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Managing competing responsibilities in the United States industry

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Introduction

Over the past number of years pig production has evolved into a highly efficient and focused industry. Costs of production have decreased and margins have often been above financial expectations. Of course, this apparent success has been gained with some costs. It is our argument that the swine industry, along with many other industries, has achieved a level of localized efficiency by emphasizing a relatively simplistic profit maximization equation. The challenge is, as one senior advisor put it, to “move beyond the earnings game.”—Robert Eccles, Price Waterhouse Coopers, presenting at the 12th World Food and Agribusiness Forum and Symposium, June, 2002

Accounting scandals have placed a new focus on business ethics and administration, and the swine industry has long had critics of its administration, both inside and outside of agriculture. Recently, a public meeting was held in Minneapolis, with the following announcement

Join Sierra Club and the Institute for Agriculture and Trade Policy for an Antibiotic Free Barbeque at Boom Island Park in Minneapolis.

Who: Sierra Club and the Institute for Agriculture and Trade Policy

What: Antibiotic Free Barbeque

- Free Lunch

- Meat raised without Antibiotics by local, Family Farmer

- Meatless entrees for Vegetarians

- Music

- Press Conference

When: JULY 2, 2002 11:00 a.m. - 2:00 p.m.

PRESS CONFERENCE 11:30 a.m. to kick off Sierra Club's Antibiotics in Agriculture campaign and to release the Institute for Agriculture and Trade Policy's "Eat Well Guide".

Why: The excessive use of our antibiotics by *corporate* agriculture is contributing to antibiotic resistant food poisoning by bacteria such as Salmonella and Campylobacter. Join an effort to demand that grocers provide consumers with meat and poultry raised without antibiotics and help support local, responsible, sustainable family farmers - who raise animals without the use of OUR medicines. Learn where you can go to buy this meat and poultry in the Twin Cities. Keep our antibiotics working for our families for our future.

The italics are ours and the use of the term “*corporate*” illustrates the rhetorical oddity that the administrative structure is, in part, blamed for the existence of a putative biologic process. This is not an unusual tact in postmodern social and ecological critiques. The basic question is not of action but intent. It is a generic caricature of a short-term, self-serving and thus biased decision-making process. It is an image that has been treated as an inherent truth in the media.

Thus swine production is now painted with the problems of the corporate decision-making structure. The swine industry is a highly competitive industry with most decisions made based on the profitability of a single enterprise. Thus the decisions have been made based mostly on the requirements of the parties with a direct say in the day-to-day operations of the farm. This has included owners, laborers, and the local rural community. There are other objectives superimposed on swine production that have not had a formal or identified place in the decision-making structure. These constituencies or stakeholders include pigs, consumers, waterways, and rural communities.

The argument from most critics of the swine industry is that there is not a valid decision-making structure to address concerns outside of a localized profit-maximizing objective. There is not a transparent business structure in swine production either in individual entities of the industry, or in the structure as a whole to discuss and address some of these external objectives. It is a concern across types of enterprises. Thus a multitude of industries have come to the challenge of managing by the three E's: Ecology, Ethics and Economy. There is a concerted effort to create management structures addressing all three E's in an effective and transparent method.

If producing an automobile is a complex management issue when ethics and ecology are considered, animal agriculture is even more complex. The perceived role of agriculture and presented images are often in conflict. Expectations are high, unreasonable and based on anachronistic visions.

To achieve some level of validity with critics, there must be a holistic venture to address multiple objectives across the swine industry. This requires a competent umbrella

structure over the swine industry, some method of mutual discipline, and, most of all, it takes a business management method that allows for long-term strategies that addresses multiple objectives.

If you think that we are capable of such a strategy, here is the first challenge: probably the most beneficial activity that can be done is to provide some level of knowledge and mutual discipline focusing on supply. Based on the inelasticity of demand, providing a logical level of supply would allow for more cogent decision-making in other areas. Approaches to the problem are varied, but the management of conflicting aims is the basic challenge in management.

The shareholders versus stakeholders conflict

There is an ongoing debate in the business ethics arena about what the overall objective of upper management should be. In the United States, there is an established tradition that management is expected to maximize shareholder value. That is, the purpose of the company is to maximize financial returns to the owners. While this seems reasonable on the surface, there are two downsides to this approach. First, financial gain may be at the expense of other important considerations. For example, any item that increases cost of production may decrease margin and thereby decrease profitability. This could include items such as higher wages or more benefits, installing more environmental monitoring, maintenance and upkeep, or different antibiotic strategies. The second potential downside of focusing solely on return to shareholders is that there is a danger of becoming myopic in our strategic approach. For example, look at the stock market. We are familiar with the volatility of the stock market and how this can impact publicly held companies. Quarterly reports emphasize sales and net earnings and are highly anticipated by the market. The stock price will either remain stable if expectations are met, or decline, sometimes dramatically, if expectations are not met. As such, management becomes driven to meet quarterly sales and net earnings goals. Since upper management is often rewarded in part according to stock price through stock options, the theory is that their motivations are in line with the owners. But we have many unfortunate examples lately where short-term gain was at the expense of long-term viability of the firm.

Around the world, some other societies make different choices as to what management should be measured by. One important outcome is shareholder value, but not totally at the expense of other considerations including local communities, employee satisfaction, environmental impact, relationship with suppliers, interests of customers, debt holders, and government. Maximizing share-

holder value is considered short sighted, overly simplistic and perhaps even antisocial.

As we continue to develop a global market place, how will different end objectives for management compete? The argument for focusing on shareholder value is that winning companies create greater value for all stakeholders – customers (product quality), labor (fair pay and potentially profit sharing), government (more tax revenue) and suppliers of capital. The argument goes that companies that do not perform will find that capital flows to the competitors.

But, do our business leaders deserve such autonomy? Our capitalist society is designed to reward contributions through business. *“The genius of capitalism is to pacify a destructive human characteristic, greed, into benign self-interest – something we know as an incentive”* (Former Secretary of State James Baker III speaking at University of Michigan on April 12, 2002). However, the ethical behavior of some of our business leaders has been lacking. In the 1990s, greed has overwhelmed the system because there were no countervailing forces to keep it in check (Business Week June 24, 2002, Page 32). President Bush said *“We’ve had some destroy the trust of the American people, and we need to do something about it”* (July 9, 2002; Wall Street Journal). In the recent past, we have had:

- accounting firms which were blinded by desires to drum up consulting fees,
- lawyers outside a firm intent on maintaining their flow of business from corporations,
- investment advisors at major firms recommending purchase of shares to customers while simultaneously panning them in emails to co-workers,
- directors who failed to exercise oversight as the fiduciary representatives of the shareholders
- the Lincolns Savings and Loans bailout, Long Term Capita Management rescue

Managers will come and go irrespective of their success. What legacy will each leave? What has each leader done to make the company, and perhaps society a better place for their successors? Will the firm, and maybe even the community, reminisce about the individual? Or will they be left to pick up pieces and get the firm back on track? What about our pig industry in United States – do we deserve the autonomy that we have had? Our pig industry is in desperate need of strong, visionary and ethical leadership. Each of us has a role in setting our path for the future. We have become the unwanted child of agriculture. *“Not in my backyard!”* We see the same public debate about a proposed finishing site or packing plant as with locating sites for nuclear waste – amazing but true.

Clearly, our industry's baggage is perceived to outweigh our contributions:

- Contributions
 - Add value to local feedstuffs
 - Employ local labor
 - Contribute to local, state, and national tax base
 - Contribute to local and regional wealth creation
- Baggage
 - Local impact
 - Negative environmental impact through air (smell) and water (seepage, overflows)
 - High labor turnover reflects low perceived value
 - Labor may not be local
 - Perceived industry-level issues
 - Antibiotic use leading to public health concerns
 - Welfare of pigs in our housing systems
 - Absentee owners (corporate) putting local farmers out of business

Responsibilities to shareholders

Profitability and growth has been our mantra, "like a good company should be". What is a reasonable return for our investment? The market place is established such that there is a high correlation between risk and return. In other words, if risk is low, return will be low also. For example, risk on a savings account is extremely low. Therefore, the expected rate of return is only 1-2%. We measure risk by the standard deviation of returns. The more volatile that returns are (higher standard deviation), the less predictable return is at any one point in time. Therefore, these more volatile returns are considered to be more risky.

There is a strikingly high correlation between risk and return when we look at historical data for treasury bills, corporate bonds, large company stocks and small company stocks. That is, as variability in the return increases, the average return increases. The implication for us in the

pig industry is that we need to pursue a reasonable return for the risk we are taking. And the pig business is a risky business.

We can get an inkling of the riskiness of pork production from the ISU Extension dataset of 5 livestock enterprises (<http://www.econ.iastate.edu/faculty/lawrence/EstRet/ESTRET91-00.htm>). Actual prices for inputs and output are entered each month. For the last 6 years, profit / marketed pig has averaged (\$0.85). For the last 10 years average profit has been \$0.21/head. Profit has varied considerably with a standard deviation of \$20.46 / head sold. This variability is not including uncertainty due to weather or disease. This is a risky business. And risky businesses need to be managed carefully, watching every penny of costs to assure a reasonable margin and return on the invested capital

Let's look at the last 5 years of two publicly owned pork industry firms – Hormel and Smithfield Foods. First, return on assets (ROA) has been consistently positive for both firms (8.9% and 5.9%, respectively). Secondly, the ROA variability of ROA has been relatively low; that is, it has been quite predictable (standard deviation 1.11% and 1.53%, respectively). So both businesses have performed in quite predictable fashion (see table below).

Looking at the return on the stock price is a different matter. Now we incorporate the idiosyncrasies of the open market—emotion, consumer confidence, and perceptions of the future. Total return on a stock actually it combines two other returns: income return and capital return. A fund's income return is the interest it made on its investments over a given time period in the form of dividends. The fund's capital return reflects how much the stock went up or down during the period.

Hormel and Smithfield averaged 12.7% and 15.7% total return, respectively. Their variability was 24% and 40%, respectively. Smithfield's stock return is less predictable at any one point in time, but over the long run, gave a slightly higher average return. In other words, investors were rewarded for their willingness to accept more risk with Smithfield's stock, if they could ride out the increased volatility. The point for us here is that leaders within each

	ROA		ROA	
	Hormel	Stk return	Smithfield	Stk return
1997	7.20%	24.6%	4.40%	73.7%
1998	9.00%	2%	4.90%	2.7%
1999	9.70%	26.3%	5.40%	-29.2%
2000	10.40%	-6.4%	2.40%	26.7%
2001	8.40%	46.9%	6.90%	45%
last 12 mon	8.50%	-17.4%	5.90%	-24.7%
average	8.87%	12.67%	4.98%	15.70%
standard deviation	1.11%	24.00%	1.53%	40.40%

firm must watch their costs, margins and profits extremely carefully so that they can report earnings per share figures that result in a fair stock price and reasonable return to owners. Failing to do this will result in increased selling of the stock, decreased price as a consequence, and an ongoing spiral down until % return is reflected in stock price. Money flows to where investors believe they receive a fair return for their investment.

Growth of a company is an important objective to consider. Through growth, economies of scale can be captured, customers can receive large quantity of consistent product and total profits can increase. We have seen dramatic growth in our industry through new construction and acquisition in the last 10 years. Opportunities today are more for growth through acquisition - big fish eat smaller fish. At the same time, growth is occurring globally. Smithfield has expanded into Poland and Mexico and is looking at China. Hormel and IBP have established a foothold in China.

A second way to increase the value of a farm is to decrease its risk. We are willing to accept a lower return on investment if there is less risk. One source of risk is the increasing public scrutiny of our production systems. Certain groups have organized demonstrations and even boycotts against fast food chains urging consumers to not consume their products – our products! We are currently suffering substantial fines for having certain environmental accidents. Could we invest proactively in certain issues that if solved might decrease the anticipated volatility or even increase total demand for our product? We need to think of such expenditures as investments with a possible payback that could have a substantial positive impact on our industry.

Our recent focus on growth and profits has not been without a price. You know the metaphor of the frog placed in the pot of water on the stove. As the water heats the frog sits contentedly in the pot until it is boiled to death. It has become accustomed to its surroundings and accepts them as “normal”. On the other hand, if we put a frog into boiling water it recognizes the problem and jumps out. When you are sitting in the lukewarm water, it is very hard to recognize the problems. An outsider can sometimes see better than an insider. What would an outsider observe about our industry?

- Mortality from birth to target market is not uncommon to be up to 30%.
- Staff turnover at barn level can be over 75% / year.
- Americans are working harder and longer and it is not reflected in output.

And we have a host of other problems. These problems are complex – the simple ones have been fixed or eliminated. Complex problems call for innovative thinking and

experimentation. Parity segregation is an example of an innovative program that holds promise (Mencke et al, Leman Conference 1998, Moore C, Leman Conference 2001).

Complexity also leads to multiple objectives, and a need for novel methods and a broad knowledge of swine production and the constituencies involved. For instance, what is the correct density for housing grow/finish pigs? The solution to such a question can be given at a number of levels. The first is through a maximization of productivity such as pounds marketed per square foot per year. The second is a maximization of profitability that would examine margin over variable costs per square foot per year. How do we address the demand to include the consideration of pig welfare in such an examination? Currently, there is not a quantitative assessment that can span the different objectives in current management techniques. We all agree that beyond a certain density the welfare of pigs is unacceptable and we also agree that as the density decreases from that point there is an improvement in the welfare of the pigs. Thus we have a conflicting group of responses within and without the industry:

- Do we design a system that maximizes the benefit to each pig? In other words should the density be controlled on a pen by pen basis and by constant examination?
- What is the payoff structure between the cost of housing and the incremental improvements in welfare with lower densities
- Can we take the argument that productivity is correlated with welfare and thus, welfare measures can be ignored?
- How can we allow for technical modification and improvement across different farms while insisting on a rigid structure for auditing?
- How can we communicate our decisions to stakeholders in a cogent method?

If the discourse is poor and the reasons unexplained, there is difficulty in achieving change in relationships. There are many examples other industries that have been branded as unpalatable and in need of high levels of regulation. Some of these industries have been proven to be quite profitable due to the high level of impediments for entry. Based on the flurry of expansion that we had seen, there is some expectation of the same for pig production. Such industries are often migrating offshore as the pressures increase and placement of such industries is a major predictor of profitability. An inevitable result is that such industries remain as simple commodities and allow for little progress.

Animal agriculture is unaccustomed to the spotlight of examination by stakeholders. The image held by many in

the public is that many in animal agriculture are uncaring and inept at understanding the needs of stakeholders. This is not unlike the image of many corporate entities. In many cases this indictment of corporations has proven to be true.

Responsibilities to stakeholders

As stated above, we can become too accustomed and not see the obvious. We commonly need a new set of eyes to look at a situation. If you landed on earth from a different planet and looked at our pig industry what might cause you to stop and reflect? What might be patently obvious to others as long-term mistakes, that we, ourselves are missing? We can't help but recall a news clip of 6 CEO from the tobacco industry testifying at in Congressional hearings about nicotine addiction (4/14/94; Henry Waxman's (D-CA) Committee):

- William Campbell, CEO, Philip Morris
- James Johnston, CEO, RJR Tobacco Co
- Joseph Taddeo, President, U.S. Tobacco Co
- Andrew Tisch, CEO, Lorillard Tobacco
- Thomas Sandefur, CEO,
Brown & Williamson Tobacco Co
- Ed Horrigan, CEO, Liggett Group
- Donald Johnston, CEO, American Tobacco Co.

The following was the most famous exchange (April 15, 1994):

REP. WYDEN: Let me ask you first, and I'd like to just go down the row, whether each of you believes that nicotine is not addictive. I've heard virtually all of you touch on it—yes or no, do you believe nicotine is not addictive?

WILLIAM I. CAMPBELL (Philip Morris): I believe that nicotine is not addictive, yes.

REP. WYDEN: Mr. Johnston..

JAMES JOHNSTON (RJ Reynolds): Uh, Congressman, cigarettes and nicotine clearly do not meet the classic definition of addiction. There is no intoxication—

REP. WYDEN: We'll take that as a no. And again, time is short, if you can just, I think each of you believe nicotine is not addictive, I'd just like to have this for the record.

JOSEPH TADDEO (US Tobacco): I don't believe that nicotine or our products are addictive.

ANDREW TISCH (P Lorillard): I believe that nicotine is not addictive.

EDWARD HORRIGAN (Ligget Group): I believe that nicotine is not addictive.

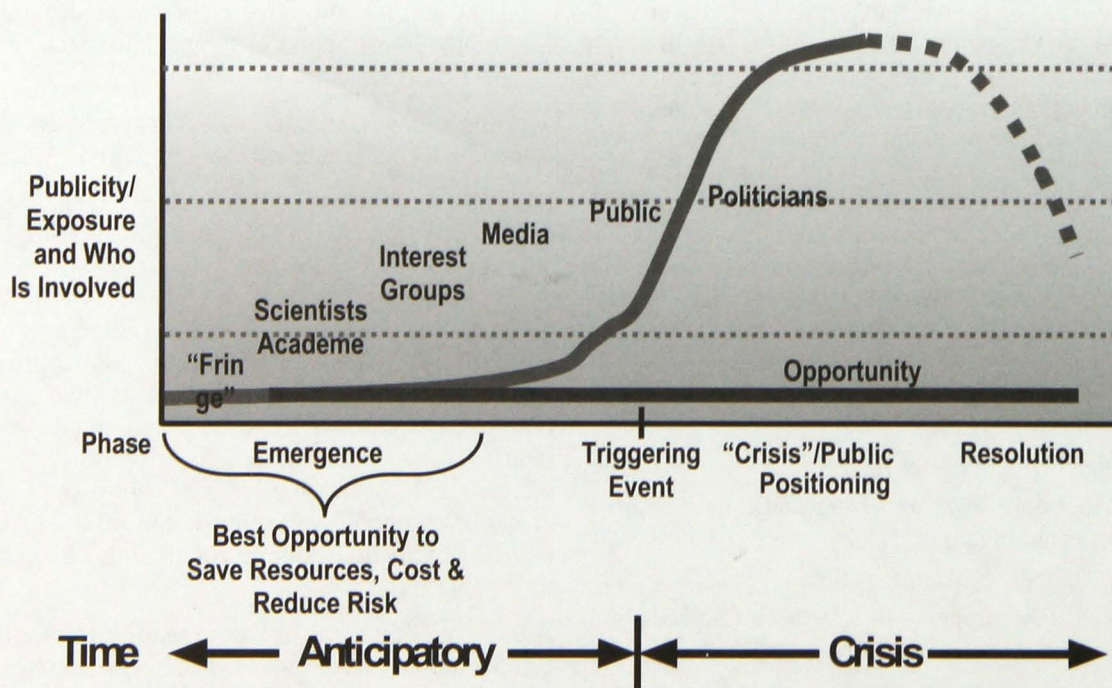
THOMAS SANDEFUR (Brown & Williamson): I believe that nicotine is not addictive.

DONALD JOHNSTON (American Tobacco Co.): And I too believe that nicotine is not addictive.

Today, we can see today how shortsighted and even foolish these leaders were. Today, we have record settlements, ongoing class action suits, and tobacco money being used to fund anti-tobacco advertising. The Marlboro brand has deteriorated from a rugged, macho cowboy to a duplicitous, lying, cheat.

What are the issues for our industry? McDonald's uses the following graphic to try and organize their issues and

Figure 1. McDonald's anticipatory issues management process



manage them accordingly. Where does antibiotic use and animal welfare rank on this graphic? In our opinion, we lost the opportunity to be proactive on environmental impact and we are suffering the regulatory consequences accordingly. In Europe, welfare of the pigs has been taken away from the industry and is being mandated from Brussels. After Dec 31, 2006, there is no new construction of stalled housing and they have until 2112 to eliminate them. From 2006 to 2112, they will start the re-learning curve for group housing. This represents a huge opportunity for us to watch over their shoulders, because we may be following them. In our opinion, the writing is on the wall for antibiotic use. These are the obvious issues. How we will be affected by global warming, which President Bush recently acknowledged as occurring (see Harvard Business Review July 2000, pp128 for "What every executive needs to know about global warming by Fisher et al)?

Our leadership

As a leader, you have responsibilities to our industry. Charles Barkley said, "I am not a role model." But, like it or not, he clearly was. Being a leader is hard work. You have obligations to many interests with the main expectation of getting results. Recent research identified 6 major leadership styles with the most effective leaders using most of them in any given week, seamlessly switching among them depending on the circumstances. The 6 styles are:

- coercive leaders demand immediate compliance,
- authoritative leaders mobilize people toward a common vision,
- affiliative leaders create emotional bonds and harmony,
- democratic leaders build consensus through participation,
- pacesetter leaders expect excellence and self – direction, and
- coaching leaders develop people for the future (Goleman; Harvard Business Review March 2000, pp 78).

(Daniel Goleman also authored an excellent review of leadership attributes and "what makes a leader?" Harvard Business Review Dec 1998; pp93-105).

You leaders of our industry are in the equivalent of a war zone. Animal agriculture, and in particular the pig industry, is experiencing increasing public scrutiny. A British farmer said once, "*The privilege of an affluent society is to criticize their farmers.*" In part because of this scrutiny, you are being confronted on all sides and are being barraged with a variety of important questions and challenges. Why is litter size down? Why did that spill occur? What is your policy on antibiotic use? Why can't you fill

that position? And why are DIP's up? We heard last year how McDonald's has become a lightning rod for global issues such as GMOs, animal welfare, food safety, and globalization (R. Langert; Leman Swine Conference 2001). Similarly, our industry has become the focal point for many of the changes that are taking place in agriculture that are perceived as negative. Some of the criticisms we receive are valid. And some are misplaced.

But, our leaders are in the front line and will have an enormous role in determining the future of our industry. Will we proactively address issues, or continue to respond as we are attacked? As a leader, you will always have someone sniping at you. William Pogonis led the 1991 Gulf War theatre logistics, building a team of 40,000 in two months that supplied 550,000 military personnel with everything they needed to get the job done. In the face of daunting challenges, he gives us the following leadership guidelines (Pogonis, Harvard Business Review December 2001, pp5-12):

- Shape your company's vision—if the organization isn't pulling for you, you're hobbled from the start,
- Leaders need expertise and empathy to accomplish the task.
- Ensure that everyone shares the same information, including the vision and the objectives.
- The first step in leadership is to "know thyself"—your strengths, weaknesses, and how you might improve.
- Learn how and what to communicate; and never pass up the opportunity to remain silent.
- Always remember the mission.

The resource of leaders that can communicate is an undeniable need as criticisms proliferate. Communication is the major constraint and the ability to come to common answers. If we look at many of the critics of swine production it should be easily recognized that a different model of rhetoric is being used when compared to models within the swine industry. The current models of discourse have often been portrayed in blanket categories such as postmodernism or at its extreme, anarchism. Inherent in any portrayal of current is a distrust of power and especially motive. The criticisms of industrialization are not so much inherent in the method of production, but instead, a criticism of the implied motives of a corporate management structure. Of course we can argue naïveté and the calls for rolling back agriculture to the early 1900s are ridiculous. Yet, have we done enough to show that there is a level of responsibility in the decision-making structure to address the constituencies that they wish to represent. This is not saying that the answers will be the same but at least there is some model for decision-making that allows discourse to occur.

The aim should be in a discourse model to discover common objectives, where they exist, and to focus on those without getting into what would be technical specifics. The first step should be, in most cases, to thank those parties that share common objectives. For those that care about the welfare of pigs, they should be lauded and then shown how the welfare of pigs is addressed within swine farms. Many of the critics are less interested in outcomes than process, yet little of decision-making processes have been described. Having in place a strong position for welfare is an important step. Identifying a person or persons that can be ombudsmen and allow for further dialogue should be the next step.

Reporting to stakeholders

The United States is in decline as a world power. We might turn the trend around or slow it down, but the outcome of our current course is predictable if you believe history repeats itself. President Harry S. Truman said *"The only thing new in the world is the history that you don't know."* With these words, he would be very worried about current trends.

At the core of this decline is the gradual decline of the middle class. Approximately 500 years ago, wealth of the new inhabitants of United States was probably fairly normally distributed. But since then, we have a situation where fewer and fewer people are acquiring more and more of the country's wealth. Since 1968, the Gini coefficient (also known as the index of income concentration) has increased steadily, reflecting increasing concentration of income in fewer hands (US Census Bureau June 2000 <http://www.census.gov/prod/2000pubs/p60-204.pdf>). "Between 1979 and 1989, the portion of the nation's wealth held by the top 1% doubled from 22% to 39%. By the mid-90's, some economists estimated that the top 1% had captured 70% of all earnings growth since the mid 70's" (Wealth & Democracy – Kevin Phillips 2002).

This disproportionate distribution of income is not unique to United States. Globally, the top 1% earn as much as the poorest 57%. Furthermore, four fifths of the world's population lives below what countries in North America and Europe consider the poverty line. The poorest 10% of Americans are still better off than two-thirds of the world population. Should it be of concern to us? *"Perhaps, if we believe that wide income gaps lead to immigration and resentment breeds terrorism. Ultimately, the rich may have to live in gated communities while the poor roam the world outside those few enclaves."* (The Guardian; January 18, 2002).

United States leads the developed world in income inequality. Those in the top 20% of the population earn 11 times more than the bottom 20%, which is a higher ratio than in UK (9.6 times), France (7.1), Canada (7.1), Ger-

many (5.8), Belgium (4.6) and Japan (4.3) (reported in Wealth & Democracy pp 124).

The US Census Bureau has been measuring income for a half century, and a large number of factors have been identified as contributing to changes in equality. However, the causes are still not entirely understood. Two physicists recently cast some light on the puzzle (Harvard Business Review; April 2002 pp49-54). They reported that the Pareto distribution of wealth, where a few individuals have the majority of the income, is a natural phenomenon and will happen in any society where individuals have freedom to choose how to spend and invest their income. "The greater the volume of money flowing through the economy and the more often it changes hands, the greater the equality. Conversely, the more volatile investment returns are, the richer the rich tend to get." In the extreme case of volatile returns, they found that wealth will continue to concentrate into fewer and fewer hands – this would transform society. Can we influence the distribution?

- Be aware of the current trend nationally and internationally.
- Consider this trend when you vote (watch for a book called *Wealth and Our Commonwealth: Why America Should Tax Accumulated Fortunes* to be published in January 2003. Authors: William H. Gates and Chuck Collins).
- Manage our position of relative wealth responsibly.

The alternative and perhaps inevitable, is a gradual spiral down where the have-nots ultimately rebel. Again, *"The only thing new in the world is the history that you don't know"* (President Harry S. Truman). If we need examples of once world powers who lost their position, we have Spain (dominated the world in 1500-1648), Holland (1650- 1700's), and Britain (1763-WWII) (from Wealth & Democracy). What am I doing to leave this a better place for my successors?

Develop a social contribution report

While on the one hand, we aspire to anonymous giving, on the other hand, we desperately need the acknowledgement of being socially responsible. This is true for pig farms and processing plants of all sizes. The days of relying solely on personal relationships are over. People who we don't personally know are determining our fate. Perhaps we need to do a better job of telling people how we are contributing. An impressive "give-back statement" might influence their opinion. This is equally critical for publicly held companies such as Smithfield, Hormel, and IBP – Tysons, and for large, privately held production companies such as Cargill, Pip-estone Family Farms, Premium Standard and others. Each has a valuable brand to protect and develop.

Ernst & Young recently published a report on what investors took into account in their decision to purchase or sell a stock. They concluded, “Corporate leaders who effectively measure, manage and communicate their non-financial performance (environmental and social policies was one of 39 specific non-financial criteria) may not only contribute to the increased valuation of the firm, but also improve their firm’s ability to attract new investment capital” (<http://www.cbi.cgey.com/research/current-work/valuing-intangibles/attachments/MEASURES.PDF>). Investing in companies deemed as socially responsible is a growing trend despite a lack of consistent evidence that they outperform firms selected by traditional analysis. Below is a list of the issues that such some investors are screening for (soyouwann.com). (See table below)

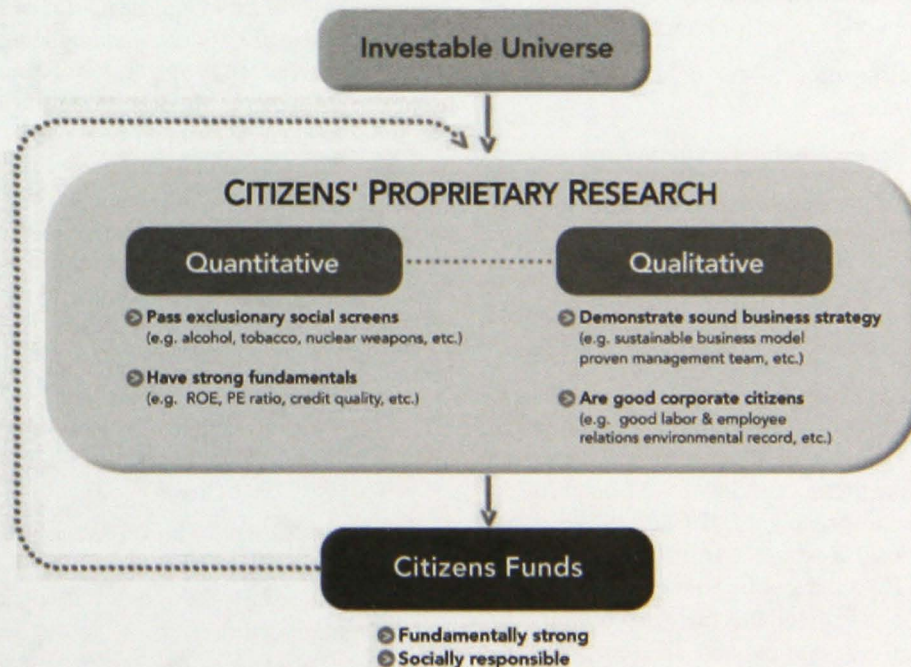
How can we report our contributions? Marjorie Kelly is a business ethicist who advocates for raising consciousness about wealth discrimination and secondly, for structural

change in corporate institutions such that stakeholders are served by the company, not just shareholders (The Divine Right of Capital; 2001). In her book, she describes several new initiatives aimed at encouraging companies to disclose their social achievements. A simple way to do this would be to develop an additional financial statement to augment the basic financial statements: balance sheet, income statement, and cash flows. For lack of a better name, we’ll call this a “Give-back” statement. Just like a balance sheet, it might be divided in sections:

- Local giving
 - Value of Christmas hams to all neighbors within 1 mile of a site
 - Cost of snow plowing neighbors’ driveways
 - Cost to sponsor local fund raisers
- State/regional giving; not political
- National/International giving; not political

Issue	Percent
Reject companies that support the TOBACCO industry	97%
Reject companies that support the GAMBLING industry	86%
Reject companies that support the ALCOHOL industry	83%
Reject companies that support the DEFENSE industry	81%
Support companies that have a good ENVIRONMENTAL record	79%
Support companies that demand HUMAN RIGHTS practices	43%
Support companies that support LABOR issues	38%
Support companies with a stance on ABORTION or birth control	23%
Support companies with a stance on ANIMAL RIGHTS	15%

Figure 2. At Citizen Funds, one typical fund company, potential securities are screened by fundamental and social criteria



There are two coordinated efforts aimed at this same initiative. The first is international and voluntary. It is led by a group called the Global Reporting Initiative (GRI). The Global Reporting Initiative (GRI) was established in late 1997 with the mission of developing globally applicable guidelines for reporting on the economic, environmental, and social performance, initially for corporations and eventually for any business, governmental, or non-governmental organisation (NGO). Convened by the Coalition for Environmentally Responsible Economies (CERES) in partnership with the United Nations Environment Programme (UNEP), the GRI incorporates the active participation of corporations, NGOs, accountancy organizations, business associations, and other stakeholders from around the world. To date, more than 2,000 organizations worldwide, primarily corporations, have participated. An example is McDonald's which has made great strides at regaining their public image (See Appendix 1. for McDonald's Social Responsibility report).

One of GRI's goals is to develop a generally accepted framework for reporting such that we can have consistency, credibility and comparability of achievements. The GRI reporting program aims to capture the impact a company might be having in addition to creating wealth. These might include investments in human capital, wage expense by country, taxes paid, increases or decreases in jobs, worker education levels, wage equity, environmental impact (positive and negative) and quality-of-life in communities. The GRI's mission is to balance the "balance sheet" such that all impacts—including but not limited to financial—are routinely, comparably, and credibly reported.

The GRI initiative hopes to:

- Expand credibility of sustainability reports using a common framework for performance measurement;
- Simplify reporting process for organizations in all regions and countries;
- Allow for quick and reliable benchmarking;
- Develop more effective linkage between sustainable practices and financial performance.

On the basis of the accomplishments thus far and the vision, the United Nations Foundation recently awarded a \$3 million partnership grant to support GRI activities.

The second organized effort for reporting social responsibility is aimed at compulsory reporting. The Corporate Sunshine Working Group is an alliance of investors (such as Trillium Asset Management and Domini Social Investments), environmental organizations (including Friends of the Earth and World Resources Institute), unions (including the AFL-CIO), and public interest groups (such as the Good Neighbor Project and the Stakeholder Alliance) working to enforce and expand SEC corporate so-

cial and environmental disclosure requirements. This group was started in December 1998. Members of the Working Group file enforcement complaints at the SEC regarding companies' inadequate environmental and social reporting; undertake research, writing and public education; and encourage the SEC to promulgate detailed corporate social disclosure rules. (<http://www.foe.org/international/cswg/>).

These are three choices to expand the reporting of activities of our industry. Personally, we prefer the first two. What am I doing to make this a better place for my successors / next generation? Let's tell people what our contributions are so the baggage can be put in balance. If our image continues to deteriorate as it has recently, we believe the third option of compulsory reporting will be forced on us.

Where are we headed in United States?

We will continue to consolidate, mainly through acquisition. We will continue to integrate, through ownership and contracts. We will improve productivity and lower costs of production. And we will continue to break down borders and barriers in the global marketplace. It is because of this last item that we will also incorporate public concerns into our production systems. Investors around the globe will be using the same approach and criteria to make their decisions, and they are looking at the same pool of companies. Our industry "*will have to engage with the community's interests, environmental concerns, and social issues. Otherwise, they will eventually be penalized by the political process*".

"This global marketplace will disrupt traditional values and familiar forms of organizations, amplifying the sense of loss of control and generating a nostalgia for the past and its settled order" (Commanding Heights 2002). A few countries such as areas of southern France, may structure programs to preserve the traditional farm culture (Lexus and the Olive Tree; Thomas Friedman). But this will be the rarity. The global marketplace will intensify competition with constant pressure on costs. We will need to foster a culture of flexibility, responsiveness and quick to change. Less bureaucracy, more teamwork, more empowered managers with information and decision-making.

Yergin and Stanislaw suggest that the global economy will be evaluated by 5 consequences:

- delivering the goods—measurable economic goods, growth, higher standard of living, better quality services and jobs.
- ensuring fairness—how is success distributed? Excessive concentration of wealth is not sustainable. "Incentives" for the market advocate is "greed" for the market critic.

- securing the environment—local activities will be benchmarked against global standards. Companies will be increasingly regulated by multiple authorities and focusing on the environment will become a growing responsibility of senior management.
- coping with demographics—on whose shoulders, on which age group will the costs of retirement and health care fall?
- upholding identity—there will continue to be clashes between multinational corporations and national values.

“The moral appeal of socialism is clear and explicit; altruism, concern, sympathy, and solidarity with fellow humans; dignity and social betterment; justice and fairness; hope. Yet the essential morality of the marketplace is twofold. The first is in the results that it delivers, in what it makes possible for people... The second lies in the conviction that a system based on rules, property, contracts and initiative is more fair and provides against an arbitrary and unchecked power of the state and other entities.” (Commanding Heights 2002).

Paranoia should not paralyze, but empower. The former CEO of Intel, Andy Grove, often said “only the paranoid survive”. Animal agriculture has been cast loose from the romanticized and protected umbrella of a rural and pastoral image, dependent on governmental protection. Pork production is, and will be, a changing industry. Our hope is the industry itself can be the agents of that change.

Most keynote addresses call for a new level of bounded optimism. This presentation is calling for what one author calls “Prudent Paranoia” (Roderick M. Kramer, Harvard Business Review, July 2002). The author gives the following guidelines in management, which are often antithetical in business management:

- Gather data relentlessly. Paranoia requires a thorough knowledge of the world around them
- Question your interpretations. Admitting that the world is exceedingly complex results in distrust of simple solutions.
- Embrace your enemies. The saying goes that “prudent people keep their friends close, but they keep their enemies closer”.
- Trust the shuffler, but cut the deck anyway. While embracing enemies is prudent, remain in control where possible.
- Be unpredictable. Though being earnest is usually the recommended executive stance, being predictable makes you manipulable.
- Disregard all the rules. The corollary to being unpredictable is to expect that others may be as well. Instincts are important in interpersonal contacts.

Table 1. A survey of 175 members of American Management Association revealed that “top core values often are not translated into behaviors by senior management” (April / May 2002)

Which of the following have you seen in your organization?

Micromanagement	70%
Failure to give credit	59%
Dissension in senior management	58%
Hidden agendas	56%
Dictatorial management	51%
Lack of accountability	46%
Unequal treatment of employees	40%
Kill the messenger behavior	36%
Organization always does what is legal, but not always what could be perceived as ethical	36%
Lying by employees	28%
Distortion of facts to customers	22%
Lying to employees	17%
Distortion of facts to shareholders	9%
Indifference to community concerns	9%
Falsifying expense accounts	7%

“When leaders model ethical behavior, only 24% of co-workers observed unethical behavior in the workplace. When leaders don’t model ethical behavior, 73% observe unethical behavior”. Study by Ethics Resource Center; Washington, DC.

Table 2. Companies using the GRI *Sustainability Reporting Guidelines* (March 10,2002)

Company	Primary Industry	Country
<u>BC Hydro</u>	Energy utility	Canada
<u>Suncor Energy</u>	Petroleum, energy	Canada
<u>TransAlta</u>	Energy utility	Canada
<u>VanCity Savings Credit Union</u>	Financial services	Canada
<u>Novo Group</u>	Pharmaceuticals	Denmark
<u>Aeroports de Paris</u>	Airport management	France
<u>COGEMA</u>	Nuclear fuel mining and processing	France
<u>Danone</u>	Food products	France
<u>Saint-Gobain</u>	Building materials	France
<u>Suez</u>	Utilities	France
<u>BASF</u>	Chemicals	Germany
<u>Heidelberg</u>	Printing and publishing	Germany
<u>Siemens</u>	Electrical engineering & electronics	Germany
<u>Volkswagen</u>	Vehicle manufacture	Germany
<u>Henkel</u>	Chemicals, consumer products	Germany
<u>VAW Aluminium</u>	Metal products	Germany
<u>Telecom Italia</u>	Telecommunications	Italy
<u>Unipol</u>	Insurance	Italy
<u>DSM</u>	Life sciences, chemicals	Netherlands
<u>ING</u>	Financial services	Netherlands
<u>Schiphol Group</u>	Airport management	Netherlands
<u>Triodos Bank</u>	Financial services	Netherlands
<u>KLM Royal Dutch Airlines</u>	Air transport	Netherlands
<u>Nutreco</u>	Agribusiness	Netherlands
<u>Royal Philips Electronics</u>	Electronics	Netherlands
<u>Tetra Pak</u>	Packaging	Spain
<u>Renfe</u>	Rail transport	Spain
<u>Shell International</u>	Petroleum, chemicals, energy	UK/Netherlands
<u>AstraZeneca</u>	Pharmaceuticals	UK
<u>BAA</u>	Airport management	UK
<u>BT</u>	Telecommunications	UK
<u>Cable & Wireless</u>	Telecommunications	UK
<u>Co-operative Bank</u>	Financial services	UK
<u>ICI</u>	Chemicals	UK
<u>J Sainsbury</u>	Food retailer	UK
<u>Laing</u>	Developer	UK
<u>Risk and Policy Analysts Ltd</u>	Consulting	UK
<u>Scottish Power</u>	Energy	UK
<u>Severn Trent</u>	Water utilities	UK
<u>Smith & Nephew</u>	Medical devices	UK
<u>Biffa Waste Services Ltd.</u>	Utilities	UK
<u>Body Shop International</u>	Personal care products	UK
<u>British Airways</u>	Air transport	UK

Table 2, continued. Companies using the GRI Sustainability Reporting Guidelines (March 10,2002)

<u>Carillion</u>	Construction	UK
<u>Royal & SunAlliance</u>	Insurance	UK
<u>Thames Water</u>	Utilities	UK
<u>TXU Europe</u>	Energy utility	UK
<u>Vauxhall Motors</u>	Vehicle manufacture	UK
<u>Waste Recycling Group</u>	Waste management	UK
<u>AMD</u>	Micro processors	USA
<u>Anheuser-Busch Companies</u>	Beverages, theme parks	USA
<u>Arizona Public Service</u>	Energy Utility	USA
<u>General Motors</u>	Vehicle manufacture	USA
<u>Green Mountain Energy</u>	Energy retailer	USA
<u>Interface</u>	Flooring systems	USA
<u>Johnson & Johnson</u>	Health care products and services	USA
<u>Marathon</u>	Energy	USA
<u>McDonald's</u>	Restaurants	USA
<u>Mead</u>	Forest products	USA
<u>Motorola</u>	Telecommunications	USA
<u>Nike</u>	Apparel	USA
<u>University of Florida</u>	Academic Institution	USA
<u>Agilent Technologies</u>	Communications, electronics, life sciences	USA
<u>American Home Products</u>	Pharmaceuticals	USA
<u>AT&T</u>	Telecommunications	USA
<u>Baxter International</u>	Medical products/services	USA
<u>Bristol-Myers Squibb</u>	Pharmaceuticals, personal care products	USA
<u>Chiquita Brands</u>	Agribusiness	USA
<u>Ford Motor Company</u>	Vehicle manufacture	USA
<u>Procter & Gamble</u>	Consumer products	USA
<u>Sunoco</u>	Petroleum	USA

Appendix 1. McDonald's issues first worldwide social responsibility report

April 14, 2002

From a press release

NGO Initiatives Update Included in McDonald's Report: Conservation International, Environmental Defense, The Natural Step, Business For Social Responsibility

OAK BROOK, Ill.—McDonald's Corporation (NYSE: MCD) today issued its first worldwide Social Responsibility Report. "Social responsibility is not a project or a program. Acting responsibly is the way McDonald's does business," said Jack M. Greenberg, Chairman and Chief Executive Officer, McDonald's Corporation. "Today, we formally report on our corporate citizenship around the world. It's what we've been doing, where we are today, and where we plan to go in the future. The enduring principles behind our commitment to social responsibility were built into our culture by McDonald's Corporation's founder, Ray Kroc, who spoke nearly a half century ago of the importance of giving back to the local communities in which we live and work."

The McDonald's Social Responsibility Report provides a global perspective on where social responsibility fits into the company's business strategies and provides a snapshot of McDonald's performance and progress in four broad categories, beyond just economic indicators: community, environment, people and marketplace. The full 46-page report is available at www.mcdonalds.com/corporate/social/.

"This report reflects the unique, local nature of McDonald's restaurant business—restaurants mainly owned and operated by local men and women, who are involved in their communities, and give something back to them in different ways the world over," added Mr. Greenberg.

Examples contained in the report under the community category, include: McDonald's support of Ronald McDonald House Charities (RMHC) and its more than 200 Ronald McDonald Houses around the world that provide a "home away from home" for families with seriously ill children. Since 1984, RMHC and its global network of local chapters have provided more than \$300 million for children's programs.

Under the people category, McDonald's outlines its people principles, advanced training and development efforts, commitment to a diverse workforce and aspirations to be the best employer in each community around the world. The report also highlights ongoing global environment and marketplace initiatives:

the center for environmental leadership in business sustainable agriculture

McDonald's has embarked on a new partnership with the Center for Environmental Leadership in Business, a division of Conservation International, to implement sustainable agriculture and conservation practices and standards within McDonald's global food supply network. This new partnership with the Center for Environmental Leadership in Business reflects McDonald's vision to enter a new phase of environmental work.

"We are enthusiastic about this new partnership and the opportunity to work with McDonald's to develop purchasing preferences with conservation in mind. We envision our collaboration producing sustainable agricultural guidelines and projects that have a far-reaching impact," said Glenn Prickett, Executive Director of the Center for Environmental Leadership in Business.

environmental defense

McDonald's Passes \$4 Billion Mark for Recycled Products; Reducing Fluoroquinolone Antibiotic Use Since first partnering with the Environmental Defense in 1989, McDonald's USA has made significant packaging changes. Most of these changes have been adopted globally and eventually adopted by the quick service industry as a whole.

"McDonald's Social Responsibility Report chronicles a strong record of environmental leadership," said Fred Krupp, Executive Director of Environmental Defense. "Since our breakthrough partnership with them to replace the foam clamshell and reduce solid waste in the early 1990s, I have seen McDonald's continuously innovate and challenge itself, from packaging changes and energy conservation investments to their current efforts to reduce the use of animal antibiotics. " Since 1990, McDonald's has now purchased more than \$4 billion worth of products made from recycled materials. On a global basis, McDonald's has reduced packaging by 200,000 tons by redesigning items including straws, napkins, cups, fry cartons, and other packaging items.

Most recently, Environmental Defense and McDonald's worked together to study the effects of animal antibiotics. One of the outcomes of this work is that McDonald's USA asked its poultry suppliers a year ago to discontinue the use of fluoroquinolones - an antibiotic, therapeutic medication for chickens.

"Our work with McDonald's and our Alliance for Environmental Innovation clearly shows the value of companies leaving their preconceptions at the doorstep, and embracing environmental management as a core business strategy. Our partnership with McDonald's has been a template for others seeking to make a difference within their industries," said Mr. Krupp.

the natural step

McDonald's adopts sustainability strategy

McDonald's newest partner, The Natural Step (TNS), is helping McDonald's incorporate into its business what TNS describes as "the minimum system conditions" required for society to operate in balance with the rest of nature. "McDonald's is demonstrating leadership by beginning to build sustainability into its strategy and operations. Management at McDonald's understands that this is a long journey. They are taking the first step by identifying their environmental and social impacts and building an integrated strategy to move forward. This is not only smart business leadership, it is responsible corporate citizenship," said Catherine Gray, Executive Director, The Natural Step.

“Results cannot be expected to happen overnight. What McDonald’s has embarked on is a long-term vision and strategy for moving its company and supply chain toward sustainability. If it can achieve this vision and move toward sustainability, it will have a profound positive impact on business, people, and the planet far into the future.”

business for social responsibility

Global Template for Continuous Social Responsibility Growth & Improvement Non-governmental organization Business for Social Responsibility (BSR) began working with McDonald’s in 2000 to assist the company in creating an internal process to examine strengths, areas for improvement, and future opportunities. McDonald’s commissioned this internal social responsibility assessment to formalize a process and establish benchmarks against which it could begin enhancing its social responsibility performance. “Every large company faces significant challenges in addressing the demanding requirements of our global society. Recently, transparency and accountability have become widely recognized as essential aspects of responsible business practices,” said Robert H. Dunn, Chief Executive Officer of Business for Social Responsibility (BSR). “McDonald’s Social Responsibility Report represents an important effort and commitment by the company to provide all of its stakeholders with useful information about issues McDonald’s is seeking to address. This kind of disclosure builds on the company’s best leadership traditions.”

animal welfare

Working with Independent Experts to Help Drive Improvements

Using guidelines established by a leading animal welfare expert, McDonald’s works with its suppliers to audit their processing facilities to ensure the humane treatment of farm animals. In the U.S., McDonald’s introduced guidelines for the improved treatment of egg-laying hens. Building upon this work, McDonald’s formed the restaurant industry’s first independent board of academic, industry and animal protection experts, the McDonald’s Animal Welfare Council, to advise the company on issues regarding the welfare of farm animals.

There are many other examples of McDonald’s partnership with leaders in this field, notably in the United Kingdom where McDonald’s is supporting future of farming and animal welfare projects in partnership with Oxford University and the Royal Society for the Prevention of Cruelty to Animals. “McDonald’s has ushered in a new era of responsibility and accountability for animal welfare. They have helped encourage collaboration and cooperation among industry, non-government organizations, academia, and other stakeholders so that we can work together to make a difference.” said Dr. Joy Mench, University of California at Davis, Department of Animal Science, and a member of McDonald’s Animal Welfare Council. “I am impressed by McDonald’s efforts to develop animal welfare standards for processing plants, and I am encouraged by the dialogue and actions taken to establish guidelines. For example, I have seen the tangible results of the new laying hen guidelines, and they have greatly improved the living conditions of hens.”

food safety

International Scientific Advisory Council; Leading Scientists Help Advance Safest Practices

In 2001, McDonald’s established the International Scientific Advisory Council, a panel of leading scientists and medical experts, to advise McDonald’s on Bovine Spongiform Encephalopathy (BSE). Members of this council review industry practices and McDonald’s system initiatives in BSE prevention. With this council, McDonald’s is strengthening its beef safety program. Independent validation of its food safety programs is key to ensuring the trust and confidence of McDonald’s consumers.

“To my mind, McDonald’s has truly set a new standard for customer trust in their objective and thorough consideration of the critical issues of supply and validation,” stated Dr. Neil Cashman, University of Toronto, Center for Research in Neurodegenerative Diseases. “As a member of McDonald’s International Scientific Advisory Council, I have been continuously impressed with the corporation’s high degree of professional responsibility and deep commitment to food safety. As a physician and scientist, it has been gratifying to see McDonald’s aggressive pursuit of current research and expertise to address important issues like BSE.”

Greenberg Acknowledgements

“The advice, expertise and candid counsel of these NGO and scientific leaders and other third party experts has been absolutely invaluable to McDonald’s,” said Mr. Greenberg. “Their impact is not only seen throughout this report, but is reflected in our worldwide business practices and culture. “These leaders have educated us and helped McDonald’s turn understanding into action. There is still work to be done. We know we are not perfect. But McDonald’s around the world remains committed to making a difference, being more transparent and continuing to build on our heritage of giving back to the communities in which we do business.”

SOURCE McDonald’s Corporation

