

# WHAT MATTERS MOST

**How a Small Group of  
Pioneers Is Teaching Social  
Responsibility to Big  
Business, and Why  
Big Business Is Listening**

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## Chapter One: The Making of A Movement

One summer day in 1990, I found myself in a Southern California retreat center sitting in a circle composed of Body Shop founder Anita Roddick; Ben & Jerry's Homemade founder Ben Cohen; Wayne Silby, chairman of the Calvert Group of socially responsible mutual funds, and Joshua Mailman, a quirky, creative, quietly influential New York-based social investor and philanthropist who three years before had co-founded (with Silby) the organization responsible for the retreat: The Social Venture Network. The SVN is a low-profile leadership group composed of socially-progressive entrepreneurs, with a sprinkling of non-profit participants, organized to promote the idea that business can and should be a vehicle for social change.

Three years earlier, Silby and Mailman had written a letter to about thirty-five potentially interested parties offering to host them for a "working weekend" at Golden Lake Lodge, a rustic-style retreat near Boulder, Colorado, about a two hour drive out of Denver. As the letter explained:

Our purpose will be to explore the idea of forming some sort of ethical investment banking network that can serve as a model for bringing emerging social values into a more collective sphere.

One reason the letter produced such an enthusiastic response -- of the thirty-five invitees, seventy-two people showed up -- may have been that 1987 was the year of Oliver Stone's *Wall Street*, which featured Gordon Gekko's memorable assertion that "greed is good." The source of this may be a well-known diatribe in Ayn Rand's *The Fountainhead*, disputing the notion that "money is the root of all evil." But whatever its source, this line -- derived from an actual speech delivered by the financier Ivan Boesky --

turned out to be a fitting slogan for the times. The heady free-market spirit of Reaganomics was very much in full swing, much to the distress of the majority of the conference's attendees. The conference organizers clearly hoped that by staging an event that ran culturally counter to the prevailing ethos, that they might promote an valid alternative.

As a piece of social history, the agenda of that first SVN conference makes for some interesting reading. Following brief after-dinner opening remarks on Friday evening from Silby and Mailman, the participants were treated to a presentation by a social anthropologist, Dr. Frances Harwood, on the topic "The Entrepreneur as Shaman." One of the many distinctive features of SVN conferences then and now is the palpable presence of spiritual and religious leaders, including – on frequent occasions -- Baba Ram Dass (born Richard Alpert and an assistant professor at Harvard and early disciple of Timothy Leary until he discovered his spiritual calling), Bernie Glassman, a Jewish Buddhist monk who runs a successful bakery in Yonkers, as well as the Venerable Chogyam Trungpa Rinpoche, a prominent Buddhist thinkers and leader then based in Vermont, who attended the first SVN meeting.

This spiritual aspect reflects the influence of Wayne Silby, whose long-standing interest in infusing business practices with a spiritual, social, moral and ethical dimension dates back to a 1979 visit to a Buddhist-sponsored conference in Vermont entitled "Right Livelihood." Wayne was born in Iowa and traveled around India and much of Asia after graduating from law school, before -- in his mid-twenties – founding the Calvert Investment Group, which he and his partners named after the street in Washington DC where the fund had its first offices.

In the first of many incarnations, the Calvert Group dealt exclusively in "variable-rate securities," a Wall Street term for refinancing government-insured corporate debt. When interest rates spiked in the late 1970s, the Calvert fund gained a comparable boost, and before long Wayne and his young partners were managing over a billion dollars in assets.

In terms its internal culture, Calvert reflected Wayne's personal style. Employees wore jeans and bare feet to work, and "customers would come in," Wayne recently reminisced, "and put their life savings down on a cardboard table." Only after one of his staff members tried to steal \$1.5 million in cash from the office did Wayne decide to tighten things up, at least sartorially. "I started wearing a tie the next day."

The Right Livelihood conference Wayne attended in 1979 was a turning point not only for Wayne personally, but also strategically for the Calvert Fund Group. Before the conference, the funds were managed with no particular moral, ethical or social criteria, which was the way nearly all mutual funds and financial instruments were governed at the time. But in Vermont it dawned upon Wayne that "there was more to life than a few extra basis points" -- basis points being the increments of 1/100th of 1 percent which, then as now, ruled the world of mutual fund performance. "That conference turned my life around 180 degrees," Wayne recently recalled in the pleasantly chaotic living room of his Washington DC townhouse, out of which he runs at least half a dozen for-profit and non-profit organizations. "Nothing was the same after that."

Fortunately for Wayne and his investors (and for the future of the Socially Responsible Investing movement), the Calvert Social Investment Fund prospered. Wayne's initial idea, he told us, was to "somehow integrate the values of the Baby Boom

generation into a financial product. We had money and resources which we felt needed to be deployed in keeping with our social values, which were themselves the product of the Civil Rights and anti-war movements of the late Sixties, and the anti-apartheid movement of the Seventies.”

In 1981, Wayne had to overcome a certain degree of internal skepticism. “My partners told me in no uncertain terms that they thought I was on drugs. But I felt that this was really something I wanted to do, and I told my partner that I would throw a real tantrum if he – or they – tried to stop me. This was basically a chairman’s pet project, because even though the vote at the meeting was five against one, as chairman I got five votes, so I won.”

Wayne is the first to admit that he did not invent the idea of socially responsible investing. The first socially conscious investors on record belonged to the Society of Friends, better known as the Quakers, who began screening their investments according to moral and ethic criteria as early as the 17<sup>th</sup> century. The highly industrious Quakers tended to have a fair amount of money to invest, and they raised a few eyebrows when they first started steering money away from companies that profited from activities of which they violently disapproved.

The Quakers were against slavery and against war – totally, utterly, uncompromisingly. In the seventeenth, eighteenth and even nineteenth centuries, such a stance sharply limited your investment portfolio, because so many companies made their money through weapons production or other forms of military supply, or by growing the great agricultural commodities of the pre-industrial world: cotton, tobacco, sugar, coffee and tea, nearly every one of which employed some form of enforced servitude.

By the 1920's, a number of religious institutions -- many but by no means all Christian -- had taken up the idea of aligning their investing practices with their moral and spiritual principles. "Many Christians would never consider operating a casino, owning a liquor store, manufacturing weapons, using near-slave labor or operating a lending business charging usurious rates," wrote Gary Moore in *The Thoughtful Christian's Guide to Investing*, published in the mid-twenties. Thoughtful Christians, Moore pointed out, would be well-advised to consider the potentially sinful purposes to which their stocks, bonds and bank deposits might be put. Many religiously oriented people began to query their investment advisors as to how their money was making money.

In 1928, a financier named Philip L. Carret launched the Pioneer Fund in Boston to fill what he perceived as growing need for a morally beneficial investment policy. Carret actively managed his fund for seventy years, until his death in 1998, with such consistency and quality of performance that "socially responsible investing" gained a degree of credibility based simply on Carret's track record. When *Mutual Fund* magazine rated the Pioneer Fund "the best mutual fund ever," the idea of socially responsible investing no longer seemed so off the wall.

Yet the universe of socially-responsible mutual funds didn't really take off until nearly forty years after Carret's pioneering fund. The SRI idea lay dormant in the fifties and early sixties, but by the late sixties, a deeply divided and generationally polarized population was open to change in a variety of fields, including the rarefied and notoriously straitlaced world of money management.

Corporate complicity in environmental pollution, Ralph Nader's revelations of shoddy automobile manufacture, the successful consumer boycott of Dow Chemical for producing napalm during the Vietnam War – all changed the moral and ethical lens through which corporate behavior was viewed in the US. An increasing level of popular skepticism and hostility toward business – in particular big business – shifted the landscape to such a degree that gradually, an emerging SRI movement began to take form. Steering your money into avenues where it might do some good, and away from avenues where it might do some bad, became more broadly perceived as a legitimate vehicle for social change.

In 1971, the Pax World fund became the first mutual fund to capitalize, as it were, on the burgeoning anti-war mood. Pax screened out defense stocks and only defense stocks, and successfully attracted investors who wanted to abide by this morally and ethically informed investment policy. That year marked a watershed in the evolving relationship between consumers, investors, and corporate managers, who up until then had treated both consumers and investors with a degree of disengagement that might charitably be described as paternalistic. The president of the Episcopal Church in the US petitioned General Motors to cease all operations in South Africa, a shareholder resolution that to GM's shock and horror, attracted widespread shareholder support. The walls were, as the song said, tumbling down.

Within months, a number of cities and municipalities around the U.S. (starting, not surprisingly, with Madison, Wisconsin) had begun passing local laws prohibiting governments under their jurisdiction from conducting business with companies active in South Africa. By the mid-Seventies, these boycotts had begun to take their toll on

management, on investor relations, on corporate reputations and good will, and eventually on share prices. When share prices suffered, managers were forced to sit up and take notice. This was no sentimental fringe fad.

By 1982, the year Wayne Silby launched his Calvert Social Investment Fund, a significant number of companies with operations in South Africa – including Mobil, Goodyear, RJR Nabisco and Johnson & Johnson -- had responded to the mounting consumer pressure by divesting themselves of their South African operations, often at substantial markdowns to their book values, and thus loss to shareholder equity. The consumer boycott had irredeemably changed not only the operational profile of business, but its reputational profile as well. SRI, as it was soon known, had effectively rewritten the rules of a very old game.

For the first time in American history, iconic American companies had been punished where it hurt most -- in their balance sheets, and in their shareholders' brokerage firm statements – for failing to heed a moral imperative. Many managers and investors were furious at the unwelcome interference when into the fray stepped Leon Sullivan, an American clergyman, who made a positive contribution to an increasingly polarized situation by forging an effective compromise. His Sullivan Principles were designed to reward companies for good behavior with regard to South Africa, as opposed to simply punishing companies for bad behavior. Though the term was not yet part of the popular parlance, the Sullivan Principles functioned quite effectively as a positive screen as well as a vehicle for social change.

When Wayne Silby began soliciting funds for Calvert Social Investment Fund in 1982, he says now,

We became the first fund to just say no to *all sorts of things*. We didn't say no to drugs, like Nancy Reagan, because for the most part, we were high on pharmaceuticals. But we did say no to defense stocks, no to stocks in companies in bed with South Africa, no to stocks that made money out of environmental degradation, no to stocks in companies that failed to respect human rights, no to stocks in companies that trampled on the rights of indigenous peoples around the world..."

One of Calvert's contributions to what had by then become a burgeoning if still somewhat fringe field was to create an advisory board of experts comprising a wide range of academics and activists. "Our values were formed and informed by our advisory council," Wayne recalls. "We made sure to cast our net pretty wide. We had Amory and Hunter Lovins and Bob Rodale from the environmental field, Hazel Henderson from the field of environmental economics, and a number of experts and anthropologists on the rights of indigenous people." This last became one of Calvert Fund's special areas of concern.

At a pivotal moment in the evolution of the Calvert Fund, Wayne met the young philanthropist Joshua Mailman through the Threshold Foundation. "Meeting Josh Mailman," Wayne recalled, "was like a revelation, because it made me finally realize what it must have been like for people to meet me." Joshua and Wayne quickly discovered a spiritual and intellectual kinship. They quickly concluded that where social change was concerned, two were better than one, twenty were better than ten, and four dozen might be than two dozen. After hitting that number, they really weren't sure.

Wayne describes the Threshold Foundation, otherwise known as "the dough nuts) – which remains active today - as "a group of people who want to get people to start thinking differently about money." The organization to which I was briefly a member

includes the children of some of America's wealthiest families from the original robber barons to an eclectic collection of names that you might find today in Forbes list of the 500 wealthiest individuals in America. The foundation's web site says much the same thing, in a bit more detail.

Threshold provides a place where people with significant financial resources, a commitment to social change and an interest in their own emotional, psychological, and spiritual development can come together to scheme, dream, learn, work, play and see what happens. We have observed that social change flows from personal growth so we work on our inner lives and social responsibility simultaneously.

One of the ideas being bandied about at the Threshold Foundation was the notion of establishing an alternative investment bank, or possibly a venture capital group, which would pool other investors' resources to support socially responsible start-ups. That was the germ of the idea that eventually ripened into the Social Venture Network, which to Joshua's and Wayne's surprise never did grow into a socially conscious investment bank, but ultimately evolved into a support group for socially-responsible entrepreneurs.

Excited about their idea of an alternative investment bank, Wayne and Joshua sent off their letter to thirty-five people, which prompted seventy-two recipients to converge on Gold Lake Ranch in Ward, Colorado over the weekend of August 7<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> 1987. Since I wasn't there, I recently asked my old friend and neighbor in Burlington, Vermont, Ben Cohen of Ben & Jerry's, for his recollections of that landmark event.

"I got this letter out of the blue from these two guys I'd never met," Ben recalled over lunch at a French bistro in downtown Burlington, "inviting me out to this ranch somewhere in the wilds of Colorado." He was particularly intrigued by a sentence that came about halfway through the third paragraph:

An opportunity exists for us to build a new American story, a new American parable, a new American mythology, which can provide an alternative and renewing vision for some of the economic choices that face our culture.

“That was not the sort of language people used in those days to talk about business,” Ben said with a wistful smile. “What really caught my eye about that letter was that here were these two financial guys putting their money where their mouths – and minds -- were. Here were two guys who had never laid eyes on either Jerry or me in their lives, not only inviting us to this three-day-long conference, but offering to pick up the tab.”

Given Ben’s finances at the time, that last detail piqued his interest. Even after realizing, upon closer inspection, that Wayne and Joshua weren’t paying for anyone’s flight out to Denver, he still really wanted to go. Ben talked the matter over with Jerry, because he always talked over everything he did in business with Jerry. Did it make good business sense for Ben to go? They hadn’t the faintest idea. Could they afford it? Not really. “But Jerry and I decided to scrape the money together,” Ben recalls, “because even though we didn’t have the money, it just felt like this was an opportunity to do something for society we simply couldn’t afford to pass up.”

Forgive me if I hit the rewind button, but I think that last sentence is worth repeating. Listen closely to the voice of the socially responsible but financially-strapped entrepreneur circa 1987:

*“We didn’t have any money, but it just felt like this was an opportunity to do something for society that we simply couldn’t afford to pass up.”*

When representatives of wealthy businesses, or even struggling small businesses tell me – as they frequently do – that they would *love* to be more socially responsible, but their investors, partners, CFO, Wall Street analysts, board directors, mothers and fathers, what have you, wouldn't allow it, I'd like to hand them that quote from Ben printed on a card.

Ben was intrigued by the pitch, and was also intrigued by the name Calvert Social Investment Fund on the letterhead. A few months before, he had attended an SRI conference -- a precursor to today's enormously popular "SRI in the Rockies" -- because he was curious about how he might attract more socially responsible investors, who might be more forgiving than conventional shareholders of his investments in socially responsible programs and practices.

Ben is a pretty easy going guy, but he had a few problems with the people he met at that conference. Not personal problems, but intellectual disputes. One of his problems "was that these folks seemed to be focused exclusively – you might say obsessively – on imposing negative screens on companies. I didn't think that it made sense to define social responsibility entirely from a negative perspective. They kept talking about steering money away from companies that profited from alcohol, from tobacco, from war, from environmentally nasty chemicals or petroleum..."

This moralizing was an institutional leftover from the SRI movement's origins in the religious convictions of many of its early participants. This Puritanical emphasis on sin and the devil and redemption and tobacco and alcohol all seemed a bit dour for a secularized Jewish guy from Long Island who likes ice cream and having fun. Ben basically thought that these folks should lighten up.

But he also had a strategic point to make, which was that it wasn't enough to just say *no* people doing bad things. It was profoundly important to be able to say *yes* to people doing good things. "*It isn't enough not to do the bad stuff,*" was how Ben kept putting it, and being a passionate and persuasive guy, he began to get through to them.

The two guys running the show and putting up the dough at Gold Lake Ranch had bent over backwards to avoid creating the impression that they wished to dominate the event. In fact, to avoid any misunderstanding on this front, Joshua and Wayne had gone out and hired a professional meeting facilitator. This was the first professional facilitator Ben had laid ever laid eyes on. "We all sat in a circle and it was one of those deals where everyone said who they were and what they were about, and it just took *forever,*" he recalls.

Ben is a businessman, which is to say that he can be impatient, and this latest number was driving him right up the rustic wall. Sometime after dawn, he looked around that seated circle and it dawned upon him that most of the people there belonged to a different tribe from his. Not necessarily ethnically – his tribe was the self-made entrepreneurs who had a passion and a mission and a set of values they cared about, but who also had employees and a payroll and a production line to run.

People like Ben – people who ran "real businesses," as he put it - -were scarce at that first meeting. Ben noticed a preponderance of "real-estate developers, philanthropists, private investors, private equity guys" – the sort of people who inhabited Joshua's world in New York and Wayne's world in Washington – and remarkably few small business progressives.

But then he ran into Bernie Glassman, this “Jewish-Buddhist nuclear physicist,” as Ben describes him, who had decided in his current reincarnation to operate a business called Greystone Bakery out of an old monastery overlooking the Hudson River in Yonkers. Bernie was into baking brownies, and Ben and Jerry had recently been (banging ??) trying in vain to locate a local supplier of brownie mix with which to make a brownie-flavored ice-cream. “It was one of those marriages made in heaven,” Ben recalls with a smile that that becomes only mildly rueful when he recalls the temporary strain placed on this new relationship when the first batch of brownie mix arrived in Vermont stuck together in one giant block that turned out to be unusable as anything other than building material.

One of the great things about SVN, Ben quickly discovered, was that you could trust the people you met there. Ben and Bernie, who had done their deal on a handshake, ending up working out these minor kinks in a spirit of amiable partnership, and it wasn’t long before Greystone Bakery had become one of Ben & Jerry’s largest suppliers, and Ben & Jerry Greystone’s largest customer.

But Ben had other issues. The people he met at Gold Lake Ranch tended to define a “socially responsible business” as one that made socially beneficial products. Period. This definition really didn’t work for Ben, in part because it left companies like Ben & Jerry’s out in the cold. Now everyone knew that Ben & Jerry’s was striving to be a socially responsible company, but virtually no one would have agreed that ice cream could be a socially beneficial product. Ben truly believed that what defined a socially responsible business was “a function of processes and practices as well as products.”

Looking back over fifteen years, Wayne Silby recalls “the bifurcation that very quickly developed between the entrepreneurs and the financial people” at SVN conferences. “Josh and I had wanted to start a socially responsible investment bank, to do this thing together, while entrepreneurs are people who like to do their own thing. They wanted to be able to get together at regular intervals to share what they did on their own with other people like them.”

By the time I attended my first SVN meeting in 1989, the socially responsible entrepreneurs had clearly gained the upper hand, but the financial folks like Josh and Wayne remained an important influence, in part because the SVN did end up functioning as an informal clearing house for entrepreneurs to raise capital from like-minded investors and finally, recently spawned a more formal offshoot the Investors Circle.. But that function historically had clearly taken a second seat to the role of SVN as a safe haven and refuge for socially-progressive entrepreneurs to come together and share their experiences – both positive and negative – of what it felt like to try to run a socially responsible business. It became a place to thrash out one’s problems in an environment where having these problems at all – which often involved balancing profit and principles – was likely to illicit not merely sympathy, but empathy.

“What I think really happened at SVN,” Wayne Silby recalls, looking back over fifteen years, “is that we were inventing a language, a way of thinking and talking about these issues that has become so widely accepted today that it’s easy to forget how original it was, how wild and strange and threatening to the status quo it once was.”

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When we first started Ben & Jerry's, we had no intention of going into 'business' -- we saw it as pretty much a lark.

Then there came a time about five years ago when Jerry and I noticed that we were no longer scooping ice-cream cones behind a counter and working in the ice-cream shop, that we were bosses and administrators who were spending a lot of time on the phone and doing paperwork. When we were introduced to people and they asked, 'What do you do?' there came a point when the answer was not 'I'm a homemade ice-cream shop owner' but 'I'm a businessman.' And I had a hard time mouthing those words.

- Ben Cohen, cofounder, Ben & Jerry's Homemade Inc., in "Coming of Age," Inc.'s 10th-anniversary issue, 1989

I think a lot of us would have slit our wrists if we ever thought we'd be part of corporate America or England. Big business was alien to me. What I wanted to do was create a livelihood, and I think women are quite good at that -- probably better than blokes. We mush up an interest and a skill, and that's a livelihood.

- Anita Roddick  
Inc Magazine April 01, 2001  
"Can Business Still Save The World?"

Over the years, SVN has spawned a number of successful spin-offs beyond the Investor's Circle, including The World Business Academy, Net Impact, SVN Europe, BALLE and Students for Social Responsibility. But the new venture that has probably gained the most visibility and acceptance within the mainstream business community has been an organization called Businesses for Social Responsibility. BSR was launched in 1992 by a group of SVN members, one of whom was Ben Cohen. The original idea behind the venture, Ben recently recalled, was that "it was going to become an alternative Chamber of Commerce, an alternative voice in the nation's capital for socially responsible business, so that if the media wanted to take the pulse of business, they could go to someone else other than the National Association of Manufacturers."

Just as the SVN never evolved into a socially-responsible investment bank, BSR never evolved into an alternative Chamber of Commerce. Instead, it has become the preeminent forum – not only in the US but worldwide – for large businesses eager to learn the basic tenets and practices of CSR from a distinguished roster of experts.

Needless to say, this mission has raised a few eyebrows among those who consider the term “socially responsible business” a contradiction in terms, at least when the businesses is not only big but multinational. The fact that the ideas of people like Ben Cohen and Anita Roddick and those of us who attended all those early SVN meetings have by now acquired a fashionable acronym (CSR), their own private language – the semantics of environmental footprints, sustainable development and eco-efficiency – and a visible seat on the *real* Chamber of Commerce gives some folks on the more radical side of the fence the jitters. What some welcome as signs of the movement’s maturation other see as co-option, compromise, and corruption. The rise of CSR and the overwhelming evidence that some very large companies are starting to take this stuff seriously has also generated a cynical response among those already predisposed to believe that CSR is itself deeply cynical and deceptive. Curiously, CSR tends to get viciously attacked from both the political far left and from the right. From the left-wing perspective, CSR is often regarded as “greenwashing” – a radical environmentalist’s term for promoting oneself as “green” and a good corporate citizen by adopting a few positive measures as window dressing, as a means of deflecting public attention from other, deeper, structural shortcomings. In this view, CSR is a lot of hype and PR – a fig-leaf for the fundamentally destructive and rapacious character of unbridled free-market capitalism.

To its detractors on the right, CSR is a sop to sentimentality. Perhaps the most vociferous exponent of this point of view is the Chicago economist Milton Friedman, who in his 1963 book *Capitalism and Freedom* denounced the-then emerging doctrine of CSR as “fundamentally subversive.” In a free society, Friedman argued,

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, which is to say, engages in open and free competition without deception or fraud.

Friedmann somewhat hysterically criticizes any attempt to make business responsible to society (as opposed to merely its shareholders) as “socialist” and “collectivist.”

Once this [CSR] is adopted, the external forces that curb the market will not be the social consciences, however highly developed, of the pontificating executives; it will be the iron fist of Government bureaucrats. Here, as with price and wage controls, businessmen seem to me to reveal a suicidal impulse.

Leave it to business to make the money and make the products, the free-market fundamentalist say, and leave it to government to clean up the mess. Which would be all very well if government did or even could clean up the mess. But these same voices also argue strenuously for smaller government and oppose any effort to address social problems.

BSR, for its part, stays entirely aloof from the political debate. It sees its mission as “bringing big business to the table, and then moving the table.” At least that’s how Ben Cohen sympathetically summarizes its current position. According to Bob Dunn, the current director of BSR and a former executive at Levi-Strauss, the best metaphor for

BSR's influence is the Glide Memorial Church in the Tenderloin district of San Francisco, which is a church for sinners in which the topic of the sermon is always virtue, and every sinner is welcome to attend, without guilt.

BSR describes itself on its Web site as “a global organization that helps member companies achieve success in ways that respect ethical values, people, communities and the environment.” The main way they go about doing that is by providing “information, tools and advisory services to make corporate social responsibility (CSR) an integral part of the business operations and strategies” of its members.

As for its members, you've heard of most of them, because so many are household names. The BSR member roster reads like a global Chamber of Commerce, including (I provide here a fairly random selection), Levi-Strauss (which provided substantial support to get the place up and running), Polaroid, AT & T, Chiquita Brands, Agilent Technologies, Ford Motor Company, L.L. Bean, Eddie Bauer, the Gap, Federal Express, Hallmark, Hasbro, Starbucks, Nike, Reebok, Coca-Cola, Walmart, Monsanto, McDonald's and Philip Morris (Altria).

Some people believe that BSR is not sufficiently selective about admitting applicants to its table. They're right. BSR does not see its role as being selective or exclusionary – it sees its role as encouraging change even in companies that have faced intense criticism for their practices. For BSR, the point is that the company is embarking on change, getting its act together and possibly even taking it on the road. BSR doesn't criticize if one of its members produces cigarettes that cause cancer, soda that destroys teeth and fosters Type 2 diabetes, burgers high in cholesterol or French fries that – until

they changed the formula – were fried in beef tallow, without disclosure, to the dismay of horrified vegetarians.

To BSR – whose 700 corporate members pull in combined annual revenues of over \$2 trillion and employ six million people worldwide ( let’s make that 5.5 million after the latest round of layoffs) what matters more is that McDonald’s has just signed a deal with Newman’s Own to supply dressings for its new salads, that it has opened a non-ozone-depleting restaurant in Denmark, that it takes the issue of CSR seriously, and that it issues a CSR report. That its French fries clog arteries is, from BSR’s point of view, a problem that McDonald’s has the desire to solve. After all, Ben & Jerry’s ice cream also clogs arteries with its high butterfat content, although no one --as yet – has sued them for contributing to heart disease.

To get his take on what BSR does best, my co-author and I had a lengthy conversation with Bob Dunn which, if nothing else, left me impressed by the breadth and sincerity of the effort. To Dunn, the real driving force behind the emergence of CSR as a transformative factor in big business is that stakeholder groups in the more developed economies are insisting that attention be paid to these issues, while evidence is growing that “the reward and penalties associated with dealing with these issues effectively or not effectively” has become clearer to corporate managers. A third reason that CSR has become a contagious trend is that “large global companies have been putting pressure on their business partners to comply with new standards in both the environmental and social arenas,” which adds up – in his view – to a virtuous circle, although he is the first to admit that the movement, worldwide, remains very much in its fledgling stages.

“As recently as five years ago,” Dunn added, “when interacting with companies, the common starting point was having them ask us to *prove* to them that this was an effort worth making. Today, the starting point tends to be, ‘Given our limited resources, what would be the most effective way to address these issues effectively?’”

That the big companies tend to see this as an incremental thing, and are highly conscious of the reputational (PR) dimension makes some people cringe. But from Bob Dunn’s perspective, “The broadness of the challenge still tends to be off-putting to some people. And when you’re talking about large global companies, executing any change is daunting.”

What BSR basically does best, according to Dunn, is to work closely with big companies to promote an emerging set of “best practices” in both the environmental and social areas. Nothing matters more to big companies, he insists, than the fact that other big companies are doing something, so every time he or one of the people he works with gets a big company to sign on to the program, he can feel pretty confident that other big companies will come snooping around, hoping to get in on the act. It’s corporate nature, but it’s also human nature, and a very effective tool for change. Is the change broad enough or fast enough to please everyone? Obviously not, but that is not the same thing as saying that encouraging the big companies to change – even at their own pace – is a bad thing.

Where most left-leaning critics of CSR have problems is that they see it as a substitute for more effective government regulation of big business. Which is to some degree true. But it is also the case that some changes are best left to the theoretically “free market,” if it is a free market that forces companies to respond to such critical pressure

points as class-action law suits and shareholder resolutions, to name just a few of the tactics that outsiders use to get insiders to do things differently.

The problem ultimately boils down to the question of whether you believe there is any alternative to big business – meaning big global business, and that the “transnationals” -- can ever be truly beneficial to society. This has become something of an ideological, even religious dispute, dividing those who believe that it is possible and desirable to reform big business from those who unequivocally do not. Those that believe that big business should be eliminated all together are off in a camp by themselves.

I believe that in the end, it’s a question of *scale*—a term that first came into popular parlance in business as a derivative of the economists’ term “economies of scale.” EOS has been used – to great profit from certain interested parties – to justify mergers that enrich only the senior executives and the investment bankers who drove the deal. It has been used to justify the layoffs that invariably flow from those mergers, few of which yield the “synergistic” results promised by their proponents.

The computer industry has conceived of yet another use for the term “scale.” Products and services designed for small-scale applications and local enterprises are said to be “scalable” if they could be expanded to a wider platform. When the folks at SVN -- most of whom ran small, socially progressive companies -- began to wonder if their ideas might apply in larger, less intimate settings, they were essentially asking:

*Would corporate social responsibility scale?*

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*The Judy Economy*

One of the most passionate proponents of the “small is beautiful school” of CSR is my old friend Judy Wicks, the founder and proprietor of the White Dog Café in Philadelphia and a long-time SVN board member. The White Dog Café occupies a row of four beautifully restored contiguous 19<sup>th</sup> century houses in the university district, near the campus of the University of Pennsylvania. Judy established what has since become a great Philadelphia institution in 1983 as a tiny walk-in, take-out muffin shop. She only just barely scraped the money together to buy the building – in which she originally rented an upstairs apartment -- when the university threatened to tear it down.

Today, her elegantly funky fancy-casual restaurant – the style entirely derived from Judy’s style -- can accommodate over a hundred diners at a single sitting, on multiple levels. Although Judy is a fervent believer in the “small is beautiful” philosophy, she now employs over a hundred people and grosses \$5 million annually. She is one of the most articulate proponents I know of the school of thought that contends that “reforming” the capitalist system, as currently constituted, won’t be enough to solve the world’s problems. She insists that CSR as practiced in the Big Business setting can only be a distraction unless there is fundamental and structural change in society.

My co-author and I recently took the train down to Philadelphia to sample some of Judy’s all-natural cooking and to get her perspective on this issue of scale. When she was just starting out, she told us, with no interior kitchen in the house and only a charcoal grill in the backyard, in winter she was forced to set up a plastic tent around the grill with a chimney to let out the smoke, while her chef prepared food wearing a parka and boots.

After a few years, the restaurant began to take off, and she was soon doubling her sales annually and beginning to learn more about alternative sourcing – buying ingredients from local farmers as opposed to agribusiness – when at some point in the late eighties she went to hear Ben Cohen deliver a speech at the nearby Wharton School of Business. Ben’s topic, not surprisingly, was “the social responsibility of business,” and Judy went to the talk with a cousin who happened to be an old college friend of Ben’s.

After Ben’s talk, the three of them sat down for a discussion, which according to Judy quickly engaged in the question of “what sort of impact a small company can have on the larger society.” How effective, in other words, could a small company be at effecting change on a larger scale? Ben insisted, to Judy’s surprise and delight, that “you didn’t have to be a large company to make a major impact.”

Nevertheless, Judy recalls, “compared to Ben Cohen and his company, Tom Chappell and his company, Anita Roddick and her company, and even you, Jeffrey – and *your* company, me and my company felt small and insignificant.” She suffered from what she calls a “small company complex.”

Not long after that discussion, Judy met the Seattle-based author and thinker about business and the world economy David Korten, whose best known book is *When Corporations Rule the World*, in which he argues that globalization, as currently constituted, is effectively a process that only benefits big wealthy companies and big wealthy countries, and that it shuts everyone else out of the prospect of a sustainable prosperity. As Judy frankly discussed her “small company complex” with Korten, she says, “David told me that what I was doing was *great*. He even came up with a name for it. He called it ‘the Judy Economy!’”

What David Korten and Ben Cohen said was intriguing, but Judy's own instincts and core convictions led her to the great and motivating insight of her life. The idea of small scale local businesses developing organically within a particular community, built on personal relationships, could be a valid model for a type of sustainable business that, she believes, represents the only hope we have as a species for surviving on the planet and creating a just and sustainable society.

Even the gospel of growth with social responsibility espoused by her good friends and fellow SVN members Ben Cohen and Gary Hirshberg of Stonyfield Farm is, from her point of view, fatally flawed. Under the onslaught of big agribusiness, small farms are being inexorably driven out of business by big farms, and small local business by big business. She can see no positive outcome of the success of Starbucks, the brand, and insists that the world economy would be far better off if it were torn apart by centrifugal force and the globalization trend were replaced by a countervailing trend, localization.

According to Judy, as long as companies are obliged by law to serve the short-term needs of their shareholders – which as Friedman states, is the conventional view of many managers' fiduciary duty to their shareholders – companies will continue to maximize profits regardless of other costs. This inevitably means raping the land, mistreating communities, and generally acting as very bad apples. Without some fundamental shift in the managers' role of the company in society, all the CSR in the world, according to this argument, will remain just so much window-dressing.

As Judy told us, fretfully, over lunch:

“My fear is that if current trends continue, that we're all going to end up as serfs on global plantations. I believe in economic democracy, and I regard large companies as

fundamentally undemocratic. Big corporations want access to cheap labor and cheap raw materials, cheap resources. My argument is that even in cases where individuals within these monoliths are passionate about change, that without some fundamental change to the structure, that we won't see any real change, only cosmetic change."

When I asked her if there was anything being done by large global companies that she felt good about, she smiled and said: "Yes, that they are imploding. Look at Enron and Worldcom and all the others— don't you think they're just the tip of the iceberg?"

I left The White Dog Café feeling, on the one hand, optimistic that Judy had created a successful model that was truly worth replicating, and pessimistic about her model's chances of ever prevailing against the onslaught of globalization as it is currently being practiced on the planet. It was hard to argue, philosophically, with her point that the "gospel of growth" espoused by even the most socially progressive businessmen, myself included, was riddled with contradictions. One of the points she so eloquently made, in fact, kept nagging at me as we left her pleasant premises.

"What needs to be examined more closely is this obsession with *scale*, which has everything to do with knocking out your competitors. My point is that even a Stonyfield Farm or a Tom's of Maine or a Seventh Generation is operating under the same pressure; that the businesses that are going to get knocked out of the market are not the Procter & Gambles of the world but the small localized businesses that can't achieve the economies of scale of even these mid-sized progressive companies. While a local or a regional brand can cooperate with other local or regional brands in the long run they won't be able to compete with the larger companies."

I knew, of course, that Judy was right, and that at Seventh Generation, we were guilty of seeing the problem of growth mainly through the lens of our own self-interest. Without thinking too self-critically about it, we have tended to regard every unit of our products sold as a victory against the monolithic corporations that made the petroleum-derived, hyper-synthetic, chemically-ridden products that our products were created to displace.

In fact, as we took a larger chunk of the market – in a narrow niche called “natural household products” in which we have as yet few competitors -- and as we moved from the natural and health food stores into supermarket chains, we have in fact been hurting the small local competitors within that niche more than we were hurting Procter & Gamble. While it is clear to me that our efforts are e growing the pie -- enlarging the market for natural household products – I can’t see how some of our smaller competitors can survive in an increasingly professional, competitive and ultimately much larger market niche. While it is true that there will always be successful niche brands, the deck seems stacked against them. Only the very smartest and innovative among them are likely to survive

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### Gary’s World

Just a few months after our stimulating gourmet encounter with Judy Wicks in Philadelphia, I traveled to California to exhibit our products at Expo West, the largest natural product show in the country. There, I ran into another old friend – and fellow SVN board-member – Gary Hirshberg, the founder of organic yogurt maker Stonyfield Farm. Gary was brimming with pride at having just sold a big chunk of his company to

the French food conglomerate Group Danone, not because he and his family had cashed out – although they had, to the tune of many millions – but because he regarded this deal as a heaven-sent opportunity to “infect” Group Danone – as he cheerfully put it – with the organic bug.

We will be dealing with the social implications of the phenomenon of small socially responsible companies “selling out” to big, possibly less socially responsible companies in a later chapter. For our present purposes, I’ll restrict myself to relating a fruitful exchange Gary and I had – over a shared plate of organic snacks – on the ever-contentious subject of scale.

Gary began his career as an environmental activist, as the executive director of a small Cape Cod-based non-profit institute that called itself New Alchemy. “We started out as a non-profit organic farming school,” he recalled over lunch, “devoted to closing the gap between farmers and consumers.” New Alchemy’s goal, he says, was to “try to teach consumers to be more aware of the importance of farmers, and also to teach them to be more aware of their own power to keep farming local. We also spent a lot of time trying to teach farmers to be more aware of consumers, and to make them aware of the quasi-religious adherence to quality standards that growing hormone-and-pesticide free organic foods demands.”

Does this sound familiar? It did to me, particularly since we’d had lunch not long before with Judy Wicks. In other words, Judy and Gary – who are old and good friends – started out from pretty much the same place. Organic farming and agriculture is quintessentially local, and its roots lay in a rejection of factory farming and agri-business,

which proponents of organic contend is fundamentally unhealthy, not just to people, but the planet.

At some point in those early days, and in the course of running his non-profit, Gary made contact with Samuel Kayman, who ran a school for organic farming based in Wilton, New Hampshire. Sam's organic yogurt was famously great, but the fledging business he was trying to get started was far from flourishing. Taking a gamble on Gary, Sam Kayman asked him to step in to help run the business in a more business-like manner. Today, that business is Stonyfield Farm, an \$85 million-a-year organic yogurt business for which Group Danone recently paid \$125 million for forty percent, with an option to buy another 40% at the end of two years – if certain conditions are met.

Judy Wicks does not approve of Gary's "selling out," a point that she made to a reporter for *Mother Jones*, because she believes that Gary is fooling himself that he can, in effect, have his cake and eat it too. At the natural foods show, Gary stuck me as a man who very much believed that he could, and not only that, would exemplify the "doing well by doing good" ethos of the small, socially-responsible business community by growing rich off the fat of the land – land he believes he can improve by treating it with healthier methods at the same time.

The moral and ethical bottom line for Gary, as he explained, is tangible: how many farms can you get to go organic? How many pesticides and herbicides and fungicides and hormones can you keep out of the sanitary systems and ground water of our much-abused planet by promoting organic methods and practices? The US government has recently instituted a very strict regimen for farmers in order for them to qualify for organic status. Farmers must certify, among other conditions, that they have

not used any pesticides on their fields for three years. Gary also sees the move toward organic as the ultimate salvation of the small, family farmer. The organic produce market is at present growing at a rate fully five times that of conventional – i.e. pesticide-ridden – produce. This is a hard fact that has not gone unnoticed by “big food” companies like Group Danone, Kraft, General Foods, Coke and Unilever, which have recently exhibited a strong interest in snapping up organic food companies. Why? Because they are tapping in to the fastest growing segment of the food business and attracting a very loyal and committed customer base. Are the big companies getting into organic for their financial health or the health of the planet. According to most impartial observers, the answer to that question can only be: yes and no. Yes, they are getting “into” organic, but while individuals within those companies undoubtedly ascribe to the environmental and moral dimension of the change, the managers are not averse to those high growth markets.

According to Gary Hirschberg, this is a classic win-win situation; we should all be happy that organic produce has gone mainstream enough for the big food companies to want to get into it.

As he proudly put it to me:

What’s happening in the mainstream world with McDonald’s and Uniliver and Kraft and Nestle is happening to Danone. They recognize that our approach, what you are doing and what I am doing, and the depth of that relationship and bond with the consumer, is a model they’re going to have to adopt if they’re going to be successful.

The commercial success of a Stonyfield Farm or a Ben & Jerry’s – which in April of 2000 was acquired by Unilever, much to Ben Cohen’s chagrin – has “legitimized

rationalized and validated our hypothesis” that businesses can be both successful and socially responsible, Gary Hirshberg insists.

“These big companies,” he says – and I have to say I did not detect a defensive note in his voice – “can make more of a difference with *one purchase order* than I can make in a lifetime!” To Gary, the issue of scale cuts both ways: there is a positive as well as a negative aspect to scale. If organic farming takes off on a grand scale, he can’t see the problem. “I hear these debates in places like *Mother Jones* with Judy Wicks saying that you have to do everything locally. And I say, ‘That’s great.’ But quite frankly, I don’t have a long enough life to wait for change to happen that way.”

Within the last several years, Gary’s wife was diagnosed with cancer and he lost two of his brothers. “My experience of the last two years,” he says, “has taught me just how short and temporal life is. Waiting for capitalism to fail and waiting for big companies to disaggregate into millions of little companies is certainly not going to happen within my lifetime, if it’s going to happen at all. The ecological let alone human cost of these companies trying to survive through some ecological catastrophe – I’d rather see a gentler transformation, kind of like the fall of the Berlin wall.”

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The path to more responsible business is fraught with conflicts and compromises. Most people are deeply sympathetic to the plight of the local businessman or business woman forced out of business when a Wal-Mart opens even while they may benefit from lower prices, or an underpaid worker, whether he or she be a small Mexican land-holder pushed under by the onslaught of United States imports under NAFTA – particularly while the US cynically continues to promote the idea of “free trade” while subsidizing its

farmers to the tune of some \$20,000 per capita per year – or the owner of a local neighborhood coffee shop, who feels shoved aside by the arrival of a Starbucks in his or her neighborhood.

I have been known to patronize a Starbucks without guilt, and I also know that I have spent more than a few years patiently growing our own business, which is the household products equivalent of an organic food company, in that its motivating force is to improve human health and the health of the planet by eliminating harmful synthetic chemicals, many of them petroleum-based, from our environment. But I also admit to feeling happy and proud when a big food chain like Kroger elects to stock Seventh Generation products, because – as it says right there on the label – for every bottle of vegetable-based dish detergent or laundry detergent we sell, or non-bleached paper products, we are keeping harmful chemical away from children and out of the waste stream.

If Seventh Generation one day were to become the size of Procter & Gamble, would that be a good thing or a bad thing, not just for me personally, or our investors, but us all? To me, the answer is obvious: the more the demand grows for healthier products, the better off not only will we all be, but our children's children will be. The greater the public support for businesses committed to social responsibility, the more likely it is that responsible business becomes the standard to which all business is held. The underlying premise of CSR is that business – of all sizes -- has got to do something urgently to keep humankind from destroying itself by chemical poison, through excessive reliance on fossil fuels, from a failure to more equitably share the resources available to us all. If business fails at this task, there might not be any more business to maintain. This being

the case, I've got to agree with Bob Dunn that bringing business to the table – and then moving the table – is what matters most.

Where we are most likely to disagree is at what speed the table needs to be moved, how to treat those companies who pretend to want to sit at the table when they are still committed to doing business underneath that table, and what regulatory changes need to be made to address those issues that business is unable or unwilling to address itself.

We, the small socially responsible entrepreneurs who began talking about all this stuff over a decade ago, should be proud to have helped initiate a fundamental shift in the way private enterprise is conducted. . That big global companies have begun speaking our language and even emulating some of what we've done in other arenas can not possibly be a bad thing. We are all on a journey, and the more our goals converge at the end of the day, the greater our chance of ultimate success.