



Affirmative Thinking

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CSR: The New Paradigm in Business

Steve Schueth | President

In a featured editorial in the Wall Street Journal on August 23, 2010 (*The Case Against Corporate Social Responsibility*), Associate Professor Aneel Karnani of the University of Michigan’s School of Business called Corporate Social Responsibility (CSR) irrelevant. This provocative article has stirred up legions of impassioned voices who are speaking to the business case for CSR.

“Where profit and public interests are aligned, the idea of corporate social responsibility is irrelevant,” Karnani said. “While companies sometimes can do well by doing good, more often they can’t... in most cases, doing what’s best for society means sacrificing profits.”

Let’s admit that there is some truth to both of these statements in the short term. Organic and natural food, for example, is a fast-growing sector—it’s “naturally” good for people as well as the bottom line. And, we have seen countless situations where companies have opted for a lower cost approach to boost short-term profitability while assuming significant risks and sometimes huge clean-up expense over the longer term (think BP).

Karnani says that “companies are unlikely to voluntarily act in the public interest at the expense of shareholder interest.” While he may be accurately reflecting a reality of corporate culture over the past 50

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Corporate Diversity: Good Governance and Good Business

Sara Laks | Assistant to the President

There is a growing body of academic research supporting the notion that diversity can have a significant and positive impact on the governance of a company. However, as evidenced by the severe under-representation of women and minorities in corporate boardrooms, there is a clear disconnect between the academic research and the perceived value of diversity at many corporations.

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Announcing BillPort

First Affirmative, with the help of Arcons Technologies, will implement a new billing system in January 2011. This automated system offers more flexibility, customization, and transparency. Existing clients may receive pro-rated invoices over the next three months. Our network advisors and clients should find that BillPort will significantly enhance our services.



First Affirmative
Financial Network, LLC

Investing for a Sustainable Future

Join us in San Antonio!

The 21st annual SRI in the Rockies Conference will be November 18–21, 2010. Visit www.SRIintheRockies.com for details.

Shareholders Oppose “Virtual” Annual Meetings

The internet is a powerful and efficient way for companies to engage with customers, employees, and shareholders. But when Intel announced it was considering a web-only annual meeting for 2010, responsible investors voiced concerns that eliminating a face-to-face meeting could distance the company from important shareholder scrutiny. Subsequently, Intel selected a hybrid meeting, with in-person as well as virtual options.

Symantec announced a web-only shareholder meeting in September. First Affirmative again [joined](#) investors nationwide to encourage a hybrid rather than web-only meeting, but Symantec held to its plan. Subsequently, however, the company [announced](#) that it will hold a hybrid meeting in 2011.

UNPRI Passes \$22 Trillion Mark

The United Nations Principles for Responsible Investment (UNPRI) has added 268 signatories since July 2009 bringing the total to 808 with over \$22 trillion in assets under management. The rapid increase in signatories strongly suggests that mainstream institutional investors have responded to the financial crisis by adopting the Principles, not by postponing doing so.

The Importance of Sustainability Reporting

Christie Renner | Shareowner Advocate, Assistant to the CEO

The business world has made great leaps recently to narrow the gap between the “business as usual” model—focused on short-term profits—and the current zeitgeist of long-term sustainability.

In 2009, nearly 1,400 companies completed a sustainability report using the [Global Reporting Initiative](#) framework, up from fewer than 300 companies in 2004. Reporting alone does not ensure improvement, but sustainability reporting provides a key support in the bridge to a greener economy. In business, what gets measured gets managed.

Companies that meet the highest standard of reporting track a wide variety of environmental, social, and governance (ESG) metrics including energy use, carbon emissions, implementation of human rights policies, results of supplier audits, and progress toward quantifiable goals. The reporting structure documents progress toward sustainability, and provides an avenue for companies to communicate challenges and opportunities to their shareholders, customers, and other stakeholders.

The dramatic increase in corporate reporting is a response to stakeholder expectations and regulatory requirements, and a practical recognition of the operational cost savings of conservation measures. Reporting also helps to identify and address weaknesses before they become legal or reputational risks.



Investment analysts and managers now review sustainability reports (CSR reports) and other disclosures with much greater frequency to get a better view of business risks and potential rewards. They look to the [Carbon Disclosure Project](#) and the [Forest Footprint Disclosure Project](#) (two prominent examples) to identify year-over-year improvements, in an effort to identify companies that are leading their respective industry sectors. Some investors are engaging with companies who appear to be dragging their feet on particular issues.

Encouraging companies to report is becoming a common investor request in the push toward sustainability. Let’s hope the trend toward more and better reporting continues.

Corporate Diversity

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In response to advocates who, for many years, have sought more board diversity among U.S. companies—especially gender diversity—the SEC (Securities and Exchange Commission) recently mandated greater corporate diversity disclosure. Yet, in a post-proxy survey of corporate statements by the [Corporate Library](#) in preparation for their recent report, *Beyond the Boilerplate: The Performance Impacts of Board Diversity*, it became apparent that company disclosure remains lacking in this area. The Corporate Library found that what exactly qualified as diversity was often vague, and that explanations of why diversity matters were somewhat “boilerplate.”

The SEC stopped short of defining diversity, leaving the door open for corporations to interpret the meaning to include anything from gender, race, ethnicity, and national origin, to professional background, qualifications, and experience.

The Corporate Library reports that the most cited reasons for the value of diversity in corporate statements are 1) the value of a variety of knowledge; 2) the value of a variety of opinions; or 3) no mention of value at all (most common). Another 2009 study of corporate views on diversity produced similar results: there was no consistent understanding of diversity’s importance or why it mattered on boards, or in business generally.

Socially conscious investors believe that factors such as corporate governance and diversity are material considerations for investors because of the very value that corporations are having a difficult time articulating and that the academic research supports. The research strongly suggests that diverse boards act with increased intensity in monitoring company affairs and provide more accurate value assessments.

This is particularly true for women in senior management positions and on corporate boards. A 2007 [Catalyst study](#) on board diversity and financial performance found that those companies with the highest proportion of women on their board of directors outperformed those with the lowest percentage of women by 66 percent, as measured by return on invested capital.

But corporate understanding is still lagging and investors must continue to push for board diversity and good governance. Management with diverse backgrounds not only reflects values of equality and fairness but offers an additional metric for identifying well-run and profitable companies.

Conflict Minerals and Human Rights

Some of the smallest ingredients in products ranging from cell phones to cars are minerals. When mined where armed conflict and flagrant human rights abuses occur, they are called “conflict minerals.” To address these abuses, companies must know the origins of their raw materials. The financial reform legislation recently signed into law will require companies to disclose their plans for eliminating conflict minerals from their supply chains by April 2011.



California now requires large companies to publish online how they address slavery and human trafficking in their supply chains.

The Greenest States

Washington, Colorado, Massachusetts, New York, and California were identified as “greenest” in a survey of the 25 largest states by the [Natural Marketing Institute](#). Leading states pioneer new environmental policies, are avid outdoor activity lovers, and drive green products markets. At the other end of the spectrum, Virginia, South Carolina, Ohio, Georgia, and Indiana were identified as least green.



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CSR: The New Paradigm in Business

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years, he appears uninformed about the new business mindset that considers the impact of business decisions on all stakeholders.

Is it naïve to suggest that company management should not put the interests of shareholders ahead of the interests of all other stakeholders (customers, employees, suppliers, communities, and the natural environment)? Maybe. But it's less naïve than believing that companies can prosper for very long by focusing only on short-term profits at the expense of the public good.

Companies seek to realize profits and create value precisely because they fulfill a public interest. They identify a need, develop a product or service to fulfill that need, and charge an amount commensurate with the perceived value of the benefit being offered.

While important, the primary role of management is *not* to generate profits; it is to *create value* for shareholders, which cannot be done by ignoring the priorities of other stakeholders who are intrinsic to the viability of the business. Good management balances the needs and expectations of all stakeholders in the pursuit of both profit and long-term value. Smart managers look at megatrends and ask themselves how they can apply their core competencies to win in the future. At the moment, some of the megatrends that are obvious to all are resource scarcity, poverty, pollution, and other “social” issues.

We have many examples of leading companies that have successfully demonstrated the business case for CSR. From GE's \$18 billion [ecomagination](#) business (in 2009), to Clorox's [Green Works](#), to credit unions, many companies are finding ways integrate CSR to save money and make money, while serving both people and the planet.

More than 85% of the Fortune 50 companies now publish corporate citizenship and/or sustainability reports. CSR has become a vital component and protector of brand value. [The Reputation Institute](#) estimates that about 40% of brand reputation is manifest through CSR. Often identified as one of the largest intangible assets on a company's balance sheet, brand reputation can make or break a business.

To say that CSR is irrelevant is to ignore several of the most important foundational principals upon which our capitalist system is based—an alarming revelation from a business school professor!

The good news is that Karnani's article has prompted renewed discussion about short-term profits vs. long-term value creation, and how companies can do well and do good at the same time. First Affirmative is here to say that it's not only possible, it's the new paradigm.