Less than a year ago in *The Miami Herald*, Henry Miller wrote, “Businesses do not have social responsibilities; only people do.”¹ *The Economist* also recently offered a skeptical view of corporate benevolence; the feature article in the January 22, 2005 issue criticizes companies contributing to the tsunami relief effort for spending “other people’s money” and concludes, “All things considered, there is much to be said for leaving social and economic policy to governments.”² The rejection of a “social conscience of business” is nothing new; in fact, the sentiment dates back to at least 1970 when Milton Friedman declared, “There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits.” But what happens when governments fail in the arena of social and economic policy? And where do companies who believe in the philosophy of “doing well by doing good” fit into the picture?

While groups like Business for Social Responsibility (BSR) tirelessly promote the value added from socially responsible behavior, scholars and practitioners debate whether increasing expenditures on social or environmental obligations can boost the bottom line. For example, while Michael Porter and Class van der Linde
believe that strict environmental regulations can stimulate innovation and *enhance* competitiveness, others dismiss the possibility of “virtually costless environmental regulation” and argue that increasing the stringency of environmental laws *necessarily* results in reduced profits for the firm.”³

The ongoing philosophical debate and contradictory anecdotal evidence require explanations for the varying relationships between social responsibility and profit that could have profound impacts on the structure of government policies toward corporate social responsibility (CSR). As thousands of CEOs worldwide make substantial investments in their workforces, their communities, and the environment, it is important that we understand the perceptions that executives have of the relationship between their firms’ social and financial goals. Interviews with corporate executives and case studies reveal three models of thinking about CSR, though firm decisions are often based on some combination of the models. While these models do not offer one “right” way to conceptualize CSR, they do provide a framework for considerations about public policy and the future of socially responsible business behavior. The three models offer policymakers a more effective way of organizing thinking about the often elusive and multifaceted concept of CSR.

**Model One: The Traditional Conflict**

In the traditional neoclassical model, tradeoffs between social and environmental goals and profits are inevitable. Since firms only consider private marginal costs when making production decisions, firms overproduce products or services, and operate at less than the socially optimum market equilibrium when social costs exceed firms’ private costs. These decisions create negative externalities and require government policies or other market-correcting interventions to restore the socially optimal equilibrium.

Consistent with Friedman’s views, private expenditures on environmental or social objectives represent dollars stolen from either employees or stockholders. More stringent environmental protections limit firms’ ability to use “free” receptacles—such as rivers, open land, and the air—for their production waste. Many companies rely on a strategy of “built-in obsolescence,” thereby increasing production inefficiencies (e.g. pollution) and adding to the growing piles of junk in landfills. As *The Economist* points out, donations of time or money to natural disaster victims or impoverished communities represent dollars stolen from equity
owners. Firms with this mindset consider only short-run private costs and benefits, leading them to overproduce public bads and undervalue socially beneficial decisions.

The view of social responsibility and profits as mutually exclusive objectives has been well documented. In Cradle to Cradle, McDonough and Braungart define the longstanding problem: “We are accustomed to thinking of industry and the environment as being at odds with each other, because conventional methods of extraction, manufacture, and disposal are destructive to the natural world. Environmentalists often characterize business as bad and industry itself (and the growth it demands) as inevitably destructive. On the other hand, industrialists often view environmentalism as an obstacle to production and growth.... It appears these two systems cannot thrive in the same world.”

Indigo Teiwes, Research Analyst for the Portland-based socially responsible investment fund Portfolio 21, believes a majority of today’s firms follow this ideology. She cites the example of Scottish and Southern Energy, a firm she initially considered a great potential investment. Seeking to diversify its mix of generation plants to increase capacity and boost earnings, the company made a strategic business decision to buy two coal-fired power stations in July 2004. The acquisition of the coal plants, which represent two of the United Kingdom’s top four worst coal-fired stations with respect to greenhouse gas emissions, represents a clear conflict between financial gains and environmental integrity.

When business externalities create social and environmental problems, traditional market-correction policies may be necessary. In Corporate Responsibility in the Global Village: The Role of Public Policy, Susan Ariel Aaronson and James T. Reeves explain, “Although market forces are increasingly pressuring companies to act responsibly, markets have not succeeded in prodding corporations to ‘do the right thing’ everywhere they operate. To some degree, public policies to promote CSR arise from market failures.” To encourage socially responsible behavior the government should give tax breaks or rebates to companies that meet certain requirements, give out awards or recognition for good behavior, and the development of social or eco-labels that companies can obtain by meeting relevant standards. Legislation to encourage particular components of corporate responsibility can take many forms, from minimum-wage laws to command-and-control strategies to reduce pollution. While Dan Bross, Microsoft’s Director of Community Outreach, believes competition brings about better results than government regulation and claims that “firms bristle at more government mandates,” other companies, such as the energy provider PacifiCorp, prefer the clear messages and
straightforward detail that mandatory requirements provide.\textsuperscript{10} Regardless of whether governments impose harsher regulations or create more incentives to spur voluntary business programs to solve social and environmental problems, outside forces are necessary to restore the socially optimal market equilibrium when firms view other societal goals as an impediment to profit-seeking.

\textbf{Model Two: Corporate Social Responsibility Brings in the Cash}

While the traditional view of conflict between industrial and social goals is far from obsolete, many companies are redefining the relationship between financial, social, and environmental performance. Executives from these companies view environmental integrity and healthy communities as means to achieve greater profits. Model two represents the ideology of the majority of companies that make it into socially responsible investment (SRI) portfolios.

These companies choose to be socially responsible for a variety of profit-oriented reasons: increased sales, greater innovation, decreased production inefficiencies, decreased future risks, and greater access to capital. Many indicators suggest that 21st century businesses view social and environmental excellence as strategic business tools: from 1995 to 2003, assets put into in social investments grew 40 percent faster than all professionally managed investment assets in the United States.\textsuperscript{11} In response, companies are developing CSR departments, rewriting their mission statements to include ethical goals, and developing codes of conduct that extend to employees and contractors worldwide, to the point that by the end of 2003, more than 2,000 companies had issued CSR reports.\textsuperscript{12} While publicly held companies are still slaves to the numbers on their quarterly SEC filings, many have found ways to turn social responsibility into economic success.

One major reason CSR is on the rise is that executives believe it can help them attract new customers or boost sales. Whether they use CSR as a strategic marketing tool to capture a niche market or believe their good works will be recognized and rewarded later, CEOs often cite reputation as their most valuable intangible asset.\textsuperscript{13} Kara Hartnett of BSR explains, “Brand differentiation is important for known companies. Social responsibility can set them apart.”\textsuperscript{14} Companies with direct consumer interaction want a reputation for good corporate citizenship, though their definitions of citizenship vary. US Bank tracks the number of Community
Reinvestment Act (CRA) accounts opened and tries to quantify gains from investing in disenfranchised segments of the population. While US Bank does not specifically market its community outreach, executive Linda Wright asserts that, “when you give back to the community, it comes back to you. Accounts have been opened with US Bank because of the respect people have for the company.” At Microsoft, where CSR is “all about the bottom line,” the company places emphasis on achieving the greatest market share possible and becoming a market leader. Realizing the number of potential Xbox customers concerned about labor and environmental issues, Microsoft decided to push compliance with vendor codes and reexamine the environmental rules of the countries where their manufacturers are located.

In addition to helping businesses that sell directly to consumers, CSR can also increase demand for business-to-business transactions. While Levi’s has found that vendors are resistant to embrace its codes of conduct, the demand from purchasers for safe, healthy, and compliant factories has created a new marketing strategy for many offshore production sites. According to Levi’s executive Suzanne Beck, many factories now tout their “Levi’s certification” to attract contracts with other big name purchasers.

CSR programs also build connections within the community. Duncan Wyse, President of the Oregon Business Council, explains, “A lot of business is connections. Companies are not islands, they are not isolated from the world; their business depends on their engagement in networks. When a company strengthens its relationship with the community, this is part of its mission.” In “The Business Case for Corporate Citizenship,” Arthur D. Little elaborates, “The perceptions that stakeholders have of a company’s corporate citizenship performance can significantly affect the business’s license to operate. Companies with a poor reputation in this area can find themselves continually responding to criticism of their approach to a whole range of environmental and social issues.” Community involvement and activism help companies garner the good will of politicians and regulators in ways that may help the business later.

Model two businesses believe that by enhancing their reputation, they also bolster recruitment and retention of quality employees. Numerous psychological studies have found that job satisfaction correlates with greater commitment to a company and greater business success. A 2004 survey reveals that more than three-fourths of MBA graduates would forgo financial benefits to work for an organization with a better reputation CSR and ethics. In fact, the business case between CSR and human resources is often so clear that many companies fail to acknowledge...
excellent treatment of employees as a social responsibility. When asked about the company’s high wages and presence at community events, the Human Resources Director of fast-food chain, In-N-Out, remarked:

Efficiency wages are self-serving. Our store managers may make 100 to 120 percent over industry norms, but the money spent on salaries is seen as an investment. Our wages not only broaden the applicant pool from which we can choose employees, but increase performance levels and retention rates.... Although you can never know for sure why people stay with a company, I certainly believe it may influence why people like their job here.21

Resources devoted to employees also contribute to health and productivity. The International Labour Organization (ILO) estimates that “on the job accidents and illnesses annually take some two million lives and cost the global economy an estimated 1.25 trillion, or four percent of annual global GDP.”22 Overall, fewer accidents and sickness translate to more productive employees.

Furthermore, studies have shown that corporate community service programs, common at many companies touting their social responsibility, can help spur financially valuable innovation by “developing a variety of competencies, including teamwork, planning and implementation, communication, project management, listening skills, and customer focus.”23 And while NGOs and watchdog groups may in some cases be out to fight the “rise of the corporation,” in others, they collaborate with companies to provide new sources of information or strategies for management.

Risk avoidance is another area where NGOs can be useful to businesses, and an additional reason why many company executives believe CSR can improve financial performance. In Conversations with Disbelievers, Simon Zadek writes:

Advocates advance two primary arguments for how CE [Corporate Engagement] can help a company manage its risks. The first claim is that engaging in CE can help avoid harms associated with socially irresponsible or illegal behavior perpetrated by employees, and to mitigate the harms to the corporation created by accidents or mistakes.... The second, more complex claim, is that engaging in increased CE will help companies better understand and manage risks that come from new and unfamiliar sources.24
GAP, Starbucks, Patagonia, and Adidas are just a few companies whose partnerships with NGOs help them acquire knowledge about production sites, working conditions, environmental damages, and other core components of their business.

Early strategic investments in CSR can improve product and service quality, defray future lawsuits, and prevent or at least mitigate the effects of negative media coverage. Sourcing guidelines and ethical codes help companies avoid the future costs of shoddy workmanship, unreliable business relationships, financial mismanagement, and disruptions of operations by improving the quality of products and services. At Occidental Petroleum, community involvement and their environmental precautions have everything to do with risk avoidance. Vice President of Communications and Public Affairs, Lawrence Meriage, explains:

In the indigenous communities where we operate in Ecuador, we have a long-standing relationship with the people. Having them look at us as friends, instead of enemies, means our operations will not be disrupted and we will be able to negotiate new agreements later on. Building these relationships helps us avoid protests, strikes, or other disruptions such as people blocking roads.”

After unveiling plans to build pipelines through land belonging to the U’wa community in Colombia, Meriage spent time responding to over 40,000 protestors’ postcards and letters. The negative publicity led to a “time sink” for the company and has forced them to take fiscal and moral obligations into account when making company decisions about where to operate. Now, before entering into new contracts, Occidental asks a series of questions about many types of risks, ranging from geological to political. If any of these outweigh the potential rewards, Occidental may choose not to operate even if the deal appears profitable in the short run.

Being the first company to act in an area of CSR can also create a competitive advantage by helping the company anticipate future legislation. Sidney Espinosa of Hewlett Packard (HP) explains, “It is important for a company to identify policy issues that are hot and take a stance/find a position before laws are passed.” In an interview in 2003, Espinosa discussed how the company was already addressing the issues of product take-backs and computer recycling through its own private recycling program and by pushing for national legislation that the company could reasonably accommodate. New directives requiring
manufacturers to take back and recycle electrical products show that HP correctly predicted the trend, and the company will no doubt have an easier time dealing with the new rules than will its less forward-thinking competitors. PacifiCorp uses a similar strategy: the company continues to increase its use of renewables while simultaneously pushing government policies that give incentives for using wind power and mandate renewable portfolio standards. By accurately anticipating future policy trends and responding with the appropriate social or environmental programs, companies believe they can become market leaders.

Finally, many model two companies may view CSR as a way to increase their access to capital. As early as 1971, the development of (SRI) funds created a new market for capital. From “green funds” which focus on environmentally beneficial practices, to investors who push for living wages at Responsible Wealth, SRI funds use a variety of strategies to select companies that are qualified under their definition of “socially responsible.” As would be expected, these targeted investments have convinced some companies to adopt CSR practices—Portfolio 21’s Teiwes recalls a few cases where companies initially rejected from the investment fund reapplied after adopting more environmentally friendly policies—and while most companies have not developed CSR programs or reevaluated their business strategy solely to attract SRI capital, it is certainly another incentive for good works.

As companies make strategic ventures into the social and environmental arena, little government involvement seems necessary to promote business considerations of more than just profit margins and investors’ pocketbooks. However, business involvement in social and environmental affairs alone is not a recipe for success and does not guarantee that all stakeholder groups will be considered fairly. In model two cases, rather than promoting general CSR, public policy should focus on increasing transparency about companies’ CSR practices by encouraging comparable, comprehensive reporting standards or disclosure laws, and fostering collaborations between businesses, governments, and NGOs to tackle specific issues. Though debate continues over the effectiveness of mandatory CSR reporting (often called “triple bottom line reporting”) due to costs and the risk of stifling creativity and leading to “lowest common denominator” practices, there is something to be said for greater transparency about companies’ social and environmental interventions. Reporting can be an effective tool for companies to reevaluate their programs in a number of areas, as well as a way for outsiders to monitor their progress. Further, while groups like BSR in the United States foster communication and collaboration between business and
NGOs, and while many companies have strategically aligned with non-profits or charities to work on particular issue areas, governments could play a greater role in the development of such partnerships by offering funding and education, and by showing an active interest in promoting the dialogue between organizations and sectors with different ways of thinking.

**Model Three: Multiple Firm Goals, All Created Equal**

Though model two companies predominate among SRI portfolios, Teiwes believes it is model three businesses that we should really strive to encourage. Model three explains the ideology of firms that have made commitments to environmental and social goals without evidence that corporate citizenship leads to tangible financial gains. The owners or managers have decided that social and environmental achievements are independently worthy of attainment and should be pursued with equal enthusiasm to profits. Wyse explains, “A large part of CSR is the individuals involved in senior ranks. CEOs like to be involved in policy and service; it helps them to lead a fulfilling life. Just like others, executives feel good about giving back to their community and consider it part of their responsibility as a professional.”

While uncommon in a society that measures success by GDP per capita or by the amount of economic activity generated regardless of its source or deleterious effects, there are companies who view their business in terms of its social and environmental contributions. Generally privately run by social entrepreneurs, philanthropists or environmentalists, these companies often have CEOs or owners with deep personal convictions. Their companies make profits but financial goals do not trump social or environmental considerations.

This ideology functions on the idea that businesses, like people, have moral obligations and responsibilities that extend beyond the financial world. Adidas’s Social and Environmental Affairs Manager, Gregg Nebel, scoffs at the idea of using CSR is as a marketing strategy. He explains, “Why market what you are doing if you are simply doing what is right? The feeling here is that there is an expectation that a company will do the right thing, and there is no reason to advertise that we are fulfilling this obligation.”

Newman’s Own is one example of a company with a social purpose. Owner Paul Newman donates all of the company’s profits and royalties after taxes to educational and charitable causes, ensuring that the company will only increase profit margins to increase the firm’s ability to contribute
to social welfare. Lighting fixture manufacturer Rejuvenation and forest products provider Collins Companies also exemplify businesses with deep-rooted commitments to the environment and their community. While each of these companies runs a business with traditional financial goals, they do not view their commitment to sustainable environmental practices as a strategy for business, but rather as an important end in and of itself.

However, the degree to which such socially oriented firms can succeed is unclear. Although BSR reports that a “2001 Hill & Knowlton/Harris Interactive poll showed that 79 percent of Americans take corporate citizenship into account when deciding whether to buy a particular company’s product [and] 36 percent consider corporate citizenship an important factor when making purchasing decisions,” the evidence often is not there to support this, in either their buying patterns or shareholder votes. There are consumers willing to pay higher prices for peace of mind over the production methods of the goods they buy, but their limited numbers create niche markets for socially responsible brands rather than pushing the business community to evaluate the triple bottom line in all scenarios or markets.

To encourage companies to follow model three, policymakers should reconsider current indexes for business success, accounting practices, and the valuation of intangible assets. Model-three thinking requires more than teaching business owners and managers how to be responsible corporate citizens; it requires transforming average citizens’ understanding about value creation and expanding definitions of success to include social and environmental triumphs.

Tools to place dollar values on intangibles like these social and environmental triumphs are already underway. By working within the old framework, many hope to quantify the financial returns on intangible investments and to translate intangible successes into tangible results. Some organizations, such as the New Economics Foundation (NEF) in London offer even more radical approaches to measuring firm success. Challenging the traditional national accounts of material wealth—GDP or GNP—NEF created the Index of Sustainable Economic Welfare (ISEW) which measures well-being by factoring in “goods” which are not captured by GNP (e.g. household labor), and deducting “bads” such as long-term environmental damage and the costs of crime. Policies to promote socially responsible behavior from a model-three perspective need to encourage further research, education, and discussions of societal value creation.
MERGING THE MODELS

Though executives often structure their thinking around one of the three models, businesses have many top executives, each with different feelings about the interaction between profits and CSR. To avoid giving off contradictory messages, they present themselves as a combination of the three models. The fact that Patagonia’s founder, Yvon Chouinard is famous for saying, “Every time I’ve done the right thing for the environment, I’ve made a profit”34 makes Patagonia appear to be the perfect example of a model-two business. Yet Patagonia’s Social Audit Coordinator, Huntley Dornan, believes that Chouinard and his wife are so committed to their principles that they would probably be more likely to let the company go bankrupt than change the company’s core values, and maintains that in reality, the firm’s decisions reflect of a combination of models two and three.35 Though Qualcomm’s investments in the community are strategic, Vice President Dan Sullivan adds, “You make investments in your community because you live in it. Employees live in the area, they go to the library, they breathe the air. A good company knows it needs to do more than time and motion studies.”36

Even with these blurred distinctions, the three models provide a useful framework for developing appropriate policies toward CSR. In all cases, government can play a proactive role in supporting policies promoting an awareness and emphasis on sustainable development. The European Commission has taken steps to learn more about the “knowledge economy and the importance of intangibles as competitiveness factors,” study the links between intangible investments and performance across companies and sectors, outline strategies for future financial reporting in Europe, and hold forums to discuss intangible assets as well as methods and practices of measuring and reporting.37 Efforts like that of the European Commission further the discussion of CSR without assuming that all companies embrace CSR in the same way.

MOVING FORWARD

While the field of CSR and public comprehension of its significance have expanded tremendously in the last decade, the broad range of motivations, programs, and policy suggestions suggest that there is no one solution that will encourage sustainable business practices among all U.S. companies.
There will always be companies that see any government policy as more “red tape” and to whom CSR will just be window dressing. And there always will be companies that follow ethical standards and consider the social consequences of their actions, not because consumers demand it or government encourages it, but because someone in the business believes it is the right thing to do. But there are also many middle-ground companies that are trying to decide not only how far their social and environmental commitments should extend, but also how to conceptualize the interaction between their social, environmental, and financial performance. Given the pressure placed on companies by various stakeholder groups and the many groups trying to define socially responsible behavior, it is no surprise the debate continues over the existence of “true CSR.”

The three models presented here simplify the discussion in a way that makes it possible to identify the interactions among social, environmental, and financial goals across a variety of situations: a necessary first step in paving the way for a discussion about how to proceed. Plans to promote CSR—and thus sustainable economic development—must be tailored to fit the prevailing business models for CSR. Trying to encourage CSR without first understanding the motivations for corporate citizenship is a lot like trying to design a building before you know what the ground is made of. Using the three models, we can come to a better understanding of the surface we have to build on.

13. Aaronson; Reeves.
16. Bross, D.
30. Wyse, D.
32. Keen, J. “Don’t Ignore the Intangibles; Even benefits that are hard to quantify can be an important part of a successful business case.” CIO 16(22). Framingham: 1 Sept. 2003.
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**About the Author**

Elizabeth Redman graduated summa cum laude from Pomona College with a B.A. in Public Policy Analysis and Economics. The recipient of two undergraduate research grants, Redman spent a year traveling nationally and internationally to interview business leaders and policymakers about their views on corporate social responsibility. Her research findings were compiled in May 2004 in her senior thesis, *The Motivations for Corporate Social Responsibility and the Role of Public Policy in the U.S.* Redman’s understanding of the complex linkages among firms’ social, environmental, and financial goals led to her selection as a *Business Today* scholar for the 2003 International Business Conference on the Social Conscience of Business, and to scholastic awards from both the Economics and Public Policy Analysis departments at Pomona College. In 2006, Redman will study the dynamics of corporate citizenship in Latin America as an Ambassador of Goodwill for Rotary International. She is currently working in Portland, Oregon as a policy analyst for the Oregon Business Council and as the director of the Youth Caucus for the Oregon Bus Project.

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