MUSINGS

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Capitalism Grows Up

If in the 1700s the market regulated itself invisibly, today it is doing so consciously. And conscientiously.

ILLUSTRATION BY JAMES O'BRIEN.

AMONG THE VARIOUS BRICKBATS and bouquets tossed our way after the controversial story criticizing The Body Shop (September/October 1994), there was one letter I found particularly striking. Mentally, I've been carrying it around with me ever since—and I think I've finally deciphered why it's so significant. It was from the director of issues management at International Paper Corp., Evan O. Jones. "Evolving paradigms of business social responsibility were not spontaneously created out of the ether by self-appointed guardians of business ethics like Marjorie Kelly or Joan Bavaria," he wrote. "Rest assured, the changes in business practice will somehow survive Roddick's hopefully temporary downfall. In fact it is much, much bigger than that, and the potential for future progress in this area is much greater than if this 'movement' were merely the fad that *Business Ethics* sometimes tries to make it. Business is changing the way it does things today because the West's entire socioeconomic context is undergoing an evolution of historic proportion."

Coming from an executive whose view is pragmatic rather than ideological, these thoughts carried special weight. And they echoed back what I have often thought, and often tried to express in my own writing: that the changes underway in business today are truly historic. But what was most telling was the pointed reminder that socially responsible business doesn't "belong" to those of us who are committed to its advance. It isn't the exclusive property of Ben & Jerry's, or The Body Shop, or *Business Ethics*. It's "much, much bigger" than that ... it has "greater potential for future progress" ... it's part of "an evolution of historic proportion."

Indeed, while many of us in the movement have been off in a corner quibbling about The Body Shop, this past year brought a more significant event that I don't think has even registered yet: General Motors signed the CERES Principles. This *$140 billion* automaker—one of the largest companies in the entire world—has pledged publicly to protect the environment, and to back up that pledge with annual audits and public reports. What's more, it took this step voluntarily. That's a remarkable event.

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Clearly, it was helped along by the movement for socially responsible business (CERES, the Coalition for Environmentally Responsible Economies, was launched by a group of social investors and environmental groups), but Jones is right: What's underway today is much, much bigger.

And that brings me back to the question that Jones' letter poses for me: If business is undergoing an evolution of historic proportion, what is the nature of that evolution?

This is a question I've been wrestling with for years, and I've come recently to what I believe is the pivotal answer: *self-regulation.* Now, admittedly, this is a rather dry term to explain something as vast as an "evolution of historic proportion." But it goes, really, to the heart of the matter, for it has to do with the central idea that has defined capitalism since the time of Adam Smith: the concept of the self-regulating free market.

As social responsibility takes root in business—as it is increasingly today—we are seeing self-regulation evolve. The mechanism of the self-regulating market is broadening, reaching out beyond financial issues like supply and demand, to include social issues like the environment and human rights. In the concrete form of tools like environmental codes of conduct, business is beginning to take upon itself the duty to self-regulate for societal benefit. If in the 1700s the market regulated itself invisibly, today it is doing so consciously.

Why this broadening of social conscience? Are businesspeople evolving into a race of angels? Hardly. Business is doing what is in its nature to do, which is respond to market pressures. In the 1994 Environmental Report GM produced as part of its commitment to CERES, CEO Jack Smith laid it out clearly. As part of the company's "new direction," GM is articulating a vision of "being the world leader in transportation products and services." And, Smith went on: "We recognize that, in order to realize this vision, we must operate in a way that is compatible with society's goals, including the goal of environmental protection.... We view caring for the environment as more than a responsibility: we view it as a critical factor in GM's success."

As the concept of self-regulation evolves, what's at work is really a maturation process—a passage from a lower to a higher level of ethical maturity, akin to the passage from adolescence to adulthood. Adolescents obey rules grudgingly—just as business has grudgingly accepted government regulation—but adulthood means internalizing the rules. As grownups, we don't need our mothers to tell us to pick up our rooms. And we don't need government to tell us to clean up the environment. We accept that there's a world out there beyond our own ego, or beyond our own balance sheet, and we recognize our duty to be responsible to that broader world. We mature as individuals for many of the same reasons that capitalism is maturing today: because of social pressure, fear of punishment, good role models, personal values, or simply the passage of time.

That's not to say self-regulation should replace government regulation. But self-regulation has an additional contribution to make, and if it makes it well, it can forestall—or help guide—government regulation. What makes self-regulation particularly effective is

that it preserves the two fundamental sources of the market's vitality: self-interest, and freedom. GM is cleaning up its environmental balance sheet because there's something in it for the company. And—at least in those areas where it is out ahead of the law—it has the freedom to be creative in how it does so.

THE KEY TO SOCIAL SELF-REGULATION is that businesses are internalizing societal goals. And there's more of this going around than one might think. Corporate environmental initiatives, for example, are almost too numerous to count these days. To name only a few of the most prominent groups, and a few of their most prominent members, there's the *Public Environmental Reporting Initiative* (Amoco, IBM, Phillips Petroleum, Polaroid); the *Business Council for Sustainable Development* (S.C. Johnson, ConAgra, du Pont, ALCOA); the *Responsible Care Initiative* (Arco, Dow, Union Carbide, Hoechst Celanese); and the *Global Environmental Management Initiative* (Allied Signal, Anheiser-Busch, Boeing, Coors). Most of these offer statements or codes that talk about "environmental excellence" or "improving environmental performance"—and of course, the more general the statement, the more eager (and numerous) are the signatories.

But the CERES Principles are beginning to put real teeth into the concept of business self-regulation. Signatories include dozens of smaller firms, plus four multinationals: Sun Company, H.B. Fuller, Polaroid, and GM. Sun was the first of the four to sign on, and it was indeed a path-breaking step. Asked how his colleagues in industry reacted, Chairman Robert Campbell replied: "The silence was deafening." Many told him they couldn't believe his legal department permitted it.

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The ten-point code is rigorous, and to sign it publicly is a significant act. Among the pledges signatories take:

"We will reduce and make continual progress toward eliminating the release of any substance that may cause environmental damage to the air, water, or the earth or its inhabitants....

"We will promptly and responsibly correct conditions we have caused that endanger health, safety, or the environment....

"We will make sustainable use of renewable natural resources ... reduce and where possible eliminate waste ... conserve energy ... regularly seek advice and counsel through dialogue with persons in communities near our facilities...."

Signatories also pledge to conduct an annual self-evaluation of their progress, and "to go voluntarily beyond the requirements of the law."

While CERES publishes compiled results of the self-audits, some companies—like Sun and GM—are voluntarily publishing annual environmental reports. GM's 1994 report, for example, reveals that the company in 1992 put out 46 million pounds of toxic chemicals, and that it recovered, recycled, or treated about three times that much, or 138 million pounds. It also shows that the company reduced chlorinated solvents by 79 percent from 1988 to 1992; and that it had converted 97 percent of vehicle air conditioners to non-ozone depleting refrigerant.

But CERES is just one initiative. And if it has succeeded in getting four multinationals to sign on, another that is equally rigorous—the Responsible Care Initiative—has signatures from nearly an entire industry. And not just any industry, but the official Earth Day pariah: the chemical industry.

Responsible Care had its genesis in a relatively toothless one-page set of guiding principles from the Canadian Chemical Producers Association, which members signed only voluntarily. But after the devastating 1984 gas leak at a Union Carbide plant in Bhopal, India, the code became mandatory for CCPA members.

It soon spread to the U.S. Chemical Manufacturers Association (CMA), and by 1988, the Responsible Care Initiative had blossomed into a full-fledged code, with detailed requirements that go beyond the law—mandating, for example, an annual survey of all wastes generated, not just hazardous wastes.

While the plan mandates no set level of emissions reductions, some companies have made impressive gains. From 1987 to 1992, for example, Monsanto reduced toxic air emissions by 92 percent—and has pledged publicly to work toward zero emissions. Since 1988, CMA companies overall have reduced toxic chemical emissions by 35 percent.

The practical impact of Responsible Care reaches deep inside companies. Dow, for example, has designated "stewards" for individual products, and refuses to ship so much as a sample before they can educate customers on proper use. And the company has brought in environmentalists to talk with research scientists about design.

WHAT INITIATIVES LIKE THESE SHOW us is the self-regulating market at work—but with the broader social good *consciously* in mind. Companies are literally beginning to self-regulate, beyond the requirements of the law. And the phenomenon reaches beyond the environment into many areas of social concern. A few examples:

▶ In response to public concern about the link between violence and video games, the Entertainment Industry Rating System Committee—which includes companies like Atari, Nintendo, and Sega—recently introduced a voluntary system for rating video games. Truly a market-based approach, it aims to put control in the hands of parents, and in no way attempts to regulate content.

▶ In the area of human rights, Levi Strauss in 1992 set strict standards for its overseas suppliers—cutting off thirty of its six hundred suppliers, and forcing changes from an additional 120.

▶ In the area of diversity, Hoechst Celanese has dedicated itself to attaining 34 percent female and minority representation at all levels of the company by the year 2001. And it has grounded that policy in business reality, by making workforce diversity a performance criterion in awarding salary increases.

Must the hand of the market be unconscious as well as invisible? The evidence says no. The free market can embrace social goals as efficiently as it embraces financial goals. The old notion that business is apart from society, in a world where moral scruples don't apply, focusing solely on maximizing profits, is outdated. Evan O. Jones is right. This is indeed an evolution of historic proportion—an updating of the free market concept that is the very foundation of capitalism.

Rites of Passage

SOME DEAR FACES at *Business Ethics* are leaving after this issue, and some wonderful new folks are joining us. After eight years with the magazine, co-founder Miriam Kniaz is leaving the staff to take a two-month sabbatical before embarking on a new project. She'll remain on the board of directors—and on the masthead (that's a promise). Also departing is editor Craig Cox, who after four years with *Business Ethics* is moving on to become managing editor of the *Utne Reader*. They're not only colleagues but great friends, and will remain so.

At the same time, we're welcoming Dale Kurschner on board as our new editor. The former managing editor of *Minneapolis/St. Paul City-Business*, Dale brings to us eight years of experience in business journalism. Also joining us, as advertising sales director, is Jean Madson, with more than a decade of experience as a top-performing ad salesperson.

—Marjorie Kelly,
Publisher and Editor-in-Chief