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DEPARTMENTS OF STATE, JUSTICE, AND COMMERCE,
THE JUDICIARY, AND RELATED AGENCIES
APPROPRIATIONS FOR 1978

GOVERNMENT

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

SECOND SESSION

SUBCOMMITTEE ON THE DEPARTMENTS OF STATE, JUSTICE, AND
COMMERCE, THE JUDICIARY, AND RELATED AGENCIES

JOHN M. SLACK, *West Virginia, Chairman*

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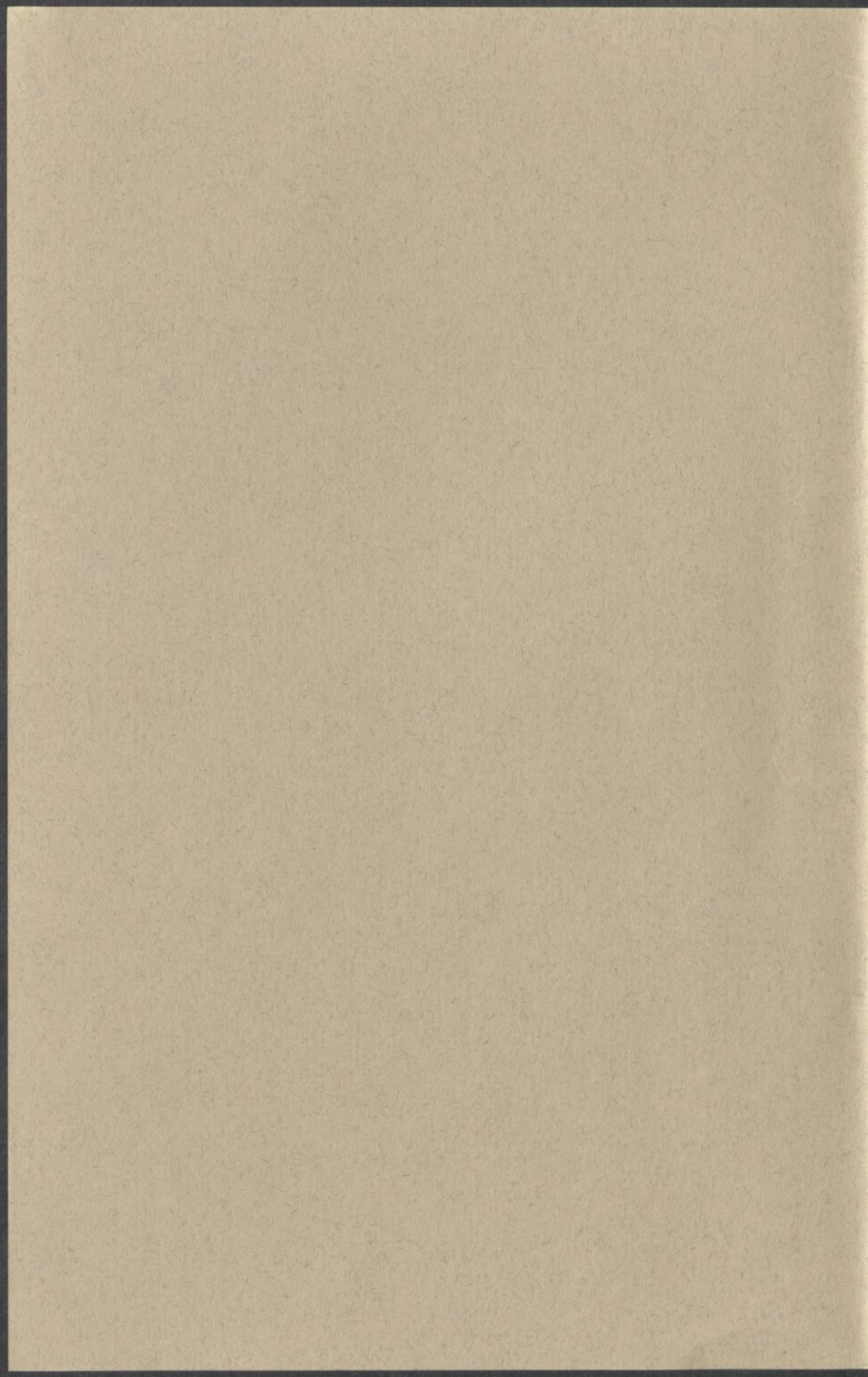
DEPARTMENT OF COMMERCE

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THE JUDICIARY, AND RELATED AGENCIES
APPROPRIATIONS FOR 1978

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WASHINGTON : 1978

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**DEPARTMENTS OF STATE, JUSTICE, AND COMMERCE,
THE JUDICIARY AND RELATED AGENCIES APPRO-
PRIATIONS FOR FISCAL YEAR 1978**

MONDAY, JANUARY 23, 1978.

DEPARTMENT OF COMMERCE

**PROPOSED REPROGRAMING FOR CORPORATE SOCIAL PERFORM-
ANCE PROGRAM**

WITNESSES

**ELSA PORTER, ASSISTANT SECRETARY FOR ADMINISTRATION
HOMER E. MOYER, JR., DEPUTY GENERAL COUNSEL**

CORRESPONDENCE CONCERNING REQUEST

Mr. SLACK. The committee will please come to order.

The committee is meeting this afternoon to consider a reprogram-
ing request of the Department of Commerce to establish a corporate
social performance program. This request was submitted to the com-
mittee in a letter dated November 18, 1977, and would involve
a total of \$428,000. We shall insert the letter in the record at this
point as well as my letters of response dated December 1, 1977, and
December 15, 1977.

[The letters referred to follow:]

(1)



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Administration
Washington, D.C. 20230

18 NOV 1977

Honorable John M. Slack
Chairman, Subcommittee on State,
Justice, and Commerce, the
Judiciary, and Related Agencies
Committee on Appropriations
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The purpose of this letter is to seek your concurrence in a reprogramming which would make it possible to implement a program to enhance Corporate Social Performance in this country. The Department is proposing to devote a total of \$428,000 to carrying out a series of actions first discussed by Secretary Kreps in a speech at Durham, North Carolina, October 19.

Corporate Social Performance refers to the way in which business decisions impact on society. The Secretary announced six components to the Commerce efforts to enhance corporate social performance. These are to:

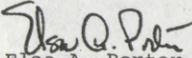
- o develop and publish a Social Performance Index to give companies a way to appraise their own operations and then to publish the results of these appraisals;
- o conduct a series of regional conferences early in 1978 to discuss successful management models already in use;
- o establish a Secretarial Task Force to deal on a continuing basis with corporate social performance issues;
- o establish a commission to investigate ways of involving business in alleviating the problems of structural unemployment;

- o expand ongoing regional seminars on "Pollution Prevention Pays" in cooperation with the Environmental Protection Agency; and
- o communicate with the public on corporate progress in social performance.

Funds are being requested to perform the first three components; the remainder will require no additional resources. A total of \$302,000 is required for contracts to develop the Social Performance Index and conduct the regional seminars; \$126,000 will be necessary to provide staff support to the Secretarial Task Force. It is proposed that the entire \$428,000 be taken from the Secretary's Reserve. Secretary Kreps is making a substantial commitment of her own time to this Departmental effort as will other Department officials.

You will find additional information in the enclosed data sheet. My staff and I will be glad to answer any questions you may have.

Sincerely,



Elsa A. Porter
Assistant Secretary
for Administration

Enclosure

DEPARTMENT OF COMMERCE

Notification of Proposed Reprogramming

FY 1978

Operating Unit: General Administration
 Account: Consolidated Working Fund

FISCAL SUMMARY

| | (Thousands of Dollars) | |
|---|------------------------|---------------|
| | <u>Perm. Pos.</u> | <u>Amount</u> |
| 1. <u>Reprogrammed from:</u> Secretary's 1% Reserve..... | ... | -\$428 |
| 2. <u>Reprogrammed to:</u> Corporate Social Performance..... | ... | +\$428 |

DESCRIPTION/JUSTIFICATION

The reprogramming of funds provides for implementation of the Department's initiatives to enhance Corporate Social Performance. The resources would be used principally in three areas:

1. Provide staff support for a Secretarial Task Force. This task force will deal on a continuing basis with corporate social performance issues. It will direct the Commerce program and coordinate future initiatives with the business community.
2. Provide resources to develop and publish a Social Performance Index which will give businesses a way of appraising the social effects of its business operations. The Department will then compile the data and publish it in order to make it widely available. By assisting businesses in evaluating their own performance, the Department can help to ensure that corporations get credit for their constructive actions. The index will also allow companies who are leaders in promoting the public interest to bring about improvement in the behavior of other firms.
3. Provide resources to conduct a series of regional conferences early in 1978. These Conferences will discuss a number of Management models that have successfully incorporated social issues into regular decision-making.

The funds would be made available from the Secretary's 1% Reserve from the following bureaus:

| <u>Bureau</u> | <u>Amount</u> |
|--|---------------|
| General Administration..... | \$29,000 |
| Bureau of the Census..... | 167,000 |
| Domestic and International Business Administration..... | 110,000 |
| Minority Business Enterprise..... | 21,000 |
| United States Travel Service..... | 26,000 |
| Maritime Administration..... | 75,000 |
| Total..... | 428,000 |

The funds are currently available in the Reserve and should have no adverse effects on other departmental programs.

If the money is not reprogrammed, it will not be possible for the Department to pursue a vigorous program to enhance corporate social performance in this country. Specifically, it would not be possible to develop and publish a Social Performance Index which would provide a uniform way for assessing performance, nor would it be possible to hold regional conferences allowing firms to learn about the successful practices of leaders in corporate social performance.

December 1, 1977

Honorable Juanita Kreps
Secretary of Commerce
Washington, D. C.

Dear Madam Secretary:

I am writing to you in reference to the letter of the Assistant Secretary for Administration dated November 18, 1977 which requested concurrence in a reprogramming of funds for a Corporate Social Performance program.

After reviewing the proposal outlined in Mrs. Porter's letter, I believe that all of the Members of our subcommittee should have the opportunity to look at this program in detail before any approval for a reprogramming is given. I think you will agree with me that this is a sensitive area and ~~wae~~ that has generated some legitimate and serious questions from businessmen, editorial writers and others. Consequently, I would suggest that you not proceed with this project until the subcommittee has had a chance to review the proposal in the course of a hearing.

We expect to begin our hearings on the fiscal year 1979 budget shortly after the second session of the 95th Congress convenes in late January. While it would be appropriate to consider this matter during our hearings on the Department of Commerce budget since the proposal appears to have ongoing budgetary requirements, we would be pleased to consider this item in a special hearing at an earlier time in the hearing process.

With best wishes.

Sincerely,

JS
John Slack
Chairman
State, Justice, Commerce and
Judiciary Subcommittee

December 15, 1977

Honorable Juanita M. Kreps
Secretary
Department of Commerce
Washington, D. C. 20230

Dear Madame Secretary:

This is in further reference to the November 18 letter from the Assistant Secretary for Administration concerning a Corporate Social Performance Program.

By letter of December 1, I suggested that you not proceed with the project until the subcommittee had had an opportunity to review the proposal in the course of a hearing. After further consideration and consultation, I have no objection if you wish to proceed now with plans for conducting regional conferences. It is my understanding that these conferences are not directly related to the contemplated Social Performance Index.

I know such conferences require a great deal of advance planning and arrangements have to be made well in advance. I would suggest, however, that you adopt a "go slow" approach on these conferences until our subcommittee reviews the whole program to enhance Corporate Social Performance. We would like to hold a hearing on this matter shortly after the convening of the 2d Session of the 95th Congress. The subcommittee staff will be in touch with the Department very soon to arrange for such a hearing.

With best wishes.

Sincerely,


John Stack, Chairman
Subcommittee on State, Justice,
Commerce and the Judiciary

GENERAL STATEMENT

Mr. SLACK. We are pleased to have with us today the Honorable Elsa A. Porter, Assistant Secretary for Administration, who has a statement concerning this request.

Will you please proceed in your own way, Madam Secretary.

Ms. PORTER. Thank you very much, Mr. Chairman, Mr. Smith, and Mr. Cederberg. We appreciate this opportunity to appear before you to talk about the Department's plans with regard to corporate social responsibility. I want to thank you very much for scheduling this hearing so early in the session. Secretary Kreps has prepared a statement setting out her position on the Department's role in this area which we would like to submit for the record.

[The statement referred to follows:]

STATEMENT OF SECRETARY OF COMMERCE
JUANITA M. KREPS
FOR THE
STATE, JUSTICE, COMMERCE, AND JUDICIARY SUBCOMMITTEE
OF THE HOUSE COMMITTEE ON APPROPRIATIONS

January 23, 1978

Thank you for the opportunity to discuss the subject of corporate social responsibility and performance. I wish to give you a report on the Department's efforts, summarize our future plans, and place our efforts in a broader context.

Perhaps the best way to begin is to explain what we mean when we speak of corporate social responsibility and performance. The concept of corporate social performance has borne many labels, some of which have acquired their own distinctive connotations. All, however, relate to the same objective: encouraging corporate action that more fully takes into account the human, environmental, and social effects of business operations. The primary objective of every corporation must remain, of course, to be a healthy economic enterprise, producing needed goods and services and earning a profitable return on investment. We also

recognize, however, that in the process businesses have a profound impact on society as well -- employees, consumers, neighboring communities, other businesses, and the natural environment. It is efforts to deal with these ancillary effects to which the term corporate social performance refers.

Public Support for Improved Performance

The public view is that corporations could do much more to protect and serve the public interest. In a 1975 Peter Hart poll 49 percent agreed that "big business is the source of most of what's wrong in the country today." A 1977 Harris Survey reported that consumers believe they are consistently shortchanged on product quality, safety, repairs, and guarantees; that manufacturers do not really care about the consumer; and that business is responsible for a decline in the quality of life in America. Only last week, a CBS-New York Times poll reported that half the public believes that the energy crisis, far from being real, was manufactured to increase prices and profits of the oil companies.

Given these attitudes, it is not surprising that in the last 15 years Congress has enacted -- by conservative count -- more than 150 major pieces of legislation regulating or restricting business activities as they affect society. Federal standards and regulation are an emphatic manifestation of public concern with business social performance.

Business Concern for Improved Performance

Many corporations have responded to -- and sometimes anticipated -- public concern with social performance. Their response reflects a growing view in the business community that companies cannot operate without regard to the social impact of their operations. As John W. Filer, Chairman of Aetna Life and Casualty, recently emphasized, "Large corporations can no longer be single purpose institutions directed solely to economic results. All must . . . be visibly attentive to the public -- to the public interest as the public views it."

Walter A. Haas, Chairman of Levi Strauss & Co. makes the point similarly:

We believe that a corporation must become actively involved in facing and solving the social problems of America. Today's corporation must develop practical means of giving human needs the same status as profit and production. . . . In the long run, this new task of the corporation will be in its own best interest, since it cannot prosper as fully or as long in a society frustrated by social ills and upheaval.

The views of these corporate leaders echo the 1971 report of the Committee for Economic Development, a group of leading business executives and educators, which concluded "Business is being asked to assume broader responsibilities to society than ever before and to serve a wider range of human values . .

Accordingly, the past 15 years have seen corporations devote dramatically increased attention to social responsibility. Last year, 456, or 91.2 percent, of the Fortune 500 industrial firms published information about social performance in their annual reports, according to an Ernst & Ernst survey. This is nearly twice the number of firms that did so in 1971.

In short, the public has demanded, and business leaders have recognized, that American corporations must carefully consider the social impact of their operations.

Benefits to Business

Improved corporate social performance is more than good public relations; it is in the economic self-interest of business.

First, corporate actions which improve social performance often improve profitability, even in the short run. Energy conservation reduces costs, while saving energy. Improved quality of working life can increase productivity and reduce absenteeism. Improved product safety means fewer product liability claims and judgments. Improved warranties and effective consumer grievance mechanisms can enhance consumer loyalty and improve sales. Even in the pollution control area -- often associated with large dollar costs -- we have

seen examples of how aggressive pollution prevention actions within the manufacturing process, rather than at its end, can simultaneously improve pollution control, increase efficiency, and enhance economic performance.

Second, even where improved corporate social performance does not yield immediate economic benefits, it builds long-term public goodwill, consumer trust, and employee morale, all of which are valuable business assets. In so doing, it enhances long-term profitability and strengthens the free enterprise system.

Third, improved social performance may help curb the tendency toward more and more government regulation. Adverse public opinion, as the Chairman of General Motors, Thomas Murphy, has pointed out, "is the antecedent of government regulation." As business people are painfully aware, increased government regulations often translate directly into substantially increased business costs.

The time may well be at hand when we should reexamine the government's regulation reflex -- the tendency to respond to each newly-perceived social problem in the economic area by enacting yet another piece of regulatory legislation. There is obvious merit to the business claim that government regulation has become massive, bureaucratic,

and enormously costly. Its effectiveness is increasingly being questioned even by some of its traditional advocates. However, we cannot responsibly complain or effectively call for less government regulation without also addressing those social issues that prompt calls for regulation.

We clearly should not look to business for the solution to all our social ills. However, to the extent business helps deal with issues that might otherwise prompt government regulation, it also serves its own economic interests.

Public Benefits

Increased attention to the social impact of business operations has obvious public benefits. The social impact of American business is enormous. Each of the top 50 industrial corporations in the United States has total sales which exceed the total revenues of any one of 39 states, and the GNP of 126 nations. When such corporations voluntarily pursue social objectives, they can supplement and strengthen government and private sector efforts, by bringing new leadership, managerial talent, creativity, and innovation to bear in solving problems that affect the quality of our lives.

Commerce Department Efforts

Corporate social performance is not a new concern to the Commerce Department. In 1961, Secretary Hodges organized the Business Ethics Advisory Council, the principal purpose of which was to establish high corporate standards of ethics and social responsibility. In 1968, the Department spearheaded a government effort resulting in the establishment of the National Alliance of Businessmen, the purpose of which was to promote business hiring of the hard-core unemployed. In 1971, the National Business Council for Consumer Affairs was formed as a Department advisory council to aid businesses in alleviating consumer concerns. It generated landmark guidelines on key issues of business-consumer relations, many of which are still in use. More recently, Secretary Richardson established an advisory council drawn from the leadership of business, labor, education, and consumer groups, to review corporate responsibility and other public policy issues.

In my own confirmation hearings, I noted that "American business today is heavily dependent on the society that surrounds it, on capital, labor and customers; that is to say, that American corporations have a tremendous stake in the well-being of American society." I further pledged that I would participate actively in developing a "system of incentives to encourage further contributions by the private sector to the satisfaction of public needs."

To these ends, I have announced a number of new social performance initiatives. In addition to the creation of an internal Department task force, to be supported by a small, professional staff, I announced two particular projects.

Regional Conferences

The first is a series of regional conferences to discuss management systems and techniques which some companies have successfully used to integrate social considerations into corporate decisionmaking. These conferences will allow business leaders to describe their experiences in developing management models, followed by workshop sessions at which specific problems can be discussed and related to individual businesses. These conferences, under the sponsorship of the Department, will be managed by a contractor experienced in working with businesses on this subject and will focus exclusively on the internal management process, the procedures and planning that are generally agreed to be essential to improving social performance. We expect them to provide valuable information to the participants and help refine workable management models that can be used flexibly in the business community.

Improving Social Measurement

Second, we should like to help advance the state of the art of analyzing and measuring social performance. Traditional accounting techniques help corporate managers and investors measure financial performance. But the numbers which make up an economic balance sheet do not reflect external social costs and benefits which are also vitally important.

Because traditional tools are often inadequate, a number of companies have attempted to develop new techniques to help objectively measure social performance, to improve internal management and, in some cases, to report to shareholders. The business community has already done much innovative experimentation. Some of the more creative examples include: The Social Critique of Arco, the Social Scorecard of the Pennsylvania Banking and Trust Co., the 1975 Annual Report of Shell Oil Company, the Social Environment Audit of the First National Bank of Minneapolis, the Social Reporting Program of the American Council of Life Insurance, the Practical Guidelines for Social Impact Planning and Reporting of Arthur Andersen, and the Voluntary Disclosure Program of the Bank of America. The 1977 study by the American Institute of Certified Public Accountants, The Measurement of Corporate Social Performance, is an important recent addition to a growing body of literature.

The Department encourages further experimentation and development of measuring tools to help manage and improve corporate social performance and to permit objective assessment of the results. Such development is necessary if we are to have a fuller and truer picture of the impact of a corporation's activities.

In a speech at Duke University last October before the Chief Executive Officers' Conference, I said that the Commerce Department, working with business leaders, intended to develop an index of social performance that would give business a way of appraising the social effects of its business operations.

Since that announcement, some controversy has ensued because of misconceptions, legitimate technical concerns, and fears of another government regulatory intrusion. In particular, the word "index" seems to have triggered some psychic alarm system, for it seems to connote a report card of sins and virtues. But the Department of Commerce is not intent on ranking or grading companies, or creating a new bureaucracy. Rather, it seeks to advance the development of measurement procedures which would enable a corporation to judge its own social performance. Use of such a self-measurement system and participation in an internal review would be entirely voluntary. It would be a management tool, not a precursor

of regulation. The review, or self-measurement system, would outline various categories of social action; a corporation could determine which areas it wished to pursue, set its own goals, evaluate its progress.

We are aware of the many technical problems involved in social measurement and of the different characteristics and circumstances of individual corporations. A great deal of research and refinement will be necessary. Accordingly, we plan further study of the feasibility of such a set of measures, working within the Department, and consulting experts in the field. Our efforts will focus on an evaluation of the alternative ways of measuring corporate social performance. We will, of course, keep you fully informed of our progress. In the coming months, as we explore the measurement question, our emphasis will be on the regional conferences and other initiatives.

In conclusion, I have no doubt that the benefits of greater focus on corporate social performance can be quite substantial. One of our regrettable legacies, heightened in the 1960's, has been an adversarial mentality, an often reflexive antagonism, between business interests on the one hand, and consumers, employees, environmentalists, and the government, on the other. This simplistic "we-they" view

has tended to obscure the great common stake business and other groups have in many public issues. The complexity of many of these issues calls for creative partnerships, not hostility, distrust, or defensiveness. Sustained corporate attention to social performance should help to reverse this adversarial perception and thus serve the interests of both business and society.

Ultimately, improved corporate social performance is a matter of business leadership. Because of the important mutual stake which business and society have in such performance, the Department of Commerce should draw on its statistical, economic, and program resources to encourage further corporate leadership throughout the nation.

ACTIONS TO DATE IN REPROGRAMING REQUEST

Ms. PORTER. Appearing with me today is Homer E. Moyer, Jr., our Deputy General Counsel, who has been working on the program aspects of the Department's role.

I would like briefly to summarize the actions which have led up to our appearance here today. On October 19, the Secretary announced a number of initiatives at a speech at Duke University where she laid out steps the Department proposed to undertake to enhance corporate social performance in this country. Two of the initiatives required the expenditure of additional funds. These were to:

Develop and publish a social performance index to give companies a way to appraise their own operations and to publish the results of these appraisals, and conduct a series of regional conferences early in 1978 to discuss successful management models already in use.

On November 18 I transmitted a formal request for reprogramming which would have allocated \$428,000 from the Secretary's Reserve for these initiatives and for the staff to support the overall project. Subsequently, Mr. Chairman, you expressed reservations about the project but agreed that we could proceed only with the planning of the regional conferences until the subcommittee could have a chance to review the full proposal. This we have done.

Secretary Kreps' statement describes in some detail our program and the steps we propose to take in the immediate future. Based on this description, our budgetary requirements are somewhat modified from our original programing request.

We still would like to proceed with the series of regional conferences which will allow successful companies to share the management systems and techniques which they have developed to integrate social considerations into corporate decision-making. These conferences will concentrate on internal management processes and should provide valuable information to the participants.

We also intend to proceed with the establishment of a departmental task force which would be supported by a small professional staff. Our original resource request was based on adding four new people to this effort; we now propose to hire only one full-time professional person and to draw the remainder of the staff support from within the Department.

As the Secretary indicated in her statement, our immediate plans in the area of social measurement require a substantially reduced level of funding. We plan to proceed more slowly in this area with full outside review and consultation, and will begin the work in-house.

The proposal as I have outlined it today would require only \$235,000 this fiscal year, which falls below the threshold for reporting reprogramming. Nevertheless, we wanted to follow up on your concerns and to share our current thinking with you. We hope that you will concur in our revised approach.

This concludes my formal statement. I will be happy to answer your questions.

Mr. Moyer is prepared to summarize very briefly the Secretary's statement, if you should so desire.

Mr. SLACK. Thank you, Mrs. Porter.

DEFINITION OF "SOCIAL PERFORMANCE"

The first question that comes to my mind is the definition of the term "social performance." How does the Department define that term?

Mr. MOYER. I think, Mr. Chairman, that perhaps the best definition is found in the first page or two of the Secretary's statement. There it speaks to the ancillary effects that corporate operations have on employees, consumers, neighboring communities, other businesses, and the natural environment. It is to corporate efforts to address and deal with these effects that the term "corporate social performance," which incidentally has been called that and other terms over the past 10 or 15 years, applies.

Mr. SLACK. If we should decide to permit you to go ahead with this program, would you put that definition into the rules and regulations of the Department when you commence this program so that it will be a clear definition of what you are attempting to do?

Mr. MOYER. We will certainly do what we can to make that definition completely clear. We have never contemplated in the development of this program a regulatory approach or rules or regulations of any sort. For that reason I think it would be inappropriate and certainly apart from what we have intended to think in terms of spelling this or other programmatic aspects out in regulations.

Mr. SLACK. So I gather from what you have said then that the answer would be no?

Mr. MOYER. Not in regulations; no, Mr. Chairman.

ELEMENTS OF PROPOSED PROGRAM

Mr. SLACK. Would you please tell the committee what are the elements of the proposed program as listed in your letter of November 18 and in addition thereto, the cost of each?

Ms. PORTER. Do you wish the two that required funding or all of the six points in our request of November 18?

Mr. SLACK. Only two of them required funding?

Ms. PORTER. That is correct.

Mr. SLACK. Which two?

Ms. PORTER. The two that required funding were the first two in that list, to develop and publish the social performance index and to conduct a series of regional conferences.

Additionally, there was a request for staff to manage centrally in the Secretary's office the other activities, which would have been establishing a secretarial task force, establishing a Commission to look at structural unemployment, expanding regional seminars on pollution prevention, and communicating with the public on corporate progress. So the major dollar investment would be in the first two points. The others would have been covered by our staff request.

Mr. SLACK. I think the committee would still like to have the cost of each of these. For example, No. 3 says, "establish a secretarial task force to deal on a continuing basis with corporate social performance issues." Now, that is going to cost some money, obviously. So have you arrived at any figure up to this point as to what that will cost?

Mr. MOYER. Mr. Chairman, our intention with respect to a secretarial task force has always been simply to create a task force within the Department consisting of policy level officials in the areas that bear on corporate social performance.

Mr. SLACK. But there is a cost to it, is there not?

Mr. MOYER. There would be no additional financial cost with respect to the creation of the task force.

Mr. SLACK. I am talking about the basic cost. I am not talking about an additional cost. It will cost dollars to establish the secretarial task force to deal on a continuing basis with corporate social performance issues, right? So what is the cost?

Ms. PORTER. The cost would be the salary of the person who would be the staff. So it is the staff support costs in our initial reprogramming request, which were \$126,000, that I think you are trying to get at.

Mr. SLACK. Why don't you list these six items and then place beside them a cost so that the committee could get an idea of just what we are talking about here in the way of money? You can do that for the record.

Ms. PORTER. We will be happy to do that, sir.

[The following was submitted to the committee:]

While it is true that existing Commerce time and resources have been devoted to development of the corporate social performance project, our planning and accounting do not contain detailed estimates of this nature. What follows are the estimates of additional resources which were included in the original reprogramming letter:

| | <i>Cost</i> |
|---|-------------|
| 1. Develop and publish a social performance index..... | \$166, 250 |
| 2. Conduct a series of regional conferences..... | 135, 750 |
| 3. Establish a secretarial task force..... | ----- |
| 4. Establish a commission..... | ----- |
| 5. Expand ongoing regional seminars on "Pollution Prevention Pays"..... | ----- |
| 6. Communication with the public on corporate progress..... | ----- |
| 7. Additional staff costs to support entire project..... | 126, 000 |
| Total..... | 428, 000 |

NOTE. Despite the committee's repeated requests for the estimated cost of each of the items and the acknowledgement that such costs would be incurred, the Department was not responsive to the committee's question.

REVISED PROGRAM PROPOSAL

Mr. SLACK. How does that proposal compare with what you are proposing today?

Ms. PORTER. The initial request was for \$126,000 for staff support. That envisioned four people being hired. Our current proposal is for one person to be hired from the outside at a cost of \$35,000. The cost for the regional conferences in our initial prereprogramming request were for \$135,750. In our current proposal that is \$141,000. This is a contract that is now in force with Human Resources Network. The cost of social measurement development in our initial request was \$166,250. Our current proposal reduces that to \$59,000. So that our current proposal is for a total of \$235,000 as opposed to the initial request for \$428,000.

Mr. SLACK. Are you going to establish a corporate social performance index under the proposal which you are now speaking of?

Ms. PORTER. No; we are not planning to establish the index as such.

In the period between the time I wrote to you in November and the current time we have consulted with outside experts and within the Department. We feel that the measurement problems involved in the construction of an index are such that we need to do a great deal of work in-house on the feasibility of measurement. That is the primary area where we would like to do some additional work in-house with our measurement people.

OUTSIDE EXPERTS

Mr. SLACK. Tell us something about these experts. Did you consult people in the business world with respect to these experts?

Ms. PORTER. Indeed we have. I would like Mr. Moyer to tell you about our long series of consultations.

Mr. MOYER. Our consultations, Mr. Chairman, began I would say during the summer. They involved consultations with numerous individuals from the business community, particularly representatives of those companies that have been actively involved in social measurement and social performance analysis. We also talked, and have continued to talk, with those who have authored publications in the field and with many people concerning the state of the art of social performance measurement.

We have had very much an open door. Our consultations began well before the Secretary's Duke speech and have continued and are continuing. They very much involved consultations with businessmen.

FULL OUTSIDE REVIEW AND CONSULTATION

Mr. SLACK. Tell the committee what you mean by "full outside review and consultation."

Mr. MOYER. With respect to the measurement?

Mr. SLACK. That is on page 3 of the Secretary's statement; yes.

Mr. MOYER. We intend, Mr. Chairman, to continue essentially the process that we began some months ago and it is a process of full and open consultation with members of the business community, with particular companies, with particular organizations that have been active in the field of social measurement.

It also includes consultation with members of the academic community that have been involved in this field. It is, as you know, a field of enormous complexity and it is one which is in a developing stage. We are anxious to have maximum possible consultation.

CONTRACT FOR MEASURING SOCIAL PERFORMANCE

Mr. SLACK. Is it not true that you let a contract for \$100,000 to design such an index?

Ms. PORTER. That is true. We let an initial contract for \$82,000, not \$100,000. It was with Human Resources Network to develop a practical model for measuring the social performance of corporations.

Mr. SLACK. What will happen to that project since you are not going to go ahead with the index?

Ms. PORTER. That contract has been terminated now. The efforts that were underway on that contract have been stopped. We did that immediately upon receipt of your instructions in December.

Mr. SLACK. Was the cost of that contract part of the original \$428,000 reprogramming proposal?

Ms. PORTER. Yes, sir, it was.

Mr. SLACK. Why did you proceed with the contract before the reprogramming was authorized?

Ms. PORTER. The contract was for a long period. There is a great deal of leadtime, and the part of the contract that preceded the request for the reprogramming was for consultation with businesses and academia, et cetera. It was for public consultation and research on existing efforts to measure social performance. So that we would not have gotten, under that contract, to the measurement model until it was cleared by us, and we built a clause into the contract that it could be terminated at any time in the interest of the Government.

So we feel that we needed to have the knowledge of the state of the art in order to formulate our plans further.

Mr. SLACK. But you did proceed before the funds were approved, is that not correct?

Ms. PORTER. Well, there was a delay in our request to the committee—it was a regrettable delay. I apologize for it—after the time that the Secretary announced the program.

Of course, she had indicated much earlier her intention to develop these measures. As you may recall in her confirmation hearings she indicated her interest in pursuing this activity. You heard her last spring in the appropriations hearings talk about her interest in this whole area. So that for us it was a difficult matter of moving down far enough in terms of planning a program and really developing a firm budget which we could come to the committee with.

So we needed a contract to give us some information on what was needed in the program before we came to you. But there was, I regret, too much of a delay between the time that she made the announcement in October and our request to you in November.

URGENCY OF REQUEST

Mr. SLACK. Why were not funds requested for this item in the regular budget process? What is so urgent about this project that you have to request a reprogramming of funds? Do you consider this to be an urgent matter?

Ms. PORTER. Urgent in the sense that it is an activity which will take us a long time to accomplish and we want it to begin right away and not encounter any delays. This is a very complex understanding and we have a short term of office. So we wanted to begin without delay.

Mr. SLACK. Where will these funds come from?

Ms. PORTER. They would come from the Secretary's reserve. It was our intention to use the Secretary's reserve for this activity.

STATUTORY AUTHORITY

Mr. SLACK. What is the specific statutory authority for this program?

Ms. PORTER. We would use the authority of the Department's responsibility for measurement for economic and social measures, our responsibility under the Industry and Trade Administration.

Mr. SLACK. For the record, just cite the authority in law.

Ms. PORTER. All right.

Mr. MOYER. The citation I have before me, Mr. Chairman, is simply the broad charter statutory language for the Department of Commerce which is 15 U.S.C. 1512. I think under that umbrella of statutory authority this is and has in the past been considered to be an appropriate Commerce Department activity.

Mr. SLACK. Are you citing the section which has to do with fostering and promoting business?

Mr. MOYER. That is correct, Mr. Chairman.

REGIONAL CONFERENCES

Mr. SLACK. Would you give the committee some detail concerning the series of regional conferences which you hope to conduct, that is how much, where, what companies, what participants, the cost, and what you hope to accomplish as a result thereof?

Mr. MOYER. I will be happy to, Mr. Chairman. The regional conferences which we intend to hold in the Federal regional cities are an attempt to discuss and focus specifically on the question of internal corporate process.

In our consultations on this subject, we have frequently and repeatedly been urged to focus at the outset on the question of internal corporate management and internal processes. We have been advised that if indeed companies are to be able to improve corporate social performance, it is essential that social performance considerations be incorporated into mainstream management decision-making mechanisms. Companies have done this in a variety of ways. The purpose of these conferences will be to allow those companies to discuss approaches that they have used successfully and to explore other ways of dealing with the internal management issues. They will be on a regional basis. They will be open. It is our hope that attendance will be substantial from the regional corporate community. There has been a substantial amount of interest expressed in these conferences already.

Mr. SLACK. Do you know how many you are going to hold?

Mr. MOYER. Yes.

Mr. SLACK. Can you give us a figure on them?

Mr. MOYER. There would be 12, Mr. Chairman.

Mr. SLACK. Where will they be held?

Mr. MOYER. Our tentative plans are Philadelphia, Dallas, Chicago (two), Seattle, Kansas City, San Francisco, Boston, Atlanta, Denver, and New York (two).

Mr. SLACK. What companies?

Mr. MOYER. The conferences would be open to any and all companies that wish to attend. They would be open to interested members of the public as well.

Mr. SLACK. Have any of these companies been contacted with respect to these conferences?

Mr. MOYER. The conferences have been discussed generally with a great many companies. We are in the process of preparing invitation lists and agenda. Direct contact, through transmitting the agenda and program, has not been made yet.

COST OF CONFERENCES

Mr. SLACK. What will the cost of this be?

Mr. MOYER. The total cost will be just under \$141,000.

Mr. SLACK. What does that \$141,000 cover?

Mr. MOYER. That covers the management of these conferences. That includes the preparation of the program, the arrangement of the agenda, developing invitation lists, extending invitations, bringing together panelists and speakers from the business community in each of the regions, and all of the logistical costs.

Mr. SLACK. Are the transportation costs within this \$141,000?

Mr. MOYER. Yes, Mr. Chairman.

PRIVATE SPONSORS FOR CONFERENCES

Mr. SLACK. Since the insurance industry and many corporations already have, I am told, these social performance programs, why can't we let them or other private business groups such as trade and professional organizations and chambers of commerce sponsor such conferences?

Mr. MOYER. I think the short answer is that at least heretofore there have been no such conferences planned. It is in large part for this reason that the Commerce Department has proposed to host these conferences, cosponsor them. They would in many ways be business-to-business type conferences in that most of the participants in the program—the panelists, the speakers, et cetera—would themselves be corporate managers who would be sharing their experiences and discussing the problems they have encountered with members in the audience.

Mr. SLACK. Has the Department had any discussions with the trade and business groups to see whether or not they would be interested in participating or carrying out such a conference?

Mr. MOYER. We have had preliminary discussions and the reaction has been quite favorable to these conferences.

Mr. SLACK. So are you telling me they might like to do this themselves?

Mr. MOYER. No, Mr. Chairman, the favorable reaction to which I refer is the reaction to attending our conferences.

[NOTE.—The committee was informed subsequent to the hearing that certain segments of the private sector have conducted such conferences.]

DUTIES OF TASK FORCE

Mr. SLACK. Can you tell us what would be the duties of this task force?

Mr. MOYER. The responsibilities of the task force, Mr. Chairman, would be to review and discuss on a periodic basis the subject of corporate social performance and the Department's involvement in that subject. That would include, of course, continuing discussion and monitoring the progress of the projects we have described to you today.

Mr. SLACK. How many people would comprise the staff and again tell us what the cost of this would be?

Mr. MOYER. Our plans for a staff consist of three professionals, and two clericals. Two of the professionals and two clericals would be drawn,

under today's proposal, from within the Department. So the additional cost would be the cost of hiring one person from the outside to direct the activities of that staff. The cost for that, Mr. Chairman, is \$35,000.

Ms. PORTER. We can provide you the total of both the in-house staff and our request for an additional person.

Mr. SLACK. One final question before I yield to the members:

Does the Department believe that American corporations have a poor record in the area of social responsibility?

Mr. MOYER. Mr. Chairman, in Secretary Kreps' speech at Duke she made a point of emphasizing the many innovative and salutary steps that have been taken within the business community. That is not always appreciated to as full an extent as it might be. She in her speech indeed cited particular examples of corporate activities that were particularly noteworthy.

She did note, however, that there is, of course, room for improvement. It is, therefore, in the role of catalyst or facilitator that the Department thinks it can be most useful.

Mr. SLACK. Mr. Smith?

Mr. SMITH. No questions.

Mr. SLACK. Mr. Cederberg?

DEPARTMENT'S INVOLVEMENT IN CORPORATE SOCIAL PERFORMANCE

Mr. CEDERBERG. I have serious reservations about the Department of Commerce getting in the business of trying to determine whether somebody else is socially responsible or not. Some companies can be more socially responsible or perform better than others because they have the wherewithal to do it. I would think that Commerce has a lot more important things to do down there than getting into this stuff.

As far as I am concerned, I am opposed to your reprogramming. I guess the dreamers are still down there. I thought we got rid of a few of them. But the idea of the Government getting in and making the determination whether you are socially performing up to par, I think, is just too far out for me.

Mr. MOYER. Congressman, if I might respond to that point, I think I would share your concerns if the intention of the Department were in fact to say who is and who is not socially responsible.

Mr. CEDERBERG. You were obviously going to because you were going to have a social performance index. You let a contract for somebody to develop what the measurement was for social performance. What was the contract for?

Mr. MOYER. The purpose of the contract was to develop measurements which companies could use, similar to tools that many companies already use, which would allow a corporation to attempt to make some objective assessment of its social performance in different categories. It would be that management tool which would be made available to companies.

It has never been the intention of the Department to attempt to take an evaluative stance with respect to whether a particular company's activities are or are not socially responsible. Our effort here has imply been to help facilitate the trend within the business community for companies to focus on and attempt to assess their own performance.

Mr. CEDERBERG. Most companies I know of, those in my district are very socially conscious and I think are doing a very good job. Would you be considered socially irresponsible if you didn't show up to one of your conferences?

DOW CHEMICAL

Mr. MOYER. I think not.

I might point out, Congressman Cederberg, that one of the companies, I believe in your district, which has been very helpful to us and has been something of a leader in this field. I refer to Dow Chemical Co.

Mr. CEDERBERG. They are No. 1.

Mr. MOYER. They have been very constructively involved with conferences jointly sponsored by EPA and the Department of Commerce.

Mr. CEDERBERG. You had better tell Jane Fonda that.

Mr. MOYER. These "pollution prevention pays" panels have been very successful.

Mr. CEDERBERG. I think you have more to do in Commerce than get involved in a social performance aspect. I thought we were going to get rid of paperwork, too. Now you are going to send out questionnaires, et cetera. Most of the companies I know have enough questionnaires now. They don't need any more. I think you ought to be concentrating on jobs in the corporations, not how they are performing socially.

I made my speech. Wait, I have one other thing. My colleague, Congressman Michel, asked to have some questions inserted in the record.

Mr. MOYER. We will be happy to submit the answers for the record. [The questions referred to follow:]

Question 1. What is "social performance" as now defined by the Commerce Department, and how was such a definition reached? Who consulted? What did Mrs. Kreps mean when she first used the phrase?

Answer. By corporate social performance, we mean generally encouraging corporate action that more fully takes into account the human, environmental, and social effects of business operations. We understand that the primary objective of every corporation is to be a healthy economic enterprise, producing needed goods and services and earning a profitable return on investment. We also recognize, however, that in the process businesses have a profound impact on society as well—employees, consumers, neighboring communities, other businesses, and the natural environment.

Corporate social performance refers to efforts to deal with these ancillary effects. So defined, this term—and its predecessors, such as corporate social responsibility—is the subject of much literature. The concept has been in general usage for a number of years, is reflected in numerous corporate reports on CSR or CSP, and continues to be one of the subjects of foremost interest in the business and business-academic community.

The Secretary's use of the term in her October speech at Duke University and subsequently has been in accord with this broad definition. She has been active in encouraging improved corporate social responsibility for many years, and the Department's recent initiatives are consistent with her concern.

Question 2. If such an index is voluntary and therefore incomplete, what purpose will it serve? If on the other hand, it is mandatory for all corporations to report on social performance, what methods will the Commerce Department use to make certain reporting is universal?

Answer. The index, or review, would be used on a voluntary basis to improve internal corporate social management and to advance the state of the art of social measurement. As an internal management tool, a corporate social performance

review can serve many important functions. The review will be a self-measurement system which would outline various categories of social action and enable a corporation to determine which activities, if any, it wishes to pursue, set its own goals, evaluate its progress through self-measurement, and improve its internal management. For each company that improves its analysis and management, there will be additional benefits to society. Accordingly, a voluntary program has considerable value.

Question 3. Thus far, how much time and money has been spent by the Commerce Department in research, evaluation, analysis, or other bureaucratic tasks on this idea? What part of the Commerce Department has direct responsibility for the plan?

Answer. The Department has been working on corporate social performance since late summer and consulting widely with business groups, business-academic sources, public interest organizations, and others. Most of the discussions have been undertaken by the Deputy General Counsel, Homer E. Moyer, Jr., who has devoted part of his time to the project. At various other stages additional staff time has been spent in responding to congressional inquiries, mail and telephone calls, and in research in preparing for meetings. Primary responsibility for the program has been assigned to Anne Wexler, the Deputy Under Secretary for Regional Affairs, and Homer E. Moyer, Jr.

Prior to termination, funds have been expended on two contracts with Human Resources Network, a consulting firm specializing in corporate social responsibility programs. Expenditures have related to social performance measurement and internal corporate management process models. The first contract was for general consulting on social performance and the development of a social performance measurement model. Including the January bill, which has not yet been paid, as of January 23, the Department has been billed \$36,722.85 for services encompassed in this contract. Approximately half of that was devoted to research, analysis, and preliminary work on social measurement; the other half was devoted to consultation on corporate social performance in general. The second contract related to planning and preparation for twelve regional management conferences to be held for corporate executives on social management policies and practices. Including the most recent bill, which has not been paid, as of January 23, the Department has been billed \$16,550.30 for these services. An additional \$9,000 was spent for corporate responsibility planning services.

In the process of consulting with the business community, the Department incurred travel expenses of approximately \$1,500.

Question 4. Is there any thought given to the number of employees needed to implement this plan as Commerce now envisions it?

Answer. The Department intends that two professional and one or two clerical employees work on a full-time basis on this project. One professional will be hired from outside; the other will come from within the Department.

Question 5. An Associated Press report, dated January 18, 1978, in the Chicago Tribune stated that the index "may prove to be unworkable—and a waste of time and money." It quoted Mr. John Post, executive director of the Business Roundtable, as saying most members of that organization believed the idea of a Government index is "impractical, unworkable and unfair". In the face of such criticism, how does the Commerce Department justify the time and money that is going into this project?

Answer. Some of the criticism in the article seems to be based on an erroneous understanding of what the Department's program provides. For example, the article implies that the Department would itself measure the social performance of corporations, make value judgments, and set standards as to what constituted socially responsible behavior. In fact, none of this is true.

The social performance review that has been discussed would be a guide, perhaps in the form of a pamphlet, available to interested companies to use internally to help measure and manage the impact of their operations on the community. It would permit a corporation to determine the kinds of activities it wished to pursue, set its own goals, evaluate its progress through self-measurement, and improve program management. A review would be descriptive, not prescriptive, and its use would be entirely voluntary. Contrary to some news reports, the Department has never intended to rank, grade, or judge companies, establish a new bureaucracy, install new Government regulatory standards, add redtape or paperwork, require reports, or dictate corporate behavior. Rather, the Department's role is that of a catalyst and facilitator, working to advance the state of the art of social measurement and encouraging voluntary efforts of corporations to consider and respond to their impact on society. Because social measurement is

a developing and complex field, more work and refinement are necessary. We continue to review our proposals and welcome informed public comments which have been valuable in helping us shape our program.

Given the fact that some of the criticism in the article was misplaced, we believe that the program we are pursuing is practical, defensible, and desirable. We justify our efforts in terms of the enormous benefits to society of the corporate community actively working to help solve social problems and minimize any possible adverse effects of corporate operations on society or the environment. The potential benefits far outweigh the costs.

Question 6. The same A.P. report stated that one of the components of the index as seen by the Commerce Department was whether a company was "going business in South Africa." If South Africa was chosen because of its human rights policies, are other nations such as the Soviet Union, The Peoples Republic of China, Uganda, Ethiopia, Angola, and Mozambique included on the social performance index? If a company was found doing business in any of these nations, every one of which is guilty of massive violations of human rights, would that be considered a good or bad mark by Commerce Department standards?

Answer. Because the Commerce Department would not be setting standards, it would not be giving "good" or "bad" or any marks. Under our program, corporations that were interested would evaluate their own performance, using their own standards. A corporation would be free to choose to consider or not consider the impact of its operations on human rights.

No Commerce Department official has ever suggested that whether a company did business in South Africa must be a part of its social performance review.

Question 7. Secretary Kreps announced this idea in a speech before a business group. Is it the practice of the Commerce Department to publicly announce such important policy matters without consulting with Congress, the business community, or the public?

Answer. In this case, there were extensive consultations with business leaders, organizations within the corporate community, and public interest groups, before the Duke speech. Those discussions are continuing and we have encouraged the broadest possible public participation. Corporate responsibility has for years been a concern of the Department of Commerce.

Question 8. Has President Carter or any member of the White House been informed by the Commerce Department of this plan at any stage of its development? If the answer is yes, please tell us who in the White House has been the Commerce Department's contact and what, if anything, the White House has to say about it.

Answer. In preliminary consultations, well before the Secretary's speech, Joseph N. Onek and Simon Lazarus of the White House Domestic Policy staff and Nancy Chasen of the Office of Consumer Affairs were briefly advised of the Department's interest in corporate social performance.

RESPONSIBILITY OF BUSINESS FOR DECLINE IN QUALITY OF LIFE

Mr. SLACK. Mr. Andrews?

Mr. ANDREWS. Thank you, Mr. Chairman.

On this statement of the Secretary's, I am intrigued on page 2 where she is citing the public support for improved performance. She says business is responsible for the decline in the quality of life in America. Does the Secretary really feel that?

Mr. MOYER. I don't believe we say that on page. 2

Mr. ANDREWS. The Secretary states that the public support for improved performance is there because, and I quote, the public feels "that business is responsible for the decline in the quality of life in America."

Ms. PORTER. It is that misperception of the role that business plays in the quality of life that we would like to correct. We think, if business had measurement tools by which to show the public how it does contribute to social goods, then we could change the public's perception that business is bad.

Mr. ANDREWS. But the point is that nowhere in this dissertation by Secretary Kreps does she point out that this is in error. She states

the public perception that business is responsible for the decline in the quality of life in America is one of the reasons for the action she is taking. To the casual reader of this she gives a good deal of weight and credibility to this public feeling.

Mr. MOYER. I think the Secretary is indeed concerned about that perception and that concern is one of the factors that has led to not only her involvement in this area but involvement of previous Secretaries of Commerce. At the same time, Secretary Kreps has spoken out on a number of occasions about the ways in which exemplary corporate social performance is occurring in many sectors and by many companies. It is, indeed, as she pointed out in her Duke speech, as much an effort to gain recognition for those types of activities as it is to encourage improved corporate social performance generally.

REALITY OF ENERGY CRISIS

Mr. ANDREWS. But the point is she goes on to say that half the public believes that the energy crisis far from being real was manufactured to increase prices and profits of the oil companies. Then she goes on to say that because of these attitudes it is not surprising that Congress has enacted any number of pieces of major legislation regulating and restricting business activities.

Now if these attitudes are erroneous, the Secretary of Commerce is saying we in the Congress have been enacting laws based on erroneous information. You have to fish or cut bait. You can't repeat statements saying that business is responsible for a decline in the quality of life in America and that the energy crisis was manufactured to increase prices and profits of the oil companies and because of this Congress has been enacting 150 major pieces of legislation regulating business—at least you can't and be fair or accurate.

Where do we get to the point of is it fish or fowl? She doesn't say that these are false impressions. She gives them added credibility by saying that this is the reason Congress enacted some 150 major pieces of legislation. Just where does the Secretary stand?

Mr. MOYER. Let me say so that the record is entirely clear that the language which you quoted is the language of reports of various public opinion polls.

BASIS FOR ENACTMENT OF LAWS

Mr. ANDREWS. But given these attitudes, "it is not surprising within the last 15 years Congress has enacted"—that has to be the language of the Secretary.

First she cites public opinion and then she cites that "because of this public opinion Congress has enacted." That is not quoting someone else. That is quoting the Secretary.

Mr. MOYER. The point of both those paragraphs is simply to reflect what is indeed a reality, that there is that public perception which is very much a concern to the Secretary of Commerce. It is also indeed a reality that the Congress over the last 10 or 15 years has enacted a very large number of statutes, laws which regulate and control, restrict business behavior as it applies and as it affects society.

Mr. ANDREWS. But does the Secretary feel we have enacted those measures because business is responsible for a decline in the quality of life in America? That is the inference you get from reading her dissertation.

Ms. PORTER. I think it is that the laws have been enacted because Congress faithfully has reflected the public perception. Her feeling is that that public perception is inaccurate, and the purpose of a measurement system would be to give businesses a way to show the public that they are not irresponsible and to stem the tide of regulation, to restore public confidence in the business community which has seriously been eroded over the years.

Mr. ANDREWS. But her inference is that Congress has been swayed by this public perception and we have been conned into believing this is in fact the case, this is in fact an accurate statement of business vis-a-vis the people of this country. At least why else would the Congress have enacted these laws if it wasn't that we in fact believed this? Does she feel business is responsible for the decline in the quality of life in America?

Mr. MOYER. The implication, I believe, Congressman Andrews, is not that that legislation is per se good or bad. Obviously, that covers a very large number of congressional enactments. However, to the extent that each of those statutes addresses in one way or another the social performance of companies, it addresses the social impact of companies; it is indeed a reflection of congressional concern with just those types of issues.

It is this concern which the Secretary is demonstrating, I think, in that portion of her statement.

INCREASED ATTENTION TO SOCIAL RESPONSIBILITY

Mr. ANDREWS. Well, on page 4, as a matter of fact, she gives the answer to the problem which she raises on page 2. She goes on to say:

During the past 15 years corporations have devoted dramatically increased attention to social responsibility. Last year 456, or 91 percent, of the Fortune 500 industrial firms published information about social performance in their annual reports.

If they are already doing it, then why add to the cost? You mentioned Dow Chemical a minute ago, a corporation in Mr. Cederberg's district. I represent a number of farmers who have to buy agricultural chemicals. You might not realize it, but a corporation is just a pass-through organization.

If you force Dow Chemical to come to meeting after meeting after meeting to discuss their public responsibility, which you say on page 4 they are already discharging, all you are going to do is add to my farmers' cost of production, and you are going to add to the consumers' cost in the marketplace, and then they are going to say, "How come we are paying so much?" They are paying so much because you forced them to go to meetings because of public misinformation that has resulted in you adding to the paperwork and have them do more of what you say on page 4 they are already doing.

How do you justify this whole rigmarole unless you are deliberately trying to add to the cost of living of everybody in this country?

Mr. MOYER. One of the happy benefits, I think, of increased corporate concerns with social performance has been the increasing discovery that the assumption that improved corporate social performance necessarily means additional costs is indeed not an accurate assumption.

COST OF CONFERENCES

Mr. ANDREWS. You mean it is not additional cost if corporate people have to go to a number of meetings that you set up for them to go to? Who pays that transportation cost, the cost in time, the cost of their lodging? It doesn't come out of the blue sky.

If you call in the vice president of Dow Chemical and 15 or 20 of his consultants to a meeting, are you going to pay their expenses?

Mr. MOYER. I think there is a charge for these conferences, either \$5 or \$15.

Mr. ANDREWS. You are not going to pay their hotel rooms and transportation expenses?

Mr. MOYER. No.

Mr. ANDREWS. Who is going to pay these?

Mr. MOYER. The individual companies will pay them.

Mr. ANDREWS. Who eventually pays that, the person at the end of the line who buys the product of that company? Is that not true?

Mr. MOYER. That is true.

Mr. ANDREWS. Actually, then, you are adding to the consumer cost by holding meetings to try to get them to do what you say over 90 percent of them are doing already; isn't that essentially true?

Mr. MOYER. The 90-percent figure refers to the number of companies that have published in their annual reports information with respect to social performance.

The question of cost is, of course, quite a different question and indeed quite a complex question. It does not represent by any means the 1-to-1 correlation of improved social performance translating into increased costs, translating into decreased profits. Indeed, a number of companies—and Dow to which you just referred is one—have discovered that frequently improved corporate social performance can lead directly to improved economic performance. This central point, I think, is one of the byproducts of increased corporate activity in this area.

CORRECTING MISCONCEPTIONS

Mr. ANDREWS. If the Secretary of Commerce believes these allegations that she spells out on page 2 are in error, why doesn't she speak to the error of these allegations instead of setting up a whole new program that is going to compel American industry to spend hundreds of thousands of dollars attending additional meetings and add to the product cost?

Ms. PORTER. I would like to speak to the question of what is in it for the corporations and why they would go to such a conference.

For those very responsible, and more than 90 percent of the Fortune 500 we feel have attempted in various ways to account for and measure and include their social performance in their balance statements, the difficulty comes when each corporation does it on its own and there is no common standard.

So what we are faced with here is really a problem in common accounting standards that all corporations would use, so that there is some comparability in each corporation's reports to its stockholders. The issue is one that the corporations themselves have been struggling with and the accounting profession has been struggling with.

The Secretary feels it is the Department of Commerce's responsibility to assist business in agreeing upon common standards.

Mr. ANDREWS. But you said you were dropping the idea of this index.

Ms. PORTER. We have dropped our external contract for the development of the index. We are now working in-house on the feasibility of measuring of standard measurements for social performance. The issue remains.

DIFFERENCES AMONG CORPORATIONS

Mr. ANDREWS. Why must all American companies be alike? I assume that John Deere is a little different than International Harvester, not because one paints tractors green and the other paints tractors red, but if they want to run their corporations differently, I will find out about it in the end when I decide which tractor to buy.

Incidentally, I had a group of farmers in my office, as I suspect many of my colleagues did, this past week and one of their concerns is the fact that today their tractors cost them two and a half times as much as they did 4 years ago.

If you keep coming up with more and more requirements for these Fortune 500 companies who happen to be the ones that manufacture tractors, trucks, fuel, herbicides, and fertilizers all you are going to do is continue to compound the problems that American farm families are faced with. How are you going to lower the price of a tractor by forcing the executives of John Deere to go to more meetings, to talk about something to try to set themselves up on a scale of comparability with International Harvester or Allis Chalmers? They can find out how their comparability comes out in the marketplace; they have for years.

Farmers can decide which tractor suits their needs best. Their problem is that the costs have gone up because of all of the requirements that have been added to them by Government, largely. You can't blame all of that increase in costs to wage hikes, certainly; a large part has to be the regulations, the meetings and other things you keep dreaming up. This seems to be just one more add-on to the cost being faced by the American companies that serve the American consumer.

Somebody, somewhere, ought to point out that a corporation is simply a passthrough organization, that passes through all their costs to the consumer. This attitude that some politicians think it is so great to "Let's sock it to the corporation"—all they do is sock it to the person on the end of the line that is already getting hit by high prices.

Mr. MOYER. Your point is, of course, well taken with respect to the complexities of measurement in comparing even one company to another company within the same industry. When you move to different industries the questions are, of course, even more complex. That is one reason that a large subject such as measurement of social performance is one that needs careful and thorough study.

You mentioned the point of rising costs which is indeed a very important concern. As the Secretary's statement emphasizes, the

phenomenon of increasing costs is not unrelated to the phenomenon of increasing Government regulations, and that, in turn, is not unrelated to corporate social performance.

Our concern in this area springs in part very much from precisely the type of concerns you just expressed.

AGRICULTURAL CHEMICALS

Mr. ANDREWS. Let me cite another specific concern where Government interference has really pushed up price in the marketplace.

In the field of agricultural chemicals—again getting back to Dow—the Shell Chemical Co. has come up with a wild oat killer. Wild oats cost our farmers \$100 million a year in crop loss. That is \$100 million out of the pockets of the farmer and impacts the consumer as well.

The Shell Chemical Co. has a pretty good wild oat killer they are marketing in Canada. Our North Dakota farmers can see their neighbors in Canada using the wild oat killer, but because of the regulations promoted by our Government it would cost Shell \$8 million or \$9 million to register this chemical in the United States. It is proven and has been used throughout the world, but spring wheat is a relatively small market here, so they don't feel justified in registering this chemical, so our farmers can't get it.

This is a very important factor in their cost of production. These regulations are said to be done in the interest of the American consumer. Yet American consumer is buying flour milled from Canadian wheat which moves across our border and is treated by this chemical which our farmers wish they could buy. It is being ground into flour which is being consumed by American housewives.

Here is one example out of a whole host of them where in the last decade increased governmental regulation is costing farm families in my district by preventing their use of a chemical that could save them millions in losses. Thinking of the people back home, I think the last thing they feel we need is more meetings, more costs, more problems or more government redtape.

We also have a situation in some sugar beet plants in our area owned by the farmers, the cooperatives. They have a new way of rerunning their stack gasses that will totally eliminate pollution. The engineers locally say it is fine. Sugar beet factories in other areas of the world use it. The State of Minnesota says it is fine, but in no way can we get the EPA bunch to go along with it. They say we have to study it for 5 years, so put in plan A, which they know won't work as well, at a cost of some \$35 million first, and then after we have had 3 or 4 years to review it we might let you put in the plan you want to put in that you know will work better and save 35 percent of the energy in these factories.

Who is going to pay these tens of millions of dollars? The consumers of America.

I can cite you instance after instance. You have EPA, OSHA, Antitrust of the Justice Department, the Federal Trade Commission, the Food and Drug Administration, all of these agencies, and now we have Commerce getting into the act to add to the cost to the consumer. It seems to me to be totally counterproductive.

I would hope that you can make a better record so that we have a little more to go on than this seeming contradiction in the presentation

made by Secretary Kreps here, because it just doesn't seem to hold water so far.

Thank you very much.

Mr. SLACK. Mr. Miller?

DEFINING CORPORATE SOCIAL RESPONSIBILITY

Mr. MILLER. Thank you, Mr. Chairman.

Mrs. Porter, most of my questions have already been answered, but I do have a couple.

In your testimony about corporate social responsibility and performance we speak of many things—human, environmental, and social effects of business operations. Then we jump into product quality, safety, repairs, and guarantees.

We have this statement of Secretary Kreps of January 23 where she states that CBS and New York Times' polls reported that half the public believes the energy crisis, far from being real, was manufactured to increase prices and profits of the oil companies.

My question is this: How do you define the term "corporate social responsibility."

Ms. PORTER. Mr. Miller, that is the question the Department of Commerce wishes to address. How does one measure corporate social responsibility?

Mr. MILLER. I am not thinking of measuring under all of these frames; I am thinking of defining what is it, as you look at it, at the Department of Commerce. Is it safety? Is it repairs? Is it product quality? Is it guarantees? Is it price where, as you stated, some Americans believe the energy crisis is not real, but manufactured, to increase prices and profits to corporations? So what is this? How do we define it?

Mr. MOYER. Mr. Miller, I might simply refer to the Secretary's statement in terms of definition. The term refers to encouraging corporate action that more fully takes into account the human, environmental, and social effects of business operations.

The primary objective of every corporation must, of course, be to remain a healthy economic enterprise, producing needed goods and services and earning a profitable return on investment. We also recognize, however, that in the process businesses have a profound impact on society as well, employees, consumers, neighboring communities, other businesses and the natural environment. It is efforts to deal with these ancillary effects which the term "corporate social performance" refers.

So I think the question you raise with respect to price, generally speaking, is not a primary focus of this definition as articulated here.

ENERGY CRISIS

Mr. MILLER. Let me ask about that statement. Does the Commerce Department feel that the energy crisis, far from being real, was manufactured in order to increase prices?

Ms. PORTER. No, sir, absolutely not.

Mr. MILLER. What has been done by the Commerce Department in order to overcome this fault, that 49 percent of the people feel that it has been?

Ms. PORTER. The Commerce Department would like to develop a means for increasing public confidence in business. One way of increasing public confidence in business, restoring public confidence in business and in private enterprise, would be to show the public the real contribution that corporations are now making to the common good.

The public has a misconception of what business does and, of course, our request here today, sir, is for the beginning of a long-term effort to restore public confidence in business and to show the public how well indeed business contributes to public good.

So we are very concerned about the results of this Harris survey. We think that that does not bode well for either the business community itself or for the public good generally.

COMMERCE ROLE IN DESCRIBING CORPORATE SOCIAL RESPONSIBILITIES

Mr. MILLER. But in the regional meetings that you would set up to have corporate management people come to and discuss what they have done for corporate social responsibility, they, the corporation people, would tell the story.

Now if you have the facts in the Commerce Department, could you not spend some of the dollars you are speaking of now to convey those facts to the general public, and be able to help resolve that problem without the corporations blowing their own horn?

Ms. PORTER. We do not have the facts tucked away within the Commerce Department right now; that is our problem. We have instances of individual corporations doing very, very good job.

The purpose of the regional conferences is to get the corporate world to share its expertise with one another so that others can follow suit. Until we have some common measures of social performance we will not be able to do an effective job of communicating to the public what corporations really are doing. We wouldn't be doing the reporting either, Mr. Miller; it would be the corporations themselves.

We do not see this as a governmental index or in any sense a report card on business. It would be their own measurement, their own way to measure themselves and to report on themselves.

CREDIBILITY OF CORPORATIONS

Mr. MILLER. This still brings it back to the corporations blowing their own horn. The people do not believe them now; why would they believe them later? It seems you would be able to gather up information from the other agencies in order to convey to the general public whether the energy crisis is manufactured, whether it is real.

It seems as though there would be more credibility if the Commerce Department did this instead of corporations conveying that message. Apparently the corporations have been attempting to convey this message for many years, but they have not been able to get through. A third party, someone who had the facts, would be able to convey the message to the individual as to why do we have an energy problem.

I can see that many people believe that it is manufactured. Somehow it looks as though you would be able to do this without having the corporation management people convey what good they have done.

If I were president of a corporation and spent a lot of dollars doing this type of thing, I am sure that everybody in town and around the world with that size corporation would know about it. He would say it loud and clear that this is what we have done; but for you to be able to tell the consumer, it seems would be a little better than the corporations. But nevertheless, I have another item concerning dollars.

BUDGET DEFICIT

I was on the floor a few minutes ago when a message from the President was read concerning the budget, and a response was made by the chairman of the Appropriations Committee. Mr. Mahon went on to say that we will have a \$60 billion deficit this year, and in 2 years a \$167 billion deficit. A \$500 billion budget is the largest, of course, we have ever had. Now we know the deficit was there but that 2-year deficit of \$167 billion, I think, scares every thinking person.

You originally had asked for something around \$428,000 for this program. It has been reduced to about \$232,000, as I recall. The threshold for reprogramming and where it is necessary to have the authority from the committee is \$250,000. You are below that—if the committee indicates that they would not want you to reprogram and spend the money, will you still put this program of corporate social performance into effect?

Ms. PORTER. I would think we would not. This committee has authority over the moneys that we expend, and we would certainly respect the wishes of the committee, sir.

Mr. MILLER. Thank you. Thank you, Mr. Chairman.

Mr. SLACK. If there are no further questions, we thank you, Madam Secretary and Mr. Moyer, for your appearance before the committee today. Thank you very much.

Mr. MOYER. Thank you, Mr. Chairman.

[NOTE.—Subsequent to the hearing, the following letter was submitted to the subcommittee. It was the consensus of the members of the subcommittee that the Secretary be permitted to review the proposal further, within the Department of Commerce, in view of the concerns expressed by members of the subcommittee and others. It is the understanding of the subcommittee that the Secretary will consult with the subcommittee after completing such a review and prior to proceeding with any further proposals on this matter.]



THE SECRETARY OF COMMERCE
Washington, D.C. 20230

January 26, 1978

Dear Mr. Slack:

I regret that I was unable to be present at your Subcommittee's meeting on Monday at which the Department's proposed corporate social performance initiatives were discussed. I hope my written testimony was helpful in outlining our plans and describing recent developments.

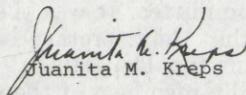
Since the hearing, I have met with Assistant Secretary Porter and Deputy General Counsel Moyer and been briefed on the session. They reported that the Subcommittee expressed concerns about the program. The members' close questioning was useful in highlighting points that deserve additional consideration.

Under the circumstances, I have determined that it is appropriate to further review, in-house, our proposals with regard to concerns expressed by the Subcommittee and others.

Please be assured that we value the comments you and your colleagues have made.

With warm regards,

Sincerely,


Juanita M. Kreps

Honorable John M. Slack
House of Representatives
Washington, D.C. 20515



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