Tree Huggers, Soy Lovers, and Profits
Marc Gunther

Some of America's biggest corporations believe that the best way to make money is by saving the world. And guess what? They just might be right

Paul Tebo is no one's idea of a revolutionary. A mild-mannered, gray-haired, 59-year-old chemical engineer, he has worked at DuPont for 35 years. He used to run the firm's $3-billion-a-year petrochemicals division, an operation that once tarred the industrial giant with a reputation as America's worst polluter. Today Tebo is in the soymilk business. As an advocate for social responsibility and DuPont's corporate vice president for safety, health, and environment, he's trying to help transform DuPont from an oil-and-chemicals company into an eco-friendly life-sciences firm. Hence, his interest in making things out of a renewable resource like soy. The new corporate mission? A revolutionary idea called sustainable growth.

Sustainable growth is about building an economy that generates wealth while helping to save the planet. DuPont set out in that direction a decade ago by pledging to reduce waste, emissions, and energy usage; the idea then was to curb pollution and cut costs. More recently DuPont has ventured into uncharted territory: Its new goal is to own a collection of businesses that can go on forever without depleting natural resources. So, for example, the company spun off its massive Conoco oil-and-gas unit five years ago and used the proceeds to buy Pioneer Hi-Bred International, whose seeds produce not only food for people and livestock but renewable materials for commercial uses--turning corn into stretch T-shirts, for example.

When DuPont makes a strategic decision, Tebo says, the company poses a question he thinks should be on every 21st-century CEO's agenda: "How do you bring the economics together with the environmental and the societal needs so that they are all part of your business strategies?" His own CEO, Charles O. Holliday Jr., recently co-wrote a book on corporate social responsibility called Walking the Talk: The Business Case for Sustainable Development. At DuPont, which got its start in 1802 making gunpowder, that now means producing soy protein, creating biodegradable material for plastic silverware, and hiring the former executive director of Greenpeace as a high-level consultant.

DuPont is at the cutting edge--and maybe over the edge--of the movement to make corporations more socially responsible. But poke around any number of FORTUNE 500 companies, and you'll find people grappling with a host of unexpected issues, from renewable energy to global poverty. The UPS fleet, for instance, includes 1,800 alternative-fuel vehicles, while FedEx just announced a plan to convert all its trucks to hybrid electric-diesel engines. Nike has removed vinyl, which has been linked to cancer, from almost all its footwear. It also developed a program with Delta Air Lines called Eco-Class, which invests in projects that offset emissions created when Nike employees take business trips. To preserve biodiversity, Starbucks is buying more organic and shade-grown coffee, which minimizes disruption of rain forests; it is also buying more "fair-trade" coffee, which gives the owners of family farms an agreed-upon price for their harvest. Just last week ten major banks, including Citigroup and Barclays, agreed to meet environmental- and social-impact standards when financing public works projects, such as dams and power plants, particularly in developing nations.

The belief that business has obligations to society that go beyond making money is not new. High-minded corporate chieftains have long talked about doing well and doing good. The difference today is that advocates of corporate social responsibility want to marry profit and purpose. The theory is--and yes, right now, it's mostly theory--that socially responsible companies will outperform their peers by seizing new opportunities, reducing their risks, energizing their workforces, and building a stellar reputation that will pay off with customers and investors. "We are working within the paradigm of shareholder capitalism," says Stuart L. Hart, a professor of

strategy at the University of North Carolina's business school. "If this [sustainability movement] doesn't generate shareholder value, it's not going anywhere."

Hart is a leading advocate of sustainability--an idea he defines broadly to include not only sound environmental practices but also the notion that companies cannot thrive for long in a world where billions of people are desperately poor. It's in business's interest, he says, to find ways to attack those ills. "These are huge opportunities for companies with moxie, creativity, and execution ability," says Hart, who works with DuPont, HP, Johnson & Johnson, Coca-Cola, and Procter & Gamble, among others.

It all sounds great. But before we get carried away, let's do a reality check. No one has yet been able to demonstrate conclusively that corporate social responsibility boosts shareholder value--though the evidence that it helps is intriguing. What's more, although such initiatives are gaining momentum, they remain very much on the margins of most big companies. General Motors will invest in hydrogen-powered engines, but it hasn't stopped selling gas-guzzling SUVs and Hummers. BP brags that it goes beyond petroleum, but it derives the vast majority of its profits from oil. Few CEOs wake up in the morning and worry about the global poor; a fair number don't even seem to care about their own employees.

Skeptics on the left say these social responsibility measures are little more than public-relations tactics to divert attention from corporate rapacity and corruption. Skeptics on the right say business should mind its own business, and leave social and environmental problems to others. Still, whether for PR or out of a genuine desire to change, most big public companies have at least adopted the rhetoric of corporate social responsibility. Implausibly, corporate scandals have become a boon for the movement. "Companies need to show that they are not just greedy institutions," says Debra Dunn, senior vice president for corporate affairs at Hewlett-Packard. More U.S. companies have been publishing reports that measure their social and environmental impact. Big consulting firms are expanding their corporate social responsibility practices to include hundreds of professionals. Business for Social Responsibility, an industry group formed a decade ago, has about 450 corporate members including Wal-Mart, Microsoft, Sony, General Motors, Pfizer, and Shell. And Net Impact, a fast-growing organization of business students and MBAs who call themselves "new leaders for better business," had to close registration for its annual convention last fall when 1,000 people signed up. The keynote speaker was entrepreneur and activist Ben Cohen, of Ben & Jerry's fame.

Unlike Ben & Jerry's, McDonald's is at the heart of corporate America. So it's revealing that the ethic of sustainability has taken hold at the fast-food giant, which serves 46 million people daily.

McDonald's has embraced environmentalism since the late '80s, reducing waste by 300 million pounds a year and becoming a big buyer of recycled materials. Today McDonald's defines its responsibilities far more broadly. In particular, the company is using its clout as a buyer to bring about change. Last year McDonald's announced that its 13,000 owned and franchised restaurants in the U.S. had stopped buying poultry treated with a class of antibiotics called fluoroquinolones, citing medical evidence indicating that using the drugs in chickens compromises its effectiveness in humans. "We can be a catalyst," explains Bob Langert, McDonald's senior director of social responsibility and a former operations executive who has been with the company since 1991. Another initiative involves fish. Working with big buyers of fish and the environmental group Conservation International, McDonald's plans to offer incentives to suppliers that support sustainable practices. The business case for the campaign is simple, Langert says: "We want to be able to buy fish ten years from now." It is applying similar incentives throughout its supply chain to persuade beef and potato producers, among others, to adopt sound environmental practices.

McDonald's also takes its critics seriously. Several years ago, when Greenpeace accused soft-drink and fast-food companies of using refrigerants that contribute to global warming, McDonald's convened a "refrigeration summit" with activists, government experts, and suppliers to explore

less polluting alternatives. Last January, a McDonald's in Denmark became what the company says is the world's first fast-food restaurant that uses refrigerants that do not contain freon or hydrofluorocarbons, the pollutants targeted by Greenpeace.

"It's simply fantastic to see a big player like McDonald's influencing its suppliers in a positive way," says Karl Henrik Robert, a Swedish physician and founder of the Natural Step, a global environmental group that works with McDonald's. In Sweden, where their partnership began, McDonald's buys all of its energy from renewable sources and serves organic food. A Happy Meal includes vegetable nuggets and baby carrots.

Mats Lederhausen formerly ran McDonald's Sweden. He now works out of corporate headquarters in Oakbrook, Ill., where, as executive vice president for global strategy and business development, he argues that doing good is good business. "Smarter employees, smarter investors, and smarter customers--all choices being equal--are going to invest their time, energy, and money with companies that they trust and that they know do better things," he declares. "We want the world to be a better place because of McDonald's."

But what about the food? Does selling burgers and fries make the world a better place, with obesity and heart disease near epidemic? Not according to Paul Hawken, founder of Smith & Hawken and author of two books on sustainability. "The question we have to ask," Hawken says, "is, What is enough for McDonald's? Does McDonald's want to see the rest of the world drink the equivalent of 597 cans of soda pop a year, as do Americans? Do they think every third global meal should be comprised of greasy meat, fries, and caramelized sugar?"

Some people have gone so far as to say that McDonald's would truly be socially responsible only by shutting down. "That really pisses me off, quite frankly," Lederhausen replies. "You don't attract 46 million customers daily by happenstance. You do it because you fill a need that is pretty strong and because your products are pretty damn good. I'm not saying there aren't a lot of things we can do better. But, I mean, give us a break. We deserve a break today!"

He has a point. McDonald's employs 1.5 million people worldwide. It offers healthy choices on the menu, and not just in Sweden. Its restaurants are no more guilty of selling fat than the earnest do-gooders at Ben & Jerry's. But corporate social responsibility isn't simple. In environmental terms, soy is a much more efficient way to make protein than beef--as the people at DuPont, who are big into soy, like to point out. Can selling burgers and soy both be socially responsible? Who gets to decide?

WE DON'T KNOW WHETHER MILTON FRIEDMAN PREFERS burgers to soy, but we do know that the 90-year-old economist believes that the free market, and not some VP for social responsibility, should decide what's best for the world. In Capitalism and Freedom, a series of lectures published in 1962, he asked, "If businessmen do have a social responsibility other than making maximum profits for stockholders, how are they to know what it is?"

That, in a nutshell, is the conservative argument against corporate social responsibility. To the degree that business executives spend more money than they need to--for delivery vehicles with hybrid engines, or to pay higher wages in developing countries, or even to donate company funds to charity--they are spending shareholders' money to further their own agendas. Better to pay dividends and let the shareholders give the money away, if they choose.

Proponents of corporate social responsibility say that's a false dichotomy. Smart companies, they say, can prosper and build shareholder value by tackling global problems. Take Barbara Waugh, a lifelong social activist who joined Hewlett-Packard in 1984. Waugh, 57, has lost none of her youthful ideals. "After working to change the world through politics, education, government, and the churches, I believe I can have more impact through the corporate sector," she wrote in her book The Soul in the Computer. It was Waugh, who works in HP's research lab, who brought Stu

Hart to HP to speak to employees about one of his big ideas. Companies, Hart says, can expand their markets and invent new products by doing business at the "base of the pyramid" where the world's poor are desperate to join the market economy. His ideas and Waugh's passion helped whip up enthusiasm in the ranks of HP for what became known as "e-inclusion"--an ambitious attempt to help bring the benefits of technology to the poor.

One result is that HP has begun a three-year project designed to create jobs, improve education, and provide better access to government services in the Indian state of Kuppam, which has a population of 320,000. Working with the local government, as well as a branch of HP Labs based in India, the company is studying how to provide the rural poor with access to government records, schools, health information, crop prices, and the like. The hope is to stimulate small tech-based businesses. (An example: Village photographers, with solar-powered digital cameras and printers, now take pictures for government ID cards, saving residents a trip to the city.) At a minimum, this builds good will and the HP brand in India; at best, it will help the company discover new, profitable lines of business. Similar efforts are underway in poor cities and rural areas of the U.S. and in South Africa.

These enterprises serve a purpose--alleviating poverty--few would find objectionable. But will they work? British economist David Henderson is skeptical. "None of the great successes in the developing world--Korea, Taiwan, the Bangalore section of India--owe anything at all to the good will of multinationals or NGOs or the UN," Henderson says. Credit, he says, belongs to free-market and local entrepreneurs. In Misguided Virtue: False Notions of Corporate Social Responsibility, Henderson argues that the current practice of corporate social responsibility is dangerous and wasteful. It reflects alarmist views about the environment, lack of faith in markets, and hubris on the part of business leaders. "This idea that it's the obligation of business to reshape the world is nonsense," he says.

Waugh couldn't disagree more. "I don't let anyone else define what my business is. I have defined it as bringing the corporate sector into our share of stewardship for the planet," she says. This is a woman who doesn't check her values at the office door.

WE WON'T SETTLE THIS ARGUMENT. THE MARKET WILL. Some companies will stick to business as usual. Others will embrace social responsibility. We'll see which perform better.

"It's almost a complete waste of time to talk about ethics and moral values if you want to change business behavior," says Paul Gilding, a former executive director of Greenpeace who has consulted with DuPont and Ford, among others. "The only thing that's going to drive sustainability in a lasting way is if it leads to profit and growth in big corporations."

The evidence that corporate social responsibility drives profit and growth is inconclusive, in part because the field is so new. There's also the difficulty of defining social responsibility, as the burger-vs.-soy problem illustrates. So-called socially responsible investment funds have generally tracked the broader stock market. Since its inception in 1991, the Domini Social Equity fund, the oldest and largest such fund, has gained an average of 8.66% annually, while the S&P 500 has gained 9.0%. On the other hand, a recent study by Governance Metrics International, which rates companies on their governance policies, labor practices, environmental activities, and litigation history, found that stocks of the top-ranked firms significantly outperformed the market, while low-rated companies trailed the indexes. For now, about the most you can say is that there doesn't seem to be a financial penalty for embracing socially responsible programs.

Back at DuPont headquarters in Wilmington, Paul Tebo looks at the question differently. Tebo argues that both the world and the company are better off because of the progress DuPont has made. It has dramatically reduced greenhouse gas emissions and hazardous waste, even after accounting for the sale of Conoco, and its waste-treatment costs are down. Looking ahead, DuPont wants to generate 25% of revenues from renewable resources by 2010. (Currently the

figure is 14%.) That is one reason DuPont plans to divest its big, oil-based textiles and interiors unit, which makes nylon, polyester, and Lycra, and instead is talking about making clothes from corn. That, at least, is the promise of Sorona, a new stretchable fabric made partly from corn. DuPont's mission of sustainable growth is also driving its efforts to produce high-tech products like Tyvek, a housing-insulation wrap that saves far more energy than is required to produce it; Super Solids, a paint that can be applied to cars without discharging toxic solvents into the air; and Solae, a soy protein formulation that goes into more than 1,000 food products, including 8th Continent soymilk. "The closer we can align with social values," Tebo says, "the faster we'll grow."

The trouble is, none of this has paid off in a tangible way for investors, at least not yet. Since CEO Holliday, the architect of DuPont's sustainable growth strategy, took over in 1998, its shares have lost 13% of their value. (The S&P 500 has gained 6% during the same period.) While DuPont's sustainable businesses are doing well, they are still small and haven't offset the sluggish performance of its old-line chemical operations. Sorona, soymilk, and sustainability don't seem to be playing on Wall Street. Nor do many investors appear to care that McDonald's sells antibiotic-free chickens, or that HP wants to deliver technology to the world's poor.

The lack of hard evidence doesn't mean the theory of corporate responsibility is wrong. If reputation and brand matter as much as experts say, companies with a mission that goes beyond making money will do better when it comes to recruiting, retaining, and engaging their workers and attracting loyal customers. Besides, what's the alternative? Focusing on short-term profit as opposed to long-term value? "We believe that a company that pollutes the environment or mistreats its workers can get away with it for a while," says Julie Fox Gorte, director of social research for the Calvert Asset Management, a social investing firm. "But eventually it's going to come back to haunt them."

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