AARON CHATTERJI & SIONA LISTOKIN

Corporate Social Irresponsibility

Progressives need to end their fixation with corporate social responsibility—and focus on reform that actually works.

After years spent fruitlessly attempting to organize Wal-Mart, unions and other liberal activist groups have taken a new tack: a public campaign to force the Bentonville behemoth to become more socially responsible. In 2005, Andrew Stern, the president of the Service Employees International Union (SEIU), created Wal-Mart Watch, with an annual budget of $5 million, devoted exclusively to making Wal-Mart "a better employer, neighbor, and corporate citizen." At almost the exact same time, a parallel group called Wake Up Wal-Mart launched, with much the same goal.

In the nearly two years since, both Wal-Mart and its new opponents have spent millions dueling in the public and legislative spheres. The labor-backed groups have managed to stop Wal-Mart from opening stores in a number of communities and won isolated victories in court to force the company to

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increase benefit expenditures. Yet they have not fundamentally altered Wal-Mart's behavior: Its wages are unchanged, its benefits are still restrictive, and its workers are still non-unionized. All of which raises an important question: Can progressives really change Wal-Mart—or any other company, for that matter? And if they can, at what cost?

A generation of activists has been raised on the idea of corporate social responsibility (CSR)—that large corporations can be cajoled into paying employees better, being more environmentally responsible, improving labor conditions in developing countries, retaining more American workers, embracing diversity, and donating money to fix inner-city schools. Where firms cannot be enticed, the strategy goes, they can be bullied. In the late 1970s, Nestlé learned this first-hand when a massive boycott was launched to protest its overly aggressive marketing of infant formula. In 1999, a series of protests convinced Home Depot to sell more lumber from sustainable logging operations. More recently, campaigns against the fast-food industry have included a full barrage of boycotts, lawsuits, movies, and books to pressure companies like McDonald's and Wendy's to stop advertising to children and to serve healthier food.

In pursuit of similar success, enormous resources have been directed away from lobbying for regulatory regimes and toward recruiting powerful corporations into voluntary battle against a variety of injustices. Yet CSR campaigns have had limited success in actually changing corporate behavior in a meaningful way. More often than not, CSR crusades result in companies allocating a relatively small portion of their profits for public affairs advertising, community donations, and token changes—from signing on to "industry codes" to hiring CSR-focused senior executives or consultants. At the root of the problem is an inconvenient but implacable fact: Corporations care about profits. Corporations will not—and their shareholders do not expect them to—engage in behaviors that do not maximize profit. Indeed, shareholders would punish them if they did. In concept and in practice, therefore, CSR is at best a partial solution to solving social injustices and correcting for market externalities. After years of relative futility and millions of dollars spent, progressives who are concerned about market failures and their impact on the common good need to do the responsible thing and end their fixation on corporate social responsibility. It is time to recognize that most market failures can only be solved by governments and multilateral agreements, and progressives need to redirect activist pressure appropriately.

The Origins of Socially Responsible Business

CSR is as old as the legal corporation itself. In the late nineteenth century, commentators bemoaned the decline of "the personal responsibility on which the integrity of democratic institutions depends" in private business, and they urged the business community not to undermine social values through their new brand of rapacious capitalism. And to an extent, it worked. Turn-of-the-century business leaders like Andrew Carnegie and John D. Rockefeller believed they were stewards of a social contract between business and society and as such were required—through philanthropy and good management—to hold society's resources in trust in order to increase total social welfare (apparently this social contract did not curtail all ruthless business practices). Business stewardship was insufficient, however, to deal with the social needs created by the Great Depression, a void filled by government intervention. And the idea that the private sector had a "social responsibility" did not gain traction again until the 1960s and 1970s. Then, the concept reappeared with the rapid increase in the size and power of corporations, and it shifted focus from the *noblesse oblige* of wealthy business owners to an institutional philosophy that placed business alongside government, local communities, and religion to collectively enhance society.

The anti-apartheid movement against South Africa in the 1970s and 1980s, one of the first modern CSR campaigns, illustrated this new institutional focus. Religious institutions in the United States and Great Britain called international attention to South African apartheid and directed pressure toward the UN, governments, businesses, and consumers to use their respective influence to economically and politically isolate the country. Official U.S. sanctions followed the private divestment movement (epitomized by the "Sullivan Principles" that delineated private business responsibility in transactions), and eventually worldwide governmental pressure helped to end the apartheid regime.

Before the 1990s, the divestment movement was the most visible CSR campaign. In general, though, critics of business during the pre-1990s era had little to say about the business case for CSR, being more concerned with the stark abuses of corporate power or the acquiescence of corporations to odious regimes. Moreover, their strategies were designed to create public demand for regulation or other government interventions, rather than calling on companies to act on their own initiative. In a similar vein, in recent years some activists have tried to use markets to change the private sector, advocating socially responsible investing (SRI)—investing in firms that meet social as well as financial criteria—rather than criticizing capitalism more broadly.

The modern CSR movement—defined by a greater appreciation for corporate obligations to stakeholders' interests—did not begin in earnest until the 1990s, the result of a confluence of globalization, neoliberal governments, and opportunistic corporations and nongovernmental organizations (NGOs). As more firms became multinational, national governments were less effective at correcting negative business externalities—a company could always move its operations or headquarters to avoid regulation—and negotiating multi-country agreements proved to be significantly more difficult than domestic bargaining. Moreover, trade globalization discouraged national governments from insisting on strong, controversial international regulation. Developed nations had much to gain from access to new consumer and labor markets and did not want to jeopardize this access with dicey negotiations and ambitious transnational law. As a result, progressive pressure groups experienced a series of crushing defeats at the national government level: the breakdown of negotiations over an international forest treaty at the 1992 Rio de Janeiro "Earth Summit"; President Bill Clinton's 1994 decision to extend China's Most–Favored Nation (MFN) trading status despite a lack of discernible progress from Beijing on human rights; and the failure of the Child Labor Deterrence Act of 1995 to come up for a vote in Congress.

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In response, pressure groups like the World Wildlife Foundation (WWF) began to shift part of their focus from public regulation via the World Trade Organization (WTO) or multinational binding agreements to private, non-sovereign regulation like codes and standards. Public interest activists and NGOs also capitalized on the technological advances in communication, which eased the spread of information to consumers and helped to create demand-side incentives for private regulation. This shift in focus resulted in an explosion of voluntary codes, business roundtables, and standard-making boards to address issues as diverse as sustainable-lumber harvesting, gay rights in the workplace, the living wage, and diamond-mining in developing nations. By giving corporations a seat at the table and making compliance a voluntary, market-driven norm, pressure groups believed they could reach their goals without controversial regulation and reduce their dependence on national governments. To that end, the Clinton Administration gave the groups its blessing—its 1995 Model Business Principles encouraged private firms to "adopt and implement voluntary codes of conduct for doing business around the world."

Corporations welcomed this approach and saw a clear advantage to adopting such voluntary codes. Instead of fighting social-movement organizations in shaping legislation, firms could sit down with these groups to create and monitor less-stringent private regulation. In addition, some industries were faced with very public scandals in the mid-1990s that caused unwanted customer attention, for which CSR proved a valuable palliative (or distraction). The apparel industry, for example, was hit with the Kathie Lee Gifford child-labor scandal in 1996; public pressure was subsequently focused on other companies, including Nike and the Gap, and other practices. The results were swift: Not only did Nike change its supply-chain standards, but other corporations became enthusiastic partners in voluntary standard organizations. Human rights groups hailed their campaigns against companies like Nike as a resounding success, and they were right to a point. By the end of the decade, a new kind of relationship between public interest groups and private business had been created. Whereas earlier the two groups frequently stood on opposite sides of regulatory battles, activists and corporations now communicated directly—circumventing government whenever possible—and collaboration was considered an optimal (if not always attained) solution.

Today, the proliferation of responsible investing, voluntary codes, public pressure groups, and corporations with "social values" shows just how dominant CSR has become. And while environmental and human rights issues have been the most prominent focus, the amorphous movement is expanding to include more domestic issues, such as child obesity and middle-class employment benefits. Business schools are creating classes and centers for corporate social responsibility, companies are hiring CSR executives, and new codes are constantly being created in practically every industry. One could be forgiven for thinking that CSR has been a resounding success. The reality, however, is very different.

CSR's Dubious Achievements

Imagine a world with one voluntary code of conduct governing the operation of apparel factories. Let's call it the Golden Code of Conduct (GCC). This is a strong code that calls for the provision of a living wage, recognition of unions, and limits on working hours. Now suppose another set of companies who do not want to abide by the code, but still care about consumer perceptions, creates their own code, called the Super Code of Conduct (SCC). Their code lacks many of detailed provisions of the GCC, but it has some vague language about treating workers with respect. Companies must decide which code to adopt, and the SCC is clearly cheaper to institute. For high-minded companies that want to live by the more stringent code, the high costs could make them uncompetitive in supplying retailers. Meanwhile, the benefits are only significant if consumers can tell the difference between the two codes. If a company can retain the benefits of an improved image but not incur the cost of improved working conditions, there is no reason to expect them to choose the less stringent code. The end result can be a race to the bottom as most companies decide to choose the weak code, which is often a far cry from the progressive ideal.

Reexamining the Nike battle over labor standards in the 1990s—viewed as one of the premier successes of the CSR movement—offers a concrete example of this dilemma. As a result of that mobilization, there are several codes of conduct for apparel factories, including codes created by the Workers' Rights Consortium (WRC), the Fair Labor Association (FLA), and the Worldwide Responsible Apparel Production (WRAP) accord. The differences between these codes are significant, especially on such central but complex issues like the "living wage," the independence of monitors, and the right to organize. But do consumers know the difference? Probably not. Unfortunately, one feature of voluntary codes of conduct is that companies can pick and choose the standards to which they adhere, particularly if consumers are confused about the basic differences. As long as the company can claim that it is complying with some pleasantly named code of conduct, most consumers are likely to be pacified, even if the code lacks any real teeth. One example of this is the United Nations Global Compact, which seeks "to promote responsible corporate citizenship," but has no monitoring of its members. While firms can tout their Global Compact membership, almost nothing is done to ensure that they actually embody the ideals of the organization. These kinds of glaring omissions are a sad fact of many voluntary initiatives.

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The apparel industry's experience with CSR campaigns is echoed elsewhere. Oil companies have been lightning rods for activist pressure, starting with the major oil producers' refusal to participate in the South African divestment movement. Indeed, the oil industry faces a fundamental problem with public interest groups: Their central business model—harvesting primarily nonrenewable energy sources from countries that are more often than not poor and unstable—is on its face problematic to many people. Pressure groups have thus pushed oil companies to improve their environmental and social records through investment in renewable energies and/or development projects in local communities.

The massive mobilization to pressure the industry gained steam in the mid-1990s, when activists tried to stop Shell from sinking a decommissioned floating oil storage facility (the Brent Spar) in the North Sea. Greenpeace members boarded the Brent Spar and sparked a rash of public protests and boycotts. As in the apparel industry, the ensuing backlash against the large oil companies appeared to produce significant results from the large oil producers. New corporate codes of conduct were created, and the major companies like Shell and BP joined the UN Global Compact and Global Reporting Initiative while investing in carbon-dioxide reduction projects. Both companies dropped out of the Global Climate Coalition, a group that denied human effects on climate change. And in 2000, BP rebranded itself, launching its "Beyond Petroleum" campaign and partnering with the National Wildlife Federation. Many consumers now differentiate between BP, Shell, Chevron, and Exxon based on their environmental records. Yet most monitors concede that there is little practical difference between the large oil companies other than branding, as evidenced by their unified stance on policy issues like carbon-dioxide regulation and drilling in Alaska's Arctic National Wildlife Refuge (ANWR). This summer, BP hit another "responsibility" bump when it became clear that the company had failed to maintain its pipelines and the subsequent pipe corrosion contributed to a massive oil leak in Alaska. Clearly, years of CSR efforts have done little to make it a more sensitive, responsible company.

Or consider a variant on the CSR model, socially responsible investing, which, despite some favorable publicity, has fared little better than voluntary codes. SRI aims to direct money toward responsible companies and away from those that pollute, treat their employees badly, have poor corporate governance, or operate in "dirty" industries. Not only are there dedicated SRI firms like KLD and Innovest, but more conventional companies like Dow Jones and Calvert are also active in SRI. By the numbers, SRI has been a resounding success: Approximately $1 out of every $9 invested is shaped by some social screen, adding up to over $2 trillion in 2005. SRI methods range from the blunt (screening out companies in a few controversial industries) to the surgical (making detailed rankings of companies based on several ratings of economic, environmental, and community performance). While some SRI advocates appreciate the simple pleasure of not buying shares in the next Enron, many others argue that firms that "do good" will also "do well." Companies that treat their workers better might experience increased productivity, firms that invest in community relations may be buying themselves "reputation insurance" against future scandals, and corporations that invest in clean technologies may be saving themselves fines and expensive upgrades in the future.

But does it really work that way? Over 100 academic studies have examined the relationship between CSR and financial performance, and while most find some link, they come with an important caveat: It is very difficult to know whether CSR causes good financial performance or whether successful companies just have more money to spend on "doing good." It is likewise hard to tell if smart and capable management might be driving both CSR and superior financial performance. There is also much uncertainty about some of the methods socially responsible investing companies use. First, what are the components of responsibility? Most raters have different categories, including environmental, community, human rights, and product safety. And each rater has different combinations of categories and weights. Is environmental responsibility equally as important as product safety? It depends on the values of the rater themselves, and all ratings suffer from these biases. And, even if you agree with the weights chosen by a rater, how do you actually measure these things? After all, what is the best metric of how well a firm manages diversity? The number of minorities who sit on the board? The percentage of top managers who are from underrepresented minority groups? Surveys of all employees about their attitudes toward diversity? The answer is unclear. Community giving also might seem easy to measure, but should it be divided by the firm's total market capitalization, adjusted for where the firm is headquartered, or dependent on how much impact the donated dollars actually have? These measurement challenges have made scholars skeptical of the accuracy and reliability of SRI metrics, leading them to question if it is really possible to assess a company's character and predict its future social performance. Taken together, such questions present a challenge much more daunting than traditional financial forecasting. And that's assuming the data are correct. When progressives put their trust into CSR-type ratings to identify corporate leaders and laggards, they must be wary of incorrect metrics, greenwashing (the corporate practice of highlighting small environmental improvements and achievements to mask more serious environmental problems), and even simple media hype. After all, only months before filing for bankruptcy, Enron was still being touted by *Fortune* as one of the nation's most admired companies.

Strategic vs. Nonstrategic CSR

Using market forces to improve corporate behavior is a tricky proposition and one in which progressives have put too much faith. Indeed, the continued popularity of CSR and related strategies suggests that progressive activists will resort to even more private regulation, voluntary codes of conduct, and the like in hope of enacting their social and economic agendas. Yet it is clear that, given the enormous problems with CSR, progressives should step back and reconsider their strategy. To be fair, in limited cases companies can indeed be agents of social change beyond the inherent positive effects they produce as part of their regular business functions. But in most, it will not be in their best interest to take on social responsibilities. As a result, as progressives pursue social justice goals, they must identify when and where corporate responsibility strategies are effective and appropriate—and when they are not.

Corporate social responsibility initiatives can be roughly divided into two categories: strategic and nonstrategic CSR. In private management, strategic behavior is the set of actions that promotes long-term profit for the firm given its competition, consumers, suppliers, and market environment. When a company engages in socially conscious activities that improve its bottom line in the short or long run, it is behaving strategically. Strategic CSR is a subset of such behavior and includes direct initiatives, such as investing in environmentally friendly operations that reduce emissions and also lower costs, and indirect methods like targeted charitable giving that could increase brand reputation and customer loyalty. While there are important differences between direct and indirect means, the underlying mechanism is the same: The firm's management team is engaging in an activity that can have a positive impact on society, but it is also acting in the interests of their bosses, namely the company's shareholders. By aligning social responsibility with traditional profit maximization, firms can actually make more money and do more good.

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Strategic CSR is often connected to marketing or branding activities—think of Ben and Jerry's friendly image and its three-tiered product/economic/social mission statement, or Patagonia's environmentally conscious image, replete with recycled underwear. In other cases, strategic CSR improves worker productivity, as in the case of some apparel factories that have improved air-quality and lighting. In cases where publicized socially responsible behavior creates a brand niche, everyone wins. The company's strategic CSR has differentiated itself from competitors, and a social good is created without the need for government intervention.

Still, many other CSR efforts and demands made by activists fall under the category of nonstrategic corporate social responsibility: business behavior that is at direct odds with short- and (reasonably) long-term profit maximization. And good management demands that nonstrategic actions be avoided or run out of the market, regardless of the social good they may produce. When critics ask Wal-Mart to pay their workers more and provide better benefits, they are essentially asking Wal-Mart to make less profit to improve society. One could argue that if Wal-Mart paid their employees more and provided expanded benefits, their workers would be more loyal and motivated, increasing productivity and profits for Wal-Mart, but this argument has limited applicability. After all, one of Wal-Mart's competitive advantages is selling at low prices, and low labor costs are part of what sustains its edge. Pressuring Wal-Mart to weaken its own competitive advantage is likely to be exceedingly difficult—a classic case in which the incentives of profit maximization are not aligned with progressive goals.

The prevalence of nonstrategic CSR demands is partly to blame for the meaningless voluntary codes that define the private regulatory sphere. It is hard for a well-managed company to voluntarily agree to nonstrategic behavior, so there is a natural drift to costless standards that do not address the relevant social issue. The upshot is that while progressives might believe that they are improving corporate behavior and advancing social justice, they have in fact left behind a patchwork of confusing codes, voluntary standards, and weak or nonexistent monitoring. Indeed, the abundance of ineffective private regulation even has the potential to "crowd out" the demand for government regulation that could truly bring about the changes progressives seek.

A Better CSR Paradigm

Moving forward, progressives need to return to their roots: For especially large market failures, government action simply may be the only way to comprehensively address the problem. Thus, instead of pressuring the private sector to deliver social justice, progressives should focus their efforts on lobbying for government action to address issues like low wages at home and minimal labor standards in the developing world. By abandoning nonstrategic CSR, progressives will have increased capital (both political and financial) to devote to lobbying the government directly. And on a smaller set of issues, progressives may actually be able to work with business to further a common agenda. For example, auto makers like General Motors are increasingly concerned with rising health care costs and may be amenable to working with progressives to expand government-provided health care coverage, especially if other CSR pressures were alleviated. A more nuanced CSR paradigm, then, would have progressives using CSR tactics in limited cases, but most often working for government action, sometimes armed with the lobbying and financial muscle of corporate America itself.

The first element of that strategy—to stop most nonstrategic CSR activities—might seem to many activists the equivalent of unilateral disarmament in the war for social justice. But it is in fact a matter of allocating progressives' efforts more efficiently. Imagine what would happen if those activists who currently spend their time and money railing against Wal-Mart instead directed their complete and undivided attention toward fighting for a higher national minimum wage or national health care. Progressives have always known that government action is sometimes the best solution to large social problems, because the scope of private actions will always be limited by the principle of profit maximization and by the fact that corporations are individual, nonsovereign entities. This argument is neither pro-business nor anti-business. Rather, it is a realistic view of how the corporate sector behaves and how progressives can work within the current system to enact change.

What would this new strategy look like in practice? Let's return to the case of Wal-Mart. Activists find Wal-Mart guilty of many things; recently, poor pay and benefits have been the most public charge against the giant corporation. Up to now, pressure tactics to improve Wal-Mart's starting wages and health care coverage have included intense public drubbing and legislative pressure—for example, a fair-share bill in Maryland that requires Wal-Mart (and only Wal-Mart, as it is the only employer that met the bill's size criteria) to provide employee health benefits. The battle between Wal-Mart and watchdog groups is vicious, and it is a testament to how costly a CSR campaign can be. Groups like Wal-Mart Watch and Wake Up Wal-Mart fight the company on multiple fronts: at new store openings, in court, on behalf of janitors and overweight workers. And they haven't proved particularly effective. Despite self-congratulatory statements from Wal-Mart Watch that it had "out-hustled Wal-Mart" following the "Fair Share Health Care" victory in Maryland, the law was overturned in federal court this summer. Nonetheless, activist pressure is currently an explicit threat to Wal-Mart's bottom line, and as these organizations spend large amounts of money and effort in these endeavors, Wal-Mart is pushing back with its own costly p.r. campaign. It is unclear at present who will win, but it is certain to cost both sides enormous sums of financial and political capital.

Why not leverage that pressure into a cooperative arrangement with the firm on a few well-chosen issues where activists and Wal-Mart can find some common ground? After all, SEIU's Stern recently told the *Atlantic* that his ultimate goal is not to ruin the company but rather to pressure Wal-Mart to demand some kind of nationalized health care from the government. Offer Wal-Mart a truce—for a price: The corporation could, for example, join the conglomeration of anti-Wal-Mart organizations to lobby for some form of government-provided health care. Or Wal-Mart may agree to cooperate on another issue that is not orthogonal to its interest: Wal-Mart's political power could help to enhance the Earned Income Tax Credit as an income boost to Wal-Mart target customers, for example.

Progressives are right to be skeptical that Wal-Mart would enthusiastically agree to such an idea. In most cases, the company will continue to fight for the lowest feasible level of regulation on its activities and may not be willing to spend lobbying money elsewhere. But, at the same time, much of corporate America's resistance to substantive CSR comes from the fact that their competition will likely avoid making the same costly decision; lobbying for government action that affects all firms equally changes this equation, in some cases turning nonstrategic CSR into strategic CSR.

Such an agenda does not fit neatly into the pro-business/anti-business framework that frequently dominates today's national discourse. But progressives need to recognize how they have been misguided by the attractive branding of the corporate social responsibility movement into being overly optimistic about its benefits. The challenges created by the global economy will require progressives to be innovative and thoughtful in their policy recommendations. A return to their intellectual roots, coupled with pragmatism shaped by recent battles won and lost, is a good place to start. D