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Corporate social responsibility

by Kristin Todd

Milton Friedman so famously declared his opinions of it almost 40 years ago. Jeffrey Hollender, current president and chief inspired protagonist of Seventh Generation, takes a different approach to it. Others look to quantitative measures. **When it comes to corporate social responsibility, who's responsible for what?**

In his article, "The Social Responsibility of Business is to Increase its Profits" printed in *The New York Times Magazine* in 1970, Friedman argues in favor of exactly what the article's title says.

He believed that corporate social responsibility (CSR) was a distraction from the economic fundamentals of business—maximizing profits and returns to shareholders.

When describing advocates of CSR at the time, he writes, "The businessmen believe that they are defending free enterprise when they declaim that business is not concerned 'merely' with profit but also with promoting desirable 'social' ends; that business has a 'social conscience' and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers."

The "catchwords" Friedman refers to could actually describe some initiatives of Jeffrey Hollender's company, the nation's leading brand of household and personal care products that help protect human health and the environment. A passionate advocate for environmental initiatives (he was arrested a few years ago for involvement in a Greenpeace protest), Hollender promotes CSR as a foundation of doing business.

In Seventh Generation's 2007 Corporate Consciousness Report, Hollender writes of social responsibility by means of business accountability and transparency, not only for his company but also for others.

"We are attempting to exert a gravitational pull on companies in our orbit (and beyond) to help them become fully conscious corporate citizens, for whom making profits is a means to the higher end of contributing to the well-being of society and the environment," he writes. "Greater transparency is just the first step towards taking greater responsibility for the future that all of us are creating."

From his company's standpoint, Hollender believes in the importance of openness among stakeholders, employees and the general public. He perceives this as a goal to strive towards, as he writes, "Transparency is a process, not a prophecy. The moment you think you have 'arrived,' you have failed. Transparency is not a state of being; it's an endless process of becoming."

Hollender, who was named the 2008 Social Entrepreneur CEO of the year by *CRO* magazine, does admit that his expectations may be lofty. "I don't know whether the company (Seventh Generation) will ever be sufficiently transparent. It may be an unattainable goal, because society's expectations of what it means to be transparent are constantly changing."

While Hollender questions the public's interpretation of transparency, Friedman questions what entity is actually responsible for being socially responsible.

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He writes, "What does it mean to say that 'business' has responsibilities? Only people can have responsibilities. A corporation is an artificial person and in this sense may have artificial responsibilities, but 'business' as a whole cannot be said to have responsibilities, even in this vague sense."

Aside from semantics, Hollender describes his company's efforts with social responsibility through transparency as part of a movement with the idealistic potential to be a lasting one.

"What's true of transparency is likewise true of Seventh Generation's effort to not only succeed in the marketplace and contribute to society, but to influence others to contribute as well," he writes. "It's a challenging, sometimes even bewildering odyssey that tests the spirit and will of each and every one of us."

While Hollender and Friedman may seem at opposite ends of the spectrum, we then find more quantitative approaches to CSR. David Vogel is a professor at the University of California, Berkeley and author of *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility*.

In an article Vogel wrote for *Forbes.com* this past October, "CSR Doesn't Pay," he takes a look at the bottom line and comparative measures of CSR.

Vogel writes, "The good news is that firms with superior CSR performance have not performed any worse than their less virtuous competitors. But the disappointing news is that neither have they done any better. For most firms, most of the time, CSR is largely irrelevant to their financial performance."

Vogel gives Starbucks as an example. "Starbucks provides an example of the limited importance of CSR to financial performance," he writes. "The firm enjoys a strong CSR reputation due to its generous labor policies and its commitment to improve the earnings and environmental practices of coffee growers in developing countries. Yet, since the beginning of 2008, its shares have recently declined nearly 50 percent."

He goes on to explain that the stock's performance was due to overexpansion and economic burdens, such as the price of a cup of coffee equaling the price of a gallon of gasoline at the time. He concludes CSR had nothing to do with the stock figures.

With that in mind, can CSR ever be a determinant of business profitability? Vogel says, "To assume that the business environment has fundamentally changed and that we are entering a new world in which CSR has become critical to the success of all or even most firms is misinformed. The market has many virtues, but reconciling corporate goals and public purposes is unfortunately not among them."

Vogel also brings the factor of consistency to the table. "Few firms are consistently responsible—or irresponsible—across all their business operations." He does name Patagonia and Seventh Generation as examples of "successful firms for whom CSR has been a core element of their business strategy."

Vogel reiterates the point that good things don't always come to those who "do good." "Managers *should* try to act more responsibly. But they should not expect the market to necessarily reward them—or punish their less responsible competitors."

For now, the implementation of CSR is still debatable; however, CSR may ultimately become a means of business competition, weaving itself into the marketplace permanently.

As Hollender puts it, "The journey continues..."

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