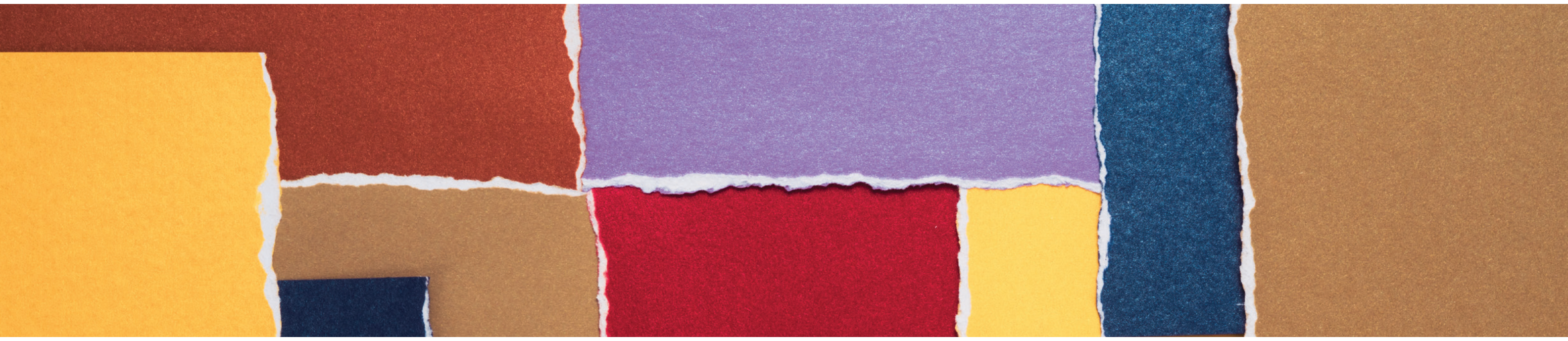

The New CEO Scorecard

Contributing to Society and the Bottom Line

It wasn't long ago that a CEO had one primary duty: increase shareholder value. Other factors were tangentially relevant, but the ability to drive shareholder return was the main focus.

Times have changed, and now there is strong pressure on CEOs to institute business practices that incorporate a socially aware mindset. Stakeholders want companies to have a greater interest in issues that affect society as a whole, such as environmental impact, workplace diversity and labor concerns, and global health programs.

Indeed, this topic has become so pervasive that BCG released a lengthy report titled *Total Societal Impact: A New Lens for Strategy* and defined this mindset as "the total benefit to society from a company's products, services, operations, core capabilities and activities." Consequently, leaders of CPG companies are expected to consider the business's legacy for future generations rather than just looking at short-term P&L. There are myriad benefits to adopting this perspective in day-to-day operations and long-term strategy, but instituting beneficial principles into practice is a daunting task and can create short-term tension between hypothetical theory and financial reality. In other words, it's truly an example of something that's easier said than done.

If companies can resolve this friction, though, they will find that working toward positive social impact does not conflict with a healthy bottom line. One study determined that socially responsible CPG companies — i.e., those that paid special attention to product safety, water conservation and packaging reduction — had gross margins that were 4.8% higher than median performers, and their valuation premium was as high as 11%.

To gain deeper insight into these policies and their ramifications for CPG companies, we conducted interviews with several global leaders, including:

- **Ronald Kers**, former CEO of Müller Group and currently senior advisor to several private equity firms
- **Daniel Lubetzky**, CEO of KIND
- **Roberto Marques**, executive chairman of Natura &Co's board of directors
- **Jorge Mesquita**, executive vice president and worldwide chairman, Johnson & Johnson Consumer Companies
- **Paul Polman**, CEO of Unilever
- **James Quincey**, CEO of The Coca-Cola Company
- **Grant Reid**, CEO of Mars, Incorporated
- **Jean-François van Boxmeer**, chairman of the executive board and CEO of Heineken
- **Dirk Van de Put**, CEO of Mondelez

They discussed the challenges and opportunities that come with enacting socially beneficial policies throughout the organization, the risks of ignoring this growing trend, and the benefits — and costs — of becoming part of a new progressive movement.

"In the 19th century, our owner built houses around his factory so his workers could settle there. He needed the skilled workers close to the brewery, but it was also a way to elevate them and help them out. This type of thinking is in our DNA."

JEAN-FRANÇOIS VAN BOXMEER
CHAIRMAN OF THE EXECUTIVE BOARD AND CEO OF HEINEKEN

A CLOSER LOOK AT COMPANIES AND SOCIETAL IMPACT

Some suggest that the focus on socially beneficial practices is actually a return to the roots of the industry, as many companies were founded with such practices engrained into their operations. For instance, Unilever's Lifebuoy was the first soap made with carbolic acid, which was key in improving hygiene and preventing disease, and the company's Port Sunlight manufacturing facility was one of the first to include housing and amenities for the workforce. Similarly in Holland, "in the 19th century, our owner built houses around his factory so his workers could settle there," noted Heineken CEO Jean-François van Boxmeer. "He needed the skilled workers close to the brewery, but it was also a way to elevate them and help them out. This type of thinking is in our DNA." The dichotomy between shareholder return and socially responsible behavior began later, and it's widely accepted that this sentiment peaked in the 1990s.

Meanwhile, the growing awareness of socially relevant issues has been slow but persistent over the years: The acknowledgment of climate change has raised environmental consciousness, the #metoo movement has heightened interest in gender and diversity issues, and the internet has made it easier for activists to scrutinize a company's labor practices. Several notable events were watershed moments in this evolution, including:

- **United Nations program:** In 2015, the United Nations implemented Sustainable Development Goals, which codified the effort to "take the bold and transformative steps that are urgently needed to shift the world onto a sustainable and resilient path."
- **The millennial mindset:** Millennials have proven they are motivated by more than money, and they often consider a company's beliefs and culture as criteria when choosing a place to work. One study found that millennials would be willing to take a $7,600 pay cut for a job that aligned with their cultural leanings. Millennials have become an important part of the marketplace, so companies are realizing that they must adjust their values to attract this influential demographic, both as consumers and as employees.
- **Larry Fink letter:** In early 2018, BlackRock CEO Larry Fink wrote a public letter that emphasized weighing societal implications when making business decisions: "To prosper over time, every company must not only

deliver financial performance, but also show how it makes a positive contribution to society," he wrote. Given that institutional investors have largely been agnostic about socially relevant issues, Fink's letter represented a dramatic paradigm shift in the investor mindset.

CHALLENGES FOR CEOS

To stay abreast of this growing social awareness, leaders cannot look at societal impact as an optional benefit or an add-on — they must embrace it as a key element in the core business strategy. Go halfway, or do it in a rote fashion, and the marketplace will not be kind. "You need to do it for the right reasons, and it has to be because you really care and not because you're trying to check some boxes on a marketing form," said Daniel Lubetzky, CEO of KIND. "Because if it's the latter, it's going to fail miserably and it's actually probably going to backfire."

But changing behavior throughout a company is a complicated task. Some leaders see this area as ripe for "grandstanding," and there can be conflicts between making shareholders happy and doing right for the environment.

Mars CEO Grant Reid noted his company has five principles — quality, responsibility, mutuality, efficiency and freedom — that guide the company's strategies, and they often dovetail with sustainable business practices. He suggested that companies need to make sure that social and environmental commitments are impact oriented. He casts a somewhat skeptical eye toward companies that proclaim grand ambitions without backing them up with action, saying, "I think there's a lot more heat than light on this subject." Reid also noted the pragmatic difficulties of aligning business efforts with shareholder return, referring to the 2010 Consumer Goods Forum resolution to achieve zero net deforestation by 2020. "The truth is, since the CGF made that commitment, the overall rate of deforestation has not really changed," he said. "Industry collectively has made some good progress, but collectively we are not hitting the trajectory that is needed, so we know we need to do something more, or something different."

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>
> **DANIEL LUBETZKY**
> CEO OF KIND

> "Any company that doesn't treat its people well — whether it's human rights, child labor, slave labor or it doesn't act right in terms of diversity — can see its market cap go down by 20 or 30 percent overnight."
>
> **PAUL POLMAN**
> CEO OF UNILEVER

This example illustrates one of the primary problems for leaders seeking to change their company's behavior: turning righteous ideas into concrete operational practices across an entire organization is no small feat. For instance, it would likely eventually be cheaper for a CPG factory to run on solar energy instead of fossil fuel. Building this modern facility, however, can be extremely expensive, so senior executives with P&L responsibilities will likely bristle at the initial outlay. These inevitable tensions can be managed as long as they are discussed transparently, van Boxmeer said.

"You simply have to do what's best for the planet and people where you can, and then flag where you have tensions," he said. "As an example, say you want a brewery to change over to renewable energy, but you can't make a business case for it. Then you have to flag it and we have to sit around the table and see what it would take to make it possible."

Another element that makes these infrastructure changes difficult: in order to make a notable change, companies must examine their impact along the entire value chain. "When we were measuring our greenhouse gas emissions, initially we only looked at our own operations," Reid said. "Then we dove into the science, and we realized, 'It doesn't make any sense just to work on our own operations, because the vast majority of our footprint is actually coming from our extended supply chain.' And that's when we found we had to increase our ambitions and targets substantially to do our part."

Despite the costs this work would necessitate, other leaders believe companies must take a generational perspective and accept that such outlays are necessary in pursuit of long-term benefits. "I know it's difficult to do given the current pressures, but we may have to accept the temporary hike in costs as we invest in these new technologies. Not doing this would be penny-wise and pound-foolish," said Jorge Mesquita, executive vice president and worldwide chairman, Johnson & Johnson Consumer Companies. "I truly believe you gain more in terms of consumer preference and market share than what you save by not doing it."

Paul Polman, CEO of of Unilever, agreed, noting bad publicity can lead to devastating PR hits. "We are starting to see the costs of inaction are higher versus the cost of action," he warned. "Any company that doesn't treat its people well — whether it's human rights, child labor, slave labor or it doesn't act right in terms of diversity — can see its market cap go down by 20 or 30 percent overnight."

One way of eliminating this risk is to ensure the company's business strategy and socially responsible efforts are inextricably connected. Lubetzky said his company makes no distinction between the two, which means shareholders can sleep at night knowing the company is acting positively.

"The more that people eat KIND products, the more we're advancing the social mission of fighting diabetes and obesity, and helping people lead more healthful lives, and we're also building our financial performance," he said. "It's not like we're making a product that's harmful to the body but we're trying to undo that damage by building gyms for people. It's in the very DNA of the business to make products that are kind to your body, on top of fostering kindness to one another."

As technology improves and renewable energy costs decrease, some are finding it's less onerous to align progressive efforts with shareholder return. For instance, Reid noted that larger projects allow them to scale, which creates more congruency between costs and results.

"What we're finding is, invest in those projects and get some scale, and then it's true: our energy costs are lower with renewable energy than with traditional energy," he said. "We provide the long-term commitment to a renewable energy company, and we get enough scale that it's good for us, it's good for the provider and it's good for the environment."

HOW TO CREATE A SOCIALLY ORIENTED MINDSET

So how can leaders align their company with this new mandate? Culture is a key element, and CEOs must strive to create a culture where societal impact initiatives are pursued throughout the organization. Business units may be focused on P&L, but the culture must support the belief that companies should err on the side of doing good.

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> CEO OF MARS

Some believe the mindset develops from the top-down and percolates through the company as leaders model it — and reward behaviors that support the more beneficial mission. “People pay attention to what the CEO does,” said Coca-Cola CEO James Quincey. “They want to know, ‘What’s going to put me in the good books?’ and they take on those objectives. People pay attention to incentives, whether they’re hard, like financial incentives, or soft, like who gets the gold stars and who doesn’t.”

Which raises the issue of compensation. For all the high-minded talk about doing good for the planet, some believe tying a company’s socially responsible efforts to compensation is the most effective way to ensure everyone in the organization is onboard. This has proven to be a divisive issue, as some leaders believe payment for meeting socially responsible key performance indicators (KPIs) is a natural step, while others believe the effort needs to be come from within.

Many organizations set goals for progressive categories, with compensation tied directly to those numbers: Natura &Co, for instance, uses a “triple bottom line” that takes the company’s economic, environmental and social performance into account when evaluating executives.

“In order to not make it too abstract, we set goals with a very specific road map with things we want to achieve,” said Roberto Marques, executive chairman of Natura &Co's board of directors. “In the past, companies would say social changes are important, but they didn’t measure them or make them KPIs. So when tension would arise, people would change to what’s more important in terms of P&L. So by making those KPIs part of your compensation, it becomes a little more real, a little more balanced.”

> “We didn’t make this recognition part of employee compensation — I felt very strongly that people who work here need to feel this is just the right way of doing things. You don’t reward that — it’s just the norm. We’re not going to pay for behavior that we expect.”
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> CEO OF UNILEVER

One year, Marques noted, the company didn’t meet its KPIs for environmental issues — so bonuses were simply withheld. “We decided to stay true to that, and it became pretty visible,” he said. “But we wanted to walk the talk and we decided those metrics are very important. And that’s

exactly what happened. The triple bottom line is part of compensation and KPIs, so executives didn't get their bonuses. It shows how we run the business, that we don't treat those things as separated. We believe companies have a higher purpose than just delivering profits to their shareholders."

Polman, however, takes a different approach. While noting Unilever always rates highly in indexes like GlobeScan SustainAbility Report, the Dow Jones Sustainability Index and Human Rights Watch, he said the company's progressive behavior happens despite the fact that he doesn't compensate employees for it — therefore the goals are internalized. "We didn't make this recognition part of employee compensation — I felt very strongly that people who work here need to feel this is just the right way of doing things. You don't reward that — it's just the norm," he said. "We're not going to pay for behavior that we expect."

HOW TO BECOME MORE SOCIALLY RESPONSIBLE

There are myriad ways for companies to effect positive social change, ranging from small production tweaks to larger-scale philanthropic efforts. And given that the CPG sector is so consumer-centric, this trend is leading organizations to create products that meet a higher labor and environmental standard. Mesquita noted, for instance, that Johnson & Johnson is changing plastic ear bud sticks globally to paper sticks to help reduce plastic waste.

Often, actions like these can have the welcome side effect of increasing savings. Since 2010, for instance, Unilever has reduced its waste footprint by 28 percent, saving millions of euros in packaging costs annually. And a company that addresses human rights abuses in its supply chain can lessen the risk of interrupted supply, which will likely decrease sourcing costs.

Creating ambitious policies can lead to technological change, which can help reduce costs and begin a positive cycle. "Setting the policy goal drove innovation for us," Quincey of Coca-Cola said, noting his company set a goal in 2007 to balance the amount of water they use with the amount of water they return via community water projects by 2020. "We achieved that goal in 2015. We didn't know all the things we'd need to get it done, so it spurred innovation to create a means to achieve it. These efforts also gave us the confidence to create a World Without Waste, which focuses on collecting 100 percent of our packaging and finding new uses for the materials."

Similarly, van Boxmeer noted that Heineken recently began an initiative to ensure 70 percent of the company's energy will come from renewable sources by 2030. "We currently stand at 14 percent renewable, so it's a big leap," he said. "Some of my people say, 'We want to get to 100 percent.' I had to push back and say, 'Given the actual state of science, you cannot get there. Seventy percent is already a big stretch.' And they say, 'But by then, there will be a technical solution that will allow it.' So I said, 'When these technical solutions come, then we will be happy to announce that we will reach 100 percent.'"

Mondelez has set a goal of sustainably sourcing all of its cocoa primarily through Cocoa Life, a $400 million initiative that was launched in 2012, CEO Dirk Van de Put said. As of last year, 35 percent of the company's cocoa was sustainably sourced. "It's a long process, and you have to make an investment in different manufacturing equipment and different raw materials — don't get me wrong, this isn't easy," he said. "But in the end, I know this is going to help the business and make a real business impact. You just have to get over the initial bump of investment without seeing the benefits right away."

SOCIAL RESPONSIBILITY AND TALENT

Companies are also finding that the progressive mindset plays a large role in attracting talent and helping to create and maintain an engaged workforce. Members of the millennial generation are vocal about their values, and they act on these beliefs when seeking employment. "People these days, they're different from 15, 20 years ago. They want to know what kind of company they're working for," said former Müller Group CEO Ronald Kers. "They want to know the soul of the company. It's not about, 'Hey, give me a competitive starting salary and a bonus and a shiny car.' The generation we have now is looking at it more like, 'I like those benefits, but I want to know what the company does, what they stand for and how they operate.'"

> "In the end, employees are part of the real world, and they can see what needs to be done. People generally want to feel like they're on the right side of the issue."
>
> **JAMES QUINCEY**
> CEO OF THE COCA-COLA COMPANY

In addition to attracting a young, energetic workforce, socially responsible efforts invigorate workers and make them proud of the company's larger aims. "In the end, employees are part of the real world, and they can see what needs to be done," Quincey said. "People generally want to feel like they're on the right side of the issue. You can't get a good reputation by being bad on your core products but good on other things. No number of donations from a bad company is going to make people think they're good."

It's also key that the leadership team declare its stance on socially responsible issues, so employees and the general public are aware of the company's values. "We have to announce what we stand for, and what our commitments are," Van de Put said. "That's the real test of how serious you are. It can't be somewhere hidden — it has to be an open, public declaration."

CONCLUSION: LEAVING A LASTING LEGACY

Life was likely easier for previous generations of CEOs, who could focus almost exclusively on shareholder return and have that be the primary factor by which they were measured. But that's also a more single-minded way of looking at CEO duties over the years — a more holistic view is that, with the advent of societal concerns and the emphasis on long-term benefits, CEOs have the opportunity to do some lasting good beyond just providing profitable investments.

This is not easy work, however, and the list of issues that need to be addressed can grow to be quite long. "It can be daunting, because people are focusing on such big societal impacts — there's food waste, packaging waste, deforestation and so on. If you're a smaller company, it can seem like too much," Van de Put said. "My recommendation: don't try to do everything in the beginning. Rather than going wide, go specific, and make sure that you pick an area that can have a real, positive business impact. Focus your efforts on doing that. Then you'll get traction and have success. Then you can take on another issue."

> "My recommendation: don't try to do everything in the beginning. Rather than going wide, go specific, and make sure that you pick an area that can have a real, positive business impact."

DIRK VAN DE PUT
CEO OF MONDELEZ

> "For me, I'd like to leave behind the next generation of value-centric leaders who have a global, socially conscious mindset, and a business that is winning in the marketplace."
>
> **JORGE MESQUITA**
> EXECUTIVE VICE PRESIDENT AND WORLDWIDE CHAIRMAN OF JOHNSON & JOHNSON

Despite the difficulty of making these changes, CEOs can help effect some lasting change that will truly make a difference in many lives, and end their careers with a legacy that goes far beyond the balance sheet.

"For me, I'd like to leave behind the next generation of value-centric leaders who have a global, socially conscious mindset, and a business that is winning in the marketplace," Mesquita said. "Also, a business where brands have a clearly articulated purpose that they work to fulfill every day. And, an externally connected ecosystem of ventures, partnerships and relationships that foster broader healthcare for everyone and employment and education throughout the world."

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