

Foreword: Al Gore, Former Vice President of the United States

The global context for business continues to change at an unprecedented rate, and Stuart Hart has effectively captured important insights into the nature of this contextual shift in this updated edition of *Capitalism at the Crossroads*. I agree. In fact, my partners and I at Generation Investment Management believe that sustainability will be a key driver of global economic change over the next 50 years. And we think companies face an unprecedented opportunity to create shareholder value by helping to chart the way forward, and by contributing to sustainable development.

Now, more than ever, factors beyond the scope of economist John Maynard Keynes' "national accounts" (the backbone of today's gross domestic product) are directly affecting a company's ability to generate revenues, manage risks, and sustain competitive advantage. While our current system is precise in its ability to account for capital goods, it is imprecise in its ability to account for natural, social, and human capital. Natural resources, for example, are still—in some ways—assumed to be limitless. This, in part, explains why our current model of economic development is hardwired to externalize as many costs as possible, therefore imposing environmental and social costs on society at large.

The interests of shareholders, both public and private, over time, will be best served by companies that maximize their financial performance by strategically managing their economic, social, environmental, and ethical performance. This is increasingly true as we confront the limits of our ecological system and its ability to hold up under current patterns of use. "License to operate" can no longer be taken for granted by business when challenges such as the climate crisis, HIV/AIDS, and other pandemics, water scarcity, and poverty reach a point where civil society and consumers demand a response from

business and government. Leading companies understand this and are already moving ahead of legislators and regulators and, in so doing, securing competitive advantage.

The global climate crisis is the perfect example of a challenge that pushes our companies and our policymakers beyond their traditional comfort zone. The risks and opportunities presented by global warming are clearly material to the long-term health of our economic system. Companies that are part of the climate change solution will be able to enhance revenues, attract the best talent, and develop brand benefits—all of which will translate into optimized shareholder value over the long run. Today, action on the climate crisis makes sense not only for reputation and risk management, but for revenue generation and competitive positioning. Investors and companies that fully integrate climate considerations into their strategies, cultures, and operations will be best positioned to create shareholder value.

Business, as Hart points out, is a powerful agent of change and is well equipped to forge the way to a more sustainable future in conjunction with government and a strong civil society. However, he points out the inherent short- and long-term tensions within companies, which still have to balance forward-looking sustainability initiatives with legacy investments and old (and often-unsustainable) habits.

There are, of course, limits to the ability of traditional business to deal with sustainability challenges by themselves. Now, more than ever, our societies need new models to address systemic, long-term challenges like the climate crisis, poverty, pandemics, water scarcity, and demographic shifts. This will involve more business and government innovation, social entrepreneurship, public-private partnerships, and more effective civil society participation.

The age of sustainability has arrived, but now we must drive it fully through our economic system. To do so, markets will have to continue to evolve to take into account the full environmental and social externalities of business in order to enable the efficient allocation of capital to its

highest and best use. The regulated carbon markets in Europe, worth \$25 billion in 2006, are a good example of how capitalism can powerfully address environmental challenges when a price signal exists—in this case, the price of a ton of carbon dioxide. Only as markets improve their ability to price externalities, will we see capital allocated more effectively to sustainable development. This shift will require nothing less than a complete change in mindset—one that views our planet as a long-term investment, rather than a business in liquidation.

Al Gore

Chairman

Generation Investment Management

Foreword: Fisk Johnson, Chairman and CEO, S.C. Johnson & Son, Inc.

The release of the second edition of Stuart L. Hart's book underscores a time when it is becoming increasingly crucial that business leaders grasp their roles and responsibilities in building a sustainable future. Hart's book gives voice to an inescapable reality: that the corporate sector can be the catalyst for a truly sustainable force of global development for all on the planet.

As the chairman and CEO of a consumer products company with global operations, I see every day the value that business can bring. I see that its products can improve the health and safety of people around the world. I see that its jobs enable parents to support their children, and allow children to achieve dreams not even imagined by their parents.

I also recognize that business has provided fuel for those who oppose globalization. But despite what some see as the inevitable stain of "progress," I know there are many business leaders who share my belief that you cannot purely pursue greater profitability every quarter and have that be an acceptable mission statement. Or that improving the lives of workers in one country while degrading the environment in another is an acceptable demonstration of civic responsibility. Short-term quarterly profits cannot trump long-term sustainability.

As the author makes clear in *Capitalism at the Crossroads*, there is no inherent conflict between making the world a better place and achieving economic prosperity for all. Maintaining a principled commitment to global sustainability is not a soft approach to business—it is, in fact, the only pragmatic approach for long-term growth.

Capitalism at the Crossroads presents a scenario in which business can generate growth *and* satisfy social and environmental stakeholders. By focusing on the four billion people currently at the "base of the

pyramid,” Hart contends that companies can reap incredible growth while sowing tremendous improvement in people’s lives and at the same time preserving the other species that live on this planet.

The early stages of our company’s own work at the base of the pyramid gives further credence to Hart’s argument. As Hart describes, in testing the Base of the Pyramid Protocol and developing more holistic relationships in Kibera (Nairobi, Kenya), we have co-created a mutually valuable business model. Moving beyond charity to create a sustainable business partnership with local youth groups in Kibera where many businesses may never venture is not without challenges. While too premature to call this project a success, we remain committed to building a viable business at the base of the pyramid.

Business driving sustainability is not a new concept to me. The seed was planted and then cultivated throughout a lifetime of conversations with my father, Samuel C. Johnson. He shared stories about my grandfather, who traveled to Brazil in the 1930s in search of a sustainable source of wax for our products. He described his own 1975 decision to voluntarily and unilaterally ban CFCs from our products despite fervent opposition from colleagues and competitors alike.

My father’s pioneering social and environmental efforts led to his selection as an original member of the President’s Council on Sustainable Development and as a founding member of the World Business Council on Sustainable Development. He led our family company, SC Johnson, to new heights of corporate environmental and social achievement.

Perhaps most important, my father ensured that the dialogue on sustainability would continue. In 2000, he endowed the Samuel C. Johnson Chair in Sustainable Global Enterprise, and it is this Chair that Hart now so ably and deservedly occupies. He also endowed the new Center for Sustainable Global Enterprise of the Johnson School at Cornell University. By doing so, he was fulfilling a vital obligation that Hart sets forth for business in this book: being optimistic about the future and the opportunities inherent in the global challenges we face.

I share that optimism. That is why in 2001 our company unilaterally developed the Greenlist™ environmental classification system to institutionalize the selection of environmentally preferred raw materials and packaging components, far exceeding government regulation and driving our business with better products. It is why in 2003 we launched programs to attack the menace of malaria in sub-Saharan Africa and the misery of asthma among Hispanic children in Miami and we are working to significantly expand these programs. It is why in 2004 we joined with Conservation International's Carbon Conservation Program to help save one of the world's most critically threatened hotspots of biodiversity. It is why we have a comprehensive program to reduce greenhouse gas emissions, and have implemented innovative systems like cogeneration to fuel our largest global manufacturing facility with natural gas and waste methane from a public landfill. This program has reduced emissions for our top global factories by 42 percent from our 2000 baseline year.

Although Hart calls for "drastic changes" to "avert catastrophe," optimism underlies all the arguments in *Capitalism at the Crossroads*, and the author presents us with a call to optimistic action. He asks us to involve the full range of stakeholders in crafting solutions to the issues of sustainability. He demands that we embrace a new business paradigm built not on incremental change, but on creative destruction and reinvention. He challenges us to base our policies and businesses on the unassailable truth that shareholder value can be created while solving social and environmental problems.

Some might say linking "global business" and "sustainable development" is an oxymoron, but they would be sorely mistaken. All of us are tied together: the radical environmentalist and the corporate CEO, the Sudanese refugee and the British socialite, the U.S. factory worker and the Argentine farmer. We all share a stake in the future of our global environment and economy. That is the undeniable truth of *Capitalism at the Crossroads*: We are all fundamentally linked, dependent on the same finite resources and driven by the same hopes for ourselves and our children.

I steadfastly believe there is honor and value in business. In *Capitalism at the Crossroads*, Stuart Hart demands that we embrace that truth. I'm convinced this may well be the best opportunity global businesses have to ensure their long-term sustainability. And I am tremendously optimistic about the future.

Dr. H. Fisk Johnson
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