



Innovations in Sustainable Enterprise

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"Social Arbitrage"

By Robert Bushman

A significant trend in recent years is the growth in resources allocated to something called Corporate Social Responsibility (CSR). Typically included under this rubric are corporate expenditures made to fund a wide range of philanthropic causes and social initiatives, over-comply with environmental standards, and promote the existence of such corporate expenditures to various constituencies. Despite the dramatic increase in expenditures by corporations on CSR and an ever-growing body of academic research and thought pieces in the popular press, there appears to be little agreement among academics and others as to the role played by CSR in the modern business firm, the economic and social justification for CSR, or the connection between CSR expenditures and financial performance. There is not even a consensus on what CSR is!

There are many open questions concerning CSR. Do corporations benefit financially by doing good? How does CSR affect firm value? How are CSR-related value effects impacted by a firm's circumstances? Is there a direct conflict between maximizing shareholder value and social value? Explanations and justifications offered for CSR run the gamut from the utopian to the cynical. These include socialist redefinitions of the modern corporation, single-bottom line justifications rooted in cost savings and brand management, and claims that CSR is basically a rip-off of shareholders' money.

While a review of this literature is well beyond the scope of this article, a small sampling of extant theories is instructive and sets the stage for my later discussion. I offer four stylized contenders:

- Despite the elegant arguments of Adam Smith, Milton Friedman and others, some argue that profit maximization is not the proper objective of the business corporation. Instead, corporate executives should seek to maximize a broader measure of corporate well-being, which includes not only financial claimants, but also employees, customers, communities, governmental officials, the environment, and even society as a whole;
- CSR expenditures are targeted towards a firm's existing and potential customers, and like advertising, create shareholder value through brand enhancement;

(continued next page)



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[Bio online.](#)

"Social Arbitrage" (continued from page 1)

- Investors view corporations and not-for-profits as equally competent suppliers of charity-related "good works" and choose to delegate their philanthropic decisions to corporate executives rather than making direct charitable contributions. In this view, corporate philanthropy is offset by reductions in charitable giving by individuals;
- Managers of corporations exploit investment in CSR for their private benefit, seeking to enhance their own reputation and social status at the expense of shareholders.

In this short article, I do not take a position on CSR, but instead focus on one aspect of CSR that I call social arbitrage.

In economics, an arbitrage opportunity is said to exist when two otherwise identical goods sell at different prices. This allows risk-free profit by simultaneously buying the cheap good and selling the expensive one until prices converge. An absence of financial arbitrage would result in money being left on the table, a situation that nature appears to abhor as intensely as it does a vacuum. The financial vacuum created by price disparities is filled by financial arbitrageurs constantly on the hunt to find and exploit such profit opportunities.

By analogy, I posit the construct of the social arbitrageur on the hunt to find and exploit corporate money sitting on the table available to create social value. Social arbitrageurs gravitate to and exploit these opportunities; they do not create them. The money is put on the table by corporations seeking to deflect the wrath of social activists (not social arbitrageurs) as manifest through the political process. To be clear, I am not talking about social activists extorting money from corporations (although that does happen). Social arbitrage opportunities are generated by social activists working through the political process with the objective of damaging (or in some cases destroying) the corporation without seeking to be paid off.

Probably the most extreme case of social arbitrage is the situation faced by large U.S. tobacco firms. If you access the web site of a large U.S. tobacco company like Philip Morris USA or R.J. Reynolds Tobacco Company, the presence of CSR is immediately obvious (check out the websites of U.S. beer or oil companies for a similar effect). With a couple clicks of the mouse, you will find that these companies spend significant sums of money on a vast range of community involvement initiatives, environmental issues, and youth smoking prevention programs. These companies also maintain CSR groups within the firm to manage the firm's myriad social initiatives. These employees, among others, are social arbitrageurs. To see this follow the money.

How do these expenditures generate shareholder value? How could value be created by endeavors like youth smoking prevention programs which appear to destroy demand for the company's products? It is not a brand enhancement story where CSR expenditures are targeted towards a firm's existing and potential customers. It is just not plausible that tobacco companies support local community initiatives to sway smokers over to their tobacco products. Then who is the target of these expenditures?

Let's explore the financial reality. The financial statements of Altria Group, Inc. (the parent of Philip Morris USA) reveal that of total 2004 revenues of \$89.6 billion, \$17.5 billion derives from domestic tobacco sales and \$39.5 billion from foreign tobacco sales. From the \$17.5 billion in domestic revenues, payments of \$4.6 billion were made to the states in 2004 as part of an overall tobacco settlement. These payments are made annually and eventually rise to \$6 billion annually in the year 2016 and thereafter. R.J. Reynolds Tobacco Company reports that in fiscal year 2004 total federal, state and municipal excise taxes on cigarettes were \$20.1 billion. Despite the massive amount of cash diverted from tobacco sales by the government, in 2005 Reynolds American Inc. (the parent of R.J. Reynolds Tobacco Company) saw its stock price increase from \$75 a share to over \$90, and Altria Group, Inc.'s saw its price increase from \$57 to over \$70 a share!

It is clear that both shareholders and the government have good reason for domestic tobacco companies to thrive. But this cash flow is constantly challenged by a phalanx of anti-tobacco lobby groups (i.e., the social activists). It is my contention that the tension between the government's desire to keep tobacco money flowing and the social activists to destroy tobacco creates the space that is filled by social arbitrageurs, and that much of the CSR spending at U.S. tobacco companies is targeted to the politicians, providing them with a buffer to hold off the activists. Social arbitrageurs with a desire to do good exploit this opportunity.

While this view of CSR is far from utopian, a social arbitrageur would argue: tobacco money is money, doing good is doing good, and money creates opportunities for doing good. ❖



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Notes from the Field: UNC Faculty & Student Projects

Entrepreneurship professor **Jim Johnson** received the Outstanding Black Faculty Award at UNC's Black Alumni Reunion on Nov. 4.

Marketing professor **Paul Bloom** published a paper with co-authors Melissa Robinson and Nicholas Lurie titled, "Combating Obesity in the Courts: Will Lawsuits against McDonald's Work?" in the *Journal of Public Policy & Marketing* (Vol. 24, No. 2, Fall 2005).

Paul Bloom was also recognized with the Best Reviewer Award from the editor of the *Journal of Marketing* for the years 2003-2005.

Susan Aaronson and **Jamie Zimmerman** of Kenan Institute Washington published an article on trade and human rights in [Yale Global Online](#).

Michael Stegman, UNC public policy professor and director of the Center for Community Capitalism was named Director of Policy for the Program on Human and Community Development at the MacArthur Foundation.

Carolina for Kibera director **Kimberly Chapman** was named one of the 10 "Heroes of Global Health" at Time Magazine's [Global Health Summit](#). CFK provides healthcare, support and sports programs to youth in Kibera, Kenya.

The *News & Observer* quoted entrepreneurship professor **Bob Adler** in "A chat with...Robert S. Adler, Ethics Professor" (Oct. 3) and CSE director **AI Segars** in "Auto-parts industry feels chill" (Oct. 4).

UNC-Chapel Hill **Chancellor James Moeser's** November "Chancellor's Column" in the *Chapel Hill Herald* focused on campus sustainability: "[Sustainability—Where Carolina Leads: The Water Table to the Roof Tops](#)".

Deb Parsons (MBA 2006) was recently featured by [Net Impact](#) as one of their "Interns in Action" for 2005.

Heather Fraser (UNC MPH 2001) and **Katie Kross** (MBA 2004), along with a team of others, launched Triangle Net Impact, the NC professional chapter of Net Impact, this fall. Meanwhile, **Brad Sparks** (MBA 2004) heads the Los Angeles chapter of Net Impact.

SJF Ventures, founded by **David Kirkpatrick** (MBA 1991), was recognized with a 2005 NC Sustainability Award. SJF Finance Manager **Bonnie Moellenbrook** (MBA 1998) was also present to receive the award.



Alumni Spotlight

Tucker Bartlett (MBA/MRP 2003)

Director of Commercial Real Estate Development and Lending at Self-Help Ventures Fund, Tucker has a passion for community development that he's carried with him throughout his career. A UNC undergrad, Tucker worked as a financial analyst for NationsBank, then joined the Peace Corps as a Small Business Development Agent in Benin, West Africa, before returning to Chapel Hill to earn a dual MBA / Master's of Regional Planning.



At Self-Help, a community development financial institution, Tucker coordinates the development and asset management of Self-Help's building portfolio as well as a portfolio of approximately \$55 million in commercial real estate loans that finance commercial development in low-income areas. His goal is to continue to try to find connections between low-income people and communities and capital markets. He explains, "A lot of capital is flowing now, but not to everyone."

[... more about Tucker ...](#)

Upcoming CSE Events

CSE Consulting Call for Projects

Last summer, CSE Consulting had a very successful inaugural year working on sustainability consulting projects with Progress Energy, Johnson & Johnson, Green Earth Builders, Sustainable North Carolina, and others. If your organization would like to consider a project for Summer 2006, contact [Kelly Boone](#) or [visit our website](#) to learn more.

Jan. 23

Discussion on Energy & Global Climate Change
Paul Anderson, Duke Energy
Bill Johnson, Progress Energy
Doug Crawford-Brown, UNC
Bill Schlesinger, Duke
Pete Andrews, UNC
Kenan-Flagler Business School,
UNC, Chapel Hill, NC
RSVP Required
[more info](#)

Jan. 30

CSE Seminar Series
Speaker: Dr. AI Segars
"Design for Sustainability"
Kenan-Flagler Business School,
UNC, Chapel Hill, NC
[more info](#)

Feb. 6

CSE Seminar Series
Speaker TBD
Kenan-Flagler Business School,
UNC, Chapel Hill, NC
[more info](#)

Feb. 17

Sustainable Enterprise Career Fair
UNC, Chapel Hill, NC
[more info](#)

Feb. 20

CSE Seminar Series
Speaker: Tom Cors
"Environmental Protection & International Trade"
Kenan-Flagler Business School,
UNC, Chapel Hill, NC
[more info](#)

Mar. 30-31

"Reinventing Today's Business for the Challenges of Tomorrow"
CSE Annual Conference
Hilton, Research Triangle Park, NC
[more info](#)

CSE Events Calendar



"Beyond Grey Pinstripes", a biennial report by the World Resources Institute and Aspen Institute, ranked **UNC Kenan-Flagler No. 8** of the top global MBA programs for preparing MBA students for social and environmental stewardship. Kenan-Flagler is one of only four business schools ranked in the top 10 by Grey Pinstripes that is also ranked as a top 20 business school in the U.S. by *BusinessWeek*... [more](#)



Hunter Lovins of Natural Capitalism Inc. spoke at Kenan-Flagler about sustainable business on Sept. 21. Her public lecture given to an audience of 200 on **"Implementing Natural Capitalism"** can be [viewed online](#). Hunter also held a conversation hour with a select group of first-year MBA students (*at left*).

The CSE provided support through its Enrichment Grant Program for **32 Kenan-Flagler MBA students** (*at right*) to attend the **2005 Net Impact Conference** in Palo Alto, CA in Nov. The UNC Net Impact Club and MBA Program also provided funding for the group's trip. Over 1,300 attendees from around the world attended the conference.



During the spring semester, the CSE will sponsor a new series – **CSE Seminars** – featuring presentations by Kenan-Flagler faculty and visiting guests on topics of sustainable business. Open to students, faculty, and the public. See the [CSE Event calendar](#) for details as they become available.

We are happy to announce the first recipients of the **CSE Faculty Grants** in support of leading-edge academic research in the topics of sustainable business practice. Congratulations to 2005-06 recipients:

- David Levine, UC-Berkeley, Haas School of Business
- Matthew Wilson, Univ. of Vermont, School of Business Administration
- Ellen Peirce, UNC Kenan-Flagler Business School
- Ravi Subramanian, Georgia Tech College of Management
- Xi (Jason) Kuang, Georgia Tech College of Management
- Gerald Cecil (Physics & Astronomy) and Sandy Smith-Nonini (Anthropology), UNC-Chapel Hill



Student Spotlight

Vyada Vongphachanh (MBA 2006)

A second-year MBA student and Vice Chair of Careers for the Net Impact Club, Vyada came to Kenan-Flagler with a goal of studying sustainable business practices. "[Stakeholder] groups are getting more sophisticated in applying pressure at the right points, such that you have to integrate social and environmental management into general business practices."



Vyada worked as a marketing manager for Boise Cascade in Oregon before coming to Kenan-Flagler. When she graduates in May, she'll return to Boise Cascade, this time in Hong Kong, to help develop their sales and distribution channel strategy for Asia. "I'm not necessarily trying to change the world now, just impact the things within my community. This means getting my managers to engage in dialogues about what it means to be a socially and environmentally responsible corporation and to evolve from being in the compliance stage to integrating CSR as a business strategy."

... [more about Vyada](#) ...

Sustainability in NC: Events

Jan. 19

Speaker: Bob Greczyn
President and CEO, Blue Cross & Blue Shield of NC
"Public Health Transformation for the 21st Century"
UNC School of Public Health,
Chapel Hill, NC
[more info](#)

Jan. 26

Speaker: David Bornstein
Author, "How to Change the World: Social Entrepreneurs and the Power of New Ideas"
Fuqua School of Business, Duke,
Durham, NC
[more info](#)

Feb. 13

Speaker: Christine Todd Whitman
Former NJ Gov. & U.S. EPA Administrator
"It's My Party Too"
UNC, Chapel Hill, NC
[more info](#)

Feb. 18

"Designing Sustainable Cities"
Conference
Sheraton Hotel, Raleigh, NC
[more info](#)

Mar. 16-17

"Safe Drinking Water: Where Science Meets Policy"
2006 CEP Symposium
Friday Center, Chapel Hill, NC
[more info](#)

Mar. 2-3

"Navigating the Global American South"
Conference
UNC, Chapel Hill, NC
[more info](#)

Mar. 23-24

Greenprints Conference & Tradeshow
Georgia Tech Hotel and Conference Center, Atlanta, GA
[more info](#)



Wal-Mart CEO H. Lee Scott Jr. said the company will spend \$500 million/year on environmental initiatives, announcing aggressive goals for reducing greenhouse gases, increasing its fleet's fuel efficiency, and reducing retail stores' energy use and solid waste. The company also plans to sell clothing made from organic cotton, and encourage suppliers to use containers made from cornstarch instead of plastic... [more](#)

The **Financial Times**, in association with the World Bank's International Finance Corporation, launched in Dec. the **FT Sustainable Banking Awards** to recognize banks that incorporate social and environmental objectives into their operations... [more](#)

GE and **Dow Jones** announced ECONomics—a \$50,000 competition to reward “great business ideas that combine environmental innovation and profitability”... [more](#)

Meanwhile, **GE's** renewable energy initiatives were featured in *Fortune's* Dec. 12 article, “How GE Captures New Energy Markets”... [more](#)

McDonald's has partnered with **Green Mountain Coffee Roasters** and **Newman's Own Organics** to introduce fair-trade and organic coffee at 650 restaurants in northeastern U.S. states... [more](#) ... while Swiss food giant **Nestlé SA** has launched a Fair Trade instant coffee line in the United Kingdom... [more](#)

Richard Branson announced plans to build ethanol plants to produce bio-based jet fuel for **Virgin Atlantic Airways** planes... [more](#)

Johnson & Johnson and two United Nations agencies announced a partnership to fund new grants for organizations tackling gender-based violence and the spread of HIV and AIDS... [more](#)

Volvo's truck manufacturing plant in Tuve will be the world's first CO₂-free automotive plant... [more](#)

The **Chicago Climate Exchange (CCX)** and the **Montreal Exchange** agreed to establish the Montreal Climate Exchange, to list carbon contracts for the Canadian market... [more](#)

The global market for renewable energy technology is expected to grow by 70% over the next three years, according to one new report... [more](#)

Microsoft and **HP** announced new goals for eliminating toxics from their products/packaging... [more on Microsoft](#) ... [more on HP](#)

DuPont, **BP**, and **Bayer** led *BusinessWeek's* new rankings of “The Top Green Companies” (Dec. 12 issue)... [more](#)

Nokia and **Grameen Foundation USA** plan to collaborate to bring affordable, accessible telecommunications to rural villages in Africa... [more](#)

BP plans to double its investment in greener energy sources over the next three years, investing up to \$8 billion over the next 10 years... [more](#)

Supporting the development of integrated social, environmental, & financial business metrics, **Sustainable Ventures** is offering a \$10,000 prize for a model that best measures the true costs of a loaf of bread... [more](#)

In Nov., **Goldman Sachs** became the first investment bank to adopt an environmental policy... [more](#)

Intel, **New Leaf Paper**, **South Mountain Company**, and **Weaver St. Cooperative** were recognized in the 17th Annual Business Ethics Awards... [more](#)

Reading & Resources

[The Stakeholder Engagement Manual](#)

Guide compiled by UNEP, AccountAbility and Stakeholder Research Associates Canada. Two-volume manual featuring case studies, trends and lessons in stakeholder engagement. (Sept. 2005)

[Reporting on Economic Impacts](#)

Business for Social Responsibility (BSR) reviews how the Global Reporting Initiative (GRI) Economic Performance Indicators have been applied by 33 companies. (Oct. 2005)

[Part of the Solution: Leveraging Business and Markets for Low-Income People](#)

Report presenting lessons from the Ford Foundation's Corporate Involvement Initiative. (Dec. 2005)

[AIDS Best Practices: Interactive Company Case Studies Database](#)

Searchable database of best practices for workplace HIV/AIDS programs. Compiled by the Global Business Coalition on HIV/AIDS. (Dec. 2005)

[Good to Great and the Social Sectors](#)

Monograph by Jim Collins, designed to accompany his bestseller, *Good to Great*, with a focus on applicability to the social sectors. (Nov. 2005)