

Selling Hershey

July 25, 2002, was a day like any other in the picture-perfect town of Hershey, Pennsylvania, home of the world-famous Hershey bar. Tourists strolled Chocolate Avenue, gawking at streetlights shaped like Hershey Kisses and shopping for candy-themed souvenirs at dozens of gift shops. Bedazzled children and obliging parents lined up for tours of Hershey's Chocolate World and squealed with delight on the 10 roller coasters in nearby Hersheypark.

All of these pleasures had one thing that united them even more than their chocolate flavor: the steady stream of income they produced for Hershey's 12,000 residents.

On July 25, 2002, the *Wall Street Journal* ran a story which revealed that Hershey Trust, the charitable organization that owned a controlling stake in the Hershey Foods Corporation and thereby in the future of everyone in town, was planning to sell to the highest bidder.

A coalition of angry citizens formed within hours. It included former CEOs of Hershey who hated the idea of selling the company they'd nurtured; leaders and members of the union that represented 2,800 employees at the Hershey plant; alumni of the Milton Hershey School, the remarkable educational center for orphans created by company founder Milton S. Hershey himself; and thousands of business owners and residents of central Pennsylvania who feared the death of a town they cherished. How had Hershey's leaders so badly misgauged the reaction to their plan?

Lessons From the Chocolate Mess

Business leaders in all industries can learn some basic lessons of sustainability from the Hershey fiasco:

- **Focusing on profit alone can backfire.** The managers who made the decision to sell Hershey were doing the right thing by purely financial yardsticks. But in today's business world, the financial bottom line is not the only (or even the most important) measure of success. Executives also must consider the social, economic and environmental impacts on anyone with a stake in the outcome.
- **Businesses are accountable to more people than they realize.** Hershey management acted as if their fiduciary duty was the only interest that mattered. They forgot about other crucial individuals and organizations with a vested interest in their actions.
- **Bad things can happen to good companies that fail to take a broad view of accountability.** Well-intentioned, well-managed organizations like Hershey that focus exclusively on shareholders as if they were the only stakeholders that matter are headed for trouble.
- **Stakeholder engagement is an increasingly critical component of successful management.** Companies have legitimate reasons for keeping secrets and for confining decisions to a small circle of insiders. But bringing your stakeholders inside the tent on matters that might affect them is increasingly a matter of responsible corporate citizenship and sophisticated risk management. ■

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The Sustainability Sweet Spot

Business leaders with a superficial understanding of sustainability think of it as a distraction from their main purpose, a chore they hope can be discharged quickly and easily by writing a check to the United Way or allowing employees to volunteer for the local cleanup drive or food kitchen and then get back to work.

This approach reveals a fundamental misunderstanding. Sustainability is not about philanthropy. There's nothing wrong with charity, but the sustainable company conducts its business so that benefits flow naturally to all stakeholders, including employees, customers, business partners, the communities in which it operates and, of course, its shareholders.

The vision of a company that renews society as it enriches its shareholders may seem remote, but think about sustainability as the common ground shared by your business interests (those of your financial stakeholders) and the interests of the public (your nonfinancial stakeholders). This common ground is what we call the sustainability sweet spot: the place where the pursuit of profit blends seamlessly with the pursuit of the common good.

The overlap between winning increased market share and supporting healthier lifestyle habits is a sweet spot for PepsiCo. If the idea of healthy products sounds like a stretch for a company famous for its sugary sodas and salty snacks, think again. Having purchased Tropicana and Quaker Oats, PepsiCo has made the healthy-product sweet spot the fastest-growing segment of its North American portfolio. Social responsibilities have thus helped PepsiCo earnings per share grow at a prodigious 13 percent in 2004 and to surpass Coca-Cola in market cap for the first time in history. ■

The Age of Accountability

Whether you find or even look for the sweet spot, the principles of sustainability can improve the management of your business by:

- **Protecting the business,** which includes reducing risk of harm to customers, employees and communities; identifying emerging risks and management failures early; limiting regulatory interventions; and retaining the explicit or implicit license to operate granted by government or the community at large.

- **Running the business,** which includes reducing costs, improving productivity, eliminating needless waste and obtaining access to capital at lower costs. Eco-efficiency is a basic component of sustainability that applies to running your business. It means reducing the amount of resources used to produce goods and services, which increases a company's profitability while decreasing its environmental impact. The underlying theme is simple: pollution is waste and waste is anathema because it means your company is paying for something it didn't use.

- **Growing the business which includes opening new markets,** launching new products and services, increasing the pace of innovation, improving customers satisfaction and loyalty, growing market share by attracting customers for whom sustainability is a personal or business value, forming new alliances with business partners and other stakeholders and improving reputation and brand value.

An Old Idea Made New

DuPont's sustainability philosophy dates back more than 200 years to when the firm was an explosives manufacturer. The underlying social principle was simple and suited to the times: "Don't blow up the workers – and mind the town as well." It took another 200 years for DuPont (and society at large) to develop a comparable concern for the environment. By then, DuPont had helped create more than 250 hazardous waste sites, which it has so far spent $1.2 billion to clean up.

A More Interdependent World

The relationship between vendors and purchasers has become far more complex. Procter and Gamble and Wal-Mart, for example, recognizing their financial and operating interdependence, now work closely together to develop information and logistics technologies that will benefit both. Mutual dependence isn't merely financial. It is reputational and legal.

Doing business in this emerging world – freer, more interdependent, wired and filled with powerful, vocal stakeholders – demands a high degree of accountability. You can't pretend you are operating in a vacuum. Instead, you're in a crowded neighborhood where everyone knows your business.

A Wired World

The spread of freedom, the growth of a worldwide economy and business interdependence are all being driven by an astounding explosion of global communications advances.

You are now doing business in a world where what you say can easily be drowned out by a multiplicity of voices over which you have no control.

Adidas, which outsources 83 percent of its global manufacturing to Asian companies, owns almost no tangible assets. What the company does own is intangible: ideas and patents, financial and management resources,

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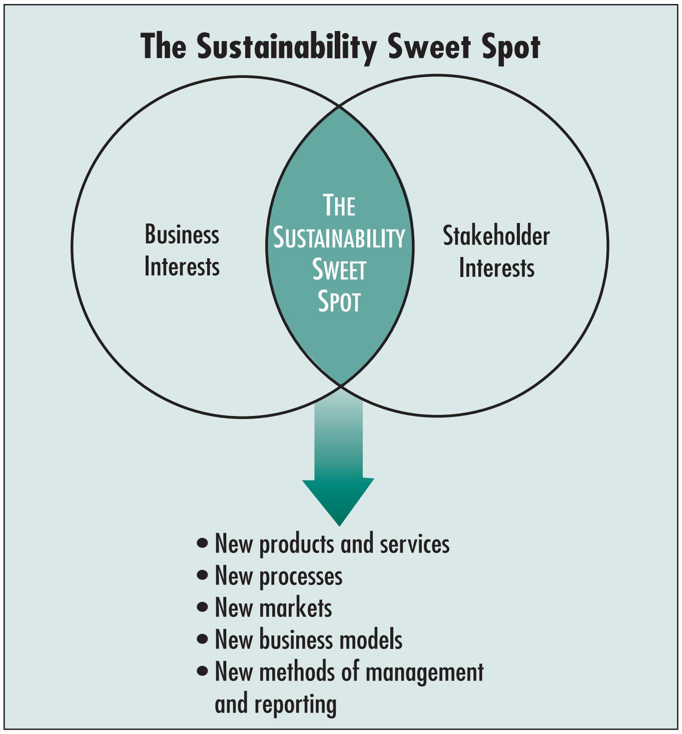

For additional information on a map to the sweet spot, go to: http://my.summary.com

The Age of Accountability

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business relationships, brands, knowledge and goodwill – most of which depend on its reputation. And if 75 percent of your assets are intangible, it's obvious that an attack on your reputation can be financially devastating.

An Imperiled World

A number of events and trends have reinforced the sense of a shared and fragile world including the discovery of acid rain; repeated oil shocks in which political, military or financial troubles in the Middle East that create economic dislocations in the rest of the world; ecological disasters like the Exxon Valdez oil spill, the Bhopal chemical disaster and the Chernobyl nuclear disaster; the hole in the Earth's ozone layer; the HIV/AIDS catastrophe and the 2004 tsunami disaster.

In what seems a smaller and imperiled world, it is difficult for any business to say that social, economic or environmental problems across the state, nation or globe are irrelevant. People assume that anything that happens anywhere on Earth may affect them directly or indirectly, and they are extending these assumptions to the businesses they patronize or for which they work.

A Socially Conscious World

Popular culture reinforces these concerns. Movies from *Silkwood* to *A Civil Action* to *Erin Brockovich* have lionized environmental heroes and vilified polluters. Actor Leonardo DiCaprio drives a hybrid Toyota Prius, rock star Bono is on a crusade to alleviate poverty and actor Richard Gere is deeply involved in the fight against AIDS.

The mind-blowing outpouring of funds in response to the tsunami in South Asia was unprecedented in scope but it followed naturally on the heels of similar outreach efforts – Live Aid, Band Aid, Farm Aid. Tens of millions of today's young people know what's happening around the world and they care.

A Corporate World

Even as our world increases in complexity and interconnectedness, governments in many regions are in retreat – practically, philosophically and politically – from some of their traditional social responsibilities.

A graphic example of the shift in power from the public to the private sector came in the aftermath of the Hurricane Katrina in 2005. While the entire U.S. government fumbled the disaster relief effort, giant companies with powerful logistical capabilities such as Wal-Mart, Home Depot, PepsiCo and Federal Express provided more effective relief than the feds, responding to the stranded masses days before the U.S. government.

The shift in power from the public to the private sector means that societies at large will be looking to business to help solve social, environmental and economic problems.

A World of Investor Activists

Corporate shareholders are becoming more engaged with social issues. From mainstream investors to endowment managers for religious and educational organizations, investors have begun to push corporations to pay more attention to non-financial risks.

Both the number of resolutions and their success at drawing votes from shareholders have been steadily increasing. Between 2001 and 2004, shareholder resolutions related to social responsibility increased 51 percent, from 739 to 1,116. Each year, dozens of resolutions are withdrawn by corporate dissidents after negotiated settlements are reached in which the companies yield to most or all of the demands.

In addition, more investors are choosing investment opportunities on the basis of companies' environmental and social records, a practice commonly referred to as socially responsible investing (SRI). ■

Business Responds

Just as individual businesses are responding to sustainability, so are many institutions.

Colleges and business schools have dramatically

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Business Responds

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expanded coverage of sustainability issues in their curricula. Some universities have academic centers focused on corporate responsibility that work with and develop case studies about affiliated companies.

Corporate reporting is another way sustainability is being incorporated by the business sector. Approximately 3,000 companies around the world voluntarily issue reports covering environmental, social or other sustainability issues and the number grows every day. Endorsing this trend, stock exchanges in France, the United Kingdom, South Africa and many Scandinavian countries require or strongly recommend broad nonfinancial disclosure as a condition of listing.

The Dow Jones Sustainability Index (DJSI), created in 1999, tracks the financial performance of the leading sustainability driven companies worldwide, helping investors examine sustainability as a defining measure of corporate performance. Currently, the DJSI World Index includes 250 firms drawn from 59 business sectors in 23 countries including such industry giants as GE, Toyota, Hewlett-Packard, Citigroup, Pfizer, Unilever, 3M and P&G.

Perhaps most telling, the International Organization for Standardization (ISO), plans to issue guidelines for social responsibility in 2008 similar to those it has issued on quality. ■

For additional information on how Disney fought a boycott lodged by a religious organization, go to: http://my.summary.com

Embracing Accountability

Sustainability requires a detailed understanding of your interdependence in relation to those with whom you interact – whether as a company, a department, a plant or an individual manager. It means embracing and partnering with your stakeholders rather than assuming that they are adversaries to be defeated, skeptics to be lectured to or, at best, temporary allies to be held at arm's length.

Stakeholders Have a Vote on Your Future

The notion that you must partner with your stakeholders may seem counterintuitive at first. Most companies maintain a distant, if not outright antagonistic, relationship with nonbusiness stakeholder groups such as environmentalists, community organizers, social justice advocates and shareholder activists. Many stakeholders have ways to influence your decisions. In some cases, they have a direct vote: shareholders aligned with activist groups have been increasingly successful at forcing proxy votes on social and environmental issues. Outside the corporate structure, citizens in the city, state or nation where you operate can vote for or against your company indirectly be electing or defeating government officials who are friendly to your company's interest.

Customers can vote with their wallets by choosing to shop elsewhere when they are offended or by flocking to patronize you when they consider you supportive of their values. Activist groups can orchestrate rallies or organize boycotts against you; employees can stage walk-outs or sick-outs.

The giant retailer Wal-Mart, for example, is now beginning to reach out to environmentalists, community organizations and others whom it previously scorned. The company launched an expensive advertising campaign and created a communications "war room" to present its side of the controversies in which it has become embroiled. ■

For additional information on the backlash against sustainability, go to: http://my.summary.com

PART TWO: HOW SUSTAINABILITY CAN WORK FOR YOU

Where Do You Stand Today?

When speaking about the challenges of corporate responsibility, Dennis E. Welch of Northeast Utilities (NU) used to say, "If you want to transform your company, it helps to have a crisis."

Welch should know. He was given the job of transforming NU from the inside after it found itself the subject of a massive criminal investigation by the U.S. Environmental Protection Agency and the Connecticut Department of Environmental Protection. Welch is no masochist, but he recognizes that at many companies, transformation change begins with the pain of an ad hoc response to an immediate crisis.

Turning Crises Into Opportunities

The sooner you can create a big-picture vision to give context to today's problem, the sooner you can begin transforming crises into opportunities – a practice we like to call sustainability jujitsu. Nike learned this the hard way. The use of child labor in outsource manufacturing plants by suppliers of clothing, shoes and sporting goods was a festering issue among social advocates throughout the 1980s and 1990s. But most American companies that marketed or retailed those goods did little to address the problem until *Life* magazine pub-

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Where Do You Stand Today?

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lished a story titled "Six Cents an Hour," in June 1996.

Nike showed a willingness to learn from the crisis, eventually launching a six-point reform effort which included requirements that all new employees in factories making Nike products be at least 16 years old, that free middle school and high school classes be provided to workers and that independent Non-Governmental Organizations (NGOs) be permitted to monitor working conditions at Nike.

Determining Where You Stand

A crisis often motivates a company to embrace sustainability. But a crisis can carry you only so far. What's the next step? You should begin looking at where your organization stands today: its strengths, weaknesses, opportunities and risks in relation to the sustainability imperative. We suggest looking at four areas:

1. What your company says: Its reported policies and performance in regard to the environment, labor, health and safety concerns and other sustainability issues, and what it is saying and measuring internally.

2. How your company operates: The environmental and social impacts of the company's practices and processes on employees as well as up and down the supply chain and in the communities where the company operates.

3. The nature of your company's business: The impact of the products and services the company offers as well as its business and profit models.

4. How sustainability applies to your industry: The particular ways in which sustainability is being defined in your industry in terms of specific performance or reporting issues. ■

Key Sustainability Issues in Selected Industries

Each industry has a unique set of sustainability issues. Here are a few examples:

✓ **Pharmaceuticals:** Demand for new business models to make medicines affordable and accessible in the developing world.

✓ **Agriculture and biotech:** Need for measures in response to criticism and fears surrounding genetic modification of seeds and food organisms.

✓ **Pulp and paper:** Creation of certification programs designed to guarantee environmentally friendly means of harvesting timber.

✓ **Computers and telecommunications:** Need to narrow the digital divide through philanthropy and development of bottom-of-the-pyramid products, and electrical trash.

✓ **Apparel:** Demand for intensified scrutiny of supply-chain labor and environmental practices.

Shaping Your Strategy

You've analyzed the current sustainability status of your company or business unit and developed a general sense of its strengths and weaknesses. Now it's time to translate those strengths and weaknesses into business opportunities.

Minimization and Optimization

A fruitful way to think strategically about your business's sweet spot is to think in terms of minimization and optimization.

Minimization means reducing the size of your footprint in terms of the adverse environmental, social and economic impacts of your activities. Minimization is aimed at reducing ecological damage, reducing employee accidents and decreasing harm to the community. Here are some examples of "being less bad," so to speak:

- **Look for processes and procedures that generate waste.**
- **Look for areas of stakeholder conflict.**
- **Benchmark your company against others.**

Optimization is "being more good." We use the term to mean producing positive benefits in the three areas of environmental, social and economic impact. Optimization aims not just to reduce pollution but to restore the environment; not just to eliminate employee accidents but to create a healthier, happier workforce; not just to decrease harm to the community but to revitalize it. Here's what to do:

- **Push minimization efforts toward optimization.**
- **Look for new product and service ideas that grow out of your sustainability efforts.**
- **Look for new markets that are hidden in the margins of more obvious, traditional markets.** ■

Launching Your Program

There's no single correct starting point for your sustainability program. Starting with strategy is an excellent approach, but not the only way to begin.

For many companies, the answer is to go after the low-hanging fruit: to start by grabbing a few early victories with projects that are easy and obvious, that meet an established need, such as customer demand or a requirement to cut costs.

Here are some ways to identify some early wins for

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Launching Your Program

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your business:

- **Look at your customer's needs.** Volvo followed this approach when it made auto safety a differentiated factor and a sales strategy in the 1980s.
- **Work with your supply chain.** Examine your supplier code of conduct or individual contracts to see what requirements are in place.
- **Leverage your current position.**
- **Start with your current skill set.** Don't try to be all things to all people.
- **Anticipate an impending change.**
- **Empower individuals.**

Goals, Process and Key Performance Indicators

One easy way to get some traction is to consider how sustainability could be built into your existing business goals. You'll need to define specific goals, both to establish what you're trying to accomplish and to make it possible to measure whether you're getting there.

You'll need procedures and Key Performance Indicators (KPI) that will allow you to reach your goals. Following are some ideas about how to define sustainability metrics for reporting purposes:

- **Establish goals that further the primary objectives of your business.**
- **Strive for simplicity by keeping the number of goals small and mutually reinforcing.**
- **Make sure goals are clear and understandable.**
- **Develop clear, consistent definitions of every term and measurement unit.**
- **Strive to define every goal and KPI in terms of a number.**

Getting Organized

Because of the wide range and interdisciplinary nature of activities that fall under the rubric of sustainability, many companies start with a task force to define and drive their efforts.

A sustainability department can be an important resource for managers throughout the company, offering expertise, resources, connections and coordination. But locating sustainability in its own department risks isolating it as an "add-on" to core business processes.

In the long run, integrating sustainability into operations is the only way to go. Like quality, sustainability must be built in, not added on. Sustainability can be the specialized province of a handful of experts, but it's far more effective to educate your operating managers about sustainability and let them apply this knowledge to their own goals and strategies. ■

Managing Stakeholder Engagement

Taking a fresh view of yourself and your company is one of the many concrete benefits you can derive from stakeholder engagement – provided that you enjoy real rather than sham engagements. It's not about pretending to listen to your stakeholders, it starts with active, empathic listening: trying to understand and accept the viewpoint of even your worksite enemies and experiencing your business as they do.

One of the hardest aspects of accepting your opponents' point of view is bearing with a degree of tunnel vision on their part. Many advocacy groups feel that they are trying save the world and they view their favored issue as being of paramount importance to that salvation. ■

Special Stakeholder Challenges

Sustainability involves issues of communication, shared vision and the balancing of interests with all your company's stakeholders, both inside and outside. Among the most crucial challenges are those with the other companies in your value chain. These include companies both upstream (those who supply you with raw materials, finished products, skilled or unskilled labor and services of all kinds) and downstream (distributors, marketers, retailers, middlemen and others who help you deliver goods and services to customers).

Once sustainability is on the agenda, the nature of the relationship changes. Now profit may no longer be the defining consideration in mapping out contract terms. Thus when Nike, newly focused on sustainability issues, negotiates contracts with supplier factories in Asia or Latin America, the discussions are not solely focused on increasing profit margins, reducing costs, improving efficiency and guaranteeing quality.

Complexities of Responsible Value-Chain Management

It would be easy if value-chain management was simply a matter of applying your company's internal policies up and down the chain. The reality is complicated by a range of factors:

- **Varying legal and regulatory regimes.**
- **Social and cultural differences.**
- **Difficulties of enforcement.**

Because of these and other constraints, pushing your entire value chain toward greater sustainability can be a tricky balancing act. Today, for example, Levi's has considered phasing out operating in China because of

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Special Stakeholder Challenges

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that country's human rights record. In other countries where child labor provides a family's only income and where human rights are protected, Levi's pays contractors to keep the children in school to age 14. ■

For additional information on who your stakeholders are, go to: http://my.summary.com

The Future of Sustainability

Almost two decades after the word was coined, the idea of sustainability continues to evolve. As more companies explore its implications in their own industries and businesses and among their own networks of stakeholder connections, new ways of envisioning and creating the sustainable company are being spun off.

Lean Thinking: Perfecting Business Processes

A lean-thinking company constantly examines the life cycle of every product or service it creates, seeking to manage that cycle in accordance with the following principles:

1. **Understand the value created by each product:** identify with precision the real sources of benefit to consumers and others that are provided by any good your company offers.
2. **Identify the value stream for each product:** study your company's processes to determine which activities are contributing to real value and which are depleting it.
3. **Make value flow without interruptions:** organize all your business processes to reduce waste of time, money, energy and other resources.
4. **Encourage customers to pull value through the entire system:** use modern communication and information sharing so that the process of creating value can be driven by actual customer needs.
5. **Pursue perfection at every stage:** constantly examine, redesign and re-examine each step in the life cycle of any product or service in search of incremental improvements in efficiency.

Dematerialization: More Value, Less Product

Dematerialization is based on the surprising – yet ultimately obvious – realization that consumers don't necessarily want the physical materials used in manufacturing, shipping and using many products

When you buy a television, you don't want a box of electrical components – so many pounds of glass, plastic, metal, silicon and other materials. You want the fun, information and entertainment you derive from watching TV. If the materials could be reduced or eliminated altogether while keeping the benefits TV provides, everyone would be better off. Take for instance today's large, flat-screen televisions which contain much less material than the small-screen, big-cabinet units in most living rooms a generation ago. And old-fashioned vinyl record albums have given way, first to smaller CDs and then to completely dematerialized MP3 files stored by the thousands of tiny digital players.

From Products to Service

Pushing dematerialization further, many companies are exploring ways to transform the goods they sell into services, thereby providing the same value at less cost or more value at the same cost. Consider Zipcars, the growing business that leases cars by the hour or the day. It's a smart new business model that also creates huge environmental benefits.

Rethinking the Corporation

Sustainability does not necessarily require companies to de-emphasize profit or accept diminished financial results. But it will eventually demand that businesspeople abandon a short-term, single-minded focus on maximizing shareholder value and recognize that corporations exist to serve other stakeholders as well.

If the ultimate purpose of business is the efficient provision of goods and services that society wants (not just what investors or customers want) then an array of stakeholders, not just shareholders, have a legitimate interest in how a company uses its resources.

The Ennobled Enterprise

Imagine an enterprise expressly created for profit and for social and environmental prosperity. What would it look like? We can get a glimpse of what such an ennobled enterprise might look like by considering the current phenomenon of social entrepreneurship, a discipline that has found its way into the curriculum of some 30 U.S. business schools. ■