

Is Corporate Social Responsibility Sustainable or a Pernicious Myth?

Is corporate social responsibility a dead end for achieving environmental sustainability? In *The Enlightened Capitalists: Cautionary Tales of Business Pioneers Who Tried to Do Well by Doing Good*, James O'Toole, professor emeritus at the University of Southern California Business School, examines the history of CSR, including 24 publicly owned American companies O'Toole identified as models of "socially responsible, ethical, and environmentally conscious behavior" in 1985.

O'Toole concludes his optimism about socially responsible capitalism in the 1980s and 1990s was misplaced: 21 of the 24 model U.S. companies over the years greatly diminished or abolished their standards of CSR. He attributes these changes to corporate takeovers to squeeze out more earnings, changes in corporate leadership, and bankruptcies, all driven in turn by underlying pressures of global markets and the rise of large predatory investors such as private equity and hedge funds focused on short-term profits.

The UK based Body Shop, when headed by its charismatic founder Anita Roderick, was known for its commitments to fighting tropical deforestation and to protecting indigenous peoples. But Roderick sold the company to the French cosmetics multinational L'Oréal in 2006, which, O'Toole recounts, abandoned support for most of the environmental and social causes Roderick espoused. L'Oréal sold what was left of the company at a loss in 2017. Roderick's optimism that the Body Shop would be a green Trojan horse within L'Oréal to convert it into a more socially responsible company proved to be a delusion.

The giant Anglo-Dutch consumer goods conglomerate Unilever has been a pioneer of CSR, dating back to the

1940s and 1950s. Under CEO Paul Polman's leadership from 2009-19 Unilever committed to address pollution, land rights, community development, and fair trade issues connected with its sourcing in Africa, Asia, and Latin America, and to reduce by 50 percent its environmental footprint in water and energy use.

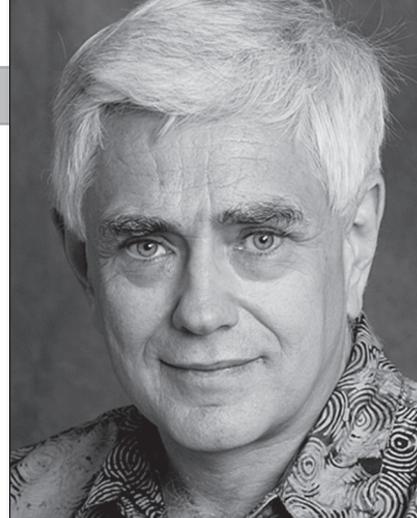
Polman emerged as the past decade's acknowledged leader of CSR's so-called "conscious capitalism" movement. But Unilever's slow growth led to a \$143 billion hostile takeover attempt by Warren Buffet-backed Kraft Heinz and Buffet's partner, the Brazilian hedge fund 3G. To defend the company Polman was forced to prioritize increasing quarterly profits, and spent billions on shareholder stock buybacks and increased dividend payouts, coupled with budget cuts to its CSR programs.

In a 2018 interview with the *Financial Times* Polman expressed his frustration over the compromises with sustainability he

was forced to make. He told a group of portfolio managers representing some \$25 trillion in assets to stop putting pressure on companies with environmental, social, and governance commitments and start asking multinationals "why they have the courage to destroy this wonderful planet."

O'Toole concludes that the structure and incentives of shareholder capitalism are inimical to sustainability. He suggests that other forms of ownership, such as cooperatives, and keeping companies private and family owned — or foundation owned, as is the case in some European countries — can be more conducive to sustainability.

Different ownership structures may be necessary, but not sufficient conditions for success. The family owned Mars Inc., one of the world's largest chocolate and food companies, com-



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mitted in 2009 to sourcing from "sustainable cocoa," particularly from West Africa, where, with two-thirds of the world's supply, global demand has catalyzed the planet's most rapid deforestation rate.

Government corruption and lack of political will are major problems, as well as the corruption of rich country environmental auditing companies that claim to certify commodity supply chains or the environmental integrity of carbon credits. After certifying Mars's cocoa supplies in 2011, the Rainforest Alliance suspended four of the five auditing companies it trusted in West Africa, acknowledging massive irregularities. More recently, Mars's chief procurement and sustainability officer concluded that certification "in most cases is not solving the core issues or assuring your cocoa is deforestation free."

A 2005 article in the *Stanford Social Innovation Review* found that confidence in CSR is based on faulty, empirically unproven assumptions: that short-term financial returns and long-term social benefits don't involve trade-offs (that there are in fact win-win solutions); that ethical considerations drive major changes in consumer behavior; and that there will be a "race to the top" among ethical businesses, and among nations, to compete in adopting highest environmental and social standards.

The article concludes that only legal regulation at the national, regional, and multilateral level will change the global economic incentive structure and avoid "destroying our wonderful planet."

Does business know how to avoid "destroying our wonderful planet"?