CITY LIGHTS

Do good, do well

Corporations would be well advised to please, not screw, the public.

By Don Bauder, Aug. 13, 2014

Some politicians tell us corporations are people. Yeah — greedy people. Two years ago, one poll showed that 83 percent of people — *real* people — believe that companies should pursue their business goals while trying to improve society and the environment.

And some persuasive studies indicate that companies might even enhance their long-term profits and prospects if they spent more money on improving the world they operate in.

But statistics show that corporations are not doing much for society or our quality of living. A Pew Research poll last year indicated that 80 percent of middle-class adults partially blamed big business for middle-class woes.

According to various studies of philanthropy, individuals make 72 percent of charitable donations and corporations a mere 5 to 6 percent. Companies give about 0.12 percent of their revenues to charity, and below 1 percent of pretax profits — less than half of the percentage they gave in the 1980s.

One study more than a decade ago showed that the poor — households making less than $20,000 a year — gave 4.6 percent of their income to charity. Those earning $50,000 to $100,000 gave 2.5 percent.

Unfortunately, companies often give to charities when they want public support for their own profit-making activities. According to the blog *CorpWatch*, when the city council of Washington DC passed a bill demanding that big-box retailers like Walmart pay a living wage to employees ($12.50 an hour, almost 50 percent higher than the minimum wage at the time), the company set up food banks for the poor and warned the mayor that if he didn't veto the bill, Walmart's charitable contributions would be jeopardized.
Enlightened self-interest is fine, but companies shouldn't make selfish interests so obvious.

Arthur Lipper

Chief executives of large companies bring home about 330 times more than the average worker makes — up from around 50 times more 30 years ago. From 2009 to 2012, as the economy improved moderately, incomes of the richest 1 percent shot up 31 percent while incomes of the 99 percent grew by a measly 0.4 percent — less than half a percent.

Alan Greenspan

"It is clear to me that we are headed into a confrontation between classes in the U.S.," says Arthur Lipper III of Del Mar, entrepreneur and scion of a famous Wall Street family. A few top executives are aware of a pending income and wealth inequality crisis. Even former Federal Reserve chairman Alan Greenspan fears it. But companies continue taking actions that nettle the public.

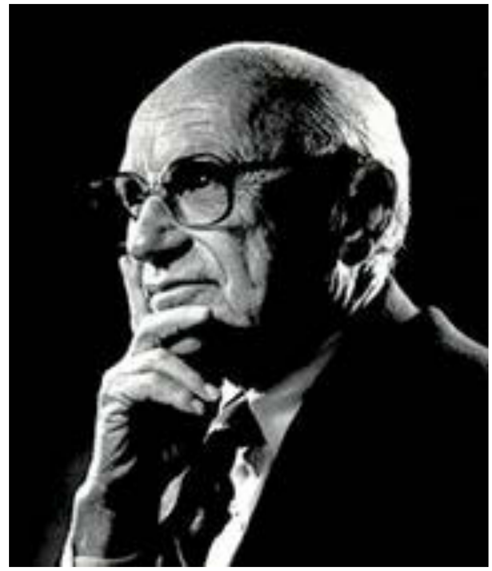
The latest is the so-called inversion. More and more companies are attempting to buy a foreign concern, then pretend they are moving their headquarters to the low-tax nation, boosting profits and executive pay. This is similar to the widespread practice of corporations parking profits in low-tax countries. Multinational companies have almost $2 trillion reposing outside the United States to dodge taxes, according to Bloomberg News.

Barack Obama

President Obama has denounced the inversion tax ploy as essentially unpatriotic. Laws passed by Congress permit it. “I don’t care if it’s legal — it’s wrong,” said Obama.

Milton Friedman

He is right. Capitalism’s woes escalated in the 1980s, when companies increasingly adopted the idea that a board of directors’ only constituency is shareholders — not employees, communities, the environment, vendors, customers. The late, great economist Milton Friedman espoused the view that a company's only job is to maximize profits. This was one time Friedman was wrong.



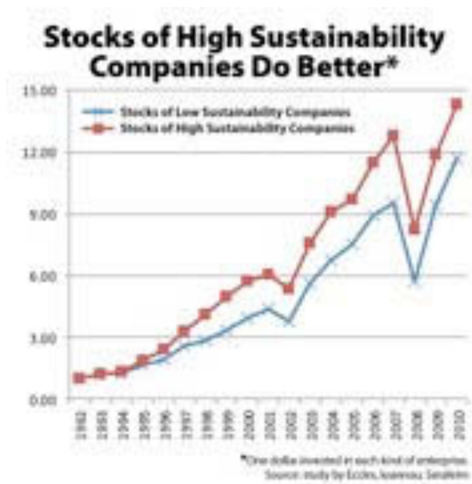
Unfortunately, this greed worship ("only profits matter") became embedded in influential court decisions and is taught in business schools. Today, too many companies focus on Wall Street's reaction to earnings in the upcoming quarter, not on the long term. This, in turn, has led to many accounting frauds.

"There can be no question that managements are focused on pleasing investors and therefore frequently make decisions which are short-term biased," says Lipper.

James Hamilton

"The way to get ahead is to be sure you're trying to do the right thing morally," says economics professor James Hamilton of the University of California San Diego. Ultimately, it's "just good business" to treat employees and customers well, he says. "Too many MBAs these days seem to have forgotten it."

In May of 2012, two Harvard professors and one from the London Business School published a study comparing financial results of 90 companies that by 1993 adopted environmental and social policies with 90 companies that adopted almost no such policies. The former were called "high sustainability" and the latter "low sustainability" firms.



The researchers attempted to eliminate so-called greenwashing, or espousing environmental policies for public relations and advertising purposes. (Cock an eyebrow at all those ads in which oil companies boast of their environmental commitment.)

The study noted that companies basing executive compensation on short-term, Wall Street–pleasing results may be sacrificing long-term performance.

The bottom line is that, according to this study, the high-sustainability companies outperform the low-sustainability ones in such measures as return on assets and return on shareholders' investment. In short, doing good can lead to doing well.

However, the study quotes scholars who take the opposite view. One business researcher says that companies that try to address environmental and social issues could be "eliminated by competitors who choose not to be civic minded."

Jim Welsh

James Welsh, San Diego County–based portfolio manager for San Francisco's Forward Investing, tends to be skeptical of do-goodism. He looks askance at the study showing high-sustainability firms doing better than others.

"It could have been written by somebody with a liberal bent," he says. Welsh acknowledges that a company's pursuit of environmental and social policies could "result in people buying [the company's] products," and thus could be defensible.

All told, however, Welsh points out that when investment analysts study a company, they are more likely to focus on such factors as "the balance sheet, how innovative the company is, the quality of management. I would assume that taking care of other constituencies [such as the community and employees] is not in the top five" of analysts' concerns.

Both Lipper and Hamilton feel that companies taking care of other constituencies are actually best serving the long-term interests of the shareholders.