TITLE 1. Life at the top

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Life at the top

Deena Marstreng's phone rang. It was the Governor of Illinois, whom she had met at a recent museum fund-raiser. "Deena, I'd like to invite you and your husband to a private dinner at my home. The Vice Premier of China is visiting next month and I'd like you to be part of our informal welcoming committee." Deena smiled. She would offer to give the Chinese leader a personal tour of downtown Chicago in her new black and silver Hummer.

The meeting that morning with the analysts had gone as expected and the financial markets were once again bullish on her company—a chemicals and materials giant—mostly on the strength of her business unit's performance. Sales and growth had exceeded expectations. Deena knew that the distribution costs of the Midwest region could be lowered still further—a move she hadn't yet shared with her boss or with the analysts. She relished being a star performer, loved being able to exceed expectations, and drove herself and her team hard to do so quarter after quarter.

Five years earlier, at the age of 27, Deena had been appointed general manager of the business unit inside the corporation. No one in the 100-year-history of this blue-chip company had risen so fast at such a young age. Inside the giant multinational, Deena was the chief executive of a business with thousands of employees and factories on three continents. Arriving at seven o'clock each morning, Deena oversaw every aspect of the unit's expanding global operations, often finishing late at night so

that she could speak to her plant manager in Nanjing before the Chinese day began.

Now, taking in the view of Michigan Avenue and the vast lake from her corner office, Deena felt a deep sense of satisfaction. She was one of the most highly paid executives in her company, with a stellar executive assistant who helped her life run like clockwork. Facing her desk and across from the private conference table with seating for 12 people, visitors could settle into one of four butter-soft leather Milanese armchairs around the Noguchi coffee table. Outside work, she made up half—or by some accounts a bit more than half—of Chicago's pre-eminent young power couple, with a social entourage of statesmen, politicians, and executives of leading corporations.

Her business unit was a highly profitable producer of lightweight plastics, manufactured composites, and industrial non-woven fabrics. The transportation sector—mostly cars and trucks—represented nearly a third of annual sales. Deena hired talented people and then helped them reach their full potential, setting clear goals, and working hard to make sure everyone could reach them. Her team of senior executives included Janice in Sales & Marketing, Prakash in R&D, Maxine in Human Resources, Josh in Legal, Roberto in Operations, and Andy, her Chief Financial Officer (CFO). The culture of the business unit was no-nonsense but friendly. Everyone knew they could make it if they worked hard and delivered bottom-line results.

From day one, Deena had methodically built up a high-performance organization. She had a compelling strategic vision for the business and set extraordinarily high profit targets for the years ahead. Her ability to execute on the vision was equally impressive. It soon became apparent that financial results for the business unit were firmly on track relative to the targets. She had the full confidence of her boss, Scott Giffen, the company's CEO. Word around the water-cooler was that she was being groomed to replace him when he retired.

Blindsided

Three years after her appointment as general manager and despite her team's slick new corporate social responsibility (CSR) report, the company was ranked 23rd out of 25 peer firms on a list of "Best Environmental and Social Companies in the Specialty Materials Sector." The ratings were

compiled by an investment agency that specialized in evaluating blue-chip companies on their environmental and social performance. The evaluations were then sold to fund managers to help them manage their investment portfolios.

In the ratings commentary, Deena saw that her business unit was being singled out for its industry-high levels of greenhouse gas emissions, the health risks arising from toxic chemicals in its products, supply chain issues related to human rights abuses in Asia, and the low wages paid to its hourly staff.

In reality, few mainstream investors paid attention to this kind of information and the news wouldn't have been half as bad if it hadn't appeared in a *USA Today* sidebar titled "Corporate Citizens—Worst Offenders," prominently mentioning her company by name. Among the unpleasant fallout of the negative publicity was the growth in proxy statements filed at the Annual Shareholders' Meeting in which activists demanded that management commit to reduced greenhouse gas emissions and use of toxics, and to greater transparency on employee compensation and human rights issues.

In another surprising development, Deena learned that her business unit was being targeted by two international non-governmental organizations (NGOs)—ProtectEarth and Human Rights Assurance International (HRAI). Both groups were publishing inflammatory pieces that reappeared regularly on a growing number of activist Internet blogs. One article in particular caught her attention. It urged investors with a social conscience to avoid holding her company's stock. Then someone sent her anonymously a *YouTube* video that parodied the company's leadership to the tune of Gloria Gaynor's "I Will Survive" with a polluted and overcrowded Earth crashing down on her avatar.

The final straw was a call from Maxine to say that they had lost a key candidate for the new senior marketing position, a very highly qualified graduate of Deena's Alma Mater, the Stanford School of Business. The reason the candidate gave for rejecting the job was the unit's poor corporate citizenship. He had a choice of employers and didn't want to work for an organization with such a negative image.

Deena decided it was time to act on these simmering issues. She called Michael Reinford, head of Human Rights Assurance International and a vocal critic of her company.

"Michael, this is Deena. You came to my office a year ago to talk about a supplier called Venkata Ltd. You were concerned that our purchases of semi-finished goods from them appeared to condone their human rights abuses. I'd like to get your assessment of the progress we've made since

then, not only on human rights but on all the social and environmental issues we face. I'm looking for an off-the-record exchange of ideas to help me understand our situation better from your perspective."

There was a long pause on the other end. Though Michael sensed the sincerity in her voice, it was highly unusual for a chief executive to call him for any reason other than to give him a verbal thrashing.

Deena pressed ahead: "Would next Wednesday around one in the afternoon work? I'll come to your New York head office."

The following Wednesday, Deena was ushered into well-appointed offices at a prestigious address on Manhattan's upper west side. Wood paneling and floor-to-ceiling windows might have led the casual observer to mistake the offices of Human Rights Assurance International for those of a thriving law firm. Deena waited in a large conference room as a ceiling-mounted video projector covered one wall with images of women and children working in obviously abusive conditions in Afghanistan, Brazil, sub-Saharan Africa, China, and—to her surprise—Germany and the United States.

"These activists try to make business responsible for everything that's wrong with the world," she thought as the disturbing images flashed by. "But they've never run a business. They have no idea what it takes to run a company. Why can't they see the good we're doing? Social problems are for governments, not corporations, to solve."

A dialog begins

Michael Reinford walked briskly into the conference room and, after a few pleasantries, got straight to the point. "Today, your company has a very poor image with socially conscious investors and with activists like us. It's an image that's rapidly moving into the public eye thanks to media pieces like the one in *USA Today*. Your business unit is considered one of the worst offenders. It's highly energy-intensive and fossil-fuel-dependent. You release nearly a ton of greenhouse gas for every three tons of products you produce. Your manufacturing uses chromium and antimony oxides, lead chromate, mercury, and other highly toxic chemicals like benzene. Forty per cent of your employees are hourly and paid the minimum wage. Two of your plants are in parts of the country where the cost of living is too high to raise a family on the minimum wage, which means that you fail to pay these workers a living wage."

Deena was disturbed, but also secretly impressed by his knowledge of the facts.

He continued: "In the molding process used by your industrial clients to manufacture car parts, your products off-gas several dangerous chemicals including known carcinogens. You have hundreds of raw materials and equipment suppliers, most located in developing countries. Many of these suppliers are known violators of human rights, yet you have no system in place to ensure that violations don't occur. In spite of your own rise to the top—which we applaud—fewer than 15% of your employees are women, less than 7% of your corporate staff are minorities, and you make no provision for handicapped employees at three of your primary facilities."

Deena carefully worded her response to avoid conceding anything. "I understand that environmentalists and social activists have a problem with how we do business—in fact, they seem to have a problem with business in general. What I don't understand is why the blame is being put at our doorstep. Everything we do is within the law. We comply with all existing standards for environmental and social performance, and we apply American standards overseas even when we aren't required to do so. For example, the product off-gassing you mentioned occurs under carefully controlled conditions and is well under legal limits. This happens at our client facilities, so we aren't required to know this, but because we care, we do. And we know, as you are also undoubtedly aware, that there is no medically proven health risk at current levels of off-gassing."

"The issue isn't about legal compliance," said Michael. "Doing just what the law requires is no longer good enough," he added flatly.

She tried another tack. "I think the main problem may be that we've communicated too little too late about the good things we do. As you've seen, this year marks the beginning of our environmental and social reporting. Our CSR report describes where we are making progress. For example, it showcases the solar energy installation at three of our facilities. One of our plastic compounds is now used in the casings for wind turbines. We are adopting a new environmental management system at every manufacturing site. Also, we've published a code of ethics that we require our suppliers to adopt if they want to do business with us. We're very surprised at the low rating we received this year and plan to be more active in promoting our efforts in the future."

Feeling that she had defended her point, Deena stood to fill her glass of water. She was all the more surprised by what she heard next.

"Don't think I'm unsympathetic, but I must tell you that communicating isolated instances of corporate responsibility is unlikely to make a dif-

ference. What you are doing is what many people would call *greenwashing.* The cases in your CSR report are either superficial or they are exceptions to the norm. They mask the real damage being done by your core business.

"Your internal reporting structure sends the same message—it reflects how little strategic importance your business unit attaches to corporate social responsibility. Instead of reporting directly to you, your CSR manager reports to Human Resources. And the CSR report itself is heavily a product of the CSR manager's collaboration with outside consultants rather than with internal business teams. The report is supposed to be a thoughtful self-assessment and plan for improvement. But how important can this process really be to your business when your regular employees are barely involved? How much impact can it possibly have when consultants drop off their recommendations at the door of the CSR manager and say: 'Here you go . . . See you next year for more of the same?' "

Deena paused to reflect on this. Then she remembered she had sought out this critic in the hope of learning something. So, rather than defend herself further, she decided to ask for Michael's advice. "If you were in my shoes, what would you do? What actions would you take to convince an organization like yours that we are sincerely committed to running our business without these growing legal and public relations hassles?"

Michael looked up at her and sighed. "Given how you are thinking about the problem, I can't think of any actions you or your managers could take that would make a real difference. You would first need a different set of values and principles by which to act. You would need to see the world differently."

"What on earth is he talking about?" thought Deena. "He sounds like some New Age guru. '*See the world differently*.' What does that mean?"

She tried one last question. "Just what values and principles are you referring to? My job—and my team's job—is to earn a profit for our shareholders. When we do this successfully and within the limits of the law, we create jobs, we contribute to economic growth, and we give the buying public what they want. What better values are you proposing?"

"I'm sorry but I can't give you the answer you're looking for," said Michael. "That will take a journey of discovery on your part. I can tell you that it won't be an easy journey or a quick one either."

Deena stared at him. "Well, how does it begin?"

"The road is different for everyone. If you're committed to making a difference, you'll find the right place to start."

Growing more frustrated, Deena tried once more. "Well, how would I know if I were on the right path?"

After brief reflection, Michael told her simply, "Be authentic and look for integrity and coherence in yourself and in the world around you."

None of this was making any sense and Deena suddenly felt precious worktime slipping away from her. Her East Coast plant managers meeting on labor productivity was scheduled to start in an hour in neighboring Murray Hill, New Jersey. She thanked Michael graciously, promised she would ponder what he said, and left.

Deena fights back

At the next Executive Team meeting, Deena took an aggressive stance on the recent environmental and social challenges they were facing. "We can't afford any more negative publicity. It's alienating our clients, demoralizing our staff, creating a confrontational atmosphere at our general assembly with shareholders, and it's already tripled our legal expenses. Soon I'll be spending a quarter of my time on lawsuits. It's a waste of scarce resources! We have to fight our critics and the media on their grounds. We'll prove that what we are doing is scientifically safe from a health and environmental perspective. We will sue anyone who asserts fault on our part without legally valid proof."

There were mumblings of agreement from around the table.

"All of you need to help make the case for corporate responsibility, but don't give away the store," she added somewhat cryptically.

Privately, Janice asked Deena if a deeper problem didn't exist. "Our newly hired CSR manager, Art, isn't changing a thing around here," said Janice. "None of our business managers pay any attention to him. What if we need to rethink some of our processes or product designs from an environmental or social perspective? One of our big clients in Sweden told me last week that our competitor there has started reformulating its compounds and coatings to include an environmental dimension at every step of the way—from the choice of raw materials to production processes and product disposal."

Deena stared out the window. "Janice, our operations and products are never going to satisfy the tree huggers of this world. Most of our critics don't understand business and they want us to do things that would lead to financial losses. Now that would really be socially irresponsible! If we lose money, it'll destroy jobs and eventually take a valuable set of products off the market, or leave someone else to supply them and that some-

one would probably incur a heavier environmental and social cost than we do."

Looking glum, Janice said nothing. Her passion for the environment was something she had learned to keep to herself. A little-known fact about her was that she had a PhD in paleoclimatology. She also served as a volunteer in her spare time on a national science committee on climate change—something she didn't dare mention to her boss. At times like these, it was an impossible challenge to separate her private passion for the environment from her professional obligations as head of Sales & Marketing.

The next morning, Deena called Maxine, Art, and her legal head Josh, into her office. "I've allocated half a million dollars in next year's budget to lobbying government to slow the growth in environmental regulations. I've also hired a public relations firm to work with you, Art, on local community relations at all our plants and to strategize with Maxine on improving our labor relations."

At the next meeting with financial analysts from Wall Street, Deena made special mention of her business unit's sharp focus on cash flow.

"We can't afford to be distracted in today's highly competitive markets," she told the analysts. "We face criticism by environmentalists and social activists, but we don't expect to lose any significant business on their account. The worst thing we could do is to compromise our product excellence by adding costs to satisfy a few extremists. We are one of the world's leading plastics and coatings companies, and we intend to continue that leadership within the framework of the law." She received a standing ovation and the following morning her company's stock was up a hundred basis points.

But non-governmental organizations continued to attack. The occasional defamatory article in the press was either retracted or met with positive coverage under the watchful eye of her lobbyists and legal team. By December, her company's stock was selected along with the worst environmental performers in the oil & gas and chemical sectors for inclusion in the Vice Fund—founded on the idea that "sin" stocks such as tobacco, armaments, and adult entertainment were highly profitable activities that yield above-market financial returns to investors.

Some considered the Vice Fund selection a dubious honor. Deena didn't care one way or another as long as profits continued to rise. Janice, on the other hand, submitted her resignation shortly before Christmas.

Earnings continue to grow

That fiscal year proved to be a banner one for Deena's business unit. By year end, the category "lightweight plastics, composites, and industrial non-woven fabrics" was the biggest financial earner for the company. The successful acquisition of a low-cost Chinese competitor had expanded their client–service capabilities and, along with the sinking of a mid-size competitor in central Europe, made the company the world's second largest player in its sector. The restructuring of her East Asian operations added another ten million dollars to the bottom line. And, perhaps most significant for Deena personally, a major new product design on which she had gambled heavily generated a 20% jump in profits.

All this lent an air of inevitability to Deena's promotion to executive vice president (EVP) of the company. Becoming EVP entitled her to stock options that made her a multi-millionaire on paper, as well as a seven-figure cash bonus which she used to open a trust fund for her twin boys. This would eventually guarantee them financial freedom for life. It also led Stanford to invite her as commencement speaker for that year's graduating MBA class.

While she knew she should have been thrilled by her rapid, inexorable rise, it all left her feeling vaguely uneasy. A walk down the eighth-floor corridor—the "hall of power" in her company—now earned her a wide berth from most of her colleagues, who either feared her or showed excessive deference. The quarterly dance with financial analysts was becoming a tired one. The need to make every year a landmark year, to deliver blockbuster products in stagnant markets, to continually lower costs and outcompete rivals, no longer thrilled her as it once did.

For reasons she couldn't quite understand, her organization had lost some of its zest. People worked hard and knew that delivering good results meant good pay and career opportunities. She was proud of the culture of excellence—researchers, salespeople, accountants, plant managers, foremen, order clerks, and legal staff who did extraordinary work in service of the company. But she sensed that their motivation extended to little beyond stock options and an annual bonus. There was no passion, no pride, and none of the ownership culture and drive to create a promising future that permeated the division when she first started. Water-cooler conversation seemed increasingly focused on what was wrong with the company rather than what was right.

Her family life also suffered. She could count in minutes, not hours, the time she spent with her husband during the week. Her once vibrant

social life and her time with the twins were relegated to a few weekend hours a month.

All this, she calculated, was the price of making it to the top. It was a price she thought she could live with.

Settling in at mid-career

Over the next few years, much of her business unit's day-to-day operation was turned over to Andy, her able chief financial officer. She knew Andy hoped one day to succeed her at the helm. Her numerous duties as group executive vice president included heading the Growth Excellence Committee and the Compensation Committee, and traveling to meet line managers around the world, sharing her vision of the company's future and inspiring the troops. She often represented the company or accompanied CEO Scott Giffen in meetings with financial analysts or in large-client negotiations, even when these involved other business units within the company.

She was also occasionally subpoenaed in court to defend the company against allegations of misconduct ranging from the forced displacement of a Hmong village in Thailand during the construction of a new ethylene plant to a groundwater contamination accident that poisoned parts of an ethnic-minority neighborhood near Houston, Texas.

Hitting rock bottom

Deena, now in her mid-thirties, was already an old hand at the corporate game when the first major economic downturn struck. A recession in the auto markets combined with a sharp rise in key raw material and energy costs—much of it oil-related—squeezed profit margins. Ironically, the company was now so well-managed that further cost reductions or efficiency gains were difficult to come by, leaving little room to maneuver. Sales continued to fall, month after troubling month.

In strategy sessions across the company, senior managers tried to figure out the extent of the damage. They hired management consultants to conduct market and competitive analyses. Prakash reported on new prod-

uct development in R&D. The new head of Sales & Marketing forecast aggressive sales projections for the next three years.

When all the reports were compiled, Deena was asked to assemble the data and recommendations into a briefing for Scott Giffen to present to the Board. Her prognosis for the company was not good. All major financial indicators were low and falling. Only two significant product innovations were expected in the near term. The company was losing market share to Chinese competitors with lower overhead and pension costs. Indonesian and Brazilian companies were entering the market with radically lower-priced products and, when they eventually solved their quality problems, they would begin to nibble away market share. In short, Deena concluded in her briefing, the good times were over.

Shortly afterwards a dramatic memo began to circulate: hiring and salaries would be frozen until further notice. Whispers in the hallways suggested that bonuses were being eliminated and layoffs could soon follow.

Deena drove herself hard. A working week of 60 hours became 80 hours as she toiled to squeeze costs, accelerate innovations, and extract maximum value from every company asset, including its people. Members of her team who didn't measure up to the new expectations were quickly let go. For the first time in her career, she felt overwhelmed, unable to get the results she wanted. Deena resolved to do something about it. Soon.