

# CHAPTER 4 Business Ethics and Social Responsibility

## Commerce Reweaves the Social Fabric

**Driven by necessity and enlightened self-interest, companies apply money and expertise to social issues**

by Amy Borrus in Washington

It's Futuretown, USA, circa 2020. The kids attend for-profit schools, the teachers get their technology training from computer specialists dispatched by IBM. Young teachers and other budding professionals seeking affordable housing flock to the Wal-Mart Riverview apartment complex. Elderly residents get their hearing checked at EarCare clinics funded by Abbott Laboratories, makers of the Ensure nutritional supplement for seniors. Culture vultures gawk at contemporary sculpture at the local American Express Museum of Modern Art.

Futuretown may be humming, but where does the corporate influence end and the social fabric begin? In coming decades, predicts Marian Salzman, director of the Intelligence Factory, a unit of ad agency Y&R Inc., "communities will be far more commercialized places" where companies showcase their good works to appeal to customers and to attract and keep valued employees.

Although Futuretown may be a farfetched vision of the company town redux, when you consider how matter-of-fact Americans already are about corporate sponsorship of public television, company-provided child-care centers, and adopt-a-highway schemes, Salzman's logo-draped scenario doesn't seem so outlandish. Indeed, says Anne S. Habiby, executive vice-president of the Initiative for a Competitive Inner City (ICIC), a Boston-based nonprofit, "the boundaries of what we traditionally viewed as the corporate and social domains are blurring."

That distinction could become fuzzier still in 10 or 20 years as companies, driven by necessity and enlightened self-interest, become prime engines of social action. In the past two decades, downsizing and budget cuts eroded government's ability to provide even the basics, such as safe, well-equipped schools. Prosperity may now be fattening state coffers, but Americans have lost some faith in the public sector's ability to tackle societal concerns.

Increasingly, the public and nonprofit groups look to corporations to apply money and expertise to social issues. Of course, if the economy were to head south, corporate largesse could quickly dry up, as it did in the 1980s.

Perhaps the more important motivation is the tight labor market. As employees spend more and more time at work, they crave a more meaningful on-the-job experience. If they can't break away from the office on their own, then they want their companies to provide avenues for community involvement. Facing a shortage of skilled workers that will only worsen, employers ignore such demands at their peril. To retain valued workers, they'll make time off for volunteering a perk. Increasingly, employees, especially young ones, will "want to know what the corporate culture is, what are the opportunities to do time in the community," says Vanessa Kirsch, founder of New Profit Inc., a fund that invests in innovative nonprofits.

**"SENSE OF PRIDE."** The proliferation of employee volunteer programs will catch fire in the new century as corporations realize their value in employee retention. Volunteering "gives you a sense of pride," says Lisa Boone, a Prudential accountant who mentored a fourth-grader at a Newark, N.J., elementary school during the past school year. "It's important to me that the corporation gives back to the community."

Indeed, Prudential Insurance Co. has nurtured such a vast community relations effort that it constitutes a virtual social services agency for downtown Newark, home to its headquarters. Programs range from an employee tutoring service to company investments in a factory that makes components for modular houses for the homeless. Officials work with city leaders to ensure the school superintendent repairs crumbling buildings. In 1999, Prudential donated \$38.5 million in cash, or 1.5% of 1998 pretax earnings, and 42,490 volunteer hours on company time.

The tight-as-a-drum labor market is also prodding companies to tend to community needs that once were the purview of local government. Drug giant Merck & Co. helped shore up science education in schools in and around Rahway, N.J., where it does research and manufacturing, by setting up a foundation that developed science curricula and trained more than 1,000 teachers. "We have to be able to attract good people," says Larry Naldi, plant

manager at the vast Rahway operation. If the schools deteriorate, "we'd have a more difficult job attracting them." All in all, Merck donated \$256 million in cash and medicine last year, equal to 3.1% of 1998 pretax earnings.

That makes Merck unusual. While corporate giving climbs yearly, as a percentage of pretax earnings, it has hovered at around 1% for years. That's not likely to change in the next decade. "Companies are concerned that they'll offend shareholders if they seem to be giving too much cash away," says Stacey Palmer, editor of the *Chronicle of Philanthropy*. Still, the lavish personal philanthropy of New Economy entrepreneurs, such as Microsoft Corp.'s Bill Gates and Netscape Communications Corp.'s James Barksdale, will reflect kindly on their companies—and keep the pressure on corporations to boost giving in line with rising profits.

Such corporate good citizenship won't be without pitfalls for business and the programs it supports. For one thing, as companies make bigger donations and embrace more causes, consumers could start to take corporate involvement for granted. Thus, they'll get less mileage out of the good works.

It won't be easy to pull back, either. Consumers will punish companies perceived to be socially irresponsible. Just look at the pounding Nike Inc. has taken for its reliance on what critics say are sweatshops in Asia and elsewhere. Don't expect a bucketful of good works to be an insurance policy against public rebuke. Philip Morris Cos. has bent over backward to look like a good guy, doling out \$115 million in cash and goods to charities in 1999, capturing the No. 5 spot in the *Chronicle of*

*Philanthropy's* corporate-giving rankings. But the company hasn't been able to escape the taint all tobacco companies suffer. Also looming could be a backlash against corporations if they go too far in usurping roles once reserved for government. "How far can government retreat from people's lives before the public says 'enough already?'" asks Paul Saffo, director of the Institute for the Future in Menlo Park, Calif.

Even as more companies expand their community involvement, they're doing so with an eye to the bottom line. They're trying to focus on issues that strike a chord with their customers or leverage corporate strengths. Target Stores, which earmarks 5% of pretax earnings annually for charity, steers its philanthropy toward the arts, prevention of violence, and education—issues that will resonate with its typical shoppers, women with school-age kids. Dell Computer Corp. gives mainly to groups in Texas and Tennessee, where it has facilities, that focus on children's health, education, or access to technology.

Good corporate citizenship "has become a strategic issue, not just a nice thing to do," says Bradley K. Googins, director of the Boston College Center for Corporate Community Relations. That businesslike approach could pave the way for real-life Futuretowns. But in any case, balancing the social needs of employees and rising public expectations will be a tough act for corporations that aspire to be pillars of 21st century society.

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