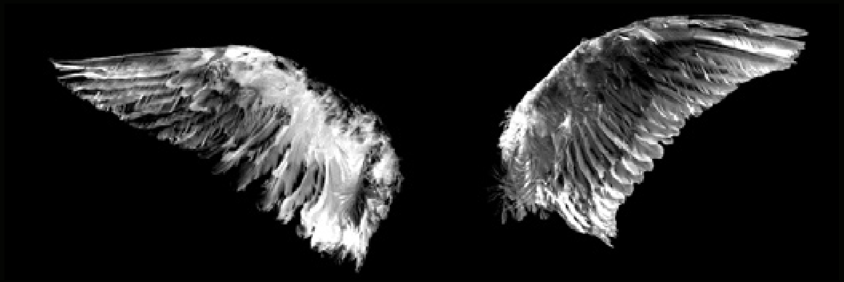

Why Corporate "Goodness" Isn't Good Enough:

Rethinking Corporate Responsibility

By Christine Arena

The other day, I was sitting in a crowded auditorium that housed a symposium on corporate social responsibility (CSR). It was the fourteenth such event that I had attended in less than six years. As usual, the conference teemed with renowned CSR experts, advocates, consultants and executives—all rubbing elbows and selling their wares. When the keynote was ready to begin, I moved through the crowd to find an inconspicuous seat off to the side. But as I thumbed through the conference guide, a play on the theme of "value-based" leadership, my mild interest turned into full-blown malaise.

A recycled curriculum combined with the self-congratulatory buzz in the air urged me from my chair and toward the exit. Although I paid a hefty sum for my ticket, I decided to cut and run. I just couldn't bring myself to endure another two days of the same back-patting. The same rhetoric. The same core ideas. The same case examples.

Interface "does well by doing good." Altria Group "integrates its values." Unilever's Dove makes "ethical branding" work.

If there is one thing that I have learned while researching the variables that separate true from false corporate responsibility, or winning from losing approaches, it's that the most effective companies leave vague concepts like "doing the right thing" behind.

Exactly what is the "right thing," anyway? And who gets to decide?

Furthermore, who among us consciously commits doing the *wrong* thing? While many in the CSR industry—including notable media sources, research firms and socially responsible investment (SRI) funds—attempt to separate right action from wrong and either award or admonish companies accordingly, skeptical stakeholders call their criteria into question.

NOT BUYING IT

In one highly publicized rebuttal against SRI industry standards, for instance, environmental entrepreneur and bestselling author Paul Hawken noted that many of the multinational corporations awarded "good" status and included in SRI funds were actually far from right:

> *"Over 90% of Fortune 500 companies are included in SRI funds... If a fund doesn't own companies involved with gambling or pornography, it can be called socially responsible. Never mind that it owns Halliburton and Monsanto."*

Similarly, in response to *Business Ethics* magazine's 2005 list of the "100 Best Corporate Citizens," independent media entity Alternet.com made the observation that:

> *"When one looks at the companies on this list, it is easy to be baffled at the real meaning of CSR....[It] is riddled with companies that have significant blemishes on their records."*

More recently, in response to *Business Ethics*' 2006 roster, which awarded Green Mountain Coffee Roasters first place, readers like Pheobe Sullivan, chief sustainability officer of coffee company Dean's Beans, complained:

> *"After reading through your list of 100 Best Citizens, I was taken aback by your choice for the leader of the pack, Green Mountain Coffee Roasters. If a company is only 20% committed to Fair Trade, how could one possibly deem such a company ethical?"*

These critiques are by no means isolated. Each and every entity in the business of rating and selling business goodness has likely experienced similar backlash from people who don't quite see things their way. And it isn't any wonder why.

If I asked you to rate the absolute level of goodness (or good citizenship) of your particular company, how confident would you be that your rating would be one hundred percent accurate, and that it would match or even closely correspond to the ratings generated by all others who encountered it? The likely outcome is that regardless of the methodology used, scores would vary significantly according to the vantage of the particular viewer.

Business goodness is a subjective concept. And I propose, an unconstructive one.

The phrases and associations used by many to encapsulate this practice area are so broad that they are meaningless. After all, the nice executives at Halliburton, Monsanto and Altria Group wholeheartedly believe that their companies "do the right thing," stand for "socially responsible values" and that ethical conduct is "the way we do business." But while pedantic notions such as these infiltrate many business practice areas, they set the stage for an even larger issue in the CSR arena.

GOODNESS IS THE PROBLEM

The widely held notion that corporate responsibility is about “doing good” effectively marginalizes CSR, keeping it on the sidelines of many corporate agendas. That’s because the practical execution of doing good often translates into philanthropy rather than business strategy. Thus, the concept of business goodness not only hinders companies from making a real difference, it also inhibits the CSR movement from taking root in powerful economic sectors.

For the most part, goodness is the reason why we still cannot agree on an accurate and cohesive definition for CSR, and why we also disagree about which companies pass muster. Goodness is also the ammunition that CSR critics—who assert that a company’s sole responsibility is to generate shareholder wealth rather than give back to society—use in their arguments against the practice. And since goodness (or the perception of goodness) is the end goal that so many companies strive for in their “corporate responsibility” community outreach programs or multi-million dollar marketing bonanzas, goodness potentially diminishes the impact that companies ultimately have on shareholders, society and the planet. Therefore, goodness affects us all.

MEASURING WHAT MATTERS

In the Spring of 2005 I decided it was high time for a piece of research that cut through the hype and demystified an unnecessarily complex field. The industry as a whole, I reasoned, might benefit from a constructive assessment of the CSR practices of so many companies striving to do good.

My goal was to structure a study that both uncovered why and how corporate responsibility affects business performance, and that also distinguished between the extraordinary companies driven by purposeful ideals, and those companies that merely pretend to be responsible. I realized that in order for the results of my study to be taken seriously and adopted by mainstream corporations, the standards and methodology used had to be both objective and rigorous.

In conjunction with the McGill University Desautels Faculty of Management and a team of sharp MBA students, I spent two academic semesters analyzing the corporate responsibility practices of 75 well-known corporations from major industries that spend millions annually on CSR and actively promote their commitment to society and the environment through marketing communications. The companies in my study ranged from JetBlue Airways to Wal-Mart, McDonald's and Starbucks. (For a full list of companies evaluated, why they were selected and how they fared, please refer to chapter one of my latest book, *The High-Purpose Company*).

Rather than judge them as good or bad citizens, we evaluated the *quality* of each company's CSR approach.

My research team and I defined CSR quality in tangible terms—namely, the economic, social and environmental value produced. And rather than rely exclusively on the company's point of view about itself, the way many CSR auditing firms do, we reached out to each company's web of accountability. We interviewed hundreds of stakeholders to get a real sense of where each company was with respect to its true level of CSR authenticity and effectiveness.

In assessing Wal-Mart, for instance, we interviewed Wal-Mart executives, employees, store managers, whistleblowers and their attorneys, activist groups like Wal-Mart Watch and industry insiders, such as energy expert Amory Lovins of the Rocky Mountain Institute. This well-rounded assessment gave us a much better sense of potential gaps in conscience—that is, discrepancies between what a company says and what it actually does—and a clearer understanding of the impact that a company has on shareholders and stakeholders.

In structuring our inquiries, we deliberately steered clear of obscure questions often debated by CSR advocates and critics, such as: Is there a compelling business case for CSR? or, Does CSR pay? Instead, we focused on concrete issues like:

Precisely *when* does CSR pay? Under what *specific conditions* does CSR work the best—and worst?

In addition to improving the integrity of the study's output, asking the right kinds of questions from the start yielded a single criteria, a gold standard, that can be used to help distinguish the truly responsible and highly profitable firms from all the rest.

THE LITMUS TEST

Is purpose *invaluable* to the company? This simple question draws a tidy line in the sand between true and false corporate responsibility, while also simplifying a bewildering practice area.

Although many companies claim to stand for a grandiose purpose that serves the common good, few companies actually absorb and reflect that purpose to the point where their own success depends on it, where it becomes a dominant force for corporate performance and development. In true High-Purpose Companies, the concept of a higher purpose—of somehow serving society or protecting the environment—is so integral to the fabric of the organization that if you removed that thread, the company would start to unravel.

Without its purpose, such companies would be crippled, utterly drained of life force and unable to compete as effectively in the marketplace.

For instance, consider the difference in purpose-driven value generated by Chevron versus General Electric (GE). In Chevron's case, the company spends tens of millions annually advertising its commitment to energy conservation, yet presently sells few if any products that meet this favorable end. In fact, Chevron has the business incentive to undermine its reputed cause since its current financial performance and near-term growth rely almost exclusively on increased oil prices, demand, supply and control.

On the other hand, in GE's case, while the company equally spends tens of millions annually promoting its intent to "provide imaginative answers to the mounting challenges to our ecosystem," it substantiates this claim by investing over $1.8 billion annually in environmental technologies and generating over $10 billion in annual revenues from "Ecomagination" products. According to the company, revenues from Ecomagination products—which address global issues ranging from water scarcity to climate change—are expected to double to $20 billion by 2010.

PASSED THE LITMUS TEST

Company:	Higher Purpose:
GE	"Provide imaginative answers to the mounting challenges to our ecosystem."
DuPont	"Create sustainable solutions essential to a better, safer, healthier life for people everywhere."
Toyota	"Make sustainable mobility a reality."
SC Johnson	"Promote global well-being."
Jet Blue	"Bring humanity back to air travel."
IKEA	"Create a better everyday life for the many people."
Patagonia	"Inspire and implement solutions to the environmental crisis."

**For a full list of companies that passed the litmus test along with corresponding in-depth analysis, please refer to chapters 6-7 in The High-Purpose Company.*

A higher purpose makes corporations like GE, DuPont, Toyota, SC Johnson, Jet Blue, IKEA, Patagonia literally worth more to shareholders and also, worthy of succeeding. While these companies are undoubtedly imperfect, they provide tremendous value. Owing to the fact that they fill fundamental, unmet human needs and address serious world problems, society would be worse off without them.

SORTING MYTHS FROM REALITY

The results of my study defy conventional wisdom about CSR and prove many widely held beliefs to be inaccurate. If your company invests even minimally in corporate responsibility, then you risk losing out by not seeing things anew.

While *The High-Purpose Company* provides a thorough review of findings and how they might pertain to your business, here are a few notions worth re-thinking today:

Myth #1: CSR is best approached as a "cosmetic exercise." This argument was first asserted by *The Economist's* Clive Crook in his 2005 article, "The Good Company," and then later expounded upon by *The Wall Street Journal* and others. However, my results clearly indicate that *when* CSR is approached cosmetically, then companies ought not invest at all. That's because companies that falsely approach CSR as a superficial form of marketing or philanthropy don't produce meaningful results. On the contrary, they often waste their money and create additional liabilities stemming from stakeholder backlash and similar factors.

Myth #2: Making the world a better place is the top priority of CSR. Many companies expend much time and money "giving back" to the community, when really they should *first* focus on eliminating the damage they create through their most basic business activities. Some of the best CSR programs presented in my book and elsewhere work to benefit society and the environment so well because they primarily target business inefficiencies and risks. For instance, without Gap's efforts to improve labor standards, it would remain a target for watchdog groups, lawsuits and negative publicity. Without Tyco's comprehensive ethical house cleaning, it would remain an SEC target and suffer from a dysfunctional internal corporate culture. Without DuPont's commitment to become a "zero emissions," "zero accidents" organization, the company would face substantial liabilities produced by pollution costs and workplace fatalities and injuries—not to mention miss out on $2 billion in saved overhead costs. By both minimizing the practices that create business vulnerabilities and maximizing approaches that work to reverse related social and environmental problems, companies such as those featured above become textbook examples of high performance CSR. Therefore, the first question for business leaders to ask themselves isn't necessarily, How can we better serve society? but rather, Where and how are we most vulnerable to the risks produced by social and environmental inefficiencies? By answering question two, companies naturally answer question one.

Myth #3: Competitive distinction is the top benefit of CSR. Many advocates tell companies to invest in CSR because it can set their brand apart. This claim leads one to ask the valid question: if everyone else in my sector is doing it, then why should I? The fact is that brand differentiation is absolutely not the top benefit of CSR. Innovation is. As the companies featured throughout my book, from Wal-Mart to Wainwright Bank & Trust, John Deere and SC Johnson prove, outstanding CSR leads to higher quality products, services, business models, management policies, operational innovations and other advancements that can revitalize a company and catapult it forward. The advantages gleaned by a slightly better brand position alone pale in comparison.

Myth #4: The most effective companies leave no stone unturned. Companies that dabble in every conceivable corporate responsibility facet (community, diversity, environment, human rights, etc.) tend to be less *effective* than the companies that pursue deliberate strategies in a focused area—both in terms of making a substantive social and environmental impact, and in terms of generating a financial return on investment. This is a key finding from my study, and it runs contrary to the way that companies are often rated on Best Citizens lists. Whereas Best Citizens lists typically quantitatively rate companies across these various performance dimensions and then add up cumulative scores, we found that too much strategic diversity or fragmentation actually diluted CSR results. On the other hand, the most successful companies concentrated on key strategic areas where they knew they could make the biggest difference and brought their greatest strengths to bear in order to better meet an unmet need. For instance, while over the past eight years Microsoft might not have been hailed by the CSR industry due to antitrust or public opinion issues, the company hones in on one critical problem: the digital divide. By 2010 Microsoft intends to bring the benefits of technology to one quarter billion under-served people, thereby simultaneously helping to alleviate poverty and also growing its market. Companies like Target, Dell, Nike, Starbucks and many others featured in my book take a similar approach, leveraging their core competencies and generating substantive results. Such firms demonstrate why ranking companies on the basis of their general “responsibility” or “goodness” when they can provide better value to society and shareholders by going deep risks missing the point.

Myth #5: CSR is a laudable end-goal. In fact, there is no definitive finish line, as corporate responsibility is not really an objective or desired effect. Rather, it is a continual process of change and self-improvement. In *The High-Purpose Company,* my study’s core findings are presented as a ladder of CSR effectiveness. Each sequential step on the ladder represents a level of skill or strategic aptitude. The higher companies climbed on my ladder, the more skills they had visibly mastered and the better results they produced for the environment, society and shareholders alike. Conversely, the lower companies resided on my ladder, the fewer skills they visibly reflected and the less meaningful their results. In some cases, where companies reflected none of the skills that my research team and I identified, they produced negative results—amounting to *billions* in financial liability.

The first step toward making inroads in this space is to re-think the very definition of the practice itself. True and effective CSR isn’t as much about being “responsible” as it is about being *responsive*. Answering to changing human needs, to shifts in the economy, society and the environment, and to emerging market trends is the business of High-Purpose Companies. Such firms prepare themselves for inevitable turns and are the first to market with progressive solutions that are vital and necessary, not frivolous or easily replicated. The more ingeniously they meet society’s needs, the more returns they produce for shareholders—and the more we can all benefit.

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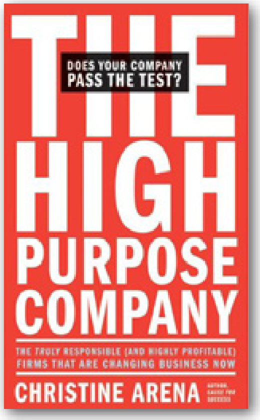

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For more details or to buy a copy of Christine Arena's *The High-Purpose Company* click here.

ABOUT THE AUTHOR

Christine is the award-winning author of two books, *Cause for Success: 10 Companies that Put Profits Second and Came in First* (New World Library, November 2004), and *The High-Purpose Company: The Truly Responsible (and Highly Profitable) Firms that are Changing Business Now* (Collins, January 2007), from which this manifesto is adopted. Through her books, Christine's prime objective is to enable readers to easily distinguish between true and false corporate social responsibility (CSR), or winning and losing approaches. She is a frequent speaker on the subject of CSR effectiveness to corporate and academic audiences worldwide. Additionally, Christine serves as a strategic partner to change management consulting firm Interaction Associates, and sits on the advisory boards of green business ventures IdealBite.com and Re:Vision. A masters graduate of New York University, she lives in San Francisco with her husband.

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