CQ Researcher

Published by CQ Press, a division of Congressional Quarterly Inc.

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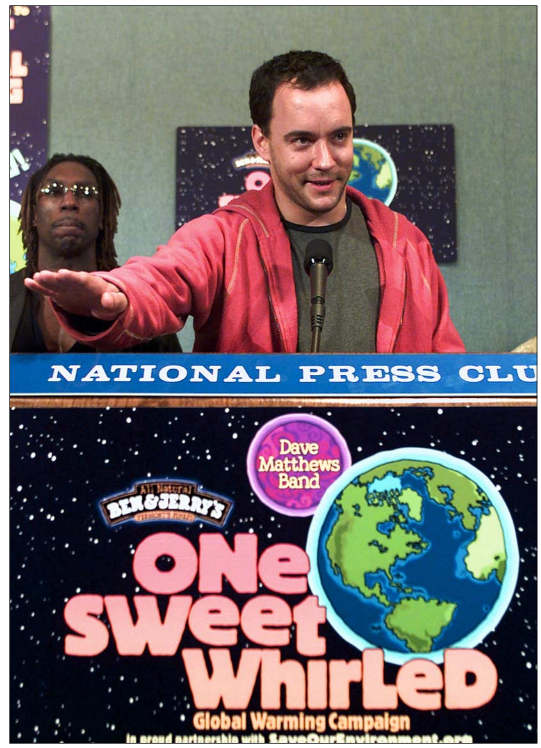
Corporate Social Responsibility

Is good citizenship good for the bottom line?

Corporations across the country are embracing efforts to improve society. Unlike traditional efforts by businesses to appear socially responsible, the current movement emphasizes profit and long-term company success along with good works. Firms such as Whole Foods and Nike strive to make good citizenship a recognized part of their brand. General Electric, Coca-Cola and other more traditional corporations also support corporate social responsibility (CSR), motivated by advocacy group pressures, threatened government regulations and demands from employees, customers and investors. Some conservatives oppose CSR activities, arguing a company's only legitimate purpose is to enhance shareholder value. Some critics from the left label CSR a public relations ploy and say the government should expand corporations' legal responsibility to employees, the public and the environment.



Dave Matthews, with violinist Boyd Tinsley, announces his band is joining ice cream maker Ben & Jerry's and SaveOurEnvironment.org in urging Americans to fight global warming by reducing their carbon dioxide emissions.

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CQ Researcher • Aug. 3, 2007 • www.cqresearcher.com
Volume 17, Number 28 • Pages 649-672

CQ Press
Recipient of Society of Professional Journalists Award for Excellence ◆ American Bar Association Silver Gavel Award

Cover: AP Photo/J. Scott Applewhite

CQ Researcher

Aug. 3, 2007
Volume 17, Number 28

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CQ Researcher (ISSN 1056-2036) is printed on acid-free paper. Published weekly, except; (March wk. 4) (June wk. 4) (July wk. 1) (Aug. wk. 2) (Aug. wk. 3) (Nov. wk. 4) (Dec. wk. 3) and (Dec. wk. 4), by CQ Press, a division of Congressional Quarterly Inc. Annual full-service subscriptions for institutions start at $667. For pricing, call 1-800-834-9020, ext. 1906. To purchase a *CQ Researcher* report in print or electronic format (PDF), visit www.cqpress.com or call 866-427-7737. Single reports start at $15. Bulk purchase discounts and electronic-rights licensing are also available. Periodicals postage paid at Washington, D.C., and additional mailing offices. POSTMASTER: Send address changes to *CQ Researcher*, 1255 22nd St., N.W., Suite 400, Washington, DC 20037.

Corporate Social Responsibility

BY TOM PRICE

THE ISSUES

Scenes from a rapidly growing corporate trend in the U.S.:

- In Washington, D.C., the chief executives of 10 major U.S. corporations — including Alcoa, DuPont and General Electric — gather at the National Press Club to urge the federal government to require companies to reduce their emissions of greenhouse gases. "The science of global warming is clear," Duke Energy's James Rogers tells reporters at the executives' Jan. 22 news conference. "We know enough to act now. We must act now." [1]
- Across the country in Beaverton, Ore., Nike releases an audit that details ways its Third World suppliers mistreat their factory workers and pledges to improve working conditions. "Our greatest responsibility as a global company is to play a role in bringing about positive systemic change for workers within our own supply chain, and in the industry overall," the sports apparel company declares. [2]
- In New York, The Conference Board, a mainstay of the global business establishment, creates the Center for Corporate Citizenship and Sustainability. *Fortune* magazine adds a companion to its well-known list of the world's 500 largest corporations: a ranking of companies by "how well they conform to socially responsible business practices." And the company behind the most famous measure of economic performance — the Dow Jones Industrial Average — creates the Dow Jones Sustainability Indexes, to track the financial performance of companies that practice social and environmental responsibility.

Courtesy Coca-Cola

Coca-Cola representatives and villagers in rural Kenya celebrate the soft-drink company's installation of a new well. Traditional U.S. corporations like Coke and General Electric are becoming environmental and social activists in response to advocacy group and consumer pressure and possible government regulations. Corporations say activism builds profits, but critics say it's a public relations ploy of limited value and not in shareholders' best interests.

Corporate social responsibility (CSR) — along with such variants as corporate citizenship and sustainability — is the new business mantra.

Adam Smith and Milton Friedman must be spinning in their graves.

Self-interest, not good intentions, creates the "wealth of nations," argued Smith, the great Scottish philosopher of the free market.

"It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner," he wrote in 1776, "but from their regard to their own self-interest. [3] By pursuing his own interest [an individual] frequently promotes that of the society more effectually than when he really intends to promote it." [4]

Friedman, a Noble Prize-winning economist and Smith's modern American successor, specifically rejected the notion of corporate social responsibility in a still widely quoted 1970 *New York Times Magazine* piece titled "The Social Responsibility of Business is to Increase its Profits." [5]

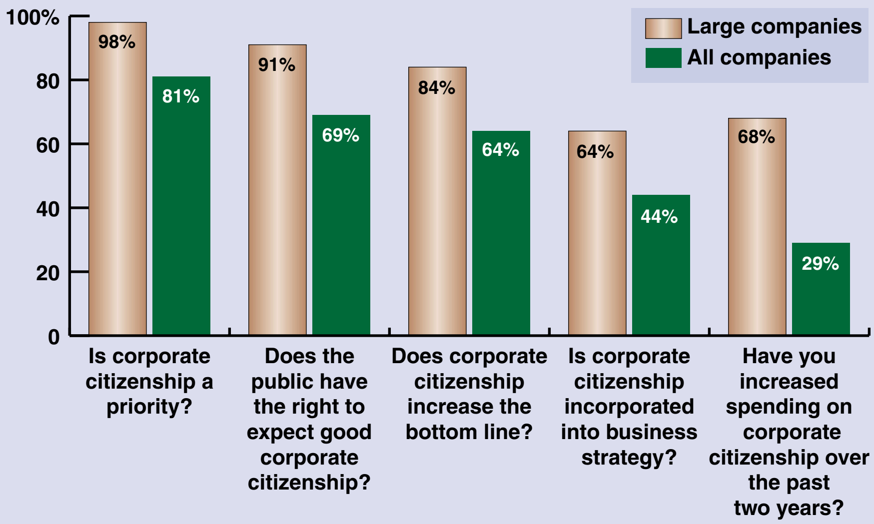
Conservative scholars and political activists frequently cite Smith and Friedman today. But it's nearly impossible to find a senior corporate executive who doesn't extol his company's commitment to being socially responsible.

"I'm a businessman and a free market libertarian, but I believe that the enlightened corporation should try to create value for all of its constituencies," said John Mackey, founder and CEO of Whole Foods Market. "At Whole Foods, we measure our success by how much value we can create for all six of our most important stakeholders: customers, team members [employees], investors, vendors, communities and the environment." [6]

From the time Mackey and his girlfriend opened a small natural-foods store in Austin, Texas, in 1978, his business has been about more than profit. But the heads of more traditional corporations also speak Mackey's language.

Strong Support for Corporate Citizenship

In a 2005 survey of 1,189 U.S. businesses, 98 percent of large companies — and 81 percent of all companies — said corporate citizenship is a priority. Moreover, 84 percent of large companies report that being socially responsible has increased profits.



Source: Barbara Dyer, et al.*, "The State of Corporate Citizenship in the U.S.," Boston College Center for Corporate Citizenship, 2005*

"The Coca-Cola Company must be both a great business and a great corporate citizen," Coke Chairman and CEO E. Neville Isdell said. [7] General Electric "must be a great company with the capability, reach and resources to make a difference," GE chief Jeffrey R. Immelt said. "But we must also be a good company, because true impact means defining success in ways that go well beyond the bottom line." [8]

Such comments led Gib Hedstrom, The Conference Board's conference program director, to declare that "the debate is over. Leading companies are making a business out of solving the world's toughest problems. Citizenship is establishing itself as the requisite mindset for doing business in the 21st century." [9]

Corporate philanthropy is nothing new. Companies have been donating to charities, establishing philanthropic foundations and implementing community improvement projects since at least the 19th century. What's different is the way an overwhelming number of executives are accepting a *core corporate duty* to the welfare of "stakeholders" beyond those who own company stock — and also the way they are integrating that concept into their companies' day-to-day operations as a business opportunity. Their goal is to devise business strategies that improve society, protect the environment and increase profits over the long term — the so-called triple bottom line of "people, planet, profit."

A 2005 survey of 1,189 U.S. businesses by the Boston College Center for Corporate Citizenship and the U.S. Chamber of Commerce found that virtually all (98 percent) large companies make corporate citizenship a priority. When smaller companies are added, the figure drops to 81 percent. And two-thirds of large businesses (44 percent overall) incorporate citizenship into their business strategy. [10] *(See graph, at left.)*

The strong commitment reflects factors such as advocacy group pressures, fear of (or efforts to shape) government regulations, recruitment and retention of top-notch employees and efforts to make their companies more attractive to investors and customers.

For instance, after being attacked for buying products from Third World sweatshops, Nike began to publish its supply-chain information — and to engage in other good-citizen activities. Pushed by the Rainforest Action Network, Citicorp, JPMorgan Chase and Goldman Sachs agreed to consider the environmental consequences of their loans and investments.

The Environmental Defense advocacy group has served as a consultant to FedEx, Wal-Mart, DuPont and other corporations trying to improve their environmental records.

Concluding that government regulation of greenhouse gas emissions is inevitable, 30 major corporations formed the United States Climate Action Partnership to campaign for rules that are "environmentally effective, economically sustainable and fair." [11]

Because an African-American employees association at General Electric cared deeply about poverty and disease in Africa, GE applied its business capabilities to help build health facilities there. [12] Needing a highly skilled workforce, Intel spends more than $100 million a year to improve science and mathematics education in more than 50 countries. [13] And because its workers demand quality schools for their children, Intel works to improve the school districts around its facilities, says Intel Corporate Government Affairs Director Richard Hall.

Corporate good citizenship has long been a key marketing component for companies such as Whole Foods and Ben & Jerry's ice cream. Now companies such as GE and even

Wal-Mart are advertising their efforts to improve society.

In addition to hoping the strategy will lure shoppers into their stores, the companies want to increase their share of the nearly $2.3 trillion invested by socially conscious stockholders in the United States. (*See graph, p. 656.*) Those investments — which represent one-tenth of all professionally managed investments — grew slightly faster than all professionally managed assets between 1995 through 2005, according to the Social Investment Forum, the trade association for socially responsible investment firms. [14] (*See graph, p. 653.*)

Businesses also are finding that social responsibility can cut costs. FedEx's new fuel-efficient hybrid trucks reduce fuel expenses by more than a third while shrinking smog-causing emissions by two-thirds and nearly eliminating particulate emissions, the company reported. [15]

Costco, which offers more-generous employee benefits than other low-price retailers, enjoys half the worker turnover of Wal-Mart and the retail industry as a whole. Recruiting and training new employees is a costly expense that Costco minimizes. John Bowen, an investment manager in Coronado, Calif., said that "happy employees make for happy customers, which in the long run is ultimately reflected in the share price." [16] To measure corporations' reputations, Communications Consulting Worldwide surveyed media reports and rankings — such as lists of best-managed companies and best places to work. The New York firm concluded that if Wal-Mart's reputation rose to match higher-rated Target's, its stock would climb 8.4 percent, or $16 billion. [17]

AP Photo/Richard Vogel

Workers assemble shoes at a Nike factory near Ho Chi Minh City, Vietnam, in 2000. After being attacked for using Third World sweatshops, Nike launched a campaign to improve working conditions in its suppliers' factories. "Our greatest responsibility as a global company is to play a role in bringing about positive systemic change for workers within our own supply chain, and in the industry overall," the company says.

"People want to work for companies that are socially responsible and that create avenues for them to be as well," says Nathan Garvis, Target's vice president for government affairs.

Companies also realize that "a healthy community is a great place to operate a business, to hire people, to locate a store, a great place for people to come and shop," Garvis says. "The health of the community is an undergirding platform for economic success."

Some scholars and business executives point to one other influence on the rising popularity of corporate social responsibility: An increasing number of senior executives grew up amid the social turmoil of the 1960s and '70s, and they bring values they learned then into their boardrooms and executive offices.

"A generation of people in search of deeper meaning in their lives is now taking over the corporate suites," said Andrew Savitz, former lead partner in PricewaterhouseCoopers' sustainability business services practice. [18]

Asked how he's different from his legendary GE predecessor Jack Welch, the 51-year-old Immelt likes to say that he's 20 years younger. That gets a laugh, but it's also a serious answer, according to Robert Corcoran, GE's vice president for corporate citizenship.

"He said, 'Let me explain this,' " Corcoran recalls, describing an Immelt meeting with a group of employees shortly after he assumed the company's top post. " 'I grew up and went to high school and college in the '60s and '70s. I grew up with civil rights marches, the Vietnam War, women's liberation, Earth Day, sex, drugs and rock-and-roll. Those issues shaped how I think about and view the world. That's a different set of experiences from someone who grew up 20 years before.' "

These experiences, Corcoran continues, "give this generation of leaders a view of the role of business in the world that's different from what someone might have gotten in the '50s or the '40s."

As activists, executives and investors consider the social role of business in the 21st century, here are some of the questions they're debating:

Do businesses have a responsibility to society beyond turning profits?

While nearly all major American businesses embrace corporate social responsibility, conservative critics launch continual — often vehement — attacks on the practice. They call it a violation of the free-market principles that created and sustain prosperity. They also label it a dangerous transfer to corporations and activist groups of power over social issues that properly belongs to individuals and elected public officials.

Environmentalists Shape $45 Billion Energy Deal

Activists' role in TXU takeover "a turning point in the fight against global warming"

When two investment firms set their sights on acquiring Texas' largest electric company, they recruited a pair of surprising partners to their takeover team — the Natural Resources Defense Council and Environmental Defense, two leading advocacy organizations.

The resulting $45 billion takeover proposal in February by Kohlberg Kravis Roberts & Co. and Texas Pacific Group was the largest private buyout bid in history. But it captured even more attention because of what the environmental groups extracted from KKR and TPG, as the takeover firms are commonly called.

If they successfully acquire TXU Corp., KKR and TPG have pledged a long list of changes, including:

- Shrink from 11 to three the number of new coal-fired power plants TXU plans to build in Texas.
- Scrap plans to build new coal plants in Pennsylvania and Virginia.
- Reopen several mothballed natural gas plants, which pollute less than coal.
- Explore the possibility of building a plant that burns coal cleanly.
- Cut carbon dioxide emissions to 1990 levels by 2020.
- More than double TXU's use of wind power.
- Promote consumer use of solar power.
- Double spending to promote energy efficiency among its customers.
- Create a sustainable energy advisory board that includes representatives from national environmental groups.
- Tie executive compensation to climate-change goals.
- Cut some electric rates.
- Support federal legislation to mandate reductions in carbon dioxide emissions. [1]

James Marston, who led Environmental Defense's campaign against the proposed TXU power plants and participated in the negotiations with KKR and TPG, called the bid "a turning point in the fight against global warming." [2] TXU's size would enable it to reshape the power industry in Texas and influence the state's federal lawmakers to support climate-change legislation, he predicted. [3]

"It's one thing for companies in California to take the lead in reducing pollution," Marston said. "But this is Texas." [4]

"To say TXU is just another company," agreed David Hawkins, who represented the Natural Resources Defense Council in the negotiations, "is like saying Muhammad Ali was just another boxer." [5]

TPG Partner William Reilly, who was key to bringing the bidders together with the environmentalists, said the success of those talks "has led us to expect a future that will be collaborative and history-making." [6]

Daniel Esty, director of Yale University's Center for Business and Environment, said the bid demonstrates the "revolution" occurring in contemporary corporate responsibility.

"KKR and TPG most certainly have not gone soft," Esty said. "The masters of the universe have not given in to greenmail in a fit of political correctness. To the contrary, they are super-sophisticated business people who have learned that success in the marketplace now depends on getting corporate environmental strategy right." [7]

The takeover certainly would launch a dramatic makeover of TXU, which has battled environmental groups over its plant-construction plans and other issues. It has been described as leading the power industry in its advocacy of coal. [8] The 11 plants would have added another 78 million tons of carbon dioxide annually, more than doubling TXU's current 55 million. [9] The three plants still in the bidders' plans would increase emissions by nearly 20 percent. [10]

KKR and TPG first told TXU of their designs on the com-

"A company's responsibility is to its shareholders," says John Hood, president and chairman of the John Locke Foundation, a conservative think tank in North Carolina. "If managers have a different end than maximizing shareholder value, they're violating their responsibility."

When profit maximization is the goal, Hood says, shareholders have a clear measure of managers' performance. "When you move away from profit maximization and get into these more nebulous corporate social responsibility objectives," he adds, "that puts us at sea without a rudder."

Corporate executives and activists who promote corporate social responsibility are attempting to "privatize regulatory power" and levy "a hidden tax on corporate shareholders," says Nick Nichols, a senior fellow at the Center for Defense of Free Enterprise who teaches crisis communications at Johns Hopkins University. (*See "At Issue," p. 665.*)

"Power is shifting away from elected officials and regulators toward non-government organizations" that influence corporate policies, Nichols argues. "CSR is an effort by socialists to accomplish in the boardroom what they have failed to accomplish at the ballot box — corporate socialism."

Wal-Mart's adoption of corporate social responsibility policies and cooperation with advocacy groups "pose a significant risk to free markets and limited government," said Tom Borelli, a founder and portfolio manager of the Free Enterprise Action Fund, a mutual fund for conservative shareholder activists. "CSR supporters want the company to

AP Photo/David J. Phillip

TXU Mining's Big Brown site, near Fairfield, Texas, provides coal for a nearby coal-fired power plant.

pany in November 2006. In February, Reilly called Environmental Defense President Fred Krupp and asked for a confidential discussion. Reilly, the first President Bush's Environmental Protection Agency director, wanted help preparing a bid that environmental groups could support. Ironically, TXU Chairman John Wilder earlier had rejected a Krupp request to talk about the power-plant plans.

The two equity firms believed TXU's stock was undervalued because of its dependence on coal. And they already were trying to develop a more promising business plan with their lead financial adviser, Goldman Sachs, which itself works with environmental groups and transports its executives in hybrid limousines.

Marston and Hawkins were assigned to represent their groups in talks with Reilly and other representatives of the equity firms. After a week and a half of phone conversation, Marston flew to San Francisco for the final session, which began at breakfast in San Francisco's luxurious Mandarin Oriental Hotel. With Hawkins participating by telephone the talks finally wrapped up at TPG's offices overlooking San Francisco Bay at 1 a.m. on Feb. 22. Only then did the KKR and TPG representatives fly to Austin to tell Texas government officials of their plans. On Feb 25, TXU's board approved the sale. It still must be submitted to a shareholder vote. [11]

Not everyone is satisfied with the outcome. Some worry that TXU's coal-plant cutbacks would cause an electricity shortage within just a few years and lead to rate hikes. Others plan to keep opposing the three plants that TXU still plans to build. They also worry the new owners might not keep their promises, which are not legally binding.

"Promises are only promises," said Tim Morstad, advocacy director for AARP-Texas. [12]

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1 "TXU to Set New Direction As Private Company," Kohlberg Kravis Roberts & Co., Feb. 26, 2007, www.kkr.com/news/press_releases/2007/02-26-07.html; "The Facts on the TXU Buyout," *Environmental Defense*, March 6, 2007, www.environmentaldefense.org/article.cfm?contentID=6027; Tom Fowler, "Power Crisis Tune Changes Quickly," *The Houston Chronicle*, Feb. 28, 2007, p. 1; Elizabeth Souder, "Buyers May Go National with TXU," *The Dallas Morning News*, June 25, 2007, p. 1.

2 Felicity Barringer and Andrew Ross Sorkin, "Utility to Limit New Coal Plants in Big Buyout," *The New York Times*, Feb. 25, 2007, p. A1.

3 Steven Mufson and David Cho, "Energy Firm Accepts $45 Billion Takeover," *The Washington Post*, Feb. 26, 2007.

4 Janet Wilson and Peter Pae, "Utility sale is boon for green activists," *Los Angeles Times*, Feb. 26, 2007, p. A10.

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6 *Ibid.*

7 Daniel C. Esty, "When Being Green Puts You in the Black," *The Washington Post*, March 4, 2007, p. B1.

8 Andrew Ross Sorkin and Clifford Krauss, "At $45 Billion, New Contender for Top Buyout," *The New York Times*, Feb. 24, 2007, p. A1.

9 David Koenig, The Associated Press, "TXU Board OKs Buyout Offer," *The Houston Chronicle*, Feb. 26, 2007, p. 1.

10 Mufson and Cho, *op. cit.*

11 Andrew Ross Sorkin, "A Buyout Deal That Has Many Shades of Green," *The New York Times*, Feb. 26, 2007; Mufson and Cho, *op. cit.*; Heather Green, "How Green Green-Lighted the TXU Deal," *Business Week Online*, Feb. 26, 2007.

12 Tom Fowler, "Consumer Groups Want Details from TXU," *The Houston Chronicle*, July 17, 2007, Business Section, p. 1.

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increase its overhead by paying higher wages, providing health care for all its workers, and guaranteeing workers' rights by having its employees unionized," Borelli said, calling such proposals "the incremental path to socialism." Referring to the classic paean to individual freedom and laissez-faire capitalism, Borelli said Wal-Mart should "use its marketing muscle to sell Ayn Rand's timeless novel *Atlas Shrugged* into millions of homes." [19]

According to George Mason University economics Professor Russell Roberts, the popularity of corporate social responsibility shows that "most people don't understand how capitalism works — the role that profits played in creating higher standards of living over the last century.

"The implication is a corporation should act something like a nonprofit, should not try to make as much money as possible, should pay not what the market will bear to its employees but a fair wage. I think that's not a particularly healthy attitude for companies to have.

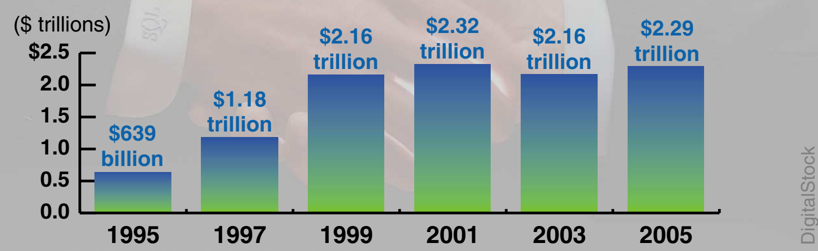
"When you're a publicly held company, you're not spending your own money. You're spending the money of shareholders who have entrusted it to you."

GE's Corcoran agrees that "we take other people's money and have an absolute responsibility to use that wisely, invest that in products and people and marketing strategies that will grow the economic value of the shareholders' investment." But, he adds, "the individual who opposes every dollar a company gives away to charity or Katrina relief

Socially Responsible Investing on the Rise

Investments that take into account the well-being of society and the environment more than tripled — to nearly $2.3 trillion — from 1995 to 2005.

Socially Responsible Investing in the U.S., 1995-2005



Source: "2005 Report on Socially Responsible Investing Trends in the United States," Social Investment Forum, Jan. 24, 2006

or helping to address issues of the environment — and thinks every dollar they give away is a dollar that doesn't go back to shareholders — has a very narrow and dangerous and ill-informed interpretation" of a corporation's duties.

Profits are not Whole Foods' primary purpose but rather the "means to the end of fulfilling [the company's] core business mission," Mackey said. "We want to improve the health and well-being of everyone on the planet through higher-quality foods and better nutrition, and we can't fulfill this mission unless we are highly profitable. Just as people cannot live without eating, so a business cannot live without profits. But most people don't live to eat, and neither must a business live just to make profits." [20]

Andrew Shallit, shareholder advocacy director for Boston-based Green Century Capital Management, defines the market as including "shareholder activists, the communities that are affected by a corporation and ultimately all the people in the world making their demands for what they need for a better life."

Green Century's mutual funds invest in companies that have a positive impact on the world after all their costs are taken into account, Shallit says. That is the proper way to assess a company's responsibility in the market, he argues.

"Is the company having a net negative effect and making a profit based on the fact that these costs are hidden — the pollution is going into the river and someone else is having to pay for that?" he asks. "Or is it in truth adding to the overall health and wealth of the world?"

Corporate social responsibility supporters note that corporations could not exist without the laws and regulations that enable them to do business. This "license to operate" comes with specific legal requirements and an "unwritten bargain with the societies in which they operate," said Allen White, senior adviser to Business for Social Responsibility, a nonprofit association that helps companies develop and implement social responsibility policies. [21]

"Governments grant corporations the license to operate because it is in the public interest to do so," White said, and most companies acknowledge their obligation to take the public's needs into account.

In their statements of corporate purpose, White said, companies commonly include intentions to serve shareholders, employees, customers and society at large. A late 2005 global survey of business executives found more than 80 percent agreeing that "generating high returns for investors should be accompanied by broader contributions to the public good," according to the McKinsey & Co. consulting firm, which conducted the poll. Only one-in-six said that "high returns should be a corporation's sole focus." [22]

British investment manager David Pitt-Watson said widespread stock ownership — through mutual funds and pension plans — creates "enormous overlap" in corporations' responsibility to shareholders and society. The "ultimate shareholder" has become "millions of people" with such investments, said Pitt-Watson, director and former chief executive of Hermes Focus Asset Management, Great Britain's largest shareholder-activist fund. "As a result, social and private interests go together." [23]

Is social responsibility good for the bottom line?

For the Coca-Cola Co., a predicted global water crisis is "a strategic threat to our business," because water is the company's most important raw material, says Jeff Seabright, Coke's vice president for environment and water. "Climate change is going to stress this even further," he adds. As result, he says, Coke advances its business interests by conserving water at its plants, helping communities manage their watersheds better and reducing the company's contribution to global warming.

Wal-Mart follows advice from environmental organizations to reduce its waste of materials and energy, then helps its suppliers do the same, says Marc Major of Blu Skye Sustainability, a Wal-Mart consultant in Healdsburg, Calif. After that, Major continues, the giant retailer tells the suppliers: "You cut your energy bills, so you can cut the cost of the products you sell to us."

Good schools are needed to supply a qualified workforce, says Weyerhaeuser Co. Foundation President Karen Johnson. The forest products company makes education a key component of its philanthropy, awarding college scholarships to employees' children and helping to improve school districts near its operations.

But critics complain that companies squander shareholders' assets in corporate social responsibility programs.

"The modern corporation, by its very existence, has become a responsible institution at the task it is assigned to do, which is to organize people to create a product at an affordable price [and] to create wealth," argued Fred Smith Jr., president of the Competitive Enterprise Institute, which promotes free markets. "To divert the corporation from that task will weaken the wealth-creation progress that we have seen over the last two centuries, and it would do nothing to achieve these myriad of other goals, because only you and I — only individuals — can pursue the myriad values that a moral society has." [24]

Supporters of corporate social responsibility contend that it actually is good for the bottom line, as demonstrated by the experiences of Coke, Wal-Mart, Weyerhaeuser and many other companies.

Responding to environmentalists' calls to cut waste also cuts costs, they say. Companies need a healthy, well-educated workforce. They need safe and healthy communities in which to locate their retail establishments. Companies that are recognized as good corporate citizens attract investors and consumers — especially upscale consumers — and recruit and retain employees more effectively. Activist groups are less likely to attack those companies, advocates say, and corporate social responsibility policies can ward off government regulation. As companies make their products and seek customers all over the world, they reap benefits by helping to improve conditions in disadvantaged communities.

"Our business will succeed in communities that thrive," says Coke Corporate Responsibility Director Karen Flanders, sounding a theme repeated by many corporate executives.

Critics also charge that if corporate responsibility is good for the bottom line, then it's just smart management and is nothing really new. But supporters say a fundamental change is under way. Companies are discovering new ways to be profitable as a byproduct of seeking to be responsible. Responding to attacks from advocacy groups, companies are forging relationships with unlikely partners and becoming more effective businesses as a result.

"Company executives will say we used to think we had all the info and perspective we needed internally, and now we realize we need to talk to a diverse group of actors outside the company," says Business for Social Responsibility President Aron Cramer.

"You see a lot more dialogue with non-governmental organizations, the environmental community, the human-rights community, community organizations, academic experts, experts from international organizations and multilateral organizations," Cramer continues. "And that really enriches a company's decision making."

Hannah Jones, Nike's vice president for corporate responsibility, says responsibility "can be a vehicle for innovation and growth." Company executives challenged Nike product designers to incorporate environmental concerns into their work, Jones explains, and "it's led to innovation that led us to make better shoes."

Nike's signature "air" soles actually contained the greenhouse gases sulfur hexafluoride and polyfluorene phenylene. While looking for a way to use a benign gas, Jones says, designers discovered how to extend a nitrogen-filled air bag for the full length of the shoe — something they had not been able to do before.

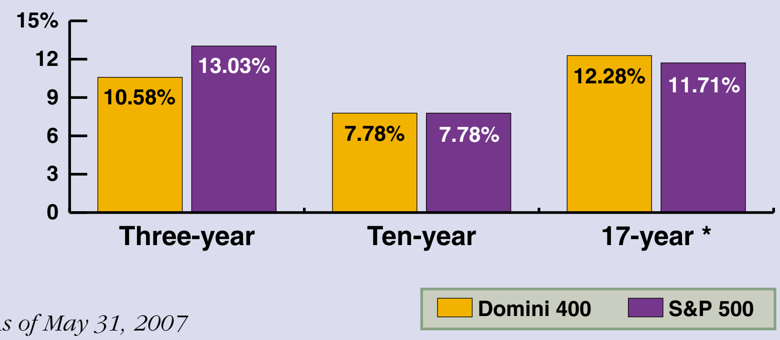
Corporate responsibility also has become "a huge piece of recruitment, retention and motivation" of employees, Jones says. "It's interesting to watch [prospective employees] in interviews, asking about CR and their ability to be engaged in CR through their work."

But David Vogel, a business and political science professor at the University of California at Berkeley, thinks

Socially Responsible Investing Pays Off

Companies in the Domini 400 Social Index — which tracks environmentally and socially responsible firms — are performing better over the long term than companies in the S&P 500, although their short-term returns are lower.

Annualized Returns of Domini 400 and S&P 500 Indexes
(since inception of Domini 400 on May 1, 1990)



** As of May 31, 2007*

Source: "KLD Reports May 2007 Index Returns," KLD Indexes, June 7, 2007 "the business benefits from CSR are often exaggerated."

Most studies have shown the impact to be "fairly modest, either positive or negative," says Vogel, author of *The Market for Virtue: The Potential and Limits of Corporate Responsibility.* Conservation can cut costs, he concedes. He's seen "some examples" of corporate responsibility helping companies deal with governments and advocacy groups. "A lot of circumstantial evidence" indicates it can help recruitment, morale and retention, but he thinks it boosts sales only for some "niche market companies that sell expensive products," such as Whole Foods and Ben & Jerry's.

KLD Research & Analytics, an investment research firm, created six stock market indexes designed to compare the financial performance of companies that have good social responsibility records against traditional indexes, such as the Standard & Poor's 500 and the Russell 3000. Since the indexes were established, between 1990 and 2006, two have outperformed the traditional indexes and four have not.

Advocates say corporate responsibility delivers the most benefit over the long term, and KLD's oldest index — the Domini 400 Social Index, created in 1990, outperformed the S&P 500. (*See graph, p. 657.*) So did the Global Climate 500, which was created in 2005.

All the KLD indexes trailed their traditional counterparts in May, primarily because the environment-friendly indexes contained few energy stocks, which were soaring at the time. [25]

Does corporate social responsibility really improve society?

Companies proclaim that their social responsibility activities protect the environment and improve people's lives around the world.

Impoverished Africans get treatment for HIV/AIDS because major pharmaceutical companies supply drugs at low costs, for instance. Disadvantaged students become employable because Microsoft supports training programs in information technology. Under-equipped law-enforcement agencies track down murderers because Target lets them use sophisticated forensics laboratories it created to deal with crime in its 1,400 stores.

Critics beg to differ. While there may be isolated examples of effective programs, they say, for the most part, corporate responsibility doesn't work.

"Is CSR mostly for show?" *Atlantic Monthly* Senior Editor Clive Cook asked rhetorically in *The Economist*, when he was deputy editor there. "The short answer must be yes.

"For most conventionally organized public companies — which means almost all of the big ones — CSR is little more than a cosmetic treatment. The human face that CSR applies to capitalism goes on each morning, gets increasingly smeared by day and washes off at night. Under pressure, big multinationals ask their critics to judge them by CSR criteria, and then, as the critics charge, mostly fail to follow through." [26]

Businesses aren't qualified for many of the social and environmental tasks they're assigning themselves, according to T. J. Rodgers, president and CEO of Cypress Semiconductor Corp. and an outspoken critic of corporate social responsibility.

"We specialize in doing different tasks, and people who specialize are better at what they do," Rodgers says. "There's no reason to think companies are competent at philanthropy.

"Suppose a convent of nuns decided that high-efficiency automobiles were required to lower greenhouse gases, and they decided they were going to make a 100-miles-per-gallon automobile at a convent. We'd say that's pretty stupid. Why don't you stay in the nun business and let the carmakers make cars?"

Communities are better off when individuals, not corporations, decide which social improvement projects to support, George Mason University's Roberts argues.

"I make a lot of donations to charity," Roberts says. "I want to make the decision [on how] to spend my money. Why is it that a shareholder would want to invest in a company that gives employees paid time off to go out and build houses, rather than give directly to Habitat for Humanity, for instance?

"If corporations gave the money back to employees in higher wages, to customers in lower prices, to shareholders in higher dividends, then those individuals would decide what makes the community healthier," he continues.

The John Locke Foundation's Hood criticizes companies that require suppliers to offer better pay and benefits than markets require in poor countries.

"If people are willing in Bangladesh or Malaysia to take jobs at wage rates that appear to us to be astronomically low, they may know something we don't about what their alternative is," Hood says. "Maybe the only option that person has is to work in the field in much less pleasant conditions with much less certainty about the future."

David Baron, a professor of political economy and strategy at Stanford University, agrees that companies should be "maximizing their market value — subject to certain ethical duties." The dilemma, he adds, is "what constitutes an ethical duty."

Giving drugs to poor HIV/AIDS patients "is obviously socially good," he says. "The question is who should be responsible for making them available. Should it be the rich countries that buy the drugs and give it to the poor countries, or should it be the manufacturers themselves?"

Sometimes businesses are best able to address a problem, insists Scott Johnson, vice president for global environment and safety concerns at SC Johnson, manufacturer of iconic household items such as Pledge, Fantastik and Windex.

"When things need to be done on a global basis, business has far more

Continued on p. 660

Chronology

Early 1800s

Companies provide for needs of workers in isolated areas.

Late 1800s-Early 1900s

Industrial barons Andrew Carnegie and John D. Rockefeller give much of their personal wealth to philanthropic causes.

1881
Carnegie begins to build free public libraries.

1890
Rockefeller finances University of Chicago.

1900
Carnegie Institute of Technology established.

1910
Carnegie Endowment for International Peace created.

1911
Fire at Triangle shirtwaist factory in New York City kills more than 140 workers, calling attention to sweatshops and child labor.

1913
Rockefeller Foundation established.

1915-1940

Labor unrest and economic collapse press corporations to address public needs.

1916
Executives from major U.S. corporations establish National Industrial Conference Board, now The Conference Board "to find solutions to common problems."

1919
World War I veterans return to domestic workplaces and begin demanding higher wages, better working conditions and stiffer government regulation of corporations.

1929
Stock market crash marks start of Great Depression, causing public respect for business to crash as well.

1933
Inauguration of President Franklin D. Roosevelt and beginning of New Deal bring increased government regulation of business, along with tax breaks to encourage corporate philanthropy.

1934
General Electric President Gerard Swope says corporate America must "take the lead" in addressing social problems.

1940-1960

U.S. corporations accept need to help fight World War II and respond to the war's destruction afterwards. Corporate philanthropy grows.

1960s-1970s

Social action movements — civil rights, women's rights, consumerism, environmentalism, antiwar — challenge traditional corporate practices and spur new government regulation of business.

1965
Equal Employment Opportunity Commission begins operations.

1970
Environmental Protection Agency and Occupational Safety and Health Administration created.

1972
Consumer Product Safety Commission created.

1980s-2000s

Companies tie grant making to their core business through "strategic philanthropy." Growing number view corporate social responsibility as beneficial to bottom line.

1992
Executives from 50 socially oriented companies found Business for Social Responsibility to advocate good corporate citizenship.

1994
British consulting firm SustainAbility coins phrase "triple bottom line," contending corporations' long-term success requires attention to society and environment as well to shareholders.

2005
Business Roundtable launches "S.E.E. Change" initiative to encourage companies to adopt policies that improve society, environment and economy.

2007
Conference Board establishes Center for Corporate Citizenship and Sustainability. . . . Equity firms consult environmental advocacy groups before launching the largest private buyout bid in history, for TXU Corp.

Doing Business at the 'Base of the Pyramid'

SC Johnson sells cleaning supplies in Africa "a squirt at a time"

In three slums of Nairobi, Kenya, young people walk door to door offering to clean homes and eradicate pests with SC Johnson products.

The budding entrepreneurs are part of the home-products manufacturer's efforts to earn profits and do good at the "base of the [economic] pyramid."

While there would not appear to be much business in communities where families survive on less than $4 a day, the manufacturer of Raid, Fantastik and other well-known brands has concluded these potential consumers have much to contribute to the company's long-term growth.

"Historically, large companies focus at the tip of the pyramid," where 10 percent of the world's population consumes 85 percent of the planet's resources, Cornell University Management Professor Stuart Hart says. "But the tip of the pyramid is running out of gas," while enormous potential markets sit untapped throughout the rest of the world.

Some 4.5 billion people reside in the economic pyramid's base, Hart explains, and another 1.4 million in the area between the top and the bottom. In addition, these poor populations are growing faster than those in the developed world, creating what Hart calls "trickle-up opportunity."

A company can't simply start marketing to the poor of Nairobi the way it sells to the middle class in Peoria, however.

Traditionally, Hart says, companies try to sell their products to the poor by finding less expensive means of production, using smaller packages, cutting prices, extending distribution to places previously not served and perhaps working with nonprofit organizations to deliver needed goods to people who had been unable to get them. He calls this strategy "BOP (base of pyramid) 1.0."

BOP 2.0 "has to be about creating new livelihood and wealth, not just selling products to poor people — not just extraction," he says. This requires "engaging the poor, building local capacity, building mutual value."

SC Johnson supports base-of-the-pyramid research at Cornell by Hart and research associate Duncan Dukes and agrees the potential market is "too big to ignore," says Scott Johnson, the company's vice president for global environment and safety concerns. "Millions of poor people live near SC Johnson operations around the world, but we have no business with them." So the company agreed to test the scholars' theories.

The process entailed what the scholars term "deep listening" to the community to identify potential markets, and forming partnerships with potential local entrepreneurs who would sell the company's products there. The goal was to "create something not possible by the multinational corporation or the local community by itself," Hart explains. SC Johnson would increase sales as the local entrepreneurs created businesses that buoyed the local economy.

Realizing that families earning a few dollars a day would be reluctant to purchase products that retail for several dollars

Continued from p. 658

capability to cross borders with programs like our greenhouse gas reduction goals than just about any other organization," he says. "Political organizations are bounded within their localities, but businesses can move where we do business."

Heerad Sabeti, co-founder of a North Carolina company that makes home decorations, rejects the argument that he should maximize profits, then make contributions to charity.

"We want social responsibility to be completely embedded in everything we do" at TransForms, he said. "What good does [contributing to charity] do if I'm using plastic for my packaging and helping to contribute to job losses by manufacturing in China?" [27]

Mathew Nelson, head of corporate foundation services at the Council on Foundations, says many social responsibility programs do work. When he was community relations manager at Ameriprise Financial headquarters in Minneapolis, for instance, the company funded career and college centers at local high schools and encouraged employees to volunteer at the centers.

"The employees were helping the kids to know what it was like in the real world and helping them in making decisions about what careers to go into, as well as being adult mentors, which lots of research has shown is key to the success of youths," Nelson explains.

Microsoft co-founder Bill Gates supports both sides in the debate. His company practices social responsibility, and he has donated billions of dollars of his own money to charity. But he doesn't practice socially responsible investing.

After the *Los Angeles Times* revealed the Bill & Melinda Gates Foundation owns stock in companies whose business practices conflict with the foundation's purposes, foundation Chief Operating Officer Cheryl Scott explained the Gateses' investment philosophy.

Acknowledging that "shareholder activism is one factor that can influence corporate behavior," Scott said the Gateses "have chosen not to get involved in ranking companies based upon factors such as their lending policies or environmental record."

Focusing on programs enables the foundation "to have the greatest impact for the most people," she said. The Gateses "also believe there would be much room for error and confusion a can, the company and the young entrepreneurs decided to use SC Johnson products in a service business. The company trained the young people in such skills as pest management, accounting and marketing, then sent them out on door-to-door sales calls.

They now offer cleaning and pest-control services to homes and businesses, using SC Johnson merchandise such as Windex glass cleaner, Toilet Duck bathroom cleansers and Baygon insect-control products. Nairobi's poor can afford to buy those products "by the squirt," Johnson says, and get healthier homes and workplaces as a result.

The new tactic represented a fundamental change for both the company and the community, Duke notes. SC Johnson was "moving from a product focus to a service focus" in "a place where there's no service provided to homes."

Success will require patience and flexibility, Duke says, traits that may come easier to privately owned SC Johnson than to a publicly held corporation with shareholders focused on quarterly returns.

SC Johnson/Jo Gravely

Cleaning products are delivered by 52 motorcycle riders to small retailers in Nigeria normally left out of the delivery chain.

"We take the long view on decisions," Johnson explains. At the base of the pyramid, "there's not going to be a short-term success," and the company can live with that. "We believe the long view is simultaneously what's best for our business and for the places where we do business."

While "it's too early to tell" the long-term prospects for the Nairobi project, Johnson says, the company already is reporting success working with small retailers who sell to the poor in Nigeria.

There, SC Johnson employs motorcycle riders to deliver its products to kiosks, roadside hawkers and "others usually not served effectively by other distributors," the company reported. The process is creating "an important new route to market," the company said. The 52 motorcycles operating around the country at the end of last year "have already recouped the capital invested and significantly improved our distribution in key Nigerian markets." [1]

[1] "Doing Our Part," SC Johnson, 2007, www.scjohnson.com/community/2007_Public_Report.asp.

in [assessing companies' social responsibility], and that divesting from these companies would not have an effect commensurate with the resources we would divert to this activity."

The foundation does avoid investing in companies whose actions are "egregious," such as tobacco companies, Scott said. [28] ■

Background

'Company Towns'

From the early 19th to the early 20th centuries, companies with operations in isolated areas practiced something resembling contemporary corporate social responsibility, building housing for employees and stores where workers could buy necessities. Some businesses added parks and other community amenities. [29]

These "company towns" weren't always so good for the workers, however. Corporations used the towns and company facilities to keep employees in line — evicting strikers, for example. Companies also sometimes banned competing merchants and charged monopoly prices at the company stores.

When railroads began spreading across the country, they contributed to local YMCAs so their itinerant employees would have places to stay. Sears, Roebuck & Co. helped teach farmers better agricultural practices in the belief that more prosperous farm families would buy more from Sears' mail-order catalogs.

In the late 19th and early 20th centuries, Andrew Carnegie and John D. Rockefeller, the kings of steel and oil, gave much of their wealth to humanitarian causes and established institutions that are among the most important nonprofits on Earth today.

Carnegie gave away $350 million — 90 percent of his wealth — and in the process created the Peace Palace at The Hague, where the World Court now sits; the Carnegie Corporation to support education and research; the Carnegie Endowment for International Peace; the Carnegie Institute of Technology, and some 3,000 libraries around the world.

"The man who dies rich," he said, "dies disgraced." [30]

Rockefeller, who endorsed Carnegie's philanthropic "Gospel of Wealth," created the Rockefeller Foundation, which has given away more than $14 billion. Among his other legacies: the University of Chicago and the Rockefeller Institute for Medical Research, now known as Rockefeller University.

The industrialists' unprecedented philanthropy was "a very positive development," according to Mal Warwick, an adviser to nonprofits and co-founder of Business for Social Responsibility. But "it was a far cry from corporate social responsibility." Their philanthropy was personal, he notes, and their corporations were far from socially responsible.

"Andrew Carnegie gave away hundreds of millions of dollars and built thousands of libraries and deserves much credit for that," Warwick says. "As a corporate leader, [however], his name has gone down in infamy for his exploitative practices and the violence he directed against workers who defied his overseers.

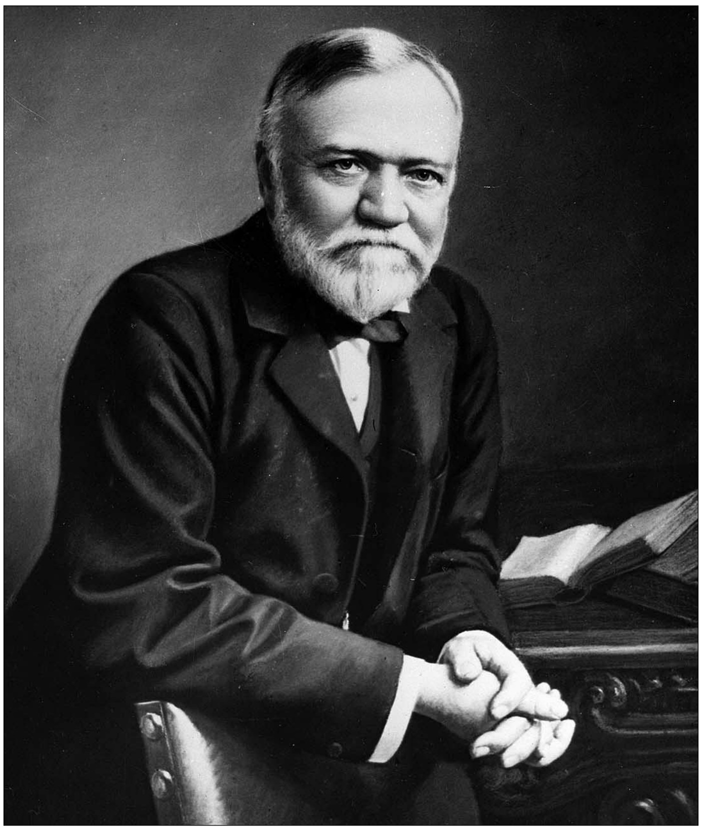
"Rockefeller was certainly a paragon of virtue in many respects. I would not want to detract one bit from his legacy of philanthropy. But, as a businessman, he was ruthless, treated his competition like dirt, was no friend of his employees and was behind some of the violence directed against workers who were rebelling against the direction of his companies."

Violence and Turmoil

At about the same time Carnegie and Rockefeller were giving away their fortunes, some active business executives were delving into corporate responsibility. Public confidence in American business was plunging, they realized. Muckraking journalists were exposing hazardous industrial working conditions. Labor and management were locked in heated conflicts, some of which turned violent.

Responding to this turmoil in 1916, a group of executives from major corporations founded the National Industrial Conference Board, now simply The Conference Board. The board was created to be "a respected, not-for-profit, nonpartisan organization that would bring leaders together to find solutions to common problems and objectively examine major issues having an impact on business and society." [31]

Pure corporate philanthropy became widespread during World War I as companies contributed to local Community Chests, the forerunners of United Way. Executives liked the simplicity of making one contribution to an organization thought to understand the top needs of the community.



AP Photo

Industrialist Andrew Carnegie (above) and oil baron John D. Rockefeller gave away much of their wealth to humanitarian causes in the late 19th and early 20th centuries, establishing major philanthropies still influential today. "The man who dies rich dies disgraced," Carnegie once said.

The ferment that spawned The Conference Board continued after the war, with growing labor militancy and demands for stiffer government regulation of corporations. Major companies — such as GE, Eastman Kodak, National Cash Register, Standard Oil and Goodyear Tire & Rubber — portrayed themselves as socially responsible, with promises of higher wages and better working conditions. They hoped to meet public demands without succumbing to regulation or unionization.

Goodyear became particularly notable for addressing the needs of its employees. "Goodyear has all about her the human quality," P. W. Lichfield, president and/or CEO from 1926 to 1956, said. "And it has been to this human quality, fully as much as to her business methods, that Goodyear owes her meteoric rise in the ranks of American industry." [32]

Presaging criticisms of contemporary corporate social responsibility, some other corporate executives labeled Lichfield a socialist and a Marxist.

The 1929 stock market crash and subsequent Great Depression deepened public antagonism toward business and spurred corporations to make more efforts to appear socially responsible. Most corporate executives worried about the growth of government power during the New Deal, and some feared the very survival of capitalism was at stake.

"Organized industry should take the lead," GE President Gerard Swope said, "recognizing its responsibility to its employees, to the public and to its shareholders, rather than that democratic society should act through its government." [33]

"If the corporate system is to survive," New Deal architects Adolf Berle and Gardiner Means argued, "corporations must balance a variety of claims by various groups in the community and assign to each a portion of the income stream on the basis of public policy rather than private cupidity." [34]

The New Deal also encouraged more business philanthropy by creating tax deductions for corporate giving.

Postwar Stimuli

The U.S. government's leadership in rebuilding Europe following World War II prompted American business executives to recognize "a collective need and obligation to engage in reconstruction of the country and the world," according to Lenny Mendonca, chairman of McKinsey & Company's Global Institute. [35] The postwar economic boom encouraged more corporate philanthropy and the growth of corporate foundations.

The multiple social action movements of the 1960s and '70s — civil rights, women's rights, consumerism, environmentalism, antiwar — challenged traditional corporate practices. Between 1965 and '73, four new federal agencies began regulating business conduct — the Occupational Safety and Health Administration, the Equal Employment Opportunity Commission, the Consumer Product Safety Commission and the Environmental Protection Agency. Companies responded by contributing more to social welfare organizations, increasing their political activity and launching marketing campaigns designed to make them appear more socially responsible.

"The more distant the self-interest, the more altruistic the corporate philanthropy seemed," Sylvia Clark and Kate Dewey wrote in a report for the Council on Foundations. "Consequently, causes contrary to the corporation's interest often were supported." [36]

Melding company interests with broader community needs, much corporate philanthropy in the 1980s focused on quality of life. "In order to recruit and retain employees and customers," Clark and Dewey wrote, "corporations strived to ensure that communities were attractive places to live and work." [37]

During the 1990s, a growing number of corporations began to practice "strategic philanthropy," by which they tied grant making to the company's core business and offered the company's skills to help nonprofits perform their work more effectively. Strategic philanthropy was "steering corporate America into a more powerful and direct social role," Craig Smith, a consultant to The Conference Board, wrote at the time. It had the potential to "make corporate culture more benevolent," he said. [38]

Milestones on the road from strategic philanthropy to contemporary corporate social responsibility included:

- Creation in 1992 of Business for Social Responsibility, to advocate good corporate citizenship and advise businesses on how to achieve it. Founders included executives from 50 socially oriented companies, including Ben & Jerry's ice cream, Patagonia apparel and Tom's of Maine personal-care products. [39]
- Coining the phrase "triple bottom line" in 1994 by SustainAbility, a British consulting firm that specializes in corporate responsibility and sustainable development. The phrase encapsulates the firm's contention that companies need to consider their impact on society and the environment, as well as return to shareholders, if they are to prosper over the long term. The phrase "people, planet, profit" now is widely accepted by major corporations. [40]
- The Business Roundtable's launching in 2005 of the S.E.E. Change initiative to "leverage the power of business as a force for good." The initiative encourages companies to adopt policies that improve society, the environment and the economy (S.E.E.). [41]
- The Conference Board's establishment in early 2007 of the Center for Corporate Citizenship and Sustainability. The center's mission is to help companies make citizenship and sustainability "integral, core business strategies, targeting business opportunities that provide maximum economic, environmental and societal benefit to all." [42] ■

CURRENT SITUATION

New Approach

Several factors distinguish contemporary corporate social responsibility from its predecessors. One is its emphasis on enhancing society, the environment and shareholder value simultaneously. Another is the overwhelming number of large companies that are integrating the concept into their core business strategy. A third is the contention by advocates that it is not just the morally right thing to do but is necessary for long-term business success.

"It used to be about how much money you give to something," explains Larry Burton, executive director of the Business Roundtable.

Now, according to Marian Hopkins, the Roundtable's director of public policy, "it's not charity or humanitarian aid. It's a business proposition that makes sense, a strategic way of looking at things and behaving. It's about being smart as a company."

As Business for Social Responsibility President Cramer puts it: "Corporate social responsibility is about how a company earns its money, not how it gives it away after it's earned it."

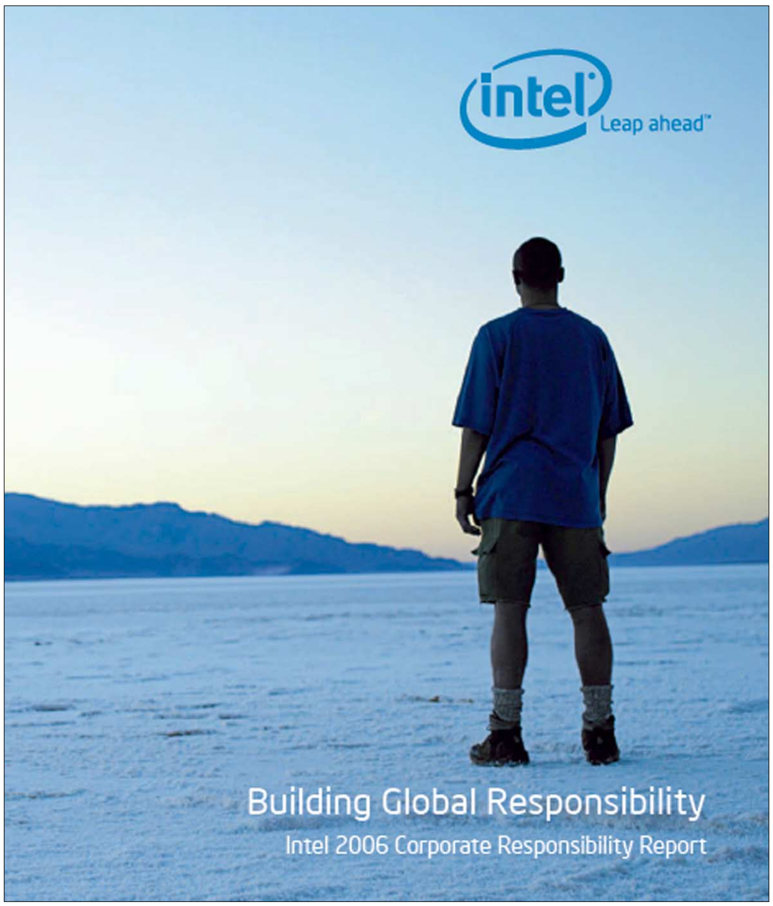
Among the corporate CEOs who comprise the Roundtable, the watchword is "sustainability," Burton and Hopkins say.

Environmentalists originated the concept, advocating conduct by individuals, businesses and governments that would sustain life on the planet. For corporate executives it now means sustaining the environment, society and their businesses.

"It's about today, the quarter, the year, the future," Burton says. According to Hopkins, "It's about doing what you need to do today without compromising future generations doing what they need to do."

This requires long-term thinking that's compatible with protecting the environment and building healthy societies that last. It leads to corporate support for education, health care, community improvement projects, economic development in poor nations, and even for stiffening some environmental-protection laws.

"There's a growing understanding at the top of the major corporations that humanity has been a poor steward of our planet, that we are facing resources shortages," says Business for Social Responsibility co-founder Warwick. "We are coming up against the time when it will be impossible for companies to obtain all the materials they need if they keep operating in the way they always have — particularly if they waste such basic resources as water, energy and minerals."



Courtesy Intel

Like many big U.S. corporations, Intel now issues an annual corporate social responsibility report. The company spends more than $100 million a year to improve science and mathematics education in more than 50 countries.

Response to Globalization

Burton notes the growing corporate support for action on global warming, which he terms "the ultimate sustainability question."

Globalization, technology and the increasing importance of businesses — especially large businesses — contribute to a growing public demand for corporate responsibility.

"We've experienced rapid globalization and the rise of market economies in every part of the world," Cramer explains. Because of the Internet and other advanced information technology, "we live in a much more transparent world, so the actions a company takes can be seen and understood by a global community."

An activist, shareholder advocacy director Shallit points out, "can very easily go to China, to a computer dump, where you have children working with hammers and acid baths trying to recover lead from our old computer monitors. The activist takes a picture of a monitor that has a Dell logo, and puts it on a Web site and sends it in an e-mail to Michael Dell. That has an immediate impact in a way that would not be possible" before the Internet.

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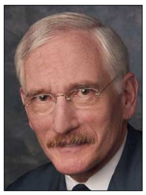
At Issue:

Does corporate social responsibility endanger U.S. prosperity?



NICK NICHOLS
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WRITTEN FOR *CQ RESEARCHER*, JULY 2007

yes

The financial well-being of 91 million Americans is tied to the fortunes of publicly traded corporations because half of American households own stock. It does not take an economics guru to conclude that diverting corporate assets away from activities that improve earnings endangers American prosperity.

Corporate executives are responsible for obeying laws and regulations. The corporate social responsibility (CSR) movement, however, is all about spending company resources (a.k.a. other people's money) on social and environmental programs that are not mandated by law. Every buck that is shanghaied from corporate coffers represents a hidden levy on shareholders, undermining their prosperity.

Why would business titans embrace corporate socialism? Some have chosen appeasement in response to activist group pressure. Others have been duped by public relations snake-oil peddlers who claim that jumping on the CSR bandwagon will protect a company from public attacks if something goes wrong.

Look at what happened to British Petroleum (BP) after one of its refineries blew up and its Alaska pipeline started leaking. The poster child for corporate do-gooders was publicly skewered for mismanagement. All those millions that BP spent posing for holy pictures with the likes of Greenpeace paid zero dividends in the court of public opinion as investors watched share values plummet.

A quick Google search suggests that thousands of companies are joining the march toward corporate social responsibility. One critic claims that Nike spends about $10 million a year just staffing its CSR program.

While no one knows how many shareholder dollars are being spent each year on CSR, I suspect the bottom line would impress even the Congressional Budget Office. Think of CSR as the redistribution of prosperity away from those who have invested their savings in the stock market and toward those people or things that the unelected non-government organizations of the world consider worthy.

For those on Capitol Hill who think it is about time corporations got a dose of social responsibility, think again. The CSR movement is not only about redistributing the wealth but also about redistributing political power — away from legislators and regulators and toward non-government organizations that are unaccountable to the public and rarely accountable to government.

You may think it is cute that corporate executives are frolicking with activist groups, but I suspect you will think differently when those same groups determine that you are irrelevant.

ARON CRAMER
PRESIDENT AND CEO, BUSINESS FOR SOCIAL RESPONSIBILITY

WRITTEN FOR *CQ RESEARCHER*, JULY 2007

no

Corporate social responsibility (CSR) has been embraced by many of the most respected companies in America. CSR means the integration of environmental and social impacts into a company's strategies and operations.

Contrary to what some critics might claim, CSR has little to do with altruism and a great deal to do with enlightened self-interest. This is why companies like General Electric and Wal-Mart have embraced CSR as a way of building and maintaining their business strategies. This is why more than 1,000 multinational companies now produce public CSR reports.

Why is this agenda critical, not only for the U.S. business community but also the American and global economy?

First, there is money to be made from looking at the social and environmental dimensions of business. As GE has made abundantly clear, "Green is Green," as the company has grown its revenues through environmentally beneficial technologies. As natural resources become more scarce, efficiency becomes more important.

Second, in a global economy, companies do not have the luxury of ignoring the way "Brand America" is perceived in the world. As survey after survey indicates that America's reputation is declining in the world, American business takes note. Doing business the right way helps to ensure that American companies are — and are seen to be — good neighbors in an increasingly complex world.

Third, CSR is an essential tool for operating in our global world. As Clyde Prestowitz famously put it in the title of his recent book, there are "three billion new capitalists" in China, India and Russia. They view the world differently from many in the United States, Europe and Japan. CSR helps to build business strategies that generate products and services for the half of the world's population found in those countries.

Finally, CSR helps companies succeed in our increasingly networked and transparent environment. In the You Tube world, anyone can shape a company's reputation — for good or ill. Companies that embrace external dialogue are poised to succeed; those that ignore it do so at their peril.

Some may claim that CSR wastes corporate assets on matters unrelated to core business purpose. This argument is based on a distorted view of CSR. It also begs a more fundamental question: Do opponents of CSR suggest that business should proceed without regard to ethics, social impact or the environment?

There is a reason why America's leading businesses have embraced CSR. It delivers value for their companies, their employees, their consumers and their communities.

CSR is simply good business.

Continued from p. 664

Executives feel the need to protect their companies against a public that is worried about globalization's impact on jobs, repulsed by working and environmental conditions in developing countries and fearful of climate change, the University of California's Vogel says.

Companies also drive each other to corporate responsibility.

"Wal-Mart throws a huge shadow across the world when it asks for action," notes Daniel Esty, director of Yale University's Center for Business and Environment. "When Wal-Mart is your customer and says it's time to move, you better get moving."

The giant retailer's efforts to protect the environment are driving its suppliers to switch to more environmentally friendly packaging, to make more environmentally friendly products and to ship their products in a more environmentally friendly manner.

"When [Wal-Mart CEO] Lee Scott said you've got to reduce emissions when you deliver to our stores, that got the bottlers' attention," Coca-Cola Corporate Responsibility Director Flanders says.

Indeed, when Home Depot this year announced plans for an "Eco Options" marketing campaign, manufacturers submitted more than 60,000 products for inclusion. Unfortunately, many were not all that eco friendly (plastic-handled paintbrushes were pitched because they saved trees, wood-handled ones because they didn't use the dreaded plastic). Still, the home-improvement retailer found 2,500 items to promote, including solar-powered landscape lighting and low-polluting paint. [43]

Suppliers also are seeking profits by convincing their customers to be socially responsible.

"There is opportunity to sell solutions," Esty says, suggesting that a supplier can "help a customer develop an environmental plan that the supplier can contribute to.

"If you're GE selling jet engines, fuel economy means a lot to airlines. There are very few companies that don't face some environmental pressures."

Last year, BT Americas, British Telecom's operation in the Western Hemisphere, joined the list of corporations with an executive in charge of CSR. Part of the newly created job is facilitating the company's social responsibility policies, such as using green energy, following certain personnel rules and offering pro-bono telecommunications consulting to nonprofits. New CSR Director Kevin Moss also "works with customers to help them identify and implement CSR through our products."

Examples include holding audio- and teleconferences to avoid long-distance travel and using information technology to enable employee telecommuting. Cutting travel reduces the customers' contribution to greenhouse gas emissions, Moss points out. Telecommuting "can increase diversity by making the workplace more accessible to working parents and handicapped workers." Having a dispersed work force "makes your organization less susceptible to disaster," Moss says, "and home workers call in sick less often."

Nike calls the triple bottom line "ROI squared — return on investment squared," says Vice President for Corporate Responsibility Jones. The company is infusing "corporate responsibility thinking across the business model," she says. Executives' performance reviews contain corporate responsibility targets.

On May 31 the company announced business targets for 2011 that include improving labor conditions in its suppliers' factories, shrinking CO_2 emissions throughout its operations, reducing waste in its products and packaging, increasing its use of environmentally friendly raw materials and providing financial support to youth sports programs.

Cutting waste means cutting costs, Jones says, and "that's where the chief financial officer and I become best friends." ■

AP Photo/Matt Rourke

General Electric Chairman Jeffrey Immelt listens to students read at Isaac Sheppard Elementary School in Philadelphia, where GE issued a $250,000 grant to improve city schools. "True impact means defining success in ways that go well beyond the bottom line," he says.

OUTLOOK

Government Regulation?

Even most critics concede that corporate social responsibility is likely to be around for the long term. Business executives, activists and scholars expect companies to become more effective at it and for more companies to join the movement. Some activists hope — and conservatives fear — that Congress will require companies to meet certain corporate responsibility standards.

"Corporations will still employ the language of social responsibility to seek competitive advantage and to protect themselves from political risk," the John Locke Foundation's Hood says. "That is a basic behavior in modern corporate life. We shouldn't expect it to go away."

Cypress Semiconductor's Rodgers speculates companies "will drift slowly toward more involvement" as the country becomes wealthier. "As we get richer — which we are because we're competitive — there's more money in total for us to spend, and that means there's more money to spend on good causes."

Hopkins of the Business Roundtable expects companies "will get a lot smarter, better at assessing opportunities and risks and doing smart strategic planning."

Nike's Jones predicts the public will continually raise its expectations for responsible corporate behavior. At the same time, she adds, "you'll increasingly see brands differentiating themselves from the competition through corporate responsibility."

Companies will move beyond "mitigating problems" toward "making positive contributions," according to G.E.'s Corcoran.

Scott Johnson of SC Johnson and Target's Garvis anticipate more creativity.

"Companies will be looking for new ways to do it," Johnson explains. They will become adept at "understanding need gaps and filling them," he says.

"It's not just about giving money away any more," Garvis says. "It's about giving your skill sets away, or your creativity."

A widespread goal and expectation is that companies will integrate social responsibility throughout their basic business operations.

"In 10 years you may not even be talking about it, because it will just be business," Corcoran says.

Johnson looks to the time when corporate responsibility is part of every executive's job description and performance evaluation.

Saying corporations have done a good job promoting diversity and equal opportunity in American workplaces, The Council on Foundations' Nelson foresees an effort to extend that globally.

"Instead of having the perspective that this job has been outsourced to India, a company would be able to value their Indian colleagues and recognize that there are people all over the world who are helping the corporation succeed," he explains. "The next challenge is going to be shifting the conversation from 'Oh my gosh, my job's being outsourced' to 'What a gift it is to be able to partner with all these people over the world, and we ultimately have a better product as a result.' "

Another challenge will be figuring out how to measure the result of corporate responsibility activities, according to Laysha Ward, Target's vice president for community relations.

"It is an emerging school of activity," Garvis says. "Much of what we're talking about is qualitative and not prone to easy measurement, but we know there are elements of value there. As this becomes a more and more important area, there's going to be more activity around capturing what that value is."

At Yale's Center for Business and Environment Esty spots an "emerging concept of extended producer responsibility." That means "you have to watch your supply chain and you have to watch what your consumers do with your products." It's happening today when companies hold suppliers to environmental and workplace standards while offering recycling services to customers.

The Target executives also foresee closer relations between corporations and nonprofit organizations. Companies will offer training to nonprofit personnel and will help the organizations adopt better business practices, Garvis and Ward predict.

Some activists and business executives foresee new forms of businesses and nonprofit organizations springing up.

"There should be another kind of business incorporated into the theory of capitalism — business to do good," said Muhammad Yunus, founder of the Grameen Bank, which makes tiny business loans to the poor. "I call them 'social businesses.' If we had this structural theory that there is a profit-maximizing business, and social businesses, some people would say, 'I'll do both. I'll make money, and I will do social business.' " [44]

Yunus' bank, which began operations in Bangladesh, is an example of a social business, he said. So is a new company he created with French food producer Danone to make yogurt that is specially formulated for malnourished children. The company's business plan calls for it to earn enough money to cover expenses, but it will not pay dividends.

Tweaking the Grameen model, Ben Powell and Ricardo Terán Jr. formed the Agora Venture Fund in 2006 to invest in socially responsible small businesses in developing nations. They want the fund to turn a profit, but they've also created a nonprofit affiliate to provide training and consulting services to those small companies. [45]

In another twist on the model, Peter Drasher and Dawn Edwards established AltruShare Securities in 2006 as a for-profit brokerage firm that will invest two-thirds of its profits in disadvantaged communities. [46]

Jones expects government to require some actions that companies currently take voluntarily through their corporate responsibility programs. Businesses are likely to face new disclosure requirements, she says. She also anticipates mandated curbs on greenhouse gas emissions.

Deborah Doane, chair of the Corporate Responsibility Coalition in Great Britain, hopes for a fundamental rewriting of the purpose of corporations.

Despite corporate social responsibility activities, she argued, "there is often a wide chasm between what's good for a company and what's good for society as a whole.

"Other strategies — from direct regulation of corporate behavior to a more radical overhaul of the corporate institution — may be more likely to deliver the outcomes we seek."

Her group has proposed legislation that would "see company directors having multiple duties of care — both to their shareholders and to other stakeholders, including communities, employees and the environment." [47]

In the United States, an organization called the Great Transition Initiative has drafted a proposed new statement of purpose for corporations. It says the purpose of the corporation is to, among other things, "harness private interests to serve the public interest" and "accrue fair returns for shareholders, but not at the expense of the legitimate interests of other stakeholders." [48]

Nichols at the Center for Defense of Free Enterprise expects "there will be significant efforts on the part of various governments to regulate CSR in the next five to 10 years." He predicts the efforts will backfire on corporate responsibility advocates.

"There will be a significant backlash, because one of the premises of CSR is that it's all voluntary and predictable," he says. "As a result, you're likely to see corporations walking away from this trend." ■

About the Author

Tom Price, a contributing writer for *CQ Researcher*, is a Washington-based freelance journalist. Previously he was a correspondent in the Cox Newspapers Washington Bureau and chief politics writer for the *Dayton Daily News* and *The Journal Herald*. He is author, with Tony Hall, of *Changing The Face of Hunger: One Man's Story of How Liberals, Conservatives, Democrats, Republicans and People of Faith Are Joining Forces to Help the Hungry, the Poor, and the Oppressed*. He also writes two Washington guidebooks, *Washington, D.C., for Dummies*, and the *Irreverent Guide to Washington, D.C.* His work has appeared in *The New York Times*, *Time*, *Rolling Stone* and other periodicals. He earned a bachelor of science in journalism at Ohio University.

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FOR MORE INFORMATION

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Business for Social Responsibility, 111 Sutter St., 12th Floor, San Francisco, CA 94104; (415) 984-3200; www.bsr.org. Advocates good corporate citizenship.

Business Roundtable, 1717 Rhode Island Ave., N.W., Suite 800, Washington, DC 20036; (202) 872-1260; www.businessroundtable.org. Organization of corporation chief executive officers that promotes corporate attention to society, environment and economy through its S.E.E. Change initiative.

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