

liberties at the same time as we promote the common good, and understand that there is more to freedom than being left to fend for ourselves. Freedom, and the question of how best to protect it from those who would exploit it, is a little more complicated in the 21st century than libertarians would have us believe.

The Split Personality of Corporate America

David Vogel

Are companies becoming more socially responsible or less ethical? It is easy to be confused.

On one hand, more than 300 global firms have signed onto the UN Global Compact, pledging to demonstrate good global citizenship in the areas of human rights, labor standards, and environmental protection. More than 2,000 corporations now voluntarily report on their environmental and social performance. There has been a proliferation of voluntary corporate and industry codes covering areas ranging from human rights to working conditions, and corporate partnerships with nonprofit organizations have increased substantially. Fifty-four socially responsible mutual funds have been created in the United States and scores more in Canada, Europe, and Japan. Based on the premise that companies that “do good” will also “do well,” approximately \$1.5 trillion worldwide are now invested according to social or ethical criteria.

On the other hand, the last year has also witnessed a parade of corporate abuses ranging from creative earnings management to insider trading and outright fraud on the part of executives and their lawyers, accountants, and bankers. While a year ago the business press was filled with articles heralding a new era of corporate responsibility, we now learn that many managers have been systematically abusing the trust of their shareholders, and in some cases their employees as well. Portraits of enlightened and responsible managers have given way to depictions of managerial greed.

What are we to make of these conflicting portraits of business conduct?

Both depictions, in fact, are true. Thanks to public, consumer, and employee pressures, firms such as Nike, Shell, and the Gap have improved their labor and human rights practices. Other companies, such as Alcoa, 3M, Dupont, and Dow Chemical, have substantially lowered their production costs by reducing their emissions and solid wastes. But those who claimed that corporations were at last becoming socially responsible mistakenly assumed that managers were only under pressure to behave better. What they overlooked were the equally significant changes in the business environment that have encouraged many firms to behave worse.

As executives' speeches and academic writings on business ethics never tire of repeating, there is much evidence that corporate responsibility "pays." It can improve employee morale, lower costs, improve a company's reputation, and facilitate relations with community groups and government officials. But it is equally true that fraudulent bookkeeping and deceitful earnings reports also "pay." By artificially raising stock prices, they can lower the cost of capital, facilitate acquisitions, and, not least, increase executive compensation. In short, corporate responsibility pays, but unfortunately so does corporate irresponsibility, especially for many individual executives who have managed to benefit financially at the expense of investors.

Indeed, it might well be argued that over the last decade, many managers have discovered the financial rewards of both better environmental management and creative accounting. They have learned the importance of maintaining good relations with both environmental groups and Wall Street analysts.

These strategies are not incompatible or necessarily inconsistent. Some firms have done both. Consider, for example, three of the firms whose accounting practices have recently come under public scrutiny.

Before its well-known transgressions came to light, Enron was long regarded as an exemplary corporate citizen. The firm and its senior executives were generous supporters of community institutions in Houston, and it captured international attention by building

a power plant in India without resorting to bribing government officials. It won a number of environmental awards and its shares were purchased by a number of “ethical” mutual funds. Enron also lobbied the Bush administration in favor of an international agreement to address global warming—in the expectation that it would then be able to create a market for carbon trading—and the company pleased many environmentalists by its investments in alternative energy.

Merck, the drug company recently criticized for misreporting some revenues, received a prestigious award in 1991 from the Business Enterprise Trust, established by Norman Lear and James Burke to recognize exemplary corporate social performance. It was honored for its decision to develop and distribute Mectizan, a drug effective against river blindness, which threatens 85 million of the world’s poorest people. Since 1987, Merck has been producing and distributing this drug free of charge to all international aid programs at an annual cost of more than \$100 million. In *Fortune’s* annual survey of corporate reputations, Merck has consistently received high marks for “corporate responsibility.”

Xerox recently paid a \$10 million fine to settle a civil suit filed by the SEC accusing it of misstating profits by nearly \$3 billion over four years. Yet Xerox has also been a recognized international leader in environmental management, pioneering a Design for Environment program that recycled copy cartridges as well as copiers themselves. Paul Allaire, its former CEO, explained, “Xerox shares the public’s concern about the environment and has integrated that concern into our business activities, making environmental values a key part of the Xerox corporate culture.” The company’s eco-friendly designs have saved it an estimated \$2 billion over the last decade, while substantially reducing solid wastes.

In this context, it is worth recalling that during the 1980s, Arthur Andersen provided substantial funds to promote the teaching of ethics in business schools throughout the United States.

We should be wary of making facile generalizations about trends in corporate vice or virtue. Firms are rarely as consistently virtuous or corrupt as the media portrays them. Corporations are complex institutions and they are subject to a wide variety of pressures. Now, as in

the past, some of these pressures have encouraged firms and the executives who run them to behave more responsibly while other pressures have rewarded unethical behavior. Our challenge is to restructure those incentives so as to make it in the self-interest of more firms to behave more responsibly more of the time. But in our legitimate efforts to discourage and penalize “infectious greed,” we should not overlook the important ways in which corporate performance has also improved.

Peace before Justice: Settling the Palestinian-Israeli Conflict

Amitai Etzioni and Shibley Telhami

As violence in the Middle East continues, hopes for a settlement have been further dimmed by an alarming polarization. Palestinians and Israelis have returned to the language of maximal demands, and to pointing fingers at all that has gone before. This trend can only make peace more elusive.

For now, we say, seek peace, not historical judgment. Far too much public discourse focuses on who is to blame—and by implication, who should carry the main burden of ending hostilities and settling the conflict.

Those who blame the intifada want the Palestinian Authority to suppress it. Those who blame Israeli occupation of the West Bank want Israeli troops withdrawn. One side points the finger at Israeli Prime Minister Ariel Sharon and seeks his removal, the other at Palestinian leader Yasser Arafat and seeks his.

Trying to sort out who has been most abusive, who has suffered more, and who has stronger claims will only extend the bloodshed. For now the focus should be on finding a formula that allows both sides to live together.