

Safety codes get taken seriously

Continued from 1B

Mattel is one of many U.S. corporations taking social responsibilities more seriously in foreign markets, from the rain forests of Asia to civil-war-torn Africa. As Yahoo, Google and other Internet giants face harsh criticism for their business practices in China, more companies realize it's smart business to be good corporate citizens in the exploding global economy.

Cover story

Companies have come a long way since the 1980s, when public outrage against apartheid forced many to withdraw their investments in South Africa, and the 1990s, when apparel and footwear companies were attacked for sweatshop labor conditions in suppliers' plants.

In earlier decades, businesses viewed such issues — known as corporate social responsibility, or CSR — as annoyances. Corporations closed ranks when attacked by labor and human rights activists and environmentalists.

Now CSR practices play a key role in business strategy. Companies are closely monitoring their supply chains. They're teaming with activists and government officials to tackle problems. Manufacturers such as General Electric and Ford Motor are investing billions of dollars in energy-saving products and plants.

"Ten years ago, only a handful of companies looked seriously at this," says Bennett Freeman, a former State Department official who is managing director at the Burson-Marsteller public relations firm. "Now, every major company has to act on the issue. It's a business imperative."

Harsh realities

The global economy is forcing U.S. multinationals to deal with harsher social and political realities, from civil violence in Nigeria to the dictatorship in China. Activists continue to pressure companies to conduct business with a conscience. Companies also fear bad publicity and legal woes, such as lawsuits filed by labor lawyers against Coca-Cola, ExxonMobil and other companies, accusing them of complicity in human rights abuses abroad.

Not all executives, though, think that corporate social responsibility is a business priority. Companies can do little when faced with civil wars and authoritarian regimes, and it's near-impossible to police the many thousands of contractors in worldwide supply chains.

But corporations clearly are moving on the issue by adopting:

► **Codes of conduct.** About 2,000 companies have joined the United Nations Global Compact, which urges businesses to embrace labor, human rights and environmental practices, from banning child and forced labor to using environmentally sound technologies.

Hundreds of company and voluntary industry codes also have sprung up in apparel and toy manufacturing, electronics, jewelry, the coal, nuclear and chemical industries and other sectors.

Critics say companies have little incentive to obey the codes. Manufacturers, for instance, didn't lessen pollution until they faced stiffer environmental laws and criminal prosecution.

"Most companies are getting a free pass with these codes of conduct," says Terry Collingsworth, an attorney at the International Labor Rights Fund.

But supporters say the codes — such as the electronic industry's backed by Intel and other high-tech titans — give U.S. companies standard manufacturing and workplace rules amid conflicting international laws.

"They're a good first step," says Aron



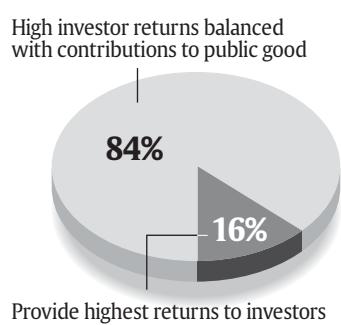
2003 photo from Mattel

Cars to go: Workers make Hot Wheels cars at a Mattel facility in China. Mattel sends inspectors to its 300 manufacturing sites in China, Mexico, Indonesia and other countries to check safety conditions and make sure employees are treated well.

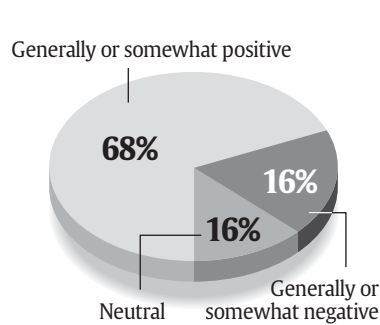
Businesses accept social responsibility

Business executives around the world say that corporations need to be responsive to shareholders and contribute to the public good. Responses to the following questions:

Which statement best describes the role that large corporations should play in society?



Which statement best describes the overall contribution that large corporations make to the public good?



Source: McKinsey Quarterly survey of 4,238 global business executives in 116 nations conducted in December 2005

By Frank Poppa, USA TODAY

Cramer, president of Business for Social Responsibility, a non-profit group of corporations. "Now an army of people around the world are reviewing factories and improving work conditions."

Home Depot polices itself. Since the late-1990s, the company — which sells 8,000 wood products — has stopped buying from suppliers who get wood from endangered trees and rain forests.

The company spends more than \$400 million a year on so-called certified wood approved by industry environmental standards, says Home Depot Vice President Ron Jarvis.

► **Social goals that boost business.**

In 2004, business professors Frank Schmidt and Sara Rynes at the University of Iowa looked at 52 studies on corporate social responsibility over 30 years. They found that well-run, profitable businesses also boasted solid social and environmental records.

"Socially aware companies add value to their products and services," says CEO Jeffrey Hollender of Seventh Generation, a natural home-products firm.

Companies are setting benchmarks for performance on social issues. Like Seventh Generation, Mattel and Cisco Systems, they're putting out "corporate responsibility" reports similar to annual financial reports.

Hoping to spark local economies in countries where they do business, Cisco and other firms are investing heavily in education and job training in Africa, Asia, Latin America and the Middle East.

Over the past decade, Cisco has poured \$250 million into computer-network training programs with 220,000 graduates in developing nations, says Tae Yoo, a Cisco vice president.

FedEx, working with non-profit Environmental Defense and industrial manufacturer Eaton, is betting good environmental practices will pay off.

Two years ago, the delivery company launched a pilot project using 20 hybrid electric trucks in New York, Sacramento, Washington and Tampa. The goal: to slash smog-causing emissions by 75%

and get 50% more travel on the same amount of diesel fuel.

If all goes well, FedEx will use hybrid trucks to replace aging vehicles in its fleet of 30,000 delivery trucks in the USA and Canada, says FedEx environmental head Mitch Jackson.

"Companies come into this with a lot of cynicism," says Gwen Ruta at Environmental Defense. "Once they study the issues, they see it's a huge business benefit and the right thing to do."

Critics such as David Vogel, a University of California, Berkeley, business professor and author of *The Market for Virtue*, says corporate social responsibility is overrated. Investors don't care, and consumers won't pay higher prices for environmentally safe goods.

"Companies will make the world a better place as long as it doesn't cost too much," he says. "That's the limit of corporate responsibility."

► **Better monitoring.** A decade ago, U.S. companies had few people to inspect thousands of manufacturing sites. Their superficial audits "didn't get at the root causes of problems," says Aurret van Heerden, executive director of the non-profit Fair Labor Association.

Today, Van Heerden says, more corporations are strengthening their monitoring and teaching suppliers how to better run their plants and manage workers.

The Fair Labor Association estimates that 30 or 40 companies — including Reebok, Patagonia, Liz Claiborne and Phillips-Van Heusen — now have rigorous, first-class audit programs.

Mattel sends inspection teams to some of its 300 suppliers' sites in China, Indonesia and other countries. Armed with a 50-page checklist, they eyeball safety conditions, interview workers and ensure employees are treated well.

The audits — by Mattel and Prakash Sethi, a business professor at Baruch College and founder of the International Center for Corporate Accountability — praise some plants but warn others to shape up or lose Mattel's business.

"It's not empty rhetoric," Sethi says.

"Vendors have a financial incentive to comply with Mattel's codes."

Nike also is a seasoned veteran of audits. In the 1990s, the company was a favorite target of activists because of foreign sweatshops run by its suppliers.

Now Nike inspects many of its 1,000 suppliers' factories worldwide. It grades them from A to D and warns poorly run sites to improve or get dropped, says Nike Vice President Dusty Kidd.

"Beyond the policing," Kidd says, "factories need to manage their work and manage it well."

That's no easy task — especially in countries with authoritarian regimes. Look at the problem facing Yahoo, Google, Microsoft and Cisco Systems, which were blasted last month by Congress and human rights groups for their Internet and sales practices in China.

Critics accuse the companies of compromising their values so the Chinese authorities will let them operate in the huge market. Despite the growing number of U.S. companies there, labor conditions and violence against workers have worsened, charges Sharon Hom, executive director of Human Rights in China. "Their presence alone will not lead to improvements," Hom says.

A fundamental purpose

The Internet companies disagree. "We take our ethical and moral issues super-seriously," says Andrew McLaughlin, senior policy counsel at Google. "As an information company, freedom of speech and expression are fundamental to our purpose."

Google protects the confidentiality of users from the Chinese government and also tells users when a search result on google.cn.com, the company's Chinese website, is being censored.

The Internet companies also are consulting with human rights groups, U.S. government officials and scholars to draw up business guidelines for China.

Companies are doing the right thing by staying in China, says Edward Ahnert, a business professor at Southern Methodist University and former president of the ExxonMobil Foundation. "Engaging the Chinese is better than shunning them," he says.

Reebok, for instance, is trying to improve the lot of Chinese workers. The company runs democratic-style elections in seven factories, with employees enthusiastically joining committees that work with management.

Reebok Vice President Doug Cahn says the company has shown "that workers' voices could be heard in China." The long-run goal: more worker-management collaboration in all of Reebok's 160 supplier factories in China.

As the China debate heats up, it's clear that companies' social responsibilities will loom larger everywhere as international trade grows.

"We're drafting rules of the road in the new global economy," says Michael Posner, executive director of Human Rights First. "We've made progress, but there's still a long way to go."

Lucent, Alcatel consider second attempt to merge

Action mirrors trend in industry

By Leslie Cauley
USA TODAY

NEW YORK — Leverage.

In a word, that's why telecom equipment makers Lucent and Alcatel are considering marriage. The companies confirmed late last week that they are in merger talks, marking their second attempt in five years to combine.

Telecom

Consolidation elsewhere in the telecom industry is a key driver.

In the past decade, the seven regional Bells have dropped to three. Of the big three long-distance carriers, only one — Sprint — is still independent. SBC bought AT&T and named the new company AT&T. Verizon bought MCI.

The story is much the same in the U.S. wireless industry. The No. 1 and No. 2 players — Cingular and Verizon Wireless — are owned by AT&T and Verizon.

AT&T recently announced plans to buy BellSouth, which owns 40% of Cingular. Once that \$67 billion deal closes, AT&T will own all of Cingular.

Equipment makers such as Alcatel and Lucent are slowly being overshadowed by their far bigger customers. To maintain clout at the negotiating table, equipment makers need to get bigger fast.

"The bigger the (telecom) carriers become, the power shifts more to the customer," says Ping Zhao, a senior telecom analyst at CreditSights.

AT&T is the USA's biggest telecom with more than \$100 billion in annual revenue. Verizon is No. 2, with about \$90 billion in annual revenue.

Lucent, which for decades was owned by AT&T, pulled in \$9 billion last year. Alcatel, based in France, had revenue of about \$16 billion.

When Alcatel tried to buy Lucent before, the deal fell apart amid disagreements about control. Alcatel wanted management control and to fill key positions with its own people; Lucent objected.

Lucent's value has fallen sharply since then. Its shares closed at \$3.06 Friday, up 24 cents, or 8.5%.

What hasn't changed is Lucent's closeness with the U.S. telecom industry because of its roots in the old Bell System.

That might be the biggest draw for Alcatel, says George Calhoun, a professor of business and technology at the Stevens Institute of Technology. "They've been trying for 20 years to penetrate the U.S. market, and they really haven't done that."

SEC targets scams aimed at seniors

By Greg Farrell
USA TODAY

The Securities and Exchange Commission, which has had its share of dust-ups with state regulators in recent years, has launched a nationwide program to work with local regulators to combat what it sees as a rising wave of fraudulent investment scams being pitched to older Americans.

SEC Chairman Christopher Cox, in a speech Friday to the Consumer Federation of America, said that with baby boomers turning 60, protecting seniors from investment scams was an issue of mounting concern.

"The impending retirement of the baby boomers will mean that very soon, the vast majority of our nation's net worth will be in the hands of the newly retired," he said. "Scam artists will swarm like locusts over this increasingly vulnerable group."

Cox said that the SEC's regional offices would work closely with state and local law enforcement, sharing intelligence to identify which individuals or groups might be "preying" on seniors. Such efforts are already underway in California and Florida, Cox said, with a special emphasis on investment seminars that entice attendees with the promise of a free meal.

In recent years, more and more of these so-called free lunch seminars have been exposed as high-pressure sales pitches designed to get older Americans to put their assets into unsuitable investment programs, such as annuities. "The SEC's experience thus far tells us that these sales pitches are anything but 'free,'" Cox said. "They come at a very high cost."

The SEC's growing interest in the subject is good news, says Patricia Struck, head of the North American Securities Administrators Association.

"This is an area that will remain one of the hottest topics for the next several decades," says Struck, who also is Wisconsin Securities administrator. "You can't possibly have too many cops on the beat here."

Reflecting that concern, the Senate Committee on Aging plans to hold hearings on the matter this week.

Contributing: Kathy Chu