

Spring 2005

CSR in the Cross-Hairs

A broad counter-attack against corporate reform is growing.

(Could that be a sign of progress?)

By Tracey Rembert

The Terminator is back, with machine gun blazing and this time the perceived foe is the movement for corporate reform. Recent months have seen a fierce and growing counter-attack against corporate social responsibility (CSR) and ethics reform, and Arnold Schwarzenegger is playing a leading part as governor of California. In its customary role as bellwether for the nation, California has become the stage where the rising backlash is playing out emblematically. The stars in this dramatic fight: Schwarzenegger, squaring off against corporate reform leader Phil Angelides, the California state treasurer who for years has used \$300 billion in state pension funds to launch salvos demanding governance and ethical reforms from corporations.

The action began unfolding in April 2004, when the state's Republican Party publicly criticized CalPERS — the California Public Employees' Retirement System, the largest public pension fund in the nation — saying it put a social agenda ahead of profit. Angelides over the years had pulled the fund out of tobacco stocks, installed human rights screens, and emphasized environmental stewardship. Yet he enjoyed healthy financial returns along the way. According to Wilshire Associates, CalPERS in 2004 earned a handsome 13.5 percent return, while the average large pension fund earned just 11.6 percent.

The drama escalated just a month later, when David Hirschmann, senior vice president of the U.S. Chamber of Commerce, wrote cease-and-desist letters to state pension funds in New York and Connecticut, accusing them of “working to advance the social investment agenda of organized labor.” Similar attacks cropped up from groups like the American Enterprise Institute. CalPERS “is abusing the public trust in a manner as serious and grave as any I have seen,” intoned AEI's economic policy director.

Complaints morphed into action as California Republicans worked to oust CalPERS board president Sean Harrigan, who is also international vice president of the Food and Commercial Workers International Union Region 8 States Council. Harrigan lost his CalPERS seat in December 2004. While Schwarzenegger denied involvement, he soon proposed that state pension funds be broken up into private, 401(k)-style accounts.

Joining with other treasurers, Angelides denounced the privatization proposal as part of a “broad counter-attack” against corporate reform. After public pension funds helped restore integrity to financial markets, said Angelides, Schwarzenegger wants to break them into “literally millions of pieces.”

Schwarzenegger's ally, Grover Norquist of Americans for Tax Reform, made clear this was precisely the intent. "Just 115 people control \$1 trillion," he said. "We want to take that power and destroy it."

Something big was stirring. And it was about more than pension power.

The swelling counter-attack focused on public pension clout because the assets in play provide such an effective — and novel — power base. Nationally, public funds control \$2.7 trillion, with union-managed funds overseeing another \$400 billion. An emerging breed of pension fund overseers has used this base to wield unprecedented influence over corporate America.

To cite just a few successes: The Investor Network on Climate Risk, headed by Connecticut State Treasurer Denise Nappier, has filed shareholder resolutions with two dozen corporations, asking for disclosure of financial risks from global warming. The group's efforts led American Electric Power to publicly acknowledge the reality of global warming and announce plans to address emissions. Treasurer Angelides also led a successful campaign against Richard Grasso, the controversially overpaid president of the New York Stock Exchange, winning his resignation.

Campaigns like these have often involved coalitions encompassing the progressive business community, environmentalists, social investing firms, and labor. It was the sight of these disparate forces uniting in a common agenda that catalyzed anti-reform pundits to organize their own response.

The battle over pension power is emblematic. But the broader agenda of the free-enterprise ideologues is to undermine the legitimacy of corporate responsibility itself.

Reining in the Reformers

Since mid-2002, an assault on the concept of CSR has been growing, with over a hundred articles or opinion pieces criticizing corporate responsibility — the bulk of them published since summer of 2004.

A high-profile example is The Economist's January 22, 2005 issue disparaging CSR, titled "The Good Company: A skeptical look at corporate social responsibility." CSR has reached "a significant victory in the battle of ideas," the magazine said. "In fact, their opponents never turned up." Nonetheless, most corporate CSR practices are largely cosmetic, and should stay that way, the article said. The only social contribution corporations must provide is profit, and corporate philanthropy is simply "charity with other people's money." Triple bottom line reporting is "a license to obfuscate."

Delivered more as a diatribe than The Economist's typically careful journalism, the stories in the cover section were striking for their lack of substance — using few interviews, case studies, or statistics. It was an ideological broadside. And it called forth a hailstorm of response.

Capitalism "is under threat not from without, but from itself and from its lack of underlying principles," wrote Geoffrey Chandler, former director of Shell International, in a letter to the editor. The Economist "mistakenly or willfully" conflates the anti-capitalist agenda with CSR

forces, wrote *Business for Social Responsibility*, in one of many critiques circulated by CSR professionals.

Laffer's Tiny Study

Another CSR counter-attack came in January 2005, in the guise of a study by ex-Reaganite Arthur Laffer. At a press conference sponsored by the Competitive Enterprise Institute, the father of “supply-side economics” denounced CSR as detrimental to stockholder interests. His evidence: the 28 companies making *Business Ethics*' 100 Best Corporate Citizens list five years in a row showed “no significant positive correlation between CSR and business profitability.”

Laffer's sponsor, the Competitive Enterprise Institute, also recently published *The Role of Business in the Modern World* by David Henderson, former head of economics at the Organization for Economic Cooperation and Development. His argument was that the material prosperity created by business is threatened by CSR's “global salvationist consensus.” Similarly, CEI fellow Steven Milloy — a correspondent for conservative Fox News — in June 2004 launched the “CSR Watch” website, offering a platform for Milloy's regular diatribes against CSR. Milloy did not respond to requests for an interview.

While a key complaint of both Henderson and Laffer is that CSR hurts financial performance, two recent meta-studies show the opposite. A meta-analysis by professors Marc Orlitzky, Frank Schmidt, and Sara Rynes looked at 52 studies over 30 years, finding a statistically significant positive association between CSR performance and financial performance. Innovest Strategic Value Advisors similarly looked at 60 research studies over six years, finding that 85 percent showed a positive correlation.

The Charge: CSR Has Gone Too Far

If the Competitive Enterprise Institute is one player shaping backlash ideology, another is the American Enterprise Institute (AEI). “I have a dim view of CSR. The whole game is a sham,” remarked Jim Glassman, a resident fellow of AEI. “The pendulum has swung way, way, way, way, way too far.”

To sound the alarm, AEI in June 2003 had a series of presentations at its annual conference, with the theme of “Biz-War: Origins, Structure and Strategy of Foundation-NGO Network Warfare on Corporations in the U.S.” It featured a (not entirely accurate) “power analysis” of the top 40 U.S. SRI activists, highlighting their connections with environmental non-profits, religious shareholders, unions, foundations, and pension funds.

A second AEI conference in June 2004 similarly took aim at SRI, with the title “SRI and Pension Funds: Welcome Reform or Fiduciary Nightmare.” It featured AEI fellow Jon Entine — a long-time critic of SRI — and Sarah Fuhrmann of v-Fluence Interactive Public Relations. Several V-Fluence employees are ex-public affairs staffers for Monsanto — where they honed skills fighting CSR initiatives that targeted genetically modified foods.

AEI's analysis helped spur an under-the-radar 2003 *Harvard Business Review* article, “Reining in Activist Funds,” which recommended curbing shareholder activism. It suggested legislating the composition of pension fund boards; discouraging resubmission of shareholder proposals by

requiring 25 percent support; and shifting the cost of dealing with resolutions to filers when proposals get less than 40 percent support.

Another prominent voice in the anti-CSR movement is Jarol Manheim, professor of political science at George Washington University, who in mid-2004 published the book *Biz-War and the Out-of-Power Elite: The Progressive-Left Attack on the Corporation*. Like *The Economist*, Manheim mis-characterized CSR as an “anti-corporate” strategy. He claimed that “biz-war” forces used “other people’s money,” sometimes with the intent of seeking corporations’ actual demise.

Amid the escalating critique, Tim Smith, a well-known figure in the SRI movement and executive at Walden Asset Management in Boston, was sued by Cintas Corp., which charged him with defamation of corporate character for statements he made about sweatshop labor abuses at its annual meeting in late 2003. While the case was settled with no monetary damages, it sent a temporarily chilling message.

Proxy Access—the Seminal Issue

What seems to have initially galvanized the backlash reaction was the issue of shareholder “proxy access” — the modest proposal made by the Securities and Exchange Commission in late 2003, suggesting shareholders should be able to nominate corporate directors in limited circumstances. Originally intended to correct insider boards, the issue exploded when comments poured in from 16,000 investors — more comments than any proposed rule had received in SEC history. The vast majority strongly supported the rule.

Lobbying against the rule was intense, with the Business Roundtable — an association of over 150 CEOs — pressuring the White House and Congress, and spending nearly \$13 million on the rule and related issues. The proposed rule has since languished. But it seems that the popularity of proxy access is what triggered the wagons to start circling, igniting a more coordinated response to CSR.

“We should welcome the criticism because it’s a sign that what people once considered ‘fringe’ is now widely accepted,” said Peter Kinder, president of the social research firm KLD Research & Analytics in Boston. “It’s clear we are being taken very seriously by our intellectual opponents.” What’s intriguing is that “their response is so incoherent,” he added. He emphasized that SRI and CSR professionals should focus on “what’s attracting this attention.”

What’s attracting the attention is the success of CSR. While no one was looking, CSR seems to have mushroomed into the new orthodoxy. Backlash articles number a hundred, but that’s dwarfed by the 9.8 million hits garnered by a Google search on “corporate social responsibility.” Indeed, while *The Economist* derided CSR in one issue, its *Economist Intelligence Unit* that same month released a report called “The Importance of Corporate Responsibility,” showing that 84 percent of executives and investors felt CSR practices could help the bottom line.

According to Burson-Marsteller, more than two-thirds of CEOs believe CSR is vital to profitability. Companies like Ford, Microsoft, and Starbucks have CSR offices. The largest

public pension fund in the nation embraces social investing — financially outperforming its peers.

CSR has become the new economic mantra not because it has won some imagined “battle” between left and right — as backlash purveyors would have it. Instead, CSR has become pervasive because it represents the logical, organic next phase of corporate evolution.

North Carolina Treasurer Richard Moore — part of the coalition battling Schwarzenegger’s campaign to terminate pension funds — summed it up well. “We have been successful because we are right,” he said. “If they want a fight, bring it on.”

Tracey C. Rembert is a freelance writer in College Park, Md., who coordinates public policy for the Social Investment Forum. Her views are her own and not those of SIF or its members.