PEOPLE, PLANET, PROFIT

"Good. Smart. Business. Profit." Those are the criteria for nomination as one of the World's Most Ethical Companies, awarded by the Ethisphere Institute. (About Ethisphere, 2009) In 1970, Milton Friedman wrote his essay, "The Social Responsibility of Business is to Increase its Profits." (Friedman M. , 1970) Juxtaposed with Friedman is "The Stakeholder Theory of the Modern Organization," written by R. Edward Freeman, which argues that companies can be good, smart, business oriented, and profitable, while at the same time being good corporate citizens, reducing inequality, and engaging their stakeholders. (Freeman, 2002) Our studies in this class have made clear that economic stratifications have increased markedly in the past three decades. Could Friedman's profit-specific view be contributing to inequality? Is it time to rethink the social responsibility of business? This paper will explore both spectrums of the argument and highlight ways that many organizations and corporations are working within their mission to grow the triple bottom line of people, planet, and profit. (Price, 2007)

Why all this clamor over the social responsibility of business, otherwise known as corporate ethics or corporate social responsibility – CSR, for short? As Robert Reich has told us in his book Supercapitalism, the rise of capitalism and its escalation into supercapitalism has widened the gap in equality. (Reich, 2007) Twenty years ago, the total pay of the average executive was 40 times the average worker; now it is 110 times the average. (Leaders: Rich man, poor man; Globalisation and the rise of inequality, 2007) Eighty percent of the world's gross domestic product belongs to the 1 billion people living in the developed world; the remaining twenty percent is shared by the 5 billion people living in developing countries.

(Report on the World Social Situation, 2005) In 2001, 11 to 13 percent of Americans were living on less than what government experts estimate they need to buy basic necessities. These people could not escape poverty, despite living with a full-time worker working 50 weeks a year. (Kerbo, 2006)

What does that have to do with corporations, you may ask? Again, I refer to Reich, who tells us that supercapitalism has spilled over into democracy. The mergers and take-overs of corporations in the late 1990's and early 21st Century have created mega corporations which are strongly influencing our culture and democracy. The oligopolies of the 20th Century -- big business, big labor, regulatory agencies, and legislatures -- which used to help spread the wealth; balance worker, corporate, and community rights, have eroded. Corporate campaign contributions to political candidates and the stampede of Washington lobbyists are drowning out the voices of citizenry, in efforts to influence public policy in favor of corporations. Reich also tells us that power has shifted to consumers and investors and that democratic capitalism has been replaced by supercapitalism. Additionally, as our country is in the midst of this economic crisis, at its heart, on almost a daily basis, we see examples of irresponsible and unethical corporate leadership.

Why should we care about the power shift to consumers and investors, corporate ethics, and the eroding of democratic capitalism to the proliferation of corporate globalization? We should care for several reasons. As John F. Kennedy said in his inaugural address in 1961, "If a free society cannot help the many who are poor, it cannot save the few who are rich." On a humanitarian level, we should care that millions of people are starving and dying hungry every day. On a more selfish level, we should be concerned about the gap between wealth and poverty because, as the world becomes more interconnected, the well-being of the world's rich will become increasingly threatened. (Kerbo, 2006) The vast majority of political violence and terrorism is bred in extreme poverty and social disruption. This has been borne out in recent years in the Middle East. In Afghanistan, following the demise of the Soviet Union in 1991, much of the country was destroyed. People were very poor, and there was anarchy. Islamic fundamentalists from outside the country infiltrated; and the ultraconservative Taliban won control of Afghanistan, whose people were tired of living in conflict and corruption. In Iraq, when the Iraqi army was disbanded in the current war, and all of its soldiers lost their jobs, adding to the country's unemployment, again Islamic fundamentalism made inroads in mainstream Iraq because of its promises to help improve conditions resulting from the war with the Americans. (Ferguson, 2007)

Safety is not the only concern. World poverty also contributes to lowering of wages and standards of living for the bottom 50 percent of Americans. The more people globally that are willing to work in substandard sweatshops, the less multinational corporations have to pay higher wages to Americans at home. In terms of health, the World Health Organization has indicated that people who are weakened due to poverty are more susceptible to deadly infectious diseases that could also spread to wealthier nations. HIV/AIDS, acute respiratory syndrome, and avian influenza are such examples. (Kerbo, 2006)

In his article, "From Hegemony to Democracy," Boston College Professor of Sociology Charles Derber is also on par with the assessments of Reich and Kerbo. (Derber, Summer 2007)

Derber writes about three suicidal principles deeply embedded in corporate globalization. The first and most comprehensive is hegemony, in this case the objective of domination by global corporations and the superpowers which support them, particularly the US government. He points to the 9/11 attacks as evidence of how technology has made it possible for small nations, networks, or even individuals with socioeconomic and political resentments to destroy whole cities or countries, in reaction to this domination.

Derber's second global suicidal principle is the economic polarization, the widening of the gap between rich and poor in the midst of vast global wealth. He says this is socially unsustainable because it will encourage class-based violence, often under the cloak of religion. Finally, Derber addresses environmental sustainability and, in particular, global warming. He tells us that most climatologists believe that global warming will threaten the survival of civilized life and nature in less than a century.

If we believe the claims about the influence of the corporation on world poverty, the environment, working conditions, health, and safety, we can see that the corporation can also have an impact on solutions to these problems. Thus enters the idea of corporate social responsibility. And like all complex issues, the solutions may be also complex. On the one hand, we have the view of the esteemed economist, Milton Friedman, who in 1970 wrote his famous New York Times article, "The Social Responsibility of Business is to Increase its Profits." Friedman wrote that businessmen who promote desirable social ends, take serious responsibility for providing employment, eliminating discrimination, avoiding pollution, or whatever other social conscience dictates, would be preaching pure and unadulterated socialism, not free enterprise. Friedman elaborates that a company's responsibility is to its shareholders; that if managers think something beyond maximizing shareholder value, they are operating in violation to their responsibilities.

In contrast to Friedman, we have "The Stakeholder Theory of the Modern Corporation," written by R. Edward Freeman, in 1984. Freeman argues against the primacy of the shareholder and replaces this concept with that of the fiduciary relationship to stakeholders. He defines stakeholders as suppliers, customers, employees, stockholders, local communities, and management. These are groups who either benefit from or are harmed by corporate activities. Freeman tells us that each of these stakeholders is not a means to an end and must participate in the future direction of the firm in which they have a stake. The question he asks is "For whose benefit and at whose expense should the firm be managed?" Additionally, according to Freeman, externalities, moral hazards, and monopoly power exist, which preclude management's ability to act solely in the interests of its stockholders. Externalities can be regulations, such as the Environmental Protection Act, The Equal Pay Act, and the Civil Rights Act. Expanding on Freeman from today's perspective, some aspects of the subprime mortgage debacle scream of examples of moral hazards.

As we can see, there is compelling evidence both domestically and globally for the rationale and need for corporate social responsibility. While we have a long way to go, since the late 1980's and early '90s, a movement towards fundamental change has been under way. Not only do we have writers such as Freeman raising social consciousness on the matter, but also we have such historically significant events as the fall of the Berlin Wall in 1989. According to another Friedman, Thomas L., in his book, The World is Flat, the fall of the Berlin Wall was a global tipping point toward democratic, consensual, free-market governance, and away from communism. Friedman wrote, “Henceforth, more and more economies would be governed from the ground up, by the interests, demands, and aspirations of the people, rather than from the top down, by the interests of some narrow ruling clique.” (Friedman T. L., The World is Flat, Release 3.0, 2007)

By the mid-1990’s, a growing number of corporations began to see corporate social responsibility as beneficial to the bottom line. In 1992, the organization Business for Social Responsibility was founded by the CEO’s of 50 socially oriented companies. Their mission: to support good corporate citizenship. In 1994, the phrase “triple bottom line” was coined by the British consulting firm SustainAbility. Their contention: corporations’ long-term success requires attention to society and environment, as well as shareholders. (Price, 2007)

In October 2005, Reason Magazine revisited Morton Friedman’s 1970 contentions and sponsored a debate between Friedman; John Mackey, CEO of Whole Foods Market, Inc.; and T. J. Rodgers of Cypress Semiconductor. (Rethinking the Social Responsibility of Business, 2005) Friedman stated that he thought the differences between him and Mackey were for the most part rhetorical, yet Mackey thought otherwise. While he highly regards the accomplished Friedman, he respectfully differed and continued his call for a new brand of capitalism, one that consciously works for the common good instead of depending on the “invisible hand” to generate positive results for society. Mackey goes so far as to say that extending our love and care beyond our narrow self-interest is antithetical to neither human nature nor financial success.

Of course, the criticisms of corporate social responsibility still exist. In the Reason debate, T.J. Rodgers, referred to as the spokesman for the tough love school of Laissez faire and dubbed as "one of America's toughest bosses" by *Fortune*, argued that corporations add far more to society by maximizing "long-term shareholder value" than they do by donating time and money to charity. Further criticisms were that Mackey is running a "hybrid business/charity" and that Mackey's philosophy is more attuned to Karl Marx than free-market capitalism.

Yet as the years go on, even in this very difficult economy, we continue to see signs of continued efforts toward corporate social responsibility. The Domini 400 Social Index was launched in 1990 as a common-stock benchmark index fund constructed using environmental, social, and governance factors. The fund is considered a standard for measuring the impact of social and environmental excellence. The index is comprised of 250 S&P companies, 100 additional large- and mid-cap companies, and 50 smaller companies with excellent social and environmental records, such as employee and human relations, product safety, environmental safety, and corporate governance. Businesses engaged in alcohol, tobacco, firearms, gambling, nuclear power, and military weapons need not apply for inclusion. The fund was designed for socially conscious investors to weigh social and environmental factors in their investor choices. (Domini 400 Social Index, 2009) Compared to the S&P 500, the Domini has shown annualized returns of 8.43, compared to 7.78, respectively, since its inception 5/1/90. This is evidence that focusing on people and the planet can indeed yield profit.

The topics of corporate social responsibility and business ethics have also become subjects of discussion in the realm of higher education. As part of its centennial in 2008, Harvard Business School held an unprecedented colloquium of worldwide business school deans, corporate recruiters, and executives. Their discussions surrounded the future of the MBA, following continued instances of corporate scandals. HBS professor Rakesh Khurana argued, "Many business schools have been complicit in creating recent corporate scandals by turning out graduates fixated on shareholder value at the expense of all other stakeholders in society." Some of the key ideas are that MBA programs put too much weight on theory and not enough on leadership in our global environment and development of soft skills and cultural awareness for students. Many of today's MBA programs began during the late 1950's, at a time of vertical corporate bureaucracies mostly in the US. Today, with business schools churning out 500,000 MBA's a year -- 150,000 in the US alone -- and organizations becoming flatter, the need is for leaders who can see opportunities across functional and cultural boundaries.

In addition to the Harvard Business School study, another way universities are preparing students for globalization and solving society's problems is the conferring of degrees in the relatively new subject area of public policy. Public policy curriculum covers cross-disciplinary subjects such as economics, social sciences, and political science, giving graduates a much broader education. At our own University of Chicago, students can specialize in urban studies; human rights; economics; education; sociology -- work and family; politics; or organizations.

Educated in these disciplines, one can only hope that future generations of business people will act differently than the businesses highlighted in the November 8, 2008, 60-Minutes exposè entitled, “Following the Trail of Toxic E-Waste.”

The news show took us to Guiyu, China, to a recycling dump of toxic e-waste. Much of the poison comes from homes, schools, and offices of the United States, in the form of our old TV’s, phones, and computers. The waste is broken down for the precious metals inside. Peasant workers, without proper equipment, handle lead, cadmium, mercury, chromium, and polyvinyl chlorides, all of which are known toxins. Why do these workers work in these conditions? When asked, one worker said, “Because the money’s good.” Jim, Puckett, founder of the Basel Action Network, a watchdog group for stopping rich countries from dumping toxic waste on poor countries, reminds us, “Desperate people will do desperate things. But we should never put them in that situation. You know, it’s a hell of a choice between poverty and poison. We should never make people make that choice.” (Following the Trail of Toxic E-Waste [60 Minutes], 2008)

Finally, we have people like Nobel laureate Muhammad Yunus, who urges leaders to rethink systems that keep people poor. Yunus, a Bangladeshi economist known as the banker for the poor, won the 2006 Nobel Peace Prize for his system of microcredit. Through Grameen Bank, which he founded, he helps the poor live better lives by making tiny loans. “Poverty is created by the decisions that we have made around the world, by the framework, the theory, and business definitions we have come up with,” says Yunus. (Mellgren, 2007)

While we have seen some hopeful signs to move towards socially responsible business operations, we also continue to see the causes and effects of corporate irresponsibility and inequality. How can we change the system? According to Bjorn Andersen, in his article, "A Framework for Business Ethics," a holistic framework is needed to depict it as a manageable process and to encourage more organizations to switch to a business ethics model. Anderson outlines a four-step process which can be followed to construct an ethical business approach. The steps are a progression of legal, ethical, economic, and philanthropic dimensions. (Andersen, 2008)

At the most basic level, the organization must clean up any legal issues. A frequent example in our class of corporate irresponsibility has been Wal-Mart Stores, Inc.; and Wal-Mart of late seems to be addressing its legal concerns. On the list of Human Rights Watch, http://www.hrw.org, for several years, Wal-Mart has also been the respondent in many class-action lawsuits filed against it for sex discrimination, aggressive anti-union organizing tactics, and violating workers' rights. In December 2008, Wal-Mart settled two class-action lawsuits, one in Minnesota for $54.25 million, and another for $352 million for cases filed across the country. Over two million current and former Wal-Mart employees are the plaintiffs. This also marks the end of the embarrassing era of outgoing CEO H. Lee Scott, Jr., who was succeeded by Michael T. Duke in February. (Greenhouse, 2008)

Following compliance with laws and government regulations, the next step in Anderson's framework is cleaning up ethical issues. This is achieved by following standards of acceptable behavior as judged by stakeholders. According to Anderson, only after the clean-up can the organization be seen as a good corporate citizen that has the well-being of its stakeholders in mind. Finally, after maximizing stakeholder wealth and/or value, the corporation can take the step towards being a philanthropic organization. Whether the remedial actions of our Wal-Mart example will reach the highest level and contribute, as Andersen writes, “beyond the damage it has inflicted” remains to be seen.

In summary, the title of this paper is “People, Planet, Profit.” That is the triple bottom line that proponents of corporate social responsibility seek to measure in today’s corporation. It is what William Greider describes as the moral economy, in his essay in Inequality Matters. (Greider, 2005) “Capitalism is a human construct. It was not inscribed on tablets handed down by Adam Smith or God; it was made by people and so it can be altered by people,” Greider writes.

CSR is the attempt to alter the construct of capitalism. It is the attempt to balance Adam Smith’s other great work, The Theory of Moral Sentiments, (Smith, 1790) with the one so often quoted by economists like Milton Friedman, The Wealth of Nations. In The Theory of Moral Sentiments, Smith tells us that human nature is not just about self-interest; it includes sympathy, empathy, friendship, love, and the desire for social approval. It is the sign of maturity that one grows beyond childhood egocentrism and begins to care about others. (Rethinking the Social Responsibility of Business, 2005)

Will corporate social responsibility reduce inequality? In our current economic meltdown, these are trying times; the jury is still out. A few things are certain, however. The Northern Trust Bank laid off 450 people in December 2008, its CEO Frederick Waddell saying, "The macroeconomic environment has been extraordinarily difficult and has impacted all segments of the global economy." The next month, this past January, Northern's top people lavished at exclusive hotels, a golf outing, and big-name concerts. "The key point is Northern Trust is a business that earned an operating net income of $641 million last year," said senior vice-president Douglas Holt. "We paid for these events ourselves. They were paid for as part of a business decision regarding an annual event to show appreciation for clients. Northern Trust is not a bank that was or is losing money and therefore had to go to the government for assistance." This flip-flop in actions points to corporate irresponsibility, not economic equality.

The subprime mortgage debacle – no-money-down loans granted without proof of creditworthiness, securitization of loans to investors, credit default swaps to hedge the investments -- all point to the need for a morality check. In the global economy, not only is the US suffering, but also the rest of the planet, for this irresponsibility. Currently, in the United States alone, 12.5 million people have lost their jobs. When you add to that the involuntary part-time workers and discouraged workers who have given up finding a job, the total unemployment rate is 14.8 percent, or one in seven Americans. (Aversa, 2009) Recent news reports from Japan and even China indicate rising unemployment as well.

The town of Guiyu, China, and its people are drinking contaminated water, living and working in toxic e-waste; the signals point to corporate irresponsibility, not economic equality. The world's biggest retailer, Wal-Mart, pays its employees wages so low and provides limited health insurance, so that many of its employees need to rely on Medicaid and other social services, while the company and its owners enjoy big profits. Again, the signals point to corporate irresponsibility, not economic equality. When capitalism grows to supercapitalism, without any checks and balances, as Reich tells us, the signals point to corporate irresponsibility, not equality. While the complete effects of corporate social responsibility are not yet known, I think it is fair to say that the lack of corporate social responsibility certainly does not reduce inequality either.

Even the bastion of the MBA, Harvard Business School, feels the pain and the shame. Bank of America's CEO Ken Lewis -- in the spotlight recently for the granting of $3.6 billion to top performers at subsidiary Merrill, Lynch, which lost $28 billion in 2008, and flying his expensive corporate jet to New York City while taking federal bailout money -- is a graduate of the program.

The modern corporation, as Freeman called it, impacts many more people than Adam Smith could have ever imagined in 1790, when he wrote his famous "invisible hand" essay. As we regularly see, we can no longer rely on the invisible hand or moral judgment of a few. Someone's decision in a skyscraper in the US affects generations in a small town in China. We are interconnected as never before; and we need a more proactive approach, capitalism with some regulation. We also need individuals to act ethically. The invisible hand is becoming imperceptible. Disastrous things happen far too rapidly today; reactionary fixes may come too late. It is time to change the construct; it is time to give attention to Adam Smith's less-quoted writing. It is time to look at not only how a company spends its profits but how it makes its money.

In my opinion, corporate social responsibility is also a result of supercapitalism. Both Reich and Thomas L. Friedman tell us that power has shifted from the ruling elite to consumers and investors. Freidman speaks of three globalization democratizations in his book, The Lexus and the Olive Tree. They are: the democratization of technology, the democratization of finance, and the democratization of information. (Friedman T. L., The Lexus and the Olive Tree, 2000) In the democratization of information, nobody can hide. Countries can no longer keep people in the dark, and neither can corporations. We are bombarded by examples of corporate irresponsibility and morality gone amuck. CSR is the momentum by those consumers and investors advocating a sustainable approach to business operations. It is the demands of consumers and investors and other people impacted by corporate actions to look side by side at social, environmental, and financial performance of businesses. (What is Corporate Social Responsibility (CSR)?, 2009) It is the demands to end the greed and destruction in our global economy. It is not only time to rethink the social responsibility of business; it is time to act.

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