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Corporate Responsibility in the Context of American Firms

Keywords

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Disciplines

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WHARTON SOCIAL IMPACT RESEARCH EXPERIENCE

The following paper explores the topic of corporate responsibility in the context of American financial firms.

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Summer 2011*

The United States of America faces various domestic issues across many spheres. Education, healthcare and unemployment are all large areas of trouble which need to be addressed. The education system in the USA is in shambles. There has been declining enrollment in public schools and the quality of education is subpar relative to other countries around the world, even those with significantly smaller per capita GDP than the United States. In the field of Healthcare, there is great disparity in both access and quality. Healthcare is also constantly in the news, changing and molding depending on government opinions. Additionally, unemployment is at near historical highs right now with over 9% of the country unemployed.

However who will tackle these problems? One would usually point to the government to tackle such issues as their responsibility is to create an environment of order and safety where opportunity is equal for all. But as we've seen in past years the government is often preoccupied with international issues as well as other pressing domestic issues. Additionally, the government has proven itself to be very inefficient due to politics and internal debates. Also budgeting is limited by taxes, a structure that can change greatly from term to term. The public sector suffers from similar findings. If the government isn't a likely source of solutions, one would have to look at the private sector which includes firms and corporations. However the goals and responsibilities of these companies are highly controversial.

There are multiple ways to look at the approaches of for-profit firms in terms of their corporate responsibility. We can think of Corporate Responsibility as a spectrum, in which the most socially responsible firms are on one end and the least are on another. On one extreme of the spectrum we have those firms who have an Obstructionist approach. Here there is an avoidance of corporate social responsibility; managers engage in unethical and illegal behavior that they try to hide from organization stakeholders and society. Second we have the Defensive approach, when a firm strictly does what it needs to in order to adhere to the law. So legality is the prime concern. The third approach is the Accommodative approach. In this approach managers make choices that try to balance the interests of shareholders with those of other stakeholders. And lastly, the most socially aware approach is the proactive approach. In this case, managers go out of their way to actively promote the interests of stockholders and stakeholders, using organization resources to do so. These days, there tends to be a heightened awareness and appreciation for firms that lie towards Accommodative and Proactive.

But even so, there still tends to be a large amount of criticism towards companies engaging in corporate responsibility. This is particularly apparent in the financial industry. This past year alone there have been various demonstrations of this. The most apparent was the Occupy Wall Street movement that was so widespread and followed that its strategy spread to other demonstrations including an Occupy Philadelphia movement. Regardless of past corporate responsibility efforts, in which the financial industry is

heavily involved, the association with an elite class of society has certainly hurt how people perceive such firms. So is corporate social responsibility not a good way to counter this attitude? Does it help with public image and branding?

In essence, why do most involved US financial firms have negative public images despite broad corporate responsibility efforts? There are three main reasons why this occurs. The first is that there is a clear difference between international and domestic efforts. United States companies accumulate the vast majority of their revenues domestically from business with other American firms rather than internationally. Similarly international firms operating in the United States, most notably European Banks, have larger amounts of business in the European Union. Therefore you would expect such companies to reinvest the money into the areas which they are most prominent. However, American firms focus mainly on international efforts rather than domestic efforts. When we look at five major American financial firms, including Goldman Sachs, JP Morgan, Morgan Stanley, Bank of America and Lazard, this trend becomes quite apparent.

Goldman Sachs is famous for their philanthropic efforts towards small businesses as well as their support to women and other minority groups. However such support is not concentrated in the United States. They have four major outreach programs – 10,000 Women, 10,000 small businesses, Goldman Sachs Gives and Community Teamworks. Two out of these four programs are exclusively based internationally and another one of these ventures has 60% of its work focused on international work. 10,000 women is a program

that focuses on providing women with opportunities that they would usually not be exposed to such as supporting financial ventures or providing seed capital to female entrepreneurs. However, it looks at emerging economies such as India, Eastern Europe, Brazil and Russia to find its women sponsors. This seems to be a bit odd because in the United States women are also marginalized to a certain extent, especially in the work force as they are usually paid less than men even when both have the same job position. *Goldman Sachs Gives* also falls into a similar trap. *Goldman Sachs Gives* is a program which works on various projects throughout the world, with the vast majority of them in Asia and Africa. While there are a couple of American projects, it has been a trend to have a featured project in Africa, this year in East Africa partnered with the UN. The third program Community Teamworks is for Goldman Sachs employees, encouraging them to take part in community service initiatives. However even here, with most of Goldman Sachs employees being based in the States, still 60% of the work is internationally based. Only the last program, 10,000 Small Businesses, is a US based program and even so many people that I had interviewed felt that such programs are US based simply due to political and legal issues abroad. If such barriers did not exist, perhaps even this program would be foreign- based. JP Morgan is another firm that has a heavy international focus. None of their social work is US specific; however there are numerous internationally specific programs such as for education. Additionally JP Morgan has a specified Global Giving program. Morgan Stanley also stands in a similar place with seven different service categories, including Environment, Social

Finance, and Global Children's Health. Out of all of these only one is US based with the others geared towards developing and third world countries. Lazard and the Bank of America also stand in the same place.

These findings pose a serious issue because it appears as if companies are not concerned about domestic issues despite the fact that so many exist and despite the fact that these companies are the best equipped to tackle such issues. As was shared in the first paragraph the government will be too inefficient and slow to solve these problems. To the public, the idea of social responsibility is not being seen from these companies because they are being done outside of the domestic public's eye. Therefore branding and public image is continuing to be tarnished despite these well-mannered attempts to help out those less fortunate. There needs to be a reversal of where money is allotted, as it should be reinvested into the United States so that the "99%" can see that financial firms can also be philanthropic and responsible.

The reason that companies donate abroad is because the impact of a dollar will go farther internationally as opposed to domestically. A dollar in the USA can barely buy a pack of gum such as Juicy Fruit. However the purchasing power parity of a dollar is very high in developing countries. In Vietnam, a dollar can buy three pairs of sandals. In Kenya it can afford up to eight cups of milk, an important commodity in such a malnourished country. In India, it can provide medical needs such as half a unit of Blood Transfusion and in Ghana it provides a whopping 87 tablets of Penicillin. Additionally long term costs are

also very low in such countries. For instance, “A family of four interviewed in rural Bangladesh calculated that they spent about 80 cents a day on food and fuel, which allowed them to buy and cook two meals of rice and beans, and the very occasional piece of meat. Medical costs were about 3.3 cents a day (\$12 a year), mainly on cough and cold medicines. Other expenses included 4.1 cents a day on clothes (\$15 a year), and 1.6 cents on school books (\$6 a year).”

Second is the fact that companies lack community partnerships that are meaningful and strong. After having worked one summer in leveraged finance, I realized that charity and community service work planned by financial companies are not intended to truly help the community. Instead, they are meant to be a publicity stunt to gain a positive image amongst the locals. After interviewing dozens of students, it was very apparent that community service was not an effective medium of social change. All the first year and summer analysts who had been interviewed said that they had done volunteer work within the past year but only for 1 to 2 days, as was required by the company. Additionally, most of the projects involved manual labor and inanimate objects instead of forming a relationships and bonds with local institutions. There was clearly a lack of a personal element. Additionally, past the analyst level few employees engaged in corporate responsibility efforts and those that did rarely did so through the company. Such execution has limited effects.

Third, companies often engage in corporate social responsibility for superficial selfish reasons rather than for altruistic reasons. While this is clear through the interviews of various analysts, it is also very clear from analyzing the mission statements across three different financial firms, Goldman Sachs, JP Morgan, and Morgan Stanley, all sharing similar trends. Goldman Sachs has four different goals. First it wants to align the core business with economic growth. Second the firm wants to establish networks. Third it wants to measure results properly and lastly it wants to work on developing its people. When looking at these it is very clear that financial growth is the end goal. Even things such as “establishing networks of nonprofit and educational partners,” is to better Goldman’s own experience. Similarly at JP Morgan there are three main categories in the mission statement. The first is community the JP Morgan community must encourage, sustain and develop economic self-reliance. Second is education so that it can have high quality employees and lastly are the Arts and Culture so that the firm can help enrich communities. The last company is Morgan Stanley which has two main statements. Firstly it wants to provide superior service to its clients, employees and communities. And secondly it wants to have a positive contribution to society. It seems that Morgan Stanley’s viewpoint varies from the first two, but even Morgan Stanley is actually concerned about the success of its company. Therefore all three mission statements have an economic tilt to them and they are closely tied to the company’s Core business. There is no clear distinction made between domestic and international efforts. In essence the companies are aligning its core and

periphery operations with one another and abiding by the Practical Rule which was discussed earlier.

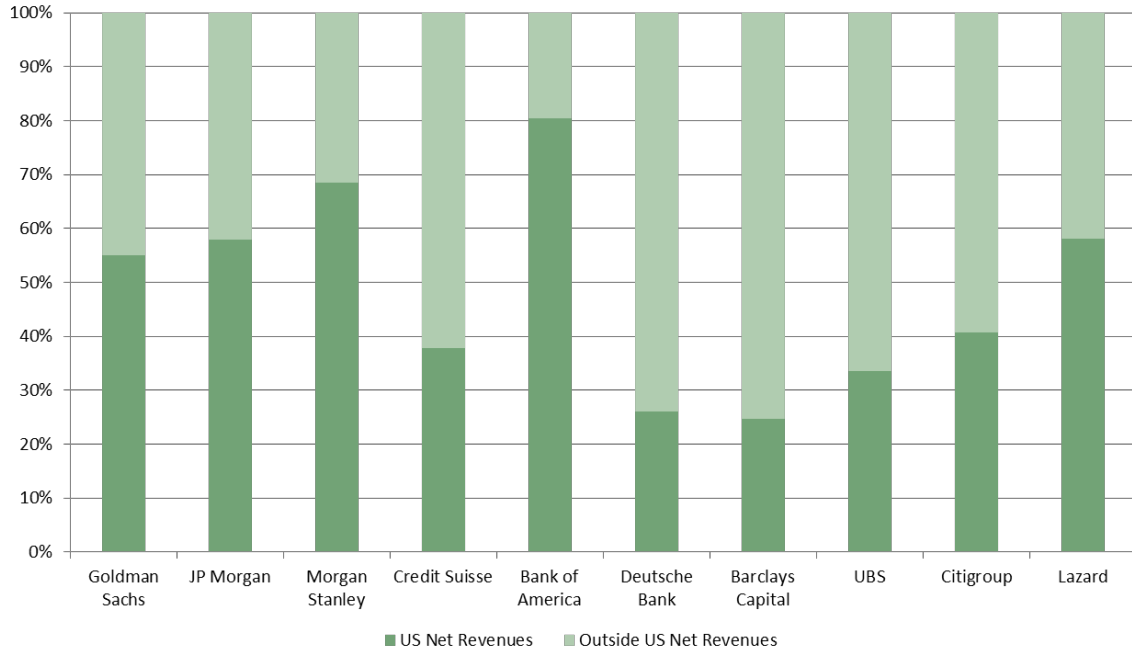
We notice a difference in ideas from when a firm has temporary employees to full time employees in terms of how their company is engaging philanthropic efforts. When interviewing most summer analysts and younger employees, there was an overarching sentiment that firm wide philanthropic efforts were not effective. At Goldman Sachs one first year analyst said “While the action day was good in spirit, the well intentioned news reporter and matching attire were unnecessary.” Similarly at JP Morgan a summer analyst said “Of course we’re all coming together for a cause but it would benefit both the company and ourselves if we were able to actually use our mind during the day. That’s why we were hired, right?” And lastly, a second year analyst at Morgan Stanley said that during community service he would “like to interact with people, not things.” All of these point towards the fact that these employees easily see through the façade of community service and can realize the root of the problem—these efforts and events are very empty. There needs to be a move of such community betterment projects from those that are very orchestrated, for branding, involve little human interaction, not full utilizing resources to one that is less selfish in nature. One interesting trend is that as we move farther from the company, the image of the company is perceived as less positive. For instance, full time employees and those that have been at a company for years will have a very optimistic and positive attitude towards their Corporate Responsibility efforts. Young employees like those interviewed and surveyed will be relatively pessimistic as they have not been

acclimated to the culture yet and lastly the public will be very pessimistic of the finance industry.

After gathering and analyzing all of this data it is very clear that certain companies engage in Corporate Social Responsibility mainly to improve their brand image. However such efforts fail to fix the poor portrayal of the financial industry domestically because of international focus, poor local relationships and selfish motives. These firms will always be looked at with a close eye until they shift CSR efforts to the United States and improve their CSR programming.

Appendix:

AMERICAN FINANCIAL FIRMS HAVE SIGNIFICANTLY HIGHER REVENUES FROM DOMESTIC BUSINESS



There is a clear discrepancy between US and non-US firms

BELOW IS INFORMATION REGARDING CORPORATE RESPONSIBILITY EFFORTS AT VARIOUS FIRMS

