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CONNECTING AND INSPIRING YPO-WPO'S GLOBAL LEADERS

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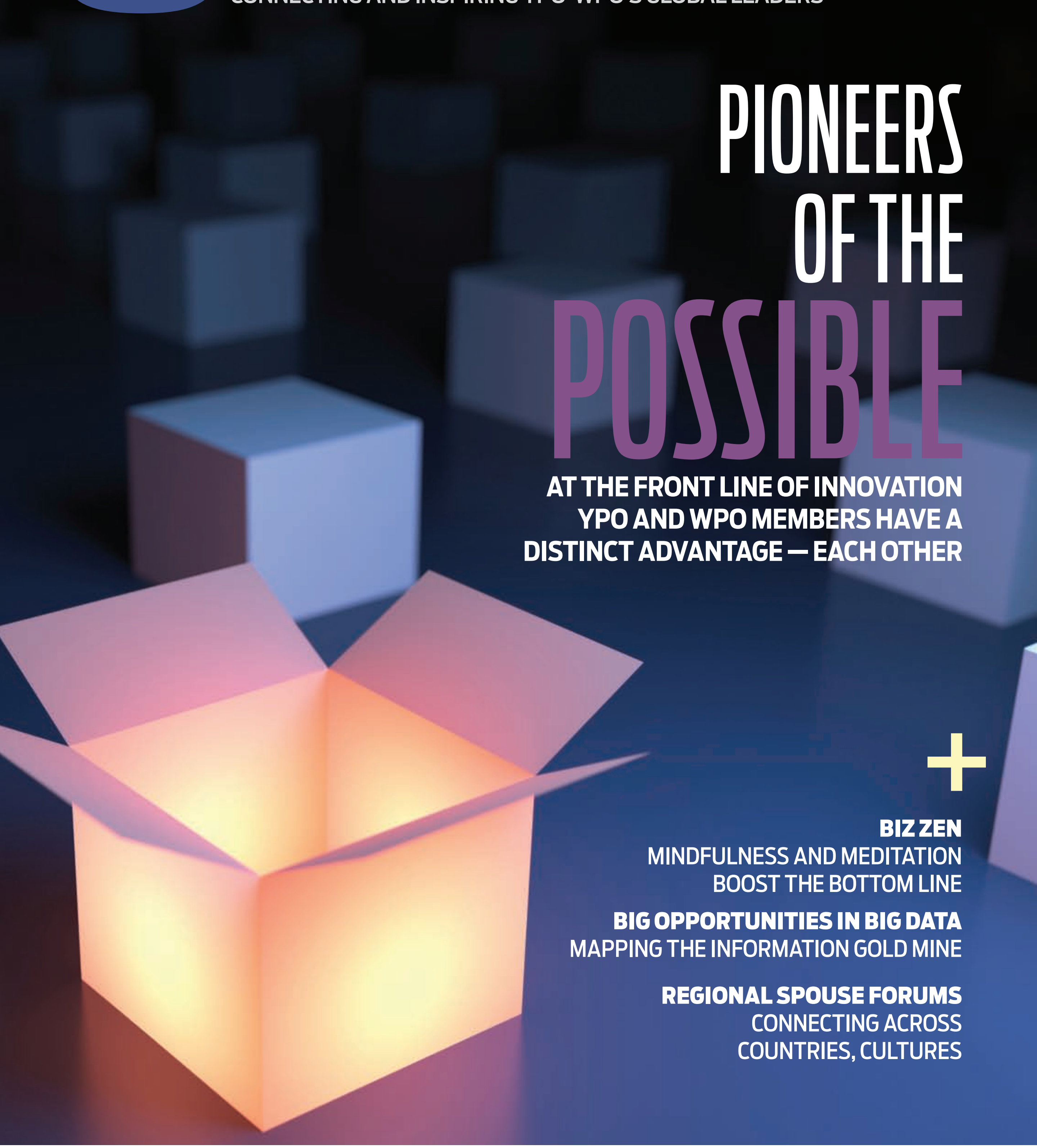

PIONEERS OF THE POSSIBLE

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CORPORATE SOCIAL RESPONSIBILITY

A BUSINESS FRONTIER FOR A BRIGHTER FUTURE

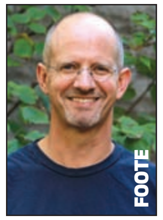
Corporate Social Responsibility has evolved, and with it a new business model is emerging. As socially responsible investment becomes a US$13 trillion global industry, experts and YPO-WPO trailblazers share their thoughts on CSR.

By Rola Tassabehji (spouse, WPO London)

"CSR MAY NOT BE THE RIGHT TERM. It feels like a 10-year-old concept," says **William Foote** (YPO New England), who prefers using the concept of "shared value" to describe companies that recognize the opportunities in tackling social and environmental problems as business objectives. "It's no longer about cause-related marketing or something businesses do on the side, but a core business imperative."

Foote, the 2013 SEN Award winner in the philanthropic/nonprofit organization category, founded his company, Root Capital, in 1999 before CSR became synonymous with good business. Root Capital clients are farmer associations and private businesses that help build sustainable livelihoods for rural food producers in Africa and Latin America. While the nonprofit helps grow rural prosperity for farm families, it also creates economic value by establishing more resilient suppliers and lowering costs, which ultimately improves returns for global buyers.

One longtime Root Capital client is a local agricultural business in the Sahel, a region of desperate poverty and extreme drought in Mali, where the indigenous Gum Arabic and Gum Karaya trees had been cut for years to expand cattle land. The organization works with village leaders to train unemployed youth to tap trees and dry their resins, creating new incomes that pay for school fees, medical needs and food. Root Capital became the first lender to offer initial funding in 2008, helping to secure multiyear contracts with international buyers that use gum resins to produce numerous pharmaceuticals, cosmetics and food ingredients. Not only did the investment



allow the company to expand its reach from 30 to nearly 2,000 farmers, it also helped stabilize and strengthen buyers' supply chains and bottom lines. Facilitating this type of shared value, Foote believes, is critical to the long-term viability of agricultural value chains and farmer livelihoods.

"We act like an innovation laboratory, piloting ideas to address market failures and enhance the livelihoods of farmers while strengthening the entire value chain. Once proven and tested, the private sector can then scale these big ideas," says Foote.

The growing consumer distrust

Regardless of the term used — corporate responsibility, sustainable business, impact investing — 73 percent of global consumers surveyed are willing to recommend companies that are perceived to be delivering on their social and environmental responsibility programs, according to a 2013 study from the Reputation Institute, a leading corporate reputation management consultancy.

The report confirms that 100 companies profiled across the 15 largest markets in Europe, Asia Pacific, Latin America and North America spend millions of dollars per year on CSR activities. However, only 5 percent of companies are perceived to be delivering on CSR programs — a drop of 12 percent from 2012 — and 56-61 percent of consumers are neutral or not sure if the companies can be trusted to deliver on CSR.

Kasper Ulf Nielsen, executive partner at Reputation Institute, explains the paradox. "While the study confirms the business case for investing in CSR programs, it also highlights the increasing struggle in building consumers despite company CSR programs," he says. "When you spend on average US$50-100 million a year, that's a poor return on investment."

In her recent *Harvard Business Review* blog, "Great Brands Never Have to Give Back," brand-building expert and author Denise Lee Yohn observes that while CSR has hit the mainstream — almost every business organization knows CSR and is making some efforts compared to five years ago — what often is missing is the integrity with which CSR is now being pursued by leading brands.

Lee Yohn cites companies getting it right, such as Coca-Cola, with its 5by20 initiative, which empowers female entrepreneurs in developing countries to operate neighborhood stores. But other companies, she says, seem to be using CSR to counteract or distract attention from the negative toll they exert on society and the environment — or simply to assuage poor customer service. "What we are hitting up against is consumer intolerance for company practices that are inconsistent with other practices. Consumers have become savvier and some have become worn out, so there is a kind of lack of enthusiasm and interest."

A guiding principal for multinationals

Those companies reaping the benefits of CSR strategy are following a different development path by integrating CSR with their brands, says Lee Yohn. "Rather than participating in separate external initiatives, they are looking at the business as a whole, re-examining their business models, redesigning their supply chains, reinventing products, and rethinking what they sell and how they sell it. They are looking for ways to create shared value and using their brand identities to focus, shape and integrate their efforts."

One multinational company that has sustainability ingrained in everything it does is Unilever, which in 2010 articulated an ambitious "Sustainable Living Plan" to double its size by 2020 while reducing its environmental footprint and increasing its positive social impact. For the third consecutive year, Unilever captured the top spot in the 2013 Sustainability Leaders survey conducted by GlobeScan and SustainAbility, which is based on the ratings of corporations and nongovernmental organizations in 73 countries. The

company's commitment to sustainable values, transparency and effective communication has put it on top of the list while national governments were seen as demonstrating the poorest leadership on sustainability over the past year.

Peter Ter Kulve (YPO Singapore), executive vice president of Unilever, South East Asia and Australasia, acknowledges that while consumer trust in business is at an all-time low, Unilever has succeeded in building its reputation. "Unilever's sustainability plan is not run as a CSR program. It is not an add-on activity. Sustainability values integrate in the business core strategy. So whether it's our margarine or soap brand, we address sustainable sourcing of oil, how we treat our labor, how we benefit the community as part of a holistic strategy," says Ter Kulve. In 2014, for the first time, the company has also integrated social and environmental reporting in its annual financial reports.

Ter Kulve adds that ownership of Unilver's sustainability agenda is now shared across the company. "We took it from the CSR department and brought it to the line manager. Everyone now is a sustainability manager."

Unilever's ambition to make sustainable living commonplace has encouraged innovation in different areas, including how factories are run and products are innovated. For example, the company continues to experiment with detergents that perform well in shorter wash cycles and dry shampoo, which might encourage people to wash their hair with hot water less often.

CSR in the DNA

A small group of large multinationals may appear to be taking the lead in driving social, environmental and economic transformation, but the 2013 Sustainability Leaders survey found that social entrepreneurs are now perceived as the sector advancing the sustainability agenda the most.

Early in his career, **Arvind Narula** (WPO Thailand) recognized a business opportunity to grow high-quality rice in Thailand. From the beginning, he was guided by the belief that farmers should share in the benefit of final revenue. The company he started in 1993 employed 6,000 families, many of whom previously had no electricity and running water. In 1995, he switched tracks and launched a 100 percent organic production, motivated not only by the commercial opportunity but also because he

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saw one of his contract farmers spraying chemicals on a field while carrying a baby. Today his operations employ more than 1,000 families in Thailand and several hundred in Argentina.

Narula is in his business for the long run. "Profit maximization is a short-term view," he says. "It has been a long-term dream of mine for more than 40 years to help those who needed help. I didn't know about words like inclusive business and impact investing. I just thought that I could do it and that I should."

For all his idealism, Narula is very clear that for socially-minded companies to succeed, they need to make money. "Inclusive business has to be profitable," he says. "Otherwise you can't give back and make an impact."▲

Congratulate the 2013 SEN Award winners at ypowpo.org/2013SENawardwinners.

SUSTAINABLE PERSPECTIVES

MEMBERS AND SPOUSES ADVANCE THE CSR VISION


MENDIOLA


TUCCI


HEYNS

Ramón Mendiola (WPO Costa Rica), recipient of the 2013 SEN Award in the sustainable environmental business practices category, is CEO of Florida Ice & Farm Co., a food and beverage group. The public company is a recognized global leader in business sustainability thanks to its positive impact on communities and countries where it operates — but it wasn't an easy path.

"Starting in 2008, we were getting signals of what society was expecting from a responsible company and realized we needed to do things differently," says Mendiola. "We went out and gathered research from all stakeholders, including employees, media and nongovernmental organizations. We found out that excessive consumption of alcohol, waste from floating bottles and water depletion were the major concerns."

Following the research, the company began to focus on addressing these issues with aggressive sustainability targets embedded into the core business strategy and linked to individual compensation. "Measuring is the most important thing in our whole strategy. This is where I believe most companies are falling behind," says Mendiola.

Michael Tucci (YPO Costa Rica, YPO Miami) leads one of the fastest-growing networks in YPO-WPO, the Sustainable Business Network, formed two years ago when the Environmental and CSR networks joined. More than 1,700 members are now part of the network and Tucci's goal is to make it relevant to a greater number. "Our first challenge was to overcome the stigma of green washing while making the network applicable to all members," he says. "The network has gone from a model based on corporate philanthropy to a network of trust and shared learning among members incorporating sustainable business practices into their core business philosophy." Tucci is excited about future developments in the area. "The corporation is the most powerful vehicle for positive impact," he says. "The rules are still being written."

Gerrit Heyns (spouse, YPO London) co-founded Osmosis five years ago in the wake of the *Stern Report on Climate Change*. It is one of the world's only organizations with a systematic methodology for connecting publicly disclosed environmental data to financial returns.

"Of the many predictions regarding climate change and its impacts, we found that the sheer size of capital predicted to be deployed on an annual basis over the next 30 to 50 years to be the most intriguing," says Heyns. "Literally hundreds of millions of dollars are invested every year in the technologies, products and services that support and will support a transition to a less carbon-intensive economy."

His company's approach to sustainability is stimulated entirely by economic imperatives but is directed toward the transition to a more sustainable economy. "The message of resource efficiency is gaining voice and influence in both the corporate and financial communities worldwide."

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