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“Socially Responsible” Corporations: Whose Wealth Are They Spreading Around?

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Corporate Social Responsibility (CSR) departments are much in vogue among Fortune 500 companies, but what do they really do? In Africa, Asia, Latin America, and elsewhere around the world, large corporations frequently boast about the social welfare CSR projects they fund as a way for them to “give back.”¹ Such comments raise this question: If these corporations are so flush with cash, why don’t they reinvest it to grow their businesses, or “give it back” to their customers in the form of lower prices or their shareholders as dividends?

The answers vary. In emerging market countries where government institutions are weak, large corporations use CSR projects to curry favor with local politicians.² For many corporate executives in the developed world, CSR is merely a way to polish their brands and inoculate their companies from leftist critics.

In any case, the bottom-line reality is that CSR efforts are just the most visible signs of a growing and disturbing trend toward “public-private partnerships,” the goal of which is the transformation of free-market capitalism into a sort of corporate socialism. In essence, these large corporations are at risk of becoming transnational, quasi-governmental entities and (wittingly or not) instruments of state policy implementation. The funds they invest in CSR projects are the functional equivalent of taxes on their customers over which the voters have no say.

CSR: Capitalists Subverting Capitalism. Surprisingly, there is an excellent summary of CSR’s broad objectives available on the Web site of that

quintessentially American entrepreneurial success story, Wal-Mart, which among other things is imposing a “Sustainability Index” on its 100,000 suppliers. Wal-Mart claims the index will allow it to be supplied “100 percent by renewable energy, creating zero waste, and selling sustainable products.”³

The very first category in the Sustainability Index is “Energy and Climate,” and it requires Wal-Mart’s vendors to report their greenhouse gas emissions to something called the “Carbon Disclosure Project.”⁴ Apparently Wal-Mart executives accept at face value the dire warnings from global warming alarmists about CO₂ emissions—even though there has been little or no global warming since 1997 despite increasing carbon dioxide emissions.

Wal-Mart also ignores Heritage Foundation estimates that the Waxman-Markey “cap and trade” climate bill currently before Congress would reduce U.S. GDP by \$393 billion annually while costing an American family of four nearly \$3,000 each year.⁵ That is \$3,000 in disposable annual income that will not be available to future Wal-Mart customers, but perhaps Wal-Mart executives believe the public relations value of being green will offset this shrinkage of their potential market.

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“Fair Trade”: The Latest Way to Say, “Look for the Union Label.” In the 1970s, the International Ladies’ Garment Workers Union created a memorable jingle urging consumers to “look for the union label.”⁶ The 21st-century equivalent is the “fair trade” label. Wal-Mart, Starbucks,⁷ and many other U.S. retailers now boast that they sell “socially-and-environmentally responsible Fair Trade” products such as bananas and coffee,⁸ but who decides which traders are fair? Wal-Mart leaves that up to TransFair USA, a non-profit organization self-described as “the only independent, third-party certifier of Fair Trade products in the U.S. and one of 20 members of Fairtrade Labelling Organizations International (FLO).”⁹

The organizations behind FLO, however, comprise the usual suspects: far-left, anti-globalization groups and the international trade union movements.¹⁰ Further investigation reveals that “fair trade” is little more than naked protectionism

dressed up with humanitarian concern. There is little transparency about how the labor syndicates organized by “fair trade” in commodity-producing countries operate.

Meanwhile, however, Wal-Mart can point to its “fair trade” efforts as a distraction even as it continues to resist pressure from U.S. organized labor to allow unionization of its U.S. stores, a much bigger concern that would raise prices, hurt customers, and threaten Wal-Mart’s survival.

Distracted from Their Main Mission. Although efforts to become more energy-efficient, reduce waste, and cut packaging costs should be applauded, former U.S. Labor Secretary and current Heritage Foundation scholar Elaine Chao points out that the left is using shareholder resolutions to bully corporate executives into adopting some of the more extreme CSR standards—at shareholders’ expense.¹¹

Indeed, CSR has not always been the boon to profitability for corporations that its promoters

1. For example, see story about Empresas Polar (“the largest industrial group in Venezuela that never forgets to give back to the community”) in Latin Trade, “15th BRAVO Business Award Winners,” October 1, 2009, at <http://latintrade.com/2009/10/15th-bravo-business-awards> (December 4, 2009).
2. For more on corporatist-statist structures in Mexico, for example, see James M. Roberts and Israel Ortega, “How Reforms in Mexico Could Make the U.S. More Secure,” Heritage Foundation *Backgrounder* No. 2135, May 13, 2008, at <http://www.heritage.org/Research/LatinAmerica/bg2135.cfm>.
3. Wal-Mart, “Global Sustainability Milestone Meeting,” November 12, 2009, at <http://walmartstores.com/Sustainability/9461.aspx> (December 4, 2009).
4. Wal-Mart, “Global Sustainability Milestone Meeting,” July 16, 2009, at <http://walmartstores.com/Sustainability/9264.aspx?p=9191&sourceid=milestone&ref> (December 4, 2009)
5. “Copenhagen Consequences: What You Need to Know,” Heritage Foundation *Fact Sheet* No. 44, November 2, 2009, at <http://www.heritage.org/Press/FactSheet/fs0044.cfm>.
6. International Ladies’ Garment Workers Union, “Look for the Union Label,” You Tube, November 30, 2008, at <http://www.youtube.com/watch?v=u0JdZd3Cpjc> (December 3, 2009).
7. Press release, “Global Responsibility: Doing Business a Different Way,” Starbucks Coffee Company, 2009, at <http://www.starbucks.com/aboutus/gr.asp> (December 4, 2009).
8. Press release, “Sam’s Club Introduces New Fair Trade Certified Coffee from Brazil,” Wal-Mart, August 18, 2009, at <http://walmartstores.com/FactsNews/NewsRoom/9342.aspx> (December 4, 2009); press release, “Sam’s Club Expands Fair Trade Banana Program,” Wal-Mart, October 7, 2009, at <http://walmartstores.com/FactsNews/NewsRoom/9422.aspx> (December 4, 2009).
9. Trans Fair USA, “Fair Trade Overview,” at <http://www.transfairusa.org/content/about/overview.php> (December 4, 2009).
10. For example, the Fairtrade Foundation in the U.K. “was established by CAFOD, Christian Aid, Oxfam, Traidcraft and the World Development Movement. These founding organizations were later joined by Britain’s largest women’s organization, the Women’s Institute.” See Fairtrade Foundation, “Fairtrade Labeling International History,” 2009, at http://www.fairtrade.org.uk/what_is_fairtrade/history.aspx (December 4, 2009).
11. Elaine Chao, “Left-Wing Proxy Plays,” Heritage Foundation *Commentary*, August 17, 2009, at <http://www.heritage.org/Press/Commentary/ed081709b.cfm>.

promise. David Vogel, a business professor at Berkeley who has studied CSR, reports that Starbucks and other high-profile CSR companies (e.g., Levi Strauss, Gap, Whole Foods, Timberland, and BP—now “Beyond Petroleum” but formerly known more modestly as “British Petroleum”) have not done as well financially lately as have other, better-managed firms like Exxon-Mobil that keep their focus on the optimum performance of their core mission instead of seeking CSR-related publicity.¹²

Consequently, companies such as Starbucks and Wal-Mart should be more transparent about the costs of their philanthropy by providing more details about prices of their CSR-related products, so that consumers can see exactly how much is being added to the cost of goods to subsidize labor unions and fund price-distorting producer agreements. They can then decide for themselves whether it is worth it. Betsy Atkins of *Forbes* magazine provides a good example to illustrate this point:

It would be very easy to carry out a litmus test of the market for corporate social responsibility. For example, Apple Computer could sell one iPod for \$99 and another for \$125. The company could announce that the extra \$26 from the more expensive iPod would be spent to promote specific social causes, such as education, environmentalism, etc. Such a test would account clearly and honestly for how shareholders’ money was being used and would allow the market to drive the outcome. If consumers wanted to pay the extra \$26, voting with their wallets for a cause they believe in, they could.¹³

Rather than seeking a public relations coup through CSR, corporations would do better to

focus on their primary goals—providing the highest quality goods and services to their customers at the best possible price while earning a good return for their shareholders—and *then* telling the world about the ensuing positive results. A good role model for such an approach is Microsoft, which fought tooth-and-nail for profits and market share. Later, Bill Gates decided to “spread” some of his considerable wealth around through his foundation, but at least it was his fortune, fairly earned, and not unpaid corporate dividends.

The Way Forward. Companies should remain focused on their core mission: increasing profits and providing value to shareholders. As part of this mission, CSR operations should be more transparent. Perhaps corporations should voluntarily adopt disclosure standards similar to those used for nutritional labeling—prices for their products could be broken down to show consumers how much above world price they are paying to subsidize CSR activities. And corporations should insist that “Fair Trade” organizations also publish audited accounts of their operations. Additionally:

- Consumers should be better informed about the true costs and benefits of CSR;
- Shareholders should hold accountable corporate Boards of Directors and demand transparent accounting for CSR activities; and
- Politicians should cease using CSRs to avoid making tough budget decisions, and instead fund essential government services through normal transparent processes of taxation rather than through arm-twisting their corporate cronies.

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12. David Vogel, “Corporate Social Responsibility: CSR Doesn’t Pay,” *Forbes*, October 16, 2008, at http://www.forbes.com/2008/10/16/csr-doesnt-pay-lead-corporations08-cx_dv_1016vogel_print.html (December 4, 2009).

13. Betsy Atkins, “Is Corporate Social Responsibility Responsible?,” *Forbes*, November 28, 2006, at http://www.forbes.com/2006/11/16/leadership-philanthropy-charity-lead-citizen-cx_ba_1128directorship.html (November 3, 2009).