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THE RESPONSIBILITY REVOLUTION TAKES OFF

It was the summer of 2009, and the world's economy was still struggling to break free from the Great Recession's chokehold. Certainly, the financial industry was the last place that anyone would look to find a business success story. If anything, big banks epitomized much of what had gone wrong in the economy and in society over the past few years. With all of their ethical breaches and criminal wrongdoing, and the billions wiped from their balance sheets, banks revealed business's dark underside. It was not a welcome sight.

So it was surprising that in the midst of the Great Recession's gloom, a bank showed us a bit of business's bright side. Yet that's exactly what Triodos Bank N.V. did in June 2009, when it released its 2008 earnings review.

Based in the Netherlands, with a network of offices throughout much of Western Europe and slightly more than EUR 3.7 billion under management, Triodos[1] is largely ignored by Wall Street's behemoths. But in a year when the Street's failures nearly brought down the global economy and credit markets hit the deep freeze, Triodos Bank's income rose by 25 percent, and its loan portfolio jumped by the same margin.

Triodos delivered those stellar results by financing *only* sustainable projects and businesses—in all, more than nine thousand social and environmentally beneficial initiatives in 2008. No matter how impeccable your pedigree or rock-solid your business plan, if your venture doesn't positively contribute to the environment or society, you don't stand a chance of obtaining a loan from Triodos. By investing solely in enterprises that engage in renewable energy and organic farming, microfinance and fair trade, Triodos aims to steer economies in a more sustainable direction. Profits follow. Despite the busts that regularly buffet the banking industry, Triodos has never recorded a quarterly loss in the three decades since its founding. "As a bank, our first priority is to maximize sustainability," Triodos' chairman and chief executive, Peter Blom, told us. "Within that model, we want to maximize returns for shareholders. But sustainability comes first."[2]

To the conventional-minded, putting values before profit is an upside-down way to build strategy—and an all-downside way to spur sales. It sounds extreme, even anarchic. Perhaps Triodos Bank's resilience and results might give skeptics cause to reset their thinking. For this Dutch bank signals that "corporate responsibility"[3] (CR) may well be undergoing a period of unprecedented "punctuated equilibrium"—the controversial theory promulgated by the renowned paleontologist Stephen Jay Gould.[4] He posited that evolution proceeds mostly slowly, but not always steadily—that it is sometimes interrupted by sudden, rapid transitions, in which species decline and are supplanted by entirely new forms. Triodos Bank's consistently positive performance, which grows out of its mission-first approach to investing, is but one more prominent piece of evidence that corporate responsibility is entering a period of dramatic, accelerated change in its own evolution. What new shapes CR is about to take on, we are just now beginning to understand. But we know this much—corporate responsibility is undergoing a change that's as revolutionary as it is evolutionary. Consider the evidence:

An emerging breed of values-driven companies—some new, some well established—is building a better form of capitalism.

A new generation of values-driven leaders has kicked over the alpha capitalists' argument that "the only business of business is business."

Old-guard notions about "culpability" and "accountability" are being subsumed by the vanguard's requirement to act authentically and transparently.

Bloodless buzzwords like "corporate responsibility" and "eco-efficiency" are being supplanted by a new vocabulary—"corporate consciousness," "resource intelligence," "social innovation"—that aspires to capture our real-world experiences.

Above all, tomorrow's bellwether organizations are moving beyond the moralist's dictum to be less polluting, less wasteful, "less bad." They are striving to meet the innovator's imposing imperative to be all nourishing, all replenishing, "all good."

This moment of punctuated, accelerated change affects all of us in business. It will determine how tomorrow's companies organize, strategize, and compete. It will reveal new leaders and expose the phonies and purveyors of greenwash. It will redefine business's obligations to society and reconfigure the sources of growth and competitive advantage. And it will require us not only to anticipate the end of corporate responsibility as we've known it, but also to imagine the whole new models that will replace it.

RESPONSIBLE REVOLUTIONARIES EMERGE

This first decade of the twenty-first century has brought with it the necessary catalysts for sparking an enduring period of accelerated change in corporate responsibility's evolution: our unmitigated ambiguity about the future, combined with unwavering certainty that business can do better. We've endured a global recession and the angry backlash that followed: fear over the millions of lost jobs, outrage over CEOs' enormous pay packages, the gnawing belief that executives cooked the books and scorched the environment, the rough evidence that we were let down by so many of our so-called leaders. Corporations and the people who ran them were widely regarded as covetous and uncaring; the brand called capitalism suffered accordingly.

It's no wonder, then, that although it's fashionable for folks in the C-suite to proclaim their commitment to ''corporate responsibility,'' such talk often rings hollow. Yet a growing number of business leaders are pushing toward a more generous form of capitalism, one that consciously works for the common good. Adam Smith, best known for *The Wealth of Nations,* asserted in his other remarkable book, *The Theory of Moral Sentiments,* that although man is indeed selfish, ''. . . there are evidently some principles in his nature which interest him in the fortunes of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it.''[5] Building on Smith's notion that the desire for social approval is at least as powerful a motivator of human behavior as the self-serving desire to win at all costs, if not more so, more and more business innovators are envisioning a different kind of company: a company for which making profits is a way toward the greater goal of responding to social and environmental challenges.

By seeking to contribute to the well-being of society and the environment as well as its bottom line, the enlightened corporation summons instincts—empathy and generosity, passion and ambition—that are more than merely mercenary. It thereby seizes on a more resilient business model than the profit-first strategies that it vies with. Over the long run, companies that really are responsible will surpass their profit-fixated peers.

This fundamental shift from the ''for-profit'' model to one that's ''for-purpose (and profits)'' was heralded long ago by such seers as Peter Drucker, who opined that ''every social and global issue is a business opportunity just waiting for the right kind of inventive entrepreneurship, the right kind of investment, the right kind of collective action.''[6] The right moment for Drucker's vision has been a long time coming, but it has most certainly arrived. Although the notion that there's good business in confronting society's most vexing challenges was once dismissed by many as a misguided mantra, it has now entered the mainstream of business thinking.

Two critical pieces of evidence for this claim came from two of the foremost champions of conventional capitalism: Bill Gates, the cofounder of Microsoft, and Lee Scott, the ex-chief of Wal-Mart.[7] In January 2008, at an annual meeting of Wal-Mart employees and suppliers, Scott made sweeping commitments in his social manifesto to reduce the company's energy use and improve labor conditions in its supply chain. The very next day, in a speech to the World Economic Forum in Davos, Switzerland, Gates heralded the rise of a ''creative capitalism'' wherein ''more people can make a profit, or gain recognition, doing work that eases the world's inequities.''

The most remarkable thing about Gates's and Scott's speeches was that they simply underlined what many business leaders had already concluded: that a whole host of economic and societal pressures—and opportunities—are pushing corporations to embrace a model of a more expansive business purpose. In a 2007 report by McKinsey, the global consultancy, more than 90 percent of the CEOs surveyed said they are doing more to push environmental and social strategies into their operations than five years ago.[8] *The Economist,* which once derided corporate responsibility as a ''do-gooding sideshow,'' conceded in a January 2008 article that ''CR is booming'' and ''few big companies can now afford to ignore it.''[9] Even *Forbes,* the self-described ''Capitalist Tool,'' has boasted of a surprising turnaround in its profits-centered ethos. ''Do corporations exist solely to maximize their bottom lines?'' the magazine asked, in a subhead to a March 2008 article. Its emphatic reply: ''We don't think so.''[10]

Why is this different from the drumbeat for corporate accountability that started at the beginning of the decade, after the Enron, WorldCom, and Tyco debacles?

- Companies, in the wake of such scandals, must now work harder to protect their reputations.
- Global brands, which are battling to crack markets all over the world, are now expected to perform a social role.

- Customers, thanks to the Internet, now have more power than ever before—the power to scrutinize companies' activities and to organize boycotts at the slightest sign of misbehavior.
- The body politic, seared by Ponzi schemes and the meltdown in financial markets, is punishing "bad companies" and demanding that all companies "do good."
- Employees now expect companies to adopt a purpose that's bigger than profit—a key factor in the competition for A+ talent.
- Nongovernmental organizations (NGOs) are growing exponentially and are relentlessly pushing companies to contribute to society.
- Stakeholders are pressuring institutional investors to adopt strong principles of governance and a responsible investing strategy.

People across the political spectrum are concluding that despite the U.S.'s government bailouts of Wall Street and the U.S. car industry, business is still fast enough and nimble enough to innovate solutions to some of the world's thorniest problems. Two proof points among thousands: Unilever's pledge to certify as sustainable all of its Lipton tea bags sold globally, which promises to lift one million African tea growers out of poverty.[11] Or recall the U.S. federal government's feeble response to the devastation caused by Hurricane Katrina. Wal-Mart, with its world-class logistical operation—along with the help of countless individual volunteers and non-profits—proved to be the *real* first responder.

More than anything, climate change is forcing business and society itself to rethink everything, from transportation to energy sources to geo-politics to cities. When the oil baron T. Boone Pickens attacked the United States' petroleum-based economy as a risk to national security, it was clear that minds have changed. Formerly fringe notions that business should be environmentally and socially sustainable have moved to the mainstream—and the business landscape has been fundamentally transformed.

TO BUILD A BETTER CAPITALISM

The voices of the business establishment have come to recognize eight key drivers (described in this section) that make responsible corporate behavior an imperative. Not only are they persistent, they are predominant, and they will endure for decades to come. But although these über-capitalists are putting real heft behind the movement to build a better form of capitalism. The next generation of entrepreneurs is pouring on the accelerant and lighting the match. They have heard the voices of visionaries such as the pioneering ecologist and biologist David Suzuki, who has perturbed many an industrialist with his observation that "the industrialized world has only 20 percent of Earth's population but uses more than 80 percent of the resources and produces more than 80 percent of the toxic waste."[12] They accept Suzuki's argument that our conspicuous consumption is "using up what our children and our children's children should expect to inherit." They reject the notion that business, in its present form, can sustain us, so they too are committed to remaking business. Forged by the old guard and the vanguard, good companies are coming to the fore because . . .

1. *They are preparing for global climate change's threats and opportunities.* The political push to stamp a higher price on fossil fuels through emissions caps or a carbon tax will make clean technologies and renewable energy a necessity for any manufacturer that hopes to stay competitive. American venture capital firms invested more than $2.6 billion in green businesses during the first three quarters of 2007, the highest level ever recorded. That capital quickly paid off: revenues from companies in solar energy, wind, biofuels, and fuel cells jumped from $40 billion in 2005 to $70 billion in 2007. Although the global recession temporarily dampened the surge, VC investments in clean technologies and renewables began rebounding sharply in the second quarter of 2009. Speaking before a meeting of green-tech execs in Boston, Kleiner Perkins's Bill Joy described the future this way: " . . . energy and green technology is the largest economic opportunity we've seen so far this century."[13]

2. *They possess built-in "insurance" that protects a company's most valuable asset: its reputation. Fortune* has calculated that "intangible assets"—patents and trademarks, as well as all the knowledge, creativity, and consumer relationships that ultimately enhance an organization's reputation—represent 75 percent of the total value of the average U.S.

business. A company can buy insurance to safeguard its physical assets. But when more than half of the worldwide respondents to the 2009 Transparency International's Corruption Perceptions survey believe the private sector is dishonest, only the badge of good corporate citizenship can burnish a company's far more valuable reputation.

3. *They are powerful magnets for high-end talent.* In their ''Owner's Manual'' for shareholders, Google founders Larry Page and Sergey Brin proclaimed that, ''Talented people are attracted to Google because we empower them to change the world.'' As the author and business strategist Gary Hamel has argued, in too many companies, employees aspire to no bigger ambition than hitting their numbers—not much of a stimulant for overachievers. Whether it's Google's effort ''to organize the world's information,''[14] Whole Foods' drive to ''improve the health and well-being of everyone on the planet,''[15] or Genzyme's aspiration to ''innovate on behalf of people with serious diseases,''[16] an audacious desire to create something of consequence is a powerful lure for smart people who thrive on cracking the code on problems that matter.[17]

4. *They summon extraordinary contributions from their employees.* Companies that are organized around a sense of mission not only attract the best human capital, they often yield the best results, because they inspire people to bring all of their imagination and inventiveness to work each day. Most of the organizations that make *Fortune*'s annual ''100 Best Places to Work'' list have a core purpose that goes above and beyond the bottom line. As Hamel notes, purpose elicits passion, which often transforms individual desire into exceptional corporate performance. In his book *Pour Your Heart Into It,* Starbucks chairman Howard Schultz recognized the power of passion when he opined, ''Ultimately, Starbucks can't flourish and win customers' hearts without the passionate devotion of our employees.''[18] One piece of evidence to support Schultz's claim: between 1997 and 2007, those ''best places to work'' companies delivered more than twice the annualized return of the S&P 500 Index.[19]

5. *They have earned a generous ''license to operate'' from critical external stakeholders.* A license to operate, with its obligation to meet or exceed a set of legal and regulatory requirements, has long been calculated as a necessary but nettlesome part of the overall cost of doing business.

Today, society increasingly acts as virtual licensors for the operating company. Winning its approval is not just a prerequisite for survival; it's a prescription for success, because it opens the way for companies to start producing real economic and social benefits. Wal-Mart understood this a little too late and struggled to win community approval to site new stores. Google, on the other hand, gets it: the search-engine giant is investing hundreds of millions of dollars in developing renewable-energy technologies. The global community's stamp of approval amounts to a touchstone for Google's brand image and a mark of achievement. As Whole Foods CEO John Mackey once asserted, "If you want to increase shareholder value, you'd better be a positive force in the community."[20] He understands that customers reward companies that contribute to society.

6. *They are recreating their relationships with suppliers.* When activists pulled back the curtain on persistent health, safety, and child-labor violations in the overseas factories of some of America's foremost apparel brands, the targeted companies first reacted with utter predictability: they issued "codes of conduct" for their vendors and dispatched teams of inspectors to expose serial offenders. In its first social-responsibility report, for example, Gap Inc. proudly proclaimed that it had pulled its business from 136 factories that failed to meet its new labor standards. More recently, however, the clothing retailer has come to realize that internal monitoring alone cannot unravel its supply chain's tangled problems, and simply listing the number of offending factories does not inspire the public's trust. In 2006, Gap surprised the business world by identifying, on its Web site, its contract factories, so we could see for ourselves what conditions were like. Rather than simply policing their subcontractors, Gap and Nike—working with union and NGO representatives—are partnering with them, to help them become sustainable and desirable places to work. Contract factories that invest in people and treat their workers well tend to improve efficiency (read: lower prices) and product quality, which grows their business—and helps to grow their customers' business results.

7. *They are well positioned to work with a powerful new "regulatory" force: the NGO.* Over the past fifteen years, NGOs have grown dramatically

to become the eighth largest economy in the world, numbering in the millions and with annual operating budgets of more than $1 trillion. Their accelerating proliferation is rivaled only by their spreading influence. Not so long ago, Wal-Mart viewed NGOs with outright hostility, but learned painfully that it couldn't build a big enough bunker to hide from them. When the retailing giant finally conceded that it needed an environmental strategy, it turned to some of its most zealous critics for help. Wal-Mart's former chief, Lee Scott, contended that NGOs were essential in pushing the company to innovate in such areas as building sustainable fisheries and reducing carbon dioxide emissions. Whereas NGOs once were outsiders who challenged the system, increasingly they act as insiders—a potent part of the system that they are trying to change. No organization is better equipped to partner with this robust new conscience of the marketplace than the conscientious business.

8. *They are harnessing the widespread desire for a new, responsible era in business.* In the November 2008 U.S. presidential election, the majority of Americans voted for change. In the ensuing months, as struggling taxpayers learned to live with less while bailing out Wall Street, they demanded change by rewarding companies that meld economic growth with social justice. *Advertising Age* columnist Jonah Bloom summed up consumers' new expectations thusly: ''[C]onsumers, particularly the younger generations of consumers, are moving toward a different way of judging business. They celebrate companies and brands that share their values, rather than have the most muscle . . . [they] have replaced stone throwing and banner waving with the eminently more effective tactic of Web-fueled campaigning and the wielding of their wallets . . . It is difficult for bigger or older brands to emulate this new generation, but they can and must if they want to succeed in selling to today's informed and empowered consumers.''[21]

The great green awakening over climate change. The tangible worth of intangible assets. The war for top-grade talent. The impressive power of inspired employees. Communities as corporate licensors. Transparent supply chains. The global swarm of NGOs. Now arriving, the activist global consumer. As these transformational forces reshape the business landscape, insurgent companies that seize on these drives will land on the upside of the change curve and create real value.

RESPONSIBLE COMPANIES, REVOLUTIONARY PERFORMERS

Even skeptics now concede, as mounting evidence reveals, that sustainable companies often enjoy a distinct competitive advantage over their profit-fixated peers and continue to deliver outsized financial results. Here's some real-world evidence.

Between 1995 and 2007, socially responsible investment assets expanded by 324 percent, sharply outpacing growth in the broader universe of investments, which increased by less than 260 percent over the same period. Declared Cheryl Smith, chair of the Social Investment Forum Board: social investing is thriving "as never before."[22] Even during the bust wrought by the Great Recession, investing in socially responsible funds, according to *Time*, grew "at higher rates than ever," to an estimated $2.7 trillion.[23]

Consider also that Clorox, which built its brand on chemical bleach, bought natural-based Burt's Bees for $950 million, a multiple of more than five times the company's 2007 sales. Within two years, Burt's grew into a heavyweight, ranking among the top U.S. "green brands" in a 2009 survey.

Then there's the renewable energy industry. Revenue growth in biofuels, wind power, and solar photovoltaics expanded by 50 percent in 2008, even as tightening credit began to squeeze markets. The future for renewables looks even brighter. The research firm Clean Edge estimated that the three benchmark technologies will leap from $115 billion in 2008 to $325 billion "within a decade."

Organizations that compete outside of the green category are also getting in on the action. A survey by the consulting group A.T. Kearney found that companies committed to corporate sustainability practices achieved "above average" performance in the financial markets during the tough 2008 recession, which translated into an average of $50 million in incremental market value per company.[24]

On the retail front, a Boston Consulting Group survey of nine thousand consumers in developed countries found that *more* shoppers ‘‘systematically’’ purchased green products in 2008, when the global economy was plummeting, than in 2007.[25]

And finally, even the lords of Wall Street are (sometimes) taking sustainability seriously. In 2008, Goldman Sachs created a task force with many of the world’s largest financial houses to help that industry put environmental, social, and ethical governance issues at the heart of its investment analysis. Goldman analysts contended that such a perspective amounted to a ‘‘good overall proxy for the management of companies relative to their peers,’’[26] and thereby signaled their chances of long-term success.

All of these enterprises are at least partly motivated by an eye-opening Goldman finding, which will have even greater relevance as companies dig out of the recession: from 2005 to 2007, organizations that are leaders in leveraging environmental, social, and corporate governance considerations for sustained competitive advantage outperformed global stock funds by 25 percent.

Realizing that corporate responsibility can help them build competitive advantage and burnish their brands, companies are scrambling to proclaim their values and vision, by driving do-good messages into their Web sites, annual reports, and occasionally their advertising.

- More than fifty-two thousand company Web pages highlight the ‘‘triple bottom line,’’ signaling that corporations are beginning to account for their net social and environmental impacts in addition to their traditional focus on net income.
- Representatives from more than 4,700 companies in 130 countries have signed the UN Global Compact, pledging to follow its ten principles concerning human rights, labor, the environment, and anti-corruption efforts.
- A growing number of chief executives from the country’s biggest companies are lining up at corporate responsibility conferences to pronounce their passion for improving worldwide labor standards or to expound on their company’s newfound commitment to creating zero waste.

Given that many executives now see corporate responsibility as a source of competitive advantage—or, at a minimum, as an inescapable priority—we should expect that a sizable number of companies have mastered it. Some have. But although many have done much to improve the social and environmental impacts of their operations, their efforts often fail to deliver the expected results.

GOOD INTENTIONS AREN'T GOOD ENOUGH

To move beyond a strictly bottom-line orthodoxy is to embark on a journey filled with peril as well as promise. Making the shift to a purpose-driven model, in which profits tell you only part of the score, is risky, painstaking work. A company that proclaims its commitment to tackling social and environmental problems in a clumsy or inauthentic way invites cynicism and distrust—and the inevitable backlash. Real responsibility amounts to a land of rich opportunity. But to get there, an enterprise must navigate around six daunting land mines.

1. *Too many options, too little focus.* Corporate responsibility casts a wide net, taking in everything from philanthropic work to treating employees well, from attacking world hunger to protecting the planet. Confronted with such a vast, ever-expanding array of socially worthy activities, many companies are hazy on what to home in on. Their uncertainty reveals itself in the record-breaking proliferation of glossy corporate-responsibility reports and advertising. In 2008, eighty of the UK's top one hundred companies issued CR reports, which typically aim to publicize a company's social sensitivity. Often they fail to make much strategic sense. They'll show the company responding to a swirl of different stakeholder groups and chasing myriad opportunities. But creating a whole lot of busyness is not good business, and ultimately it diffuses the real objective: to deepen the company's social impact.

2. *Commitment at the top, confusion in the middle.* CEOs may have converted to the corporate-responsibility cause, but they're often less than clear on how to connect a purpose-driven strategy with customers and consumers. When middle management is fuzzy on how to meld the vision with the business, big ideas get lost. Although a recent IBM

survey of more than 250 business leaders worldwide found that over two-thirds say they are focusing on corporate social responsibility (CSR) to grow new revenue streams, 76 percent admitted that they ''don't understand customers' CSR expectations well.'' Such a disconnect, the report understated, is ''potentially alarming.''[27] The best that such companies can hope for is that their managers guess right.

3. *Deputized, then compartmentalized.* Companies typically deputize a corporate responsibility overseer and set up a department from which to grow a CR initiative. But too often, even successful CR efforts fail to break out of the box and aren't allowed to influence decisions across the company. Toyota, for example, led the way in championing green, responsible motoring with its Prius hybrid. But in 2007, the parent company horrified its Prius-driving consumers when it lobbied with Detroit against tougher fuel economy standards. Although the Prius gave Toyota a ''green halo,'' the Japanese carmaker also wanted to move more of its gas guzzlers, like the Tundra, and thereby ''beat GM in the big trucks, too,'' observed the Natural Resources Defense Council's Deron Lovaas.[28] That's what happens when CR is decoupled from the organization's everyday workings: Toyota took a hit to its reputation and lost a tremendous opportunity to do even better by the environment.

4. *Too much friction, too little connection.* In 2008, one of the nation's largest private equity outfits, Kohlberg Kravis Roberts & Company (KKR), turned heads when it joined with the pioneering advocacy group the Environmental Defense Fund (EDF) to measure and improve the environmental performance of all the companies owned by the buyout firm. The alliance made headlines because it was a stellar example of business-as-unusual, for two reasons: (1) the business world is still often skeptical of environmental activism, and (2) many environmental groups are allergic to the notion that ''polluters'' can be trusted. Fred Goltz, a KKR partner, told the *New York Times* that in joining up with EDF, the company was ''trying to be ahead of the curve, trying to see around corners.''[29] But all too many business leaders, when they dare to look ahead, see only a dead-end series of disputes with pressure groups, followed by reactive attempts to placate them with some PR in the

guise of CR. And that, in the long run, benefits neither society nor the bottom line.

5. *Massive buyouts, minimal buy-in.* Big-brand buyouts of natural products businesses, such as Clorox's purchase of Burt's Bees, often act as a cover for large corporations hoping to appropriate the virtues of the ethical company so as to rehabilitate their image. More often than not, at least one of the outfits suffers a consumer backlash: the big company gets branded as a greenwasher, the sustainable startup gets slimed as a sell-out. When the French cosmetics giant L'Oreal scooped up the Body Shop, the vociferously ethical hair-and-skin products innovator, the company's pearly white reputation quickly sprouted blemishes. A month after the sale, according to a BrandIndex survey, Body Shop's "buzz" and "satisfaction" ratings among consumers fell precipitously. Consumers perceived that L'Oreal valued Body Shop's growth prospects but not necessarily its values, so they doubted those values would be upheld.

6. *More than enough hype, less than enough honesty.* The market for green products and services has soared dramatically, attracting a flood of offerings from such big brands as Philips Electronics, Kimberly-Clark, Walmart, Staples, and Home Depot. According to TerraChoice, a research firm that operates the Canadian government's EcoLogo program, the total number of products making environmental claims more than tripled from 2006 to 2009. But the surge in green-labeled insect repellents, washing machines, and the like was paralleled by a torrent of green ads, whose purveyors failed to deliver on their promises. A 2009 report by TerraChoice concluded that a stunning 98 percent of environmental advertising claims in North America are "false or misleading." No doubt some (perhaps many) of the ads aimed to hype the product rather than hoodwink consumers. Either way, as the report argues, the effect is often the same: "Greenwashing spreads cynicism and doubt about all environmental claims . . . [and] the slowing of real environmental innovation in the marketplace."[30]

Although the opportunity, even the necessity, for organizing companies around a responsible ethos is clear, so too are the obstacles to achieving that ambitious goal. The barriers to such fundamental change are as formidable as they are numerous. To build a better future, leaders and aspiring leaders must first envision their company as an authentically "good company" and then overcome the obstacles to building it.

CORPORATE RESPONSIBILITY 2.0

Not long ago, the vice president of corporate responsibility at a Fortune 500 company confessed that for the past couple of years, she's been trying to change her title. "Corporate responsibility," she explained to us, fails to capture the spirit and the substance of her work, which is to seek out innovations that deliver an ROI (return on investment) to society as well as investors. "I'm all for killing the term 'corporate responsibility,'" she said. "I just can't think of a good replacement."

Hers is not an isolated voice. *Ethical Corporation,* a London-based magazine published by a sustainability think tank, mocks "corporate social responsibility" as a "dreadful term" and asserts that the concept "may be in danger of being sucked back out to sea."[31] *Grist* blogger David Roberts has set his sights on corporate responsibility's homely cousin, *efficiency*. "The word itself reeks of sterile technocracy," he complains. "No wonder it hasn't captured the public imagination."[32] Then there's James H. Gilmore and B. Joseph Pine II, authors of *Authenticity: What Consumers Really Want,* who predict that in a world where consumers now "reject initiatives that merely front as the means to sell more wares," they will increasingly view CSR as a "sham."[33] Perhaps that doesn't amount to a tidal wave of change, but the storm clouds are gathering.

No doubt, it's inevitable that as corporate responsibility gains prominence, its bona fides are sometimes proven bogus. At the time of this writing, the disgraced insurance giant American International Group featured a "corporate responsibility" tab on its Web site, but the link led nowhere, and as we went to press, it had vanished—clear evidence of AIG's real regard for CR. Search for "corporate responsibility" on Citigroup's Web site, and the top result is a bit of puffery on Citi winning a "Best Bank for Corporate Social Responsibility" award in a small eastern European country. How many of the institutions that sparked the

U.S. economy's recent conflagration—AIG, Citi, the mortgage giant Fannie Mae, and the rest—issued corporate responsibility reports that omitted any reference to the reckless bets that caused their downfall? Their demise destroyed millions of jobs, along with the illusion that corporate responsibility actually meant a different way of doing business.

When scandal-racked Fannie Mae can rank first on *Business Ethics* magazine's 2004 list of "100 Best Corporate Citizens," just before federal regulators challenged the veracity of Fannie's financial reporting, we can conclude that too often, CR is simply a way for companies to spin their reputation and burnish their brand. Such companies believed that by checking off the right compliance boxes on a spreadsheet they could become better corporate citizens. Never mind that an authentically good company weaves its aspirations for a better world into the very fabric of its being. For "best corporate citizens" like Fannie Mae, that idea was clearly ahead of its time.

We haven't reached the end of the road for corporate responsibility, but we sense that we are nearing the outer reaches of its evolutionary arc. Moving forward, CR will most likely become a baseline requirement in every company's license to operate, but nothing more. Consumers won't believe that corporate responsibility reports are an indication of greater purpose or higher vision. A listing in the Dow Jones Sustainability Index or inclusion in the portfolio of a socially responsible mutual fund will be more about doing less harm than about acting for the greater good. And that brings us to an evolutionary crossroads or, as Stephen Jay Gould might say, that moment of punctuated equilibrium.

Many companies will continue down the same path, making do-good claims that are little more than marketing pap. They will add CR coordinators who lack real clout. They will treat their CR departments as outliers, filled with "responsibility" ventures for which their operating units feel little or no responsibility. And they will issue glossy reports declaring that they are stellar corporate citizens, while omitting the real costs of their impacts on society and the environment.

At the same time, an insurgent band of revolutionary companies have heard President Obama's call to a "new era of responsibility" and are already thinking well beyond the horizons defined by the Chamber of Commerce. They are committed to twining economic growth with social justice. They view the financial crisis and the climate crisis as once-in-a-generation opportunities to unleash principled behavior for the greater good. For them, values are sources of innovation—opportunities to create products and services that deliver a return on purpose as well as a return on investment. We half expect that good companies will jettison the title VP, Corporate Responsibility, and create a new position that just might speak to the power of innovating for profit and for society: VP, Corporate Possibility—or even SVP, Corporate Consciousness.

We are just beginning to discern the post-CR era, even as a few revolutionary companies are inventing it. But clearly, the future belongs to those in the vanguard of the responsibility revolution—renegade companies that not only bring out the best in employees and stakeholders, but also build market share by committing to a more expansive vision for business.

A BLUEPRINT FOR REVOLUTIONIZING RESPONSIBLE BUSINESSES

There is, of course, no one right way to transform a conventional company into a revolutionary company. It's a process that's marked by experimentation and adaptation and plenty of fast failures before any lasting success. Every company must seek out the formula that works best for its particular culture and industry. Nor is there any business whose every impact is positive. All good companies, including the first wave of "green" companies, are works in progress. But all of the authentically responsible companies we know subscribe to a set of principles—about mission, transparency, working, authenticity, and innovation—that amount to an agenda for building purpose-driven companies that are prepared for the twenty-first century's challenges.

1. *The mission matters.* Responsible companies believe that what you stand for—your purpose and your values—is far more important than the products you make or the services you sell. For them, advocacy is synonymous with strategy—their industry is in dire need of reform and they aim to fix it.[34] That's why Organic Valley, the aggressively

unconventional farmers' co-op that happens to be the nation's second largest maker of organic dairy products, is defying the conventional (and misguided) practices of Big Agriculture itself. When organizations stand for something big—something that truly matters to people—they sharply differentiate themselves from their competitors. You can't make a difference if you're playing the same game.

2. *Dare to wear the see-through.* To be a truly responsible company, you can't be opaque. Thanks to the Internet, customers and NGOs can now watch a company's every move. Good companies invite them to do so. By publicly baring its less than admirable impacts on society and the environment, the transparent company preempts its critics—and takes the first step towards collaboratively fixing its problems. So the Danish pharmaceutical Novo Nordisk, the world's largest maker of insulin, dares to reveal its forays into such controversial topics as animal testing, stem-cell research, and gene technology. In the long run, more eyes ultimately mean more advocates—and fewer difficulties and enemies.

3. *The company is a community.* Work used to be organized in a hierarchy; the C-suite delivered the strategy, and employees executed on it. Today, good companies work like a community. Talented people, animated by the community's sense of purpose, provide the brainpower for generating breakthrough ideas and the firepower for getting them out into the world. Linden Lab, the maker of the wildly successful virtual world called Second Life, understands that by letting associates set their own strategic direction, they act less like employees and more like entrepreneurs. Modeling the company on a community catalyzes people's capacity to create.

4. *Bring consumers inside.* Truly responsible companies aren't monoliths. They know that "no one is as smart as everyone." The more heads they get into the game, the better the chance that they'll make a real difference in the market and in the world. IBM is filled with Mensa-level thinkers, but it doesn't rely solely on them. Big Blue also entices some of the world's brightest minds to help it confront some of the planet's browniest challenges. Good companies genuinely listen to customers and outside stakeholders. They interact. And a few dare

to put consumers at the very heart of their innovation processes. They leverage people power by giving up control.

5. *Make it real.* Do-good marketing campaigns don't cut it anymore. A company that declares itself to be "sustainable" or "responsible" puts those goals at the very center of all its activities. In the lobby of its London headquarters, the British retailer Marks & Spencer uses a giant electronic ticker to broadcast its performance against 100 social and responsible initiatives. The ticker's implicit message: M&S is genuinely committed to "doing good" and is holding itself accountable for the results. An authentically responsible company's actions align with its words.

6. *Build a corporate consciousness.* No enterprise can truly attempt to embed the sustainable ethos into everything it does without constructing a collective view of what it should be. That requires developing a high degree of clarity about what matters most to the company, then bringing that knowledge to bear on important strategic decisions. For the better part of the past decade, Seventh Generation has endeavored to develop the organization's "collective consciousness" so as to bring a sharper awareness to the way we work and what we seek to accomplish.

All of this starts with learning to ask better questions. No matter what your field of endeavor, the question you ask shapes the answer you get. If you ask, "What can we do to build market share?" you will get a very different answer—and you will create a very different future—than if you ask, "What can we do to build a more sustainable economy?"

For too long, those of us in business have proved adept at posing the first kind of question, but all too inept at considering the second. Here's a question that every business leader should ask, but too few do: "What does the world need most that our business is uniquely able to provide?" Perhaps that question will compel us to explore how we can best respond to the enormous challenges, and the boundless opportunities, that confront us. And even if it isn't the "right" question, it just might lead to the right kind of conversations—deliberations that can help us move beyond *responsibility* and begin to glean the *possibilities* that await.