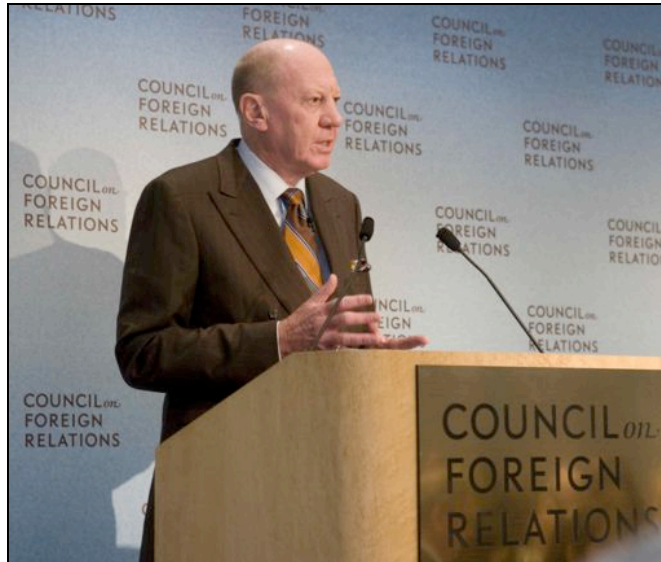


# Connected Capitalism: Growing Sustainably for the 21<sup>st</sup> Century



**Remarks by Neville Isdell, Chairman of the Board, The Coca-Cola Company**  
Council on Foreign Relations - Fifth Annual Corporate Conference  
March 6, 2009 - New York City

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Thank you, Lee Cullum, and my thanks to Richard Haass, Camille Massey, Helen Belmont, and everyone here at the Council on Foreign Relations. This is the first time that I have spoken here, and in fact this is the last major address that I will deliver as Chairman of The Coca-Cola Company. I chose to give it here and at this meeting of business leaders because I really believe that we have reached a critical turning point -- not just for business, but for society as a whole.

## **WARNING: THE ECONOMIC MODEL IS CHANGING**

The economic model of global capital and commerce is being re-written even as I speak. And for those of you who were expecting a nice quiet talk about Coca-Cola after a wonderful lunch, I'm actually going to disappoint you. I've come here in many respects to sound a warning and to issue a challenge.

The warning is that the free market system that has lifted incomes for the past half-century is now being revised. In this economic crisis, citizens and governments are re-examining how markets and businesses should function. Already we can see where much of that discussion is headed. Often, it is down a narrow road of populism and protectionism toward policies that will hamper trade, will slow recovery and will stall long-term growth. That's the warning.

## **OUR CHALLENGE: TO RECONNECT OUR BUSINESSES TO SOCIETY**

The challenge, then, is for us as business leaders to rewire how our companies relate to society. And if we don't do that, we will discover that society has redesigned our businesses for us.

## CONNECTED CAPITALISM

So what's the solution?

I believe that we need to redesign our businesses so they embody what I like to call "Connected Capitalism" – a new model of how businesses must engage with society across four platforms – communities, institutions, social challenges and values.

Building these connections, I believe, is the best way to ensure sustainable and profitable growth in the 21<sup>st</sup> century.

## HISTORICAL CONTEXT

Throughout history, there have been many key turning points for businesses and for markets. One was the shift from the agrarian economy that was brought about by the Industrial Revolution. Another was creation of a true global trading system. And another, of course, was the Information Revolution.

Today, we are undergoing another shift, which has many dimensions. There's the shift from rural populations to urban populations. There are more people living in cities today than there are living in the countryside. There is this whole era of social media that creates absolutely new connections. And of course, there is the global financial crisis.

## THE DANGERS OF PROTECTIONISM

What is different today, however, is that the debate about how markets should change is being dominated not by positive advances like innovation, but largely by fear and also by justifiable anger.

As one commentator put it last week:

*"People don't know who to blame, but they know that business has a lot to do with it."*

So in this period of uncertainty, people are trying to build more personal security into the economy through policies that make it more protective of individuals and of communities. That is a very, very natural reaction. However, the solution that many have been told will help them will clearly have unintended consequences that hamper future growth.

Let's not forget that "the capitalist model" of open markets, open trade and the flow of commerce has helped to grow the world, and it has lifted people's living standards continuously around the world.

If we allow populism and protectionism to become the core of the new economic model, growth will stall. If critics actually succeed in creating what many have called a "walled world," it's going to be a dark century, particularly for the poorest people around the world.

But at the same time, we know that it cannot be business as usual.

Simply put, we must change how we practice capitalism if we want the benefits of capitalism to continue.

So then what should we do? Two things. Neither will be easy.

## **STEP ONE: WE MUST SPEAK UP**

First, we must speak up. As these bad ideas have made the rounds most of us in business have not been speaking up about the dangers. Now it's true that we are in the middle of a terrible economic crisis, and all of us are putting out daily fires.

It's also true that we've also been hurt by our very low level of public standing. The 2009 Edelman Trust Barometer found that in 20 countries, 62 percent of respondents said they trust business less today than they did a year ago. And you know that a year ago, the numbers weren't very good either. Here in the U.S., trust in business is lower than it was after the collapse of Enron, which is the most recent low point.

So we must reestablish our own credibility. It won't be easy, but fortunately, the second thing that we must do – redesign our businesses – will help our credibility, so let me turn to that.

## **STEP TWO: WE MUST REDESIGN OUR BUSINESSES**

The second step we must take to preserve capitalism and to allow our businesses to grow sustainably is to rewire our companies, so they follow a new model of social engagement.

We're hearing the outlines of that new model in what Bill Gates has been saying about "Creative Capitalism" and what Klaus Schwab of the World Economic Forum has put in a paper about Global Corporate Citizenship. I don't think any of us have figured it out yet, but in the spirit of finding a path forward, I want to share my view, and then I'd like to hear your thoughts when we get into the Q&A.

## **THE OLD MODEL**

In the last century, the model for business and business's role in society was defined very succinctly by Milton Friedman, who said that the only social responsibility of a business was to enrich its shareholders, and from that, the rest will flow.

Philanthropy meant donating money to pet projects. Often, those pet projects changed whenever the CEO changed. The relationship between big business, in particular, and its surrounding communities has often been more transactional and very siloed.

## **THE OLD MODEL IS INSUFFICIENT TODAY**

That was the last century, and we know the world has changed. Global problems like climate change, energy and water have grown in their severity and their urgency.

Expectations have changed as well. Actually, consumers do expect us to be part of that solution. The way consumers perceive brands has changed, and we have research to prove this. Consumers now link the reputation of the company with the reputation of the brand. I believe that trend will be accelerated in the future. Of course, it's especially true for a company like The Coca-Cola Company, where the name on the building is the name on the bottle.

## **MOVING TO A NEW MODEL**

So business must catch up to these changes and embrace a new model of "Connected Capitalism." It is a way of building your business, so it is fully engaged with society. It will require rewarding shareowners and being entirely legally compliant, just as we've done in the

past -- or as most of us have done in the past -- but it requires business leaders to make four critical connections:

1. Connect your business to the communities that you serve.
2. Connect your business with civil society and governments to address relevant large scale problems.
3. Connect your philanthropy -- your sustainability agenda -- with the core of your business, not tangential, but related to the core of your business
4. And finally connect your business with the values of your own employees.

Let me just build on each one of those.

## **1. CONNECT YOUR BUSINESS TO THE COMMUNITIES YOU SERVE**

First, we must connect our business to the communities we serve.

We need to be seen – and we need to be – a functioning part of the local communities where we operate. This means not just being a presence, but also being a partner.

Now The Coca-Cola Company is an interesting model because while we are recognized as a quintessential “American” brand, we are a franchise system. That means we are a local business in every community in which we operate in some 200 countries around the world.

I can tell you that if I look at the places where our business is most successful, you actually find one common element, one common denominator: People actually feel Coca-Cola is theirs. It’s part of their society. It’s part of their community. They own it. It’s part of their life.

As I look at other industries, I think the backlash we’re seeing against global business in general is driven by a sense that companies are not part of that local fabric. Globalization without localization creates alienation. I want to repeat that. Globalization without localization creates alienation. It breeds an “us versus them” outlook in which people defensively try to lock-in what they have, but in ways that reduce what everyone can have.

So the first way that we must rewire our businesses is to connect it to the fabric of local communities.

## **2. CONNECT YOUR BUSINESS WITH CIVIL SOCIETY AND GOVERNMENTS**

The second change that we must make is to connect businesses with civil society and with governments to address relevant global challenges.

Issues like climate change and the availability of fresh water are so large and so complex that they require work that no one can do on their own -- not business, not government and not civil society.

It will take new partnerships amongst those three elements of our society. I call it the “Triangle of Sustainability.” Those partnerships allow us to create a multiplier effect, to create scale and eventually speed.

Now the relationship between business and NGOs has often been adversarial. Today, we see that farsighted NGOs have realized that if they want to get a multiplier effect on their impact they must work with enlightened companies, and obviously the reverse is also true.

The economic crisis is going to impact NGOs relationships as well. Among businesses, it's going to separate the "wheat from the chaff." It's separating the businesses that are really serious about a sustainability agenda from those that are merely, in environmental terms, "greenwashing." Obviously, there are exceptions for [businesses] whose survival is at stake, but the economic crisis will separate those who are not serious about working with NGOs and are not really serious about investing in the long term.

We have a multiplicity of linkages and partnerships with various organizations including with the U.N. Global Compact, the WWF, CARE, USAID and agencies of governments all around the world. That's how we scale up and how we speed up. That's how we work against the global challenges. So, therefore, the second change is going out and building those new partnerships, building that level of trust between business, government and civil society.

### **3. CONNECT YOUR PHILANTHROPY WITH YOUR CORE BUSINESS**

The third change is that we must connect our philanthropy and our Corporate Social Responsibility investments right into the core of our business. I call it "line of sight." It's replacing philanthropy with "line of sight" community engagement because it's no longer about just providing money. We must provide intellectual capital, and we must provide people with expertise to address these issues. It is not just about money.

When your efforts are aligned with the core of your business and with your business strategy, they are sustainable, and they get the full support of shareowners, board members and, even more importantly, the employees themselves. They make your business more sustainable.

One example: At The Coca-Cola Company, the key ingredient in all our products is water, so that's our number-one priority. As we have our own goals with regard to reducing our footprint and extending our handprint with regard to water, we are also making clean water available to the communities we serve through partnerships here with USAID, WWF and the Gates Foundation. That line of sight is something that's fundamentally important for those efforts to be sustainable.

### **4. CONNECT YOUR BUSINESS WITH THE VALUES OF YOUR EMPLOYEES**

The fourth connection business must make is internal. It's about the value system that you're putting in place. It's having a deeper resonance with the values of your own employees, because businesses don't have values. People have values. Businesses don't have ethics. People have ethics. It's how we capture that and use that that is fundamentally important.

All of our employees and all of us in the room are involved in one way or another in civil society. You may be a volunteer with one of your children's schools, a church or a community food bank.

Think about it. If employees enter a workplace that is, in a way, "hermetically-sealed," which is not involved in that way, they don't fully connect. They'll do what's asked of them, but what you'll get is compliance and not engagement, or more importantly commitment.

However, we've seen in our engagement scores that when employees enter a company that is seen to be improving society, employees bring their whole selves to work. It makes them better employees. It makes them better ambassadors, and by the way it also makes it easier for us to attract top talent.

So these are the four connects that business, in my view, must make:

1. Connect your business to the communities you serve.
2. Connect your business with civil society and governments to address relevant large scale problems.
3. Connect your philanthropy -- your sustainability agenda -- with the core of your business.
4. And finally connect your business with the values of your employees.

### **WHO WINS IN A CHANGING WORLD?**

Who's going to win in this changing world?

This year is the 200<sup>th</sup> anniversary of the birth of Charles Darwin. It's the 150<sup>th</sup> anniversary of the publication of "On the Origin of the Species." I'm not a biologist, but I did study social science, and I believe that in this era of change it is the businesses that connect and adapt correctly with this broader social agenda that will survive and that will thrive.

### **A TURNING POINT FOR CAPITALISM**

This is a turning point for capitalism. The question therefore is: Turning towards what?

- A "walled world" where people turn inward, where trade barriers and tax policies make products more expensive, and where global growth is stalled?
- Or a more open and a connected world where enlightened, sustainable and "Connected Capitalism" delivers growth and improves lives?

Each day, decisions are being made that shape the answer to that question. We each have a role to play by using our voices and by changing our course.

Yes, it's hard work, particularly with everything else on our agenda. As you manage through a crisis it's very difficult to look at the long term, but when we come out of this crisis, I know that the companies that will be standing tall -- those that will be well-positioned to flourish -- will be those that are properly and fully engaged with society at large.

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