When former Vice President Al Gore shows up at Wal-Mart headquarters, you have to wonder what's going on. As it turns out, Gore had been invited to visit the retailer in July to introduce a screening of his documentary about global warming, *An Inconvenient Truth*. An odd-couple pairing—Gore and a company known for its giant parking lots? Certainly. But also one of the many recent signs that "corporate social responsibility," once seen as the purview of the hippie fringe, has gone mainstream.
In the 1970s and 1980s, companies like Ben & Jerry's and The Body Shop pushed fair-labor practices and environmental awareness as avidly and effectively as Cherry Garcia ice cream and cocoa-butter hand cream. They were widely admired but rarely imitated.

Today, more than 1,000 companies in 60 countries have published sustainability reports proclaiming their concern for the environment, their employees, and their local communities. Giant corporations from BP to General Electric have launched marketing campaigns emphasizing their focus on alternative energy. Wal-Mart, too, has announced new environmental goals—hence the Gore visit. The retailer has pledged to increase the efficiency of its vehicle fleet by 25 percent over the next three years, cut the amount of energy used in its stores by at least 25 percent, and reduce solid waste from U.S. stores by the same amount.

CHANGING EXPECTATIONS

The sudden burst of idealism can be traced to several sources. First among them: the wave of corporate scandals. "Enron was sort of the tipping point for many CEOs and boards. They realized that they were going to continue to be the subject of activist, consumer, and shareholder focus for a long time," says Andrew Savitz, author of The Triple Bottom Line and a former partner in PricewaterhouseCoopers's sustainability practice. "People are now very interested in corporate behavior of all kinds."

Second, thanks to the Internet, everyone has rapid access to information about that behavior. Word of an oil spill or a discrimination lawsuit can spread worldwide nearly instantly. "If you had a supplier using child labor or dumping waste into a local river, that used to be pretty well hidden," says Andrew Winston, director of the Corporate Environmental Strategy project at Yale University and co-author of Green to Gold. "Now, someone walks by with a camera and blogs about it."

High-speed communications are empowering stakeholder groups and nongovernmental organizations (NGOs) such as Greenpeace, Human Rights Watch, and Amnesty International as they gather information and organize campaigns. The ease of long-distance communication also makes it easier to generate momentum for class-action lawsuits, another trend capturing executives' attention.

Real concerns about resource constraints, driven by the rising costs of such crucial commodities as steel and oil, are a third factor spurring executives to action. Wal-Mart chief Lee Scott has said he discovered that by packaging just one of the company's own products in smaller boxes, he could dramatically cut down its distribution and shipping costs, reducing energy use at the same time. Such realizations have driven the company's re-examination of its packaging and fleet efficiency.

 Critics of corporate social responsibility, or CSR, have long held that the business of business is strictly to increase profits, a view set forth most famously by the economist Milton Friedman. Indeed, in a recent survey of senior executives about the role of business in society, most respondents "still fall closer to Milton Friedman than to Ben & Jerry," says Bradley Googins, executive director of Boston College's Center for Corporate Citizenship.

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—ANDREW WINSTON, DIRECTOR OF THE CORPORATE ENVIRONMENTAL STRATEGY PROJECT AT YALE UNIVERSITY
“So much of the value of a company is intangible. Reputational issues can have a dramatic impact on share price and the bottom line.” —ANDREW SAVITZ, AUTHOR OF THE TRIPLE BOTTOM LINE

which conducted the survey. "But they see the Milton Friedman school as less and less viable today," due to the change in expectations of business from nearly every stakeholder group. In a study conducted by the center in 2005, more than 80 percent of executives said social and environmental issues were becoming more important to their businesses.

"This debate is over," says Winston. "The discussion now is about how to build these intangibles into the business."

NOT A GIVEAWAY

Enter the CFO. While chief executives are proclaiming their new environmental initiatives with much fanfare, CFOs, as guardians of their companies' financial welfare, are left to account for the impact of these programs on the bottom line.

It's a tippy position when it comes to Wall Street. A program like GE's Ecomagination initiative, which aims to double the company's technical investment in energy-efficient and environmentally friendly products by 2010 and improve its energy efficiency by 30 percent by 2012, is striving for results far beyond the attention span of a typical analyst—and beyond the tenure of a typical finance chief. "There is a dilemma of being caught between reporting to the market every quarter and dealing with these longer-term issues," says Googins. If the CEO is pushing socially responsible programs but investors are looking at quarterly results, what's a finance exec to do?

"The CFO needs to be involved at the conceptual stage of sustainability planning so that he can be sure there is a return on investment. That makes it a lot easier to explain to Wall Street," says Savitz. "CFOs get much more comfortable with sustainability programs when they see an actual return. This is not philanthropy. It's not a giveaway."

The return on investment in CSR depends on three things: the industry, the company's existing reputation, and the way the company approaches the issue. "Each industry has its own set of challenges," says Googins. "Some have more environmental issues, some have more employee-relations issues, but none are immune" (see chart, "Who Should Care?" page 52). Some companies view the CSR movement as a threat to be minimized by preemptive action, while others see opportunity. Toyota, which has experienced dramatic success with its hybrid car, the Prius, is one example of a company that capitalized on consumers' growing interest in environmental concerns. A company that cleans up toxic waste at its manufacturing plants to avoid community outrage or government intervention might reduce its costs, but might not derive as much upside benefit.

For companies in industries that pollute, like the chemical or oil-and-gas industries, the cost of benevolent environmental policies can be calculated as part of a sound risk-management strategy. The same can be said for a company with a strong consumer brand, like Nike or Gap, both of which faced criticism for using sweatshop labor overseas. "So much of the value of a company is intangible. Reputational issues can have a dramatic impact on share price and the bottom line," says Savitz. Both Nike and Gap responded to critics by implementing supplier-monitoring programs that have earned them accolades.

Even service businesses, with fewer obvious social-responsibility risks, can see a benefit from employee- and community-relations programs. Edward Nusbaum, CEO of Grant Thornton LLP, says the accounting firm has seen a 4 percent drop in turnover in the past year. He attributes the decline in part to the company's increased focus on community outreach as well as fund-raising and volunteering for community events. "Every percentage point that we increase our retention saves so many millions of dollars in training," he says. "But it's as important that these events increase employees' passion for the firm. A positive experience for employees translates to a positive experience for clients."

GOOD AND GOOD FOR YOU

Many CFOs are eager to stress the linkage between their CSR efforts and profitability. "It's not social responsibility versus profitability," says Jim Lawrence of General Mills, the $12.5 billion food company. "It's social responsibility and profitability." For example, he says, one of the company's long-running social-responsibility efforts is the Box Tops for Education program, in which consumers collect the box tops from most General Mills food products and turn them in at their local schools. Cash back from General Mills then allows the schools to purchase needed items such as sports uniforms or library books. The program has raised $175 million for schools since its inception in 1996. "In
essence, it's a loyalty program for General Mills products," says
Lawrence. A.C. Nielsen data has shown that households that
participate in the Box Tops program buy more General Mills
products than the typical household. Creating goodwill with
schools, whose cafeteria the company may also supply with
snacks and cereal, can't hurt either. The company also runs a sep-
ate Box Tops program, in which school cafeteria can earn
money for equipment. "It's an example of social responsibility
and financial benefit," says Lawrence.

General Mills also prides itself on its environmental initiatives,
which include working to reduce its use of packaging. Cereal
boxes bear the "100% recycled material" stamp. The company has
constructed a new plant in Covington, Georgia, that boasts onsite
wastewater-treatment and a recycling facility, which the cereal
maker believes will save it $400,000 in city wastewater-treatment
surcharges and $440,000 in water-utility costs each year.

The company spends more than 5 percent of pretax profits on
social-responsibility initiatives and charitable giving, but Lawrence
doesn't balk at the hit to the bottom line. "I don't see any of what
we do as contrary to the interests of shareholders. I see it as not
only beneficial to the immediate recipient, but also as something
that is building the value of the General Mills enterprise," he says.
"Someone could say, 'Why don't you add to your EPS by cutting

out some of your spending on social responsibility?' and I guess you could do that, but what's
going to happen to sales growth in the longer
term?" In addition to building the brand, says
Lawrence, social-responsibility programs help the
company build its workforce. "A lot of the things
we do to support the communities we're in make
the working environment better for employees
and help us recruit people," he says.

Fran Rathke, finance chief at Vermont-based
coffee-roaster and wholesaler Green Mountain
Coffee Roasters, which also spends 5 percent of
pretax profits on such initiatives, echoes
Lawrence's sentiment. "That's a chunk of
money," acknowledges Rathke. "But a large por-
tion of that goes to our supply chain and helping
[the coffee farmers] become more sustainable,
which improves the quality of our product and
reduces our supply-chain risk."

Green Mountain has built much of its brand
image around its social-responsibility efforts,
stating that it is a "values-driven company that
views profit as a means to achieve a higher pur-
pose... We are motivated to achieve success
because the more profitable we are, the more
good we can do in the world." The coffee roas-
ter has actively marketed its Fair Trade coffee and
promoted the fair-trade concept in which farm-
ers are guaranteed a minimum price for their
beans rather than being subjected to the vagaries
of spot pricing or gouging by middlemen.

Like Lawrence, Rathke links the "feel-good"
aspect of the brand to good sales. "More and more people are
using their purchasing dollars where they trust the brand or the
product or the company and a reputation for being socially
responsible helps increase your brand awareness and brand loy-
lty," she says.

Other companies are seeking to share some of the goodwill
generated by such a reputation: McDonald's, for example, striv-
ing to improve its own image following reports of bad press about
the health effects of its products, recently signed on to carry a
co-branded Green Mountain and Newman's Own Organic line
of coffees at 650 of its franchises in New England and Albany,
New York. The deal helped drive a 60 percent gain in Green
Mountain's shipments of certified Fair Trade and organic coffees
in the third-quarter ended in August.

ENERGIZING THE BOTTOM LINE
If the impact of reduced supply-chain risk or increased brand
loyalty can still be hard to quantify, at least one element of the
CSR movement presents a solid case to the CFO's office. With
rising energy prices, many companies are realizing prompt
returns on environmental programs. Beth Nickels, finance chief
at furniture manufacturer Herman Miller, says the company sees
BP has been criticized for its “Beyond Petroleum” ad campaign, which has struck some observers as so much “greenwashing,” coming from a company that derives more than 90 percent of its revenue from oil and gas.

$4.5 million in annual savings from $2 million in annual spending on environmental initiatives.

Modine Manufacturing, an NYSE-listed maker of heating and cooling components for automotive companies and other equipment manufacturers, is capitalizing on growing energy concerns. “We find ourselves in a great position in that the world’s objectives around emissions reduction are very much aligned with the products we’re developing,” says CFO Bradley Richardson. Products include an exhaust gas-recirculation cooler that helps diesel-engine manufacturers meet federal emissions standards.

The company also practices rigorous energy and emissions control in its own facilities. In 2005, Modine announced that it aimed to reduce energy use at its 35 plants worldwide by 12 percent. Plants that met the goal were then awarded the credit for use by another 12 percent this year. Modine has also devoted a portion of its capital-expenditure budget to pay for future energy-reduction efforts. “Ideas are submitted to me and to our head of environmental affairs,” explains Richardson. “We rank projects on overall attractiveness in terms of net present value and payback period, using the same process we use for any capital expenditure.” Some projects have payback periods as brief as 60 days.

MEASURING INTANGIBLES

CFOs insist that intangible effects boost the bottom line, too. Like Grant Thornton’s Nusbaum, they repeatedly cite recruiting and retention benefits from CSR programs. “We’re a relatively small company based in New Hampshire, and it’s amazing to me the extremely talented people who have a passion to come and work here,” says Brian McKeen, finance chief at The Timberland Co., another company that has closely linked its brand to social responsibility. The shoe maker conducts an employee-satisfaction survey each year and has consistently found that workers cite the company’s volunteer program, in which employees receive 40 hours a year to volunteer during work hours, as a draw. “People relate to the values of the company,” says McKeen.

A 2003 academic study supports this theory: Stanford University Graduate School of Business research on MBAs from European and North American business schools found that respondents would forgo an average of $13,700 in compensation to work at a company that had a stronger reputation than its competitors for environmental sustainability and caring about employees and stakeholders.

Of course, social-responsibility programs are not without pitfalls. BP has been criticized for its “Beyond Petroleum” ad campaign, which has struck some observers as so much “greenwashing,” coming from a company that derives more than 90 percent

WHO SHOULD CARE?

In the book Green to Gold, Yale University’s Andrew Winston and co-author Daniel Esty describe the businesses that could see the most upside potential from developing an environmental strategy. They include companies with:

- High brand exposure (consumer-products companies)
- Big environmental impact (mineral extraction, heavy manufacturing)
- Natural-resource dependence (fish, food, forest products)
- Current exposure to regulations (chemicals, utilities)
- Increasing potential for regulation (automobiles, electronics)
- Competitive markets for talent (service sector)

of its revenue from oil and gas. Its reputation was not improved when a corroded Alaskan pipeline it operated spilled at least 200,000 gallons of crude oil in March. Federal investigators are examining whether the company manipulated the market for crude oil and unleaded gasoline.

Wal-Mart has generated tentative enthusiasm for its environmental initiatives, but the company has a long way to go in its labor relations before it can truly be considered socially responsible. Even companies known for social responsibility can run into trouble, as Timberland did when one of its contractors in China was accused of overworking employees and relying on child labor, among other violations. The company still calls 54 percent of its overseas factories “high priority” locations, citing issues such as employees working more than 60 hours per week, falsification of documents, and contractors’ failure to pay the legal minimum wage.

For executives who question whether their industries will be affected by growing stakeholder activism and consumer expectations, Savitz concedes, “some industries can make more hay from sustainability efforts than others.” But he argues that every business will be affected in some way—with opportunities to benefit from introducing new products, tapping into new markets, or reducing risk and cost in significant ways.

Even those without obvious CSR concerns today may find things are different tomorrow. “Not that long ago, people would have considered banks to be a pretty low-impact industry,” says Yale’s Winston. “But banks have taken a lot of heat for the things they finance, and many have agreed to review their project finance loans according to environmental criteria. The financial community has said, ‘Hey, we do have a role in this: You never know’”

KATE O’SULLIVAN (KATEOSULLIVAN@CFO.COM) IS STAFF WRITER AT CFO.