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CSR Needs CPR: Corporate Sustainability and Politics

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SUMMARY
Corporate sustainability has gone mainstream, and many companies have taken meaningful steps to improve their own environmental performance. But while corporate political actions such as lobbying can have a greater impact on environmental quality, they are ignored in most current sustainability metrics. It is time for these metrics to be expanded to critically assess firms based on the sustainability impacts of their public policy positions. To enable such assessments, firms must become as transparent about their corporate political responsibility (CPR) as their corporate social responsibility (CSR). For their part, rating systems must demand such information from firms and include evaluations of corporate political activity in their assessments of corporate environmental responsibility.

KEYWORDS: sustainability, lobbying, corporate social responsibility, business & society, business-government relations, policy making, non-market strategy

Corporate sustainability—once viewed as utopian, irrelevant, or even subversive—has gone mainstream. Of the Fortune 500 global companies, four-fifths now issue sustainability reports, describing a wide variety of environment-friendly activities.[1] Most leading business schools have courses in corporate sustainability, if not full-fledged dual-degree programs aiming to create a sustainable world "through the power of business." Support for corporate sustainability comes from both ends

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of the political spectrum. Think tanks such as the Property and Environment Research Center advocate "free-market environmentalism," frustrated that government intervention to protect the environment has gone too far. At the same time, non-governmental organizations (NGOs) such as the Rainforest Action Network have embraced "private politics," engaging directly with corporations to produce change because they are frustrated that government intervention has not gone far enough. Both perspectives reflect a belief that market forces can help lead the business world toward a more virtuous relationship with the social and natural world.

This expansion of business concern for its social and natural environment represents real progress, and is to be applauded. Global challenges such as ocean acidification, global terrorism, fisheries depletion, poverty, deforestation, toxic chemical emissions, and climate change are considered "wicked" problems because of their complexity and intractability, and help from all quarters is needed. Business leaders who take a long view want to ensure that the resources on which they depend will be healthy and robust in the future. But in a world of global economic competition, it is essential to have "rules of the game" that create a level playing field, including financial incentives for firms to internalize the costs of their actions on the natural environment and the societies of which they are a part. Indeed, recent research suggests that the most important drivers of corporate environmental, social, and governance (ESG) performance are actually country-level political institutions.[2]

How are the right "rules of the game" to be put in place? Traditionally this has been the responsibility of the state, not of the private sector. Yet these rules will emerge more readily with support from influential segments of the business community. Of course, the interests of business are diverse and no one expects firms to take public policy positions that damage the interests of their shareholders. It is natural that some firms will support policies that enhance sustainability, and others will oppose them. But with the rules of the game so important, it is also natural that companies are beginning to be evaluated by stakeholders based on the political positions they take.

In this article, we argue that the time has come for corporate political action to be taken into account by activists, scholars, consumers, and investors who care about sustainability. Those who assess firms on their social and environmental performance should add another critical dimension to their assessment of civic virtue and responsibility, namely, the extent to which firms support (or oppose) public policies that contribute to sustainability. To make this possible, firms must become as transparent about their political activity as many have become about their sustainability activity. Although this is clearly a nascent issue in corporate responsibility, there are signs that leading parts of civil society are already beginning to advocate for greater transparency around corporate political action. Managing this emerging set of stakeholder pressures will pose fascinating new challenges for corporate strategy beyond markets.

The Promise and the Limits of the "Market for Virtue"

A decade ago, in an influential book, David Vogel assessed the potential for business leadership—driven by the "market for virtue" rather than by legal requirements—to fill the "governance gap" left by an increasingly gridlocked state.[3] He found numerous success stories for this sort of "civil regulation" as distinct from "government regulation," ranging from working conditions in developing countries to the natural environment to human rights and global corporate citizenship. Nike has adopted labor and environmental standards for the over 700 factories abroad that make its products, has created a credible monitoring process, and has canceled contracts with suppliers who perform poorly; supplier codes-of-conduct and supplier auditing are now common practice among leading brands. Home Depot, Lowe's, and other retailers have adopted voluntary codes of conduct that have helped to preserve old-growth forests and improve forestry practices in North America and beyond. Thousands of companies around the world have signed onto the United Nations (UN) Global Compact (which bills itself as the world's largest corporate sustainability initiative) and have agreed to its principles for the improvement of human rights, the treatment of labor and the environment, and the reduction of corruption.

Moreover, a body of data is emerging that demonstrates quantitatively the impact of some corporate sustainability initiatives. Energy-efficient commercial buildings that are Leadership in Energy and Environmental Design (LEED) or Energy Star certified have an occupancy rate 11% higher than other buildings and sell for 16% to 17% more.[4] These initiatives have the ancillary benefit of reducing greenhouse gas (GHG) emissions. In addition, products that are perceived to offer health benefits have found a growing niche in the marketplace: organic food accounts for over 5% of total food sales in the United States, and it grew 8% in 2016 to top $40 billion for the first time.[5] Furthermore, over 20% of all wild-caught fish[6] and 15% of wood harvested from temperate forests around the world[7] comes from fisheries and forests certified as sustainable.

For all its success, however, the market for virtue is often "narrow and limited" in its ability to solve social and environmental problems.[8] Voluntary codes of conduct in the apparel sector did not prevent the 2013 collapse of the Rana Plaza textile factory in Bangladesh that killed 1,134 workers.[9] New certifications for sustainable forestry have emerged that offer weaker standards for firms that do not want to meet the most stringent demands.[10] The UN Global Compact has been widely criticized, and even derided as a form of "bluewash" by Ralph Nader.[11] BP, once lauded as a leader in the fight against climate change, has had its reputation ruined by the massive Deepwater Horizon explosion that killed 11 workers and created the largest oil spill in U.S. history.[12] Globally, 90% of fisheries are fully or overfished,[13] the agricultural production system is under stress from a burgeoning world population,[14] and water supplies are threatened around the world.[15] There is mounting evidence that climate change poses severe threats to global well-being, and by some estimates we have until just 2020 to bend the "climate curve" and rein in climate change before damaging warming becomes inevitable.[16] The

2015 State of Green Business report—authored by the normally upbeat Joel Makower, executive editor of GreenBiz.com—struck a somber note. "Companies continued to tinker with incremental changes in their products and operations to reduce their carbon emissions, energy use, waste, chemicals of concern and other aspects of their 'environmental footprint.'" But despite these efforts, he continued, "All told, they were necessary but wholly insufficient to address their fair share of environmental impacts."[17]

All of this reinforces Vogel's argument. Civil regulation can partially fill the governance gap but cannot fully replace public policy. The "carrot" of market incentives can reward sustainability leaders, but it cannot force all of the laggards to follow suit. For that, the "stick" of penalties for poor performance is required, and that remains largely the domain of government.[18] Vogel concluded,

> If companies are serious about acting more responsibly, then they need to reexamine their relationship to government as well as improve their own practices. And those who want corporations to be more virtuous should expect firms to act more responsibly on both dimensions. Civil and government regulation both have a legitimate role to play in improving public welfare. The former reflects the potential of the market for virtue; the latter recognizes its limits.[19]

Corporate Political Responsibility (CPR)

Although Vogel did not use the term, he was effectively calling for CPR—which we define as a firm's disclosure of its political activities and advocacy of socially and environmentally beneficial public policies—not just corporate social responsibility (CSR). In fact, one can argue that

> Compared with companies' efforts to green their operations, corporate political actions such as lobbying or campaign funding can have more influence on environmental protection, and arguably represent the greatest impact a company can have on protecting—or harming—the environment.[20]

From this perspective, CPR may be the most important element of a company's sustainability strategy.

CPR is not entirely unheard of. Consider the domain of climate change mitigation.[21] In 1997, then-CEO John Browne of BP became the first oil industry executive to acknowledge the role of human activity in creating climate change. In 1999, Ford Motor Company pulled out of the Global Climate Coalition, an industry lobbying group that rejected climate science and opposed climate legislation.[22] In 2007, the U.S. Climate Action Partnership—a coalition of environmental activists and business corporations—was established to lobby for a mandatory cap-and-trade system for carbon emissions in the United States. Its "Call for Action" created the blueprint for the Waxman-Markey bill that successfully passed the U.S. House of Representatives in 2009. In 2011, a group of European firms including Aviva and Danone likewise issued a public call for the European Union

to adopt deeper GHG emissions cuts.[23] The Prince of Wales Corporate Leaders Group brings together a group of large multinational firms including Unilever, Tesco, and Acciona to press for stronger public action on climate change.[24] When President Trump announced his plan to withdraw from the Paris Climate Agreement, Jeff Immelt, then-CEO of General Electric, tweeted: "Climate change is real. Industry must now lead and not depend on the government."[25] The *We Are Still In* movement, a coalition of U.S. business, education, and local government leaders committed to upholding the U.S. commitments to the Paris Agreement on Climate Change, provides a vivid example of what CPR looks like. Hundreds of companies have come together with local governments, universities, and non-profit groups to offer their vocal support for national and international commitments to mitigate climate change.[26]

Examples of CPR also come from the social world, as when Emmanuel Faber, CEO of Danone, pushed for a reform of French civil law to revise the articles defining the company and to open a new status for public benefit corporations in France.[27] Another example came when Apple CEO Tim Cook spoke out publicly opposing a pending religious freedom law that critics warned would allow discrimination against same-sex couples.[28] After President Trump was unable to articulate a consistent criticism of the neo-Nazis whose march through Charlottesville, Virginia, resulted in the death of an innocent young woman, numerous CEOs resigned from the President's Manufacturing Council, including Merck CEO Ken Frazier, Under Armour CEO Kevin Plank, and Intel CEO Brian Krzanich.[29] Bill George, former CEO of Medtronic, argues that it is increasingly important for CEOs to speak out on key public issues. George recognizes that CEOs face difficult tradeoffs when deciding to speak out, but he argues that "business leaders should base their stands on the company's mission and its values. If these are violated, then they have an obligation to speak publicly."[30]

Unfortunately, there is evidence that some companies use their corporate sustainability initiatives as cover for their political efforts to block meaningful change. Writing in *Harvard Business Review*, Senator Sheldon Whitehouse of Rhode Island laments that

> Despite the statements emitted from oil companies' executive suites about taking climate change seriously and supporting a price on carbon, their lobbying presence in Congress is 100% opposed to any action. In particular, the American Petroleum Institute, the oil industry trade association, is an implacable foe. Given the industry's massive conflict of interest, there is every reason to believe they are playing a double game: trying to buy a little credibility with these public comments while using all their quiet lobbying muscle to crush any threat of bipartisan action on the carbon pricing they claim to espouse.[31]

Similar concerns arose when CEOs of large firms like Dow Chemical and Corning Inc. signed an open letter to the *Wall Street Journal* urging the United States to remain in the Paris Agreement, while simultaneously supporting the Industrial Energy Consumers of America (IECA), a lobbying group that was

pushing the Administration to withdraw from the Agreement.[32] These examples show how some firms take symbolic action that sounds good in an annual report or in the newspaper while hiding the fact that they are blocking substantive progress on the political front. This sort of two-faced strategy makes a mockery of "corporate social responsibility" and turns it into a public relations gimmick. It illustrates the dark side of business participation in politics, and it raises the question of whether business should be involved in politics at all.

The Case against CPR

In fact, there is a long tradition of arguing against business engagement in politics. Milton Friedman famously argued in 1970 that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits, so long as it stays within the rules of the game."[33] Business leaders had no special expertise in social welfare, Friedman argued, and should leave it to the realm of politicians. Aneel Karnani presented an updated version of this argument in *California Management Review* in 2010.[34] However, both Friedman and Karnani naively ignore the role business leaders play in creating those very rules of the game. Business does not simply keep its nose out of politics—it is actively involved, to the tune of roughly $2.6 billion a year in lobbying expenditures.[35] Indeed, Friedman's close colleague George Stigler argued that "as a rule, regulation is acquired by the industry and is designed and operated primarily for its benefit."[36] Coming from the opposite end of the ideological spectrum, Robert Reich made a related point in 1998 in *California Management Review*. Echoing Friedman, Reich argued that in a system where business firms view their primary responsibility as a fiduciary one toward investors, they have a secondary responsibility to the rest of society to "respect the political process by staying out of it."[37]

Unfortunately, although this nostrum is appealing, it is also unrealistic at present. Recent Supreme Court decisions clearly affirm that corporations have the right to participate in politics, and further establish that there are no absolute limits on how much companies can spend for political purposes, and no requirements to disclose the spending if they structure it in particular ways.[38] In *Citizens United v. Federal Election Commission* 558 U.S. 310 (2010), the Supreme Court held 5-4 that it is unconstitutional to restrict "independent" political expenditures by business, nonprofit organizations, labor unions, and other associations. Nor do donors even need to disclose their contributions, if they give to a 501(c)(4) "social welfare" organization that engages in "issue advocacy" rather than "express advocacy" for a particular candidate. What this means in practice is that the organization must not use the "eight magic words" that appeared in a footnote in *Buckley v. Valeo* (1976): "vote for," "elect," "support," "cast your ballot for," "Smith for Congress," "vote against," "defeat," "reject," or any variations thereof. An ad saying, "Crime is bad. Smith is soft on crime. Jones is tough on crime." would not count as "express advocacy" even though it strongly implies that one should support Jones. The bottom line is that corporations can now legally and covertly give unlimited amounts of "dark money" to fund issue ads to influence elections.

It is understandable that companies prefer to keep their political activities secret, and that they are wary of backlash when their involvement in the public arena is exposed. New research shows that firms that have faced a social movement boycott shift their political action away from campaign contributions and toward more covert forms such as lobbying or CEO donations.[39] The backlash can come from both ends of the political spectrum. From the right, the *Wall Street Journal* has attacked firms that support cap-and-trade policy as "Kyoto capitalists" that seek to profit from a "cynical approach to regulation" whose costs are "foisted on the backs of others."[40] Even efficient policies will be derided by those who believe "the free market" is always best left alone. From the left, activists often level charges of greenwashing at firms that highlight their environmental good deeds while downplaying their less savory activities. Firms that are small, pure-play environmental startups have a good chance of escaping such criticism, but this is much more difficult for large incumbent firms with diversified portfolios. Fears of backlash may be overstated, however: when a list of 91 companies contributing to a 501(c)(4) dark money group were exposed by the *New York Times* in 2014, their share prices actually rose.[41]

The Need for Transparency

Even if it is unrealistic to exclude business from politics that does not mean that unlimited covert business spending in politics is a good thing. In fact, there are reasons to believe quite the opposite is true. Secrecy breeds a host of problems. One is the corporate hypocrisy described by Senator Whitehouse, whereby firms are able to curry favor with the public through CSR activities while blocking laws that would require them to stop imposing environmental costs on their neighbors.[42] Another is the corruption that can set in when wealthy individuals or organizations are able to buy political favors. A third is the policy bias that emerges when the true sources of lobbying are hidden. One example is "astroturf lobbying," in which companies covertly fund artificial grassroots action to block the passage of laws that would increase their costs.[43] (Unfortunately, the Lobbying Disclosure Act of 1995 was stripped of any mention of such tactics, allowing them to persist.[44]) Another example, ushered in by *Citizens United*, is the use of tax-exempt "social welfare" advocacy groups to make unlimited political expenditures without revealing the identities of the funders.[45]

The importance of transparency is hard to overstate: it is the crucial safeguard to protect society from capture by private interests. Moreover, without transparency, shareholders themselves are cheated because they are kept in the dark about how the funds they put at risk are being used. It is encouraging that firms are becoming more transparent about their environmental impacts. Indeed, a large and growing number of firms are reporting in a manner consistent with the Global Reporting Initiative (GRI, currently considered the gold standard for environmental disclosure), with participation growing from 12 firms in 1999 to over 5,000 today. A few organizations, like Puma, have even begun issuing environmental profit and loss statements that estimate environmental impacts in

dollars and cents. Although the practice of monetizing environmental impacts remains imperfect, it does help to simplify and focus sustainability reporting, and consulting organizations like Trucost are constantly refining the analytical methods for doing so.

Unfortunately, it is rare to find firms that are equally transparent about their political activity. Sustainability LLC, in conjunction with the World Wildlife Fund, conducted a study of 100 of the world's largest corporations and rated their disclosure of political activities. Nearly half the firms provided no information at all about their political involvement. Of those that did disclose, none achieved the highest rating and only a handful (BASF, BP, Chevron, Dow, Ford, General Motors, GlaxoSmithKline, and HP) achieved even the second-highest level.[46]

Climate change provides an interesting example of the limitations of current disclosure requirements. Recent research has found that there are two types of firms that tend to lobby politicians on the issue: those with high levels of greenhouse gas (GHG) emissions per dollar of output and those with low levels of emissions per dollar.[47] Current disclosure rules do not require firms to be transparent about what types of policies they support, merely how much money they spent lobbying on a particular issue. But an educated guess would be that high-emission firms are lobbying for weaker regulations than low-emissions firms would prefer. After all, it has been shown that states were more likely to adopt a renewable portfolio standard if they had a staffed office of the American Solar Energy Society in their state.[48] Investors, consumers, and activists who view climate change as an important issue increasingly want to know in greater detail just what policies firms have been advocating when they visit their Representatives and Senators, or the White House.

The demand for political transparency will likely become stronger as the Millennial generation grows in influence, because these "digital natives" have grown up with an expectation of radical transparency from the products they buy and the companies for which they work.[49] Furthermore, although disclosure regarding money in political campaigns is crucial, CPR must also include various other possible activities that are adapted to the variety of political systems and regimes across the globe. One of the most important of these is avoiding corruption, which remains a powerful force in many parts of the world. The UN Global Compact has made fighting corruption one of its key action items, and it may serve as a vehicle for broader calls for political transparency. In order to see where the future of political disclosure lies, however, it is important to understand the current state of ESG ratings.

CPR and Social Responsibility Metrics

To what extent do existing social responsibility metrics capture corporate political action? For decades, socially responsible investing (SRI) has used a variety of "screens" to help investors channel their financial support away from activities they deem socially undesirable, such as tobacco or apartheid.

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