THE BROOKINGS INSTITUTION

A Brookings Press Briefing

CORPORATE SOCIAL RESPONSIBILITY AND GOVERNMENT:

CREATING A MARKET FOR VIRTUE

Wednesday, November 02, 2005

10:00 a.m. to 11:30 a.m.

Stein Room, 2nd Floor
The Brookings Institution
1775 Massachusetts Avenue, NW
Washington, DC 20036

[TRANSCRIPT PREPARED FROM A TAPE RECORDING.]

MILLER REPORTING CO., INC.
735 8th STREET, S.E.
WASHINGTON, D.C. 20003-2802
(202) 546-6666

A G E N D A

November 2, 2005 PAGE

Moderator:

Ann Florini, Senior Fellow, Foreign Policy Studies;
Author, The Coming Democracy: New Rules for Running a New World

Panelists:

David Vogel, Author, The Market for Virtue;
Professor, University of California, Berkeley

Loren Yager, Director, International Affairs and Trade,
U.S. Government Accountability Office

Susan Ariel Aaronson, Senior Fellow, Kenan Institute at
the University of North Carolina

P R O C E E D I N G S

MS. FLORINI: Good morning and welcome, everyone. I'm Ann Florini. I am a Senior Fellow here at the Brookings Institution, and on behalf of Brookings, I'd like to welcome you to this morning's session on Corporate Social Responsibility and Government.

This is a very broad ranging topic that we're dealing with. The whole concept of corporate social responsibility has really gained a great deal more prominence in recent years because we're grappling with a whole set of fundamental questions about governance and the role of corporations in the world.

Who's responsible for dealing with the kinds of externalities that corporations produce? Who's responsible for producing global public good?

These are questions that the world does not yet have good answers to, and many people have been grappling with the question of what is the direct responsibility of corporations beyond the things that governments legally require them to do.

We are very lucky today to have three outstanding panelists to address these sets of questions.

We're going to start with David Vogel, who's a professor in the Department of Political Science and the Haas School of Business at the University of California, Berkeley. David is well known to anyone who does work in this set of issues. His bio has a very long list of publications in the area, many of which I've been privileged to read. He'll be talking today specifically about his most recent book, "The Market for Virtue: The Potential and Limits of Corporate Social Responsibility," which I have read cover to cover, and I can very strongly recommend. I was telling him before the talk that his book is going to make it possible for me to discard the many piles of papers that have piled up on my desk over recent years, because he has pulled together such a wide set of information and crystallized it so well that I can get rid of all the files and just keep his book. So we're deeply grateful to David for that.

Our second speaker is Loren Yager, who's the Director of International Affairs and Trade Team at the U.S. Government Accountability Office, where he's responsible for international trade and related issues. He previously served as Acting Chief Economist from 1998 to 2000, where he was responsible for directing the efforts of the Office of the Chief Economist.

Prior to joining GAO, he was an Economic Analyst at the Rand Corporation, where he authored studies on high technology, trade, and U.S.-Japan trade policy issues. He's also held positions as an economist with the Aerospace Industries Association and the Bureau of Labor Statistics. And he's going to be talking to us today about a study that GAO did recently looking specifically at the relationship between government and corporate social responsibility.

Our final panelist for the day will be Dr. Susan Aaronson, who's a Senior Fellow and Director of the Globalization Studies at the Kenan Institute, but she's based here in Washington. She directs currently a major study on global corporate social responsibility, which is funded by the Ford, U.N., and Levi Strauss Foundations.

That project has set up a diverse study group to make recommendations to the U.S. government on how public policies can promote global corporate social responsibility. And the project has working groups on trade and CSR and on CSR in

China, which I think is one of the most important questions looking forward—is the role of China.

Let me start with David.

MR. VOGEL: Good morning.

I want to begin by explaining the title of the book, which I think provides a useful framework for thinking about corporate social responsibility.

The Market for Virtue asks the question: To what extent are companies capable of responding to a variety of social, environmental, human rights concerns as a result of market pressures? That is to say, to what extent can companies self-regulate, change their social environmental policies without the threat and coercion of government regulation?

And obviously the answer to that question has to do with market pressures themselves; that is to say companies are in business to make money, and to the extent that engaging in more responsible social conduct makes business sense—that is to say, meets a market test—one can expect companies to commit more resources to those efforts. And to the extent to which it doesn't meet a market test—that is to say, which the market for virtue is limited—companies are less likely to engage in these various programs.

So it seems to me a useful way of thinking about this is to look from the corporation's point of view and to ask the question: What makes business sense in terms of these social issues?

The second dimension of the market for virtue is much more specific. If one reads the literature on corporate responsibility, which is an enormous literature, the dominant theme of people who write and are engaged in the CSR movement is the claim that, in fact, there is a market for virtue. That is to say, consumer pressures, employee pressures, investor pressures are changing corporate incentives and so that we're living in a world in which companies which are responsible, which act responsibly towards these new set of expectations, particularly regarding their performance in developing countries, those countries are more likely to prosper than firms which are not. And not adequately addressing human rights, environmental, labor concerns involves a set of business risks which prudent managers should attempt to avoid.

Now, the claim that there is, in fact, a large and growing market for virtue; that the business system itself is providing companies with substantial incentives to change their social behavior is not only very widely shared, but also obviously a very seductive notion. It appeals to executives, because it's a way of saying we don't need additional government controls. We actually can through the market system act more responsibly.

It underlies the business logic of socially responsible mutual funds, whose claim is that if you invest in our funds, not only will you be acting more virtuous as an investor, but, in fact, you will more likely have a higher rate of return because we have identified a dimension of corporate performance, namely corporate responsibility, which really will affect long-term financial performance.

And it is very attractive to many NGOs because they can go to corporations and basically say, "if you respond to our concerns, we will—you will be better off than if you don't."

Just to give a little example.

When activists went to Dow Chemical in the 1970s and '60s and said, "stop producing napalm," the claim was not that Dow Chemical would be better off if it just stopped producing napalm; it was rather they should stop producing napalm because it's wrong.

When environmentalists go to Dow now and say, "cut your carbon emissions," the claim is do so because you'll not only be more responsible but you will be more—you will actually lower your costs.

So this is a very widely shared notion, and the question, of course, is, is it true? And I think when one looks carefully at the evidence, the evidence for this claim I think is remarkably weak.

There is a market for virtue, but its impact is far, far more limited than I think many activists and many enthusiastic people about corporate responsibility actually claim.

There's a lot of ways of thinking about this. If presumably there's a market for virtue, one would expect relatively responsible firms to do well, and less responsible firms to more poorly. And one would expect to see among profitable firms, firms which are more likely to be responsible.

When you actually look at the evidence about long-term financial performance, there's simply no relationship between the two. The conservative argument that corporate responsibility undermines financial performance and hurts shareholders is not true. But equally fallacious is the claim that corporate responsibility improves—helps shareholders.

One can, of course, cite examples of firms that have been both responsible and profitable. And these are repeated endlessly in the CSR literature—Starbucks, Nike, IKEA, British Petroleum, Patagonia, Home Depot.

But one can—and we can, you know, give lots of other examples.

But one can also come up with a long list of relatively responsible firms, which have done very poorly in the marketplace—Levi Strauss, the Body Shop, Ben & Jerry's, Hewlett Packard recently, Chiquita Banana.

And, of course, one can come up with a very long list of companies which have had outstanding financial performance, who had never appeared on any list of first-rate socially responsible firms—General Electric historically under Welsh. The firm which is cited in more business books in terms of shareholder value in the long term than any other company and every business best seller is Phillip Morris. The firm which has the highest PE ratio of energy company, whose long-term financial performance has been outstanding within the energy industry is also the oil firm which environmentalists hate the most, namely Exxon Mobil.

And Wal-Mart used to be another example.

So we could sort of play around with this in great detail. But the real interesting question is why doesn't the market for virtue work? That is to say why isn't it the case that the market provides incentives for firms to behave responsibly. What's the shortcoming of the market for virtue?

It seems to me the obvious way to think about this is to look at the mechanisms of the market. Companies exist in three markets. They exist in consumer markets, labor markets, and capital markets.

If, in fact, these three markets—consumer markets, labor markets, and capital markets—all behave virtuously, all demanded virtue, and penalized unvirtuous behavior, the market for virtue would work perfectly, and every firm would compete with every other firm to be responsible.

The problem is that the market for virtue does not work very well; that these three markets are not adequate to encourage the kind of ability of firms or the incentive of firms to internalize their negative externalities.

The consumer market we can obviously cite examples of—and we could think of our own lives or people we know—we could cite examples of cases in which people have—how we have avoided a particular brand or store or company, because of some social environmental grievance we have against it.

We could all probably think of examples of cases where we have gone out of our way to purchase a product, a service, a brand, a store because we like some aspects of its social, environmental, of ethical performance. We can list such products. We can list such brands. There are cases of effective boycotts. There are cases of companies which have increased their market share by a reputation for corporate responsibility.

Unfortunately, when you add all those up, it's a very small portion of consumer spending. Basically, we products on the basis of price, quality, and convenience. Social, environmental, ethical issues fall way down by the wayside most of the time. When you ask people for surveys in Britain and the U.S., do you actually take into account environmental, social, ethical concerns in your purchasing decisions?

Have you gone out of your way to buy or not buy from a company because of these criteria, 70 to 80 percent say yes.

When you look at actual consumer behavior, the number of people who have ever made a decision on this basis is closer to three percent.

Just to give one a little example of this. Some years ago, Bob Hauss [ph.] of Levi Strauss came to one of my classes at the business school, and he was talking about corporate responsibility, and a student from Germany said to him, how come you know your brand is very well known in Europe, how come you never market your CSR? You never advertise your CSR policies? And an American student said, well, I know about Levi Strauss' efforts in America, 'cause I went to high school and live in San Francisco, but generally speaking, you know, he's right. I never hear any—you never publicize it. And he said I'll tell you why I don't publicize it, and he went around the room to every woman in the class, because women are the main consumers of premium jeans, and he said, what criteria do you use to determine what brand of jeans you buy. And every single MBA student gave the exact same answer: the pair of jeans that makes me look the thinnest.

And he said, that's why we don't market jeans on the basis of corporate responsibility. And I think that's quite typical. So in principle, it's very attractive the notion that we can all express our political preferences every day to the market by what we buy and what we don't buy. It seems like an attractive notion, but in reality, the information costs are so overwhelming that most consumers simply—it's an epiphenomenal problem.

But more importantly, to the extent that corporate responsibility raises costs, consumers are unwilling to pay them. There is simply no evidence that any company can command a price premium or very, very few except very high expensive products can command a price premium, because they've made it in a more socially responsible way. So there are real issues, real problems.

I want to talk about the labor market just to say a word again that if you ask MBA students, surveys show yes, we only want to work for a responsible firm. Yes, we would take a major price cut—wage cut to work for a more responsible company, et cetera, et cetera, et cetera.

Business Week unfortunately publishes a study each year in which they survey MBA students and ask them to list their 10 most desirable employees. And if you track those companies over the last five years, you will not see a high relationship between the firms listed and firms that have a good CSR reputation.

Capital markets are in some ways the most interesting. The number of ethical mutual funds has grown. It's roughly about two percent of the U.S. mutual funds. It's a fairly significant number, upwards of over $100 billion. So, in principle, there's a lot of money at stake there. Ethical mutual funds now exist in every global capital market. Those funds obviously are themselves much too small to affect price allocation, and there's no capital allocation, and there's no evidence that being listed by a prestigious, influential social responsible fund or rating service has any impact on share prices, and the funds admit that themselves.

So we're left with the broader notion, which is that well, mainstream investors will increasingly take into account social, environmental, ethical prospects and risks when they make investment decisions. And the CSR community has put an enormous effort into convincing mainstream executives that they are insufficiently taking into account the risks of irresponsibility and the benefits of responsibility.

And in principle, of course, if mainstream investors were to take social responsibility seriously and recognize it as a major business risk and opportunity, capital allocation would change, management incentives would change, the market for virtue would clear.

Unfortunately, the evidence that mainstream investors take this seriously is thin. The reason is not necessarily that CSR doesn't matter, because obviously it can matter. It's its relative importance. If you take the average firma and you say what the business risks are which we confront in the world in which we live in, the amount of risk, the things that other competitors would do to make your life worse off is a large list, and CSR is pretty far down. If you look about business opportunities, again, there are lots of things to do to make money. CSR might be there, but it's going to be of fairly modest importance. I think the real evidence for this is to look at the business press, which constantly publishes articles about X firm is doing better; X firm is doing worse; X firm has good prospects, bad prospects, et cetera, and I'll go online and you have hear all these stock reports with analysts talking about the prospects for a company. And what's striking is how rarely, rarely any of these reports ever mention anything to do with CSR, either positive or negative.

It's simply irrelevant. It doesn't hurt. It doesn't help. It's relatively unimportant. It's simply false. It simply is immaterial to most investors. Just an example. Carly Fiorina at HP was very widely known for her CSR initiatives; got a lot of awards—very commendable. And HP has problems, and she's fired.

Okay. Enormous press coverage when Carly Fiorina leaves Hewlett Packard, which I read very carefully. Not one single article in the business press ever alluded in any way whatsoever to her CSR initiatives. No one said well, too bad she spent too much time in CSR. She would have been better off selling more printers. No one claimed that. Or too bad she's leaving: HP's long-term CSR initiatives will be short-changed as the company has a more bottom line focus. No one said that either. It was simply irrelevant. Okay.

Now, nonetheless, so these strike me as important limits, and at the same time, there's no question that we have actually seen major changes in corporate behavior, and I started writing the book quite skeptical about CSR and its accomplishments. But I came away after researching it with a sense that the changes in corporate behavior over the last decade have been substantial. Ten years ago, maybe even seven or eight years ago, when Nike said we're not responsible for working conditions in our suppliers because they don't work for us, that was sort of the business norm.

No firm would say that anymore. The improvement in labor conditions in firms which is contractors who make products for Western high value brand companies has been enormous. They are now probably—if you are working in a developing country and you make a product for a visible western brand, you are probably in the best shape of any worker in that country, and you're certainly in better shape than you were 10 years ago.

Companies have been worried about threats to their image and reputation, and they have been responsive. When activists went to Mattel two Christmases ago, and said, we're going to start a campaign which says, buy Mattel, the company that makes toys for children by children, Mattel folded very, very quickly.

So that—and one could look at areas of human rights, environmental improvement—a long, long list, which I could go into in detail. But in fact, companies really have changed their behaviors in very many important ways.

And I think to see CSR as simply window dressing really would be very misleading; in fact, companies have proven quite responsive. Many firms have figured out CSR is important to their reputation. They have figured out cost effective ways of addressing social issues. There's a lot of excitement in business there, a lot of partnerships between firms and non-profits and NGOs. So there is an enormous world of corporate responsibility, and it needs to be taken very seriously.

At the same time—and this sort of my key point—while we need to appreciate how much companies can, in fact, accomplish within the profit system—and I think their accomplishments have been much greater than anyone thought possible, we also need to recognize the limits of what firms can accomplish. That is to say the market provides some incentives for corporate responsibility, mostly around reputation, and it also provides a discipline, with constraints on corporate responsibility.

One just quick example. When William Ford became CEO of Ford Motor Company, he was going to be the green CEO. He embarked on an ambitious campaign to commit to green Ford Motor Company. Environmentalists were simply ecstatic. Here was the combining of profitability as virtue. And, of course, two years later, he had to concede that he could not deliver any of his promises; that Ford's average fuel economy remained the worst of any car company in the world, and, according to activists, was less than it was in 1916.

And the reason is simple: that is to say Ford's profits come from SUVs and light trucks and what's William Ford supposed to do? He has to make products that people want to buy. And it might be the case that activists would like him to have a greener, more fuel efficient line of products. But as long as consumers are not willing to purchase those products, it's very tricky for him to do so.

And so the constraints of consumer virtue are serious. I mean take the SUV, which environmentalists would probably argue is the most irresponsible product in the history of civilization, at least the last several millennia. It's possible that there is some consumer in the United States who said, you know, I really want to get an SUV, and it meets my price needs, and my needs of my family and safety—you know, I—this is the product for me. I've thought about it. This is what I want, but, you know, when I think about all the dependency on the Middle East and global climate change, ah, I'm not going to buy it. It would be irresponsible. There may be some people in America who made such a choice, but there are very few of them. And they're certainly not sufficiently large to convince Henry Ford to change his policies.

So where does this leave us?

It seems to me that one shortcoming of much writing on CSR is that it acts as if government is no longer critical. It acts as if there can be private regulation, which can serve as an effective substitute for government regulation.

And I think this is very misleading and very distorting and quite irresponsible. We need to appreciate the role companies' voluntary programs can play in improving the world, and they have made substantial improvements. But we also need to recognize the limits which companies can do—of what companies can do. And there, it seems to me is where the only institution capable of forcing companies to internalize their externalities, to engage in socially important activities that are not profitable, that do not meet a market test is, of course, through government and government regulation.

Now, clearly, particularly in developing countries, to the extent that there is no effective government regulation and no effective national governance, CSR is an effective solution. If you want to improve health and safety conditions in Vietnam, going through Nike is a much more effective strategy than going to the government of Vietnam. It's going to accomplish much more. If you want to improve forestry practices in Chile, going to Home Depot is much more effective than going to the government of Chile. So to the extent that one can use those consumer pressures and the reach of globalization to affect practices in developing countries, as long as those countries aren't willing to improve or unable to improve their own regulations, CSR is a very viable, admittedly second best solution, but a real solution—a real improvement.

But when you come to developed countries like the United States and Western Europe, there I think the shortcomings of CSR are important.

Take most would argue—arguably the most critical issue which many companies are now engaging in public policy on environment global climate change. If you add up all the initiatives, the voluntary initiatives that companies have engaged in in the United States, completely voluntary, because you have no regulations in this country on carbon, they're important. They're commendable. They're serious. They're substantive. They're trivial in terms of actually addressing the issue of reducing the rate of U.S. carbon emissions.

If we're serious about doing that, if we believe that's important, there's no alternative to responsible public policies.

I think, in other words, we need to redefine and expand the definition of corporate responsibility, and we need to look at companies and say not only what are you doing on your own voluntarily, but are you supporting responsible public policies. So the company, for example, which makes no effort to improve its own carbon emissions, but supports effective government regulation of carbon emissions to require all firms to internalize this problem is I think acting much more responsibly than a firm which makes enormous efforts to improve its own carbon emissions, but opposes effective public policy.

So it seems to me the real new frontier of corporate responsibility is to ask companies which claim to be responsible and which we want to be responsible to not only focus on their own internal policies, which is important, but to also think about a variety of means through trade policy dealing with developing countries and within developed countries that can also change the rules of the game and create a more level playing field that can make it possible for all firms to behave more responsibly within the context of a competitive global economy.

MS. FLORINI: Thank you very much, David.

Can we turn it now to Loren?

MR. YAGER: Thank you, Ann. And thanks, David, for having me here this morning. It's a pleasure to be here in the context of your book publication, and, as Ann mentioned, we have a report which came out about a month ago which covers many of the federal activities associated with CSR.

So let me talk a little bit about that, and then I'm going to come back to some of the points that you ended with about the federal government role, because I think there's some really good kind of questions that we can raise about, you know, what that means and where you're going with that one.

But we are obviously big users at GAO of Brookings publications and even more commonly we talk to a lot of the folks over here when we're doing our research. And actually, I found out we hired one of your research assistants, too, just a couple of months ago. So there is also I think some irony associated with us coming here for a book release event, because we're giving away free copies of our report in the back, and I guess we didn't bring enough. We didn't realize it was going to be such a big attendance here, but the report that we did came out about a month ago, and it's 05-744 for those people that didn't get a copy out front. I think perhaps the easiest way to find it is to go on Google and say GAO report, corporate social responsibility. I think it's easier to find it that way than to actually go on our own website.

But it's free and it's on the website.

It is a little ironic obviously to come and try to give away books when you're trying to sell a book here. I think I'm somewhat safer here at Brookings than maybe some of the other think tanks around town because at least Brookings does believe there is some role for governments to play in this way.

And I think the way I would think about it is everybody I think sees the same screens that I see. When you get on Amazon or some other kind of website and you purchase, you select a book, the next screen that always come up is better together. Well, I think that's what I would like to say about the GAO report and David's book is that, you know, buy this book with "Market for Virtue," and say, well, actually you get two books for the price of one, since ours is free.

So actually, in a serious way, though the books are complementary. Our report and David's book are very complementary in a sense, because as he mentioned, the talks a lot about the incentives that exist in the market for virtue, and that's not something that we spend as much time—we do actually is kind of a summary level discussion on that. What we really focus on in our book is trying to do an inventory of the federal activities that are associated with CSR.

And I have a couple of observations I want to make on that, but let me just give a little bit of a history about this particular assignment.

They all have certain unique characteristics, but this one is actually Susan is very aware of this, too. There was a Kenan Study Group, which I think you're going to talk about a little bit that talked about the benefits of trying to have somewhat of a systematic look at what the federal government is doing, particularly with regard to global CSR.

So we started this project as a result of a request from three members of Congress. David Price, Cass Ballinger, and later Sandra Levin have asked us. They wrote us a letter, which is the common way that we begin work. They asked us to look into some of these issues. We took I think about a year to perform this study, and we issued the report about a month ago to those members and obviously when we issue it to the members, it's available to the general public.

It's somewhat different than a lot of the work we do, and it has a little bit to do with the fact that we're doing this work for somewhat other than the very traditional trade committees that have jurisdiction over this issue. As many of you know, Senate Finance, House Ways and Means are the trade committees, so they have jurisdiction over the trade areas.

And the work that we typically do for those trade committees are those issues of immediate importance in their view, such as looking at the Byrd Amendment, WTO progress, off shoring, China issues. We have lots of reports that have come out, even in the last few months on those kinds of issues.

But when we get requests from individual members, they have kind of a real commitment to certain issues. It tends to be some of these longer term and I think somewhat broader issues that are not immediate, but obviously quite important to try to understand, and that's I think this one certainly fits in that category—not a traditional trade committee request, but something of broader interest and broader importance.

Let me make three observations about the report, and then I want to come back and talk a little about your final chapter, David.

The—also, I got some help from your former research assistant. She was very motivated, and gave me so good, tough questions. I think she said that you'd be anxious to do that.

But the first observation regards how the agencies responded to our requests when we're trying to collect this information about their programs.

When we first went out to the agencies and asked them about, you know, what programs did you have that are associated with CSR, we got roughly equal parts of cooperation, puzzlement, and just outright denial that there was anything that they were doing that was related to global CSR. And so that's really because in way there hadn't been a systematic effort to collect this information before. There was discussion about having a website, which would start to bring these together, but that has not been completed yet. So in way, the report has gotten a jump start on that work.

So when we first went out with our data collection instrument, there were a few agencies that were willing to respond. But even they didn't always have a CSR program that was labeled or that they were aware of. And so this really I think when you think about the agencies that were willing to talk and, in fact, kind of interested in talking, but weren't so sure about it. This would be USAID, EPA, and, to some extent, the State Department.

And a lot of officials in these agencies seem to want to respond, but really hadn't thought about their programs in this context.

And the initial response was, well, I don't think we really have anything. And so there was also another group of agencies that frankly some of these agencies were just not comfortable at all in talking about CSR, and USTR and the Labor Department were among those; that they just said that's just not part of our mandate. We don't do CSR. We don't have CSR programs.

But we didn't take no for an answer from either group because there were a lot of projects ongoing within all the different agencies that did relate to CSR, but it took a fair amount of work to try to get this list together.

We ultimately ended up with over 50 programs in the federal government that are associated with many of the themes in CSR. They're not always labeled. They're not particularly large programs, but we do have that as an appendix in report, which gives that 50 plus programs, which now I think makes it a little bit easier for people to understand just what the U.S. government is doing, particularly with regard to global CSR.

This may not be an exhaustive list, because again it depends on your definition. We didn't get that kind of easy cooperation. I think a lot of the agencies frankly tried quite hard, but it's no so easy to identify all those programs that might be related to CSR. But I think it's a good start.

The second observation that I want to make about our report is that it helps to arrange the programs along some kind of a continuum to organize them. And whenever you have this many, 50 programs or 50 of anything, it helps to organize them in a way that facilitates the understanding and the analysis. And we chose to organize them along a continuum that was based on a World Bank continuum.

On one end, you've got this kind of voluntary, nearly purely voluntary type activities. On the other end of this continuum, we've got these more or less mandatory types of programs. And so we do use this. It's a good organizing framework, and we give a couple of examples in our report.

On the voluntary end of the continuum are the programs such as those that endorse private firms' activities and other recognition, prizes and things like that.

In terms of the mandatory end of the spectrum, there are programs that require firms to meet certain standards; for example, in order to quality for financing. So

EXIM Bank and OPIC have certain environmental guidelines that need to be met in order to be eligible for the assistance that the U.S. government provides. And, in some cases, that assistance is quite substantial over going to the private market. So it's nearly a mandatory requirement. If you want the financing, you've got to comply with those kinds of guidelines.

So we described this continuum in the report, in the second section. And again, we provide some examples from the appendix.

The final observation I want to discuss from the report is that neither Congress nor the executive branch have really made up their mind as to how to organize these programs and whether to group these or coordinate these in some manner other than just having the individual programs pursuing each of their specific goals. Each of these programs was created in order to achieve those specific goals, and they haven't worked out a way to cooperate or to coordinate or to centralize yet. And again, I mentioned there were some plans for a website, but that hasn't gotten off the ground.

And since there hasn't been this kind of a congressional legislation or executive branch guidance to accomplish these goals and to make a statement about what the ideal arrangement would be, we didn't feel it was appropriate to step in and try to make this kind of a policy decision.

As many of you know that work in the policy area, analytical techniques and analysis can take you a long way. It can be of great value in helping to inform decisionmakers regarding the policy trade-offs that do exist.

But the decisions on how and whether to make these kinds of decisions—to organize, to centralize—really have to be made by the elected officials. And so we didn't step in to make a recommendation or a matter for congressional consideration, because ultimately that's a tough decision. But given that situation, it does I think call for us to try to think about why is it that the Congress and the executive branch haven't made an effort to coordinate or to centralize.

And I have a couple of thoughts on that. Each is kind of sort of a model for trying to understand why that decision hasn't been made.

The first one you could call this kind of independent goals model, where this argument is that the supporters of each of these programs are much more interested in those specific goals of each program, and they feel that having the agencies pursue these individual goals is at least as effective as attempting to bring those together under one umbrella.

A second model that you could use to explain why it hasn't happened is kind of a bureaucratic politics model, and that is that there would be significant challenges associated with any decision to combine or organize the efforts under one agency, and that some of these practical kinds of difficulties might be a reason that would prevent this type of development.

And finally, you could come up with a model, which would be somewhere in the neighborhood of private sector opposition model, and that is that many of the firms who are most active in this debate are generally supportive of voluntary activities, but when it comes to going beyond voluntary activities, they are much more reluctant and they hold back—they might be involved in—holding back some kind of a centralized effort.

So there's a couple of ways to think about this, and I think as is often the case, the real answer is probably some combination of those three explanations as well as other things that, you know, I may not be as familiar with.

But I think you could certainly see why—some reasons why this wouldn't have happened.

But before closing, let me turn back to David's book, particularly the last chapter on the role of governments.

You know, David actually takes firms to task, you know, in the book for not being supportive of the broader regulatory efforts of governments and argues that the firm should support a balanced approach, and as he mentioned in his remarks; and that firms have a responsibility to support, improve government performance as well as changing their own behavior.

Let me just read a couple of quotes from the last chapter. "Those who tout the business benefits and social accomplishments of CSR too often overlook the critical connections among corporate responsibility, corporate political activity, and public policy." And I think the reason I like that quote is again it kind of gives us a reason for being here, because we're talking about the federal role here. But certainly, it is where you end up, and it's kind of the last chapter.

But there's another comment that you made here that I wanted to read. "Responsible firms also need to support policies that establish minimum standards for their less virtuous competitors, not just to create a more level playing field, but because such requirements are frequently necessary to accomplish the underlying goals of CSR."

Let me just take a couple minutes and focus on this issue of private sector support of regulation, since you really highlight this in the closing of your book.

This is an area I think that deserves some discussion today and possibly some additional research.

Let me make three points. I have to say first that we're a little surprised to see that you believe firms are not supportive of regulation in the host countries. In our study, when we interviewed a number of firms to find out, you know, their views on CSR, they actually—quite a large number and certainly more than half of the firms that we spoke to did indicate that they supported better enforcement of laws and regulations in host countries.

Now, I have to admit that some of this may be a selection bias on our part, because we tended to speak to firms who were among the leaders in CSR. But they were pretty clear in saying we did support much stronger laws and particularly enforcement of those laws in third country markets.

So I think that leads to a question, David, of how do you reliably gauge the efforts of multinational firms to support regulation.

The second point I want to make is some of the firms who are making significant efforts in CSR might find it to be in their self-interest to support regulation to level the playing field. For those companies who are exceeding the standards, there may be insufficient payoff through the market mechanism, as Dave is talking about, including some of the domestic firms in those host countries who are not acting similarly will gain at the expense of firms who are practicing CSR.

In these cases, it seems that firms would be expected to support regulation in those areas. And I think one of the questions that really is interesting here is that why is it that those firms who are acting, even in their acting in a self interested manner, why would they not be supporting regulation in those host countries.

This kind of brings up an aside here on the Nobel Prize, which was just given to Tom Shelling a couple weeks ago. And one of the ideas that he came out with in some of his books was quite relevant here. It was an essay that was summarized in the New York Times just a couple of weeks ago. I reread the essay last night. It has to do with hockey players. Before there was a helmet rule in hockey, the hockey players realized it would improve their safety if they wore a helmet, but very few of those hockey players chose to wear a helmet because they thought it would harm their performance relative to their competitors when they were in the games, so individual players really weren't capable of making this big change in the league until the league came down with the rule that required them all to wear helmets.

In some ways, you know, what you might have here is kind of an analogous situation. Multinational firms operating in foreign nations with weak laws and enforcement seem to be analogous here. It would appear that the CSR firms are, in a sense, they're playing hockey with helmets on, and the rest of the firms are playing without. And at least in some cases, those other firms could be gaining an advantage on the CSR firms, so it really raises a question here.

I have one last point, and a third question. In the U.S., the private sector is not generally supportive of regulation, but individual firms often champion very specific rules that result in them gaining an advantage over some of their competitors. And that whole field of public choice economics is related to that.

So this is one of the issues that was specifically covered in the book, "Trading Up," I mean your prior book, where you mentioned that many regulations affected by trade were primarily there to benefit specific producers. So you're kind of recommendation for firms that they get involved in that process of regulation has a real danger to it, because a lot of times when firms get involved in regulation, whether it's the United States or probably in host countries, they're not trying to level the playing field. They're trying to tilt the playing field towards their own kinds of technologies and other things that would benefit them, whether it's trying to keep out other competitors or other. So I think there's a danger obviously in pushing too hard and I guess my final question is: You know, what are the trade offs associated with having firms lobbying for regulation in those host countries, because you certainly could see that as a way that they would try to, again, pursue their own self-interest, and it may not end up with a level playing field. It could be one that's quite tied up for their competitors.

So let me just close there, and I look forward to Susan's comments and more discussion afterwards.

MS. FLORINI: Thank you, Loren. I think you've raised some very fundamental questions that we'll want to get back to.

Susan?

MS. AARONSON: Good morning, everybody.

I just thought I'd give a little background on how I got on this topic of global corporate social responsibility. After Seattle, I thought I saw the Jerry Springer

Show, live, and it seemed to me that we could not find common ground in the U.S. polity, let along internationally, about what role trade could play, both in improving our economic lives, but also social, human rights, and the environment.

But it struck me that I did see among companies an attempt to try to work with some civil society groups.

I admit that I think I was wrong. I spent three and a half years working on global corporate social responsibility projects with foundation funding from Levi Strauss and some companies that are not perceived as so socially responsible, like Pfizer. But the point of this being what I saw when I first started, which would be about 2000, was a patchwork of CSR approaches or branded CSR approaches.

And I also heard government saying to some of their corporations, particularly in the EU, you know you can gain market share as a result of these strategies.

So on one hand, you had this patchwork. You had a plethora of CSR strategies and governments were increasingly getting involved. And you see the same exact thing today. Okay. So for three and a half years, I did a couple of projects that led to some study groups—the study group that led to the GAO report, which was this one; one on China; one on trade policy.

And basically, that led me to my current work, which is on human rights and trade, because I do not think that CSR is really very effective, because it—whether it happens at the sectoral level or it happens at the firm level, it's often just pretty words.

On the other hand, it seems to me more and more, we're seeing the hybrid, where government is playing a role in promoting CSR, and that's what I'd like to talk about today. And I promise I won't take more than 10 minutes, because I know you're eager to ask questions.

So in his excellent book, David Vogel contends that market forces encourage and limit corporate virtue or let's say CSR. He is clearly right. Markets have not succeeded in prodding corporation to do the right thing, everywhere they operate. So in my mind, the next phase of CSR, which is all about volunteerism is to bring the state back in.

And so let me give you an example from last week's news. Wal-Mart, the company we all know and love, is not only America's largest company. It does more business than Target, Sears, K-Mart, Penny's, and Kroger combined. It takes 10 percent of China's exports; right? Probably more powerful than any other company we've ever seen in history.

But even mighty Wal-Mart is being buffeted by global forces that it cannot control. So last week the news was replete with Wal-Mart. It was all about how Lee Scott, Wal-Mart's CEO, was going to—made this public announcement about how the company was going to reduce greenhouse gases, provide new health insurance for its workers, develop more environmentally friendly trucking modes, and the Chair would visit China to inspect suppliers.

But hidden inside the headlines about Wal-Mart's conversion to virtue was the fact that Wal-Mart also called on Congress to raise the minimum wage. The company wanted to bolster the income of its employees in a way that wouldn't undermine its competitiveness relative to K-Mart; right?

So Wal-Mart was riding the market for virtue, but it wasn't going to rely slowly on market forces. Nope. It was going to call on government. Why? Because it was publicly acknowledging—just my opinion—that it had begun to pay a price for its business model; right, of squeezing its domestic and foreign suppliers to provide you and I with everyday low prices.

Many of its customers and even some of its employees could no longer afford gas, let alone the goods that lined Wal-Mart's aisles.

So Wal-Mart is not alone in trying to act like or look like it's acting responsibly. At the same time, it's trying to prod the U.S. government to do more to help it deal with the forces of globalization. So I'd like to just focus on four areas, which David's book—which is a fantastic book, and I highly recommend that you use it—touches on.

But I have one major difference with David, which I think CSR in the home front—so let me just tell you what I'm going to talk about, and then I'll talk about it and then I'll shut up.

The four things I'm going to talk about is why is global CSR different from domestic CSR? Why the U.S. government should act to promote CSR in a consistent manner? What other governments are doing and what the U.S. should do?

Okay. The difference between CSR on the home front and internationally. Hey, you and I know what our expectations are of companies in our home market; right? Because we share norms regarding the role of the private sector. But in the international level, this is not true. The responsibilities of the global corporation are ill-defined. And corporate officials do not have clear policy regarding their rights and responsibilities. Why? There is no international investment agreement. I'm not calling for one. But executives at Wal-Mart and at Sears and at Levi's and at Pfizer confront a world with not only with so many governments and languages, but expectations for and rules for the private sector. So companies in global markets adopt CSR strategies as a means of addressing public concerns about social and environmental practices in global markets. Why? Because the rule of law is inadequate in many developing countries, let alone in some it's non-existent. Okay.

So executives in those environments, they struggle to do the right thing. Is the right thing to give condoms for AIDS victims that work for your company? Is it to give it to the whole family? What do you do? What do you do? There is no guidance and in my mind, the U.S. government should be out there providing our firms with clear guidance regarding their social and environmental responsibilities.

Point number two. The U.S. has a foreign policy and economic policy interest in promoting global corporate social responsibility. American business represents you and me overseas. Okay. When firms act irresponsibly, America's foreign policy goals can be compromised. And here's why.

You and I work for, invest, purchase from, and save from the companies that are struggling with these issues. Okay. They are the backbone of our economy. Their future is our future. And we have choices about how they behave. We can influence them through shareholder resolutions, through not buying their stock, through consumer boycotts, but also by saying to government, you need to be out there providing them with clear expectations, not necessarily mandates, but you need to be clear.

Okay. As David notes in his excellent book, market forces are demanding ethical behavior. But markets can fail. They obviously haven't succeeded in prodding all companies to do the right thing everywhere they operate all of the time.

Moreover, market forces have done very little to rationalize the plethora of CSR strategies out there. In 2001, the—in 2001, the OECD found 246 codes of conduct alone. Believe me, there are tons more now.

There's been no study since that time, but it's amazing. Will Nike and Reebok collaborate on CSR strategies in one factory in Mexico or China? No way. It's branded. That sends strange signals to suppliers. Okay.

Many of these codes or CSR strategies they're not compatible, so if we want governance to be effective whether it's soft law or hard law, it should be clear and consistent.

Okay. Other governments are acting, point number three.

In many countries where U.S. multinationals operate, their governments are doing things to promote CSR, not just because it's competitiveness or because it's good business—okay—'cause they see—they want their companies to be responsible.

For example, today, Australia and Brazil are conducting parliamentary inquiries into CSR. I don't know what that means, but they are.

The British parliament has a CSR caucus, just like we have a human rights caucus.

In 2002, the French government revamped basic corporate laws and required all publicly traded companies to report on their social, environmental practices.

The German, Belgian, and British governments require pension funds to report on their social environmental practices. I put out a scholarly article. The first page that I wrote that summarizes exactly what this is doing, and I can point you to it if you want to see.

I mean what's the problem with the U.S. government approach? Incoherence, as the GAO report illuminates. Nobody is in charge. It's inconsistent. There aren't even the same definitions for CSR. There's no coordinative body.

Finally, even within cabinet departments, and by this I mean Department of State, there are different branches promoting different CSR initiatives, further confusing market actors regarding global CSR.

Okay. Into this morass I waded. Waded. W-a-d-e-d. And, you know, we set up this study group. It was chaired by the Chairwoman of Oxfam and a Senior Executive from Levi Strauss, and lots of corporate people and civil society people, and they made 18 recommendations, one of which was that GAO should do a study, and several members—

[End of Tape 1, Side A; flip to Side B.]

MS. AARONSON: [In progress.]—found that quite interesting, and GAO did do that study. I'd like to briefly suggest some suggestions of my own. Okay beyond what the study group that I directed came up with. Okay, I'm just going to briefly say this: Congress should propose to the President that it is in the national interest for U.S. firms to act responsibly. You don't have to mandate it, but the Department of State should define what global corporate social responsibilities are and somebody should be in charge and monitoring CSR initiatives.

Okay. And in particular I'd like to highlight this in terms of human rights, which is my main area of interest in this whole thing. I don't want to go into too much detail. Ask me if you have a question.

Number two. Congress should require that the Department of State examine how U.S. and international public policies and institutions may undermine global CSR. I can tell you that the WTO is in my mind a wonderful institution, but WTO has provisions that allow governments to undermine their own labor laws to stimulate trade, for example. There are no rules governing how business behaves in conflict zones. That led to the problem of conflict diamonds.

We need clarity people, but only if we demand clarity will we get it.

Okay. The U.S. government should become a role model and use the market forces of procurement to promote CSR and human rights in general. You know, we have rules that don't violate the WTO to promote environmentally responsible purchasing. Why not do the same for human rights? It isn't going to be easy, because you have to do it in a way that doesn't violate MFN rules of the WTO. But it can be done, and other governments are beginning to do this. We should do it, too.

Finally, we should use market forces—disclosure, to promote global corporate social responsibility and a longer-term approach to global investment.

So let me finish by saying a word about David's book, which I was privileged to read early on in the process. It is one good book. It's easy to read. It's fun to read. I'm going to use it for my students this semester, and I highly recommend it.

MR. VOGEL: That's a criticism.

MS. AARONSON: That's it. My criticism was that you don't define the difference between global CSR and—

MS. FLORINI: Well, I think we have a great deal to chew on, and a whole lot of questions that have already been raised, and I'm sure there are many more that people want to raise, and since I'm sitting in the Chair's seat, I get to raise the first one. I'm deeply tempted to just go back to Loren's questions, which I think are very fundamental, and, if we don't get to them in a few minutes, I will turn back to them.

But I want to raise something that has barely been mentioned except by Susan in her penultimate sentence. One of the areas that is floating around in the CSR universe, but doesn't really get I think the kind of attention it deserves, is this question of disclosure. Many governments are pushing for their firms to start reporting on their social and environmental practices so that consumers, investors, anyone concerned with corporate behavior actually knows what the corporate behavior is; and, therefore, can make informed decisions.

As David mentioned early on, the information costs of even figuring out what firm you want to buy from, if this is a high priority for you, is so high that it's essentially impossible for anybody who doesn't make a full-time job out of it to know where they want to buy from. There have been a few countries that are now beginning to mandate that their corporations provide this kind of information. There is a large voluntary disclosure movement out there. There's a thing called the global reporting initiative that is trying to standardize the kind of reporting that gets done, although it's extraordinarily complicated.

And I think the question I want to throw out is to what extent would an effective disclosure system help to clear the markets—the consumer, financial, and labor markets—for corporate social responsibility to a degree that would make it possible for these markets to function efficiently? This is not bypassing the need for public regulation, because I don't think you're going to get disclosure unless it's mandatory. But it's a different kind of regulation. It's mandatory disclosure rather than mandatory behavior.

MR. VOGEL: I'm skeptical that it would have the impact that you might suggest. I mean we do have—if you think about the broad context of U.S. regulation, we do have some disclosure requirements, and they tend to work when they provide information that's relevant to consumers; for example, food disclosure issues or energy efficiency.

But when you get information which involves broader social and environmental policies, that I think is much trickier to provide.

You know the effort to try to harmonize and standardize and have a vision of corporate social and environmental and ethical reporting that's, in principle, analogous to or is as "good as" quote, unquote financial reporting, which has its problems as well, you know, is a central goal of the CSR movement. I think it's very difficult to do. I could imagine very specific areas where one could get good disclosure. But the complexity of global firms, and their relationships to subcontractors and the complexity of things they do, I think that except in very specific areas—and then they get information that would be verified—and then I think even if that information was available, it's not so obvious that the typical consumer and investor would actually use it to inform their decisions.

Information works when it—to provide something material, when it's sort of—you get information about a company which you can then act on in your own self interest, like financial reporting. But when you're asking—when you're giving people information about activities which do not directly affect them, I am skeptical that it would—I think it's a good idea, but I am skeptical that it would really make the market for virtue work significantly more efficiently.

MR. YAGER: I just want to make one comment that we raised in the report. Whether it would make a significant change, I think is certainly something to talk about and debate, but the fact is the market system doesn't work without credible information. I mean there is no benefit to a firm quietly pursuing CSR. Obviously, there could be some benefits to their workers and it may be to cost. But ultimately, it does depend upon not just information, but credible information coming forward so that market mechanism will allow people, whether there's a lot of them or some smaller number, to make a choice based on some combination of features, which might include the—you know, CSR type considerations.

There has to be credible information for the market to work, and, you know, certainly thinking about ways that that could be made available I think would, you know, be moving in the right direction.

MS. AARONSON: I agree with both of your points. Interestingly enough, we were—under our grants—we were able to hire a lobbying PR firm to help us market this report to government officials. And we went to the SEC and met with a nameless person who was an FCC Commissioner, and he said to us—it was four women that were there and the guide, if you will, from the PR firm, and he said, you know, we are overloaded dealing with Sarbanes-Oxley. We are not going to be calling for, even though under regulation I think it's 5K or 8K. We should require, you know—we could require social and environmental reporting. We're not there yet, even though other governments can, because, you know, firms are complaining about Sarbanes-Oxley.

But now, let's look at the other side of this, which is what if we informed consumers. As David notes, you know, people don't seem to buy based on their socially responsible. And I have to admit, as a mom saving for college for two children, it seems like 14 children—you know, I want to buy green, but I can't all the time.

On the other hand, though, Belgium and South Africa, just as an example, have social labels which do not violate WTO rules, and basically say to the consumer this product was not made under sweatshop conditions in countries which do not tolerate sweatshops.

Now, look, this is hard to do. But it's doable. Let's look into it at least.

MS. FLORINI: All right. Questions from the audience? Lots of them. You got them all. Yeah. And there's a microphone coming around, and can you also give your name?

MS. COHEN: My name is Jonathan Cohen [ph.]. I'm with the Williams James Foundation, and first I just want to say thank you very much for the presentations—all interesting. And in particular thanks for the Kenan Center studies and the GAO report, which will help us hopefully engage the U.S. government on these issues.

I am going to primarily direct my comments to David Vogel and the book. Five brief comments in particular.

One, it seems like you make a variety of contradicting points. You say that there's no relationship whatsoever between financial performance and CSR, and then you go on to list them, such as Starbucks, Patagonia, BP, and the like. Or in the reverse, one of the most prominent watershed examples is Shell, with its problems in Nigeria and the sinking of the Brent Spar oil platform, which caused it financial challenges in the '90s. I think there is clearly evidence that's demonstrated cost savings due to CSR and the issue of developing markets is less clear at this point. But the problem would seem to be—and I'd be curious to hear from the panel—the problem seems to be monetizing CSR benefits in that externalities aren't accounted for, and so the real issue is generally accepted accounting principles not taking into account social and ethical and labor issues. It seems that consumers, for the third point, are voting with their dollars in terms of the growth that you outlined in socially responsible mutual funds to the extent that consumers don't buy products when CSR raises costs. I think organic food is a good example that contradicts that. And that it's a multi-billion dollar industry where that's exactly the case. There are also examples, such as American apparel, where people are willing to buy for—pay more for products that they know are made without sweatshop labor. And then the last point, in terms of CSR acting as if government regulation isn't needed. The whole point is that government regulation failed. That's what led to the proliferation of codes of conduct that don't involve government and that's what led to the development of partnerships between NGOs and corporations directly.

And you're seeing I think a belated movement in the direction in particular in Europe where you have the EU-CSR forum. You have a U.K. Minister with CSR in a portfolio—the French reporting law, and the like.

But these are—I would love to see the U.S. government take a more active role, but we have a hostile Administration when it comes to these issues. And business in terms of policy tends to support anti-CSR approaches, such as Exxon fighting climate change regulation; Wal-Mart and corporations writing legislation and agreements like Department of Labor agreements concerning—which just came out yesterday, and we read the news.

So I'll leave it at that, and ask for feedback from the panel just going over what is a provocative book, but one which I find makes interesting points, but at times contradicting points.

So I'd appreciate your comments. Thank you.

MR. VOGEL: Yeah. Well, I tried to provide a balanced perspective, so I guess one could define that as contradictory, reasonably.

I think that on the issue of the financial impact and the interest of consumers. Obviously, one can find examples of companies which have benefited or suffered from CSR strategies, and one can find examples of consumer engagement in particular issues as well.

But I think if you—what you really need to think about in the broader context, I mean the broader economy, the broader set of factors that affect the financial performance of the typical firm—and I think if you look at the relative importance of

CSR in terms of consumer purchasing decisions, and investor decisions, and corporate profitability, it remains for most companies most of the time extremely modest.

MS. AARONSON: Can I make a comment about—oh. About your comment?

I think we're confusing a couple of things here. I think we're confusing a couple of things here. The example that you gave of government regulation failing was really an example where governance is inadequate. It's not failing. It's often non-existent. Okay?

And we don't have government regulation of firms operating overseas. The U.S. government does not say that you may not undermine human rights. What the U.S. government says is that you should adhere to local law. But what if local law is not enforced, as in China? So it's not a failure of governance. It could be in the host country. So there's a little bit of muddying there.

Moreover, the example of Exxon citing regulation is not about CSR. That's anti-overregulation or a certain type of regulation; right? That's not about CSR.

Now, but you are making in my mind a very good point. CSR is ad hoc and voluntary, and it tends to be within the PR section of the company or the supply chain management section of the company.

This week BSR, which is the largest CSR organization in the world is meeting uptown in Washington, and you can bet representatives of every Fortune 500 company will be there—okay—-as well as lots of foreign multinationals. And you can bet, with the exception, let's say there's a thousand companies there represented—with the exception of probably six of them, almost all of them have a Director of CSR. That person doesn't report to the General Counsel or the CEO. That person reports to the PR person, and the lobbying strategy of the firm, i.e., how they use government as opposed to the—you know, the CSR side of the firm, which is strategy, but they don't talk. And one often has much more clout than the other. So you may see, in fact, that contradiction between CSR pretty words and behavior.

And now, the next phase of CSR, as I think I've said, is to get into partnerships with civil society groups and government and that may lead to a more consistent CSR. My own view is that until general counsels say this is a good thing, and you can bet they won't for a long time, it's going to look pretty inconsistent to you.

MR. YAGER: I'd just like to make one quick comment on the whole idea of organic food and even nutritional labeling—I mean I think in some ways, it's a very positive story. I don't think anybody prior to getting all the nutritional labels on boxes and bags of everything we buy in the store would have ever believed the impact that that has had. I think people really do pay attention to more information. It took some time I think for people to really start to use that, but it certainly has happened, and I think with organic food again there is another story where people have shown a willingness to pay for certain kind of products that are produced in a different way, but there is one essential difference, and whether this turns out to be, you know, very important, is that when you're talking about nutrition labels or organic food, you are—you're taking those. You're not just wearing those products, but you're ingesting them, and it could have some positive health effects. So I think that trying to understand whether it's the nutrition labels or the information that people are willing to use—that's a good—it's certainly a good example that people have taken full advantage of that.

On the other hand, there is that consumption issue, which, you know, could turn out to be quite different than someone who's, you know, buying a pair of slacks or something from a store that has a good reputation.

I think it's really I think a hypothesis that you could test somehow to see is it the fact that you're ingesting it or is it the fact that you like the idea of purchasing it in that manner. And I honestly don't know whether there's information on that yet.

MS. FLORINI: The lady in the front?

And I think we'll do two or three questions at a time, given the number of hands I see going up.

MS. DODGE: Okay. My name is Laura Dodge, and I work with a Hong Kong-based organization called China Labor Bulletin, and we do labor—we work on labor issues and rights in China.

And I have a question—two questions kind of aimed at Professor Vogel and then with Susan's comments taken into account.

My question is you're—I haven't, you know, read the book, and the title is "The Market for Virtue," and it seems to me that there isn't just one market for virtue; right? There is—there are many markets, and so when you talk about CSR, I don't know if the book, you know, primarily addresses the CSR market in the United States or do you talk about the markets in developing countries.

I was struck—I was working as a consultant in Beijing a year and a half ago, and one of the companies came to us and said, you know, we are doing a landfill—it was actually DuPont—and they were filling in—you know, a landfill with chemicals, and they were asking us should we tell the community about this. You know and like—

and our position was kind of confused because I mean on the one hand, we felt that the community wasn't ready for that information, because they weren't well informed about chemicals and, you know, this—I can't—what's the word for it, but the landfill was, you know, it was safe; right? But we thought that maybe if they said something about it that there would be this huge uproar and that the community couldn't handle it, and it probably wasn't really in their greatest interests.

So that's just talking about the China market. The consumers might not really be interested or educated or whatever to care enough about CSR. So I just wonder if you talk about distinctions in different markets. That's my first question.

My second question is I don't know if you've addressed the problem of monitoring. So, yes, we have many, many different codes of conduct. You talk about how some U.S. companies, you know, are much better, so, for example, a Chinese worker would prefer to work for Nike than they would for some Chinese state-owned company; right?

Well, yes and no. I mean I don't know if you just read there was a Disney report out about a month ago that these workers that supply for Disney, you know, were working really long hours and the conditions were hazardous and some guy was complaining about sickness and so, yeah, Disney might have codes of conduct and when Disney CSR people go and check out their suppliers and, you know, the suppliers all dress up and like act really clean and everything, and then the CSR person leaves and everything goes back to normal. I don't know what you—if you guys have a comment on that issue. That's my question.

MS. FLORINI: Let's take a couple more. The one on this side in the back and then the lady on the aisle.

MR. DOERING: Yeah. Hi. Don Doering [ph.]. And I was thinking about there isn't a business case for CSR, and my question is in some ways do we define it that way; that CSR is kind of the good stuff that companies do for which there's no business case.

So whenever companies are making money and have good businesses and poor countries selling to poor people, delivering social, economic, and environmental benefits, it's business. But then if they partner with an NGO or discount it or give it away, it's CSR.

So it seems that it then kind of begs the question of why do they do it. And there my question is actually could there be—I hate to suggest this—actually kind of just a values driven moral case that they want to do the right thing; that even though the rules of the game lead to a lot of unethical and rapacious behavior by corporations, they do try to do the good thing. And so I'm sort of reminded of [inaudible] in Roger Rabbit, you know, Jessica Rabbit purrs that famous line: "I'm not evil. I'm just drawn that way."

And I sort of wonder, then, then the question with the corporation is how do we draw the lines not only to keep punishing the evil behavior, but actually that there might be this moral and ethical values-driven streak that we might reward more.

MS. FLORINI: The lady here.

MS. GRIFFITH: My question is also for Professor Vogel. I'm Jen Griffith from George Washington University School of Business.

It seems in listening to you that there's maybe three phases, maybe more phases about CSR, and it seems like the first one starts with the age-old question about CSP, CFP; in other words, the social performance and the financial performance—that umbrella term that probably adds to Ann's questions or Ann's group of work and studies that's on her desk that she would probably like to get rid of since it's now combined in your book.

But you've got that age-old Tower of Babel—CFPO—financial performance and social performance question. And then it seems as if it's moving then to is corporate social responsibility really about creating the future and firms taking specific targeted relationships with Nike and its labor, with Shell and its employees or being an employee of choice or with the environment, with the Financial Times saying that there are specific aspects of businesses that they need to undertake. But it seems as if you're also arguing for a third phase where firms need to make or support public policy. And interestingly, your examples of the firms that were not very popular or very supportive of social performance activities—GE, Exxon Mobil, Wal-Mart and Phillip Morris—are exactly the ones that are supporting those national policies; GE with energy policy, Exxon Mobil with energy policy; Wal-Mart with minimum wage; Phillip Morris obviously with the legislation.

So with these three different models or three different phases, I don't know what the right term would be, but you've got the financial performance argument. You've got the strategic stakeholder relations, and then you've got the national policy perspective. Are these separate and distinct? Is it interwoven so that social and political activities of firms now are creating something new and different? And is one necessary or sufficient for the other?

It's a long question. Sorry.

MS. FLORINI: That's quite a set of questions, David.

MR. VOGEL: Well, I'm the first one.

The consumer pressure and interest varies dramatically in different countries. I think generally speaking in terms of green purchasing and many ethical concerns—fair trade coffee and other fair trade products—consumer interest is much more widespread in Europe, in Northern Europe and in Britain, than it is in the United States.

I think it's—and much more in the U.S. than in Japan. So—and I think if you look around the world, there's enormous national differences, and CSR activists vary in different countries. People have different concerns. For example, the issue of child labor in the making of rugs is a highly salient issue in Europe. It's the same rugs. It's ignored—it's basically ignored in the U.S. so that I think that these national patterns vary and different sets of activists and consumers in different countries, both among developed countries as well as developing countries have different priorities. And one needs to understand that pattern.

On the monitoring issue, yeah, obviously there's an enormous gap between what companies say and what goes on on the ground. I think monitoring is slowly improving. I think that more and more companies are willing to hire outside auditors. I think the most aggressive and responsible firms are willing to work with local activists in community groups in the countries where they do business, who are in a much better position to actually judge performance. But this remains a very serious challenge—the monitoring issue. You know, to what extent can you actually have enforcement without the threat of legal coercion? So I do explore that in great detail in the book, and I think there's enormous variation in how seriously companies take monitoring and also how difficult it is—some aspects of performance are easier to monitor than others. A lot of things can be falsified. There are serious issues.

China I think is probably the most serious problem because the government actually—people can buy software programs to fake their wages, which they then show to Western companies. So that's a serious issue.

On the values issue quickly, I think—I completely agree, and I say so in the book very explicitly the values of managers do matter. And if you look at exemplary areas of corporate CSR performance—you look at Starbucks. You look at Patagonia. You look at Levi Strauss. Look at [inaudible] on and on. Interface. These initiatives would never take place without a set of committed managers. Managers make a difference. Their values count, and there is an enormous space, a significant space, for managers to reflect their values in their business decisions and to see as purely everything being—having that bottom line focus is I think to distort what goes on in the economy.

But at the same time, those ethical, morals-driven vision managers do operate in a global competitive economy; and that economy also, while it may give them the space to articulate their vision also imposes constraints on their ability to reflect their vision in their business model.

Some business models have been able to survive very well by—with a high value, high CSR, high profitability focus. Take Starbucks. Others their business model simply doesn't lend itself to good social, environmental performance or restrains it like Wal-Mart, like Ford.

So I think we need to recognize—not generalize so much and look at particular companies and see to what extent their business models can reflect social values. It's true for some firms generally speaking that sell premium, expensive, high-brand, high margin consumer products to relatively rich people, i.e. Starbucks. There's a market for virtue at that level.

Those are the typical products which American and European consumers buy.

On the political activity, that's interesting. It remains to be seen how serious, you know, Wal-Mart is in lobbying for increasing minimum wage. It's nice that it said so. I have not seen evidence that GE has instructed its lobbyist to pressure the Bush Administration to support restrictions on carbon emissions. They talk about it, but it's unclear what priority that is. So I think that remains—I think it remains unclear to what extent those companies actually do change their public policies, but to the extent that those firms do so, then I think—and perhaps to the extent that they see the need for public policies in order to improve their bottom line performance, I think that would be very encouraging. But I think the evidence for it remains thin.

MR. YAGER: I think the one question that I had that I think is interesting, particularly since it kind of goes a slightly different direction than you're trading up, and that is, you know, should the firms, when they're lobbying in a host country, you know, should they be active, and, you know, isn't there that danger that they're going to tilt the playing field toward themselves. I mean this is—you know, seems like a very clear incentive, and what are the trade offs that you see.

MR. VOGEL: Yeah. No. I think that—I mean the rent seeking issue is a serious issue, so I think that we need to judge-and the CSR movement needs to begin to monitor and rate and evaluate companies by their political preferences and activities. And to the extent, for example, that a company is engaging in rent seeking behavior that's not socially beneficial, we would want to criticize that.

But there are occasions when corporations, many occasions, when corporations can support policies which are in their self interests and also in the public interest. So if I think, you know, the raising the minimum wage is a good social policy that creates net public benefits, the fact that Wal-Mart benefits from it, fine. And they're willing to support it? Welcome.

MS. FLORINI: Well, I'm afraid we have now reached our closing hour or closing moment. I think what we have heard today is a major step forward in the debate over CSR and the global role of—the global public role of corporations. I think David's book makes a very convincing case that much of the debate up to this point has really been focused on the wrong issues. It has been focused on an effort to directly get corporations to do what we have long relied on governments to do, which is to regulate, to internalize externalities, to provide global public goods, and we're finding out that it is at best a patchwork solution. It can help. But it can only help in bits and pieces and it can't be a fundamental solution.

However, there are a number of other issues going forward that are the ones I think that need much more in the way of research and attention. One of them is on this question of disclosure of non-financial information. Another is on the set of questions that Loren raised—and that we touched on a bit—on the involvement of corporations in public policy making and the role potentially of corporate leaders as public statesmen as well as private business people.

Another one that we did not touch on, which is beginning to get a good deal of attention, is new alternative business models, ways of making profits, but changing the way in which you do business such that you generate public goods at the same time that you generate private goods on a much larger scale—natural capitalism and other kinds of approaches; and that those set of questions going forward could make a very fundamental difference as to how well the world deals with its problems and how we cope with the era of globalization and the globalization of the supply chain.

I'd like to ask you to join me in thanking our excellent panelists for what I found to be a very interesting set of presentations.

[Applause.]

[END OF RECORDED SEGMENT.]