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The Macro/Social Economics of Corporate Social Responsibility: Informational Abundance and Collective Action

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Abstract

In the past 15 years, the idea of "corporate social responsibility" (CSR) has become an important part of contemporary business life. This paper looks at CSR through a social-economics lens, examining the role of broadly-held social values in shaping its objectives, identifying the sources of market pressures on firms to bring their operations into better conformity with these values, and examining how these pressures work in practice through a case study of the "No Dirty Gold" campaign. It is argued that an important part of the effectiveness of CSR rests in informational abundance: because information and communication technologies like the internet make it much easier to publicize ethically problematic behavior by firms, it is much easier to get mainstream consumers and investors (whose behavior is not systematically shaped by ethical concerns) to participate in efforts to sanction them. The case study points to both the promise and the limitations of relying on CSR to improve the social responsibility of the profit system.

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The macro/social economics of corporate social responsibility:

Informational abundance and collective action

1. Introduction

In the past 15 years, the idea of "corporate social responsibility" (CSR) has become an important part of contemporary business life. While varying definitions of CSR have been offered, the core principle is that businesses should make decisions based not on profitability alone, but also on the social and environmental consequences of their actions.[1] Ideally, businesses are supposed to behave 'responsibly' towards all of their 'stakeholders', where the latter include not only owners and shareholders, but also workers, customers, surrounding communities, and the environment.[2] The notion of 'responsibility', while not necessarily corresponding closely to any well-defined ethical principle, implies conforming to certain expectations of how businesses should operate vis-à-vis their stakeholders, namely that they should produce safe and useful products; minimize the adverse environmental impacts of their operations; implement fair and equitable workplace practices; adopt labor standards for overseas operations; contribute positively to surrounding communities; and conduct their business in ways that respect human rights.[3] While CSR is a strictly voluntary matter, concern with it has become widespread in the corporate business sector. Many large corporations have CSR policies and issue annual reports on their progress in meeting CSR objectives; some even appoint "Chief Responsibility Officers" to spearhead their CSR work.

The concern with ethics in business life makes the CSR movement of strong inherent interest to social economists. Whereas mainstream economics has tended to draw a stark line between positive and normative analysis, insisting that economists confine their work to the positive domain, social economists have traditionally taken

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[1] A widely cited definition is that of the World Business Council for Sustainable Development (1999), which defines CSR as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large."

[2] 'Stakeholders' are broadly defined as those having legitimate claims to have voice in corporate decision-making processes. See Freeman (1984) for seminal work, and Donaldson and Preston (1995) for valuable discussion.

[3] See Vogel (2005) for an overview from an economic perspective.

normative issues to be of central interest to economic analysis, since they permeate methods used by societies to organize production, consumption, investment, distribution, access to natural resources, household provisioning, and other dimensions of economic activity.[4] Thus, for example, whereas mainstream economists have recently started exploring economic behavior as governed in part by ethical considerations like fairness, social economists have long had a richer view of the person, wherein she acts according to both self-interested and other-oriented drives, and socio-cultural and institutional mechanisms are understood to regulate the dialectic between them (Lutz 1990, O'Boyle 1994, George 1998, Davis 2003). Moreover, social economists do not feel constrained to refrain from normative analysis, but rather delve seriously into questions of the moral, ethical, philosophical and ontological bases on which it can be done. With this far richer repertory of ideas about and methods for studying ethical dimensions of economic life, social economics is a uniquely valuable lens through which to examine the 'ethical turn' in contemporary business life.

This paper aims to draw a link between corporate social responsibility and issues and methods of longstanding interest to social economists, by reviewing relationships between CSR and broadly-held social values, identifying the sources of market pressures on firms to voluntarily bring their operations into better conformity with these values, and examining how these pressures work in practice through a case study. The argument of the paper is that, in the present era of informational abundance – where new information and communication technologies, especially the internet, make it is easy to craft and disseminate narratives about firms' violations of fairness norms – it has become considerably easier to get 'mainstream' consumers and investors, whose behavior is not systematically shaped by ethical considerations, to participate in efforts to sanction such firms (e.g. by diverting their purchases to other firms, signing petitions or pledges, etc). This possibility of mobilizing 'moral sentiment' alters firms' incentives, insofar as they may realize gains from behaving responsibly or penalties from behaving badly. This argument is illustrated through the case of the "No Dirty Gold" campaign, which has worked for several years to try to get transnational mining corporations to shift away from production methods that are environmentally destructive, unsafe for workers, and harmful for communities living around gold mines. The case study is valuable for identifying both the promise

[4] See, e.g. Figart (2007) for discussion.

and the limitations of relying on CSR to improve the social responsibility of the profit system.

II. Explaining the 'ethical' turn in contemporary business life

The idea that corporations should behave responsibly towards their stakeholders is of course strongly consistent with various normative perspectives on business life.[5] An important example concerns parallels between CSR and Catholic social thought, which are of interest for three reasons. First, like the discourse of CSR, Catholic social thought views unregulated business activity as a fundamentally good way to organize economic life, but shares its concern that pursuit of profit can lead people and businesses to engage in practices that are ethically problematic. Reflecting this common point of departure, Catholic investors have often been in the vanguard of CSR work (see below). Second, many of the tenets of Catholic social thought are broadly reflective of Judeo-Christian social values, which predominate in the advanced-industrial countries where CSR has become a facet of business life.[6] And third, Catholic social thought has special relevance for the field of social economics, given its origin in 'Catholic economics'.

The importance of treating all shareholders fairly is consistent with the Catholic social tradition of viewing businesses as embedded in networks of social relationships that are ideally governed by ethical principles. As stated in the Pontifical Council of Peace and Justice's *Social Agenda* (2000: ¶208), "… Man works … to provide for the needs of his family, his community, his nation, and ultimately all humanity … [H]e collaborates in the work of his fellow employees, and in the work of suppliers and in the customers' use of goods, in a progressively expanding chain of solidarity".[7] Efforts to gain profits that do not expand the "work and wealth of society" in this way, but rather depend on "illicit exploitation, speculation, or the breaking of solidarity among working people", violate the fundamental social function of business: "Riches fulfill their function of service to man when they are destined to

[5] For broad review, see Graafland (2007).

[6] Like the discourse of human rights, it is not clear that the general idea of CSR or its specific tenets make as much sense in value systems with other foundations. See, for example, Williams and Zinkin (2005) and Phoon-Lee (2006).

[7] The *Social Agenda* is a collection of Magisterial Texts on Catholic social teaching. Here we report the paragraph number in the *Social Agenda* in which the passage can be found. Original references are given in the Agenda itself.

produce benefits for others and for society" (¶392). Thus, businesses that pursue profits at the expense of other stakeholders in fact invalidate their right to own and control productive resources, as this right is predicated on using them to serve the common good.

Many of the specific dimensions of corporate behavior taken to be integral parts of social responsibility also relate closely to ideas in Catholic social thought. For example, the tenet that companies should produce <u>safe and useful products</u> corresponds to the idea that businesses can and should contribute to the common good by creating new products that meet people's needs in better ways: "A person who produces something other than for his own use generally does so in order that others may use it after they have paid a just price … It is precisely the ability to foresee both the needs of others and the combinations of productive factors most adapted to satisfying those needs that constitutes [an] important source of wealth in modern society" (¶240). Moreover, the idea that companies should minimize adverse <u>environmental consequences</u> of their actions is consistent with respecting the principle that "God intended the earth, with everything contained in it, for the use of every human being and people" (¶202). Thus, "As one called to till and look after the garden of the world …, man has a specific responsibility towards the environment in which he lives, towards the creation which God … (intended) … not only for the present but also for future generations …" (¶319). By implication, "those responsible for business enterprises are responsible to society for the economic and ecological effects of their operations. They have an obligation to consider the good of persons and not only the increase of profits" (¶320). Finally, the idea that businesses should safeguard <u>human rights</u> is strongly consistent with the central importance given to human dignity in Catholic social thought: Because people have been entrusted with the defense and promotion of the dignity of the human person, "all men and women at every moment of history" should strive to uphold that dignity (¶45). Thus, "the rich and employers must remember that no laws, either human or divine, permit them for their own profit to oppress the needy and the wretched or to seek gain from another's want" (¶258).

Thus, to the extent that companies are recognizing and incorporating social responsibility into the ways in which they do business, CSR would seem to be shifting the business system towards a model that better reconciles the dynamism and innovation of profit orientation with respect for widely-held values. But at the same time, the 'ethical turn' seems to contradict a parallel development in the U.S. in recent decades – wherein the importance of maximizing profits in corporate business activity has been substantially re-prioritized. Since the early 1980s, in response to the complaint that corporate managers tended to pursue objectives other than maximizing shareholder value (the canonical "principal-agent" problem of corporate finance), various tactics, including shareholder activism and leveraged buy-outs, have been used to pressure corporate executives to make maximum profit their overwhelming concern (Kaplan 1997; Fligstein 2001, Chap. 7; Holmström and Kaplan 2001, 2003).[8] The restructuring of executive compensation to prioritize stock-price gains is also intended to align managers' incentives with those of stockholders.[9] This 'ascendancy of shareholder value' would seem likely to pressure firms to operate in ways that are bad for stakeholders other than shareholders; see, for example, Froud et. al (2000) on 'serial restructurings' in the U.K. and their consequences for workers.[10]

How then to reconcile increasing social responsibility with re-prioritization of maximizing profits? Certainly, pressures to maximize profits constrain the range of responsibility projects that firms can undertake; if a firm's CSR work is seen as appreciably eroding its profits, profit-oriented shareholders might try to persuade management to scale back its work, orchestrate moves to unseat the CEO, entertain an outside bid for the firm, etc.. However, as the business literature on CSR establishes, there is not necessarily a contradiction between profits and social responsibility *if* companies can benefit financially from improving their treatment of stakeholders.[11] To delineate the avenues via which improving responsibility may increase profits, it is helpful to think of the determinants of the value of owning a share in a given company. The value of an ownership share in a given company i, Pi,

[8] See Lazonick and O'Sullivan (2000) on the rise of 'shareholder value' as a dominant paradigm for corporate governance. On the extent to which American-style corporate governance is spreading internationally, see Lane (2003), Lee, Michie, and Oughton (2003), and O'Sullivan (2003)

[9] See Blair (1995) for valuable overview. There is, however, much criticism of how performance-based executive compensation has worked in practice; see Bebchuk, Fried, and Walker (2002); Bebchuk and Fried (2004); and Boyer (2005).

[10] Similarly, Bookman, Chang and Rennie (2007) find that CEOs of firms announcing lay-offs have significantly higher compensation than other CEOs, with the difference resulting from the stock-based component of their remuneration.

[11] See Vogel (2005) for review.

will be a function of the expected present discounted value of the company's profit stream, $E[\pi i]$, plus any premium or discount it receives in the capital market, λi, as a result of investors buying or selling shares in part on the basis of social responsibility:

$$Pi = f\,[E(\pi i)] + \lambda i \qquad [1]$$

In the case of a publicly-traded corporation, Pi is the company's stock price. The term λi primarily reflects the influence of "socially responsible investment" – a segment of the capital market in which investors manage their assets with respect to both financial and social concerns.[12] In the past decade in the U.S., socially responsible investors, which include both institutional investors like pension funds, foundations, and endowments and retail SRI mutual funds, have accounted for about 10% of the total value of financial assets under management (Social Investment Forum 2006). While the primary mechanism used in SRI is 'screening' (wherein companies with strong social and environmental performance are 'screened into' the portfolio, and those with poor performance are 'screened out'), some socially responsible investors -- including a number of Catholic pension funds and endowments, state-government pension funds like the California Public Employees' Retirement Funds (CalPERS), and retail mutual funds like those offered by Calvert and the Pax World Funds – also use more activist tactics like engaging in dialogue with companies about problematic areas of social performance and filing shareholder resolutions to focus attention on possibilities for improvement.[13] If the stock of a given company is disfavored by SRI investors due to poor social performance – absolutely and/or relative to other companies -- and if the influence of these investors in the market is non-negligible, then we would expect the company's stock to trade at some discount relative to what would be predicted from its expected profit stream. If on the other hand, SRI investors favor the company's stock because of its superior social performance, and again if their influence is non-negligible, we would expect its stock to trade at a premium. But of course, given the fact that SRI investors represent only a modest share of total financial assets, whether they have

[12] See Starr (2007) for further discussion.

[13] See Tkac (2006) for empirical analysis of shareholder resolutions filed by socially responsible investors from 1992 to 2002. The lion's share was filed by investment funds of religious organizations.

any potential to influence corporate behavior via this avenue is not clear *a priori*; we return to this issue below.[14]

At the same time, social performance also influences expected profits component of Pi, f [E(πi)], in so far as it influences the company's expected revenue stream and/or its expected costs; thus, even investors motivated strictly by financial gain will favor improvements in social performance, *if* they raise the company's revenues by more than they raise costs. On the cost side, one would expect programs to improve social responsibility to tend to raise costs; presumably, companies adopt methods of production that can be considered 'irresponsible' (e.g. are highly polluting, or abusive of workers) because doing so is more profitable than other methods, so that abandoning them in favor of socially preferred methods would tend to push costs up. But this way of looking at the problem assumes that firms are perfectly informed about costs, benefits and risks of alternative methods and calculatingly choose that which is profit-maximizing. If instead they are unaware of alternative production methods that have superior social properties and equivalent or lower costs, and these methods are brought to their attention through CSR discourse, then it is not necessarily inevitable that improving responsibility would be cost-increasing. Thus, for example, it is well-established that firms that make efforts to improve their environmental performance tend to see their stock prices go up, where at least some part of this increase reflects cost savings (Petzinger 1997). Similarly, others have argued that improvements in social performance lower risks of being sued (for example, for discrimination against women or minorities, causing environmental damage through oil or chemical spills, creating health problems within a community by failing to properly dispose of industrial wastes, etc.) or of being more tightly regulated by the government. In these cases, then, improvements in social performance are said to "pay for themselves".

On the revenue side, improvements in social responsibility may boost revenues if they increase demand for the company's products, or reduce slippage in demand due to public concern about poor social performance. For this to be the case, consumers would need to have some knowledge of how firms behave in terms of social

[14] One study by Angel and Rivoli (1997) suggests that a large share of investors would have to boycott a company's shares for their cost of capital to rise appreciably.

responsibility, and to allocate their purchases across goods and/or across companies in ways that favor socially 'good' companies and disfavor the 'bad'. Whether we can take consumption to be broadly influenced by ethical considerations is of course problematic. For one, distinguishing between 'good' and 'bad' companies is not necessarily easy for an average consumer, especially when companies that are 'good' along some dimensions may be quite 'bad' along others.[15] For another, the idea that consumers' spending allocations can be used to induce improvements in CSR would seem to embed the traditional collective action problem: if everyone steered their spending towards socially 'good' companies and away from the bad, the broad-based increase in social responsibility that this might induce could raise social welfare; but individually people have incentive to free-ride on the efforts of others, allocating their own spending according to price/product-quality considerations only, so that the impetus to influence firms' behavior may be too weak to have much effect.

However, this way of looking at revenue-related pressures is based on two problematic assumptions: atomistic individuals whose behavior reflects fixed preferences, and aggregate outcomes derived by 'aggregating up' from them. In terms of the first problem, as social economists have long believed and as experimental research is confirming, it is far more appropriate to think of people's behavior as reflecting mixtures of self-interested and other-oriented drives, where features of the social context can tilt behavior in one direction or another.[16] A notable finding in this respect concerns 'fairness' – which generally means, in the experimental setting, splitting rewards with another person in a relatively even way (50/50, or 60/40), rather than keeping the lion's share for oneself (99/1). In various kinds of games, it has been found that some people go out of their way to negatively sanction unfair behavior and to positively sanction its opposite. Furthermore, they sanction whether the 'unfairness' affects them or someone else, and whether they expect to have future dealings with the person or not, suggesting that they do it for intrinsic rather than strategic reasons. However, fairness-related sanctioning is not an everywhere-and-all-the-time phenomenon. Some people consistently engage in it; many others engage in it at some times but not others, or under some circumstances but not others; and the remainder behave like *homo economicus*,

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[15] For example, Wal-Mart has worked hard to improve its environmental performance, but continues to pay its workers 'everyday low wages'.

[16] See, for example, Fehr and Fischbacher (2002, 2004) and Fehr and Gächter (2000).

consistently acting out of self-interest.[17] Whether sanctioning makes 'fair' behavior become predominant depends on the relative importance of the different types of people in the experiment, and on the consequences of getting sanctioned. If people who consistently sanction are common, and/or the costs of getting sanctioned are high, even those inclined to act according to self-interest will begin respecting fairness norms because of the incentives to do so. However, if too few people consistently sanction, and/or getting sanctioned is not very costly, self-interest may become the predominant way of dealing with others.

The fairness-sanctioning framework provides a valuable way for thinking about revenue-related pressures for corporate social responsibility. Companies identified as being notably deficient in social responsibility are often understood to be treating some stakeholders *unfairly* – in the sense of appropriating an unreasonably large share of the benefits of their economic interchange, without regard to the hardship, loss of dignity, or erosion of opportunities that their behavior causes for others. Issues pursued under CSR that have particularly strong resonance in this respect are those in which stakeholders are too poor or otherwise disadvantaged to accept or reject terms of economic transactions offered to them by the company, and where the company seems to be fully exploiting this fact – most notably, sweatshop labor and child labor. Producing goods under sweatshop conditions and/or using child workers is in clear violation of basic expectations of respect for human dignity; as the *Rerum Novarum* puts it, "It is shameful and inhuman … to use men as things for gain and to put no more value on them than what they are worth in muscle and energy" (Leo XIII: ¶20). Reaction to use of sweatshop and child labor provokes especially strong and widespread reaction when the company pays workers so little, yet sells the goods they produce for notably high prices – as attested by the international boycott against Nike's expensive athletic footwear after it emerged that labor conditions in its Asian factories were not infrequently abusive. While sweatshops and child labor are widely viewed as fundamentally unacceptable violations of fairness norms, other kinds of behaviors are also construed as being unfair although not necessarily with the same depth and breadth of resonance as these 'obviously' wrong practices; these failing to take precautions against environmental disasters (e.g. the Exxon Valdez); unnecessary or cruel animal

[17] See Fehr and Fischbacher (2004) for discussion and data.

testing; and doing business with foreign governments that egregiously violate their citizen's human rights (South Africa under apartheid, or presently Sudan).[18]

Understanding how the perceived unfairness of these practices contributes to revenue pressures for improving CSR relates to the second problematic assumption of the standard narrative -- of deriving aggregate outcomes by 'aggregating up' from atomistic individuals. In this kind of framework, people are oblivious to what others are doing, so whether demand for a company's product is affected by variations in its social responsibility depends on whether there are enough individuals within the population who know about and react to these variations by adjusting their purchases of the company's products for it to make a difference for their bottom line. But again, the recent experimental literature suggests that the likelihood that people behave 'pro-socially' – i.e. in ways that uphold fairness norms, even if doing so entails a personal cost – is greater when they know that other people are too. For example, Meier (2006) finds in a field experiment that people are more likely to make charitable contributions, and to contribute more generously, when told that others are contributing at generous rates. This is the opposite of the prediction of the traditional collective action model, in which people should be more likely to free-ride in the provision of a public good when they think others are doing enough to ensure that it is provided.

For this issue to be at work in revenue pressures for CSR, people who are not themselves 'ethical' consumers or investors (that is, who do not systematically buy goods or make investments with ethical concerns in mind) need to be finding out about cases in which companies are behaving unfairly towards stakeholders and about efforts by others to do something about it. It is here that the onset of the present era of *informational abundance,* brought about by information and communications technologies (ICTs), makes a substantial difference in creating channels to bring irresponsible corporate behavior to the public eye. Relevant ICTs include the websites of corporations, non-governmental organizations (NGOs), news services, brokerages, and government agencies; forums attached to websites; freestanding forums like iVillage; email (including email alerts); blogs; digital

[18] Starr (2007) provides data on 'ethical preferences' among socially responsible investors.

images; user-posted video banks like YouTube; and electronic data repositories like Lexus/Nexus.

These ICTs facilitate collecting and spreading information on corporate misbehavior and mobilizing efforts to change it in four ways. First, ICTs significantly lower the costs and improve the speed with which information on firms' activities can be collected, analyzed, and disseminated. Notably, the internet makes it far easier to get ahold of corporations' press releases, annual reports, quarterly earnings statements, minutes of shareholder meeting, filings with the Securities and Exchange Commission, etc. Second, websites and email make it much easier to research and publicize alternative narratives on corporate behavior. For example, sweatshop working conditions or other poor corporate conduct abroad can now be readily brought to light by posting photos, interviews, and text that provide an immediate 'feel' for the negative impact of the company's behavior on workers and/or communities. There are also sites like that of Coop America, an activist consumer group, that provide 'thumbnail sketches' on the social responsibility of major companies, aiming to help ethically-concerned people steer their dollars towards 'good' companies and away from 'bad'.[19] Third, hyper-linking of related websites greatly increases the odds that information collected and posted by one group will be noticed and read by people other than its immediate constituents.[20] Fourth, websites and related tools like electronic petitions and letter-writing campaigns make it much less expensive and faster to mobilize consumers, investors and activists to join sanctioning actions.[21]

The issue with this kind of informational abundance is that, especially in cases where the company's behavior will be widely viewed as unacceptable, ICTs make it

[19] See www.coopamerica.org. As of June 23, 2007, the 'Responsible Shopper' section of Coop America's website had profiles of 169 of the largest U.S. consumer-goods companies (clothing, appliances, motor vehicles, groceries, restaurant chains, financial-services institutions, oil companies, consumer electronics, etc.).

[20] In the case of Coop America, for example, its website has links to 67 other groups that work on its core issues (green energy, climate change, sweatshops, fair trade, and forestry and paper); 61 ongoing campaigns run by other organizations (in addition to eight of its own); a list of 95 SRI mutual funds (to which their websites are in turn linked); and hundreds of 'green' businesses that it screens and lists in its National Green Pages.

[21] Thus, for example, a petition urging Nike to agree to independent monitoring of its subcontractors was signed by 86,500 people (Human Rights Watch 1997).

relatively easy to take the issue out of realm of consumers and investors who are regularly motivated by ethical concerns, and into the realm of the general public, possibly via the route of print and broadcast media. Here the issue is that many people who do not systematically use ethical criteria in consuming and/or investing can nonetheless decide to stop buying a company's products if they become aware that it has been treating stakeholders poorly, and feel there is a chance that a change in their purchasing behavior could make a difference. Evidence that this kind of effect can be appreciable is provided by Rock (2003), who studied how news about sweatshop labor conditions affected the stock prices of several major garment and shoe manufacturers; most of the effects he found were negative and significant, and some were very large.

Clearly, this ability to mobilize 'moral sentiment' creates incentives for companies to try to minimize the chances that their behavior could be portrayed to the public as irresponsible. On one hand, it gives rise to the problem of corporations launching public-relations campaigns to *portray* themselves as engaged in broad and deep efforts to excel on social and environmental performance, when they may or may not be.[22] While such campaigns make it harder to distinguish between 'good' and 'bad' companies, they are also risky, in that highly deceitful self-representations are usually readily spotted and publicized by NGOs, who may hold false narratives up as further proof of a company's poor ethics. On the other hand, the possibility of gaining or losing sales as a result of social performance can also lead companies to take a lot of initiative to change their position relative to competitors. Notable in this regard is that Reebok voluntarily implemented the kinds of serious anti-sweatshop measures that market-leader Nike was resisting in the 1990s, which enabled it make good inroads into Nike's dominant market share and gave its stock price a sizable boost (Rock 2003). Thus, as long as there is some potential sensitivity of revenues to differences in social performance, companies seeking to improve their competitive position within an industry or market may find improvements in social performance to be a valuable route, especially if the market leader is a laggard.

[22] For instance, in 2000 the oil giant formerly known as British Petroleum launched a $200 million advertising campaign aiming to reposition itself as a global energy company spearheading the drive to move "Beyond Petroleum" -- while continuing to invest 25 times more on oil and gas than on wind and solar power (Frey 2002).

<u>The case of the 'No Dirty Gold' campaign</u>

To understand the role of informational abundance in facilitating ethics-oriented collective actions, it is valuable to examine a case in which these dynamics have been at work. The "No Dirty Gold" (NDG) campaign was launched in 2004 by Oxfam USA and Earthworks, an NGO that focuses on curbing environmentally destructive mineral development. The objective of the campaign is to call attention to the poor labor and environmental practices of transnational mining companies and put pressure on them to improve. Standard mining methods use cyanide to leach gold from ore, generating large amounts of toxic waste per unit of gold extracted; disposal of this waste, and related release of harmful chemicals like mercury into the environment, causes lasting environmental degradation and health problems for humans and animals in large areas around mines. Additionally, while mining is anyway a dangerous occupation, working conditions in gold mines in poor, remote areas are often notably deficient in safety and health precautions, resulting in high rates of injury, disability and mortality and occupational illnesses.

To illustrate the context within which the NDG campaign operates, Figure 1 provides a schematic representation of stakeholder relations in the gold supply chain. The problematic social and environmental performance occurs in the 'upstream' part of the web of stakeholder relations, with the behavior of transnational mining companies operating in Ghana, Indonesia, Peru, and other developing countries. While their traditional operating methods have been good for profits, these have come at the expense of the other upstream stakeholders -- miners, the environment, and surrounding communities. Thus, the campaign aims to make the mining companies' treatment of these stakeholders transparent to the international community. Influencing the mining companies directly has proved relatively difficult, in part because the long-term character of mining operations means they can continue doing business as usual without much risk of losing contracts. Pressures from socially responsible investors alone did not have much effect, reflecting their small share of capital markets. Instead, the NDG campaign aims to incite collective action in the 'downstream' part of the web of stakeholder relations – in particular by bringing mining companies' problematic practices to the attention of people who buy or may buy gold jewelry.

The peak period of the NDG campaign is around Valentine's Day, when it uses a variety of tactics – including full-page ads in newspapers, materials posted on their website, press releases, email and letter-writing drives, protests outside jewelers, etc. – to raise awareness of 'dirty gold', and to differentiate between jewelers who have and have not adopted a code of conduct called the 'Golden Rules', wherein they pledge to buy gold from suppliers whose social and environmental practices are respectful of and fair to all stakeholders. Its informational materials call attention to the contrast between the symbolism of gold – of eternal love and the beauty of nature – and the ugly reality of how it is extracted, underlining how wrong it would be to unthinkingly give gold jewelry to a loved one if its production was based on clear human suffering and indignity and environmental degradation. Thus, the website provides detailed information on a dozen communities around the world that are adversely affected by 'dirty gold'. Photos show, for example, a baby in Indonesia afflicted with skin problems resulting from dumping mine waste into a nearby bay, a rally in Peru demanding clean-up of a mercury spill, and an ancient sequoia-like tree threatened by plans to begin open-pit mining in Argentina.[23]

By differentiating between jewelers that are 'leaders' and 'laggards', the campaign aims to pressure the 'laggards' to adopt the rules so as to avoid losing sales to the 'leaders'. As of mid-2007, 19 jewelers had adopted the Golden Rules, including some luxury jewelers (e.g. Tiffany, Cartier, Piaget); several major mall-based chains (e.g. Kay's, Zales); some major mass-market general-merchandise chains that do not specialize in gold but account for a sizable share of sales of gold jewelry (e.g. Wal-Mart, which adopted the code in 2007); companies that make class rings and other insignia merchandise; and some other specialty firms (internet jewelers, the Home Shopping Network). It should be noted, however, that the globally competitive and geographically dispersed nature of the 'midstream' part of the gold supply chain makes it hard to ensure that adopting the Golden Rules translates tightly into ethically sourced gold: unlike the campaign against 'blood diamonds', which was highly effective in good part because one company (DeBeers) had strong control over much of the supply chain, it is more possible for 'dirty' and 'clean' gold to be mixed together after it moves from the mine to the companies that process gold and

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[23] See http://www.nodirtygold.org/community_voices.cfm (accessed 7/7/2007).

make it into jewelry before shipping it to end-user markets (see Marlin 2006).[24] It is notable also in this respect that the U.S., while the second-largest importer of gold after India, buys only 15% of consumer gold sold on the world market (see Starr and Tran 2007). Again this complicates the process of putting pressure on mining companies.

To understand what factors influence jewelers to adopt ethical sourcing, we run some basic probit analyses of the probability of adopting the Golden Rules, using annual data on the 37 top gold retailers that have been named as 'leaders' or 'laggards' since the NDG campaign started. The explanatory variables include: whether the company is publicly-traded or private; a set of dummy variables indicating the market segment into which the company falls (luxury, mall-based, mass-market general-merchandise, insignia, or 'other'); the year of the campaign; and whether or not a major player in the company's market segment had adopted the Golden Rules. The regression is estimated via a probit model because the dependent variable is discrete.

Results are presented in Table 1, in which estimated coefficients are shown as marginal effects (i.e. the difference in the probability of adopting the Golden Rules associated with the indicated firm characteristic). Publicly-traded companies were significantly and substantially more likely than privately-held companies to adopt the golden rules; ceteris paribus, the probability of adoption for publicly-traded companies was 29.7 percentage points higher than that of private firms. This is strongly consistent with the idea that pressure from capital markets, either via profit-oriented shareholders concerned about depression of profits due to poor social performance and/or via socially responsible investors, is important in inducing firms to move promptly to address publicly-circulating concerns about poor social performance. In terms of outlet types, probabilities of adopting ethical sourcing rules were significantly lower for the mass-market general-merchandise retailers (like Wal-Mart, Sears, and Target) and insignia jewelers, *ceteris paribus.* This finding makes sense for the mass-market retailers, who probably viewed their reputations and profits as less likely to be damaged by adverse publicity about gold sourcing given that jewelry is only one of their many product lines. In contrast, some high-end

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[24] On the 'Kimberley Process' to eliminate conflict diamonds from world supply, see Gold (2006).

jewelers, like Tiffany's, were among the first outlets to adopt the Golden Rules, presumably because they viewed their reputation for offering jewelry of unimpeachable quality as worthy of vigorous defense.[25]

The probit results also show the probability of adopting the rules to be considerably higher when a competitor within the firm's market segment has already adopted or is concurrently adopting the rules, although the estimated coefficient is significant at a 10% level only. This result is consistent with the idea that it is often competitive pressures that lead companies to undertake improvements in social performance. For example, in the insignia-jewelry market segment, where there are only a few major firms, student protests against them no doubt led firms to suspect that, if a competitor adopted the rules and they did not, they could lose contracts to that competitor; thus, perhaps not surprisingly, they all held out for awhile, but then all adopted the rules in 2007. Finally, the results suggest that the probability of adopting the rules jumped up in 2007, perhaps because of growing public awareness of the problem of 'dirty gold', reflecting media coverage in such important outlets as the afternoon talk-show "Oprah" and the major bridal-industry magazine *Southern Bride*.[26]

As mentioned, we might expect adoption of ethical-sourcing rules to boost a company's share price if it is expected to raise demand for the company's products and/or add a capital-market premium to its stock, but to lower the price if ethical sourcing is expected to raise jewelry costs; the net effect is therefore ambiguous. To investigate, we run regressions using daily stock price data from 1998-2007 for 6 major publicly-traded companies that have been named as leaders or laggards in the NDG campaign: Tiffany's, Zales, Finlay's, Signet, Wal-Mart, and Target. The dependent variable is the log change in the stock price. To gauge effects of the NDG campaign, we include dummy variables for the period after the NDG campaign ramped up in earnest (Feb. 2005 through the end of the period) and for the periods of the three Valentine's Day campaigns since then (the first two weeks of February in 2005-2007). Also included in the regressions are controls for other determinants of

[25] See Tiffany (2006) for elaboration of its ethical and environmental stances. Note, however, that other high-end jewelers like Rolex have not followed suit.
[26] That the NDG campaign has been successful in attracting public attention is also indicated by the fact that over 50,000 people have signed pledges not to buy gold jewelry from retailers who do not subscribe to the "Golden Rules" (Tepper 2006: 57).

stock-price movements, including three lags of the dependent variable; the log change in the S&P 500 stock price index and its three lags; the log change in the world price of gold and its three lags; and a constant.[27] To allow for the possibility that stock-price volatilities are not constant over the period, the regressions are estimated as Generalized Autoregressive Conditional Heteroskedasticity (GARCH) models with a generalized error distribution. Use of this model results in errors that are white noise.

Results for retail jewelers are shown in Table 2; shaded cells show estimated coefficients for Valentine's Day periods when the retailer had adopted the 'Golden Rules'. There is only a bit of evidence that the NDG campaign had any effect on these companies' stock prices. The stock price of Finlay, which has not yet adopted the Golden Rules and is the eighth largest U.S. jeweler, has consistently underperformed since the NDG campaign ramped up, relative to what would have been expected based on historical performance. The stock prices of two jewelers that adopted the rules – Tiffany and Zales – did significantly better than would have been expected during the 2007 Valentines Day campaign, perhaps reflecting some shift in demand towards their products. But in general, most estimated effects of the NDG campaign are insignificant. For adopters of the Golden Rules, this is consistent with the idea that any increase in costs associated with ethical sourcing is offset by higher sales and/or a reduced capital-market discount; for non-adopters, it suggests that failure to adopt has not appreciably affected profit expectations or SRI-related capital-market discounts.

The important question is whether the campaign has created appreciable incentives for mining companies to clean up their acts. To address this question, we run similar regressions using data on three of the largest companies that concentrate on gold and are traded on U.S. exchanges. To examine whether the campaign has dampened the ability of mining companies to transform higher gold prices into higher profits, we also add a variable that interacts the dummy variable for the NDG campaign period with the world price of gold. As can be seen in Table 3, the results show an important difference between Newmont and Meridian – companies that have been singled out for criticism by the NDG campaign – and Rio Tinto, a UK-based mining company that was formerly the "*bête noire*" of international mining but that has

[27] Additional lags were of only spotty significance, and their inclusion did not qualitatively affect the results reported here.

made concerted efforts over the years to clean up its act, for example, by working with NGOs to develop plans to protect the biodiversity of an area before starting to mine (Bream 2006). For Newmont and Meridian, the effect of changes in the world price of gold on the stock price fell significantly after the NDG campaign started, but for Rio Tinto there has been no significant difference. This suggests that the NDG campaign, along with related bad press that Newmont and Meridian have attracted, has lowered mainstream investors' expectations of how profitably these companies can operate if they do not make efforts to improve their social and environmental performance. That social performance has became a concern among mainstream investors is reinforced by what happened at Newmont's 2007 shareholders' meeting: socially responsible investors filed a resolution asking the company to set up an independent committee to investigate the criticisms of how it operates abroad and make recommendations for change. The resolution passed by 92%, indicating that it was not just ethical investors who cared about this, but that shareholders generally had grown concerned that the company's failure to address social and environmental problems constituted a drag on profits.

Discussion and conclusions

The case of the NDG campaign illustrates the role of informational abundance in facilitating market-based pressure on companies to address shortcomings in social performance; as a mining industry spokesperson has observed, ''News goes around the world quickly now and there is no place to hide.''[28] The case also suggests that SRI's effectiveness lies not just in the capital-market premium or discount it creates, but equally if not more in its strategic partnerships with NGOs and other groups working to change a company's social performance; thus, the fact that Newmont was screened out of many SRI funds due to its poor environmental and social performance may not have been a big concern to management, but a shareholder resolution is not something it can ignore.

At the same time, the findings of this paper suggest important non-uniformities in the potential for fairness-related collective actions to lead to improvements in CSR. For one, the possibility of mobilizing 'moral sentiment' against a company is likely to be much greater in consumer-goods industries than in industries selling their output

[28] Quoted in Perlez and Johnson (2005).

to other businesses or government. Because the behavior of individuals reflects mixtures of self-interested and other-oriented drives, they can be expected to shop and act at least at times with social values in mind. But because the “shareholder ascendancy” puts large corporations under considerable pressure to prioritize profits (factoring in ethical criteria only insofar as they affect profitability), we would expect them to buy capital goods, intermediate inputs, and business services with their primary concern being first and foremost prices. Nonetheless, the rise of such practices as ‘green sourcing’ -- wherein companies deliberately try to buy goods and services produced ‘greenly’ (e.g. paper made from post-consumer material or certified forest sources), and publicize that they are doing so – extends the pressures for improved social performance ‘upstream’ to some degree.

For another, the possibility of mobilizing public sentiment against a company is greater on some issues than on others. As suggested above, issues that are broadly regarded as ethically wrong may provoke immediate and widespread reaction (as when they involve exploiting the lack of power of poor and marginalized people and eroding their dignity). But with issues that have some ambiguity to them, or that require more knowledge to understand what it is that is objectionable about the company’s behavior, the market pressure on the company to improve its performance is often much weaker.

Thus, we conclude by pointing to three important unanswered questions about CSR on which social economists could fruitfully work. The first is the conceptual question of whether the CSR movement is inducing a shift in ethical norms in business life. Certainly firms’ increasing attention to social responsibility has been promoted by possibilities of gaining over competitors by improving social performance, or avoiding risks of losing sales by appearing to be socially or environmentally ‘bad’. But as Veblen outlined in his *Theory of Business Enterprise* (2005[1904]), an important influence on how businesses do their business is ‘habitual ways of thinking’ – i.e. the priorities and practices they think of as ‘normal’ in the conduct of business life, which come to have a natural character to them. The idea that, to thrive, corporations in today’s world need to be attentive to the ethics with which they treat their stakeholders is suggestive of a shift in business norms. However, more work needs to be done to determine, both conceptually and empirically, how to distinguish between a shift in business norms and a change in patterns of business behavior that does not involve an underlying change in habitual thinking. Understanding this question is important for determining whether CSR represents a shift in the business system that is likely to persist, or a more transitory discourse.

Second, even if it is possible to see CSR as having led to improvements in the social performance of corporations, there has been very little rigorous consideration of whether improvements undertaken voluntarily by profit-focused corporations go anywhere near far enough to make a difference on critical social and environmental issues -- like reversing the process of climate change. Although it is of considerable interest that CSR has been able to re-infuse business life with concerns about social values, the fact that businesses can pick and choose which problems to address means that some classes of changes – those that would raise social welfare but at the expense of profits – will not be undertaken. Thus, social economists could valuably help develop conceptual frameworks for understanding when market pressures for social responsibility are likely to be insufficient for protecting the common good, and use them to identify empirically when government policies should (also) be used to compel businesses to adjust their practices.

And finally, there is the broader analytical question of why, in the past 15-20 years, the direct application of moral pressure on businesses – rather than government intervention -- has come to be seen as the primary avenue for reducing contradictions between the profit motive and social values. Simple textbook economics holds that, when 'market failures' result in market outcomes that are not welfare-maximizing, public policies must be used to shift them to the social optimum. The rise of CSR instead suggests the possibility of 'government failure', wherein socio-political influences on government result in public policies that are not welfare-maximizing, so that market forces ironically become the avenue for moving market outcomes towards socially preferred points.[29] Thus, it is important to situate the rise of CSR in the context of broader reconfigurations of social, economic and political space – an analysis which social economists, because they do not extract economic processes from the societies and value systems in which they are

[29] This issue as it pertains to the U.S. was discussed compellingly by former Labor Secretary Robert Reich in his 2007 plenary address to the Association of Social Economics, in which he argued that the notion of 'corporate personhood' gives corporations undue say in social outcomes by virtue of their legal rights to try to influence political processes.

embedded, but rather understand them in macro/social perspectives, are uniquely qualified to undertake.

Table 1. Retail jewelers: Probability of adopting the 'Golden Rules'

	Estimated marginal effect	Standard error
Publicly-traded company	.2968*	(.0925)
Luxury	-.1727	(.1627)
Mall-based	-.2140	(.1399)
Mass-market general merchandise	-.3249*	(.0659)
Class rings/insignia	-.1825*	(.0918)
Major competitor in market segment has adopted	.3143+	(.1708)
Dummy variable for 2006	.0162	(.1356)
Dummy variable for 2007	.3942*	(.1631)
Pseudo R2	.36	

- *= significant at 5% level, += significant at 10% level.
- Data cover 37 firms for 3 years; n=111.

Table 2. Retail jewelers: Estimated effects on stock prices of the NDG campaign

	Dummy variable for period since campaign ramped up (2005 on)	Dummy variable for Valentine's Day campaign in:			Joint significance of all campaign variables (p-val.)	R-squared
		2005	2006	2007		
	(1)	(2)	(3)	(4)	(5)	(6)
Tiffany	-.0005	-.0062	-.0002	.0051+	.19	.10
	(.0007)	(.0041)	(.0034)	(.0028)		
Zales	-.0006	-.0007	-.0015	.0075*	.13	.04
	(.0007)	(.0043)	(.0038)	(.0032)		
Signet	.0005	.0003	.0018	-.0009	.91	.03
	(.0006)	.(0035)	(.0035)	(.0027)		
Finlay	-.0020*	-.0027	-.0055	-.0004	.02	.02
	(.0008)	(.0045)	(.0034)	(.0035)		
Wal-mart	-.0004	-.0017	-.0006	.0003	.75	.32
	(.0005)	(.0021)	(.0024)	(.0024)		
Target	-.0007	-.0055	.0012	.0024	.27	.30
	(.0006)	(.0035)	(.0031)	(.0026)		

Notes: The data are daily stock price changes, 1998-2007. In all regressions, the number of observations is 2,151. In each regression, the dependent variable is the log change in the company's stock price. In addition to the variables shown above, the right-hand side variables include three lags of the dependent variable; the log change in the S&P 500 stock price index and its three lags; the log change in the world price of gold and its three lags; and a constant. The regressions are estimated as Generalized Autoregressive Conditional Heteroskedasticity (GARCH) models with a generalized error distribution.

- Standard errors are in parentheses.
- *= significant at 5% level, += significant at 10% level.
- Shaded cells show estimated coefficients for Valentine's Day periods when the retailer had adopted the 'Golden Rules'.

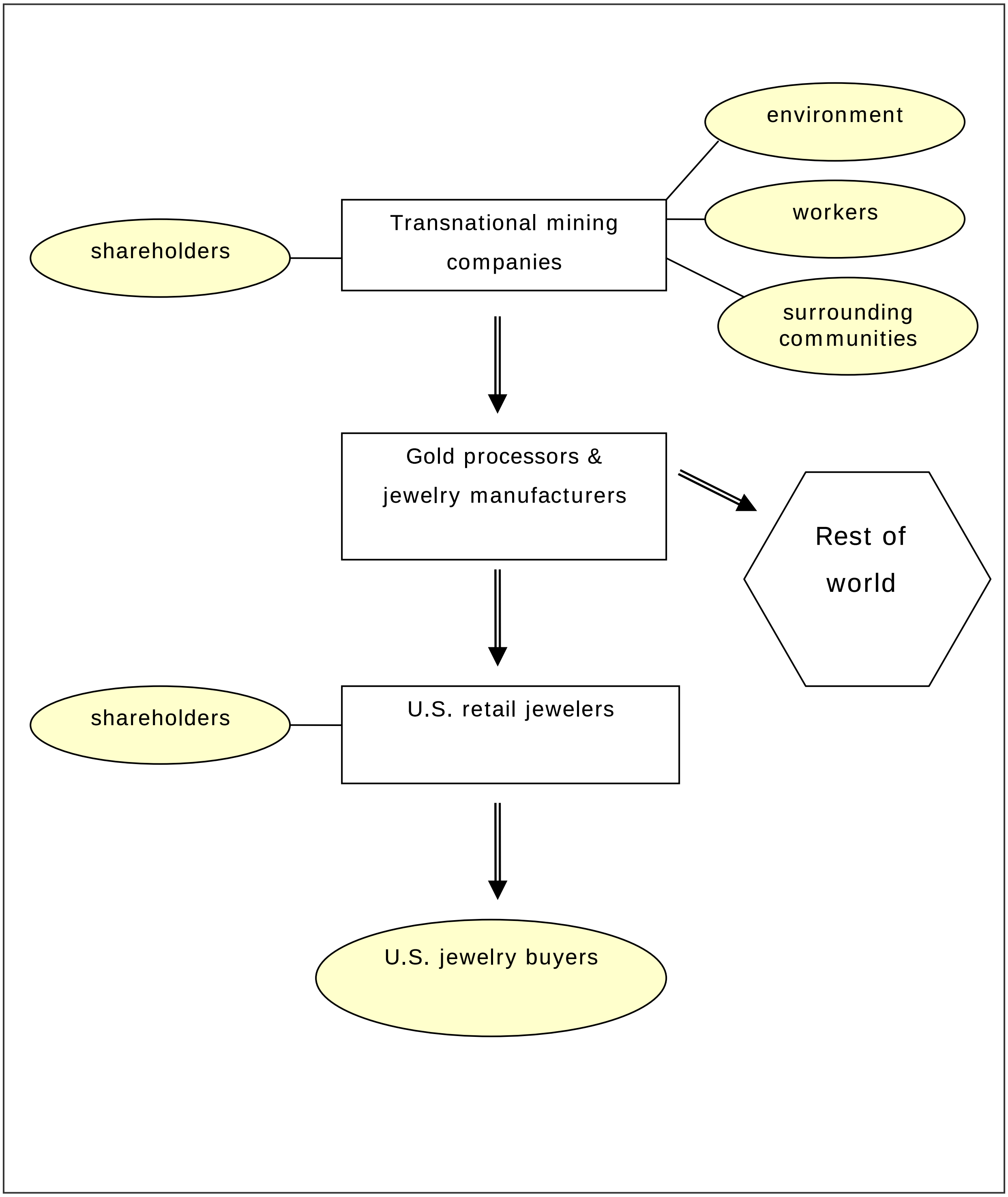
Table 3. Major gold mining companies: Effects on stock prices of the NDG campaign

	Dummy variable for period since campaign ramped up (2005 on)	Interaction of (1) with log change in gold price	Dummy variable for Valentine's Day campaign in:			Joint significance of Valentine's campaigns (p-val.)	R-squared
			2005	2006	2007		
	(1)	(2)	(3)	(4)	(5)		
Newmont	-.0012	-.2353*	.0010	-.0061	.0023	.51	.05
	(.0009)	(.0823)	(.0047)	(.0044)	(.0042)		
Meridien	.0004	-.2286*	-.0092	.0044	.0016	.63	.02
	(.0014)	(.1188)	(.0082)	(.0071)	(.0079)		
Rio Tinto	.0010	.1308	-.0052	-.0030	-.0047	.63	.01
	(.0009)	(.0845)	(.0057)	(.0047)	(.0063)		

Notes: The data are daily stock price changes, 1998-2007. In all regressions, the number of observations is 2,151. In each regression, the dependent variable is the log change in the company's stock price. In addition to the variables shown above, the right-hand side variables include three lags of the dependent variable; the log change in the S&P 500 stock price index and its three lags; the log change in the world price of gold and its three lags; and a constant. The regressions are estimated as Generalized Autoregressive Conditional Heteroskedasticity (GARCH) models with a generalized error distribution.

- Standard errors are in parentheses.
- *= significant at 5% level, += significant at 10% level.

Figure 1. Stakeholders in the world gold industry



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