

The Corporation in Society: Managing for Sustainability

**Session 2 of Managing Transformations in
Work, Organizations & Society**

Thomas Kochan & Joel Cutcher-Gershenfeld
With Guests from: Ford, Hewlett Packard, MIT
Sloan Fellows, MIT Sustainability Consortium

Back to Basics: The 21st Century Corporation

- Can we achieve shareholder value and meet the expectations of other stakeholders?
- Stakeholders:
 - Invest and put at risk their “capital”
 - Actively influence, contribute to enterprise success
 - Share the benefits and costs of enterprise outcomes

Historical Context: An Age-Old Issue

- Early corporate charters: Serve the king; serve the society
- 20th Century: Need for large pools of finance capital—shareholder maximizing model evolved
- 1930s-60s: Management-owner separation
- 1960s: Corporate responsibility issues emerge
- 1970s: Japanese & German stakeholder models
- 1980s: Resurgence of “Investor Capitalism”
- 1990s: American model increasingly dominates

Why are we Debating this Today?

- 1990s Prosperity: Unequal Sharing?
- The Promise of the New Economy
- The emergence of global standards – ISO 14000
- Rethinking Priorities after 9/11?
- Aftermath of Enron?
- Environmental Concern: Global Warming?
- Links between environmental sustainability and new workplace systems
- Another Historical Cycle?

QUESTION: WILL THIS JUST BE ANOTHER PHASE OR WILL IT CHANGE THE WAY WE MANAGE?

Managing for Sustainability

**Is there a tradeoff between
environmental and business
objectives?**

Or

**Does incorporating environmental
issues in strategic decision
contribute to business performance?**

DEBORAH ZEMKE

DIRECTOR, CORPORATE GOVERNANCE

DZEMKE@FORD.COM

February 19, 2002

CORPORATE CITIZENSHIP ROAD MAP

Who We Are

How We Behave

What We Offer in the Marketplace

**Business
Principles**

**Transparency
Engagement
Accountability**

**Triple
Bottom Line
Assessment**

**Sustainable
Strategies**

**Performance
and Indicators**



ROBUST BUSINESS STRATEGY

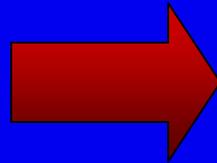
ENCOMPASSES THE BROAD DIMENSIONS OF TRUST

Trusted Product

+ Product quality

+ Reliability

+ Value



Trusted Brand

+ Ethical quality

+ Accountability

+ Values

TOUCHES ALL ASPECTS OF THE BUSINESS

20 th Century Corporate Public Policy Activity	21 st Century Corporate Public Policy Activity
Mission – Defend Existing Markets	Mission – Create New Markets
Following: Support lowest common denominator industry positions	Leading: Raise industry standards
Reactive: Respond to proposed regulations or policy changes	Proactive: Anticipate, shape, and drive market and policy agendas
Obscured: Keep company out of policy limelight – non-disclosure, industry associations, ambiguous language	Transparent: Actively identify clearly articulated public policy positions with Ford brand, values
Closed: Debate public policy safely behind closed doors, or in industry fora	Open: Invite external stakeholders into policy discussions
Narrow: Use policy participation to pursue company-specific objectives	Broad: Act as corporate citizen when participating in multi-stakeholder public affairs dialogue
= FORD FOLLOWS REGULATIONS	= REGULATIONS FOLLOW FORD

WORDS

My name is Deborah Zemke.

I work at Ford Motor Company, the world's second largest and one of the most successful makers of high quality automotive products and services.

We at Ford are deeply committed to the principles of sustainability...

My name is Deborah Zemke.

I work at Ford Motor Company, one of the world's great polluters.

Nearly all of our products depend heavily on fossil fuels, a fact that means we've had a significant impact on the world's climate.

My name is Deborah Zemke.

I work at Ford Motor Company, a global corporation with a significant impact on the earth's climate.

I'm here to say that the issue of climate change is no longer distant. It has a name and a face. Our name. Our face.

1999 CORPORATE CITIZENSHIP REPORT

“SUVs contribute more than any other vehicles to the Company’s bottom line...Without SUV offerings, Ford likely would lose sales and profits...”

1999 CORPORATE CITIZENSHIP REPORT

“Among the stakeholders concerns

expressed are:
The fuel economy of SUVs is less than cars...

- SUVs can raise safety concerns for drivers and passengers in other vehicles...
- SUV vehicles... used for off-road recreation can damage nature.”

REACTIONS TO THE REPORT

- 83% of coverage was favorable
- 33 of 35 articles conveyed Ford's primary message about climate change
- “Ford was credited with being proactive.”

- Source: CARMA, International

REACTIONS TO THE REPORT

Internet readers also responded favorably:

- 10% had heard of the report
- Of those, 40% said it changed their opinion of Ford for the better

CULTURE

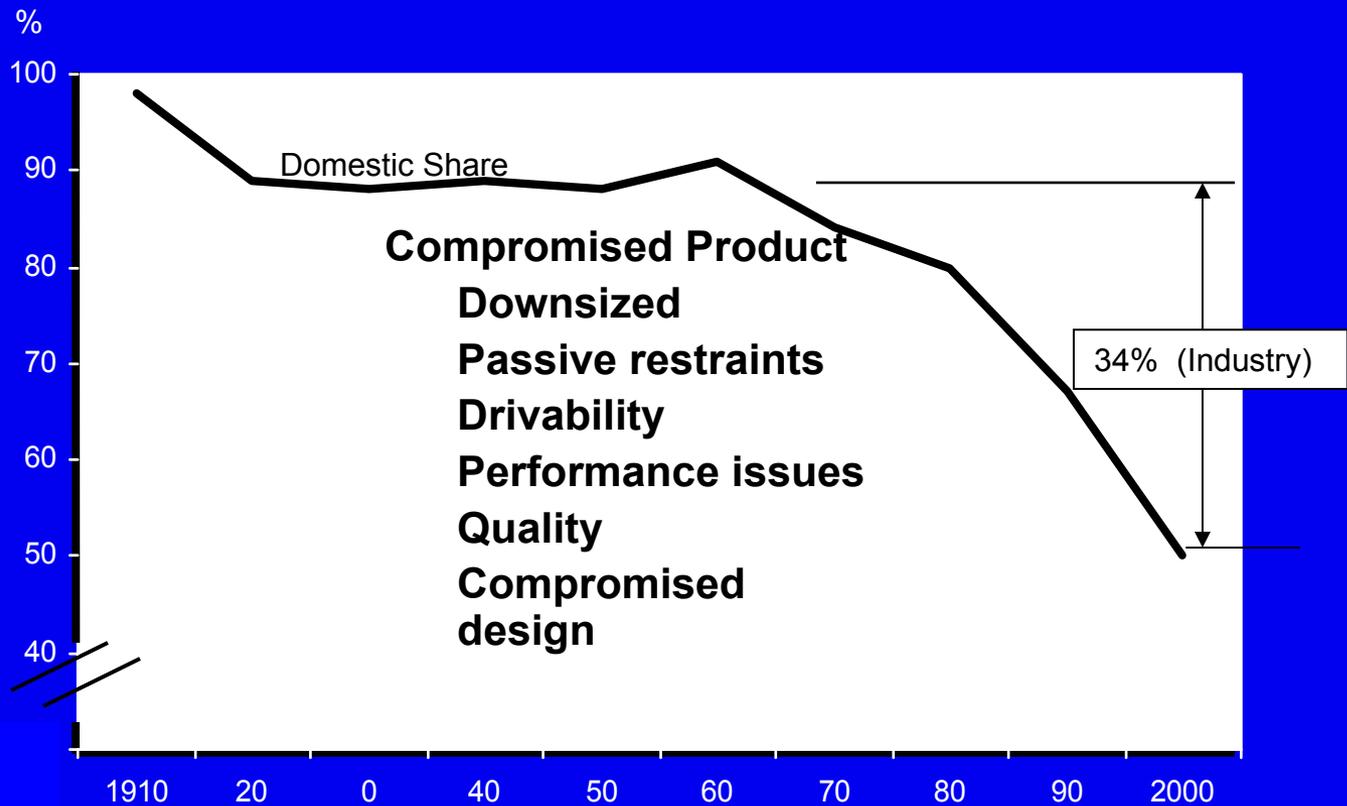
REGULATORY FOCUS OF '70s & '80s

- “Ralph Nader is full of crap!”
- “Airbags are a bunch of baloney.”
- “The government is crying wolf.”
- “I haven’t changed one whit. I said airbags are a lot of baloney and I’ll stick to it.”
- “The Carter administration doesn’t know its ass from its elbow about auto industry problems.”

-- Henry Ford II

(kept a small needlepoint pillow in his office – ‘Screw Airbags’)

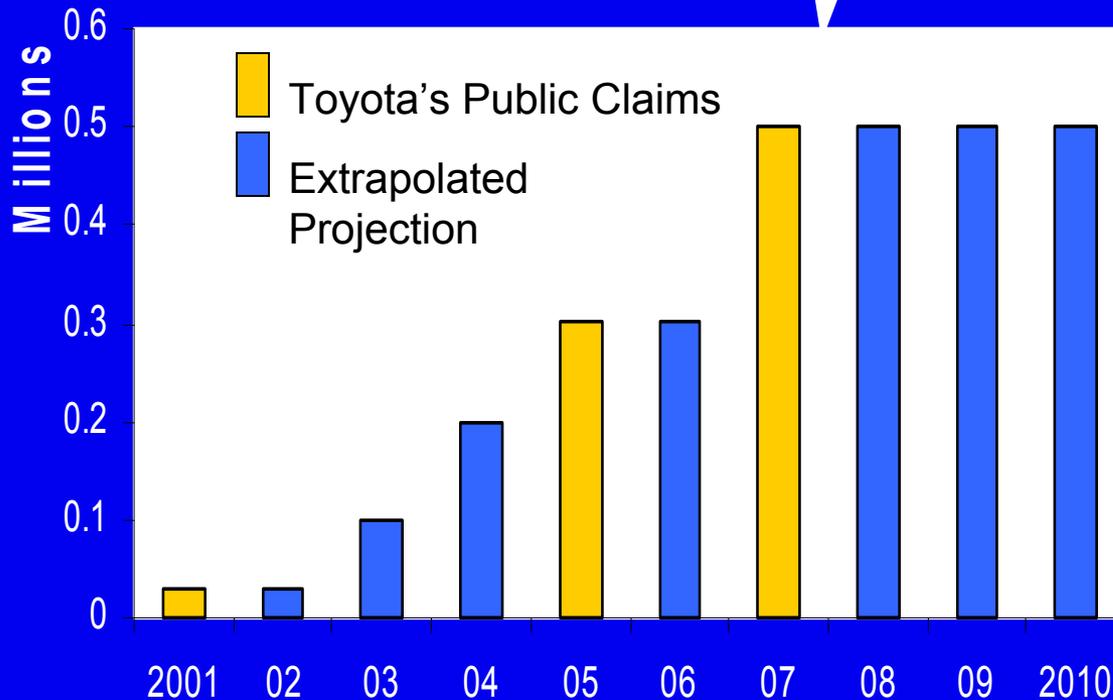
REGULATORY FOCUS OF '70s/'80s: CONTRIBUTED TO LOSS OF CAR MARKET



STORIES

MARKET PRESENCE OF HEVS: TOYOTA'S PROJECTIONS

2.9M Vehicles
by 2010



FINANCIAL IMPACT ON MARKET SHARE LOSSES

Assumptions

- Advanced technology vehicles capture 10% of the overall global market over the next ten years
- The “Leaders” (Toyota, Honda, and VW) will capture market share from the others

Possible Outcomes

- A 1.6% loss of global market share
- Equivalent to a \$4.5B contribution loss in 2010 alone*

*At \$2.8B in contribution per global market share points

IT'S BAD FOR BUSINESS TO BE PICKETED BY PASTORS

- “We’re preparing pledge cards to circulate in churches, synagogues, and mosques around the country...putting together a kit on how to hold SUV protests.”
- “We’re encouraging people to not check their faith at the door of dealerships.”

*Reverend Dan Smith
United Church of Christ, Hancock, MA
July 20, 2001 – National Public Radio*

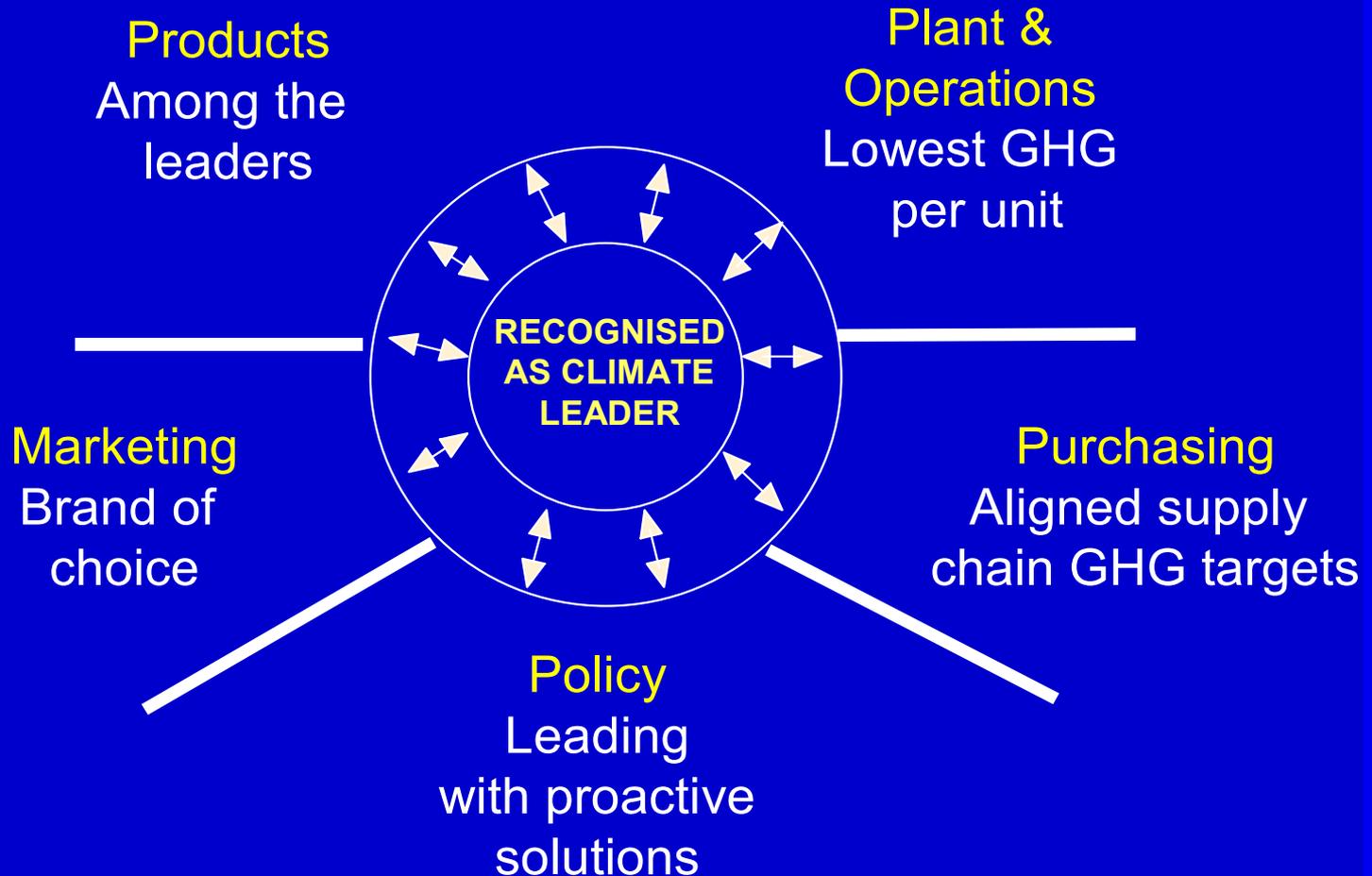
Climate Change: Marketing Perspective

RELEVANCE

ROUGE RIVER HERITAGE PROJECT

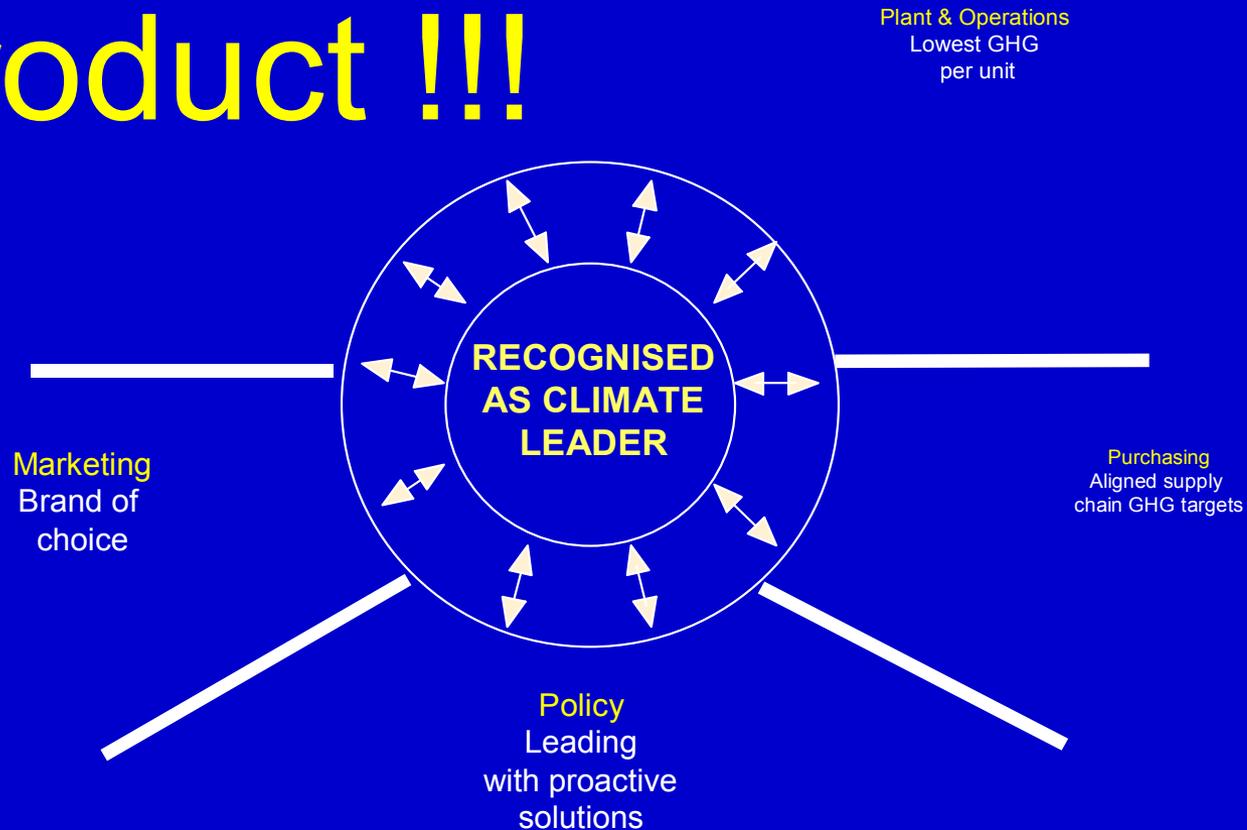
- Historic past
- Employee involvement in planning
- Lean manufacturing
- Restorative of the natural environment
- Learning laboratory
- New icon

CLIMATE CHANGE INTERNALLY



CLIMATE CHANGE EXTERNALLY

Product !!!



THE LEADERSHIP CHALLENGE

- Possess a strategic vision of sustainable value creation
- Behave with courage, honesty, integrity
- Create radical and innovative solutions
- Act as strong and unambiguous advocate
- Inspire others to follow
- Be commercially successful

DEBORAH ZEMKE

DIRECTOR, CORPORATE GOVERNANCE

DZEMKE@FORD.COM

February 19, 2002

The Sustainability Consortium: Overview and 2 Case Studies

Hilary Bradbury, Case Western Reserve

John Carroll, MIT (jcarroll@mit.edu)

John Ehrenfeld, MIT

Peter Senge, MIT and Society for
Organizational Learning

The Sustainability Consortium

- Voluntary organization of about 12 large companies (e.g., Shell, Nike, DTE, Xerox)
- Focus on sustainable business practices
- Linked to Society for Organizational Learning (use of dialogue and other learning tools)
- Sustainability concept has broadened from environmental concerns to include economic, social, and political issues

Consortium Activities

- Meet twice a year for 2 days, hosted by a member company (rotating hosts)
- Organized by 2 consultants who maintain the network, convene the meetings, and facilitate interaction
- Over time, evolved a structure including a Steering Committee, annual fees, project reports, and needs and offers that self-organize into projects

Why Do Companies/People Come to the Consortium?

- A few global companies can “set the standard” or “lead the charge” as happened for quality
- Values-based, personal value congruence
- Networking, personal relationships
- Meet “thought leaders”; idea leadership
- Opportunity to reflect; use of organizational learning tools
- Share best practices, real experiences
- Specific projects and collaborations
- Engage their organizations

Docucom Historical Case

- Landmark “green” product and process
- Why was the personal engagement of employees in this work so “off the scales?”
- Shift from reverence for leader to “cascading” the leadership
- Vision quest experience resonated for years
- Learning from experience required shifts from:
 - Reasonable engineers to high positive affect
 - Social networks as an oasis
 - Pride
 - past to future focus
 - reason to reverie (hopes and dreams)
 - knowledge and power external to self to internal

Only a Local Success?

- Despite commercial success and reduced environmental impact, other business lines did not adopt new innovations
- Concern that heavy emphasis on recycling would hurt their competitive position
- Some key project leaders have left the company and spread innovation elsewhere

GreenLease Case

- Manufacturing company got national attention for concept of turning product into service, reducing material content and discard
- But few sales! Why?
- Collaborative inquiry involving multiple SoL Consortium companies and researchers in facilitated teleconferences
- Examine challenges in moving from “concept to capability”: operational challenges and cultural challenges

GreenLease Results

- Learning for providers and customers alike
- Engineering-based firms may be biased toward seeing all challenges as technical in nature
- Customers locked into budgetary routines and maintenance contracts that suppress innovation
- Charismatic leader provided little structure for implementation; managers and sales force resist
- Need for collaborative innovation, yet innovative companies may be predisposed to believe: “We can make this happen.”

What Is Distinctive About the Consortium?

- Cross-organization, cross-sector, cross-level: person-person, company-company, person-company, company, society, etc.
- Complexity of sustainability challenge
Voluntary, values-based, self-organizing
- Friendships rather than business agreements
- Use of distinctive learning practices
- Complementary roles for corporations, consultants, researchers (e.g., GreenLease)

**HP
Sustainability**

**HP's efforts towards
environmental sustainability**

HP's vision

Be the recognized leader in inventing environmentally sound and sustainable solutions for the common good.

“We intend to provide leadership in this ecosystem of people and organizations to encourage environmentally sustainable, inclusive business and public policies.”

*Carly Fiorina,
CEO, Hewlett-Packard Company*

milestones

- 1991 – Product Stewards assigned to every product line
- 1992 – HP establishes LaserJet toner take-back program
- 1997 – All HP LaserJet products Blue Angel certified
- 1999 – HP introduces industry's first inkjet printer with duplexing capability
- 2000 – HP releases the industry's first line of inkjet printers to be Blue Angel certified
- 2001 – HP wins Green Cross Millennium Award
- 2001 – HP offers product recycling to customers via two recycling centers in California and Tennessee accepting both HP and competitor equipment for a nominal fee

How do we take action towards that vision?

- Joining you today is a group from HP's DeskJet design division – Product Stewards, Engineering and Customer Assurance Managers – looking at product and packaging recycling strategies
- Our biggest challenge: translating the **vision into action** at the individual product level, while balancing:
 - Our shareowners' need for **business results**
 - Our customers' need for the **best products**.
- However, we are starting to see some changes in the business environment that are providing more tangible motivation for our organization...

Three trends we see in the DeskJet business environment

Today

“because it’s the right thing to do?”

Environmental leadership

Inundated with information and choices, consumers will rely heavily on brand as a decision making guide. Likewise, successful companies will have a brand that employees are enthusiastic about.

Future

“because we need it to get good employees and market share”

Direct financial impact

Environmental financial impact- only when we do something “wrong”

Governments are increasingly passing legislation making what were external environmental costs internal: take-back requirements, waste fees, energy usage limits, etc.

Environmental costs will be internalized in the firm...and the product

Customer needs and wants

Environmental impact is a low-ranking Purchase criteria

Environmental impact will rise in importance as a purchase criteria, explicitly for institutional customers and implicitly for consumers. As consumers retire more electronic goods, the disposal of packaging and product will become an important part of total customer experience.

Customers will purchase more from companies that they trust

Challenges – why we are here today

- **How do we drive sustainable thinking throughout the enterprise?**
- **How can we make intelligent trade-offs between long-term sustainability and short-term business concerns?**
- **How do we leverage sustainable products and business models into competitive advantage?**

Small Group Activity: Analyze the following set of principles

Guiding Principles at Toyota

トヨタ基本理念

- 1) Be a company of the world
- 2) Serve the greater good of people everywhere by devoting careful attention to safety and to the environment
- 3) Assert leadership in technology and in customer satisfaction
- 4) Become a contributing member of the community in every nation
- 5) Foster a corporate culture that honors individuality while promoting teamwork
- 6) Pursue continuing growth through efficient, global management
- 7) Build lasting relationships with business partners around the world

Application Assignment

- Identify ways that your own work has (or has not) changed in the last five years as a result of sustainability issues
- Identify one co-worker whose job is likely to have been transformed by sustainability issues and one whose job is unlikely to have changed
 - Interview each to find their own view on what has or has not changed
- Analyze the data and draft a vignette if appropriate
 - What do these data from this small sample tell us about the larger issues of sustainability in your organization?

Summing Up

- Corporate Purpose is Not Pre-determined
- Management Assumptions Affect Nature of Stakeholder Interactions—Back to McGregor
- Are we Entering an Era of “Transparency”?
 - Expectations for corporate citizenship rising
 - Management’s challenge: Engage and manage mixed motive stakeholder relations for mutual gain – internally and externally
 - Stakeholders’ challenge: Engage and manage corporate relations for mutual gain
 - Broader challenge of isolated innovations versus sustained transformation