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## **“REVOLUTION THROUGH SOCIAL ENTERPRISE”**

### **AT THE GRAZIADIO EXECUTIVE CENTER AT PEPPERDINE UNIVERSITY**

SEPTEMBER 21, 2007

Professor Roger Alford: “The idea of this panel was, we wanted to give a diversity of perspectives, and so we have representatives from the corporate sector, CEOs, representatives from trade associations, the non-profit sector, and then the educational sector, and so we have voices from each of those different forums. We are very thrilled to have the panelists that we have today. I won’t belabor the biographies of them; they are in your materials. I will just quickly introduce them, and I’ll start from my right and go to the left.

“Paul Kiewiet serves as the Chair of the Board of Directors of the Promotional Products Association International, and PPAI recently launched the Global Strategy Council to help its suppliers and distributors distribute products in a reliably and socially responsible manner for developing nations, so trade associations support for their trade for their corporate members in the manner in which they distribute and supply products to developing countries.

“Clam Lorenz is the director of MissionFish. MissionFish.org is a really cool way to leverage the power of eBay, and if you’ve never been to MissionFish.org, I strongly recommend that you do that. When I first heard about it from Melanie Howard, I immediately went on and was thrilled at what I saw and emailed my principal at my private school saying, these other schools in LA are doing this, you guys should be doing this as well, to find a way for families to support the non-profit of your choice. Essentially, what MissionFish does is it provides an efficient and easy way for parties to sell products on eBay and auction them and for contributions to be made to their favorite philanthropy. So, Clam Lorenz will talk about MissionFish.org.

“Monty Moran is President and CEO of Chipotle, one of my favorite places; I wish there were more of them in the area. There are many kinds of restaurants I wish were in Malibu, but I certainly wish that one were in Malibu. He’s going to talk about the social responsibility component of his company, primarily with an emphasis on his campaign for ‘food with integrity.’ I would encourage you also to go to their website. There are a lot of interesting things on their website, and Google Chipotle with ‘food with integrity’, and I think you will find it is a very interesting endeavor. He is a Pepperdine Law grad of the early 1990s. You can guess how young he is.

“The voice from the educational sector, Adam Turteltaub, is a corporate

relations executive for the Legal Research Network and any of you that know about SSRN or the promoting the activities of getting the word out there about scholarship on the internet, Legal Research Network is a huge player in that area, and he has worked closely, as you can see in his bio, with twenty-five different companies including many of the most respected organizations in the world developing educational events and initiatives to promote best practices.

“OK, that is the basic introduction. We’re going to just start now. We have about eight, nine, ten questions, and of course we’ll leave time as well for all of you to ask questions. Let me just open it up, if I can, to Clam, and see if we can have him start with a question about social responsibility, and what we mean by corporate social responsibility. So, maybe you could briefly introduce what we mean by corporate social responsibility and how cultural expectations of what corporate expectations differ in the United States or perhaps in other countries as well.”

Clam Lorenz: “Absolutely. First of all, thank you all for having us and for inviting me and MissionFish to be a part of this. I think what I’ll do is break the question up and give everyone else a chance to chime in. When I think of corporate social responsibility—and there are a ton of definitions out there—to me, it boils down to, what do we as a society expect of our businesses, what do we expect from companies? Companies are fundamentally social creatures. They are started by people; people work for them; they interact with customers and vendors, and their partners at other companies. And so at the end of the day, it is all about the expectations of those interactions that we have. As I sit up here, interact with other panelists, talk to you, I have expectations of what you’ll do, what I’ll do and how it will go. And the same is true when I go to buy a burrito tomorrow for lunch, I expect certain things that the servers there will do; I expect certain things of the food. So, if you take those and multiply it by everyone in this room, by everyone across the country, that collective expectation is, I would say, corporate social responsibility. For me, I kind of put that into three main categories.

“The first one is the things that we insist that companies must do. We insist that they do things like follow the law, honor their contracts, perform the financial reporting that we require. The second category are the things that companies really ought to do: treat their employees well, treat their customers well. And then the third category are things that we as a society like our companies to do: support good causes, be socially responsible and find a way to benefit society from their business. I think of those three things as a continuum, and where a company falls on that continuum is how we decide whether they are more socially responsible or not.”

Prof. Alford: “Any others want to add anything to that?”

Montgomery “Monty” Moran: “Yeah, I would just add that, Clam pointed out this idea of consumer expectation setting the landscape about what responsibility is about, and that is true. But, I think that as people in our society are better and better informed, through the internet and through the really fast pace of information these days, people are coming up with better and better questions and demanding better and better answers, and that’s great. But I think that corporations and large organizations, typically, with the exception of a very few

number of people across the country of huge wealth, but typically corporations and organizations have more leverage and more resources by which to learn stuff, by which to ask better questions and find better answers than do individuals. So, I would push it to another level and say corporate social responsibility really ought to be held at a much higher standard than individual responsibility because organizations typically know what they do really, really well; customers sometimes know what organizations do, but not really that well, and even in the modern world of great transparency, having just become a public company a year and a half ago, Chipotle, we're pretty transparent. We were already pretty transparent, but there's still lots and lots that goes on behind the scenes that isn't very transparent to customers, so I think the organizations in this world have to have a higher responsibility and a higher duty than do individuals to set the stage of what should be expected by people and as part of that, corporations owe it to individuals to actually create higher expectations in the minds of individuals by surpassing people's expectations; in other words encouraging customers to expect more of you than you are currently delivering, and that is obviously something that almost no company ever wants to do and in fact, what companies typically do is the exact opposite—they spend the effort and resources trying to get credit for things they're not doing or not get bad credit for things that they are doing, and not get bad reputations for that. So, it is a huge opportunity, I think, for organizations to set a much higher bar and push the issues so that customers do become smarter and ask better questions that perhaps they should be asking, but they're not."

Prof. Alford: "OK, next question, for Adam, which I think Clam alluded to very briefly, but the discussion about corporate responsibility could fall in the realm of sort of regulation and compliance with requirements, or it could fall in the broader range of ethics. So, do we mean by corporate responsibility compliance or do we mean broader understandings of ethics, where you take things like child labor, foreign corrupt practices, global warming, things of that nature—where do those sorts of things fall, ethical responsibilities, or corporate compliance?"

Adam Turteltaub: "There is an overall answer to that but first let me just say one thing: you are a student of my company. We just call ourselves LRN now. So, if anyone looks, you can't find Legal Research Network. I often joke that the N stands for knowledge at this point; it's been a long time. I would echo a lot of what Clam said, in fact as he was talking, I just showed this to Monty, I have the three same comments about the 'have to,' 'should do,' and 'it would be nice if we did,' in terms of distinction. I think all of it, though, stems from a company's values, and as companies go to look at how they're going to interact in the world and how they're going to succeed in business and how they want to be known, fundamentally it gets to be a question of what are the values, what do we believe in, what do we stand for? They all have that in common. Within that, though, there are these sort of concentric circles or overlapping circles as to what they've done. The thing I think is that people look at the issue of 'is this something that is sort of a nice thing to have, and what is the trend over time?' And over and over again we've seen sort of this peripheral 'gee, it would be good if companies could do this' become the law. Anti-bribery movements were nice to have and in a lot of the world it is still a struggle to overcome this, nonetheless the Foreign Corrupt Practices Act in the United States has said, 'no it is not a social goal, it is actually

the law.' Europe is finally embracing similar things, and so you get a scandal like we've seen as Siemens with 1.5 billion dollars in bribes paid, it looks like. It's something that they've stepped up to. And, by the way, what's notable about this is up until a few years ago, bribes were tax deductible under German law, [laughter] as long as you were not competing against a German company [laughter]. I think we've seen that with child labor and I think the one thing that we're all going to start seeing soon is looking at the same kinds of things in CO2 emissions. That the idea of carbon trading here is sort of a nice social aspiration; over the next few years it may well start being under the force of law. So what companies need to do is try not so much to try to define, well, 'is this a social responsibility issue, is this ethics, is this compliance;' is look overall at what their values are, how they're going about doing their business, and see where all of this is going, to see what is really going to be key for a long term success. Because whether you're a private company or a public company you have to look at what your horizons are. And if you want to be around in a few years, there are certain areas that you can no longer be careless about going down the road."

Prof. Alford: "Any other additions or comments?"

Paul Kiewiet: "Well, I think that what we've identified is what Andrew Savitz calls the triple bottom line, which more and more corporations are adapting. And that economics is not just the only indicator anymore but social responsibility, environmental responsibility, and being good corporate citizens are. And I think a lot of this has been driven through generational differences as the 'Boomers' are moving into retirement, and the 'Xers' have been moving more into the positions of responsibility and setting direction and strategy for companies. We're starting to see the values of this new generation being applied corporately, so that the business or the purpose of leadership today is not so much about making money but about creating meaning. And we talk a lot about value, and creating value, but also being people of values and having values in place is becoming more and more important and becoming not only a social indicator, but a very important economic indicator. And for consumers, the tipping point often is: which company is more socially responsible? Which company has values that I share with them?"

Prof. Alford: "So is PR then really, really important in making sure that the consumers know exactly what you're doing in terms of these different initiatives to be socially responsible?"

Mr. Kiewiet: "I think it's important to consumers, but we're still very much at the awareness unto the continuum. Like any major issue, you start with awareness, and then get to education, determining what the standards are, how are we going to get to compliance and enforcement, and in a lot of these issues, we're still very much at the awareness stage, and we're moving into the education stage. It's only when there's a major faux faux, and it hits the newspaper, and suddenly that whole cycle accelerates greatly."

Mr. Lorenz: "I would put forward, that, I got a, my master's degree is in public relations, and I would argue that PR is actually the tail. The dog is what we're talking about down here—the values of the individuals who work for the company, and their collective corporate values and if those things aren't in view—as I'm sure you would agree—throughout the organization in everything they do,

whether it is outsourcing a product or how they treat their employees, then it's not going to carry through to users as authentic because there is so much transparency, it's very easy for customers or buyers or even critics to assess whether you're authentic or not. So, I think that public relations is a way of making sure your users know, but that's only one channel versus a primary strategy."

Mr. Turteltaub: "If I could jump in on that, it's a very good point; it's one of the things that, if it is all about positioning the company and it's not part and parcel the fabric of it, it doesn't really pass the smell test. Two years ago I went to my first social responsibility conference in London and it was more than a little dismaying seeing how many of the people representing the companies there were simply public relations people talking about the program. Even some of the most advanced companies instill that. I think there can be a role for the marketing group, which most people find a little bit jarring, but in a lot of corporations, Procter & Gamble for example, marketing runs the business and to me that would be a sign of success if social responsibility issues were being tackled by the marketing department because then they are saying, 'this is what makes Tide worth buying'. But if all it is, is a sign of show and gloss, then you've got something that is really not right there."

Prof. Alford: "Monty, in one of our email exchanges, there was a comment you made that in terms of corporate social responsibility, one of the ways to think about it is that your business is your charity, and I think you primarily were talking about your concept of 'food with integrity'. Can you briefly talk about that?"

Mr. Moran: "Sure. Most companies at some point in their development, especially when they get larger, start engaging in philanthropic work or start giving to charities and so forth. And it's usually done to demonstrate that they are a good corporate citizen and to generate some good, positive PR, and gloss, like Adam just mentioned. The problem is, and I've had a chance to look pretty deeply into this, because we at Chipotle for a while, the majority of our stock was owned by McDonalds. At that time, we got a chance to understand the company very well, and very deeply. McDonalds is a company that spends a great deal of money on marketing, it's staggering, and also spends a great deal of money on philanthropic things, you know the Ronald McDonald House, things like that. And those are all wonderful things, the problem is when a business has as its core business a business model that tends to take more from society more than it gives it becomes very hard, probably impossible, for it to ever make up for that by giving away money. So, giving away money usually becomes something that is done just to generate positive publicity, or to avoid negative publicity too, of course. And oil companies are a great example because oil companies are famous for being pretty pollutant and pretty destructive and highly profitable and they manage a commodity that all of us need and use and it's confusing as to whether it's OK to use it. Well, gee, you have to. But with oil companies, you see most of its advertising these days with all sorts of trees and plants and oceans and lakes and talks about developing renewable energy and how we're on the cutting edge and so forth, but their businesses aren't typically operated in a way consistent with that as they oppose higher fuel standards, higher gas mileage standards for cars, or land-based electrical cars or other sorts of renewable resources or fight against taxes that promote conservation. In the food company world, it is very very common

that companies make lots of money by cheapening every part of the food system.

“For instance, over the last fifty or fifty-five years, most of the big food companies, especially fast food players, have had to compete more and more based on price and it’s not really more and more based on quality. You see a lot more ninety-nine cent value meals, and super sizing fries and cokes to get more of the cheap stuff—potatoes and sugar. But less money spent on the important ingredients like their hamburgers, or whatever. And so they compete more and more based on price. Well, at Chipotle we have, since very early on, made our core business our charity, in the sense that I strongly believe that the better we do as a company, the more the world will benefit and the more we will benefit, directly, profitably. And so, for instance, as a company, you have to spend a lot of money. You’ve got to buy stuff, you’ve got to hire employees, and every dollar you spend, no matter what company you’re in, is making a statement, is changing the world. And so, if you spend a dollar on really cheap ingredients, you’re promoting, you’re giving profit, to whoever’s creating that cheap ingredient. At Chipotle, about seven years ago, the founder, chairman, and CEO, he’s very passionate about food, generally, was very unhappy with the taste, just the taste, mind you, of the pork we were serving. He was like, ‘This isn’t as good as it should be.’ And in trying to make it better, he tried all sorts of different cooking methods and he went on and on and on trying to make it better, and he’s just a great chef. And I was fortunate enough to try eating some of those things he was trying to make. So finally what he found was this pork, from Nyman Ranch – it’s a cooperative of family farmers, and Nyman Ranch is in Salinas, California, but the family farmers are throughout the Midwest where they raise hogs in the outdoors, in the open, and free ranging them and so on and so forth, with these old ways of animal husbandry. They don’t use any antibiotics, and since they don’t, you’ve got to do things to make sure the pigs don’t get sick. Like, treat them well, feed them well, give them access to the outdoors. And if they don’t get that, they’ll get sick, and you’ve got to pump them full of antibiotics, and they won’t do that. And they don’t give them any hormones, and the only feed they get is vegetarian feed, and they don’t eat animal byproducts, which by the way, all other animals do, in the commodity market, in the United States, they eat animal byproducts as their principle source of fats and protein.

“But anyway, so he tried this pork, and it was miraculously better, you know, it just tasted better. And so based on that he said, well look, we’re going to bring this pork into our burritos at Chipotle. Well, at the time we only had fifteen restaurants, and even though we only had fifteen restaurants, the purchasing director told him, absolutely you can’t do it. It’s not possible, it’s too expensive. To do that we’d have to charge a dollar more for each burrito and at the time the pork burrito was the cheapest burrito on the menu and it went from four dollars and fifty cents to five dollars and fifty cents. And the sales went up fourfold instantly. And so we thought, well shoot, we’re on to something here. And so it became more difficult when you talk about beef and chicken, because there isn’t enough in the world right now that’s raised with our sort of protocols. But there’s getting to be enough. And so what we started doing was really pressing our suppliers to raise chicken and to raise beef with the same protocols that we insist upon, which are, by the way, largely the same protocols that Whole Foods insists

upon for their meat, which are: no antibiotics, no hormones, raised with vegetarian feed and humanely raised.

“And so now we’ve got seventy-percent of our chicken throughout the United States is raised with those protocols and we serve more naturally-raised meat than any company in the world, much more than Whole Foods even, and about half of our beef meets those criteria. The nice thing is that because we’ve done that, and we’re a tiny player, we’ve got 640 plus restaurants now and so we’re getting bigger, but really in terms of the global food supply, we’re nothing. We just have a tiny percentage, and yet Smithfield, the largest pork producer in the world by far, from whom we buy absolutely no pork at all has recently announced that they will over time eliminate their confinement holly raising tactics. Right now, pigs are raised so they can’t even turn around, ever in their lives. It’s really bad, and I won’t take time to get into because it would take a lot of time to do it justice, but it is really bad. But, anyway, Smithfield, whom we do no business with, has changed. Tyson Foods, the largest chicken producer, and now beef, in the world. They’re so big that McDonalds, who buys all of their chicken from them, is only a two or three percent customer of Tyson. And Tyson decided that all of their retail chicken is going to be raised without any antibiotics, which requires Tyson to treat the chickens better so they don’t get sick. Anyway, that’s still not good enough for us, because we require vegetarian feed and Tyson is not doing that yet. But the point is, just because we’re spending our dollars on farmers and ranchers who raise their animals the right way, all of a sudden these big, big players, even ones we’re not doing business with are going, ‘oh my gosh, I think there’s a trend,’ and so it’s a much bigger effect than our comparatively small company. Companies tend to be good at doing certain things really really well, and then other things not so well. I would assert that if companies can do in a charitable way the things they’re best at, then that would be best and the triple bottom line is a good way to put it. It would actually be best for the profitability of the company in the long term. When we went public, people were very concerned. Analysts would ask us ‘you’ve got this food with integrity thing, but what if there’s no supply, and are people asking for this?’ And we said, ‘no they’re not. Our customers are not looking for us to get better ingredients. Almost none of our customers are telling to get better ingredients, or that they even care. This isn’t something that we’re doing as a reaction. We’re doing it because we think it is the right thing to do.’ And we told analysts: ‘do not invest in our stock because we’re going to have higher food costs than any of our competitors, and by the way our food costs are around the order of 500, 600, or 700 basis points higher than any company that’s even considered a competitor of ours, and higher than almost any restaurant company.’ Our business model is sufficient enough that we can stomach that and still have good margins, which is handy, ‘handy’ being is a bit of an understatement, I guess. They said ‘what about your food costs,’ and we said ‘they’ll be high.’ And they said ‘what about your margins?’ We said, ‘hopefully we’ll find other places to gain high margins.’ But are customers asking for this? No, they are not. Why are you doing it? Because we think it’s the right thing to do. Do you think this will be a successful company? And our answer was, ‘do not invest in us if you do not believe that this will make us in the long term a more successful company.’

“We are, as executives of this particular company, plenty greedy; we want to



be profitable, we want to have a successful stock, we want to impress our shareholders, and be welcomed at these analysts meetings and not be sneered. It's really important to us to be profitable, but we believe firmly that by staying ahead of consumer expectations by doing things a lot better than they think we're doing them, that eventually as they discover these things and as people become increasingly educated that we'll form a stronger and stronger bond with our customers, with our employees, and so forth. So, on the food side, it has been wonderful because people are sort of catching on and since we aren't advertising it much, when people find out about it they feel whatever the opposite is of being duped. They feel like 'oh wow' and we create this really deep bond, so it's really neat. We're doing this in the way we treat the people in the business, in bringing people up from within. We teach English to our largely Hispanic crew base at Chipotle. We teach our best crew members English so they can rise up and become managers and so forth. And that's been very wonderful and empowering to our people. But, because we're doing all these things the type of people who come to work at Chipotle every day, each and every individual one of them, like so many of the young people on the panel today, they are idealistic, super smart, ambitious, they know we're going to give them an opportunity and we pay them eight dollars an hour to start. They're not here for the eight dollars, they're here for the opportunity Chipotle offers them as a human being, and the fact that we believe in them and are going to empower them. So, we get people who are way too smart for the positions they hold, then we try our best to make sure that we deserve continuing to have them as employees at Chipotle. And when you fill your whole company through the ranks with people who think that way, then your business truly is your charity and your new ideas come from within, so that's kind of neat."

Prof. Alford: "Wow. That was impressive. I wasn't expecting that level of detail and inspiration."

Mr. Moran: "I wasn't either. Sorry." [Laughter]

Prof. Alford: "I did a little bit of research about food with integrity and one of the things that struck me was that one of the things Monty is suggesting essentially is that it is not necessarily a Hobbesian choice between making money versus doing what is socially responsible, as is often thought in decades past. But it then also struck me that perhaps not all sorts of corporate responsible behavior are win-win situations, that there is sometimes a zero sum game between making money and doing the right thing. And I opened that up to the panel in our email exchanges, I wanted to ask them what happens, though, if balancing good corporate behavior is not consistent with maximizing shareholder value? What if things like sustainability, animal welfare, environmental concerns, things of those natures, what happens if it does mean you do not maximize shareholder value? And what kind of choices do you deal with in that respect? So, I'm opening it up to everyone, anyone."

Mr. Kiewiet: "I think it's incredibly interesting, but if you look at all of the financial indicators and with the financial analysts, they have found that the companies that are most socially responsible outperform the market. They outperform those companies that are focused on that zero sum game of cutting, cutting, cutting. The ones that are forward- looking are finding long term results and value. UBS, the international banking company out of Scotland, has advised

directors that companies that are on the right track are going to outperform those that are not. It's one of those marvels of the universe; it seems to me that by doing good, good things happen. The 3M Corporation started an initiative to prevent pollution, the prevent pollution plan or something like that, they called it Three Ps, and it was supposedly just to be a better corporate citizen and reduce their impact on the environment. What they found was, they saved a billion dollars the first year of their program. One billion dollars right to the bottom line by being less polluting. That wasn't their intended outcome. Their objective was to be a better corporate citizen and pollute less, but they saved a billion from the brainpower that started getting applied to solving that problem for them. And I also think from a human resource standpoint, companies that have the right values are going to attract the right people. They're going to attract the type of people like these young people today that are on this panel that may not be so inspired by the high salary as much as wanting to make an impact with their lives and what they do. So, I think from the outside it is real easy to say, 'why are you throwing money at spending five, ten times more for your wrong ingredients, Monty,' when Monty has just showed us the results are there."

Mr. Turteltaub: "If I can add to that. We do a lot of surveys on what people's attitudes towards ethics issues in the workplace are, and we did one— if anyone wants a copy let me know, I'll be happy to send it to you— on employee productivity and found that, frankly, ethical companies keep people longer. That something like one third of people left a job at one point in their career because of an ethics issue. So if you take what the costs for changes are, it's enormous. And I think another example, in addition to 3M, is Xerox set out to create zero waste factories and they saved hundreds of millions of dollars doing that. Not to mention the fact that they improved a lot of customer satisfaction because customers needed less big, bulky cartridges to deal with for their photo copiers, and so they freed up space in their offices. I think when it comes to a lot of these issues, a lot of it stems from the fact that business makes the same mistake over and over again, and working more in the ethics and compliance world, its usually headline-making things but the problem is social expectations keep rising but business takes something of a stair-step approach. Over and over again business thinks: 'ok, got societies expectations,' walks along and not realizing that things are changing and eventually it stumbles, and something spectacular happens. Whether you get a Love Canal, like we had in the 70's, whether you have a bribery scandal like at Siemens, whether you have Enron or one of the other scandals, people will realize, 'gee, expectations and how we are operating business aren't aligned.' And then business takes a step up and improves its practices. The hard part is they do just walk in a step, not realizing the fact that we are in a constantly increasing ramp, and in a lot of areas the ramp can get pretty darn steep, pretty quickly. I mean if you look at what happened with China and sourcing there, there has been a lot of nervousness over the years over that, and suddenly you had a huge inflection point there where you had lead-based toys coming out, seemingly everywhere. In other products, a lot of attention's going to be made on sourcing, right now."

Mr. Moran: "There's a lot of hidden factors too that, you know, I mean. It's a great question, that question about 'well gee, what if it really does hurt shareholder value,' but it turns out that there are so, so, so many pretty easy to do things that

are win, win, that can save companies money. And you know, and with the climate of litigation out there to, that's another whole factor that you have to keep in mind, and that is that most things that companies do that are bad, you know, whether its polluting an awful lot, firing people wrongfully, hiring people wrongfully, or sort of broad scale practices that you read about in the newspaper, those things usually lead to litigation eventually, and often class action litigation. And when a company hasn't, you know, been doing the right thing, they have to settle those cases or go to trial on them and lose enormous or spend enormous amounts of money on those things. And usually a fraction of that amount of money could have been spent to do the right thing, which would have (a) eliminated that litigation, (b) polluted less, if that's the case, and (c) probably generated a lot of positive public relations. You know with Chipotle, we have been very shy on advertising throughout our entire fourteen year history. We have never used T.V., we used radio a little, and billboards some, but, you know, usually pretty cheap methods of advertising, usually pretty cheeky, simple ads. And but by not advertising much, we've still had all the benefit of advertising because by doing the right thing with food and by doing the right thing with people we've got these tons of huge articles in very prominent papers and we've been in the New York Times about our food. We just had an article throughout the country, front page in the Rocky Mountain News, about as a manager a Chipotle you can make six figures in huge writing, and none of us tried to make, we weren't even interviewed for it, they went and interviewed our restaurateurs directly in the restaurants. And the restaurateurs raved about their jobs at Chipotle and had this incredible organic full page story about how great it was to work there that I had nothing to do with, except putting in place a good program that people believed in. So, the amount of positive press we've gotten out of doing the right things has been worth, you know, at least tens of millions of dollars and that's just if you bought it but of course if you bought it, guess what, people wouldn't believe it. But if you don't buy it people believe it so it becomes even more powerful. You know ads that are purchased, you know people are really bright and getting brighter and brighter and people don't believe stuff anymore that you buy and place in front of them. But boy, they sure do believe an ad where you go and talk to managers and managers say, 'I made 107,000 as a manager at Chipotle last year and by the way, you won't believe what they are doing with their free range pork, and beef, and chicken, or whatever.' So, very, very powerful, positives that come out of things that might not have even been intended when you go into them."

Mr. Lorenz: "And what I would add to that is that these Hobbesian types of decisions aren't different than the hundred of other Hobbesian decisions that managers at companies and non-profits and governmental agencies have to make every single day. It's just a question of the organizations values and the manager's world view. And so, it's not as though the people are coming out of business schools and legal programs aren't equipped to make these decisions. It's more about informing what they, how they will make those decisions."

Mr. Turteltaub: "But I will say one of the things that is critical that I see over and over again is making sure that everyone in the organization focuses on how they do that. I mean, one of the things we come up, again and again, with companies dealing with the issue is the tone at the top of the organization is great

but line managers with short-term goals, very ambitious numbers, find themselves in a situation in which they're intentionally or not telling people cut every damn corner you can because I want the numbers. So you need to have real systems of structure in place so that people understand what it truly means, what the company truly means by its values. And in a case like Chipotle, where the brand is the values that it mirrors, what that means is that when there is a crunch, for example, where the factory, for example, it can happen, the pork doesn't show up one day, the store manager has to quickly make the decision 'do I run to the nearest supermarket and just grab everything or do I say I'm sorry we don't have it?' they make the decision that's the right one. Which I would imagine in your case is, we won't serve pork that's wrong and that's it. Versus, by the way, not to pick on McDonalds, I think its true of most hamburger restaurants, the buns don't show up, there you can just go buy some extra buns and apologize to customers, where if its central to your brand you can't. And one of the things, we just did a conversation with the Justice Department on export controls and one of the things they said, very interesting, is virtually every single export control violation that they find occurs in the last two weeks of the company's fiscal quarter."

Mr. Moran: "Which, someone asked us last week, or asked me yesterday or I guess the day before yesterday on a panel, an investor conference, they said, "Gee, why don't you give guidance, you know earnings guidance." And I said "You know, when we went public we made the decision not to give guidance because what we didn't want to have happen is that we didn't want to be beholden to a certain number in a certain quarter." And so we continually insist that our investors look for long term good performance out of us. But we never want to put ourselves into a position where were trying to make a quarterly number which would put us in that bad position I was just talking about where companies might, you know, not make a decision which would be good for the company, yet, because it is an expensive investment and they don't want it to show up in this quarter, or shut something good down because its costing something short term. So that's another thing companies can do to avoid having to have Hobbesian choice."

Prof. Alford: "Paul, shifting gears now, trade associations, obviously the trade association speaks on behalf and for the various members of the trade association and so potentially has a critical role in the role of guiding corporate responsibility for its members. Do you want to talk about the role of trade associations in terms of responsible practices?"

Mr. Kiewiet: "Yeah. And particularly the promotional products association is pretty typical of trade associations around the country. We're a nineteen billion dollar industry made up of about 20,000 companies that sell promotional products and are supplied by about 5,000 small companies that supply to them. And, often thought of as being a pretty small advertising medium, but at nineteen billion dollars we're three times larger than outdoor advertising, and we're larger than cable advertising, we're larger than B to B magazine advertising, we're still larger than internet advertising but I expect that to last about twelve more months. But the interesting thing about our association, which I think is typical in a lot of smaller type industries, is that we're a very big industry made up of very small companies. Our largest supplier is 400 million dollars. Our largest distributor is

200 million dollars. When you compare that to bottled water which is fifteen billion dollar industry and it's controlled by Coca-Cola, Pepsi, and Nestle and those three companies have about seventy percent of the market share. We have this nineteen billion dollar industry with about 20,000 practitioners. So how do we get them to understand the responsibility to be responsible where many are competing with the exact same products? I mean you call up one distributor and say you want a notebook and, you know, they've got access to the same suppliers and it become a matter of price. And so, as an association we have been trying to drive the values behind that. My theme as chairman has been to create value and to get away from the price attitude of cut, cut, cut, and that's a zero sum game because ultimately all of us are middlemen. We need to be creating value for our particular slot in the supply channel. And anybody today can go on the internet and go direct to the manufacturer, whether the manufacturer is in Orange County or if they're in Shanghai, that information is there. So, everybody needs to be creating value in the channel and part of that is to be responsible. That means that when somebody buys from one of our suppliers or somebody in our channel, they can be assured that it's coming from a factory that has child labor standards in place, that has environmental protection in place, that is using responsible methods of producing it, that benefits from overseas is compiling with the Counter Terrorism Act, the 'CT Act,' to keep our country safer. Those are added values that much like using better ingredients makes us a better industry. And those are the sorts of things that as trade association we can be raising that bar of setting standards, of setting up ways of getting compliance. As a trade association, we'll never be able to get into the place of being an enforcer, but if we're active at the front end of raising the bar, of determining the areas of value, of the value proposition for every person in the supply chain and making sure that they are working hard to differentiate themselves, to be more meaningful to their customer needs, then we're accomplishing that. And, while some of the larger clients in our industry may have twenty million, thirty million, forty million dollars worth of purchases within the promotional products area and may be driving those sorts of things on their own, as an association we can be driving that down to the person who's selling the corner gas station, someone who's selling the coffee mugs or the t-shirts for the family reunion.

"We can be driving the message that if you go to an organic cotton t-shirt you are having an impact on the environment and you may be small but every little step can make a huge difference. One of the initiatives we're working on is setting up regional, a regional associations to go into trade shows as they leave to do what we call "harvesting the trade show." So if someone has leftover pens and leftover notepads that they're just leaving behind of actually going in, harvesting them and then working with SHOPA, which is an organization that provides these school supplies to the schools in need. So schools around the country can be getting needed school supplies. And that may seem, particularly when you're working with pens and pencils and imprinted things all the time like something almost invisible to you, when you bring school supplies like that to an inner city school where the teacher may be working a second job in order to buy those at Office Max, it makes a huge impact and it's those little things at the grass roots level that 20,000 small little companies, many of them under 250,000 dollars a year, can be

doing to make a bigger difference.”

Prof. Alford: “Does the message of corporate responsibility trickle down from the association to its members or trickle up, bottom up from the members to its association, or do you, or maybe Monty can address this as well? Do you have any thoughts about where primarily the message is coming from?”

Mr. Kiewiet: “In our case it’s coming from the top down, it’s the association driving this message. When I first brought up the need for a global strategy counsel to engage minds of people like from a CPSC and the ASTM and from Disney and Coke and independent testing labs to meet with our association and talk about what it’s going to mean to be a more responsible industry, it got us out ahead of this Mattel thing and the lead thing. And we are looking at a today headline in California of lunch, imprinted lunch bags with too high of a lead content. That is the sort of thing that is going to be coming down the pike but we have systems, programs, and plans in place to be addressing it so that the \$250,000 a year distributor is going to be aware that they’re going to be asking their suppliers and their people in their supply chain, ‘has this been tested, what sort of standards do you have in place, is there a quality insurance plan, rather than a quality assurance reaction or a recall.’”

Prof. Alford: “Monty do you want to respond?”

Mr. Moran: “Yeah, I think with our company, I suppose, perhaps it started a little bit from the top. And I think most companies, the vision, you know, someone has to be the visionary and say “here’s what we are going to do and we’re going to do it because it’s the right thing to do.” But I will tell you what, if you hire the right sort of people and insist on hiring the right sort of people, they are really, really fast. They pick up on this quickly. They’ll pick up on it and surpass where you are quickly about it because, especially when they are really young, entry level folks, they come in pretty idealistic and they might not be shrouded by some of the things that we sort of quote on quote “seasoned old folks” might think in a much more limited fashion. I mean, what was it, I wrote a name down, was it Denise this morning who said after 9/11 she had this goal of that we’re never going to have hatred again. It’s like wow. It sounds so naive but it’s real and it’s wonderful. And if people have huge, audacious goals and fight for them, good and great things will happen. And so if you bring in a lot of people and you tell them sort of this is the type of company we’re going to be and we’re going to be a good company, we’re going to do things the right way for the right reasons, people grab that message and then they’ll waive it right in your face if ever you blow it and start digressing from a path that is, you know, on the right track.”

Prof. Alford: “But within your association though it sounds like you’re sort of a leader, your company’s sort of a leader in terms of corporate responsibility on the issue of food, whereas maybe your competitors are not. So, within the trade association that you’re a member, is it more members are driving this than the association, do you think?”

Mr. Moran: “Yeah, I think no one’s driving it in the fast food industry at all. Hardly.”

Prof. Alford: “Yeah, it’s just the individual companies.”

Mr. Moran: “Yeah, it’s not being driven. In fact, it’s still as Paul mentioned

it's sort of a zero sum game of price. You know, people are competing. In the fast food world largely it's competing on price and margin, price and margin. You know, try and give the lowest price thing that you can and still get some margin out of it, you know, and produce and find ways to reformulate inexpensive ingredients, like starches and sugars, in ways that you can get. That's why that fact that, you know, fountain sales of soda from the fountain have gone down a few percent it's really hurt the fast food industry because that stuff's almost all profit and now people are starting to look for different sorts of drinks. Well that hurts because sugar and water are damn near free. Excuse my language. And yet you can sell them for a fair amount by re-constituting them as soda pop. So, so, but that, but that's sort of getting ahead on price is very limited. You can only go so low cause ingredients cost something and if you try to make them cost nothing then people will really start to say "gee, that's not, I'm not eating much there."

Mr. Lorenz: "In the eBay community I would say that it sort of started with the top down approach. When eBay was founded, the business really was intended to be a social good. Pierre Omidyar founded it with the intent of enabling people to connect through the exchange of goods and money. And one of the core principles of the organization is that people are basically good and when given the opportunity they'll do the right thing. And so I think that by setting that as the tone, the users of eBay really have picked that up and they do waive it in the face of the company on a daily basis when they feel like eBay is not sticking to that standard. And it was really for the eBay Giving Works Program in the US and the eBay for Charity in the UK, it was users who began to demand the opportunity to donate from their sales to charity and also for themselves as sellers who are trying to make a living to. Some of them make their full time living on eBay. They wanted the benefits of cause marketing that Chipotle has, that McDonald's has, through the cause marketing tactics that they're engaged in. So it's really been users who have pushed it within that community, both buyers and sellers."

Prof. Alford: "OK, Adam, in our email exchanges one of the things you raised was the impact of transparency, and it's already been alluded to a little bit, but lets talk about corporate transparency and the fact that so many people can so easily gather information about what companies are doing. There's a lot that we can unpack there. But do you want to talk about that issue?"

Mr. Turteltaub: "Yeah, and actually I'll start with a question. How many of you people in this room have a blog? So, one, two, three. That I think is the world we live in. If O. J. Simpson walked in this room right now after everyone stopped looking shocked, I think twenty camera phones would go off and that's what would happen. And it would be on blogs and all over the internet quickly. I've often wondered, there's a video of Steve Ballmer at Microsoft that circulated, luckily for him, awhile before YouTube took off, of him at a Microsoft event screaming his head off. He said nothing inappropriate but he's a large man dancing around a stage. It was not a becoming moment for him, but the world is such that people watch everything that companies do now."

"We work in a world where nothing stays hidden and, because of that, the only rational choice is to have nothing to hide. The hard part for companies is to make damn sure they don't have anything to hide. And what keeps coming up over and over again is they find there are a lot of operations within it that don't look so

good or you find, honestly, something happens in a corner of the corporation that they didn't have visibility into and there's a scandal. And interestingly enough, the government encourages transparency itself. If you find something wrong bring it forward. The penalties are a lot less severe and maybe nonexistent if you can show that this is not something that you wanted and that you found it and wanted to disclose it. The hard part for companies is getting to embrace that because there is a tendency to cover up what went wrong. You know, there's not a lot of companies who say, for example, and I think [Monty] you're very smart, and this is, 'we're not giving you forecasts not because we want to hide anything, but because we don't want to send the wrong message to anyone.' There is a tendency to still try and control the spin of things and you can't.

"There was an extraordinary event today. Did anyone see the headline about Mattel and China? You know, Mattel apologized to China and admitted a lot of the problems were their own doing, which was an extraordinary act and I think a good sign of where the world's going. A lot of companies don't like that and they try and fight it still. Well we're seeing working more successfully is companies saying 'no that's it, it's a basis for competition,' in fact. The precedent for that, I mean, one of your competitors [Monty] is Baja Fresh which makes the transparency about no lard, no freezers, no microwaves, in what they do. And it does raise a lot of questions about what others do. I was telling Monty before we started, I used to work in advertising and the first account I had was Burger King. And they didn't use microwaves so much now then, but, you know, fast foods do. Wendy's, long ago used to say every hamburgers cooked fresh. You know, they're not. They finish them fresh for you but think about it you can't ask for a hamburger and have it cooked all the way through right away. Those are the kinds of things that it's getting harder and harder for companies to deal with. The way to deal with it honestly is to get ahead of it, to start talking more about what it is your doing, and looking at your operations in a way in which you can get good visibility into what's going on in them, so you can understand where are operations standing. And I think it tends to be for a lot of companies a constant exercise in digging deeper into things that frankly no one ever thought about before. You know, right now [Monty] because your closest I'll say you're looking at food but a few years from now they may be looking at your paper goods and where they're coming from and then it gets to be the question, you know, this [points to bottle of water] is the most vexing product on the market, it's a genius product, somebody walked into Coke-Cola and said 'I've got an idea. Let's take the color and sugar out and sell it for more than the Coke.' You'd say this man's an idiot but it's what the market pays for and there's a lot of argument that this is one of the most socially irresponsible products out on the market these days. Even in a state like Californian where we're in the middle of a drought, it's still more environmentally responsible to turn on your tap than buy bottled water. When companies start realizing over time that this is going to be a problem and start managing to it and engaging with stake holders, engaging themselves and looking a seeing what's going to happen, you get the opportunity to create ways to leverage this to your advantage."

Prof. Alford: "Can you also just add to the transparency issue about, is the access to the media by anyone, anywhere changing whistle blowing behaviors so



that parties within companies are constantly just able to get the word out? I've seen experiences like that."

Mr. Turteltaub: "Well, one of the things that happening, that companies frankly are facing and fighting is the fact that there is a tendency for employees to go outside when the company would much rather them stay inside. There is better management of the issue. And a lot of times employees raise issues that really aren't as headline grabbing as the employee would think. One of the things that was very interesting was another piece of research we did. We asked people: do you see ethical violations at work? What were the number one, what were the top answers? Backbiting, taking credit for people's work, my boss doesn't treat me the same way he treats other people. Is it an ethical failure yet? Is it the kind of stuff that we're here to talk about today? No. And employees going forward with those sorts of things is not good and not the best way to handle, necessarily, those things. Interestingly enough, companies still encourage people to go to their supervisors first; it's the number one thing that they recommend. The hard part is that most supervisors aren't trained to do that. The reality though is, at the same time the press is looking and as the internet takes off, as Drudge becomes a celebrity, as places like Huffington Post grow, there's more and more avenues for people to take stories to, and it's easier for things to get out of control, rightfully or not. You know, there are cases where it does turn out to be a tempest in a teapot over an issue. And that can be just as damaging for a company decades later for something that really nothing happened there. And I'm trying to remember. There was one that was just resolved fairly recently of a serious allegation of a company and when all the investigations were done, nothing had actually happened wrong. And in the case, actually, of the Mattel case, the lead was the least of the problems in the end. And I guarantee six months from now no one will remember those kinds of issues. We tend to remember the most spectacular and the biggest brand name. How many people here live in Los Angeles? OK. How many remember that JetBlue plane that was circling for hours and hours. We all remember that. You know one of the things also to think about is supply chain issues. Everybody remembers JetBlue. Anybody remember, how many people remember, what type of plane it was? It was an Airbus. How many remember who made the landing gear that failed? It was a French company Mesier-Dowty. One of the things that's a wired effect thing is the largest brands still accrue the biggest hit. And the supply chain often does take a pass on these things. If somebody— you really shouldn't sit next to me [Monty] because I keep making you the example. [Laughter] You know, if somebody dies of food poisoning, for you it doesn't matter in the end where you got the product. It's going to accrue to you. And that's one of those things that, as great as transparency is these days, transparency only goes as far as people want to look. And unfortunately for the press and for most consumers they like to look at the last person or the one with the name that everybody talks about."

Prof. Alford: "Others on transparency?"

Mr. Moran: "Yeah. I think the more transparency; I mean transparency, you know, should be something that you welcome into your organization but primarily from the inside out, first of all. And so when you say to your employees, 'we're going to do the right thing,' you know, like I said earlier, they're going to hold you

to it. And, you know, Adam made the point about, you know, you're going to start looking at paper soon. Oh well, we have and we have because people say 'well this stuff with food why are using napkins that aren't recyclable,' well now they are. 'Why are we using this bowl that not recycled,' now all our bowls are one hundred percent recycled. You know, 'what about the buildings we're building?' Well we've got two league certified buildings in Austin, Texas and now we're trying to make our building out sustainable materials. And people, it just goes down the line and people just instantly try and look for your weakness, because if you stand up and say 'I am strong,' no one is going to look for strength, they're going to look for weakness, you know. And likewise, if you say anything in the company, you know, 'we're going to do the right thing,' and, then they see something that's going on that's not the right thing, they're going to bring it to your attention. And importantly, their probably going to bring it to your attention first before they go out and blow the whistle, which is handy because then you can take care of the problem internally before it becomes a negative issue. So you truly, just by saying 'we are now going to become a really good company,' you know, well it's going to happen whether you like it or not, as soon as you make that announcement. So, if you make that announcement, you know, tall and proud over and over and over and over. I mean, what better way to find the problems with your company then to tell everyone, you know, 'we're not going to have problems' or 'we're strong' or 'we're going to do things right.' You know, we have 19,000 employees now and every single one of them is going to become an investigator for you and they're going to bring things to your attention in a nice way, initially, because they're going to say 'hey, you know, I love that we're trying to do the right thing with food, with our paper and packaging, with our, you know, with our sustainable building designs, but, you know, gee wiz did you know that X and we're doing this and we're wasting this or we're using too much bottled water,' you know. 'Why don't we encourage customers, why don't we put in filtered water at the tap and customers can go to that.' So they come up with all these ideas and then you're put upon to say 'gee, yeah, let's do that.' Or, identify why not and where there might be a better expenditure of your, of your resources."

Mr. Turteltaub: "One of the things, by the way, just to add to that, is two points. I mean, is people look and see what they want to find. I mean, to use my Wendy's example, it is open, it's there. You walk into the store you see them take it out put it on a grill for a minute to finish heating it and then go. We all accept that. But integrity is something that you have to look at throughout the organization. I'll give a very unpopular example of that which is Wal-Mart. You know, which is criticized for a lot of things it does, which is interesting because if you look at Wal-Mart, Wal-Mart is very true to its values no matter which way they go. Now, everything is about keeping prices as low as possible which is what their reason is for why workers don't get health insurance quickly and so forth but I've never been there but several people have been there and been to Wal-Mart offices and there the worst offices you have ever seen in your life. You know, they are one step above using discarded furniture in a garage, and I don't know too many other companies where people sleep two to a room. Still, to this day I took a course in managing ethics— when they travel, they sleep two to a room— I was at a conference on managing ethics and organizations. We stayed at a Doubletree,

not exactly the most luxurious hotels. The Wal-Mart guy was at the Holiday Inn Express. And it was very interesting to see that kind of behavior and in many ways they are a model for this because they have, as unpopular as they are, they are true to a lot of their values. And they do take it to that level. And it gets to be a question, you know, I wonder, as you said, look at the sustainable stuff and question are you [Monty] going to build a new place or find some new place you can move into? It just keeps escalating into terms of what people want. If you take a look at cars, believe it or not, horns, turn signals, rear view mirrors and windshield wipers used to all be optional equipments on cars. And next time someone says to you, do you really have to do that, realize somebody said ‘there’s no way I’m giving away turn signals for free on this car.’”

Prof. Alford: “That’s great. OK, Clam, let’s talk about NGO’s and I think this is one of the more fascinating issues about corporate responsibility because it seems like there is a lot tension, typically, in the relationship between NGO’s and corporations. And there’s sort of a blame and shame game. Your approach is more symbiotic relationship that is more positive so let’s talk about the nexus between NGOs and corporations, and the larger issue of corporate responsibility.”

Mr. Lorenz: “Sure. So first let me mount a furious defense of shame and blame. I think that shame and blame has its place. That’s not the tactic or strategy that we’ve chosen to pursue in this organization, but it can be incredibly effective depending on what you’re trying to accomplish. You know, when we sign up organizations like the World Wildlife Fund, they actually insisted that as a part of the user agreement we create a special clause for them that gave them the right to speak out aggressively about MissionFish’s practices and eBay’s practices if they chose to, for specifically because they wanted to reserve that right, and of course we gave it, because we don’t truck in that business, we’re about raising funds for organizations. So, that said, for our business and for our history and we’re trying to accomplish, shame and blame wasn’t going to get us anywhere, because we’re trying to unlock value within the eBay marketplace, you know, there are it’s more than fifty billion dollars worth of stuff that is bought and sold on eBay websites. And our goal is to take a tiny slice of that and redirect it to non-profit organizations so that they can spend less time raising funds and more time pursuing their own social missions. And so the best way to accomplish that for us was; it actually happened in a backwards way. We started as a dot com, we were non-profitable, had acquired by non-profit, became a social enterprise, attracted the attention of eBay and created this program for them from the ground up.

“The program was started, as I mentioned earlier, because users wanted the ability to do this. Buyers wanted to buy goods where they knew some of their money was going to charity, and sellers wanted to accommodate that need so they wanted to sell things and to be able to give in a way that was certified and could be trusted by buyers. So the consequence of that for eBay, they saw a huge market opportunity, the same way that Chipotle saw ‘oh, if we make pork better, we can add another dollar to the price of it.’ The consequence for eBay was that they created this opportunity, and now that buyers are getting what they want. Buyers are paying on average twenty percent more for goods that are sold with our eBay Giving Works ribbon on it versus the same item that’s not for charity. As a seller if I can give ten percent to charity, make twenty percent more that’s better than

selling more stuff for me because it's less work. So, non-profit organization makes money, they're happy they didn't have to spend money to make those funds, which means that much less time can go more toward serving their mission. And eBay's now happy because they've made existing users happy, they've made new users happy, they've made a non-profit happy, and oh by the way there was some eBay fees involved in that too. So for us it was about conversion, converting eBay to this world view; that they needed one to create a program in response to their customers and then in exporting that world view to the rest of their business. They now have a global CSR strategy that we aren't directly involved in, we can't take full credit for, but we've certainly informed the executive ranks of the importance of being a responsible citizen, in what I would consider a faster rate than they would have if they were left to have arrived on their own.

Prof. Alford: "Others, do they want to add their experience with NGO's positive or negative or role of NGO's in promoting corporate responsibility? OK, the last question that is from me and then we'll open it up to the audience. I want to try to dissect a little bit what we mean by corporate social responsibility and I want to do it through the lens of a recent survey that McKinzie did of business leaders that basically tried to differentiate between different types of social responsibility, suggesting that some types of social responsibility are much, much easier to decide to do than others. And business leaders were asked on the survey a range of things that they could do or should do and to calculate the risk to reward ratio for these different types of behaviors. The things that were easiest to do were ethically produced products, healthier and safer products, and human rights standards. Those were viewed as easier to do in terms of the risk reward calculus. The things that were viewed as among the hardest to do: was the environment, including the climate, and privacy and data security. Those issues were viewed as very, very low on the risk/reward calculus; much more costly to do those relative to the benefit. So what about the issue it sort of goes back to an earlier question. But is it different with different social behavior? Anyone?"

Mr. Turteltaub: "Well, I think most companies when they go to face their risks have to prioritize them. And then, there are some issues which are very black and white: you either have a data breach or you don't. When it comes to a lot of stuff there is gray area. You know, going back to the paper example, what percentage recycled should it be is a discussion. As well as issues, you know, like paper cups: do you give paper or glass? Well there's the argument that you use more product, you know, more trees by doing papers but in a drought state like California, where it takes three glasses of water to clean every glass, what's the better choice? Disposable diapers may have less social cost than that. At the same time I think a lot also depends on what your company does, and what you're known for. A lot of it goes back to your brand and what are they buying you for. If they're buying you because you represent a certain thing, it's a lot different if you don't live up to that versus a company that isn't known for it as part of the decision factor. And again, who your target is: if people look at you as tonnage commodity, they really don't care, is still the issue. And it is one of those things, there's a lot of environmentalist who, there's a lot of people who say they are pro-environmental but make horrific choices day to day. Going back to the bottled water example, as a sign of 'I'm environmentally conscious and I do something

that's destructive.' I think what you have to do, and what we certainly most see what other companies do, over and over again, is to try to figure out what the greatest risk are. I will say though, the most popular course we teach is on careful communication and really the biggest risk is what your folks are going to say and who they're going to say it to."

Prof. Alford: "Others?"

Mr. Kiewiet: "That's a leadership issue within any organization of trying to identify that sweet spot where the pursuit of profit blends with doing the right thing, the pursuit of the common good. And, you know, the brand value when you're talking about large corporations by itself is so huge, Coca-Cola, the number-one brand in the world, just the value of the brand, not the bottles, the plants, the factory, the secret recipe, the brand value is sixty billion dollars and so as a trade association, I try to make it clear to our members, that transparency issue comes back to it, of just how important that it is that this thing, with a Coke logo on it, reinforces everything that that Coke brand stands for and similarly one of our members says to Oprah Winfrey account. And we do things like sustainable bags and everything is sustainable and environmentally correct. A brand like Oprah Winfrey cannot afford to have it found out that one of our members sourcing product from child labor or that the ink is damaging to the environment, or anything else. So, the whole issue blends again to trying to find that sweet spot where doing good results in good things."

Prof. Alford: "OK yeah, go ahead."

Mr. Moran: "I was going say, the one reason the environment is a particularly area high risk and low reward to be out doing something socially responsible is because it's historically been very, very cheap to destroy the environment: there's no price tag. You can put it up the chimney and, you know, it goes away. You know, of course, well away is to someone else, a lot of other people. But I think that, you know, we're in a time where the awareness of those kinds is again increasing so much, whether through litigation or property right, changes in property rights, it's going to become more expensive to do the wrong thing. High risk low reward burden will start to shift a lot more, in an area's where it's cheap, and that's why they still exist."

Prof. Alford: "OK, we have about fifteen minutes. We'll open it up to questions and. Speak into the microphone and if you'll identify yourself."

Nick Merriam: "Thank you very much. My name is Nick Merriam, 2<sup>nd</sup> year MBA student out here at Pepperdine Graziadio School. The discussion of values has been very interesting. However, it seems like a discussion that only matters if you have a C in your title. So, as somebody that's going to be re-entering the work force, how do I have an influence on the values of the companies that I go to work for?"

Mr. Lorenz: "I'll take that first, I think that the first priority you have is to choose a company who's value is in line with your own because I would argue that though that C's set the tone, it's the managers, and directors, and coordinators who carry that tone out. And they can either can do well and effectively and represent your company in a good way, or they can do that in a bad way. And it's not just necessarily about my napkins recycled or not recycled, it's how do I interact with

my subordinates. Those are the values that make or break a corporate value cycle.”

Mr. Moran: “I think I’ll tell you from our perspective at Chipotle, we look at each worker as just an unbelievable opportunity. We are, when you have a C in your title and you’re looking to build a company, what you realizes the greatest asset out there, are good people. And that there are a lot of people who are mediocre as a workforce, I mean just lots. In fact, the vast, vast majority of people looking for jobs out there aren’t very good. Not willing to work very hard, not very idealistic, not ambitious, not honest. And so you, as a person who has those qualities, and who has ambition and who wants to do great things, ought to be interviewing the company, pretty darn hard. If you find the right type of company, and you’ll know that pretty quickly after walking in the door by the way interview and probably by who’s interviewing you and what they’re asking you. If you find the right type of company then they’re not going be offended by you interviewing them. They’re not going to be offended by you asking them the tough questions. In fact, they’re going to think, ‘hey, we got someone on our hands, who thinks like we do,’ and they’re going to hire you. So I would start off by not being a bit concerned about putting off a company by challenging them right during the first interview because if they don’t hire you, good for you.”

Ron Shultz: “It’s working? There it goes. My name is Ron Schultz and I’m with, I’m the executive director of Legacy 21. I have a question about the notion you were talking about corporations have to have a higher standard for corporate social responsibility. Is it time that we start moving this conversation from corporate responsibility, which implies compliance, which implies some of these things we’ve been talking about to corporate social performance. Monty, what I think you describing is really an organization really looking at performance. But I think you’re alone. I don’t think there are many out there who are doing it. And I think that if we took the notion of responsibility out of this and added the word ‘performance’ that we’d probably find ourselves in a better situation.”

Mr. Moran: “I think you’re absolutely right. You know, I’m a lawyer and I’ve practiced trial lawyer for a decade or so. As soon as you say the word compliance to me, my lawyer hat says ‘I’ll figure out how to comply, which means I’ll do the absolute minimum to get by.’ Because when we represent clients when they get sued. If you’re representing the defendant, what you’re trying to do is say they didn’t do what. What they did wrong and so you’re finding out a way to position it so it wasn’t really wrong, i.e. you’re trying to do the minimum, all the time. So I think your point is a great point. And that’s exactly what I meant when I was saying setting at a higher standard. We should be educating people about what they don’t know that we’re doing wrong. And then it doesn’t become compliance. People start going, ‘oh my gosh, that’s not in their best interest, therefore I believe them, they have credibility and they’re the one to watch.’ But then you got to perform and that’s the downside of course. But performing as you said about your company, our company, appreciate the compliment. You’re going to set your company apart. So yeah, but I think that’s a much better way to talk about it because compliance is very very limiting, and people are. . . As soon as you say compliance I mean look at the way Sarbanes Oxley rolled out in wake of the Enron disaster. You know Sarbanes Oxley is really, really tough on us, as public companies. The question is, is it as effective at driving positive change as it is

tough on us? Well the answer is, not really. It's this tough on us and it drives that much positive change 'cause immediately seek to do is comply. But it doesn't mean you're necessarily doing the right thing."

Mr. Turteltaub: "If I can add on that, the government's given up on compliance. As much as they pass rules, if you look at the Federal Sentencing Guidelines, if you look at the Department of Justice's principles of prosecution, compliance alone in a strict, legalistic standpoint doesn't hold up. The government has said they want a culture of ethics and compliance; they want a company that's dedicated to this. And if you take a look at things like the stock option scandals, the government's made it quite clear, they don't care if it might technically be legal or not; they just don't find it acceptable. And because of that, again, the bar is raised, but I do think you're absolutely right: unless it gets to be about a business process and a business outcome, no one is really truly invested in it—. Next week we go the Ethics and Compliance Officer Association annual meeting; coincidentally, held this year in Los Angeles. And one of the topics that appear one or two times on the agenda is measuring and metrics. Last, no two weeks ago I was in New Orleans for the Society of Corporate Compliance and Ethics, same thing. Everyone realizing you have to tie it back to the business, somehow, and it can't be about the scandal that didn't occur."