

Remarks Before:

INTER-AMERICAN CONFERENCE ON CORPORATE SOCIAL RESPONSIBILITY: “CSR
as a tool for Competitiveness”

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I am delighted to have been invited to speak to you about Corporate Social Responsibility, or as we have come to refer to it, Corporate Citizenship. IBM is, of course, a US headquartered company but we have a long and important history in Latin America. For example, we have been doing business in Brazil for 85 years, Argentina for 79, Mexico for 75, Chile for 73, Peru for 70 and Venezuela for 64. We conduct business in 20 countries in the region, have 62 locations, 180 business partners and over 60,000 customers.

Corporate citizenship describes a company's total dealings with the community, local, regional, national or global encompassing traditional corporate philanthropy but going far beyond it.

Corporate Citizenship resides at the very nexus between a company's business and community interests. While there are certainly inherent conflicts that need to be resolved, I firmly believe it is possible to resolve them satisfactorily and be successful as both an economic and social enterprise.

To be effective, it is vital that a company understand the community where its employees and customers reside and where it does its business. It is impossible to do this well without interacting comprehensively with your neighbor institutions, public, private, and voluntary through sustained civic activity. This can't be achieved through polls, grants or

studies but can only come through participation and engagement by the company, its employees and its leadership.

Private sector resources can both build and sustain communities. Their employment rolls and taxes can support community infrastructure, government and schools. Company employees participate as voters, parents and taxpayers. They can support the civic and community sector financially and can offer stewardship and participation. Through its labor practices and behavior, companies can contribute to the community work life and company practices can promote safer, cleaner and sounder environments and the ethical behavior that can sustain the health and vitality of a community.

While companies must meet their commitments to communities as full partners, communities must do the same. The manner by which a community or a company approaches issues such as regulation, taxation, energy costs, transportation and labor practices can impact the ability of a company or a community to succeed. Local schools, social welfare infrastructure, and the arts are vital to business success and contribute to business location decisions, expansion or contraction. Because of the interdependency of business and community, no one business nor any one sector can "go it alone". Collaboration and partnership is critical across sectors and essential for community stability and success.

Progressive companies see their social investments and policies as being intrinsically linked to the core values of the company. Here are some examples linked to diversity:

At IBM nearly \$2 billion in goods and services is purchased annually from woman and minority owned businesses, creating thousands of new jobs and economic activity in the community and strong economic ties to the company.

Fannie Mae, in the US, aims to boost home ownership rates for minorities and women by targeting over 50% of its financing for woman and minority led households.

General Mills helped to start Siyeza in Minneapolis, a frozen soul food processing company where four out of five company employees come from poor and low income neighborhoods.

Great companies-- real leaders--- have a set of core beliefs that define the corporate culture and a company's behavior and they are able to sustain those beliefs or values over time. It begins with the quality of a company's goods or services and the way it treats its employees and customers but goes beyond that to how it treats the broader community. It encompasses business ethics, environmental, fiscal and labor policy. Great companies have core values of integrity and trust. They have high aspirations for their products and services. They possess enduring values that set them apart. They consistently do some things better than anyone else. They deliver consistent value and

sustained financial performance. They are " long distance runners", they understand the needs of their customers, their investors and their employees and deliver value to them. But just as significant, they view communities as their full partners and they are committed to delivering value to them too.

Progressive leadership in global enterprise is needed today more than ever before, and it may fall to those who have exercised leadership in the past to do so again.

A half a century ago in the United States, IBM's then CEO Tom Watson released a policy letter explaining publicly IBM's policy of hiring new employees regardless of race, color or creed. Three years later Watson and IBM acted on that policy when he announced plans to build a manufacturing plant in Kentucky employing nearly 2,000 people. When it opened it was the first fully racially integrated manufacturing plant south of the Mason Dixon Line. His decision contributed to the advancement of race relations in the United States and a shift in American social policy. It was courageous sure, but ultimately it was good business.

IBM was one of the first companies to prepare an annual environmental impact report, diversity report, paid vacations, health insurance, sick leave, job sharing, domestic partner benefits and now telecommuting. As for CEO leadership, the last three National Education Summits in 1996, 1999 and 2001 were led by IBM's CEO just as forty years ago in 1962, our then CEO led the White House's Economic Summit.

IBM's citizenship efforts are also focused on sharing our technology innovations with communities just as we do with our customers. In corporate philanthropy, nearly 40% of our resources are targeted outside of the U.S. Through the Reinventing Education initiative launched at IBM in 1994, we develop cutting edge tools that directly improve student achievement. In Latin America we have major Reinventing Education sites in Brazil and in Mexico in addition to states and cities throughout the US and countries around the world. In Mexico we have partnered with local officials in the Integra project in partnership with Federal DIF in 32 states to bring important software and training solutions to aid services to people with disabilities. And last year, we ran EXCITE camps for young women in Brazil, Chile, Colombia, Peru and Mexico that served over 300 young girls with mentors, high quality science and math content and leadership training.

Overall, the global Reinventing Education program serves over 80,000 teachers and over 8 million children around the world. In places like Brazil and in Vietnam for example, teachers learn to develop and exchange the best lesson plans on line. In Brazil alone, over 2,000 teachers are actively engaged. In Houston, Texas non English speaking Latino students learn to read through use of special voice recognition applications.

Our KidSmart program has spread throughout Latin America with a proliferation of sites across 9 Latin American countries including Argentina, Colombia, Peru, Mexico, Brazil and Chile. KidSmart features the donation of specially designed early childhood computers, Spanish language parent and teacher training and support and no surprise.....solid evaluation results. In the region, we have installed over a thousand pre

school learning centers, trained over 2,400 teachers and served over 30,000 children ages 3-7 years.

Across Latin America we have donated the TryScience program. Tryscience.org, with the treasures and resources of the best science and technology museums across Latin America and around the world, is now available on line.

We have also developed an on line Change Management Tool Kit with Harvard Business School's Rosabeth Moss Kanter and donated it for free to school systems around the United States and will shortly do the same across Latin America. In fact, a Mexican school system in Hidalgo is currently using these tools after participation in the Harvard Business School program for school leaders jointly designed with IBM.

And, this year we will have added to this expansive set of programs Traducelo Ahora software that translates easily.. on the fly web sites from English to Spanish, and a new adult literacy software called Reading Partner and tools for IBM electronic mentors to use such as MentorPlace as they mentor students in the region and around the world.

On the policy front along with CEAL and other both national and international companies, IBM helped to organize the 2001 Basic Education Summit in Latin America which was chaired by our then head of IBM in Latin America, Donn Atkins and Nicanor Restrepo of Suramericana. Donn and Nicanor along with Enrique Madero of CEAL in Mexico helped to convene a group of global companies like AT&T, Citibank, Discovery,

MasterCard and national companies like Suramericana, and others to concentrate on an agenda of sharing of best practices, improving teacher training and instituting higher standards designed to drive improvement in student learning. Follow up activities will be based at the University of Miami.

These wide ranging programs are designed to help close the digital divide, improve communities and of course to improve the social and business climate. While communities get better schools and community infrastructure, IBM gets benefits too. Schools are of top interest to our employees and our customers. Improved education is of interest to our partners in government at all levels. And there are even more direct benefits.

IBM's programs such as the ones I have described, have led directly to over 25 new patents, a half a dozen new products and a host of new services. Some are in use in education, others in different fields. When IBM digitally restored Michaelangelo's Pieta and offered it to communities around the world, it also developed new telemedicine applications from the patents and technical work that was done. Beta testing of technology in efforts to benefit communities, helps us to build better products. It helps us to train our consultants, improves our researchers and build employee morale.

A Fleischmann and Hillard study found that 87% of employees surveyed felt a greater sense of dedication to a socially involved employer and Turban and Greening found a direct correlation between a firm's social responsibility and its attractiveness as an employer to new employees.

In the US last year, 25% of all the free publicity and media coverage about IBM was about our corporate community relations work and its ability to positively influence our media and government officials and has been palpable. Because of IBM's leadership in the social responsibility arena, we were voted number one by *Business Ethics Magazine* twice in the last four years, and it has made IBM an increasingly attractive stock for managed funds that restrict stock purchases to socially responsible firms. Keep in mind over 16 trillion in assets are controlled by such funds.

Recent research has demonstrated that a large and growing percentage of a company's market value is comprised of so called intangible assets: reputation, brand equity, strategic positioning, alliances and knowledge. Interbrand says that 25% of the world's total financial wealth is tied up in these intangible assets. According to Financial Times, the reputation capital of IBM is worth nearly \$55 billion. What percentage of that wealth and value emanates from our corporate citizenship ...Is it 10%? If so, that would place its value in excess of \$5 billion. Generally, companies value things that are so financially valuable.

So, strategic efforts at citizenship pay off in brand value, in research, in publicity, in stock purchases, in employee morale, in opportunity and business advantage. They shape public attitudes of customers and prospective customers and are good for business.

At IBM and for our current CEO, Sam Palmisano, the past is definitely prologue to the future. Building on the tradition of IBM's exemplary citizenship, next month he will launch the IBM On Demand Community in an effort to use On Demand Computing to fuel a next generation of community relations. On an internal Internet site designed to appeal to our over 300,000 employee worldwide, employees will find a host of tools designed to improve schools and community organizations, using web lectures, on line tutorial's and best practices. IBMers, at first 25,000 but then thousands and thousands more will offer these tools for free to communities around the world. No other company has ever attempted something on such a wide scale but we believe that IBM communities are as vital to our success as are customers, employees and shareholders. A company cannot be successful unless the community is too and we have a shared responsibility to ensure our mutual well being. Thank you for your time.