Corporate Social Responsibility and Profits:
A Tradeoff or a Balance?

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Abstract

Corporate social responsibility has been on everyone’s mind lately—corporate executives, consumers, investors—and many are curious to understand in what manner a for-profit organization’s pursuit of philanthropic initiatives impacts the traditional firm’s singular object: profits. Although CEOs proudly proclaim that engaging in CSR (corporate social responsibility) is the “golden ticket” to future growth and consumers are eager to support products and companies deemed ethically and socially conscious, is CSR actually profitable? In this thesis, I take a qualitative approach to argue that there is little flexibility for a firm to engage in social impact projects if these programs do not provide an adequate financial return for the company. After analyzing two case studies, I find that determinants of the success of a CSR campaign are varied but key factors at play, especially in consumer facing industries, include the relevance of the social initiative to the company itself, the ownership structure of the firm, and the criteria by which consumers screen products for potential purchase.
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1 Introduction

We are in the business of helping people these days. Literally. The 21st century has ushered in a chapter of social consciousness for the private sector and society has come to expect that for-profit firms acknowledge and address the consequences that their actions have on their surrounding environments. Beginning in the late 1990’s, consumers have displayed a tremendous amount of social awareness and activism, quick to punish companies that practice unethical business operations and quick to reward firms that are innovative in their commitment to improving the world.

This new wave of corporate social responsibility movements, or CSR, can be traced back to the 1980s and the series of ongoing protests and strikes by Nike factory workers and human rights activists. During this time, Nike faced a deluge of uprisings and strikes by factory workers in Indonesia, Korea, and Vietnam concerning low wages and dangerous working conditions. The flood of negative publicity intensified in 1992 when Jeff Ballinger published “Nike, The Free-Trade Heel: Nike’s Profits Jump on the Backs of Asian Workers,” an exposé on Nike’s factory conditions in Indonesia that revealed wages as low as fourteen cents per hour and the fact that workers were not employees of Nike but a subcontractor hired to enable Nike to evade legal responsibilities for wages and working conditions (University of Washington Center for Communication & Civic Engagement). Ballinger’s report hit Nike at a crucial moment; from 1988 to 1993 Nike’s profits had tripled, but following the various sweatshop-like scandals, Nike’s share prices fell dramatically and sales lagged (Shaw, 1999). The outrage by labor activists, universities, and individual consumers led to crippling reputational damage and by 1998 CEO Phil Knight was forced to admit that “The Nike product has become synonymous with slave wages, forced overtime, and arbitrary abuse…I truly believe the American consumer
doesn’t want to buy products under abusive conditions” (Nisen, 2013) In response, Nike made several crucial reforms in an attempt to redeem itself. Nike drafted a “Code of Conduct” to be strictly adhered to in all of its factory locations, expanded its corporate social responsibility division to 70 employees, conducted over 600 factory audits between the years 2002-2004, and published a 108 page report detailing the status of its factory operations in its South Asian factories in 2005 (Beder, 2002).

Today, Nike is touted as a corporate social responsibility role model and has helped pave the way for other for-profit firms to engage in more conscious business practices. But Nike took a very “reactionary” stance in regards to corporate social responsibility and executives were only called to action once social pressure reached a tipping point. They initially possessed a very defensive and minimally compliant attitude, citing that Nike was being “…. unfairly scrutinized and punished for partaking in activity that nearly every other manufacturer was also practicing” (Zadek 2004). Real reform occurred once Nike executives realized that they needed to do more than institute temporary compliance policies to mitigate the erosion of economic value from scandals and instead arrive at a long-term solution that would quickly overcome any future disadvantages. The result was a corporate social responsibility model that evolved from focusing on risk management, philanthropy, and compliance to one that utilized Nike’s natural focus on innovation to transition into a more sustainable business, by which people, the planet, and profits were brought into balance for more long-lasting success (University of Washington Center for Communication & Civic Engagement).

But entities like Nike are businesses, not NGOs or charitable organizations, and the question of profitability naturally comes into play. Public welfare may concern a for-profit firm, but it would be impossible to say that it is the firm’s only objective. If the Nike example teaches
us anything, it is that Knight was at first forced to correct its unethical corporate behavior. The company showed no signs or interest in reforming its policies prior to the public protests. In truth, if Knight wholeheartedly cared about the impact of the production of Nike products on working individuals and communities, it is unlikely that there would have ever been sweatshop-like factories to begin with. While the rise in social pressure in the late 1990s forced corporations to rectify their previously unethical behaviors and strive to prevent any future mishaps, the changing attitudes towards a business’s role in society has enabled new companies to take advantage of this interest in CSR. But how has CSR affected corporate financial performance? While these organizations’ corporate social responsibility initiatives are well intentioned and hopefully socially productive, how do these programs affect traditional business models?

Instituting charitable, philanthropic, or ethical programs requires an investment in resources, namely financial resources, and a firm would never enter the market place simply to pursue social reform; its pursuit of profits is one of the company’s primary, if not only, reason for existence. While the undertaking of a CSR initiative naturally incurs costs of some kind, does CSR in any way also potentially represent an economic opportunity? A cost that eventually works to fund itself? These questions have become increasingly relevant given the dynamism in the field of corporate social responsibility today and this thesis seeks to determine the relationship between a corporation’s pursuit of altruism and profits, specifically asking to what extent a firm can be altruistic while still maintaining sustainable profits, or vice versa, and what mechanisms are at play in determining the potential outcome.
UNPACKING THE RELATIONSHIP BETWEEN PROFITS AND ALTRUISM

This thesis will focus primarily on discussing the relationship between profits and corporate social responsibility as it relates to companies in consumer facing industries. CSR initiatives are seen mostly visibly in firms that direct their attention towards individual consumers, selling products or services directly to the purchaser. It is theorized that corporate social responsibility has seen the most movement among consumer facing industries due the companies’ direct relationship to the consumer. Corporate social responsibility is arguably more important to actual consumers of goods than are industries that sell products to each other, creating a more productive environment for the efforts and benefits of CSR to be more publicly recognized (Peloza & Papania, 2008).

Additionally, while some research has been conducted on the connection between social impact initiatives and their impact on a firm’s financial performance, most of the current research is empirical, missing the in-depth explorations of the mechanisms at work in this debate. This thesis, on the other hand, is largely qualitative, examining two particular business cases and discovering the mechanisms at play that lead to a certain outcome, involving more than a reporting of whether there exists a relationship between altruism and profits or not. Through the analysis of real life projects that have been recently undertaken by for-profit firms and studying the results of the programs, I arrive at an understanding of how conditions, consumer sentiments, corporate decision-making, and the image of the company itself play key roles in understanding how CSR will affect a firm’s bottom line.

To gain a better understanding of what factors are present in the case study and how they are significant to the outcome of the firm, I first analyze the hypotheses presented by leading scholars on the subject. While there are a variety of nuanced arguments made about the
relationship between corporate altruism and corporate financial performance, I focus primarily on the arguments made by Milton Freidman and Adam Smith, drawing on their influence with regards to current discussions about the role of CSR in a corporation and its effects. While both may not speak explicitly to the concept of corporate social responsibility, namely Smith, both economists’ contributions to the study of private markets are highly relevant to the study of CSR.

Smith and Freidman both agree that a firm’s natural instinct and duty is to pursue its profits, or self-interest as Smith terms it. Friedman specifically asserts that wealth should be the only force behind a company’s existence and that as a legal entity the concept of a “social responsibility” makes little sense (Friedman, 1970). To say that a legal entity has a social obligation to society would be to anthropomorphize it, to give it characteristics and duties that are impossible for a business entity to pursue given its nature. Smith, on the other hand, makes a very similar argument to Friedman’s in that he believes the best thing a company can do is to pursue wealth creation, but he takes a more holistic view of the matter, arguing that it is in the public’s best interest for every individual to pursue his or her own self-interest (Smith, 1937). Society is best served under a model of competition in which companies arrive at the most efficient manner of conducting business. In Smith’s view, social issues are naturally dealt with under a market in which all individuals behave selfishly.

While these arguments differ only slightly, these two viewpoints present different ways of examining the profits-altruism debate. There is Freidman’s hypothesis, which states that CSR is a business cost and thus reduces a firm’s ability to maintain a high level of profitability and there is Smith’s argument, which claims that a company’s involvement in its own profit making leads to natural resolution of social ills. In both cases, profit is a key component to the theory, but for Friedman, CSR leads to a decrease in profits, and for Smith profits lead to an unconscious
form of CSR. While not entirely different arguments, these two theories do provide interesting lenses with which to explore the relationship between social impact and the bottom line.

METHOD OF ANALYSIS

This thesis begins by qualitatively examining existing theories on the connection between corporate altruism and profitability to arrive at a better understanding of how CSR campaigns truly affect companies’ financial performance in the real world. Many corporate executives preach about the benefits of engaging in social impact, claiming that CSR is the ticket to enhanced financial success in addition to a safer, cleaner, healthier world. But assuming that creating philanthropic initiatives incurs some sort of financial cost, how profitable are these campaigns? Based on corporate executives’ eagerness and seemingly full support behind the integration of charitable projects with their day-to-day business activities, do firms actually gain more than the amount of the money they put into launching the public interest activity?

In order to understand the full effects of each hypothesis, I examine the actions of PepsiCo from the years 2010-2012. PepsiCo’s decision-making process regarding its corporate social responsibility policies in 2010 provides a unique opportunity to investigate both the altruism and the profit maximization relationship at work. In 2010, Indra Nooyi, the CEO of PepsiCo, launched the Pepsi Refresh Project, an interactive online platform that enabled individuals, local organizations, and non-profits to receive funding from PepsiCo to help implement solutions to community problems. Interestingly, what began as a deep-seated belief that PepsiCo had the responsibility to improve the lives of its customers led to the abandonment of the project in 2012 followed by a quick change in management to appease unhappy investors. In 2011, only one year after the launch of the Pepsi Refresh Project, PepsiCo reported a decrease
in sales and revenue and even lost critical market share to Coke and Diet Coke (Esterl, 2011). The PepsiCo case offers a special exercise in understanding what mechanisms were at play in determining the unfortunate outcome for the company. As will be discussed in further detail in chapter 4, PepsiCo had virtually no flexibility to balance its dual objectives, and was forced to give up one to accomplish the other. Freidman’s hypothesis was correct, the implementation of CSR did lead to a decrease in profits for PepsiCo, and by studying the case in-depth, insights from the interplay between the company itself and consumer responses will help shape the understanding of the outcome of this social impact initiative.

Furthermore, PepsiCo is a publicly held corporation, which may have had much to do with why the Pepsi Refresh Project ended the way that it did. As the head of a publicly traded company, Nooyi faces particular constraints and obligations that may be absent or less restrictive in a privately held company. To round out the discussion on the profits-altruism question, I also conduct a case study on TOMS Shoes, a privately held company. TOMS Shoes is colloquially known as the poster child for the successful integration of social impact and profits on a corporate level, introducing a new business model known as “buy-one-give-one” or “one-for-one.” To this effect, TOMS Shoes is a radically different company than PepsiCo, beyond simply the fact that it is a privately held company. Blake Mycoskie, TOMS Shoes CEO, developed an innovative way of bringing together an interest in CSR and profitability, in the process creating a business model that has helped the company to stay afloat and has been adopted by numerous other companies as well. Subverting what many theorists believe to be true about the relationship between profits and social improvement, TOMS Shoes has found a way to defy the odds. Due to the limited availability of financial records of a privately held firm, I assume for simplicity, based on the information available, that TOMS Shoes has been performing well financially and
that its unique circumstance requires a detailed analysis of its differences from PepsiCo, which had a much different fate.

THESIS OUTLINE

Following the introduction, chapter 2 presents an in-depth literature review of the general CSR movement and the phenomenon surrounding its recent popularity. The aim of this chapter is to attempt to provide a definitional analysis for the vague term that is CSR and to offer historical background on the recent rise of corporate social responsibility movements. Gaining a better sense of the context in which CSR operates today and what issues arise in conversations surrounding CSR allows for a clearer transition to the issue of altruism and profitability.

Chapter 3 explores the relevant hypotheses concerning the profitability of CSR. Led by the theories from Milton Friedman and Adam Smith, this chapter attempts to provide theoretical knowledge that will be employed in the later case studies to determine the significance of the outcomes and the mechanisms that produce them. I take a critical look at the arguments brought up by various theorists, including Freidman and Smith, questioning the validity of their claims and questioning the ability to see these hypotheses play out in reality. Many of the claims made by CSR scholars miss important elements that undoubtedly play a role in fashioning the CSR landscape: the role of the consumer, the company itself, and the willingness of the two parties to interact with one another on a level beyond price and quality.

Chapter 4 draws upon a case study of PepsiCo’s recent social impact initiative, the Pepsi Refresh Project. This philanthropic program was short-lived however, as its inability to drive sales of the actual Pepsi product led to its demise only two years after its initial launch. The goal of this chapter is to discover why it was that CSR led to a decline in profits, using the hypotheses
discussed in the previous chapter to guide an exploration of the factors affecting the final outcome of the Pepsi Refresh Project.

While chapter 4 examines a case study from a publicly held corporation, chapter 5 seeks to provide a roundness to the thesis by comparing the results from a CSR initiative launched by a public company to those of a CSR initiative launched by a private company. TOMS Shoes, and specifically the unique business model of the company, is given particular attention in this section. Since TOMS Shoes is regarded as a company that has been able to walk the line between profits and philanthropy, how has this company's implementation and execution of CSR led to such radically different results than the Pepsi Refresh Project? What kinds of mechanisms and devices work specifically in the TOMS Shoes case to elicit this type of performance?

Chapter 6 concludes and pulls together insights and findings from previous chapters to present a concise summary on the findings of this research. I find that there is little room for a firm to pursue corporate social responsibility if the program does not contribute to the company's bottom line. Publicly traded firms are dealt a particularly difficult hand in this debate due to their obligations to their shareholders to continually pursue projects that will increase the valuation of the company. As direct investors in the growth of the company, shareholders pose a credible threat to the implementation of any potentially risky initiative, including a corporate social responsibility initiative. Additionally, the concept of fit is integral to the success of a social impact initiative; consumers must be able to clearly identify how the social activity is related to company itself. Any misplacement or irrelevance of the CSR campaign to the actual identity of the company can result in the decreased willingness to purchase that company's products (Sen & Bhattacharya, 2001).
The relationship between profits and altruism can be a positive one though, but mostly in unique cases like TOMS Shoes, where the company exists in a niche market, one that is controlled not only by price and quality, but also by other factors, such as the level of social consciousness. By attracting the attentions of a particular niche group and catering to their willingness to pay for products that have value beyond competitive market pricing and a high level of quality, TOMS’ business model is able to thrive. CSR can function as a form of competitive advantage, and thus lead to a sustainable level of profits, but the concept is most effective when employed by a new company in a niche environment where price and quality are not the only considerations used by consumers to screen products.
2 The CSR Phenomenon

Corporate Social Responsibility is so vague that it invites a wide variety of definitions. Since the beginning of its more recent popular appearance in the late 1990s and early 2000s, CSR initiatives have not only expanded across nearly every industry and country but have also taken on a variety of forms, ranging from employee-led community service projects, to donations of money or materials to partnering organizations, to a commitment to decreasing the use of harmful chemicals and toxins in products, to increasing the diversity of a company’s workforce. While corporate social responsibility is far from a new concept, its relatively recent surge in adoption into modern business culture prompts questions about the unique circumstances surrounding businesses and their environments in today’s society. Today, firms are almost expected to have corporate social responsibility statements and programs and a quick visit to any corporate website, no matter what the industry, will proudly advertise the ways in which the firm is helping to make the world a better place. This chapter draws upon existing literature and discussions with respect to the phenomenon of CSR in an attempt to bring clarity to the definition of corporate social responsibility, its history, and the way in which for-profit firms create and adopt social impact initiatives.

CORPORATE SOCIAL RESPONSIBILITY: DEFINITIONS AND ANALYSIS

The term “corporate social responsibility” is as easily recognizable to consumers as it is to business leaders. But while both parties know of at least a couple of examples of socially active projects that they have confirmed to be CSR initiatives, it is unclear what to expect from something labeled as “CSR.” Denis Leonard and Rodney McAdams, offer a broad, yet generally accepted definition: “CSR aims to embrace responsibility for corporate actions and to encourage
a positive impact on the environment and stakeholders including consumers, employees, investors, communities, and others” (McAdams & Leonard, 2003). Definitions such as this are effective at offering loose guidelines to instruct companies on the general shape and objectives of CSR and to help consumers identify corporate social responsibility when seen. But what is lacking in this definition, and definitions like it, is a sense of contextualization, an acknowledgement of the significance of a company’s history, products, customers, and operations. The big assumption this definition is forced to make, for simplicity, is that all companies are held to the same standard, are subject to the same expectations, face the same business pressures, and have the same growth trajectories.

It is easy to imagine, for example, that a grocery store chain and a luxury goods retailer do not face the same internal or external expectations or constraints. In terms of standards and expectations, the grocery store is expected to offer a large variety of edible food everyday at competitive prices, while a luxury retailer is expected to produce uniquely designed products, once a season, at high prices. In terms of the different business pressures, a grocery store chain may focus on selling goods quickly and often, as each product has a low profit margin, while the luxury retailer may focus on the sourcing of the highest quality materials and hiring the best designers to justify its prices. Even the clientele among the two would surely be very different. The grocery store would serve most of the population, including those who can afford to shop at high-end boutiques, while the luxury retailer would cater to a wealthier, more select audience. It is easy to see how all of these differences could lead to very different approaches to CSR for these two companies.

In addition to the lack of context-specific details in the definition, there is no information concerning the relationships between “stakeholders” and their relative strengths. Most modern
definitions of corporate social responsibility emphasize the significance of a company’s many stakeholders, which are generally defined as anyone in society that is somehow impacted by a firm’s operations (Campbell, 2007). The number and type of stakeholders is highly dependent on the firm itself and the industry to which the company belongs. Even then, a company’s “responsibility” to the same set of stakeholders, consumers for example, may be entirely different, even within the same industry. The local supermarket in every American city is expected to provide customers with a large spread of products at affordable prices whereas a Whole Foods is expected to go the extra mile and offer customers not only a wide spread of products, but also products that are organic, fair trade, locally sourced, etc. Both of these companies are generally categorized as grocery stores, yet their responsibility to consumers, a common stakeholder, is very different.

In a similar vein, is a company obligated to devote more of the “positive impact” to one group of stakeholders over another or is there equal distribution by the firm to each affected party? Do all stakeholders wield equal power to pressure companies to change management practices or can some stakeholders be more powerful than others? In answering these types of questions, context is once again a crucial element that is unfortunately lacking in the above definition by Leonard and McAdams. The size of a company and company type (publicly traded, privately held, family owned and operated, etc.) may be one of the most relevant factors to consider in unpacking the question of power among stakeholders. Large companies are also often publicly traded, which brings the potential stakeholder of “investors” into question. Publicly traded companies rely on their performance in the stock market for future growth, and increasing growth in share prices is critical for a company’s perceived, and by default actual, success. Shareholders may hold a considerable amount of authority over other relevant stakeholders,
since the needs and opinions of the shareholders, and their respective behaviors, are extremely important to a company’s sustainability. Even privately held companies that are partially owned by private equity or venture capital firms may be subject to certain externally rooted requirements, which increases the salience of investors above other potential stakeholders. But for a small mom and pop business, the circumstances would be completely different. There would be a nonexistence of investors, but would all stakeholders necessarily be treated equally in this case? Probably not—this small business, for example, may rely on the loyalty of a select set of clients to remain in business, and so the consumer might be the most powerful stakeholder.

A breakdown of a very common definition of corporate social responsibility reveals the fact that there is still much to be clarified about this phenomenon. Far from being a well-understood concept, CSR is a rich area of study.

Another definition of corporate social responsibility as defined by Herman Aguinis, reads, “organizational actions and policies that take into account stakeholders’ expectations and the triple bottom line of economic, social, and environmental performance” (Aguinis & Glavas, 2012). This version is very similar to Leonard and McAdam’s but this definition introduces a supplementary concept that provides a potential method for evaluating corporate social responsibility initiatives—the triple bottom line.

Coined by John Elkington in 1994, the triple bottom line is an accounting framework with three parts: a social component, an environmental component, and an economic/financial component. Also referred to as “people, planet, and profit,” these three pillars of sustainability are, in principle, designed to help company executives keep these three priorities in balance (Elkington, 1994). “People” refers to the general fair and beneficial treatment of labor and the community, “planet” refers to sustainable environmental practices, and “profits” represent the
economic value created after deducting expenses, the traditional notion of profits. The underlying idea is that firms earn money by engaging in environmentally and socially positive activities, and the money that is earned is then ploughed back into society by way of investing in or using environmentally or socially progressive projects. This feedback loop is considered to be a sustainable method of conducting business, one that acknowledges a company’s need to make profits, but combines it with a company’s supposed obligation to be an active and responsible member of society. Companies are able to measure their financial, social, and environmental performance using this framework to ensure that all interests are kept in balance.

Figure 2.1: A visual representation of the “Triple Bottom Line”

An example is the best way to illustrate how this tactic is used to help guide company executives. At the end of the fiscal year, companies measure each pillar in terms of a “gain” or a “loss,” which would eventually be added or subtracted to the bottom of a statement of revenues.
or income. A company would log revenues earned under the profit category, treating the number as either a gain or a loss. If a company, for example, used child labor in the production of its products, this would be counted as a loss against social profits. And if, for example, a company successfully switched to using alternative forms of energy (solar, wind, etc.), the firm would consider this a gain towards its environmental profits (Hall & Slaper).

But like Leonard and McAdam’s definition of corporate social responsibility, the triple bottom line seems insightful at face value, but after further inspection, the framework seems empty and incomplete. First, it seems impossible that firms would use this framework as a method of accounting for their financial, social, and environmental performance, as the concept is too vague and subjective. The triple bottom line lacks objectivity, a uniform standard code by which all companies can be measured against to accurately reflect each firm’s performance relative to other firms. One question becomes immediately apparent: against whose standards are companies measuring their social and environmental commitments? It seems inevitable that a company would be using its own benchmarks to judge its performance, which would skew a firm’s true results. Since the triple bottom line is a corporate-oriented approach, it is not hard to imagine that social and environmental obligations may not carry significant weight in comparison to a firm’s financial obligation. The “profit” element may be regarded as the primary bottom line, while “people” and “planet” may be secondary, treated after the economic concerns instead of in combination with it. In theory, under the triple bottom line, corporations are not legally subject to follow any particular set of standards, and so if given the opportunity, a company will undoubtedly choose its own, biased benchmarks.

Relatedly, how can firms monetize social and environmental costs and benefits with the triple bottom line framework? The application of the triple bottom line further complicates
matters by allowing firms to subjectively apply cost and benefit schemes as they see fit. Because there is no impartial, agreed upon method of accounting for social and environmental bottom lines, firms are able to manage the costs and benefits in manners that are individualized. How would a company value a recent change in labor standards or a reduction in greenhouse gas emissions? And how would the firm compare those values to the actual profits? Would these changes balance the revenues coming in from operations? Also, if firms are allowed to formulate their own standards for monetizing social and environmental impacts, how would comparisons among companies’ CSR policies be effective? There is no one code or system by which companies adhere to and as such, the inability to standardize monetization of social and environmental behaviors creates further subjectivity within the triple bottom line.

After analyzing what corporate social responsibility means and unpacking a well-known method of evaluating corporate social responsibility, it is helpful to understand the history and origins of this movement.

THE HISTORY OF CORPORATE SOCIAL RESPONSIBILITY

The general concept of corporate social responsibility is nothing new and the existence of CSR initiatives that most closely align with today’s definition of the term existed since the mid 18th century. As Michael E. Porter and Mark R. Kramer note, “the best companies once took on a broad range of roles in meetings the needs of workers, communities, and supporting businesses” (Porter & Kramer, 2011). Some of the most famous examples of these kinds of operations by firms include Josiah Wedgwoods’s China Company and his decision to offer subsidized housing, food, and proper training to his employees. Fast-forward to the late 19th century, and the Heinz Company committed to providing the same types of resources with a conviction that what was
good for society was good for everyone. In direct relation to the work of Wedgwood and Heinz, Nancy Koehn confirms that, “companies used to feel a sense of responsibility for their existence and played active roles in their communities. Social ambitions were very much as important as financial ambitions, and both should be approached in tandem. The result, in earlier years, was that the combination of both priorities was successful for these companies” (Koehn, 2012).

So why did circumstances change? How and why did companies transition from being philanthropic and socially driven entities to organizations focused purely on economic gain? Porter and Kramer argue, “As other social institutions appeared on the scene…these roles fell away or were delegated. Shortening investor time horizons began to narrow thinking about appropriate investments” (Porter & Kramer, 2011). The emergence of government welfare, non-profits, and NGOs that provided the same resources that Josiah Wedgwood and Henry Heinz had previously offered obviated the need for firms to offer the same benefits.

In addition, a narrow view of capitalism began to emerge at this time, one that outlined the fact that businesses contributed to society by earning profits, which supported employment, wages, purchases, investments, and taxes. Backed by microeconomic theory and supported by Milton Friedman’s 1970 article “The Social Responsibility of Firms is to Increase Profits,” conducting business as usual was acceptable and sufficient for a company. Firms were largely considered to be self-concerned entities for which social and environmental advocacy were beyond its scope. This view of corporate conduct permeated for the next two decades, and companies concentrated solely on enticing consumers to buy more and more of their products. Growing competition both internationally and abroad and the expectations of shareholders caused managers to resort to finding cheaper methods of producing goods and more avenues for the sale of goods (Denning, 2013). The results were often, commoditization, price competition,
little true innovation, slow organic growth, and no clear competitive advantage (Yang, 2013). Activity such as this is what gave rise to the term “fetishization of shareholders,” a term used to describe corporate situations in which all efforts are organized around the constant creation of capital for repayments to stockholders. Given this kind of competition, companies perceived very little benefit by way of innovative growth, even as profits rose. Transformations in the goals of businesses drastically changed the pace of corporate America by driving major progress in economic growth, but unfortunately neglecting or disregarding potential externalities borne from firms’ actions.

But once again, in the late 1990s, the landscape of the private sector changed and there was a return to the social activism once seen in the past, albeit an externally forced and begrudging return by corporations. Mark Kramer asserts that:

“CSR really grew out of activist movements 30 or 40 years ago that began to put pressure on businesses to try to be more responsible for any of the harms—environmental harms, social or labor issues—that they were creating through their operations. But because of that origin, it really evolved in a very defensive manner, with the idea that outside activists were pointing fingers at businesses. And businesses were trying to respond to defend themselves, and really thinking of CSR as a necessary evil” (Kramer, Harvard Business Review).

Much attention towards CSR in the late 90s and early 2000s began as a result of public scrutiny and a growing demand to satisfy consumers in manners beyond the simple delivery of cheap goods. There was growing public concern for the negative impacts businesses could and were wreaking on people, the environment, and communities and the sustained protests forced companies to address the concerns or risk losing customers.
But an examination of the growth of more recent CSR movements is incomplete by considering only the impact that public opinion had on changes to corporate approaches. There were a variety of economic, social, and political changes during this time period that also accounted for the refocus of the role of businesses in society. The Center for Ethical Business Cultures attributes the acceleration of corporate social responsibility to six key factors: globalization, nongovernmental organizations (NGOs), public opinion, codes and standards, socially responsible investment (SRI), and government related initiatives (Center for Ethical Business Cultures, 2005).

Globalization, the first component to this 6-point analysis, refers to the globalization of the economy and the confrontations that firms face in simultaneously competitive and interconnected markets. The increase in vertically integrated firms gave rise to a greater reliance on outside vendors, outsourcing, and offshoring, which weakened the relationship between firms and their local communities. Firms began moving entire departments to more and more locations, opening up satellite offices, laboratories, production houses, and warehouses across the world, and as a result, lost touch with “home base.” Companies began to view themselves as “global” companies but with the global business operations came a whole host of difficulties. For one, business landscapes in other countries were often vastly different from the American ones. How would global companies reconcile these differences while still striving to maintain a cohesive, unified business? Companies were given no formal instruction on the best methods to navigate the different cultural and regulatory differences, such as corruption and bribery, child and labor standards, human rights protection, deforestation policies, etc. And so, the default was to adopt or impose whatever sort of practices gave the firm the most economic advantage.
The explosion of civil society organizations and NGOs accounted for much of the social pressure faced by firms to acknowledge the negative externalities that their business practices had on people, the environment, and the communities they served. The strength of these attacks prompted a response from company executives who were concerned about these organizations’ abilities to quickly influence consumer opinion. While the uproar from NGOs generally prompted a quick address, the goals of these organizations and their particular criticisms were often heterogeneous, making a company’s response to the matters more complicated and sometimes off point. Furthermore, the methods used by NGOs to address these concerns were equally as varied—the 1990s experienced everything from boycotts, large-scale protests, confrontations by coalitions of NGOs, and more.

In addition to the ability of NGOs to exert social pressure on companies, public opinion and individual consumers were just as active in effecting change. Transitions in public opinion were related to the growth of NGOs, and had considerable effect on the informal restructuring of business conduct, developments of new marketing techniques (i.e. cause marketing), and the expected relationship between a firm’s and its community involvement. Between the years of 1998 and 2002, MORI, a leading market research company conducted a series of polls and found that the proportion of consumers who believed that “in buying a product or a service, it is very important that a company show a high degree of social responsibility” rose from 28% to 44% (Center for Ethical Business Cultures, 2005). While polls are undoubtedly an imprecise tool of measurement, companies still began to view their social irresponsibility as a threat to continued success. Although imperfectly represented through public opinion polls, the results from these types of measurements became clear motivators for firms to improve society and tackle irresponsible behavior.
Codes and standards, yet another development inspired by NGOs and public opinion, have emerged from public dissatisfaction with corporate conduct. Designed to help guide companies on the most conscious and effective manner of pursuing operations, the creation and later adoption of these codes has fueled a movement towards corporate social responsibility. Some of the more popular codes and standards have emerged from business leaders themselves, such as the Caux Round Table Principles for Business, and from governmental conventions such as the UN Declaration on Human Rights, the ILO conventions on labor, or the White House Apparel Industry Code of Conduct. But the vast majority stem from consumer and NGO advocacy and include codes like The Sullivan Principles, the CERES Principles, and the Voluntary Principles on Security and Human Rights (Garriga & Mele, 2004).

Socially responsible investing grew out of a grassroots effort to restrict investment in apartheid South Africa and since then, SRI has widened its attention to a variety of causes such as the environment, weapons, drugs, etc. (Clements). SRI investors and analysts have continually pressured companies to improve their social image and to fully disclose all information regarding a company’s potential or realized risk on environmental and ethical issues, as well as its financial performance—in essence, to use the “triple bottom line” framework. Becoming a holding in a social equity portfolio is the reward for a firm’s transparency, CSR effectiveness, and promised future CSR innovation. The popularity of this type of investing, made possible by prominent social investment firms such as Domini and Calvert, has incentivized companies to reconsider their attentions towards social causes and to ensure adequate follow-through on all announced initiatives. The most well known example of the influence of SRI occurred in 1998 when Domini dropped Nike, Inc. as a holding from its social equity fund following the second resurgence of
Nike sweatshop allegations. After appropriate revision, Nike was reinstated as a holding in Domini’s portfolios in 2000 (Boje, 2000).

The government has also had a role to play in this transition period for the private sector. Political pressure has prompted the creation of initiatives on a variety of governmental organizations and has led these government bodies to offer suggestions for improvement for companies. To continue with the Nike example, OSHA, the Occupational Safety and Health Administration, encouraged Nike to adopt its standards for implementation in Nike factories abroad to ensure a minimally acceptable level of air quality for employees (Cushman, 1998). While only a suggestion and not a mandate, Nike’s adoption of this government-set regulatory standard was a clear attempt to convince critics of its commitment to rectifying its past poor judgments, and in return win back consumers’ business.

This understanding of the origins of the modern conception of CSR leads the analysis of company’s CSR initiatives today. Corporate social responsibility behaves almost as a default component of most companies’ missions and values, either sincerely or not, and its ubiquity serves to highlight the impact that history has had on the private sector trajectory into considering more than one type of “bottom line.”

CORPORATE SOCIAL RESPONSIBILTY TODAY

The existence of corporate social responsibility today is mostly the result of long-standing social pressure that eventually resulted in widespread corporate initiatives designed to muffle the noise, but also attempt to provide a solution to the problem. These were generally companies that had been in existence since at least the 1990s, when the wave of public scrutiny on firm’s operations reached a critical point. While these organizations may not be facing serious
allegations of social misconduct today, CSR has become so mainstream, such an expectation for larger corporations, that at least paying lip service to social impact initiatives is a necessary expense. The appearance of whole microsites devoted to P&G’s environmental sustainability or Nestlé’s reformed sourcing practices is not uncommon and functions as both a remnant and an expansion of earlier addresses towards public criticisms. Smaller corporations are often less likely to be threats of attacks by consumers and NGOs, as they are less publicly visible or capable of as much damage as larger, global corporations are. Activists’ targets are highly strategic and the results of their targeting of large, well-known corporations have had a visible effect on the landscape of CSR today.

But for all of the buzz that corporate social responsibility elicits from society, especially consumers, people are often skeptical of CSR efforts, their true intentions, their effectiveness, and their sustainability. This presents an interesting tension—consumers and NGOs are quick to berate firms for their social irresponsibility, yet are hesitant once firms begin to adopt social impact projects. A company’s social footprint has become important to society, yet the very existence of a social footprint prompts questioning and criticism from the public. Dionysis Skarmeas and Constantinos N. Leonidou argue that this consumer skepticism is mostly driven or inhibited by perceived motives for engaging in CSR. They posit that attributions of egoism or stakeholder relations instill skepticism in corporate social responsibility, while attributions of values decrease resistance to these programs (Skarmeas & Leonidou, 2013). In other words, if consumers perceive the motivations for involvement in CSR to be largely incentivized by a need to increase consumer awareness or manage relationships between themselves and other social constituents, people feel that the subsequent social impact initiatives are ineffective and misleading. But if consumers perceive that a company’s motivations to engage in CSR are led by
a set of values or ethics, consumers verify the benefits of this type of work. The results indicate that consumer buy-in has a considerable effect on a firm’s equity; resistance to positive information increases and the spread of unfavorable word of mouth damages a company’s reputation.

Consumers may also be hesitant to accept a company’s CSR efforts if it seems to come in direct competition with a firm’s brand. Lori Dorfman, Andrew Cheyne, Lissy C. Friedman, and Mark Gottlieb offer the extreme example of a tobacco company to illustrate this incongruence. No matter what socially beneficial activities the tobacco companies may be involved with, consumers are unable to accept this as a wholly positive effort (Dorfman et. al, 2012). Tobacco companies make profits by selling harmful, toxic products and this fundamental fact is unable to be paired with anything remotely positive, such as investments in education, reductions in waste, the development of less harmful products, etc. The level of corporate social responsibility seems so entirely contrary to the fundamental existence of a tobacco company that consumers are usually completely unwilling to acknowledge the fact that the firm’s efforts have any positive social value. Everything from the modern re-creation of the CSR concept to the improvement of the modern CSR concept hinges on consumer buy-in.

The next chapter analyzes the next natural progression in discussions about corporate social responsibility: the relationship between corporate social responsibility and profits. Firms are expected to perform across all metrics—social, environmental, and financial—but to what degree are firms truly able to balance these interests? The only objective indicator of survival for firms is their profitability and it seems impossible that a firm would enter into the market to be unprofitable. What is the link between a company’s altruistic desires and its profit-making desires and to what degree can firms be altruistic while maintaining sustainable profits?
3 The Corporation: Producer and Consumer of Wealth

While CSR movements, as one recognizes them today, originated from corporate responses to rising social pressures, what has resulted has become something much more than changes to corporate policies to prevent the employment of children in factories or a commitment to eliminate the use of toxic chemicals in production. Corporate social responsibility, in fact, has become quite advanced and peeling back the layers of the concept reveals that there are various tensions and inconsistencies between what is said and what is actually achieved or believed. Initially it seemed as though corporate social consciousness and the public were at odds with one another; companies were unconcerned with their impact on society and only responded to society’s complaints as a form of due diligence. Today, it seems that society and firms have agreed to work in tandem; companies’ have altered their mindsets to believe that what is good for society is good for the company. But what does the relationship between companies and the communities really look like? Do companies truly benefit from serving communities? Is there a necessary tradeoff between “doing good” and performing well financially or are companies able to adequately satisfy both metrics by incorporating CSR projects into their businesses?

In light of this oft touted synergy between the private sector and the public, this chapter focuses on discussing two hypotheses to understand if, and to what extent, companies can engage in CSR while still maintaining sustainable profits. While there are more ethical arguments made concerning corporate social responsibility, these “theories” are more normatively based and posit that firms must accept social responsibility as an ethical or moral obligation. Companies have a moral imperative to improve the relationship between private practices and society and should adhere to this duty above any other interest (Northrop, 2013). The moral theories are by and
large the furthest removed from the financial agendas as advanced by the profit maximization hypothesis and it is these tensions, or differences, that may lead one to believe that these two theories are in competition. How can a firm be both altruistic and profitable without being forced to move towards one pole or the other? These competing interests, altruism and wealth creation, seem to oppose each other and seem to suggest that the pursuit of one of the objectives necessarily crowds out the other.

This chapter aims to arrive at a better understanding the relationship between CSR and profitability from two similar, yet different, approaches. First, we examine the hypothesis given by Milton Friedman, which argues that maintaining a company's profitability should be the only concern of its executives and that corporate social responsibility is meaningless and wasteful for a corporation. Friedman’s argument can be summarized to note that firms who involve themselves with corporate social responsibility are financially inferior to those that pursue only wealth enhancement. For Friedman, there can be no balance between altruism and profits and to even begin to approach one is to give up the other entirely (Friedman, 1970). On the other hand, Adam Smith takes a more high-level approach to the relationship between private markets and public interests. According to Smith, private interests, namely the desire for more wealth, naturally leads to care for social concerns through the work of the “invisible hand” (Smith, 1937). His argument is similar to Friedman’s in that he believes in the inherent profit-seeking nature of firms and individuals, but differs in the sense that he believes concern for public interest is organically bred from private market activity. Social responsibility is not necessarily outside of the scope of a firm’s duties per se, but social benefits are naturally addressed through every individuals’ own self-interest. Smith’s profit maximization hypothesis is based on the idea that corporate social responsibility is a given, that the concept of corporate social responsibility
is built in to the very makeup of a functioning market system and is actually dependent on individual profit-seeking; organic CSR should not detract from a firm’s ability to be profitable in any way.

To unpack the mechanisms underlying these two beliefs concerning the relationship between firms and society, this chapter employs three modes of analysis for each theory. First, from what or from where do these beliefs about the purpose of social responsibility originate? What has led both consumers and corporations to support either one of these theories? Secondly, how are these hypotheses flawed, if at all? Why might reality differ from theory? Thirdly, how do these theories present themselves in the real world? In what ways do the profit maximization theories influence the development of corporate social responsibility initiatives? By examining these categories of thought alongside one another, the analysis will hopefully offer a more nuanced understanding of to what end companies are able to accomplish seemingly competing goals and what may prevent or encourage a company’s ability to satisfy both concerns. The chapter begins by first assessing Milton Friedman’s theory, unpacking those claims using the modes of analysis presented above, and repeating the process under Adam Smith’s variation.

MILTON FRIEDMAN’S HYPOTHESIS

The most natural, or popular, assumption that is made with regards to a company’s pursuit of corporate social responsibility initiatives is that, in one way or another, there is a profit-seeking element to the endeavor (Idowu & Papasolomou, 2007). Corporate altruism must somehow be profitable, either in the short term or the long term, for firms to allocate resources towards incorporating social impact projects into their traditional business models. Companies have, and always will be, primarily motivated by a larger customer base, faster production, and
cheaper input costs, all in an effort to increase the bottom line and whether or not corporate social responsibility involves a firm’s true belief or commitment in benefiting society or not, many argue that these types of programs represent another mechanism to facilitate increased cash flow.

Society has a well-established notion that firms are greedy and are, above all else, purely interested in creating personal wealth. The understanding of the role of businesses in society has been influential to discussions about corporate social responsibility, as a firm’s “reason for existence” is often brought up in debating the validity or usefulness of CSR. Beliefs about the power or the purpose of a firm inform theories made about corporate social responsibility so it is first important to understand from where these beliefs, or perhaps truths, about the role of firms originate. What has led to a widespread, deep-seated understanding of for-profit organizations as only self-interested entities and how does this relate to our current understanding of the CSR debate?

Most point to Nobel Prize Winning Economist Milton Friedman’s 1970 New York Times Article entitled, “The Social Responsibility of Business is to Increase Its Profits” as having a significant impact on CSR discussions. Friedman’s argument is singular and very clear: that firm’s should only be interested in profits. He challenges the idea that firm’s should be involved in promoting social ends, such as providing employment, diminishing pollution, and eliminating discrimination, and asserts that a firm’s only “social responsibility” is to be profit-seeking. He describes plainly, “there is one and only one social responsibility of business-to use its resources and engage in in activities designed to increase its profits so long as it stays within the rules of the game, which is to say engages in open and free competition without deception or fraud” (Friedman, 1970).
He also introduces the idea that a corporation is nothing but a legal entity and therefore is lacking in a “social conscience” which would guide it to integrate social initiatives into its business model. In the process of anthropomorphizing businesses, society forgets that it makes no sense to claim that a firm has any “responsibilities,” much less moral ones, and that attention should be focused on the actual businessman, the corporate executive who is human and who does have “responsibilities.” In referring to the businessman as an agent, Friedman argues that executives have a direct responsibility towards their employers, and “to conduct business in accordance with their desires, which generally will be to make as much money as possible…” (Freidman, 1970). This concept of the corporate executive as an agent working on behalf of his employer is commonly associated with the rise in “stockholder theory” or “shareholder theory” which is business managers should be singularly motivated to maximize firm value for shareholders, the “owners” of a company (Pfarrer, Enterprise Ethics).

According to this very traditional way of viewing the role of corporations in society, corporate social responsibility functions as a business cost, something that decreases a company’s end of year net profits. Described as a “fundamentally subversive doctrine” by Friedman, the concept of a socially responsible firm is in direct conflict with the idea that businessmen are agents, not principals of the company. By adopting a “social responsibility,” the corporate executive disrupts his only duty and spends everyone’s money but his own, undermining the principal-agent mechanism. Friedman further articulates:

“What does it mean to say that the corporate executive has a "social responsibility" in his capacity as businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers. For example, that he is to refrain from increasing the price of the product in order to contribute to the social objective of preventing inflation, even though a price increase would be in the best interests of the corporation. Or that he is to make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation or that is required by law
in order to contribute to the social objective of improving the environment. Or that, at the expense of corporate profits, he is to hire "hardcore" unemployed instead of better qualified available workmen to contribute to the social objective of reducing poverty.

In each of these cases, the corporate executive would be spending someone else's money for a general social interest. Insofar as his actions, in accord with his "social responsibility," reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customers' money. Insofar as his actions lower the wages of some employees, he is spending their money” (Friedman, 1970).

While Friedman’s article may seem extreme and narrow minded to CSR advocates today, there are many academics that share his views that firms that attempt to tackle social ills are inferior in terms of financial performance and investment potential. Arthur Laffer, another notable Economist and father of the “Laffer Curve,” eschews very similar beliefs to Friedman’s, noting, “What corporate social responsibility really means, in my view, is irresponsibility. The modern corporation is meant to be a vehicle to create wealth for shareholders, and that is what CEOs must always keep in mind” (Gupte, 2005). Additionally, in 1976, Michael Jensen and William Meckling, two finance professors at the University of Rochester, published “Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure” based on Friedman’s theories concerning the duty of firms. Dressing up Friedman’s argument in fancy math, Jensen and Meckling assume that stockholders are the employers of a company and conclude among many other things, that corporate executives should be given compensation in the form of stock to further incentivize them to function as agents on behalf of a profit-seeking mission. Drawing on the quote in Adam Smith’s Wealth of Nations that claims that humans do not watch over other people’s money with the same vigilance as their own, Jensen and Meckling further perpetuate the “fetishization” of stockholder interests by summarizing that shareholders need not only be
external members, but can, and should, include internal members as well to incentivize financial performance (Jensen & Meckling, 1976).

A very traditional way of viewing the private sector, Friedman’s arguments, and similar ones, have shaped one side of the profit maximization underpinnings in the CSR debate. For this cohort of thinkers, corporate social responsibility movements simply detract from profit maximization trajectories and are an inefficient allocation of time and resources under the assumption that firms are most productive and useful to society as wealth generating entities. Because of this, firms that do choose to practice corporate social responsibility perform worse financially than firms that do not concern themselves with explicitly addressing public interests.

Empirical evidence offers conflicting conclusions for Milton Friedman’s version of the profit maximization theory. There is rigorous evidence both for and against his claims: some believe there is no effect on financial performance given involvement in CSR and some believe that there is a positive financial impact to be gained from engaging in corporate social responsibility initiatives.

A 2004 study by Arthur Laffer, Andrew Coors, and Wayne Winegarden sought to test Freidman’s hypothesis to determine whether or not CSR had any impact on a company’s financial performance. Laffer conducted research into 28 businesses identified by Business Ethics Magazine as part of the “100 Best Corporate Citizens” and tracked each company’s performance across the S&P 500 from the years 2000-2004. He and his colleagues found no significant positive correlation between CSR and business profitability, providing evidence that companies who engage in CSR perform no worse than companies that do not actively practice CSR. But bolstering Friedman’s claim further, the study finds negative correlations between stock price appreciation and corporate social responsibility, further making the claim that
participating in social impact programs detracts from the profit making potential of a company (Laffer et. al, 2011).

Similarly, David P. Baron, Maretno Harjoto, and Hoje Jo find results that closely mirror those of Laffer’s. A 2009 study found no significant correlation between corporate social performance and corporate financial performance. In fact, in some cases high corporate social performance was negatively correlated with financial performance, underscoring the importance of private politics in determining the level of economic gain or loss from corporate social responsibility programs (Baron et. al, 2009).

David Vogel concludes similar findings, arguing that part of the reason why CSR has not been profitable is due to consumers’ ignorance or pure disinterest in “ethical” products. He further adds that even companies that act as CSR role models for other firms experience financial limitations, citing companies such as Starbucks, Levi Strauss, and Whole Foods as having performed poorly in the marketplace despite a dogged insistence on producing socially conscious goods (Vogel, 2008).

Finally, Geoffrey Lantos wholeheartedly agrees with Friedman, going so far as to claim that the disruption between the conventional principle-agent model as found in corporations is unethical, and that the agent, in choosing to pursue CSR does more than create a financial problem. Building on Friedman’s set-up of the power dynamics within a firm, Lantos makes the extreme argument and asserts that engaging in CSR is not only financially wasteful, but also morally incorrect on behalf of the agent, or the corporate executive (Lantos, 2002).

Friedman argues that corporate social responsibility only negatively weighs on a company’s ability to garner high profits and based on various research, many believe that the
relationship between profitability and social impact is either nonexistent or in the worst case, negatively correlated.

An important issue to address is the fact that there is no empirical evidence that justifies anything as absolute as Friedman’s argument; in other words, studies find evidence that conclude a lack of a relationship between social performance and financial performance, but no study resolutely demonstrates that public interest programs have a definite negative impact on profits. Based on the results from studies that most closely align themselves with Friedman’s beliefs, one can only conclude that a firm that is labeled as “socially responsible” and one that is not are similarly valued in the market and perform equally as well or poorly. Socially responsible firms can perform just as well as firms that do not actively address public interests, which does not exactly confirm nor disprove Friedman’s hypothesis.

Figure 3.1:
But there are those that push back on Friedman’s claims that corporate social responsibility functions as a cost and not an asset, arguing that social performance and social image play a crucial role in shaping modern purchasing and investing patterns. For this cohort, public interest activities positively impact a business on a number of levels, even financially. Evidence shows that consumers respond positively towards more socially minded companies and signal their preferences with purchasing decisions.

Cone Communications and Echo Research conducted research on consumer responses towards corporate social responsibility and found that only 6% believe that “businesses exist to make money for shareholders and are not responsible for supporting social or environmental issues” (2013 Cone Communications/Echo Global CSR Study). The study also finds that consumers strongly exhibit the “Prius Effect,” meaning that customers are more willing to purchase goods and services from companies that they deem to be more socially responsible as compared to their competitors (Sexton & Sexton, 2014). Figures 3.2- 3.5 demonstrate these results.
Given similar price and quality, consumers are likely to switch brands to one that is associated with a good cause:

Source: 2013 Cone Communications/Echo Global CSR Study
Figure 3.3

Consumers consider a company’s social and environmental commitment before making important decisions:

- 87% What to buy or where to shop
- 85% Where to work
- 85% Which products and services to recommend to people
- 32% Which companies you want to see doing business in your community
- 23% Which stocks or mutual funds to invest in
- 35% Very/Someewhat Important [net]
- 32% Very Important

Source: 2013 Cone Communications/Echo Global CSR Study
Figure 3.4

Consumers want to get engaged with corporate social responsibility efforts:

- If given the opportunity, I would buy a product with a social and/or environmental benefit: 82%
- If I learned of a company’s irresponsible or deceptive business practices, I would stop buying its products: 90%
- I would tell my friends and family about a company’s CSR efforts: 84%
- If given the opportunity, I would donate to a charity supported by a company I trust: 78%
- If given the opportunity, I would voice my opinion to a company about its corporate social responsibility efforts (e.g., provide comments on the company’s website or blog, review products): 78%
- If given the opportunity, I would volunteer for a cause that a company I trust supports: 77%

Source: 2013 Cone Communications/Echo Global CSR Study
Consumers present themselves as conscious and informed buyers who value a company for more than its ability to increase value for its shareholders. Should consumers behave in this manner in the real world, it would seem as though Friedman’s ideas may be incomplete, especially in industries that are largely consumer facing. If a business cannot maintain its client base and continually attract new customers, there are limited opportunities for that entity to
please anyone, especially its shareholders. What becomes clear in consumer research studies is that Friedman’s hypothesis says nothing about the influence of the actual consumer and the strength of the consumer in affecting a firm’s financial outcome. Today, people are not only motivated by price and quality of goods and services, but also morals, ethics, and intentions. Taking these elements into consideration greatly muddies the conversation about the relationship between CSR and profits.

Similarly, Moses Pava and Joshua Krausz find that there are intangible benefits associated with corporate social responsibility programs that can evolve into tangible financial benefits. Citing many of the same statistics and figures seen in studies like the 2013 Cone Communications/Echo Global CSR Study, these researchers make explicit the ways in which a positive social image can lead to a larger customer base and enhanced marketing/advertising potential, examples of elements that play a role in driving revenue for a firm (Pava & Krausz, 1996).

Beyond consumer research, some scholars have found evidence to prove that socially responsible firms actually perform better than firms that are not labeled as socially responsible. RBC Global Asset Management finds that firms that are more socially conscious provide higher returns on investment to stockholders, either matching or beating average results from the S&P 500 (RBC Global Asset Management). Socially responsible investing mirrors what we see in society—an overall acknowledgement of the desired transition from the firm as simply a wealth-creating machine to a social wealth provider. Contrary to Friedman’s belief that being socially responsible would simply eat away at costs and depreciate a company, some find that the opposite is true, that consumers and investors are more interested in supporting the growth of a firm that is interested in serving the public good.
These studies that do not agree with Friedman’s hypothesis leads us to think back to an early predecessor—Adam Smith. The inconsistency in findings concerning the relationship between CSR and profits prompts thought about the potential interaction between the two, or the actual possibility of an agreement between the two. A modern disciple of Smith, Friedman took *Wealth of Nations* to the extreme, arguing that only self-interest should be appreciated. But Smith approached private markets less narrowly than Friedman and his contribution to CSR discussions stem from his belief that the profitability of a firm is important, but mostly because individual self-interests unconsciously addresses social ills. He believes what Friedman does not, which is that there is a relationship between profits and corporate social responsibility, and a positive one at that.
ADAM SMITH’S HYPOTHESIS

Truly, the beginnings of the profit maximization theory, as it is related to CSR discussions, start with Adam Smith and *Wealth of Nations* in 1776. While Friedman discusses the role of profit making for businesses, Smith views the subject more holistically, going so far as to argue that the profitability of firms fuels social progress and that a business just going about its business is the linchpin to a healthy and high-functioning society. This notion of businesses’ relationship to society has been articulated since 1776, in Adam Smith’s *Wealth of Nations*, in which Smith considers a firm’s “self-interest” as integral to the well being and productivity of society. Considered to be the father of modern capitalism, Smith introduced various economic concepts that have guided thought about private markets and their influence on corporate social responsibility. Of primary relevance to the field of CSR, Smith discusses two main ideas in *Wealth of Nations*: “the invisible hand” and that fact that individuals, and firms, pursuing their own self-interests offer the most benefit to society, or as Smith would say, “enlightened self-interest” (Smith, 1937).

The use of the term “invisible hand” in *Wealth of Nations* was used as a metaphor to describe the unintended social benefits that arise from individual actions. Smith summarizes the concept of the “invisible hand as follows:

“As every individual, therefore, endeavors as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value, every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was not part of it. By pursuing his own interest he frequently promotes that of the society
more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good” (Smith, 1937).

As Smith viewed the mechanisms by which the “invisible hand” would operate, individuals would be sufficiently motivated by their own self interests to compete for scarce resources and thus find the most efficient way of producing and selling those goods in a manner that maximizes output for society as a whole. Individuals may have no intention of impacting the public or have any concern with the consequences that their actions may have on others, but the promotion of their own interests necessarily results in the promotion of the public interest (Smith, 1937). Whether the increased wealth is funneled into creating more jobs, an improved standard of living, or the enhanced quality of goods and services, everyone in society finds value in private actions under the work of an “invisible hand” that controls the free marketplace. Smith argues that, “it is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard of their own self-interest,” which concisely summarizes his point that society relies on everyone’s mutual self promotion and self wanting to sustain itself and provide for everyone (Smith, 1937). Without the baker’s need to provide for himself and his family, there would be no competitively priced bread for consumption in the marketplace that then functions to feed other individuals’ families.

But Smith is often also associated with the idea of “greed is good,” which seems to miss the true intentions of his argument that rational self-interest leads to public good (Crook, 2008). Smith does not argue that a firm has outlined responsibilities or that it is beholden to anyone as Friedman does, but instead argues for the importance of self-control and rationality, not exploitive power. Nor does Friedman necessarily deserve the “greed is good” label; Friedman is quick to point out that firms should be profit seeking within the boundaries of the law (Cooney,
Firms are subject to laws and ethics, just as any other entity is. While an individual’s inherent self-interest is the initial driver of the desire for wealth creation, through repeated commercial interactions and repeated involvement in the marketplace, individuals and corporations realize the efficiency born from competition.

While Smith does not articulate his opinions on the validity of a corporate social responsibility explicitly (in 1776, there was probably little need to consider one in the way that we understand CSR programs today), extrapolating from his texts suggests that corporate responsibility should be naturally occurring. Through the action of Smith’s invisible hand, the private search for profit does advance the public interest. There is no need for thought-leaders in CSR armed with initiatives and compacts to bring this about. If people are truly rational and markets function under the “invisible hand” assumption, producers and consumers should naturally come to an agreement concerning the most effective ways of providing and consuming goods (Smith, 2011). Under Smith’s assumption of perfectly behaved markets, corporate social responsibility is inherent and it has always existed and will always exist, so long as the “invisible hand” can perform its job. And benevolence, a trait often associated with the concept of CSR, is unnecessary according to Smith. Selfishness is just as effective, if not more effective, at creating productivity and thus to Smith, it may seem fortunate that this is the case, since altruism is often in shorter supply than self-interest (Carrasco).

So, Smith might have agreed with Friedman that CSR is unnecessary, but only because it can exist in its own organic form. But Brent D. Beal, challenges Smith’s arguments from *Wealth of Nations* and claims that, “CSR runs counter to logic.” He further adds that,

“Because markets do not run always function properly, there is no guarantee that the pursuit of individual interests will further societal interests. Businesses, therefore, are expected to actively assess the effect of their actions on the broader economic and social systems in which they are embedded. From a CSR perspective, therefore, businesses
should be aware of societal expectations, and they should intentionally regulate their behavior in order to contribute to outcomes that meet those expectations” (Beal, 2013).

In properly functioning markets, Smith argues that consumers can outsource their social concerns to the “invisible hand” and assume that the market will take care of the problem, allowing individuals to go about and pursue their own interests. But reality does not actually present itself as ideally functioning markets, and instead, markets operate imperfectly, asymmetrically, and often create externalities, which prompts the need for corporate social responsibility programs. As Joseph Stiglitz explains, “whenever there are externalities—where the actions of an individual have impacts on others for which they do not pay, or for which they are not compensated—markets will not work well,” which is exactly what occurred in the early 1990s and invoked a response towards finding a way for companies to rectify the consequences of their profit-seeking, yet unethical behaviors (Cooney, 2012). Corporate social responsibility programs were borne from the existence of externalities arising from firms’ actions and their lack of accountability for those actions, leading to the conclusion that social problems are not solved by organic market momentum but by a conscious and deliberate effort to eradicate them.

Contrary to Smith’s conception about the mechanics of society, companies have often acted as perpetrators of social disequilibria, disrupting the notion that pursuing personal interests leads to positive externalities. In fact, almost all of the social pressure faced by firms in the late 1990s and early 2000s rest on the idea that Smith’s theory did not hold in real life because improved financial performance led by self-interest did not come with a social benefit but with a social cost.

Deconstructing Smith’s argument shows that personal profit creation does not necessarily lead to overall societal benefit, as *Wealth of Nations* would suggest. The relationship between
profit and social improvement appears to be a conscious one, not an unconscious one. Private markets do not always automatically yield social benefits—sometimes they do the very opposite and companies are forced to correct the issue after the fact, as happened in the case of Nike. Firms must actively seek to promote progress and change should they want it to happen, and that is exactly what is being seen in society today, as evidenced by the creation of corporate social responsibility departments and initiatives.

So to what extent can firms be both altruistic and profitable? Is there an absolute tradeoff as Milton Friedman would argue? Or is there a symbiotic relationship between the two? How do Friedman and Smith’s arguments present themselves in the real world? How are companies today grappling with this tension and how do these two hypotheses manifest themselves in either the decision-making or the outcomes of the firms?

The following two chapters examine case studies of PepsiCo, a publically traded company, and TOMS Shoes, a privately held company, to understand how firms are walking the line between profits and social impact. Studying both company’s CSR policies in-depth under the direction of Friedman and Smith’s prescriptions will shed light on the extent to which companies are able to “do good” for society and for their financial statements.
4 PepsiCo: Challenging the Link Between Altruism and Profitability

Many firms believe that altruism leads to profits, that behaving well is a means to performing well. But given the constraints outlined by theories recently addressed, does “doing good” naturally become a profitable tactic? If so, what amount of flexibility do firms have to remain altruistic while sustaining profits? To bring more clarity to these questions and to the earlier discussions concerning companies changing roles in society, this chapter examines the interesting and unique case study of PepsiCo’s Pepsi Refresh Project (PRF) during the years 2010-2012.

Created under CEO Indra Nooyi’s umbrella CSR initiative, “Performance with Purpose,” the news of this unique program made a big statement—a statement to the world that attempted to champion PepsiCo as an active participant in society, a for-profit organization that recognized the positive impact it could and should have on communities. The Pepsi Refresh Project was an online platform that launched in 2010 that gave individuals and organizations the opportunity to submit proposed solutions to local community problems and receive grant money from PepsiCo for those ideas (Canabal, 2011). But what sounded like a great idea was very short-lived—PepsiCo executives abandoned the project in 2012, only two years after the initial launch due to declining sales of Pepsi-Cola beverages, a loss of critical market share within the carbonated soft drink sector, and stagnant share prices and profits following the launch of the Pepsi Refresh Project (Chatterji, 2013).

What began as a well-intentioned and arguably very altruistic effort by this firm was ultimately crippled by its lack of profitability, the very element that corporate executives, like Nooyi herself, cite as the golden ticket to a buffered bottom line. Unpacking this particular case will shed light on the mechanisms that led to this project’s demise and how the results from this
case may be extended to address the larger question concerning a firm’s ability to satisfy two desires: the desire to “do the right thing” and the desire to maintain sustainable profits. By studying the origins of PepsiCo’s case for corporate social responsibility and the Pepsi Refresh Project and then critically examining the end results, the influence of all stakeholders involved, and the financial state of PepsiCo before, during, and after the program, this chapter aims to discover the potential tradeoffs that exist between corporate social responsibility and the profit responsibility.

BACKGROUND ON PEPSICO

PepsiCo is a multinational food and beverage corporation whose brands include household names such as Pepsi, Gatorade, Cheetos, and Quaker Foods. Founded in 1969 with the merger of the Pepsi-Cola Company and Frito-Lay Inc., and led today by Indra Nooyi, PepsiCo is considered the second largest food and beverage company in the world by net income with a reported net income of $6.74 billion in 2013 (PepsiCo 2013 Annual Report). An estimated 3 billion individuals worldwide consume PepsiCo snacks and beverages every year, highlighting the immense impact that PepsiCo has had on influencing shopping and eating behaviors (PepsiCo 2013 Annual Report). In addition to being one of the most successful consumer goods brands in the world, PepsiCo is also famously recognized for its long-standing competition with The Coca-Cola Company in the beverages market. Pepsi and Coke products have engaged in serious rivalry for market share in the carbonated soft drink realm for many years, fighting constantly for the upper hand in the cola business.

But the landscape in which PepsiCo operates has become increasingly complicated in recent years. Due to the combination of growing activism against obesity and unhealthy eating in
the U.S. and the company’s public image as one that sells unhealthy soft drinks and snack foods, PepsiCo is experiencing volatility in consumer demand for its traditional carbonated beverages and sugary snacks.

One of the most prominent examples of individuals waging war against companies like PepsiCo include former New York City Mayor Michael Bloomberg, who lobbied to prohibit the sale of soft drinks over 16 ounces in volume in all places that sell food and drink (restaurants, grocery stores, movie theaters, food carts, sports stadiums, etc.). His proposed regulation, colloquially known as the “Soda Ban,” cited beverage companies as “proponents of the growing obesity epidemic in the United States” and marked these companies as having a responsibility to offer consumers healthier options (Colvin, 2012). Picking up on criticism like Mayor Bloomberg’s and a belief that the company would not survive without adapting, the corporation has begun to shift its focus away from refreshments to a broader focus on refreshments, food, and snacks. Through various mergers, acquisitions, and partnerships, PepsiCo’s product mix has become greatly diversified and reflects a wide spread of different consumable goods. It seems clear that the strategic decision to broaden the product line was a response to the supposed change in consumer appetite away from the more traditional Pepsi brands.

Regardless of these structural changes, PepsiCo still acknowledges that its customers recognize the company as the “company that makes Pepsi” and that they believe that the Pepsi-Cola beverage is the firm’s sole product. Despite the declining sales of carbonated soft drinks since 2005, the Pepsi-Cola products still make up the bulk of the firm’s revenue each year, accounting for over $20 billion in revenue in 2010 (PepsiCo 2010 Annual Report). This tension prompts questions regarding what the public expects of PepsiCo vs. how it actually responds to the success of the company’s various efforts to expand its snacks and non-carbonated beverages.
sector. The corporation has been put in a difficult position in which they are facing public pressure to modify the products that make up its very existence—snack foods and sugary beverages.

Towing this line has proved difficult for PepsiCo executives. How can they reinvent their image and their trajectory while still remaining true to their history and their profits? What changes are possible in this type of environment in which the company itself and the demands from the public seem simultaneously in line yet very much at odds? PepsiCo realized that it had to find a way to bring balance to its competing interests and so executives hired the best person that they knew for the job—Indra Nooyi.

“PERFORMANCE WITH PURPOSE”

Indra Nooyi’s appointment to CEO in late 2006 marked a change in identity for the brand and as PepsiCo’s “agent for change,” she announced various strategies and ideas that had previously been foreign to the food and beverage corporation. Of the many activities and operations she has launched since her tenure, the most buzz worthy has been the rollout of the company’s official corporate social responsibility initiative, “Performance with Purpose.” The PepsiCo website defines this agenda as follows:

“Performance with Purpose is our goal to deliver sustained financial performance by providing a wide range of foods and beverages, from treats to healthy eats; finding innovative ways to minimize our impact on the environment and lower our costs through energy and water conservation, as well as reduce use of packaging material; providing a safe and inclusive workplace for our employees globally; and respecting, supporting, and investing in the local communities in which we operate” (PEPSICO)
Most notably, Nooyi has devoted special attention to one particular element of “Performance with Purpose,” which is the actual nutritional value and composition of PepsiCo products. Her long-term growth strategy is to transform PepsiCo into a “nutrition business,” a surprising term, considering that its revenue is made through the sale of objectively unhealthy foods and drinks (Seabrook, 2011). As part of “Performance with Purpose,” the company’s portfolio has been split into three groups of descending “healthiness”: the “good for you” portfolio, the “better for you” portfolio, and the “fun for you” portfolio, which can be seen in figure 4.1. The “good for you” portfolio, also sometimes referred to as the “nutrition business,” includes the snacks and drinks that contain the most fruits, vegetables, nuts, dairy, and grains and features brands such as Naked Juice, Quaker Oats, Gatorade, and Sabra Hummus.

**Figure 4.1**

![Portfolio Groups Image]

*Source: 2010 PepsiCo Annual Report*
Her goal is to eventually triple the revenues brought in by this segment of the company, transforming it from the 10 million dollar business it is today to a 30 million dollar industry by 2020. An average of 20% of PepsiCo’s total revenues stems from the “good for you” portfolio, which means that the unhealthier foods, such as carbonated beverages and potato chips, continue to bring in the majority of PepsiCo’s annual revenues (Seabrook, 2011). Because these types of products can be made cheaply, have large profit margins, and are most easily consumed and marketed to shoppers everywhere, it is not surprising that the firm will continue to produce these types of consumable goods for some years to come.

Nooyi’s journey into nutrition, which officially began in 2007, is only just beginning and to prove she’s serious about these changes to the PepsiCo image, she has spent millions of dollars to bring nutrition specialists into consultation about new snacks and beverages, hire prominent scientists, build new laboratories, and expand Research and Development’s capabilities. Although intent on avoiding blame for the obesity crisis, Nooyi believes that PepsiCo has a real stake in providing a solution to the problem, stating, “…large companies are powerful—they can play a big role—so we need to work with governments to provide solutions” (Chatterji, 2013).

While her statements and beliefs seem genuine and earnest, Nooyi is also quick to address the fact that this approach has a dual purpose: to do well for society and also to do well for the company. In PepsiCo’s most recent “Letter from the CEO,” she writes,

“If our history and trajectory have taught us one thing, it’s that we have to think in terms of both quarters and generations. Business does not operate in a vacuum—it operates under a license from society. We recognized early that when we transform our business to deliver for our consumers, protect our environment, and invest in our employees—we achieve sustained value. In fact, these actions fuel our financial returns” (PepsiCo 2013 Annual Report)
For Nooyi, the revised goals and operations within the company are not only an obligation to society, but also a means to PepsiCo’s continued success and survival. Capitalizing on a new niche in society, she notes, “with the aging population and everyone’s focus on health, products that are nutritiously good, or nutritionally better than anything else out there, are a huge opportunity. These categories are growing several times faster than anything else” (PepsiCo 2013 Annual Report). But unfortunately for the executives at PepsiCo, change does not happen overnight and the critical element of time in the transition into healthier products is fully acknowledged.

In the meantime, as zero calorie sodas with the same taste as regular Pepsi and low sodium potato chips with the proper crunch were in the process of being developed, Nooyi and her team worked on tackling another aspect of “Performance with Purpose,” which aimed at supporting local communities, but also, no doubt, concentrated on setting the stage to alter public perception of PepsiCo. To be recognized as a company that uses its profits for good seemed to be the backbone of the Pepsi Refresh Project. Attempting to soften PepsiCo’s tradition of selling some of America’s favorite junk food and diverting attention towards its capacities to be an active participant in society, executives within the corporation hoped this new initiative would help tame criticism directed towards its involvement in the obesity crisis and help consumers become more aware of and receptive towards the nutritional changes within the PepsiCo brands (Kamischke, 2012). Combining a desire to give back to communities and a desire for increased brand awareness, the Pepsi Refresh Project had high hopes of proving that doing good for others could also mean doing good for oneself.
THE PEPSI REFRESH PROJECT

In February of 2010, PepsiCo launched the “Pepsi Refresh Project” with the hopes that it would become a long-standing and successful community based initiative. In 2011, one year prior to the abandonment of the project, PepsiCo described the goal of the Refresh Project on its website as follows:

“Pepsi is giving away millions each month to fund refreshing ideas that change the world, one community at a time. Here’s how it works: You have an idea to refresh your community. You invite people to get behind your idea and vote for it. If your idea is approved, Pepsi will help you make it happen with funding from a Pepsi Refresh Project grant. Sound complicated? It isn’t. You don’t have to have a project chosen, or even submit one to help refresh the world. Voting for ideas you like, commenting on someone else’s idea, “Liking” the Pepsi Refresh Project on Facebook, or even just drinking Pepsi products with Power Vote codes can have a positive effect for your community” (Canabal, 2011).

This project was aimed at allowing individuals, non-profits, and other local organizations to crowd source support for their envisioned solutions to various problems in their communities via an online platform sponsored by PepsiCo. Categories eligible as “fund-able” projects included health, arts and culture, food and shelter, planet, neighborhoods, and education, demonstrating the wide variety of grants PepsiCo was willing to support. Examples of projects that were funded via the Pepsi Refresh project included afterschool programs for at risk youth, the opening of a dance and arts recreation center, the development of parks and playgrounds, and the shipment of care packages for deployed American soldiers (Kamischke, 2012).

On the Pepsi Refresh Project webpage, RefreshEverything.com, as well as on social media sites such as Facebook and Twitter, visitors could vote for project ideas and at the end of each grant cycle, PepsiCo would donate up to $1.2 million to the 60 project proposals with the
highest number of votes in amounts of $5,000, $10,000, $25,000, or $50,000 (Kamischke, 2012). Figure 4.2 illustrates the visual setup of the online portal for the program, which has since been deleted.

**Figure 4.2**

![VOTE NOW!](image)

**Source:** RefreshEverything.com

Votes for the Refresh Project operated in two ways. The first method was simply by visiting the participating voting channels and selecting the most appealing project proposals. The second alternative was facilitated through codes printed on Pepsi products known as “power votes.” Tied to product purchase, PepsiCo offered consumers an additional method of voting in
which votes could essentially be bought. With power votes, consumers could vote for projects of their choosing up to ten times a day, “allowing voters to quench both their thirst and enthusiasm for vibrant ideas” as opposed to the standard maximum of five votes per day (Canabal, 2011).

To launch this project, PepsiCo funneled the nearly $20 million they would have used for 2010 Superbowl advertisements into the creation of the interactive online grant portal. Nooyi’s decision to withdraw from the Superbowl for the first time in 23 years to instead inaugurate a grant contest was shocking, and risky, to say the least (Preston, 2011). The decision was a signal in an entirely new direction for PepsiCo, one that attempted to distinguish the company as a civic-minded and charitable organization. Pepsi became one of the most talked about brands at the Superbowl on social media in 2010 despite not running advertisements.

In the first year alone, the Pepsi Refresh Project logged impressive statistics. Over 80 million votes were cast and approximately 17 million unique visitors visited RefreshEverything.com, PepsiCo’s dedicated microsite for the program. An average of 1.6 million unique visitors interacted with the site each month and over the span of two years, PepsiCo garnered an additional 3.5 million likes on Facebook and 60,000 Twitter followers. By January of 2011, PepsiCo had awarded grants to 400 winners, a total of about $20 million (Kamischke, 2012). Consumers were actively participating with the program and PepsiCo was reaping the benefits of consumer interaction, which would hopefully amount to increased brand equity and recognition, according to Shiv Singh, head of digital for PepsiCo Beverages America. His comments on the Pepsi Refresh Project, while slightly contradictory, but generally altruistic at face value, emphasize community building in a variety of senses. He notes:

“This was not a corporate philanthropy effort. This was using brand dollars with the belief that when you use these brand dollar to have consumers share ideas to change the world, consumers will win, the brand will win, and the community will win. That was a
big bet. No one has done it on this scale before. This is not a sales driving program, but viewed as an investment to build brand awareness and cultivate a long-term relationship with consumers” (Preston, 2011).

A three party win between consumers, the brand, and communities seems like an ideal situation, so if the Pepsi Refresh Project was truly as positive as was purported, why did PepsiCo abandon the initiative in 2012, only two years after the initial launch of the program?

It was not for lack of social impact that PepsiCo pulled the plug on the grant portal. A total of 676 ideas were funded through the Pepsi Refresh Project over the two years, a total of over $21 million in grant money awarded. The grant recipients came from 345 cities across 45 states in the U.S. and through the money given out by PepsiCo, numerous community initiatives were given the opportunity to help realize local change. Funds were given to help support U.S. troops, youth programs, small businesses, technology improvements in schools, music and arts initiatives, and more. The project also resulted in over $10 million of personal grants and in-kind donations from visitors of Refresh Project site, about 50% of the total money awarded by PepsiCo itself (Kamischke, 2012). Given that this initiative attempted to remain entirely altruistic in nature (minimal product involvement, acceptance of grant ideas that had nothing to do with anything related to PepsiCo’s operations or business interests, very frequent grant cycles in which about $1 million was allocated, etc.) it is disappointing that the project ended just as quickly as it started, since it seems as though there were definite, tangible impacts from PepsiCo’s funding.

But while communities and consumers may have benefited from this program, PepsiCo’s financials did not. Even if the rhetoric behind the Pepsi Refresh Project argued that it was not a “sales driving program,” the profitability of the project was still crucial to its survival. The link
between altruistic behavior and profitability was challenged in this circumstance due to several unfortunate financial mishaps that occurred following the launch of the Pepsi Refresh Project in 2010, namely a decline in sales of Pepsi-Cola products, PepsiCo’s largest source of revenue, a loss of market share within the carbonated soft drink sector, stagnant share prices, and faced minimal positive change in profits over the two years of the initiative’s existence.

PEPSI REFRESH PROJECT’S FINANCIAL UNDERPERFORMANCE

Declining Sales of Pepsi-Cola Products

Sales of carbonated soft drinks have been on the decline since 2004, and consumers’ movement away from sugary, fatty beverages has negatively impacted PepsiCo, one of the dominant players in this category. Since 2005, soda sales have declined by an average of 3% each year, signaling a movement away from sugary sodas and towards an emphasis on healthier beverages, such as juices, sports drinks, and teas (Esterl & Bauerlein, 2011). With this marked slump in soda sales, PepsiCo and major competitor, The Coca-Cola Company, have entered into what has been termed, the “Cola Wars,” and investors and analysts are eager to see which company has the upper hand. But what is important to note is that neither company is doing well; both have experienced falling sales of their cola products since 2004. PepsiCo has been losing an average of 3% per year and The Coca-Cola Company has fared only slight better, at 2% per year. In reality, it seems that no one is winning the soda war and the question is not “who is winning,” but “who is losing the least” (Linshi, 2015).

In 2011, one year into the Pepsi Refresh Project, sales of Pepsi fell by 4.8% from the previous year compared to sales of Coke, which only fell by 1% from the previous year. And in 2012, sales of Pepsi declined by less, 3.4%, but fared worse than Coke, whose sales of its cola
products declined by 1% compared to the previous year. Looking exclusively at PepsiCo and The Coca-Cola Company’s sales of their diet cola brands, the results look even worse for Pepsi. PepsiCo logged a fall in sales of Diet Pepsi of about 8.2% in 2011 and 6.2% in 2012, while The Coca-Cola Company reported a decline in its Diet Coke products of 4% in 2011 and 3% in 2012 (Linshi, 2015). Visual representations of these changes in sales volume over the years are show in figures 4.3 and 4.4.

Figure 4.3

Coke vs. Pepsi by Sales Volume

Annual percentage change in all-channel U.S. sales volume, 2003 - 2013

Source: Beverage-Digest Get the data

Source: Beverage-Digest
As PepsiCo’s largest competitor in the beverages market, Coca-Cola’s slightly superior performance was worrisome to PepsiCo stakeholders and necessitated review of the Pepsi Refresh Project. The program was good at many things, but it was not successful at generating sales of the Pepsi product, even with the “Power Votes” product tie-in. While increased sales were a purported side bonus of the initiative, the lack of tangible results from the Pepsi Refresh Project ultimately led to its cancellation, challenging the notion that doing good would necessarily lead to good things for the firm as well.
Loss of Market Share in the Carbonated Soft Drink Industry

In combination with the fall in sales of Pepsi’s soda beverages, PepsiCo began losing market share in the carbonated soft drink sector in 2010. From 2010-2011, PepsiCo’s market share fell by 0.8% and then by 0.4% from 2011-2012, resulting in more skepticism from investors concerning the decision making by Nooyi to pursue the Pepsi Refresh Project. Figure 4.5 shows the change in market share over time for PepsiCo (The Economist, 2015).

**Figure 4.5**

Market share of leading carbonated soft drink companies in the United States from 2004 to 2013

Source: Beverage-Digest
More disastrously, at least on a symbolic level, Pepsi-Cola lost market share to competing brands Coke and Diet Coke at the end of 2010. For years, Pepsi-Cola had been tied with Diet Coke for the number two spot behind regular Coke in rankings for leading carbonated soft drink brands by market share, but at the end of 2010, Pepsi-Cola lost to Diet Coke, falling to third place behind both Coke and Diet Coke (Esterl, 2011). For the years following, Pepsi-Cola remained in third position and continued to lose market share while Coke and Diet Coke’s market share remained stable over the same time period. Pepsi’s loss to both of The Coca-Cola Company’s biggest brands was both alarming and disappointing. Nooyi could not continue to pour money into the Pepsi Refresh Project while the company’s namesake brand was struggling and showed few signs of recovery. Figures 4.6 demonstrate Pepsi’s fall to third place at the end of 2010 and for the entire duration of the existence of the Pepsi Refresh Project.

**Figure 4.6**
Stagnant Share Prices

Since Nooyi was named CEO in late 2006, PepsiCo stock prices have been volatile, rising from 2007-2008, but declining from 2008-2009. By 2010, the first year of the Pepsi Refresh Project, PepsiCo’s share prices remained stagnant, and even by the end of 2011, there was very little movement in a positive direction for the stock prices. Worse still, Coca-Cola’s share prices nearly doubled during the same time period, representing a clear underinvestment by PepsiCo in its namesake brand during this time (Colvin, 2012).

Source: Beverage Digest
But what is interesting to note is that while the market prices of PepsiCo’s stock fared poorly, PepsiCo was still able to offer shareholders respectable returns through regular dividend payouts and stock buybacks. In fact, PepsiCo performed just as well as the S&P 500 average since Nooyi’s takeover of executive leadership (Colvin, 2012). Investors may have been “overemotional” towards the stagnant stock prices but the fact that PepsiCo is generally compared to its direct competitor, The Coca-Cola Company, may have accounted for much of the shock, despite the corporation’s ability to pay shareholders in the same manner as other companies listed on the S&P.
Figure 4.8

*PEPSICO VS. THE S&P 500: TOTAL SHAREHOLDER RETURN* Since Nooyi became CEO, PepsiCo has treated shareholders exactly as well as the S&P, thanks to dividends and stock buybacks.

Source: Colvin, 2012

**Stagnant Profits**

As the final indicator of the Pepsi Refresh Project’s inability to entice consumers to buy more Pepsi products, profits remained stagnant since Nooyi became CEO and the stagnation continued through the lifetime of the Pepsi Refresh Project, a sign that its main source of revenue was not pulling its weight. Hovering around $3.5 billion in yearly profit, it quickly became clear that PepsiCo was spending more money on the initiative than it was gaining from it (The Associated Press). Combined with the costs associated with Nooyi’s imperative to alter the composition of various brands, which included rising energy and commodity prices, the lack of incoming revenue from the brand that generates the majority of PepsiCo’s yearly revenue proved to be disastrous.

One piece of good news was that despite analysts’ bleak projections concerning the profitability of PepsiCo in years to come, the food and beverages corporation has actually
exceeded expectations. In fact in 2014, PepsiCo announced net income of $6.5 billion, almost double what analysts expected back in 2012.

**Figure 4.9**

**INVESTORS’ DIM OUTLOOK FOR PEPSICO’S ECONOMIC PROFIT**

In light of all the indicators of PepsiCo’s poor performance from 2010-2012, Nooyi and her team were forced to make decisions. In March of 2012, the chief executive announced several changes to management, in addition to announcing the cancellation the Pepsi Refresh Project, which was clearly intended to calm investors who had become impatient over PepsiCo’s stationary stock prices and loss of critical market share (Strom, 2012).

**LESSONS LEARNED**

Civic-minded company executives are often quick to argue for the supposed inherent symbiotic nature of corporate responsibility and profitability, and Indra Nooyi, current CEO of PepsiCo, strongly believes this to be the case as well. But in this particular situation, the two elements did not work in tandem, in fact there seemed to be a clear tradeoff between one and the other. It would have been impossible for PepsiCo to continue to devote millions of dollars to the Pepsi Refresh Project while its financials were underperforming. Had the Pepsi Refresh Project

**Source:** Colvin, 2012
not only garnered as much publicity and public support as it did, but also driven sales of Pepsi products, there would have been little to discuss. Pure knowledge of the fact that PepsiCo was making large efforts to support its consumers and their communities did little to sway them to prefer or purchase Pepsi products, even given the “power vote” product tie-in. The PepsiCo case provides evidence against the claim that CSR and profits can be achieved simultaneously and questions our understanding of what companies think they know about implementing CSR programs and how they are actually received by their target audiences. This section seeks to unpack what led to the demise of the Pepsi Refresh Project and what accounts for the barrier between corporate social responsibility and its potential for financial success for a publicly traded firm.

Following the abandonment of the program, Nooyi began receiving heavy criticism for “Performance with Purpose.” After witnessing that her agenda that was unsuccessful at accomplishing its dual objectives, analysts and investors were quick to berate Nooyi for diverting attention away from what PepsiCo was best at selling: fatty and sugary snacks and beverages. People began to seriously question whether or not “Performance with Purpose” made sense for PepsiCo, a company whose tradition was, and whose probable future is, built on the sale of unhealthy foods (Seabrook, 2011). Donald Yackman of Yackman Funds, a long time investor of PepsiCo, said of “Performance with Purpose,” “I’ve always seen that more as PR than a reality. To focus on that would be sort of like the tail wagging the dog” (Colvin, 2012). Sentiments like these from PepsiCo investors crippled the pursuit of CSR from the start. Shareholders, arguably the most powerful force behind the longevity and health of a publicly traded company, felt poorly about the initiative before it even began.
Following a very “Freidman-esque” mentality and denying the relationship between a company and a “social responsibility,” it is no wonder that shareholders forced Nooyi to abandon the project and focus on more traditional methods of attracting consumers. Shareholders represent the extreme end of a firm’s stakeholders in that their singular concern is to increase their own wealth. Anything that appears to be a potential risk or liability is immediately questioned and critiqued. Stability is often an important factor in determining what to include in a portfolio and this radical shift invoked unsettled responses from shareholders who were familiar with more traditional methods of reaching consumers and garnering sales. As a company that had marked its financial success by selling unhealthy food to people across the globe, what prompted the sudden need to switch tactics and preach healthful eating? In fact, it may be the case that many investors choose to align their money with PepsiCo for the reason that there will always be a market for snacks and beverages (Chatterji, 2013). Especially to this subset of individuals, Nooyi’s subversion of this reality would seem misplaced or incorrect. Selling addictive junk food works, many would argue, and the undermining of this “tried and true” concept seemed inappropriate. As Ali Dibadji, analyst at Sanford C. Bernstein & Company, similarly noted, “PepsiCo has been underinvesting in their core business…. they have to realize at the core that they are a sugary, fatty cola company and people like that,” highlighting the dependency of shareholders on PepsiCo doing what PepsiCo does best: selling sugary, salty, fatty snacks (Colvin, 2012). As natural skeptics of risky investments and as individuals who depend on PepsiCo to continually increase in value, shareholders will always represent a credible threat to the success of any project and without their support, it is no surprise that CSR has been slow to take off within PepsiCo.
But this uncertainty about the use of CSR by PepsiCo was not only shared by investors, but also by actual consumers of the company’s products. As a publicly traded company that is also consumer facing, PepsiCo is dealt a complicated hand. It must succeed in satisfying its shareholders who, to a large extent, determine the growth and future of the firm, but it must also succeed in appeasing its consumers, the individuals who drive incoming revenue. To this end, Nooyi seems to have failed the first condition and seems to have confused the second condition. The image of PepsiCo as a company and its philanthropic efforts are at odds. PepsiCo, as previously discussed, is acknowledged as a business that sells unhealthy foods. The Pepsi Refresh Project, on the other hand, was essentially a “free money giveaway” program. The dissonance between the company’s objective and its practices confused consumers and thus blocked the potential for the Pepsi Refresh Project to be anything more than a grant contest (Stanford, 2012).

In other words, PepsiCo suffered from an imperfect match between its CSR initiative and the character of the company, leading to a distortion of expected consumer behavior. Sankar Sen and C.B. Bhattacharya find that consumers are sensitive to the types of social causes supported by firms and react differently to them based on the program’s relationship to the companies themselves. CSR initiatives can, under certain circumstances, decrease customers’ intentions of buying certain products if they find the initiatives to be in direct conflict or non-related with the company itself (Sen & Bhattacharya, 2001). Similarly, Karen L. Becker-Olsen, B. Andrew Cudmore, and Ronald Paul Hill find that “low-fit” initiatives negatively impact consumer beliefs and attitudes no matter what the corporate motivation, be it pure altruism or profit-maximization (Becker-Olsen et. al, 2006). The Pepsi Refresh Project is categorized as a “low-fit” project in that its publicly advertised goals are not those of the larger organization. The objective of the
corporate social responsibility initiative, to support community endeavors and celebrate social investments, ran counter to the company itself, a company that plays a role in fostering unhealthy lifestyles, forming addictive eating habits, and enticing consumers with cheap yet impure foods and beverages. While it was clear that community members were more than willing to take advantage of PepsiCo’s brief stint of charity, this eagerness to engage with the CSR program did not lead to sales of the actual Pepsi product, as Sankar Sen et al and Karen L. Olsen-Becker et al note.

Additionally the categorization of the Pepsi Refresh Project as “low-fit,” also speaks to the fact that people take issue with the actual Pepsi product, but the product itself never changed. The initiative operated under the umbrella CSR program, “Performance with Purpose,” which hopes to transform PepsiCo from a snack foods business to a nutrition business by 2020. With this in mind, one would think that the Pepsi Refresh Project would have had something to do with changing the makeup or the health content of Pepsi products, but in fact it had nothing to do with a change in Pepsi’s nutritional value. While the grant contest was widely appreciated and applauded, a poor relation between the actual problem and an appropriate solution may have invoked a negative consumer response towards the purchase of Pepsi products. The customer’s inability to connect why the social impact initiative should encourage him or her to buy more Pepsi products is a probable explanation for the decrease in sales. And given that during this timeframe, Nooyi cut back significantly on traditional forms of marketing and advertising in order to funnel more money into this philanthropic activity, consumers had even less of a stimulus to drink more cola (Esterl, 2011).

Finally, in the PepsiCo case, we see most clearly the reason why increased profits might lead to efforts in favor of the public interest, but not at all in the way that Smith originally
theorized. The process by which self-interest leads to corporate social responsibility in the PepsiCo case is multi-step. First, by pursuing its own self-interest for decades, PepsiCo amassed huge profits and became the second largest food and beverages company in the world by net income. But what resulted from this selfish financial quest was the creation of negative externalities, namely in the form of contributions to the growing obesity epidemic in the U.S. By selling unhealthy foods relatively cheaply, PepsiCo, along with other snack and beverages companies, paved the way for increased convenience and addiction to sugary, fatty foods. Then, in the late 1990s, waves of public opinion began to seriously influence the decision making of many large corporations and it seems that the power of public scrutiny has still not disappeared. In short, the firm’s engagement in CSR today is the result of getting too big to resist public opinion and scrutiny. PepsiCo’s decision to venture into philanthropy was a conscious and strategic move, not one that organically evolved as a result of market efficiency, as Smith believed.

Furthermore, David P. Baron, Maretno Harjoto, and Hoje Ho describe the process outlined above as the “soft hypothesis,” an outline for understanding a particular company’s relationship between corporate financial performance, corporate social performance, and social pressure. The soft hypothesis describes a situation in which greater social performance, or the intent to pursue large-scale social impact initiatives, and weak financial performance result in increased social pressure (Baron et. al, 2009). This accurately reflects the PepsiCo case in which Nooyi’s decision to pursue “Performance with Purpose” and the company’s stagnant profits and declining share prices created fertile ground for investors, the main group leading the social activism charge, to attack the company against its claims to CSR legitimacy. The firm’s weakened position made PepsiCo an easy target and given the size of the company and its
reliance on positive investor relations, the firm buckled under the pressure, giving in to the wishes of investors and Nooyi was left trying to navigate the best way to integrate CSR with PepsiCo’s traditional business model (The Economist, 2012). Despite potentially honorable intentions, the reality lies in the fact that any project, and especially projects that instill little faith among important stakeholders, requires financial sustainability.

Had the Pepsi Refresh Project been financially successful, “Performance with Purpose” would have been applauded instead of questioned. The tension between both sides was heavy; on one hand, consumers were heavily engaged with the project and the program saw great social success, but on the other hand, there was pushback from those concerned with PepsiCo’s earnings who were unimpressed by the lagging financial performance despite overwhelmingly positive social performance. Ultimately, the decision was clear: Nooyi had no choice but to cancel the program and find alternate ways of appeasing investors. In this situation, there was no flexibility for PepsiCo executives to pursue the project if the financials suffered as a consequence—profitability was essential to the company’s continued survival.

This case study demonstrates the ways in which various hypotheses about corporate social responsibility present themselves in real life situations but how reality tends to deviate from theory. While Freidman’s hypothesis was correct in this scenario, that corporate social responsibility inhibits profitability, the reasons for which there were tradeoffs between social impact and wealth extend beyond simply the strength of the shareholders. Incongruence between what the company stands for and what the company projects caused consumers to react negatively to the campaign in the sense that it did not inspire them to prefer PepsiCo products. Additionally, PepsiCo happened to be the perfect target for social pressure. Weakened economic conditions under Nooyi’s leadership and a new effort to promote social causes made PepsiCo
ripe for critical attention and eventually, under the weight of shareholder criticism, the Pepsi Refresh Project was abandoned.
5 TOMS Shoes: A Tradeoff or a Balance?

As a publicly traded company, PepsiCo faces significant obligations and pressures that create added complexities to discussions concerning corporate social responsibility. CSR initiatives are constrained by their responsibilities to their employers, as Friedman would say, and there is little flexibility for a publicly traded firm to practice altruism if it is not paired with profitability. Some may say that practicing corporate social responsibility in a publicly traded organization is actually irresponsible of the firm, strongly upholding Friedman’s belief that a business is responsible only for enhancing shareholder wealth. As demonstrated in the PepsiCo case, this tension between CSR and profits were highly debated among corporate executives, shareholders, investment analysts, and consumers.

But what does the relationship between the pursuit of profits and the pursuit for social change look like in a privately held firm? Would the landscape afford companies more flexibility to balance altruism and profits, potentially allowing a firm to sacrifice some profits for social impact should it want to do so? Clearly this is an impossible circumstance for a publicly traded company whose success more crucially depends not only on its profitability, but also the perception of its profitability. Privately held firms, on the other hand, may be able to better navigate the difficulties inherent in corporate social responsibility initiatives due to the fewer number of obligations and leaner organizational makeups. Bound by the expectations from fewer individuals, these smaller businesses may be better able to address self-interests beyond that of just wealth creation and may be more willing to tip the scale in one way or another to accommodate for these potentially competing interests. Thus, an analysis of a privately held firm’s CSR policies provides robustness and roundedness to our understanding of the relationship between profits and corporate altruism.
An unfortunate limitation to studying privately held firms is the scarcity of publicly available financial records of the company, a crucial piece of data to this analysis. In light of this, TOMS Shoes presents itself as the most convenient and most suitable case to study given the amount of literature that has already been published about the company and the relative availability of some of its financial information. But beyond simply fulfilling the threshold for enough analyzable data, TOMS Shoes also offers an interesting comparison to PepsiCo in that the originations of both company’s founding and business model are fundamentally different. Additionally, TOMS Shoes, being a relatively new company, lends itself to a different circumstance than PepsiCo; in other words, the footwear company exists in a world that it has taken advantage of and has effectively helped shape, as opposed to PepsiCo that is learning how to transition into this changing business landscape. How does the relationship between corporate altruism and profits change for a firm that is riding the CSR wave as opposed to chasing it?

This chapter attempts to position TOMS Shoes’ financial performance in line with what we know to be true for a privately held company and for the unique circumstances of the company’s existence and function in society as well as to offer a counter example to the PepsiCo case to gain a better understanding of what it means for a firm to practice CSR and experience growing profits or not. Additionally, this chapter aims to explore the burgeoning CSR movement that TOMS Shoes belongs to, a movement that is centered not on practicing corporate social responsibility in the conventional manner, but fully integrating social impact into its business model and finding profitability within this space.
TOMS SHOES

TOMS Shoes, Inc. was founded in 2006 by Blake Mycoskie and is a privately held, private-equity backed company that produces and sells footwear, eyewear, and apparel for women, men, and children. CEO and founder Blake Mycoskie was inspired to start the company after taking a trip to Argentina where he learned that many children go about their lives barefoot, too poor to afford shoes. He was appalled to learn that the families he met where unable to purchase something as seemingly basic as a pair of shoes, especially given that many of the children he met suffered from foot-related diseases and infections. Thus TOMS Shoes was borne from Mycoskie’s emotional response to his Argentinian experience, a way for him to support those not fortunate enough to support themselves (Mycoskie, TOMS Shoes).

The footwear company is built on a “buy one give one” model, donating a pair of shoes to a child in need for every pair of shoes sold. Termed “philanthropic capitalism” by philosopher Slavoj Zizek, the TOMS Shoes business model is designed to stimulate simultaneous revenue growth and social advancement, a unique blend of two spheres that are seen by many as in competition (Zizek, 2010). The firm operates three manufacturing locations in China, Ethiopia, and Argentina where shoes are produced on a made-to-order basis. By 2015, the company expects to perform 50% of its manufacturing in the markets its philanthropy serves (PrivCo).

To date, the firm has donated more than 35 million pairs of shoes in over 70 countries, donating a variety of shoes designed to accommodate the differing environments and lifestyles of its donation countries, such as winter weather boots, basic slip-on shoes, and sports-style footwear. (TOMS Shoes) Mycoskie argues that the donations of shoes do much more than simply provide a child with a material object. First, shoes provide avenues to education, by providing a child with a basic element of the required school uniform and by allowing children to
safely walk or commute to school. Secondly, shoes provide opportunities for improved health. Many times, children are subject to various diseases and infections due to direct skin contact with soil or unsafe walking paths and wearing shoes prevent abrasions and cuts that facilitate foot-related infections. Lastly, Mycoskie argues that the ownership of footwear boosts confidence in children in developing countries and enables them to more actively participate in life (TOMS Shoes).

Recently, TOMS Shoes has expanded the scope of its operations to introduce the sale of eyewear, coffee beans, and bags to support the “gift of sight,” “the gift of water,” and “the gift of safe births” respectively. The introduction of three new core products follows the “buy one give one” model originally applied to the company’s footwear products—the sale of a pair of eyeglasses or sunglasses supports eye surgeries, prescription treatments, and optical medical treatment, the sale of a bag of TOMS Coffee Beans funds water systems in areas that are lacking in safe drinking water, and the sale of bags provides the funds to provide training for skilled birth attendants and other vital materials needed to help a woman safely give birth. Since 2011, the company has helped restore the sight of over 275,000 individuals and has donated over 67,000 weeks of safe drinking water since its “gift of water” campaign in 2014 (TOMS Shoes). For the purposes of this chapter, I will mostly focus on discussions concerning shoes, since the other products by TOMS function in much the same way.

While TOMS spends much of its profits on the production and distribution of separate products for donation, the company appears to perform in a financially stable manner. The company records increasing revenues each year and the sale of its primary product, shoes, increases year over year as well (PrivCo). Unfortunately, there is no available data on the net income of the firm, so it is hard to accurately assess the true profitability of the company. But for
comparison purposes to PepsiCo, the company does not appear to be negatively impacted by the initiative, given by the fact that the firm has yet to go out of business or entirely restructure its business model. Reports of the firm’s revenues and sales from 2006-2014 are shown in figure 5.1 and 5.2.

**Figure 5.1**

[Diagram showing TOMS Shoes revenues from 2006 to 2014 with details such as $0.22 MM in 2006, $1.23 MM in 2007, $3.13 MM in 2008, $8.4 MM in 2009, $26.2 MM in 2010, and $43.5 MM in 2011, followed by $97.5 MM in 2012, $250 MM in 2013, and $350 MM in 2014.]

*Source: PrivCo*
While it is impossible to conclude with certainty that TOMS Shoes is a thriving company due to the lack of available financial records, had TOMS struggled significantly to find profitability within their business model, the company may not be in existence today. According to researchers at PrivCo, the majority of the company’s costs are centered on its philanthropic activities. For the firm to be profitable its revenues must outweigh its costs and the fact that TOMS Shoes has been able to continually expand and survive is a testament to the strength of its business model. As the company donates half of the products it makes, or donates a large percentage of its incoming revenue towards other philanthropic initiatives, essentially giving
away half of its products, TOMS Shoes subverts many of the expectations academics and researchers have about the relationship between corporate altruism and profitability.

THE “ONE FOR ONE” BUSINESS MODEL AND ITS EFFECTS

Mycoskie’s simple idea has exploded into an incredibly successful business model that has since been copied and adopted by many other consumer products companies. Giving away products for free has, perhaps surprisingly, been the ticket to Mycoskie’s success and has reshaped not only the corporate social responsibility landscape but also what constitutes, or what can lead, to commercial success.

At first glance, what distinguishes the footwear company from PepsiCo, and which undoubtedly plays a large role in the difference in effectiveness between both CSR campaigns, is that TOMS Shoes is fundamentally built on the concept of charitable giving; TOMS Shoes makes it a point to have a social footprint, to use their profits and their products to do more than simply adorn the feet of those who can pay for them. Mycoskie ascribes to a blended approach towards CSR, acknowledging both the importance of financial sustainability, but also the opportunity for a firm to use its influence and resources to improve the lives of others, a more contemporary and normative stance towards CSR. In an attempt to create a for-profit organization that was sustainable and not reliant on donations, Mycoskie has, arguably, successfully married the dual objectives between financial growth and social impact seen in the company today. The firm operates on an efficient feedback loop that prioritizes and depends on continued profitability in order to sustain their growing philanthropic initiatives, highlighting the company’s integration of dual objectives (McKee, 2012). Essentially, the company has found a
way to make social objectives the true driver of their financial success, rather than an expense or a cost, weaving their vision for social improvement into the definition of its brand.

So what exactly has led to the commercial success of TOMS Shoes and what gives rise to the difference in financial effectiveness between the buy one give one model and the Pepsi Refresh Project? While both concentrate on promoting the philanthropic nature of their respective programs, PepsiCo credits its CSR initiative as a cost, an unlucky project that did not succeed in increasing profitability while TOMS Shoes succeeds in creating monetary value from its program’s social value. One of the primary explanations for TOMS Shoes balanced relationship between corporate altruism and social responsibility lies in the fact that the organization makes explicit the ways in which its social activity is connected to its profit generation methods. In other words, the mechanism by which TOMS Shoes makes money and “does good” for society is extremely easy to understand and thus support. The purchase of a shoe by a consumer leads to a direct investment in the life of a shoe-less child; the consumer’s money is essentially funneled directly into the company’s philanthropic activities, creating a sort of conscious consumerism (Marquis & Park, 2014). There is an explicit connection between a consumer’s purchasing power and the charitable consequences of that decision to purchase from TOMS Shoes and this creates a very appealing and easy mechanism by which to attract more customers, who support the company’s bottom line and its level of philanthropic flexibility. Mycoskie exploits the consumer-facing nature of his footwear business in a way that transforms the role of the consumer from simply purchasing agent to social impact agent, effectively granting the consumer an added dimension of social activist, a stakeholder in the pursuit of curing “shoelessness.” Known as cause marketing, TOMS Shoes relies heavily on creating this link between the purchaser’s decisive power and the company's intended social cause to
empower customers to support the business model and its encompassing charitable initiative (Marquis & Park, 2014). By making a direct association between the purchase of a pair of TOMS shoes and the resulting donation of another pair of shoes to a child in need, the firm is able to engender an emotional response from the consumer, one that is foundational to the profitability of the TOMS Shoes business model.

**Figure 5.3:** An example of marketing materials published by TOMS Shoes that can be categorized as “cause marketing”—attaching a social cause to the firm’s business practices and image. The advertisement evokes an emotional response from the viewer, making it easier to see the connection between the purchase of pair of shoes and the subsequent donation of a pair of shoes to needy children.

**Source:** TOMS Shoes Website

This emotional component to both cause marketing in general and the One for One business model can best be understood through an idea known as the “Prius effect.” A term coined by Steven E. Sexton and Alison L. Sexton, the Prius effect was originally used to describe the consumerist move towards “conspicuous conservation,” or the display of environmentalism
by way of purchasing products or consuming services that were known to emphasize energy efficiency or environmental consciousness (Sexton & Sexton, 2014). As Sexton notes, “A sort of keeping up with the Joneses-type concept but applied to efforts to make society better. I will be competing with my neighbors to donate to a charity, for instance, to reduce energy conservation or environmental impacts” (Sexton & Sexton, 2014).

This idea has since been used to outline similarly conscious consumerist movements and have been applied to products like TOMS Shoes. Owning a pair of TOMS Shoes gives the consumer as “halo” of social prestige, a purchase that represents an individual’s social activism, a fashionable and respected consumerist effort (Mazar & Zhong, 2010). The CSR landscape, particularly in consumer facing industries, has always had a reliance on consumers for the growth and acceptance of its social impact initiatives; the very nature of TOMS Shoes solicits the participation of consumers through product purchase. It is not simply that individuals can choose to support or punish brands that they believe to be in violation of their “social responsibilities,” but that the success of the brand and the social cause are more plainly and obviously connected to the purchaser’s decision making (The Economist, 2008). The difference between buying a pair of shoes from a company that is engaged in philanthropic programs versus buying a pair of shoes that results in the direct donation of a similar pair of shoes is slight, but powerful. This business model, the weaving of CSR into the revenue generation cycle, enables people to feel more invested in the product he or she is purchasing, more aware of the fact that he or she is contributing positively to society, and therefore establishes a sense of distinction among other individuals who also value social consciousness (Bansal, 2012).

In sum, the business model of TOMS Shoes gives the company a competitive advantage, a cachet that helps distinguish the brand among other footwear companies that may or not be
similarly concerned with advancing the public interest. Instead of simply selling footwear and creating other CSR programs on the side, Mycoskie blends the two concepts to add value in a way that draws attention to the company and marks the company as “innovative” and “effective” amongst everyday consumers. A 2013 study by Cone Communications and Echo Research found that 91% of individuals would be willing to switch to brands to one associated with a good cause, given comparable price and quality, which dovetails nicely into arguments concerning the use of CSR as a differentiator (Cone Communications, 2013). As companies face ever-increasing competition and declining consumer confidence, corporate social responsibility, if used effectively, offers brands a way re-invite positive consumer behaviors and positive associations towards a brand’s image.

TOMS SHOES AS A NICHE MARKET

So far, it seems as though TOMS Shoes is an example of a firm that destabilizes the view that many traditionalists take with regards to CSR and profits (that pursuing one necessarily results in the decline of the other). As a company that has integrated both revenue generation and altruism in novel ways, Mycoskie’s business seems to have little trouble attracting customers and is arguably finding financial success within its altruistic framework. But caution should be taken against generalizing the TOMS Shoes case as the “new direction” of modern businesses. In fact, 91% of individuals would be willing to switch brands ONLY given comparable price and quality, not just for the sake of supporting a good cause.

TOMS’s competitive advantage is borne from the company’s existence in a niche market, one that caters almost exclusively to those who want and can afford to use their dollars for more than just taking home the cheapest product on the market. Perhaps it is not that TOMS Shoes
represents a triumph over the traditional arguments that CSR is not profitable, but that the
company has been able to capture the fancies of a small section of the market and extract a
considerable amount of revenue from these interested buyers. As David Vogel, notes, “ethical
products are a niche market: virtually all goods and services continue to be purchased on the
basis of price, convenience, and quality” (Morrow, 2013). These “ethical” products, as Vogel
refers to them, represent a market that caters only to a small subset of the population that is
interested in or even aware of these types of consumerist movements. TOMS Shoes, by way of
its business model, has intentionally placed itself into this unique category and therefore does not
as readily encounter the type of competition found within markets that operate solely based on
price or quality. People who buy TOMS shoes make the conscious decision to prioritize social
benefits.

Furthermore, André Martinuzzi argues, “When it’s really about who is the cheapest, then
I think CSR is not appropriate. CSR and sustainability is something for high quality and high
priced market segments because it’s an additional value that these companies provide. But when
it’s about price competition, CSR does not make sense” (Morrow, 2013). The footwear firm may
not have been commercially successful had it marketed itself as just another shoe company, but
by attaching an all-encompassing CSR program to the brand, the company acquired a new angle,
thereby inviting attention from those in a position to value Mycoskie’s altruism. Essentially,
TOMS Shoes garners the attention from individuals who are capable of paying a higher price for
a product that stands for something more than itself; it attracts a clientele that can afford to pay
for a pair of shoes and then some. Naturally, this market does not include everyone in society but
Mycoskie has been adept at convincing the small number of individuals in this particular pool to
support his initiative.
It is important to note though, that shoes are generally considered a normal good and that shoes are needed by all and naturally require repurchase after some time due to wear and tear. The nature of the products that TOMS Shoes chooses to sell, and therefore donate, also indicates a business savvy that propels the business model forward (Philis, Deiglemeier, & Miller, 2008). Had Mycoskie chosen to sell goods considered as luxury items, products that do not necessitate frequent re-purchase or even purchase in the first place, the sustainability of the business model may have been less feasible. For the business model to be successful, the product for sale cannot be terribly expensive, otherwise the number of people the product is accessible to is drastically reduced. As the one-for-one business model relies on constant consumer purchase to bring in revenue and contribute to the charitable cause, a reasonably priced normal good is required to facilitate this cycle.

The relationship between profits and corporate social responsibility in this particular case is made more difficult by the suggestion that by belonging to a niche group, the company is subject to a different set of rules and expectations than PepsiCo. As an “ethical” company, consumers more readily accept corporate social responsibility as a value add and are more open to the idea of spending more to gain the satisfaction of having done something to promote society (Lambert, 2013). A company like PepsiCo, for example, may garner appreciation by its consumers for participating in the CSR movement, but at the end of the day, they are mostly interested in purchasing snacks and beverages at the lowest possible price. PepsiCo, as opposed to TOMS Shoes, operates in a market controlled by price and quality. According to arguments made by Vogel and Martinuzzi, PepsiCo will forever be evaluated and compensated based on its ability to maintain competitive prices and not on its ability to inspire corporate movements in support of social issues. The link between profits and corporate altruism in the TOMS Shoes case seems
relatively stable given that its social mission is precisely what fuels its financial growth, but the company has been successful not even by virtue of it being privately held, but because it has successfully branded itself in a way such that it can attract the attention of those who care about the issue the company stands for. By carving out a space in the market that caters to the interests of those willing to help end “shoelessness,” the firm has naturally been able to balance its financial obligations and its social obligations in a stable way (Herrera, 2013). This reality is not necessarily an undermining of claims like Freidman’s but is simply an evolution beyond his theory. Profits and corporate social responsibility can both be achieved but not in the way that traditionalists typically view the problem in a price and quality driven market. The changing social landscape has developed a group of individuals who have a willingness to pay for products that exist for reasons other than to beat its competitors.

Furthermore, this new form of competitive advantage accounts for much of the financial success of the company but may be short-lived due to its apparent success. While TOMS Shoes has found success using the one for one model, other companies have as well. The concept of buying goods for reasons other than price, convenience, or quality have been adopted by more than just TOMS Shoes is recent years and has led to the creation of competition even within this niche market. In relation to the idea of the short-lived success of CSR as a competitive advantage, Alan D. Smith finds that competing companies will eventually mimic the technological and material improvements and force all players within that niche market to reinvestigate its means for competition (Smith, 2007). Mycoskie’s business model has already been adopted by similarly socially minded companies and will put TOMS Shoes in need of a way to differentiate itself once more. Similarly, Christopher Marquis and Andrew Park argue that, “The buy-one-give-one model has become widely popular, but serious questions have been
raised about its long-term viability. Much of the success of these pioneers stems from their novelty but as more and more businesses adopt the model, companies will no longer be able to use it as a differentiator, and the benefits of the model will likely diminish” (Marquis & Park, 2014). To date, there are a number of consumer goods companies that have adopted the buy one give one model, such as Warby Parker and Kno Clothing. While both companies sell goods other than footwear (Warby Parker sells eyewear and Kno Clothing sells general apparel), the relationship between profits and altruism is in a constant state of flux, subject to the company’s ability to keep consumers interested in the company itself, much like any other brand. With growing competition even within this niche field, TOMS Shoes may find itself in a position to retest the strength of its relationship between its CSR initiatives and their profitability.

THE EFFECTS OF OWNERSHIP ON THE PROFIT-ALTRUISM DEBATE

A significant pitfall to the Pepsi Refresh Project can be attributed to the realities of the ownership structure of the company. With shareholders acting as “owners” of the company, corporate executives had no choice but to shut down the operation in order to appease them. But what about the TOMS Shoes case? As a privately held company its ownership structure creates a different environment than one ruled by various independent stockholders. But a recent acquisition sheds new light on what we believe to be true about the capacities and flexibilities of TOMS Shoes. In August 2014, Bain Capital LLC acquired 50% of TOMS Shoes, valuing the company at nearly $625 million (De La Merced, 2014). The deal notes indicate that, “Bain’s investment will be used to accelerate TOMS’ business program and support its philanthropic activities” (PrivCo). For the TOMS founder, the transaction is the validation of a vision, a “pat-on-the-back” for finding a way of avoiding conflict between a bottom line focus and the pursuit
of social good. But many analysts have found this pairing to be somewhat odd, acknowledging that private equity firms are often interested in cutting the fat but also realizing that at TOMS, the fat is the point—TOMS gives away half of its product (Stock, 2014). So what does Bain Capital intend to do? Will they continue Mycoskie’s one-for-one business model or will they find an entirely new way to help the company improve its profitability? Do they believe strongly in Mycoskie’s one-for-one set-up or do they believe that he is actually being wasteful, and that giving away half of his product signals a missed financial opportunity? It is clear that Bain investors saw a unique opportunity to invest in a nontraditional company that is performing on par, or even better, than current firms in their portfolios and that their primary interests lie in the profitability of TOMS (continuing to pursue philanthropic activities may just be a nice bonus).

What results from this acquisition may impact TOMS’ prior established relationship between its bottom line and its charitable core. As a niche market, the company already exhibits different expectations for consumer behavior than is seen in traditional markets that are controlled by price, convenience, and quality. While it seems as though Mycoskie’s organization has a firm grasp on capitalizing on the synergy between the interests of a powerful niche market and the ability to get these consumers to empty their pockets, that all may change under the direction of a private equity firm.

As the sole owner of the company prior to August 2014, Mycoskie had some flexibility over the balance of pursuing altruism and pursuing profits. The founder and CEO could have been sacrificing a small portion of his income to buttress the donations side of his business while overall still maintaining sustainable levels of profit. And as the sole owner of the company, these tradeoffs needed only satisfy him. But with the introduction of a second player, Bain Capital, the needs of this second entity will undoubtedly dominate much of the conversation surrounding
what to prioritize and how to go about managing the company’s current relationship between social impact and income.

At first glance, it seems that TOMS Shoes presents an interesting case that supports the opposite claim that was seen in the PepsiCo case, that altruism and profits can go hand in hand. But what becomes clear after further study is that the judgment of both companies by the same standard is incorrect. PepsiCo exists in a category of firms that exists based on traditional market values: price, convenience, and quality. Consumers turn to PepsiCo products due to their performance across price and quality as compared to PepsiCo’s competitors and see CSR programs as less instrumental to their willingness to pay for the company’s goods. TOMS Shoes, on the other hand, represents a different market altogether and caters to consumers who can afford to make decisions on dimensions other than price and quality. This leads to a distortion of what we believe to be true about the connection between a firm’s ability to satisfy its financial and ethical demands; there does exist a large enough market to support individuals who have the means or even the interests to support corporate-led philanthropy projects. This type of environment has allowed TOMS to flourish but does not necessarily mean that all companies can walk the line between profits and altruism the way that Mycoskie has been able to.

CSR as an engine for profit has been able to survive in a very limited and unique circumstance under which a company represents itself appealingly to the cohort of individuals of a niche market that are wiling to pay a premium for social impact. But most firms face a market saturated with competitors willing to offer higher quality goods at lower prices and with consumers only interested in bringing home the cheapest item on the market, causing the company’s priorities to be different from those of TOMS Shoes. A small caveat, but not an overthrow of traditional claims against CSR as a profitable concept, TOMS Shoes has been able
to balance both spheres of interest due to its existence in a world that is concerned with more than just the price tag.

Additionally, the fact that TOMS Shoes is a privately owned company has much to do with its ability to utilize this business model and forgo the expectations and demands of thousands of shareholders. The concept of maximizing shareholder value does not apply as readily in this scenario and the trajectory of the company is mostly dependent on the smaller number of “owners” of the corporation. Mycoskie is able to weigh his social interests and his financial interests in the way that suits him best, and may be able to sacrifice one for the other in a way that a publicly traded company could never do. Of course, all of this may change due to the recent acquisition of the company by Bain Capital and the company may find itself in a position where is must reevaluate its current balance between profits and CSR. But largely, the fact that TOMS Shoes is privately held, in conjunction with the fact that is operates in a niche market, gives rise to the conclusion that both profits and social impact can be achieved under a very specific set of circumstances. And even then, it is unclear for how long a niche market company like TOMS can remain profitable.
6 Conclusion

As this thesis has illustrated, various factors are involved in understanding the relationship between a company’s ability to practice corporate social responsibility while maintaining sustainable profits, or vice versa. I first explored the recent rise in CSR movements in corporate America and the prevailing hypotheses and arguments concerning the link between income and altruism by leading scholars and researchers. The majority of arguments in this sphere have been heavily influenced by the works of Adam Smith and his modern disciple, Milton Friedman, and while both may not explicitly mention the idea of corporate social responsibility as we recognize it today, these two economists have been vital to current discussions of CSR. There are arguments made for both sides: some believe that the pursuit of either corporate social responsibility or of financial success necessarily slackens the other and there are others that ascribe to the idea that there can be a balance and that in today’s society the active pursuit of both objectives can be achieved.

After analyzing the first case study, it generally seems to be the case that profits and social impact initiatives have a difficult time supporting each other and that CSR programs do not add anything to the bottom line or, as was discussed in the PepsiCo case, negatively impact the bottom line. In this particular scenario, the powerful voices of shareholders and the inability for the Pepsi Refresh Program to generate sales led to the early death of a much-applauded social effort on PepsiCo’s behalf. But unfortunately, Pepsi drinkers did not express their appreciation or support of the initiative with their dollars and the project was abandoned after only two years in existence. While the exact initiative may not be reflective of what most companies are interested in promoting CSR-wise, the PepsiCo case is still widely applicable to many potential circumstances we may encounter concerning a company interested in engaging in CSR. Most
publicly traded firms are subject to the demands of their shareholders and must be almost singularly focused on driving revenue and cutting costs. If a program is losing money, regardless of whether it is a CSR related project or not, a company cannot sacrifice its bottom line for any reason.

But this does not mean that CSR may never be financially profitable for a publicly traded company. Most large companies have been subject to heightened public scrutiny since the early 1990s and have traditionally enacted CSR in response to mounting social pressure. Companies are still in the process of navigating the corporate social responsibility landscape and have yet to find a way to include philanthropic projects into their business models in a way that is not only socially successful, but also financially successful.

There may be a number of reasons why a firm is interested in pursuing CSR and these justifications may stem from social pressure, the belief that CSR can be profitable, or the true desire to use corporate profits for good, for example. It also does not seem as though companies will be abandoning the idea of corporate social responsibility anytime soon. Indra Nooyi, PepsiCo CEO, consistently advertises her belief in the power of “doing good,” not only for society but also for the health of the company’s bottom line. In 2007, upon Nooyi’s initial placement as CEO of the corporation, her stance on CSR as outlined in her letter to shareholders read, “…our performance and our purpose are not two separate things. They are merging. Portfolio transformation—offering consumers healthier choices—is equally about human sustainability and top-line growth” (PepsiCo 2007 Annual Report). In 2010, the year that the Pepsi Refresh Project was launched, Nooyi chose to emphasize the same points in that year’s letter to shareholders. She wrote, “…ethics and growth are inseparable. It’s all about bringing our company performance and our social and environmental commitments together” (PepsiCo
2010 Annual Report). And finally, in 2013, after realizing that the Pepsi Refresh Project was not a financial success, she still noted, “…we have to take into account the needs of a wide range of stakeholders. If our financial success comes at the expense of the environment, our consumers, or our communities, we will not be viable in the long run” (PepsiCo 2013 Annual Report).

Whether or not Nooyi will ever be successful at weaving social consciousness into PepsiCo’s business model in a way that is mutually beneficial to all parties involved has yet to be seen. Her conviction that transforming the food and beverages industry into a “health” industry is the key to continued prosperity is inspiring but also seems lofty given PepsiCo’s history and purpose. For this to operate optimally on a social and financial level, consumers have to be open to the idea of PepsiCo, a company known for selling sugary, fatty drinks and snacks, offering healthier options and the “owners” of the firm need to be aligned with the allocation of resources towards this radical shift. Based on recent remarks by analysts concerning the failure of the Pepsi Refresh Project, the image of PepsiCo may be too strong to persuade consumers to think otherwise about the brand and they may, in fact, be perfectly happy to continue to acknowledge PepsiCo as a company that sells sugary cola products.

The reality for companies like PepsiCo is that they exist in a market in which people mostly govern their purchasing decisions based on price and quality, two dimensions that are integral to the makeup of the company. The only way the corporation has survived for decades is due to its ability to offer goods of competitive prices, products of comparable quality to other food and beverages companies, and the near constant availability of its goods at every possible venue that sells food. CSR for companies like PepsiCo have been a nice bonus for consumers, but has not proven to be an immensely important driver of sales. As far as unhealthy snacks and beverages go, PepsiCo will continue to be profitable if it continues to sell unhealthy snacks and
beverages, argue most investment analysts and profit maximization traditionalists. In a market ruled by these three categories, CSR has little room to assert itself into this equation unless it somehow is prioritized on the same level as the three aforementioned measures.

Enter the niche market, an area occupied by companies like TOMS Shoes, the subject of Chapter 5 of this thesis. As a privately held company, TOMS Shoes faces a different set of circumstances than a publicly held entity such as PepsiCo. Without the constraints of thousands of shareholders, TOMS Shoes was able to balance profits and philanthropy as its founder and CEO, Blake Mycoskie, saw fit. Since Mycoskie was the sole owner of the firm until August 2014, he was able to arrange his various objectives in the way that maximized his private utility, which included the level of social impact that his company would have on others. Potentially trading off some profits for charitable activity, Mycoskie had a level of flexibility in the altruism-profits debate that Nooyi could never have afforded.

But in August of 2014, TOMS Shoes revealed that private equity firm, Bain Capital, LLC, had acquired 50% of the company. While the deal notes indicate that Bain investors only intend to continue to expand the one-for-one model that made the company famous, it should be obvious that private equity investors are looking to maximize their returns on an acquisition. While it may take a few years for this transaction to affect TOMS, the reality is that both the social impact side of the company and the financial side of the company could see a lot of change in the coming years. Whether or not Bain Capital will help to accelerate the buy-one-give-one model or completely reinvent the way that TOMS handles its business model is an open question.

Additional analysis of the TOMS Shoes case in Chapter 5 reveals that another primary reason for Mycoskie’s ability to seemingly subvert the conclusion found in Chapter 4 with the
Pepsi Refresh Project case is the fact that the company exists in a niche market and caters to a unique subset of individuals who are not only interested, but willing, to pay for a product that does more than offer private utility for the purchaser. Unlike PepsiCo, which struggles with CSR integration due to its confinement in a price and quality controlled market, TOMS Shoes has been able to find harmony between altruism and revenue by creating social consciousness as a value add to its products. The emergence of an entity like TOMS created space for individuals who have the means to judge products on more than the traditional dimensions and Mycoskie has been effective in convincing this cohort of individuals that his company's efforts are worth supporting. Importantly, the products sold at TOMS come with a premium but are still generally regarded as normal goods, goods that are purchased and repurchased by most consumers. All of the goods available for sale, shoes, coffee beans, eyewear, handbags, are items that may not be the cheapest goods on the market but are still affordable enough for a consumer interested in spending money on social causes to do so. Additionally, all the items for sale are meant to be repurchased: shoes need to be replaced after some time, the bag of coffee beans runs out, and sunglasses and bags are no longer in style after a year and need to be exchanged.

This quality of the business model keeps it “sustainable,” as Mycoskie likes to believe, unless of course, there is a shift in consumer tastes and customers of TOMS instead now prefer ethical shoes and bags from a competitor. TOMS Shoes, as many believe, has been successful also because of its novelty, because the market has seen few companies like it in the past that have truly been capable of influencing our purchasing decisions (Peredo & McLean, 2006). The business model as a form of competitive advantage differentiates it from the world that is governed by “who is cheapest,” but may eventually be short-lived as others adopt a similar model. But TOMS Shoes has continued to demand the attention of many consumers even as
more buy-one-give-one companies enter the market and the firm is still recognized as one of the first pioneers of this movement.

The question of whether or not CSR can be profitable is still up for debate but this thesis finds that generally, the relationship between altruism and profits has not yet been aligned, as seen in the PepsiCo case. A small group of firms have been able to wreak the rewards of “doing good,” but these companies operate in a very different capacity. Price and quality are not the only things that define this new market, and thus offer the possibility for companies to enter this space and use ethical products as way of “adding value.” Traditional companies like PepsiCo compete on a “who is cheapest” world and thus find little flexibility to pursue social impact initiatives if it does little to support the bottom line.

Only time will tell if corporate social responsibility will eventually become a profitable undertaking for the majority of firms. Today, it appears that neither corporate executives nor consumers completely understand this venture into CSR: executives are still working to understand how CSR can and should be applied to appease all involved parties and consumers need to make clear how they truly feel about CSR and signal their preferences more consistently with their dollars. Through repeated interactions in the marketplace, both sides will come to an agreement as to the most effective and efficient way to tackle the profits-altruism debate. What is clear, though, is that corporate executives have a growing concern with appearing more socially conscious and consumers have a growing demand for companies to more closely align themselves with the public good. Whether or not these goals will ever meet in the middle and result in profitable and socially invested firms and satisfied consumers has yet to be discovered.
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