

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0515

MEMORANDUM

TO: Members, Small Business Committee
FROM: Nydia M. Velázquez, Chairwoman
DATE: December 4, 2019
RE: Full committee hearing entitled, “Embracing Corporate Social Responsibility: Small Business Best Practices” on Wednesday, December 4 at 11:30 a.m. in Room 2360 of the Rayburn House Office Building

On Wednesday, December 4 at 11:30 a.m. in Room 2360 of the Rayburn House Office Building, the House Committee on Small Business will hold a hearing entitled, “Embracing Corporate Social Responsibility: Small Business Best Practices.”

Since the late 1970s, standard corporate governance practices have linked the purpose of business with maximizing shareholder value. However, due to changing social, political, and economic norms, there has been an increased emphasis on other stakeholder values, particularly social and environmental concerns. Increasingly widespread criticism about promoting shareholder interests at the expense of broader societal welfare is driving a growing interest in Corporate Social Responsibility (CSR). CSR considers a company’s social and environmental impacts in addition to its financial standing. Additionally, several new organizational forms that install non-shareholding stakeholder interests (e.g., employees, local communities, and the natural environment) at the center of company’s missions have emerged. These forms are predominantly adopted by small and medium-sized privately-held firms. The hearing will address the best practices for small businesses growing sustainably in the 21st century, how larger organizations are engaging in socially responsible activities, and allow members to question a panel of experts and businesses that can provide a framework for ongoing CSR.

Witnesses:

- Dr. Robert Strand, Executive Director of the Center for Responsible Business and Lecturer at the University of California, Berkeley’s Haas School of Business
- Mr. Vincent Stanley, Director of Philosophy, Patagonia, Inc.
- Ms. Kristy Wallace, CEO, Ellevest Network
- Mr. Jaime Arroyo, Associate, Work Wisdom, LLC., Testifying on behalf of Kedren Crosby, President of Work Wisdom
- Mr. Sean McElwee, President and Chief Creative Officer, Seanese; Accompanied by Ms. Sandra McElwee, Chief Dream Facilitator, Seanese

Background

Since the turn of the century, Corporate Social Responsibility (CSR) reporting has become increasingly common, expanding from 35 percent of Fortune 500 companies in 1999 to 93 percent by 2017.¹ CSR refers to voluntary actions taken by a private business that enhance a company's commitment to managing the social, environmental, and economic effects of its operations responsibly and in line with public expectations. While there is no defined set of CSR initiatives that a company can take, but actions are generally related to three broad categories – (1) climate and energy; (2) equity and inclusion; and/or (3) the High Road workplace. Ultimately, a company engaging in socially responsible practices will be held accountable to itself, its stakeholders and partners, and the public at large.

Climate and Energy

Global temperature is on the rise, with the first decade of the 21st century the warmest on record. Overwhelmingly, scientists agree that climate change is occurring as a result of human pollution. Major climate events are more frequent, more severe, and more destructive than ever. While policymakers have avoided taking meaningful action to reverse these effects, increasing numbers of businesses are taking steps to limit their carbon footprint.

There are two reasons for businesses to adopt environmentally sound and carbon neutral business practices. First, the price of renewable energies has plummeted in recent decades, and a transition to more environmentally sustainable facilities and fuel sources can significantly reduce business costs. For example, solar photovoltaic (PV) – more colloquially known as “solar panels” – cost \$76.67 per watt in 1977, but only \$.74/watt in 2013.² In 2018 alone, the price of utility-scale solar decreased by 26 percent, biofuels by 14 percent, onshore wind by 13 percent, and hydropower by 12 percent.³ Since 1990, energy efficiency investments have delivered cumulative savings of nearly \$790 billion to customers nationwide, and have helped us avoid building the equivalent of 313 large power plants.^{4,5}

Second, shifting public opinion on the dangers posed by climate change means that businesses that adopt practices to limit their carbon footprint are signaling to customers and shareholders that their values are in alignment, thereby increasing marketing appeal and customer loyalty. Market research consistently finds that consumers feel strongly that companies should help improve the environment, and that they are willing to spend more on products offered by companies that adopt

¹ José Luis Blasco & Adrian King, *The road ahead: The KPMG Survey of Corporate Responsibility Reporting*, KPMG, Nov. 2017 from <https://assets.kpmg/content/dam/kpmg/xx/pdf/2017/10/kpmg-survey-of-corporate-responsibility-reporting-2017.pdf> (last visited Nov. 20, 2019).

² HJ Mai, *Renewable Energy Prices Keep Falling: When Do They Bottom Out?*, Utility Dive, May 30, 2019, <https://www.utilitydive.com/news/renewable-energy-prices-keep-falling-when-do-they-bottom-out/555822/> (last visited Nov. 20, 2019).

³ *Id.*

⁴ Maggie Molina, *Renewables Are Getting Cheaper but Energy Efficiency, On Average, Still Costs Utilities Less*, ACEEE, Dec. 18, 2018.

⁵ Maggie Molina, Patrick Kiker, and Seth Nowak, *The Greatest Energy Story You Haven't Heard: How Investing in Energy Efficiency Changed the US Power Sector and Gave Us a Tool to Tackle Climate Change*, ACEEE, Aug. 19, 2016.

CSR practices.⁶ This holds across all generations, but is even more pronounced in Millennials and Generation Z, where upwards of 90 percent of individuals prefer buying from companies that publicly voice concern for environmental issues.⁷

Small Business Engagement

Evidence suggests that small business owners are already aware of, and responding to, shifts in consumer demand and public opinion. According to the National Small Business Association, over 82% of small businesses have already taken steps to reduce energy use.⁸ Although it may seem that large businesses are leading the shift towards environmentally sustainable business practices, opportunities for small businesses are continuing to emerge. In 2017, the Department of Energy introduced the Small Business Vouchers program, opening national laboratories to small businesses and giving them a competitive advantage in the global marketplace.⁹ Additionally, in an attempt to increase business competitive and diversify local economics around clean energy and energy efficiency, local chambers of commerce across the country are serving as catalysts of clean-energy innovation and growth.¹⁰

Through innovation and hard work, many small firms are bringing new clean energy technologies to market, creating economic growth and supporting communities across the country. They are developing a broad range of technologies, including novel energy storage and microgrid solutions, lighter and stronger steel, more efficient fuel cells, low-impact hydropower; increased carbon sequestration, and much more. Even large-scale projects, such as wind and solar farms, create jobs and opportunities for small firms and suppliers that employ metal workers, machinists, truck drivers, and others. The renewable energy sector also plays an outsized importance in rural communities, where more plants and their suppliers tend to be located. Because the clean energy economy covers many industries that are dominated by small businesses, including construction, manufacturing, agriculture, and renewable energy sectors, there is an opportunity for small firms to both help grow the economy and do so in a socially responsible way.

Equity and Inclusion

Unless opportunities and gains are shared among workers, owners, and business leaders, economic growth will be neither equitable nor enduring. Inequality not only hinders personal financial independence, but also plays a large role in the need for social welfare programs. Business and the broader economy work best when prosperity is widely shared, especially among historically

⁶ Nielsen, *Consumer Goods' Brands That Demonstrate Commitment to Sustainability Outperform Those That Don't*, Oct. 12, 2015 <https://www.nielsen.com/us/en/press-releases/2015/consumer-goods-brands-that-demonstrate-commitment-to-sustainability-outperform/> (last visited Nov. 20, 2019).

⁷ Cone Communications, *Gen Z CSR Study: How to Speak Z*, 2017 <https://www.conecomm.com/2017-cone-gen-z-csr-study-pdf> (last visited Nov. 20, 2019).

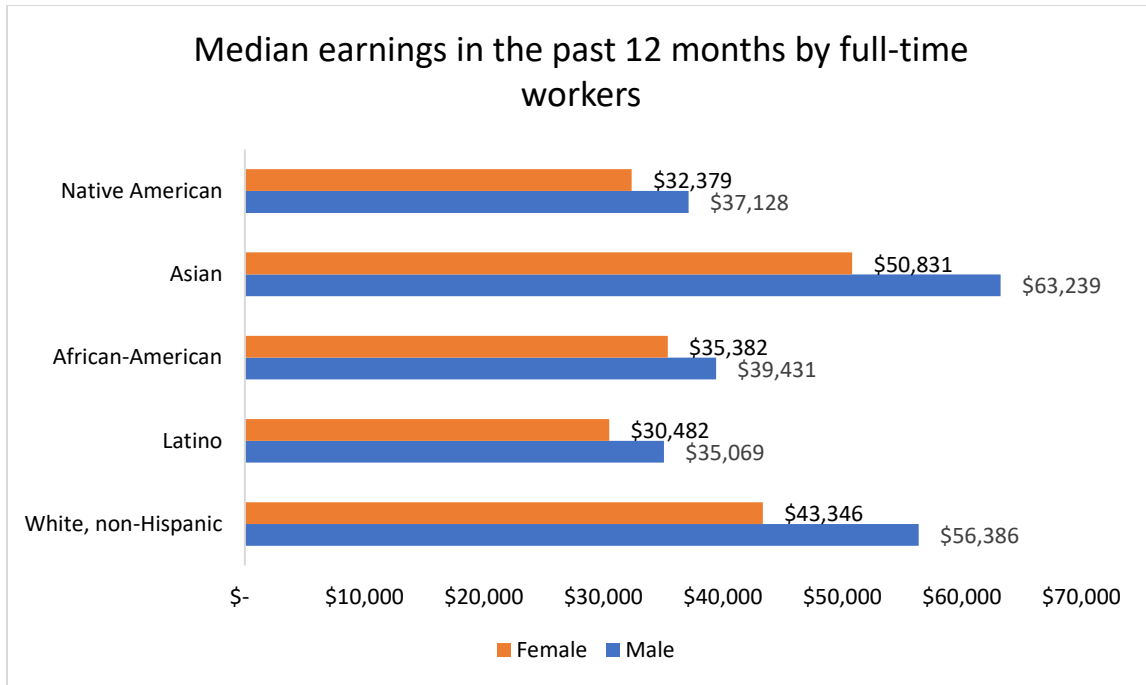
⁸ Energy Star, *Energy Star Action Workbook for Small Businesses*, Nov. 2019, https://www.energystar.gov/sites/default/files/tools/ENERGYSTAR_Small_Business_AWB_Main_508_November_2019.pdf, (last visited Nov. 22, 2019).

⁹ U.S. Department of Energy, Office of Energy Efficiency & Renewable Energy, *Small Business Vouchers*, 2019, <https://www.energy.gov/eere/technology-to-market/small-business-vouchers>, (last visited Nov. 20, 2019).

¹⁰ Chambers for Innovation and Clean Energy, *Local Chambers as Change Agents: Creating Economic Vitality Through Clean Energy and Innovation*, May 2013, https://static1.squarespace.com/static/56a8596376d99c0164fc16bd/t/59249c29a00e8881543f8038/1495571523846/Local_Chambers_As_Change_Agents_Digital.compressed.pdf, (last visited Nov. 22, 2019).

marginalized populations or those who have faced barriers to opportunity. An inclusive economy is representative of all interests in society – major and minority population groups, women and men of every generation.

Although the pay gap between men and women appears to be gradually closing, its existence continues to speak to a broad lack of equity in the American workplace. In 2018, women earned, on average, 82 cents for every dollar earned by men, amounting to an annual gender wage gap of \$10,194.¹¹ This gap is greater for women of color: African-American women earn 62 cents, Native American women 58 cents, and Latina women 54 cents, for each dollar earned by white men.¹²



U.S. Census Bureau

Americans with disabilities are also finding themselves increasingly marginalized in the American workplace. Adults with a disability are less likely to have a high school diploma, and less likely to hold a college degree, than adults without disabilities.¹³ Furthermore, working-aged adults with a disability are employed at much lower rates than working-aged adults without disabilities.¹⁴ Disabled individuals are more likely to be living in poverty, more likely to participate in public assistance programs, and less likely to have health insurance than those without disabilities.¹⁵ Finally, disabled individuals who are employed earn, on average, less than people without disabilities.¹⁶

¹¹ U.S. Census Bureau, Current Population Survey, Annual Social and Economic (ASEC) Supplement, (2019) <https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-pinc/pinc05.html>

¹² *Id.*

¹³ U.S. Census Bureau, *Current Population Reports*, (Nov. 2018), <https://www.census.gov/content/dam/Census/library/publications/2018/demo/p70-152.pdf> (last visited Nov. 20, 2019).

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

Small Business Engagement

In the United States, there is a direct correlation between a company's profitability and the level of racial and ethnic diversity in its workforce.¹⁷ Companies in the top quartile for racial and ethnic diversity are 30 percent more likely to have financial returns above their respective industry medians, while companies in the bottom quartile are more likely to report financial returns below the median.¹⁸

Small businesses are in a unique position to establish more equitable, inclusive workplaces. Minorities are an increasingly influential force in the U.S. economy. Minority women are the fastest-growing group of entrepreneurs in the United States, and in 2012, minority-owned small businesses contributed \$1.38 trillion in revenue and 7.2 million jobs to the economy.¹⁹ Recognizing this, federal programs have been developed to aid racial and ethnic minorities to level the playing field by incentivizing their full participation in the economy. One of the ways that the Small Business Administration supports minority entrepreneurs and small business owners is through the 8(a) program, which promotes the business development and competitive viability of small business concerns owned and controlled by social and economically disadvantaged people.

Additionally, businesses that do not take steps to ensure that their goods and services available to disabled individuals are missing out on a large potential customer base. Over 27 percent, or 85.3 million, of people living in the United States have a disability, and about 17.6 percent, or 55.2 million people, have a severe disability.²⁰ This is a significant market of potential consumers, representing more than \$200 billion in discretionary spending.²¹ It should also be noted that the federal government spends over \$350 billion on programs for working-age people with disabilities, representing 12 percent of total federal outlays.²² Providing equitable workplace opportunities for disabled persons can go a long way towards giving this segment of the population the financial resources they need to take critical steps towards personal and financial independence.

The High Road Workplace

High Road companies see their employees, the communities in which they operate, and the products and services they provide as equally important to their business' growth and financial success. These companies hold a long-term perspective and view the workplace as a means of creating positive business and social impact. Consumers and American workers increasingly are looking to CSR as a factor when doing business with or working for that company. Customers

¹⁷ Vivian Hunt, Dennis Layton, & Sara Prince, *Why Diversity Matters*, McKinsey & Company, Jan. 2015, <https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Organization/Our%20Insights/Why%20diversity%20matters/Why%20diversity%20matters.ashx> (last visited Nov. 20, 2019).

¹⁸ *Id.*

¹⁹ Valentina Zarya, *The fastest-growing group of entrepreneurs in the U.S.? Minority women*. *Fortune*, Aug. 21, 2015, <https://fortune.com/2015/08/21/women-small-business-diverse/>, (last visited Nov. 22, 2019); Small Bus. Admin. Off. of Advoc., *Minority Business Ownership: Data from the 2012 Survey of Business Owners* (Sep. 14, 2016) <https://www.sba.gov/sites/default/files/advocacy/Minority-Owned-Businesses-in-the-US.pdf>.

²⁰ U.S. Census Bureau, *Current Population Reports*, (November 2018), <https://www.census.gov/content/dam/Census/library/publications/2018/demo/p70-152.pdf> (last visited Nov. 20, 2019).

²¹ *Id.*

²² Gina Livermore, David Stapleton, & Meghan O'Toole, *Health Care Costs Are a Key Driver of Growth in Federal and State Assistance to Working-Age People With Disabilities*, National Institutes of Health, Sep. 2011, <https://www.ncbi.nlm.nih.gov/pubmed/21900656> (last visited Nov. 20, 2019).

want to associate themselves with brands and products that are creating positive change while talented workers are seeking employment at companies that offer quality benefits and create products that provide a social benefit.

Fortunately, it appears that corporate governance practices are beginning to shift away from shareholder primacy, and towards an approach that benefits all stakeholders. In August of this year, the Business Roundtable (BRT) released a new *Statement of on the Purpose of a Corporation*, outlining a need to move away from the shareholder primacy model of corporate governance, and towards business practices that “promote an economy that serves all Americans.”²³ Business Roundtable’s statement emphasized a need for modern standards for corporate responsibility that include fair compensation and benefits for employees, increased focus on ethical supply chains, and a newfound commitment to supporting communities by embracing sustainable business practices.²⁴ The BRT’s statement also commits to dealing ethically and fairly with suppliers and acting as a good partner with small firms to further that mission.

Small Business Engagement

High Road values make firms more attractive to prospective workers. This is especially true for those who will be in the workforce longest – millennials. Deloitte conducted interviews with 7,700 millennials and found that 40 percent are strongly inclined to choose an employer based on the firm’s “sense of purpose beyond financial success,” and 50 percent would reject work assignments that clashed with their ethics.²⁵ One of the most important resources for a small business is its employees. Small firms provide nearly 70 percent of American workers with their first job.²⁶ Yet, many small business owners face difficulty in retaining the skilled, capable, and dependable workforce needed to keep their business operations up and running – making it more challenging for this important segment of the economy to meet their growing labor needs. Small firms that can offer quality benefits will attract talented workers and ultimately can help grow the economy.

One benefit valued by workers is medical leave and health care benefits. Approximately 80 percent of businesses report that paid family and medical leave improves employee morale and retention, while 74 percent report that paid family and medical leave improved productivity.²⁷ Small business support for benefits such as paid family and medical leave is overwhelming. When workers receive a fair wage, family-friendly benefits, and a workplace culture built on mutual respect, businesses experience increased worker productivity, less waste, lower turnover, and a competitive edge in talent recruitment – all contributing to higher, more sustainable profitability.

²³ Business Roundtable, *Business Roundtable Redefines the Purpose of a Corporation to Promote ‘An Economy That Serves All Americans’*, Aug. 19, 2019, <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans> (last visited Nov. 22, 2019).

²⁴ *Id.*

²⁵ Will Yakowicz, *Half of Millennials Would Reject a Work Assignment that Clashed with their Ethics*, INC. Jan. 15, 2016, <https://www.inc.com/will-yakowicz/deloitte-millennial-study-44-percent-turn-down-jobs-values.html> (last visited Dec. 2, 2019).

²⁶ John Boitnott, *How Small Businesses are Key to the Survival of Corporate America*, INC., Oct. 9, 2015, <https://www.inc.com/john-boitnott/how-small-businesses-are-key-to-the-survival-of-corporate-america.html> (last visited Nov. 20, 2019).

²⁷ Trish Stroman, Wendy Woods, Gabrielle Fitzgerald, Shalini Unnikrishnan, & Liz Bird, *Why Paid Family Leave Is Good Business*, Boston Consulting Group, <https://www.bcg.com/en-us/publications/2017/human-resources-people-organization-why-paid-family-leave-is-good-business.aspx>, (last visited Nov. 20, 2019).

Large firms also can engage in socially responsible activities by supporting small firms that employ local workers and create jobs on main street. As noted above, the BRT statement on principles includes investing in employees, dealing fairly with suppliers and working with small firms as partners to create value for all stakeholders. A true commitment by large organizations is through supplier diversity which utilizes small firms as vendors and joint ventures. Doing so allows small firms to grow and expand.

As small firms experience more revenue and a larger customer base, they will be better equipped to offer higher compensation packages which could likely lead to increased output. The U.S. Department of Commerce found that firms that pay their employees more leads to lower turnover, and higher productivity.²⁸ High Road workplaces also make companies more economically resilient. Research suggests that, in the wake of economic recession, High Road companies reported averaged sales growth of 13 percent and profit growth of 12 percent, compared to 6 percent and 4 percent growth for low road companies that focused exclusively on cost-cutting.²⁹

The alternative to embracing corporate social responsibility has wide ranging economic and public policy ramifications. These companies have less dedicated workforces, reduced customer outcomes and ultimately externalize these costs to the rest of society. Firms paying low wages cost American taxpayers over \$150 billion per year in public services to help struggling families survive.³⁰ These services include programs like Medicaid, Supplemental Nutrition Assistance Program (SNAP), and Temporary Aid to Needy Families (TANF). In contrast to popular misconceptions, roughly three-fourths of people enrolled in public assistance programs are members of working families.³¹ Accordingly, there is a need to question public policies, such as tax incentives and other federal dollars, that reward low-wage employers with taxpayer dollars engaging in these practices or producing products at a high economic cost.

Business Forms

The rise of CSR in the modern American business landscape is accompanied by an emergence of new organizational forms that install non-shareholder interests at the center of a business' mission. These include Certified B-Corporations, Benefit Corporations, Employee Stock Ownership Plans, and Cooperatives. These new business structures are predominantly found in small, privately-held firms that specialize in their commitment to social and environmental ethics.

Certified B-Corporations

Certified B Corporations are recognized for the having the highest environmental, community, customer, worker, and overall societal impact. The first B Corporations were certified in 2007, and the number of firms earning certification has grown rapidly since. Today, there are more than

²⁸ U.S. Department of Commerce, Economics and Statistics Administration, *Taking the High Road: New Data Show Higher Wages May Increase Productivity, Among Other Benefits*, Aug. 2015.

<https://www.commerce.gov/sites/default/files/migrated/reports/taking-the-high-road-new-data-show-higher-wages-may-increase-productivity-among-other-benefits.pdf> (last visited Nov. 20, 2019).

²⁹ Ranjay Gulati, Nitin Nohria, & Franz Wohlgezogen, *Roaring Out of Recession*, Harvard Business Review, March 2010, <https://hbr.org/2010/03/roaring-out-of-recession> (last visited Nov. 20, 2019).

³⁰ Ken Jacobs, Ian Perry, and Jenifer MacGillvary, *The High Public Cost of Low Wages*, UC Berkeley Center for Labor Research and Education, April 2015, <http://laborcenter.berkeley.edu/pdf/2015/the-high-public-cost-of-low-wages.pdf>, (last visited Nov. 20, 2019).

³¹ *Id.*

3,100 B Corporations in 71 countries.³² Although any company, regardless of its size, legal structure, or industry, can become a B Corporation, most B Corporations are privately-held small and medium-sized businesses.³³

Employee Stock-Ownership Plans

An Employee Stock Ownership Plan (ESOP) is a kind of employee benefit plan, similar in some ways to a profit-sharing plan. In an ESOP, a company sets up a trust fund, into which it makes tax-deductible contributions of its own stock, or cash to buy shares.³⁴ Shares in the trust are then allocated to individual employee accounts. ESOPs provide low- and moderate-income workers with a voice in business decisions, as well as a wealth building tools that brings economic security, builds opportunities for intergenerational wealth transfers, and provides real asset returns from work which are not dependent on income gains alone.³⁵

Benefit Corporations

Benefit Corporations are traditional, for-profit corporations with modified obligations committing to higher standards of purpose, accountability, and transparency. Currently, 32 states and the District of Columbia authorize corporations to file as Benefit Corporations.³⁶ Corporate law is one of the biggest hurdles to switching from shareholder to stakeholder primacy, but a greater interest in CSR has led many states to change their laws and allow Benefit Corporations to exist. Traditional corporate law puts up roadblocks to becoming benefit corporations by prioritizing shareholder primacy, making it much harder for larger firms to becoming benefit corporations. This is why many of these businesses are small and medium sized – it allows many smaller firms to gain a competitive edge on their larger counterparts.

All three of these structures allow for businesses to change their priorities, whether it is the triple bottom line or employee ownership. As we move into the 2020s, more states will allow benefit corporations and more consumers will demand them. It provides a pathway for many small businesses to get off to the right start in their communities and gives them a competitive edge over larger firms. These structures also provide a blueprint for how we should be using capitalism in the face of growing problems such as income and wealth inequality and the climate crisis.

Conclusion

Shareholder primacy, the theoretical framework that dominated corporate governance over the past four decades, had a variety of unintended consequences on communities, small businesses, their workers, and our society at large. As we move into the 2020s, corporate social responsibility is

³² B-Lab, Certified B Corporations (2019), <https://bcorporation.net/> (last visited Nov. 20, 2019).

³³ Suntae Kim, Matthew Karlesky, Christopher Myers, & Todd Schifeling, *Why Companies Are Becoming B Corporations*, Harvard Business Review, (Jun. 17, 2016), <https://hbr.org/2016/06/why-companies-are-becoming-b-corporations> (last visited Nov. 20, 2019).

³⁴ National Center for Employee Ownership, *How an Employee Stock Ownership Plan (ESOP) Works*, April 10, 2018, <https://www.nceo.org/articles/esop-employee-stock-ownership-plan>, (last visited Nov. 20, 2019).

³⁵ Joseph Blasi & Douglas Kruse, *Building the Assets of Low and Moderate Income Workers and Their Families: The Role of Employee Ownership*, Rutgers Institute for the Study of Employee Ownership and Profit Sharing, March 2019, https://smr.rutgers.edu/sites/default/files/rutgerskelloggreport_april2019.pdf, (last visited Nov. 20, 2019).

³⁶ Dan Brown, Hanna Downing, and Ava Haghighi, *Mapping the State of Social Enterprise and the Law*, NYU School of Law Grunin Center for Law & Social Entrepreneurship, (2019), https://socentlawtracker.org/wp-content/uploads/2019/05/Grunin-Tepper-Report_5_30_B.pdf (last visited Nov. 20, 2019).

becoming more popular and providing a sustainable framework for small businesses to grow while providing more value to stakeholders such as workers, suppliers, and communities. Small and large businesses are organizing themselves in new and innovative ways that incorporate one or all these actions and give workers a greater share in the success of the companies. This hearing will give Members of the Committee the opportunity to hear the best practices small firms can engage in, how large firms can support small firms, and the types of socially responsible products and services consumers expect from the business community.