

Ep. 124 Balancing Social Corporate Responsibility and the Bottom Line

Judith Kelley [00:00:00] So in 1989, the newspapers were covered with photos of the beaches of Alaska and people, rescue crews, walking the coast trying to save animals that have been covered in oil from the Exxon Valdez, giant oil spill, that spilled 10.8 million U.S. gallons onto the Alaskan coastline. That was a major event in thinking about the effect of a company on the environment. Now, fast forward to our current time and how the stories we read about companies in the news. For example, recently, Nike promoting quarterback Colin Kaepernick's taking a knee campaign and making sort of a political stance as part of the advertising campaign. And then we've seen more recently or just as recently, the Bank of America making a one billion, four-year commitment to advance racial equality and economic opportunity. And they're doing that by investing in several areas where their company and their business is intersecting with racial justice, but where they're putting all these money into raising the living standards and access to housing and things like that in a very significant way. So, what role do corporations play in a functioning society, in a functioning democracy? I'm Judith Kelley, Dean of the Sanford School of Public Policy at Duke University. My guest today is Stan Litow. He teaches graduate courses here on the role of corporations in society and the politics of education. He previously served as IBM's vice president for corporate global responsibility, and he is the author of *The Challenge for Business and Society: From Risk to Reward*. He's held high level positions for the main governor of New York and served as New York City's deputy schools chancellor. Welcome to Policy 360.

Stan Litow [00:02:05] Delighted to be here. Thank you so much.

Judith Kelley [00:02:08] Stan, so from the examples above, we get different perspectives on roles that businesses and corporations play in society. So in your in your definition, what does it mean to be socially responsible for a company or a business to be that?

Stan Litow [00:02:23] Well, I think social responsibility means that you're balancing the business interests of the company with societal interests of the nation and the world. And it means your environmental footprint is positive. It means that you're engaging communities in an effective way. It means that your labor practices are up to a high standard. It means that your suppliers, not just your own company, are achieving at high levels as well. You can find examples where companies have not behaved well, going back to the robber barons at the beginning of the 20th century or others in the early parts in the latter part of the 19th century. And at the same time, you can find examples of truly exemplary behavior by companies in American history. Macy's, for example, established free health care for all of their employees in 1870, and that was before any government program existed. You had a company like American Express establishing a pension plan for all of their employees in 1875. That was not something that you got if you worked for the government. There were hundreds of companies at the beginning of the 20th century that provided a week of paid vacation. And in 1904, if you worked for New York State, you didn't receive any vacation, you didn't even get paid when they were closed for Christmas. So you can find examples of the best behavior and the worst behavior throughout American history.

Judith Kelley [00:04:07] So you made some great examples of how companies have led in providing benefits to their employees or even setting a new bar for how the employees are treated, and that in some ways even laying out a model for how society may treat its citizens. But do we see even going back past the modern times, do we see examples of companies in the past? Really, they're going above and beyond, treating their own

employees well and doing good for society? Or was that far and more in the past? Just, like, don't mess up. Don't don't spill oil on the shore, don't don't pollute, etc..

Stan Litow [00:04:44] No, I think that there are examples of really exemplary behavior. When I was writing my book, I had access to the IBM archives, and I went back and saw the history of IBM's activity in the United States. In the mid nineteen fifties, they opened the first integrated manufacturing facility below the Mason-Dixon line in Lexington, Kentucky, in 1956, before the Civil Rights Act. Before any state in the American South had an integrated workplace. The IBM company would not open its plant in Lexington, Kentucky, unless it was racially integrated and that happened in 1956 and it resulted in the schools in Lexington, Kentucky being integrated in 1956, long before Brown vs. Board of Education was approved in the Supreme Court. So that was an example of a company. They were fairly successful. They were looking for a location to open a manufacturing plant. The governor of Kentucky was looking to recruit the jobs that they represented. Then the CEO of the company said we will only open in Kentucky if it's integrated. And that leadership was helpful in moving the civil rights movement forward to have a corporate executive taking that kind of a position. So, I think there are, as I said, many examples of leading about labor practices, environmental practices, societal practices around race, gender, you know, most of the movement that happened in the country about same sex marriage happened in the private sector long before the public sector embraced any of those policies.

Judith Kelley [00:06:52] So in their operations, certainly companies, it seems have fought for a long time, been stepping out and setting an example. And certainly, there's also been a wave where where the private sector has been engaged in in charity or philanthropy.

Stan Litow [00:07:10] Yes.

Judith Kelley [00:07:11] Yeah. How do you think about that relative to some of the activity of of how we operate?

Stan Litow [00:07:18] Well, I think that philanthropy has been something that individual corporate leaders have embraced and their generosity when you look at Andrew Carnegie or John D. Rockefeller, they were generous with their own money. But I think the question is, did corporations take part of their profit and commit it to corporate philanthropic activities? And that, true, too, is part of America's history, that many companies have been very generous. On the other hand, I've been very critical of companies looking at it as it's all about checkbook philanthropy and that if you're generous, you can behave as a company however you want to behave. And I really think that the standard should include both. Philanthropy is important. It's important for companies to match the contributions of their employees. It's important for companies to match the volunteer activity of their employees. When I was at IBM, we established a policy where if you donated 40 hours of your time a year, the company would match it with a \$1500 dollar contribution in your name to whatever activity you chose to volunteer in. And that encouraged, you know, millions of hours-worth of volunteer activity matched by millions of dollars-worth of corporate philanthropy. But I think it's a question of having a standard that runs the gamut of activities. And it's important for us to understand that while there were examples of companies doing all of these things that are positive, there have always been examples of companies that have abused the public trust.

Judith Kelley [00:09:21] So do you think that the more recent use of the term corporate social responsibility, is that merely a new way of talking about something we've seen for a

long time? Or has it been, in your view, a substantive either change in how company behavior is viewed and sort of an on average change in how often that kind of positive behavior occurs.

Stan Litow [00:09:49] I think we're at an inflection point where, as a result of changes in the attitude and behavior of our citizens, our expectations about the way corporations should behave has changed. We have many more young people coming out of the academy who don't want to work for a company that doesn't have strong ethical standards, doesn't behave in a positive way. And if they have a choice, they're more willing to go to work for a company that has those kinds of standards and activities and less willing to go to a company that does not. You know, when I was at IBM, I got our H.R. department to assess when we hired top talent, what were the most important reasons that people chose to come to work for IBM and number one was money, number two was location, but number three was the corporate responsibility of the company. And I think, as our - our employees change, as the clients of those companies change, we're seeing their attitude about what they will put up with and what they will not put up with and what their expectations are in terms of corporate behavior. And now we have companies that are starting to think differently about things like diversity and inclusion, think differently about their position on public policy issues like immigration, for example, or guns. We're seeing more companies be willing to speak out publicly about policy issues. We are at a great inflection point where we can think about not just having lots of examples of good and lots of examples of bad but raising the bar for the level of performance and ensuring that more companies meet the standard that we would like them all to meet.

Judith Kelley [00:11:52] But at the end of the day, is it still just all from a cynical perspective about the bottom line? And you just have to do more good things to to to achieve that bottom line? Or has there been a fundamental shift in how people see the purpose?

Stan Litow [00:12:07] Well, what we saw right before the pandemic, we saw the Business Roundtable get almost 200 CEOs to sign on to a policy statement that they don't only care about their shareholders, they care about community, they care about their employees. And that was a light year change from what companies had been willing to say. Now, the question is, can we go beyond making a pledge and signing a statement into delivering a high level of performance? And --and what is it that is going to generate the policies that will lead to that high level of performance? Is it something that government should do by regulation or legislation? Is it something that employees should demand? Is it something that companies should establish as a standard for their activity or a combination of all of those things to be able to raise the level of performance and really use the resources of the private sector to establish some of the goals that we would all like to see in society?

Judith Kelley [00:13:23] So obviously, you know, companies have long been politically involved in the use of advocating for certain policies and lobbying and money and politics. And after the the riots on Capitol Hill and the insurrection on January 6th, we saw a bunch of companies coming out and saying that they were not going to give donations to politicians who had voted in favor of stopping the certification of the vote. And that seemed to have an effect on how politicians started thinking about their stance. So, are we also to expect that companies will continue to become more overtly political?

Stan Litow [00:14:18] I think it can move in a positive direction if we have leaders in companies that understand what corporate social responsibility is all about. And that's not only the top leadership of the company, but all leadership within the company. Chief

financial officer, the head of H.R., the person who is in charge of legal affairs, communications, if they all understand the fact that corporate social responsibility is good for your bottom line and you can achieve higher financial return for your shareholders if you protect the business interests and societal interests at the same time. So I think that is the standard that I'd like to see us getting to as a nation. And I think there are a lot of ways to get there. Part of it is to make sure that ethics is part of how we teach in our schools. One of the things that the major teachers union in the United States, the American Federation of Teachers, is developing a new site on the Web so that all millions of teachers across the United States will have access to lesson plans that will allow them to teach ethics and civics in the context of every academic course. So that will help because you want people who are going to come into the private sector with an understanding of civics and ethics. When they do that, there's a lot of interest in expanding volunteer and community service. There's a bipartisan bill in the Senate was championed by Senator Coons of Delaware, but he now has many Republican co-sponsors to dramatically increase the level of funding for AmeriCorps and many other community service and volunteer service activities, because research tells us that when people are involved in community service, their ethical standards raise and their performance in those areas raise. So, I think those are some of the things that could change people's attitudes. But then I think we have to have a higher bar and a higher standard when we spend our money, when we decide where to work and when we have expectations for high quality performance by companies. In New York, the city that some people like to emulate, when Mike Bloomberg was mayor, he had established a system where a restaurant could get a letter grade based upon how clean they are and how high quality of service. And few people wanted to go into a restaurant that has D in their window or C in their window. Well, you could think about a voluntary system where companies could be graded for an A or a B or C based upon their corporate responsibility. And then how many people will want to work for a company that's a C level CSR company, or how many people would want to buy a product from a D company?

Judith Kelley [00:17:22] Or, for that matter, and we are starting to see some of these out come out, right? How many people would want to invest...

Stan Litow [00:17:28] Exactly.

Judith Kelley [00:17:29] ...company and that and that takes a sort of to the to the topic of of of ESG or environmental social governance investing where we are starting to see these sorts of grades or ratings or rankings in this space.

Stan Litow [00:17:47] Exactly. I mean, we have BlackRock, a very large, significantly large and important investment company saying they will not invest any of their dollars in a company that has disappointing standard of behavior in corporate social responsibility. We have another investment company like Carlyle saying that companies that have a strong diversity and inclusion program will get a better rate on borrowing that will affect their bottom line. So there are a lot of ways that investment can stimulate the kind of performance that we would like to see.

Judith Kelley [00:18:24] Is this a way to encourage more self-regulation, self-moderation of behavior by companies rather than regulating them from a policy perspective? And if so, does that ultimately end up being a good thing or does that leave less control in the hands of policy makers?

Stan Litow [00:18:45] Well, I think it's a combination of both. I mean, I think that you there are things that you will want to have to control the worst behavior. For example, you don't want people to bribe government officials and you need a law, Foreign and Corrupt Practices Act, that makes that against the law. And during the Obama administration, we saw the fines going up and the policing under that Foreign and Corrupt Practices Act going up. We saw it lax during the Trump administration. My guess is we'll see it reinvigorated in the current Biden administration. So there will be some things that should be regulated and must be legislated, and that's to control the worst behavior. But then the question is, what about incentivizing the best behavior, not just making sure you don't violate a law and asking people to understand that they could raise their standards of behavior significantly. And we have a great opportunity here in the area of diversity and inclusion to be able to use the private sector as a way of raising the bar, not just to say it's illegal to do the worst, but it's something that you can get recognition, it doesn't have to be financial reward, get recognition for the absolute best behavior, and then set that standard high so that others would want to follow it.

Judith Kelley [00:20:17] Mm hmm. Now, there are many CEOs or companies who would like to do better in this area, but it's not that straightforward to know where to start. So in your view, what is it that a CEO needs to do if he or she or they want to move in a in a direction that takes a company to a more socially responsible level?

Stan Litow [00:20:42] I would say, number one is that you have to hire staff into your company that understand these activities, that understand what strong environmental performance looks like, that understand what strong investment performance, labor practices, the whole nine yards of corporate social responsibility that understand what it means to enforce it, not just within your company, but within your supply chain and all the other people that you do business with and make sure you know a company based in the UK, Unilever established a policy that said to any other company, you cannot do business with Unilever unless you produce an annual corporate social responsibility report up to particular kinds of standards. So, they set the bar very high. And if you wanted to be a business collaborator with Unilever, you had to meet Unilever standards and they did. And that's an example of a company really stretching, you know, how a company could impact not just their own behavior, but the behavior of others. So I think we're at a point where if you have the right talent within your company, if you have the right governance structure within your company, if you produce a corporate responsibility report up to certain kinds of standards and give people publicly the opportunity to review your performance year to year and set goals and objectives that put you at the top, then I think we're going to see companies achieving at a high level in the area of CSR, but it starts off with understanding what that level of performance looks like and how do you achieve it, and organizing and delivering the results in CSR in the same way that you would deliver business results. You know, there's an interesting longitudinal study that I that I quoted in my book that looked at companies that develop and implement high CSR standard of activity versus those that don't. And actually, the companies with the highest standards of CSR deliver the best financial returns for their investors. They did significantly better financially. So, what that says is, you know, this is not just something that's good for society. It's good for your bottom line.

Judith Kelley [00:23:19] Right. Right. And I think we've seen some of this, too. I mean, there was a while when-- when we thought when we were choosing our retirement investments or whatever investments that if you wanted to have a portfolio that was socially responsible, you had to be willing to take a decrease in expected returns. But that's not proving to be the case at all.

Stan Litow [00:23:39] No, absolutely not.

Judith Kelley [00:23:43] Yeah. So, you mentioned governance structure. Why is that important?

Stan Litow [00:23:47] Well, it's important because you want the people who are overall on the board and in charge of the corporate behavior to understand corporate social responsibility. And you want them to represent all the various interests that are significant, important. You don't want to have a board that only has white men on it. You want to have a board that reflects society and can bring those points of view, those various point of views to bear when you're setting your standard. So, for example, in the area of diversity and inclusion, you definitely want companies to ask the questions at the board level of how well are we doing in terms of hiring people of color into our company? How well are we doing in terms of equity and pay equity based upon race and based upon gender? And then we want the question asked as we move up the ranks. It's not just entry level jobs. What about our executives? Some companies are starting to change how they hire. And then we look at some companies like Microsoft, for example, and only two point six percent of their executives are Black and Google only three point five percent of their executives are Black. That's not sustainable. And if you have the right presence on your board and in your governance structure, in all likelihood, you're not going to continue to have that level of performance. Now, you'll have to learn how to meet a higher level of performance because it's not something that you can just snap your finger and do. It involves a change in the culture of the company.

Judith Kelley [00:25:33] So talk a little bit about your own experience at IBM because you had some strong successes there. But I imagine there were also some some mishaps or things that didn't work out and talk a little bit about that time you spent and what the outcomes were.

Stan Litow [00:25:48] Yeah, I, I think we went through a period when, you know, the company had a Superfund cleanup site in New York State and the company met every governmental standard and there was no problem but that certain of the chemicals that were in the ground dating back to the 1940s started to go outside of the area that was covered under the Superfund cleanup site. And then we had to, at the highest level, decide what was the company going to do. And lawyers said, you know, as you would expect lawyers to say, we have not violated the law. We have no responsibility here. And there were others in the technology area who said, well, it's not 100 percent clear that it was that what what influenced the spread of those chemicals. It could have been a variety of other things. But from a corporate social responsibility standard, it was this is a responsibility that we should embrace, and we must embrace and spend the money to go beyond the Superfund cleanup site. And ultimately, it wound up being something that the company was widely praised for and it wound up helping from a recruitment standpoint, from a business standpoint, from relationships with government standpoint. And it was a decision that the CEO of the company, having listened to all the presentations, ultimately made the right decision. Second, I remember when we in 1996 decided to convene all of the nation's governors, the president of the United States, all of the nation's business and education leaders around an education reform agenda and sponsored the first national education summit hosted by a private company. There were people in communications who said this is insanity. You're going to bring five hundred reporters for 24 hours to the company. They could ask any questions they could walk around the company anywhere -- this is too much of a risk. Well, when the company did it it was on the front page of every magazine in the

country, again, we were able to accomplish something significant. And the CEO of the company was willing to put up with the risk in exchange for the reward and the reward, you know, benefited the company's bottom line. So, there are always these tensions within a company, the same is true within government, the same is true within, you know, civil society, within not for profit organizations. But I think it is important that people understand what is the cost and risk of bad behavior and what is the benefit and reward of the best.

Judith Kelley [00:28:56] So how do you think about the balance in the future between the policymaking and government solutions to societal problems versus the private sector? It sounds like in some ways we're seeing the private sector increasingly move towards helping to solve society's problems, most notably the example I mentioned earlier, with a billion-dollar commitment from the Bank of America. You know, big, big funds and big efforts going out to address basic societal problems. Is this what kind of ideological statement is this about the-- the balance and the collaboration between public and the private sector?

Stan Litow [00:29:39] Well, I mean, I'll give another good example. You talked about the billion-dollar commitment. There are a number of companies that have also voluntarily signed up to a commitment to spend at least one billion dollars of its money on women and minority owned business. And some companies have reached 2-billion dollar threshold. That would be something if that were a standard for all Fortune 500 companies. Imagine the effect on society to have 500 billion dollars pumped into the coffers of women and minority owned business across the nation, not just for one year, but over a sustainable period of time. So how do you get to that? How do you get to the point where the private sector is going to behave like that or the public sector is going to embrace those kinds of behaviors? I think far too often when we look at our society overall, we operate in silos. The private sector talks to the private sector, the public sector talks to the public sector, not for profits talk to not for profits, higher ed, K to 12. Everybody is in a silo. I think what we don't have, and we need to have, is more opportunities where the silos are broken down. And especially on the policy level, people are thinking and planning together about what can be done by all that will raise the level of environmental standard or diversity and inclusion. This is just something that the private sector can do. It's something that has to get into every element of society. Our K-12 schools are more segregated now than they were 25 years ago. And we definitely need to have more diversity and inclusion in the private sector. But we need it overall in society. And I think the likelihood of getting there at a higher level is going to equate to the willingness of people to get beyond the silos and start thinking and planning together and holding higher level of standard for all in a collaborative way.

Judith Kelley [00:32:00] Mm hmm. Well, certainly getting beyond the silos and the need for that is something we witnessed in the last year with with COVID as we've had to find collaborative solutions that could not have been possible without the private sector for sure. But also we also see the difference in how governments have performed in different countries. So it's not just a matter or in the same countries over over time, not just a matter of the private sector. And and we even sometimes need the civil society sector to help now with vaccine distribution or other things like this in convincing certain populations that the church and helping to convince certain populations to to trust vaccines, etc. So COVID in some ways maybe has been a perfect combination of illustrating this this very point.

Stan Litow [00:32:54] I couldn't agree more. I think that it did demonstrate that if state government and national government didn't coordinate, if national state and the private sector didn't coordinate, and if civil society wasn't part of that discussion, if philanthropy

was not part of that discussion, but getting everyone on the same page and working in a collaborative way is to the benefit of us all.

Judith Kelley [00:33:18] So if I push the the the argument out even further, right, you know, we've had for for centuries or at least decades, you know, in the United States, a debate about whether we want it to stand heavier on the private sector for the public sector for in terms of how we provide for society, how we run society. And, you know, it seems increasingly that maybe this choice, which sometimes is is pasted on to Democrats and Republicans, respectively, is a false one.

Stan Litow [00:33:54] Yes, I believe I believe it is, and one of the things I'm interested when I teach at the Sanford School at Duke, I find many of the public policy students interested in a career in the private sector, interested in the opportunity to work for a company where they could make a difference in society. And I think the one encouraging thing I think we should all think about is the change in attitudes of the next generation. And I think that if more of them work in areas of the private sector, the public sector in different ways, if more of them not just work, but exert their pressure through their community service or other kinds of activities, I think we could see some real significant change.

Judith Kelley [00:34:49] So I think it's a hopeful message, after all, we at a time when we are experiencing a lot of doom and gloom and a lot of travails right now as a society. But as I was saying, COVID has also illustrated the power of coming together across these sectors. And and it seems like we are increasingly moving in in a direction where more and more actors, more and more young people, more and more consumers, more and more investors and more and more executives are interested in contributing to society in in a positive way.

Stan Litow [00:35:25] I couldn't agree more. I think that the glass is definitely half full and now it's time for us to bring it up to the brim.

Judith Kelley [00:35:32] Well Stan, thank you so much for joining me. Let's end on that positive note. You've giving us a lot to think about. Stan Litow is the Accenture Visiting Professor of the Practice here at the Sanford School of Public Policy at Duke University. Thank you so much for joining us, Stan.

Stan Litow [00:35:48] Thank you so much, Judith. I really appreciated it.

Judith Kelley [00:35:51] We'll have a link to his book, *The Challenge for Business and Society: From Risk to Reward* on our website Policy360.org. And we'll be back soon with another conversation. I'm Judith Kelley.