Books

Review: "When Principles Pay"

Corporate Social Responsibility and the Bottom Line, by Geoffrey Heal (Columbia University Press).

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They are the do-gooders of the corporate world: Starbucks commits itself to paying coffee farmers in poor countries fair prices. StarKist refuses to purchase tuna from fishermen who use drift nets. British Petroleum voluntarily limits its own carbon emissions. Do ethical business practices such as these translate into dollars?

Increasingly, they do, argues Columbia business professor Geoffrey Heal in *When Principles Pay: Corporate Social Responsibility and the Bottom Line*. The popularity of socially responsible investment (SRI) funds, Heal writes, is the best evidence. Most SRI funds invest only in businesses with solid environmental and human rights records; many screen out tobacco, alcohol, gambling, and weapons companies. These funds represent nearly 10 percent of all institutionally managed money in the United States today, a tenfold increase since 1995, and they tend to outperform the stock market. Their success reflects consumers' willingness to pay more for products and services from companies they consider socially conscious, Heal writes, as well as the frequency with which NGOs and activist shareholders are launching boycotts and lawsuits against corporations seen as acting ruthlessly. Investors, as a result, are betting against the prospects of unprincipled organizations.

Determining who are the good guys is hard work. There are rating agencies, such as Innovest Strategic Value Advisors and KLD Research & Analytics, dedicated to evaluating companies' performance in the social and environmental areas, just as Moody's and Dow Jones rate financial performance. However, these rating agencies must rely, in part, on companies' self-evaluations. The Environmental Protection Agency, for instance, knows which toxic pollutants get released by U.S. companies only by voluntary disclosures. Rating agencies try to compensate for spotty government oversight by tracking complaints filed by the public.

According to Heal, SRI funds are most powerful when affecting investment in companies whose products aren’t sold directly to consumers and which therefore don’t have to worry about boycotts. They tell fund managers to avoid such companies for purely ethical reasons, regardless of stock value. Corporations, therefore, are “willing to incur significant costs to ensure they are well placed on these indices,” writes Heal, the Paul Garrett Professor of Public Policy and Business Responsibility.

Adam Smith, in the late 18th century, and Milton Friedman ’46GSAS believed that companies best serve society when they focus squarely on maximizing profits, which creates jobs and wealth. Capital markets for centuries have rewarded companies that adhere to this principle, except when their recklessness has caused, say, a major workplace or environmental disaster. Now consumers are rewriting the rules, one Grande Caffe Mocha at a time.

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