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Persistent link: http://hdl.handle.net/2345/2552

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Published in Business and Society Review, vol. 105, no. 3, pp. 323-345, fall 2000

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The Multiple Bottom Lines of Corporate Citizenship: Social Investing, Reputation, and Responsibility Audits*

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Corporate citizenship, that is, company practice that impacts various stakeholders, is increasingly being assessed along multiple bottom lines. Increasingly, executives need to be aware of the ways in which their corporate practices are monitored externally, as well as undertaking internal reviews that can improve performance. This paper highlights the trends in assessing citizenship. There are, for example, four relevant types of social investing, which evaluate citizenship in multiple ways. In the most common, investment houses/researchers develop screens on company practices for interested social investors. Alternatively, activist shareholders monitor corporate practice in areas of concern and use shareholder resolutions to foster change. Some investors are willing to commit financial resources to development of disadvantaged areas with expectations of market or less than market rates of return. The fourth type of social investing involves funding either micro ventures or small-to-mid-sized ventures either in disadvantaged areas or for proactive social gains, sometimes using corporate philanthropic resources to do so. In addition, dimensions of reputation are rated by researchers and magazines for specific groups or for overall corporate reputation. Companies that wish to improve

*Note: This article is adapted and excerpted from Chapter 6 of the author’s forthcoming book, Leading Corporate Citizens: Meeting the Business in Society Challenge (Irwin/McGraw-Hill, 2002). Sandra Waddock is Professor of Management at the Boston College Carroll School of Management.
citizenship performance can undertake either internal responsibility audits or external stakeholder-based “social” audits.

Companies are increasingly being evaluated on social as well as financial performance criteria, whether they want to be or not. So much information is available on company practices, in fact, that its very availability in some cases may direct managers to “do the right thing.” Otherwise their decisions are likely to garner unfavorable attention from one external source or another. The external attention to company practices puts new light onto issues related to corporate citizenship—defined as the operating practices that companies evolve with respect to their stakeholders, particularly primary stakeholders.

The increased attention from multiple observers to corporate practices and the increasing accessibility of information via electronic means of communication means that the ways companies deal with key stakeholders are subject to considerable scrutiny. Among the increasingly sophisticated observers are institutional and social investors, environmental, human rights, and labor activists, consumers, academics, and the media.

For example, according to the Social Investment Forum, by 1998 there was as much as $1.2 trillion invested in equities in the U.S. that were socially screened in one way or another. These are investments made by individuals and funds concerned not only about financial performance, but also the ways in which companies treat various stakeholders or deal with issues of concern to investors. That number represents about 9% of total equities, not an insignificant amount in the scheme of things and certainly enough to begin to draw attention from the financial community.

Further, large corporations in the U.S. (and, to some extent, elsewhere) are now annually evaluated by social research firms like Kinder, Lydenberg, Domini, by large pension funds like CalPERS, and by religiously-affiliated investor groups like the IRRC and ICCR. Companies are rated on their treatment of employees as well as other factors by major publications, like Fortune magazine, which annually determines which companies are “most admired.” Other publications rate companies on their diversity practices, work/family practices, employee relations, treatment of women, or other attributes associated with corporate responsibility.

Assessing the responsibility of corporate practices requires a “multiple bottom lines” approach, rather than the traditional single
(financial) bottom line approach associated with financial reporting. This approach to citizenship implies that corporate responsibility can be linked to companies’ treatment of primary and critical secondary stakeholders. Primary stakeholders include owners, employees, customers, and suppliers (at minimum for companies), and others depending on the type of organization. Key secondary stakeholders are communities, governments, and activists who raise issues associated with corporate behaviors and practices. Activists can include environmentalists interested in the way a company treats the ecological environment on which human civilization depends for its existence, labor rights activists and union organizers, and human rights groups, among others.

Combined, these stakeholders assess corporate practice on multiple—not singular—bottom lines, many of which are associated with stakeholder practices. But not all companies are yet aware of the extent to which observations of their practices and associated demands for both accountability and transparency are growing. Indeed, for years many people believed that it was not even feasible to measure corporate responsibility or stakeholder performance related to corporate citizenship well or consistently. Today, however, it is clear that there are many ways to assess citizenship practices related both to issues and to specific stakeholder groups, and, indeed, numerous observers are already doing such assessments for a range of reasons. Below we will explore some of the ways in which assessment of corporate responsibility and citizenship now comes to public, investor, customer, community, or (internally) management attention.

ASSESSING RESPONSIBLE PRACTICE: EXTERNAL ASSESSMENTS

Getting the numbers for the traditional bottom line—the balance sheet, income statement, and cash flow analyses—of financial reporting requires a good deal of judgment. Because financial reporting is a well-established and well-accepted practice in industrialized nations, the reality of such judgment is little questioned. Because there is a common currency—money—in which to assess the traditional bottom line, accountants and financiers have devised standardized auditing practices and common reporting systems that help accountants and financiers sort out the financial health of a firm on a common standard.
Such a “currency” is not as readily available for assessing a company’s citizenship. But creative and interested parties have developed numerous approaches to understanding citizenship. While none are perfect, when combined they do offer significant insights into corporate practice and provide the foundation of a basis for comparing one company’s practices with those of other companies. As may be obvious, the goal of many of these rating systems is to make company practice more transparent to the interested public, as well as provide a basis for accountability over the long run. In Great Britain these approaches are coming to be called the “triple bottom line.” While there is as of yet less attention in the United States to the triple bottom line, it may only be a matter of time until the variety of observers domestically also begin to influence corporate practice and accountability.

Social Investing

Many of today’s external assessments of corporate responsibility began with the “social investment” community’s interest in simultaneously “doing good” for society by either screening out companies whose practices they don’t like or screening in companies with practices they do like. Sometimes social investors are interested in traditional rates of return, while other times, they are willing to accept a discounted return in exchange for the “social” aspect of their investment.

Most social assessment has some emphasis or purpose related either to 1) improving society or community, or 2) putting pressure on companies to change various corporate practices so that specific stakeholders are better treated. External assessment of the responsibility of corporate practices generally falls into two categories: 1) social investments of various kinds, and 2) rankings or listings of companies along a variety of stakeholder dimensions. Internal assessments, typically known as responsibility or social audits, are typically done to improve management practice and will be considered in the following section.\(^1\)

Social Investment

Social investment is a term that currently covers four types of activities. Perhaps the most well-known type of responsibility
assessment involves developing a set of screens related to particular issues or stakeholders of interest to certain “social investors,” that is, investors interested in either investing proactively in companies that exhibit positive qualities or specifically avoiding other types of practices. Typically, social screens are created and implemented by investment houses (such as Trillium or Calvert), religiously affiliated groups like the Interfaith Center on Corporate Responsibility (ICCR) and the Investor Responsibility Research Center (IRRC), or social research organizations (like Kinder, Lydenberg, Domini [KLD] or the Council on Economic Priorities [CEP]). Investors interested in social screens then use the screens as part of their investment analysis, depending on their particular interests or the issues about which they are concerned.

Related to the use of social screens is shareholder activism. Shareholder activists make efforts to change certain corporate practices by submitting resolutions on issues of concern for vote by corporate boards and other shareholders using proxies. Frequently, these shareholder resolutions concern issues of corporate governance, however, some shareholder activists are interested in having companies avoid specific practices, such as doing business in countries where there are human rights abuses or engaging in animal testing.

A third approach, also called social investing, involves investors to commit financial resources to development of disadvantaged areas. Sometimes this type of investing involves accepting a discounted rate of return, while other investments accrue market rate returns.

A fourth approach is to provide venture capital to small capitalization firms or even micro-enterprises, particularly in disadvantaged areas or to disadvantaged groups. The goal of such mini or micro venture capital investments (most, though not all, of which are found in less developed nations) is to help entrepreneurs build their own economic base, even when they might not have the resources to do so in a large-scale way.

**Social Screens/Social Investing**

In recent years, the movement variously called social, ethical, or values-based investing has begun to come of age. Started long ago by religious investors, by the mid-1980s investor activists had
focused attention on companies operating in South Africa under the now-disbanded Apartheid system, which subjugated Blacks to white dominance.\textsuperscript{2} Investor protests caused some companies to disinvest from South Africa and investors interested in this and other important political and social issues called upon large pension funds, universities, and other major institutional investors to pay attention to the ways in which they were investing their money.

**Issue Screens.** By the mid-and late-1980s, social screening was being done on companies’ investment or presence in South Africa (and later Burma or China and other authoritarian regimes where human rights abuses are rampant) using what we can call issue screens. Issue screens now include numerous issues of concern to certain investors. For example, negative screens focus on corporate involvement with certain products or services, such as tobacco, alcohol, gaming, pornography, and military contracting, as well as involvement in nuclear power, child labor practices, and animal testing. Negative screens, which are generally issues-based, tend to focus on issues that certain investors actively wish to avoid because they pose what those investors perceive to be unacceptable or “incalculable risks” to certain stakeholder groups or to society in general.\textsuperscript{3}

**Stakeholder Screens.** By the early 1990s, as investor interest in corporate practices had grown, so had social screening for investment purposes. Several investment houses, led by Franklin Research and Development (now Trillium), Calvert Funds, and the Domini Fund, developed and expanded rating systems to encompass specific stakeholder arenas in addition to the issues screens. One firm, Kinder, Lydenberg, Domini formed for the explicit purpose of rating all of the Standard and Poors 500 largest companies annually along (initially) eight dimensions of social performance (now ten)—and selling that information to interested investors and Wall Street financial houses. KLD also constructed an index, called the Domini Index, consisting of equities that have “passed” KLD’s screens (adding some smaller capitalization firms beyond the S&P 500 to balance the portfolio (see http://www.kld.com/). The Domini Index can be tracked in the same way that other indexes, such as the Dow Jones Industrial average, are tracked.\textsuperscript{4}
Spurred in part by pressures from social investors and the publication of the Council on Economic Priorities’ *Rating America’s Conscience*, which later became the *Shopping for a Better World* list of companies for consumers, systematic rating of corporate performance along these “softer” stakeholder lines evolved quickly in the late 1990s. Stakeholder screens, which are positive and negative in their assessment of corporate practices (rather than only negative as the issue screens are), tend to focus on the types of risks associated with stakeholders. By the mid-1990s, new screens related to specific stakeholders had been developed with both negative and positive or constructive elements. Thus, for example, screens were developed for employee relations, community relations, diversity management, product, environment, and related stakeholder arenas.

Stakeholder screens permit companies to be assessed for negative or problematic behaviors that pose concerns for investors just as the negative screens do. And they also provide for companies to be rewarded for proactive and progressive behaviors that can be viewed as strengths. The Council on Economic Priorities also continued to develop its rating system (see the website http://www.cepnyc.org/), as did CoopAmerica, which rates the growing number of socially responsible mutual funds (see http://www.coopamerica.org/mfsc.htm). Other screens, used by managers of social choice funds, which tend to be for the sole use of investors in those funds, are built around similar ideas (see, for example, Trillium Asset Management at http://www.frdc.com/pages/about/about_frame.html or Calvert Group Mutual Funds at http://www.calvertgroup.com/index4.stm).

**The Triple Bottom Line.** Many social investors, following developments in Europe, are beginning to emphasize the “triple bottom line” in their investments and numerous companies are also starting to follow triple bottom line practices. The triple bottom line typically encompasses some combination of profitability, societal concerns, and ecological sustainability. This framing of the issue of long-term sustainability is based on a more complex and holistic assessment of organizational performance than is found in traditional financial assessment. Examples of enterprises following the triple bottom line are growing in number. For example, Trillium Asset Management (formerly Franklin Research and
Development, see http://www.frdc.com/), one of the pioneers of social investment, focuses on the triple bottom line of ecology, equity, and economy. In Great Britain, among others, the organizational think tank called SustainAbility (see http://www.Sustainability.co.uk/sustainability.htm) emphasizes society, economy, and environment using a framing similar to that of Trillium.

Shareholder Activism and Corporate Governance

Shareholders—owners—are supposed to be the stakeholders to whom corporate managers pay the most attention according to the logic of the neoclassical economic model, which dominates the financial community in the United States and is gaining increased attention in Europe and Asia. Yet even within this logic, some shareholders have found it difficult to have a “voice” in corporate affairs, in part because most large companies have millions of shares held by millions of investors, for whom corporate practice day-to-day is distantly removed. As a result, management dominates corporate decision making, leaving some shareholders wanting more influence. The issue of corporate governance, how well companies’ boards of directors represent stockholder—and other stakeholder—interests especially around financial performance, is therefore a major concern of activist shareholders and another form of social investing.

Shareholder activists tend to operate through the votes that are accorded to them via their ownership interest in the firm, typically by submitting shareholder resolutions for voting by shareholders during the annual meeting. Such tactics draw attention to concerns about possible corporate abuse of power, weak governance structures, and poor managerial decision making. In some cases, shareholder resolutions attempt to counterweight corporate tendencies to economize, e.g., through excessive layoffs or improve “efficiency” by paying top managers inflated salaries and benefits. In other cases, activist shareholders work on companies’ tendency to power aggrandize by making acquisitions simply for the sake of growth when there is little strategic reason to do so. To cope with such tendencies, some investors have been determined to influence corporate practice directly through submitting and calling for discussion on shareholder resolutions at companies’ annual meetings in this
process of shareholder activism. In this process, they also gather publicity for the issue of concern to them.

Shareholder activists have identified multiple obstacles to good corporate governance as well as some principles associated with good governance. Among these activists institutional investors is the California Public Employees’ Retirement System (CalPERS), which recently issued a set of “corporate governance core principles and guidelines” that it believes well-governed companies should follow (see http://www.calpers-governance.org/).

CalPERS’ principles are based on six global principles that this influential pension fund believes are important to better overall corporate governance and, in the end, company management. These principles provide a guiding set of values for companies. The first global principle is accountability; that is, companies need to assume responsibility for the impacts of their practices, policies, and processes and the decisions that stand behind those practices. Second is transparency, which means allowing corporate actions and decisions to be visible to interested stakeholders. Third is equity, which means fairness in the allocation and distribution of company resources to relevant stakeholders. Fourth is voting methods, which need to be open and accessible to all shareholders. Fifth is company adoption and implementation of codes of best practices, including ethical and values-based codes, and sixth is long-term vision for companies.

Many large institutional investors as well as business associations have become involved in the effort to make boards of directors and their corporations more accountable for performance, as well as for social impacts. In addition to CalPERS, other groups include the investor associations like Council of Institutional Investors and the National Association of Corporate Directors in the United States. Major business associations, such as the Business Roundtable, and other large institutional investors like the Teachers Insurance and Annuity Association/College Retirement Equities Fund (TIAA-CREF), as well as religious activists, including the Interfaith Center on Corporate Responsibility, all have efforts to build in guiding principles for corporate governance.

Similar policies about good governance have been developed by the Council of Institutional Investors (see http://www.ciicentral.com/ciicentral/core_policies.htm) and TIAA-CREF (http://www.tiaa-cref.org:80/set-search.html). Internationally, a great deal of
work has been done to develop similar codes and principles for governing multinational corporations and making them accountable to their important stakeholders. Among others, countries as far ranging as Australia, Belgium, Canada, Germany, Hong Kong, India, Italy, Japan, the Netherlands, South Africa, Spain, Sweden, the United Kingdom, and the United States have experienced various efforts to reform or improve governance practices within corporations. For example, the European Corporate Governance Network (see http://www.ecgn.ulb.ac.be/ecgn/codes.htm) provides a website that attempts to link efforts to reform corporate governance globally.

**Social Investing in Projects and Ventures**

Another form of social investing that taps into the multiple bottom lines of corporate citizenship occurs when investors want to invest in projects explicitly aimed at benefiting society or specific disadvantaged groups. There are several emerging types of social investment projects: investments in projects to economically, academically, or socially develop otherwise disadvantaged communities or groups; using philanthropy strategically given to nonprofit and public agencies to meet the dual bottom line of social benefit and business gain; and using venture capital affirmatively to fund small or even “micro” businesses operated in disadvantaged areas or by disadvantaged groups and individuals.

**Social Investment Projects in Disadvantaged Areas.** Some socially beneficial projects, such as hotels or businesses, can help rebuild an economic base in disadvantaged communities by providing both resources and jobs for residents. Social investors may place capital at risk in such ventures to help the community, and may or may not expect market returns from the venture. Some investors are more concerned with “making a difference” in society and therefore are willing to accept less than market rates of return. Some investment houses, such as Calvert, develop funds aimed at financing projects such as affordable housing, microenterprise (see below), and community development (see http://www.calvertgroup.com/foundation/). In these funds, investors can sometimes choose the rate of return (less than market) that they desire. Their investment is then used to fund, for example,
economic development activities in inner cities, such as a new hotel complex that has been constructed in Harlem in New York City.

Additionally, lending institutions (specifically, banks), in the United States are subject to the requirements of the Community Reinvestment Act of 1977. The CRA requires banks that benefit from and are subject to the regulatory oversight of the Federal Deposit Insurance Corporation (FDIC) prove that they are acting to meet the credit needs of the entire community within their service areas. The “entire service area” may include low and moderate-income neighborhoods, particularly those in the inner city and rural areas that have been historically under-served by financial institutions. Many of these areas have been subject to “red-lining” by banks in the past, a practice that involved drawing (figurative or literal) red lines on municipal maps to indicate where loans are discouraged or not made. The CRA was intended to stop this practice, opening up those neighborhoods to loans, credit, and other banking services that are readily accessible in more advantaged areas.

To ensure banks meet their CRA obligations and invest in their communities appropriately, the FDIC rates the CRA performance of banks on a scale from outstanding to substantial noncompliance. As with other data assessing corporate performance on significant stakeholder dimensions, CRA ratings are published by the government (see http://www2.fdic.gov/dcacra/cra_data.cfm, where interested parties can search by individual financial institutions). This information becomes publicly available to activists, community members, and other parties interested in institutional performance.

**Finding Competitive Advantage in Disadvantaged Areas.** Some people have come to believe in recent years that there can possibly be a competitive advantage to investments in disadvantaged areas. Among these individuals are Jesse Jackson, who started The Wall Street Project to end what he calls the “multibillion dollar trade deficit” between corporations and minority vendors and consumers. Jackson, a noted community and spiritual leader, has mobilized minority consumers in the nation’s 50 largest cities. Tactics involve informing these consumers about how minorities are treated by specific large corporations and organizing boycotts and other forms of activism. Publication of this information is meant to
push companies toward equitable treatment of minorities when they fail to respond.

Another creative initiative is that undertaken by Harvard Professor Michael Porter through the Initiative for a Competitive Inner City (ICIC). Like Jackson’s and others’ recent efforts to view disadvantaged areas in a new light, Porter has taken an asset-based perspective on the economic development of disadvantaged areas. ICIC is based on Porter’s ideas about how cities can gain competitive advantages. Porter recognized that a systemic approach to rebuilding deteriorated inner cities was necessary, and that social and community health depends on access to jobs that pay a living wage, that is, a solid economic strategy.

In his article, “The Competitive Advantage of the Inner City,” Porter identified four main competitive advantages of the inner city, in an effort to displace the mistaken common wisdom understanding that the only advantages were low-cost real estate and lower labor costs. These advantages are strategic location in the downtown area (and, as it turns out, access to highways), local market demand, integration with regional clusters within and surrounding the city, and human resources. Competitive clusters, according to Porter, create advantages in terms of new business formation, particularly for business-to-business opportunities, and access to downstream products and services in local markets.

Thus, through this research, Porter and his colleagues have demonstrated that there may indeed be competitive advantages—business opportunities—in troubled inner cities for corporate citizens willing to make such investments and that making “social” investments can simply be good business. Indeed, ICIC started a new corporate ranking in 1999 called the Inner City 100, published in Inc. magazine, to highlight the fastest growing and most successful enterprises in America’s inner cities.

Micro- and Mini-Social Venture Projects

Globally, about three billion people live on less than $2 per day. Some remarkable new efforts to invest in disadvantaged areas in the U.S. are now being applied in less developed countries and rural areas for economic development. Done well, this form of development does not strip countries of their autonomy nor people of their
traditional sources of livelihood, but instead allows them to improve their own chances in life by using resources readily at their disposal: their own talents and energies, and local needs and interests.

In recent years, both in the United States and around the world, an asset-based model of economic development for such poverty-stricken regions has begun to take shape. This perspective assumes not that poor people have deficits and are in need of “fixing,” but rather that they have many assets, many strengths, and, given the right opportunities, will find a way to become more advantaged through their own resources. A similar philosophy to that now being used by social venture capitalists investing in U.S. inner cities, such as the ICIC and Wall Street Project initiatives described above, has emerged. This asset-based view of poor people says that given some resources, many poor people will be able to start, manage, and grow small businesses that will enable them to build better lives for themselves and their children. One key to making this perspective work is the growing field of micro-enterprise development, another form of social investing that is based on the entrepreneurial spirit of individuals and small firms.

One individual credited with pioneering the micro-enterprise strategy is Mohammad Yunas, founder of the Grameen Bank in Bangladesh. Recognizing that individuals, particularly women, living in dire poverty found it difficult to get even the minimal amount of capital needed to begin small businesses that could support them and their families, Yunas created a system in which small loans (usually well under $1000 U.S.) could be granted to entrepreneurs. Each person then becomes accountable for paying back the loan to a peer group of other (about five or six) micro-entrepreneurs living in the same village. A bank employee meets with each group once a week to ensure loans are on track to being repaid and that things are going well for the entrepreneurs, who still struggle with daily existence.

Grameen Bank’s system (and other micro-enterprise systems as well) uses peer pressure and the social capital generated through weekly meetings of people who interact with each other regularly to create a system in which not repaying the loan breaks trust with others. By creating a trust-based system, Grameen reverses traditional banking practice—and costs—and builds in automatic accountability to known others. By tapping the individual energies of borrowers and their strengths, this grassroots-based initiative
taps an emergent form of creative energy to generate both social and financial capital within very poor villages. Most borrowers have little or no collateral, except that they are known and respected by others within their village, who form with them into a lending unit.

Today, Grameen Bank has more than 2.3 million borrowers, of whom 94% are women, because Yunas believes that women will use the fruits of their entrepreneurship to feed, clothe, and shelter their families more directly than men will. The Bank’s services cover some 38,950 villages in Bangladesh and the historical loan repayment rate, for loans averaging about $160, is over 95%. To complement its micro-lending, Grameen has also started numerous other types of businesses as a means of building not only healthy communities, but also bigger enterprises that can at some point begin to operate in the world economy. For example, Grameen Uddog/Handloom represents an effort to revive the weaving industry in Bangladesh, while Grameen Krishi/Agriculture Foundation has a goal of building tubewells that provide safe drinking water. Other larger scale initiatives involve fisheries, communications, and energy production.14

In the United States and Latin America, another organization called Accion International also has done pioneering work in providing micro-loans to entrepreneurs. With some loans as small as $75, Accion International helps U.S. entrepreneurs get off of welfare, rebuild their communities through business activities, and create new jobs in places that large corporations have abandoned.15 Using a similar peer-network system to use local social capital to ensure repayments and site visits to replace traditional bank paperwork (and reduce costs to make the loans feasible), Accion now serves as an umbrella organization for lending activities in eight US cities and 13 Latin American countries.

The payback rates associated with both Grameen and Accion’s micro-loans, and the general history of micro-loans using similar techniques, creates revolving funds that can be used for additional loans once they are repaid, thereby fostering additional entrepreneurship among disadvantaged people. By emphasizing repayment of its loans and building in sustainability, Accion, for example, has been able to grow its loans from serving 3,051 people in 1988 to 340,000 in 1997. The use of social capital, for Accion, as with Grameen Bank, has proved successful: some 98% of loans are repaid, a rate that any traditional lender would envy.
Both Grameen and Accion, along with numerous other microenterprise lenders that have sprung up to attempt to cope with global poverty, assume their clients have numerous assets on which they will build their enterprises. For example, Grameen bases its loans on three “Cs” of credit: character (integrity and past history of the borrower), capacity (debt capacity, income stream, and repayment history), and capital (current assets of the borrower as a form of collateral). Microenterprise activities have been so successful globally that in 1997 the United Nations issued a resolution promoting the use of micro-lending on a global scale.\textsuperscript{16} Indeed, the activities of both Grameen and Accion have helped to spawn an industry of microlenders who believe that helping people to help themselves is a far better way for countries and individuals to pursue economic development than simply giving a helping handout.\textsuperscript{17}

\textbf{Social Venture Capital through Economic Development}

Another type of social investment is providing venture capital to firms or individuals working to improve the lot of the disadvantaged through community and economic development enterprises. Businesses that need social venture capital are significantly larger than those that need micro-lending, requiring amounts, for example, over $100,000. Sometimes social venture capital takes the form of loans for working capital, equipment purchases, debt refinancing, business acquisition, expansion, or credit lines, as do those of one of the pioneers of this type of lending Chicago’s South Shore Bank.\textsuperscript{18} In other situations, social venture capital is supplied in return for an ownership interest in the firm, just as traditional venture capitalists expect.

Social venture capitalists tend to generally focus on under-served populations, otherwise unmet social needs, and ventures that attempt to improve the natural environment. They tend to use the same criteria of due diligence regarding management strength, product or service concept, market opportunity, and expected financial return as traditional venture capitalists (though some are willing to accept less than market rates of return). In addition, however, they tend, as the Calvert Social Investment Fund does, to ask additional questions of the entrepreneur. Such questions might focus on whether the project meets an unmet social or ecological need, what the impact of the project on future
generations is likely to be, and whether the project’s results are likely to have a positive impact on society.¹⁹

For example, one company that Calvert invested in is called Earth’s Best, which produces organic baby food so that concerned parents can avoid exposing their infants to pesticides found in traditionally grown foods. The fund purchased preferred stock at $3.33 per share. When the company had grown to $24 million in sales and established itself as a niche player in the baby food industry, it accepted an offer from H.J. Heinz Company, in which the acquirer agreed to preserve Earth’s Best’s mission as it main-streams the product. The stock price at acquisition was $7.50 per share, providing a comfortable return to the venture capitalist and long-term sustainability for the company’s mission and product.²⁰

**Corporate Social Investment and Strategic Philanthropy.** Another type of social project investing occurs when corporate citizens make philanthropic donations dedicated to helping nonprofit and public institutions improve.²¹ Corporate citizens using this approach seek at least dual bottom line benefits from their investments in that they hope to benefit their businesses in some way in what is frequently called strategic philanthropy and they hope to obtain a social benefit as well. Business benefits can accrue, for example, from having better-educated workers when a company devotes significant charitable resources to local schools or from the goodwill gained in marketing initiatives from supporting worthy causes.

This type of corporate social investing allows companies to take credit for contributions that go beyond donations, for example, volunteer programs, memberships and sponsorships for which no specific benefits are received back, and cause-related marketing, among others. Because many companies are under considerable financial pressure to produce results, strategic use of philanthropic monies can benefit the company with respect to its community stakeholder, while also showing the owner stakeholders what types of benefits are sought in making the contributions. When companies undertake this type of social investment program, they are encouraged to report out on all of their social investments, rather than just financial contributions alone.
CORPORATE RESPONSIBILITY RANKINGS

Another general type of external assessment includes the numerous and varied rankings now undertaken by researchers, activists, and journalists along a variety of dimensions of interest to different stakeholders whose own “bottom lines” are (or, in the opinion of raters, should be) of concern to a corporate citizen. Many such rankings are now published in the popular and business press. Company performance is also evaluated externally when external stakeholders, such as environmental or community activists, use information about corporate activities released by various governmental agencies to put pressure on companies to change their practices and policies. By providing public information on various corporate practices (e.g., pollution, as with the Toxic Release Inventory), some agencies and researchers provide an opportunity for interested parties to “call” the company on activities that may cause social harm.

“Best Companies for . . .” Corporate Rankings

Following the lead of Fortune with its annual Fortune 500 ratings and reputational ratings, which have been done annually since 1983, numerous other publications now develop lists of companies that are the “best” or “worst” in various categories. These “best companies” lists rank or name companies that are, for example, the “best to work for,” “best for Blacks and Hispanics,” “most family friendly,” “best and worst governed,” “best corporate citizens,” “best companies for gay men and lesbians,” or “best for working mothers,” to name only a few.

Fortune magazine annually issues a corporate reputation index and list that many companies aspire to be on because of the prestige associated with being listed. One interesting analysis of Fortune 500 companies undertaken by NYU researcher Charles Fombrun highlights the number of times various companies appeared on the reputation list. Fombrun found that of the 16 years in which Fortune issued its rankings, one company, Merck, was ranked 14 times, while Coca Cola was ranked 12 times, and two companies, 3M and Rubbermaid, made the rankings a total of 11 times each. Other most frequently cited companies include Boeing (7 times), Dow Jones (5), Hewlett Packard (6), IBM (5), J. P. Morgan
In addition to *Fortune*, annual company ratings are beginning to appear in other countries, including *Asian Business*’ “Asia’s Most Admired Companies,” *The Far Eastern Economic Review*’s “Review 200,” *Management Today*’s “Britain’s Most Admired Companies,” and *The Financial Times*’ “Europe’s Most Respected Companies.” Obviously, as more and more such rating systems emerge, companies will have to pay increased attention to their stakeholder-related practices because they will be coming under intense external scrutiny.

**Reputational Ratings**

Reputation is essentially the external assessment of a company or any other organization held by external stakeholders. Reputation includes several dimensions, including an organization’s perceived capacity to meet those stakeholders’ expectations, the rational attachments that a stakeholder forms with an organization, and the overall “net image” that stakeholders have of the organization.²³

Other work on corporate reputation by Fombrun²⁴ as well as that by the New Economics Foundation in England assesses corporate reputation and performance from the perspective of external stakeholders such as customers or communities. Using this methodology, for example, Fombrun has actually been able to attach a dollar amount to the value of reputation in relationship to a company’s stock price. Such measures, it is likely, will gain increasing public attention in the future, further enhancing the critical importance of reputation to companies not only for sustaining customer goodwill and continued purchases, but also for being granted a “license to operate” by communities and governments.

**RESPONSIBILITY AUDITS:**
**INTERNAL ASSESSMENTS**

Today, responsibility audits are increasingly used to link vision and values and to assess the multiple bottom lines associated with primary and some secondary stakeholders—of what we have defined as corporate citizenship. As triple bottom line accounting and
full-cost accounting become more widely practiced, we can expect that increasing numbers of companies will be expected not only to undertake such assessments, but also to report them publicly, much as they now do with financial reports. Companies that begin to undertake such assessments voluntarily and proactively may be well ahead of those that are more reactive in linking vision and values with the practices that add value.

Assessing Internal Practice: Responsibility/Social Audits

Social auditing involves assessing internal corporate practices and/or stakeholder perceptions of corporate practices to determine how well a company is living up to its vision and values. Although social auditing has a long history, dating back as long ago as the 1940s, and actually began as a field in the late 1970s, it was not until the late 1990s that social or responsibility auditing began to gather much corporate attention.25 There are two basic types of social audits today, 1) audits that tap external stakeholder perceptions of corporate practices, as the reputation methods discussed above do, and 2) internal audits of the actual practices themselves to determine their impact on relevant stakeholders, as well as overall corporate performance.26

Responsibility audits are typically undertaken for purposes of improving internal practice. The results can be used internally as a means of determining where improvements need to be made to enhance practice. Because responsibility or social audits look at a range of practices, rather than just the traditional bottom line, they tend to be more holistic and systemic than financial audits. One type of responsibility audit, for example, assesses company practices in four areas: employee practices, community relations practices, environmental practices, and quality practices. Practices in these arenas are then compared to the stated mission and values of the company to see where improvements could be made that would add to profitability.27

Such responsibility audits are based on simple premises related to different stakeholders, with the specific objective in mind that it pays to be responsible. For example companies that control their pollution will avoid fines and associated legal fees. Organizations that treat their employees with respect and develop proactive, family- and worker-friendly policies, find that their employees are
more productive, loyal, and committed to company purposes. This loyalty not only results in higher productivity, but also lowers turnover, absenteeism, and tardiness, avoiding associated costs. Companies that develop policies that allow them to engage positively and interactively with communities, to help communities meet local needs, will find that communities are better able to meet the infrastructure needs of the firm because the community is healthier. The New Economics Foundation, in England, has developed a stakeholder-based approach to what they call social auditing. By surveying external stakeholders and asking their opinions of company practices in various arenas, it seeks to determine what the outside perception of the company is so that internal practices can be changed where gaps between what is hoped for—the vision and values—and the way a company actually operates appear.

Two of the most prominent social audits undertaken by the New Economics Foundation are Ben & Jerry’s and The Body Shop’s. To actually see such an audit, go to http://www.neweconomics.org/asa.htm#Social Audits, for a recent copy of The Body Shop’s latest audit. The website also provides insight into how the audit can actually be used by the company to improve practice. Responsibility audits can also be used by values-driven organizations, such as NGOs, to determine how well they are meeting their basic values-objectives and goals.

The Practice of Responsibility Auditing. Audits are typically undertaken with respect to specific stakeholder groups or domains against stated organizational values and mission with respect to that stakeholder. In the United States responsibility auditing has been pioneered by the Cambridge, MA, firm SmithOBrien, which emphasizes the holistic nature of the audit and, in particular, the ways in which operating more responsibly can generate higher profitability. For example, an audit of employee relations would first look at the company’s statements about employees in its mission or vision statement. Then, auditors would assess the current state of employee retention, recruitment costs (both explicit and hidden, such as the cost of interviewing, training costs, lower productivity associated with newer hires). They might also explore employee morale through interviews to determine the impact of employee morale on productivity, retention, and turnover.
In addition to overall responsibility assessments such as the ones described above, which evaluate the whole company, some companies issue periodic environmental reports. Additionally as part of the information that is increasingly available to interested stakeholders, the U.S. government annually releases a “toxic release inventory” that can be used by local communities and other parties interested in companies’ pollution record in their neighborhoods. Such groups, if concerned about releases, can put significant pressures on companies to change internal practices.

CONCLUSION

The wide scope of the electronic and broadcast media make all sorts of corporate information increasingly available to all, and, not by chance, bring continued public attention to both pro- and counter-social corporate activities. No company today can afford to ignore the fact that not only is this information available, but it can and will be used. Interested users include investors for investment purposes, activists and other interested stakeholders to influence corporate activities, and governmental for public policy making by governments and societies affected by corporate practices. This article has attempted to provide a synopsis of some of the ways in which the multiple bottom lines of corporate citizenship—the practices through which companies operationalize their stakeholder relationships—are manifested today. Secondarily, the article is intended to clarify and illustrate the growing need for transparency, communication, and accountability on the part of corporate citizens to their important stakeholders with their associated multiple bottom lines.

NOTES

1. For example, in the United States, a firm called SmithOBrien undertakes internal audits called responsibility audits, while in Great Britain, the New Economics Foundation does a similar, though stakeholder-related, audit called a social audit.


4. There is, additionally, a passive fund, called the Domini Social Fund, that is comprised of the companies in the Domini Index, which is separately managed, and should not be confused with the Index.


7. See CalPERS website, “Obstacles to Good Corporate Governance,” http://www.calpers-governance.org/principles/other/barriers/page01.asp, for more details of the study reported in this section.


10. See http://www.rainbowpush.org/wallstreet/.


12. ICIC, cited above.


17. For a listing of other microenterprise organizations, see http://www.accion.org/world/main.asp.


21. This type of social investment is described at length in Curt Weeden’s *Corporate Social Investing* (San Francisco: Berrett-Koehler, 1998), from which material in this section is derived. See also the associated website at http://www.bnsinc.com/csi/intro.html.


24. See http://www.reputations.org/ for some background on Fombrun’s work on reputation, as well as that of other scholars.


27. See Waddock and Smith, 2000, cited above, and http://www.smithobrien.com/, which describes this company’s approach to responsibility audits.


Corporate citizenship, that is, company practice that impacts various stakeholders, is increasingly being assessed along multiple bottom lines. This approach to citizenship implies that corporate responsibility can be linked to companies' treatment of primary and critical secondary stakeholders. Social investing in projects and ventures is another form of social investing that taps into the multiple bottom lines of corporate citizenship. This occurs when investors want to invest in projects explicitly aimed at benefiting society or specific disadvantaged groups.