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Event Recap: Berkeley Sustainable Business & Investment Forum (Part I)

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On November 10 & 11, 2015 the University of California, Berkeley School of Law and Berkeley Haas School of Business jointly hosted the inaugural Berkeley Sustainable Business & Investment Forum at the University Club on campus. Key players from across all industries and academia attended the two-day event to share perspectives and insight on evolving topics of risk management, capital investment, and sustainable business practices with a focus on long term growth and value creation for all stakeholders.

The event was co-sponsored by PepsiCo, Visa, and PriceWaterhouseCoopers ("PWC"). The forum focused on the advancement of risk management, capital allocation, and sustainable business practices, with an emphasis on long-term value-creation

This is part one of a three-part series dedicated to coverage of the event.

Framework for Bold Industrial Change: Social Sustainability
Brian Kzranich, CEO of Intel

Companies are continuously faced with a dilemma: they are either disrupting or being disrupted. The discussion of sustainability is a major form of disruption that has become increasingly important for companies and investors in the 21st Century. Sustainability is not limited to only environmental considerations. Social and economic factors lie at the heart of sustainable practices, and should be given equal weight to that effect. Intel's efforts towards producing "conflict free" products and creating a global working environment of diversity and inclusion have demonstrated its commitment towards being a disruptor instead of being disrupted.

Becoming "Conflict Free" & Corporate Responsibility

In the Democratic Republic of Congo ("DRC"), key minerals including tin, tantalum, tungsten, and gold, sit on top of the earth and can be mined with minimal effort. However, the DRC has been in the midst of a civil war where such minerals have been used to fuel the conflict and commit numerous human rights violations. Warlords enslave men, women, and children to collect these minerals from the surface of the earth. Armed groups receive approximately 75% of their revenue by sending these minerals to smelters, who later distribute the minerals to a variety of companies, including companies in the electronics industry. As a result, these industries are funding the war efforts without even knowing of the precise source of the minerals they receive.

The conflict minerals issue is very complex. The difficulty lies in identifying the source of such minerals throughout a large and complex supply chain. Once the minerals are collected, they are transported and traded to smelters and refineries in countries such as China, Mongolia, and Indonesia. They are then mixed-in with tons of ore collected from all over the world. This makes it next-to-impossible to trace the origins of any particular shipment of refined ore.

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In 2008, the non-profit group Enough Project, wrote to Intel regarding the problems associated with using "conflict minerals" in producing its products. Once aware of the issue, Intel took immediate action to ensure that its products were not funding such atrocities. At Intel's sales conference, Kzranich proclaimed, without hesitation or prior announcement, that Intel was going to end all use of conflict minerals in everything made by the company within two years. The assertion was immediately met with hesitation, skepticism, and many declared that it could not be done. However, by publicly announcing such a bold move, Kzranich believed that Intel gained the motivation it needed to quickly and effectively change the situation. Now that it was publicly stated, Intel could not go back on its word. The only option at this point was to move forward and successfully meet the stated goal in order to maintain the company's integrity.

However, finding a solution was not a simple task. Approximately 35% of the DRC mineral profits are derived from armed groups. The remaining 65% comes from other mining sources that do not use forced labor to extract the minerals. Consequently, to cease purchasing minerals from the DRC altogether would devastate the region—including those who Intel did not want to economically hurt. As a result, Intel set out on a project to trace the origins of the minerals used to create its microprocessors—the very task skeptics claimed was impossible.

Intel created a team that was tasked with dissecting the different levels of the supply chain. It partnered with the Enough Project, the Electronic Industry Citizenship Coalition ("EICC"), the tantalum industry, and the Global e-Sustainability Initiative ("GeSI") to trace and pinpoint the origins of the minerals used in producing shipments of processed ore used by Intel for its products. These efforts resulted in the creation of the Conflict Free Sourcing Initiative ("CFSI").

By dissecting the supply chain, Intel and the CFSI created a system where the smelters would audit the minerals by creating a "bag and tag" protocol by which conflict-free minerals are tagged immediately after being mined and are thus traceable back to their source. The group also created a Conflict Minerals Reporting Template which assisted in creating a consolidated reporting system.

To date, around 300 companies from an array of different industries have joined the CFSI's efforts. At Intel's 2014 CES address, it announced that every intel microprocessor manufactured in 2014 on will be 100% conflict free. At the January, 2016 CES, Intel hopes to announce that everything made by intel is 100% conflict free. The goal is to send a message to every other company that they can no longer claim that it cannot be done—Intel just did it.

Achieving Global Diversity and Inclusion

For over 10 years, Intel has been working towards a system of diversity and inclusion amongst its employees. Twice a year, Intel publishes its diversity statement which reflects its efforts towards achieving that goal.

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In an effort to further its efforts, Intel began to conduct more research. It found that 65% of all consumer electronics are purchased by women, and that women influence 89% of all consumer electronic purchases. However, only 28% of the tech-industry workforce is comprised of women.

When considering Hispanics, the numbers are even worse—approximately 6% of the tech-industry workforce in the tech industry, yet these individuals comprise more than 25% of the population. Additionally, Intel's research found that firms that hire a diverse team have approximately fifteen times more sales and have seen a 57% increase in performance. The firms that have more females generate about $44 million more in annual revenue.

In December 2014, a small team of Intel representatives decided to take the same approach used for conflict minerals and find a solution for Intel's diversity and inclusion initiatives. During the keynote at address at the Consumer Electronics Show, Intel once again publicly announced its pursuit of a seemingly impossible goal. Without hesitation or prior announcement, Intel stated that it would achieve full representation by 2020, comprising of all the underrepresented groups, at all levels of the organization. Furthermore, Intel pledged $300 million to fund the hiring and retention of women and underrepresented minorities; the largest investment by a technology company to improve diversity to-date.

Since its announcement, Intel has doubled its hiring rate of women and underrepresented minorities. By the close of 2015, approximately 43% of new hires at Intel will be women or underrepresented minorities; a significant increase from the previous 20%. Furthermore, Intel seeks to double its retention rate of these individuals in order to equal the retention rate of their counterparts, and to ensure that they are adequately represented throughout all strata of the company. Additionally, Intel is striving to have a diverse recruiting team in order to combat the inherent bias that is often involved with recruiting. After all, as Kzranich stated, "like likes like," and people tend to gravitate towards people that are similar to them.

Above all, one of the most important steps taken by Intel is its mid-year and yearly reporting initiatives. By publicly reporting both its promise and the challenges it has faced, Intel strives to promote change throughout the industry, so that other organizations cannot, as is typical, claim that "it cannot be done." Once again, Intel is disrupting industry-wide practices by promoting diversity and inclusion.

Solving Social Problems and Good Corporate Governance

Kzranich delineated a four-step process (rooted in Moore's law) to solve social problems and set guidelines for good corporate governance:

Step 1: Transparency: make a bold, public, and systemic commitment; share your data.

By publicizing its commitment towards conflict-free minerals and diversity, Intel effectively motivated its team and others throughout the industry to shift their mindset from "it cannot be

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done" to a focus on how it should be done. Intel was no longer in a position where it could pass off the issues it was confronted with because it was now forced to hold itself to its promise. By sharing its data, research, and negative know-how its findings can be utilized by others so that change will be easier to implement on an industry-wide level.

Step 2: Maintain an Engineering Mindset: break the problem down to its core issues and solve each incrementally.

A large and complex problem cannot be solved at once. Issues must be broken down in order for them to be tackled efficiently. By separating the problems, companies can progressively work towards a complete and final solution. For conflict minerals, Intel started by dissecting the supply chain, and targeting each smelter and pushing them to audit their mineral imports. In doing so, they created a system, which can be used in an array of industries to prevent the financing of conflicts. For diversity, Intel focused on understanding the problems with people being hired by intel (i.e. how the pipe enters the factory), and why the retention rates for diverse individuals were so low (i.e. why the pipe leaks once it enters). It further divided the issues to pinpoint why these individuals are not progressing, and why people are leaving. By dividing each question, the answer becomes more and more apparent.

Step 3: Drive Accountability: put individuals in charge of these programs; give them a direct pipeline to you.

Companies must put people who have a passion and commitment for the issues in charge of leading the programs. Individuals who are passionate are willing to change the way things are done, will refuse to be constrained by industry-wide norms, and will re-write the rules. By giving these individuals a direct pipe-line to you, the company's efforts will be realized quickly and its goals will be effectively communicated as each stage progresses.

Step 4: Enroll Fellow Travelers and Empower Fellow Leaders: recruit others to consolidate efforts and broaden the scope and veracity of change

Some problems are too large to be solved alone. By recruiting others in the industry you can consolidate efforts and effectuate a larger scope of social change. Sometimes people will join forces very quickly. However, other times it will be much more difficult. If you exert the effort and time to teach others about that which they are ignorant, you may gain important allies in your efforts. With conflict minerals, Intel worked with Enough Project, the EICC, GeSI, and the tantalum industry among many others, which resulted in an entire system geared towards preventing the purchase of conflict minerals. For its diversity initiatives, Intel works with various schools, other tech companies, and the press to drive the recruitment of its targeted demographic.