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**STANFORD** SOCIAL INNOVATION *review*

## **On the Frontlines**

### **Invention for the Common Good**

Four reasons corporations should engage in social responsibility

Excerpted and adapted from Carly Fiorina's keynote speech at the annual Business for Social Responsibility conference in November 2003.

Fiorina the chairman and CEO of Hewlett Packard

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## Invention for the Common Good

*Four reasons corporations should engage in social responsibility*

It was 33 years ago this past fall that the *New York Times Magazine* ran Milton Friedman's seminal work, "The Social Responsibility of Business Is to Increase Its Profits," which remains one of the most influential and reprinted articles in the history of business schools. Friedman argued that business leaders basically have no responsibilities other than to maximize profits for the shareholders, who in turn can use their dividends in any way they see fit. Governments and communities, meanwhile, can use the taxes a company pays on those profits for any goal they see fit.

Friedman is a Nobel Prize-winning economist who I certainly admire, but to my mind, what was most remarkable about that article was how wrong it was. The idea that companies have no responsibility to the communities in which they operate is shortsighted at best, and it is certainly not sustainable for very long.

I, for one, am glad that we live in an age where those attitudes have begun to change – an age when hundreds of employees and top executives took time out of their busy schedules in November to attend the Business for Social Responsibility conference in Los Angeles and discuss the idea of corporate social responsibility. We live in an increasingly transparent age in which every nook and cranny of a company is increasingly exposed for the entire world to see. And at Hewlett Packard (HP), that means transparency regarding our corporate social responsibility initiatives.

Our Web site, for example, will tell

you that HP employees were given paid time off each month to volunteer in their communities nearly two decades before Milton Friedman put pen to paper for the *New York Times*, and this practice is one we continue today. It will tell you about the e-inclusion campaign that we have under way in communities as far away and diverse as India, South Africa, and East Palo Alto – on-the-ground efforts aiming to close the gap between technology-enabled and technology-excluded communities, while developing new products, customers, and employees in the process. It will tell you about the \$62 million that we donated worldwide last year and about the campaign that we have under way with GlobalGiving, a Web-based platform that facilitates social and economic investments in developing nations, to allow our employees to donate directly to projects around the globe. It will tell you that we believe in doing well and doing good. It will tell you that we are focused on invention for the common good.

Not long ago, I received an e-mail from an HP employee who wondered what reason we could possibly have for committing time and resources to corporate and social responsibility, especially in this age of depressed profits and workforce restructuring. Why would we care about communities around the world instead of just concentrating our efforts here at home?

To my mind, there's not one good reason why we're doing these things – there are actually four.

The first is that it is simply the

right thing to do. We live in a world today where half the population lives on \$2 a day, where one billion people cannot read or write, where a billion-and-a-half people never get a clean glass of water.

In this world, the role of companies is changing. Today, 52 of the largest economies in the world are corporations, and with that strength and power comes reach and presence. HP, for example, does business in 178 countries, including many nations that are underdeveloped or developing, and we find that we have leverage in these places that sometimes even governments do not. When we get involved in an area and back it with real resources – not just money and time, but also our people and products – we become a catalyst for change because governments, NGOs, and community leaders – even other companies – are then more willing to make a commitment. With global reach and global power comes global



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keynote speech at the annual Business for Social Responsibility conference in November 2003. Fiorina's full remarks are available online at

<http://www.hp.com/hpinfo/execteam/speeches/fiorina/bsr2003.html>.

## The global movement to enforce labor, environmental, and economic standards is picking up steam, and we still have the ability to shape that movement and take control of it before it takes control of us.

responsibility.

The second reason to do it is that the global movement to enforce labor, environmental, and economic standards is picking up steam, and we as companies still have the ability to shape that movement and to take control of that movement before it takes control of us.

One of the most enduring images of the global economy is the protesters who show up at every meeting of the World Trade Organization or the World Bank, protesters marching for labor, economic, or environmental rights. Often, protesters are targeting multinational corporations as stand-ins for countries. We get caught in the crossfire, and in some cases, we become the scapegoat.

The food industry, for example, is sometimes blamed for obesity, energy companies get blamed for bad air, and Internet service providers are challenged to protect customers from child pornography. In many ways, this world is still chaotic, but where order is being brought to it, increasingly and frequently, it is being brought by governments. It is no accident that two years ago, the United States and Jordan signed the very first trade agreement that institutes labor and environmental rights, just as it is no accident that in the past two years, France, the European Union, the United Nations, and the World Bank have all launched new efforts to require reporting on sustainability issues.

This movement can only grow stronger, and we as companies can sit back and wait to be regulated in ways that we might not like very much, or we can take control of these issues for ourselves, and by doing so, bring more predictability and more sustain-

ability – and hopefully better solutions – to a chaotic world.

The third good reason to do this is that it's become increasingly clear that shareowners, customers, and even employees are rewarding companies that achieve social change through business.

Do investors actually seek out companies that do the right thing? The numbers suggest that the answer is yes. The number of socially responsible mutual funds in the United States alone has gone from two firms holding \$66 million in assets in 1980 to nearly 200 funds today with assets over \$150 billion.

And a recent study by GovernanceMetrics International, which rates companies on their governance, labor, environmental, and litigation histories, found that stocks of the top-ranked firms significantly outperformed the market over time, while low-rated firms trailed the market. The companies that are worthy of an investor's money, time, energy, and investments will be those with similar values that can meet a higher standard of performance.

Meanwhile, all corporations are focused on how to retain, motivate, and empower employees, and I believe corporate social responsibility is an element that employees look for. People want to be part of an enterprise they can be proud of, something larger and more important than them.

Finally, the fourth good reason: I believe corporate social responsibility is good for the top line and good for the bottom line; it is not just the right thing to do, it is the smart thing to do.

For many years, philanthropic community development goals were seen as separate from business objectives, not fundamental to them; doing well and doing good were separate

pursuits. But that is changing. Cutting edge innovation and competitive advantage can result from weaving social and environmental considerations into business strategy from the beginning. And in that process, we can help develop the next generation of ideas, markets, and employees.

Consider a Hewlett Packard project in Kuppam, an impoverished area of India, which provides digital cameras for villagers. A group of HP employees who went to Kuppam saw that electricity was unreliable. They returned with the idea of creating a solar-powered printer and a solar-powered digital camera.

It just so happens that in India, every citizen must have a national ID card, and villagers must travel periodically to a city to have a photograph taken for their card. This is a time-consuming process, and it takes them away from their work. With the help of HP's project, however, five entrepreneurial Indian women now travel from village to village, taking photos with solar-powered cameras, and using the solar-powered digital photography studio to create national identity cards.

What's happened in that process? We've developed a new product, we've helped create new businesses that are sustainable, and we've also created lifetime partners and customers. Yes, it's a small start. But the potential for digital photography in a market like India is boundless.

### HP's Supplier Code of Conduct

We have, as a company, more than one billion customers – that's a lot of people, a lot of packaging, and potentially a lot of waste.

Last year, we adopted a Supply Chain Social and Environmental Responsibility policy with a Supplier

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**To those corporate leaders who have not yet begun the journey, and are worried about not having the perfect strategy: Don't wait for perfection.**

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Code of Conduct that governs everything from employment, environment, and health and labor policies, to safety practices. Our goal is to use our leverage to prod our suppliers to embrace and institutionalize our code of conduct.

In 2003, we assessed our 40 largest suppliers, which provide us with more than 70 percent of the total that we spend on product materials. Most of these suppliers are large, multinational companies like us. Frankly, some of them took umbrage at being asked to sign our code. Some flat-out refused to sign – and discussions continue.

We've worked with them to help them understand that we're not just tweaking them. We're not just trying

to be objectionable. We really do want to make sure that their practices are within the bounds of our code so that we can look our customers in the eye and say that we're sure that the product they're buying is consistent with our standards. But it is a dialogue and there's learning going on, on both sides.

At the end of our fiscal 2003, which we just concluded, we met our goal of engaging 50 suppliers so far, and we have gotten our top 45 suppliers on board, representing almost 80 percent of the total we spend on product materials. We've contacted an additional 100 suppliers in high risk and other categories for 2004 and beyond. This is an ongoing, difficult learning process – but one that is

well worth the effort.

Hewlett Packard has been at this for six decades. In that time, we have learned that social responsibility can make a meaningful difference to customers, partners, shareowners, and employees, increasing sustainability in the long run. We still have a lot to learn. To those corporate leaders who have not yet begun the journey, and are worried about not having the perfect strategy or all the answers ahead of time, I offer this advice: Don't wait for perfection. Don't wait until all the pieces are together. Don't worry that the company doesn't have every single policy or written value statement. Start the journey. And just keep going. □