

MEMO

To: William Linton

From

Date: July 10, 2003

Re: Aligning Sustainability Initiatives with Corporate Strategy

Executive Summary

Promega Corporation has made significant contributions to the advancement of science and the betterment of the world community since our inception. This has been achieved through a progressive and unwavering commitment to satisfy the financial, environmental and social needs of our stakeholders. Despite this commitment, the social and environmental efforts remain isolated from the core business, as is evidenced by their exclusion from our published strategic initiatives.

The purpose of this document is to propose that our corporate strategy consider the social and environmental contributions we make for their synergistic value, as opposed to managing them as a supplement to our core business. In other words, to advance Promega Corporation into a sustainable organization.

Integration of our social and environmental efforts into our corporate strategy will align Promega in realizing our stated mission; “To be the most innovative source of biological reagents and reagent systems used in research and applied technology applications worldwide”.¹ To this end, I propose the following sustainability recommendations to address our business critical needs:

- Transition our code of conduct to a code of ethics, improving our ability to attract, retain, and motivate our workforce.
- Identify, measure and disclose our sustainability efforts to improve our operational efficiency.
- Consider the environmental issues concerning our customers in an effort to develop new product and improve our ability to innovate.
- Improve the allocation of socio-economic funding to enhance our brand value and reputation.

¹ www.gateway.promega.com/hr/handbook/NewHandbk/Introduction.htm

Transition our code of conduct to a code of ethics, improving our ability to attract, retain, and motivate our workforce.

Intellectual capital within the biotechnology sector is the life-blood of all companies. It is no secret that the lead scientists in their fields are in high demand. With many companies racing toward the same R&D goals, it is vital that we attract, retain and motivate our most valuable contributors, our people.

The existing code of conduct represents senior managements desire to protect the assets of the company. It is effective in discouraging employees from using company property for personal use or divulging our trade secrets. However, it is ineffective in guiding employees' decision making so that it is in line with corporate objectives. As a result, though our employees may have a sense of the ethical values of the corporation through our external contributions to society, it is unclear how those values translate into the day-to-day operations of the business.

Research shows that employees who believe they work in an ethical environment are six times more likely to be loyal than workers who believe their organization is unethical.²

To achieve the desired level of loyalty and motivation, the following steps should be taken to transition our code of conduct to a code of ethics.

- **A code of ethics should be drafted which guides employees in applying our value system internally.**

This includes direction as how to handle conflicts with other employees and management, as well as establish opportunities for anonymous reporting. In addition, this should provide guidance on making the best choice from many unsettling options, such as short term vs. long term focus, organization vs. community, and expediency vs. effectiveness.³

- **Employees need to feel and sense of ownership in expressing the values of the organization and therefore should be included in developing the code of ethics.**

An article in the Journal of Business Ethics implies that, if employees have not been involved in creating and interpreting the code, its capacity for coordinating, motivating and advising will be severely limited.⁴

- **The code of ethics needs to be communicated to all existing employees as well as be incorporated into the mandatory training curriculum of all new hires.**

² Smith, Curt. **The ethical workplace.** Association Management, June 2000.

³ Ibid.

⁴ Pruzan, Peter. **From control to value-based management and accountability.** Journal of Business Ethics, October 1998.

Identify, measure and disclose our sustainability efforts to improve our operational efficiency.

Operational efficiency is a critical component of Promega’s ability to generate sustainable income as some life science products begin to become commoditized.

As noted earlier, Promega’s social and environmental efforts have traditionally been a supplement to our core business. In integrating these efforts, the effects of their contribution to the core business will become transparent, allowing Promega to identify and measure those activities that can add financial value to the corporation.

There is strong evidence that accountability and transparency have a moderate positive impact on operational efficiency.⁵ If it can be measured, it can be managed, and it is the ability to manage that will result in greater operational efficiencies. Baxter represents an ideal model. They attribute much of their success in achieving \$2.5MM in packaging reduction savings to improved reporting.⁶ Similarly, they have developed metrics to measure social impact, such as workers compensation costs, philanthropic giving, and lost workdays.

Tying these efforts to financial value can represent a challenge in that it can be difficult to quantify intangible benefits. The Sustainability Value Screen identifies four key drivers that can aid in categorizing, and then measuring how to realize operational efficiency. Sustainability initiatives should create value in one or more of the following areas: Margin Improvement, Risk Reduction, Growth Enhancement and/or Capital Efficiency.⁷

The following action items will serve to improve operational efficiency at Promega.

- **Identification of environmental/social cost drivers and assignment to the appropriate value pool as defined by the Sustainability Value Screen.**

Examples:

Cost Driver	Measure	Sustainable Value
Water Consumption	Gallons Used	Margin Improvement
Hazardous Waste	Liters Disposed	Risk Reduction/Margin Improvement
Employee Turnover	Redundant Training Days	Risk Reduction/Growth Enhancement

- **Establish systems to collect and aggregate these costs across the company.**

⁵ www.sustainability.com/business-case

⁶ www.baxter.com/sustainability/01pdf/socialsustainability.pdf - 2001 Sustainability Report

⁷ Gilding, P. Hogarth, M. Reed D. **Single bottom line sustainability: How a value centered approach to corporate sustainability can pay off for shareholders and society.** Ecos Corporation, August 2002.

- **Incorporate social and environmental goals in the form of targeted achievement levels, into the published corporate strategic initiatives.**
- **Report financial, social and environmental performance to stakeholders in the form of a sustainability report.**

Though Promega is a private firm, the public accounting of our sustainable performance is necessary. Not only as a responsibility to stakeholders, but because this serves to further improve operational efficiency. For example, our role in the community, via sole corporate sponsorship of the BioPharmaceutical Technology Center, and the Woods Hollow Childrens Center or the hosting of Bioethics forums,⁸ cycles back as benefits to the Company. These impact our ability to attract employees and enter into partnerships, which drive our operational performance, which then impacts our sustainability as an organization.

Consider the environmental issues concerning our customers in an effort to develop new product and improve our ability to innovate.

The biotechnology industry requires consistent innovation as is evidenced by the R&D expense level of approximately 11% of revenues across our closest peers.⁹ Nevertheless, the pace of innovation results in rapid obsolescence of technology. Where technology remains active, new entrants to the market surface, commoditizing the product and shifting the focus to producing faster and cheaper. As a result, product differentiation and diversification are imperative to our continued success. Sustainability.com provides direction by reporting that there is strong support for the link between superior environmental characteristics in product portfolios and general ability to innovate.¹⁰

By nature our products serve to improve the environment and society as a whole. However, we can improve further by gaining a better understanding of our customers' research needs and the environments in which they operate. In an interview with a Promega Genomics Product Manager, this occurs now as a byproduct of innovation, but does not drive innovation.¹¹ A current example lies in our Automated Poly(A)+ mRNA Isolation Product, which magnetically isolates RNA for direct purification. While developed to allow for high throughput and flexibility, the byproduct is that researchers can forgo ethanol precipitations, phenol extractions, and cesium chloride, which is carcinogenic.¹²

By considering not only what our customers use our products for, but in the environment in which they use the product, we can open the door to a new niche of innovative

⁸ www.promega.com

⁹ Promega Corporate Metrics

¹⁰ www.sustainability.com/business-case

¹¹ Interview: Tom Strader, Genomics Product Manager

¹² Kephart, D. Promega Notes, 2003.

development, which can sustain our new product pipeline, as well as our long-term earning power.

The specific activities required are as follows:

- **Work with customers to identify the risk exposure inherent in their research, beyond their use of existing Promega product.**
- **Share this knowledge across the distinct Promega R&D platforms (Genomics, Proteomics, Cellular Analysis, Diagnostics, Genetic Analysis) to maximize the development of new product.**

Improve the allocation of socio-economic funding to enhance our brand value and reputation.

Promega's operations have expanded rapidly in scope in the last decade. What began as centralized operations based in Madison, Wisconsin has grown into a global organization with branch offices in nine countries around the world. While our efforts in supporting our local community are second to none, our contributions within our branch communities are inconsistent with their financial contribution to our company.

In particular, nearly 50% of our revenues are generated outside the United States, the majority within our seven European branches.¹³ It is important to recognize the value that other communities place on social initiatives. Marketplace considerations and cultural roots have a very real influence on corporate priorities related to sustainability.¹⁴ Europe-based multinationals, our stakeholders, place a major focus on the financial and social impact of their products and services.¹⁵ It therefore, makes sense that they are likely to discriminate in their purchase intentions by expressing loyalty to those firms that have high brand value and reputation. Further, they will interpret the level of brand value and reputation to some degree based on the level of socio-economic development we support. Genuine community initiatives have been well documented to boost a company's reputation.¹⁶

Promega has realized this benefit in the U.S. and now must execute the following:

- **Assess the specific socio-economic needs of the communities in which we have branches.**
- **Reallocate our funding to ensure we contribute to the needs defined above.**

¹³ Promega Sales Analysis System

¹⁴ European and U.S. multinationals place different emphases on corporate sustainability. IMA Online Newsletter, Issue No. 15, June 2003.

¹⁵ Ibid.

¹⁶ www.sustainability.com/business-case

Conclusion

A sustainable organization requires an appropriate balance among the financial, social, and environmental activities of the business. Promega is progressive and genuine in its commitment to all three initiatives. Improvement at a high level first demands that we not view these as separate activities, but rather as integrated activities, in which the success of each, depends on the success of the others. We can improve our position on the sustainability continuum by adopting a code of ethics, measuring and reporting our performance, modifying our environmental product focus and aiding each community that contributes to our success. The respective benefits of these action items are improvement in our: ability to attract, retain and motivate employees, operational efficiency, innovation, and brand value/reputation.