**The Irresponsible Investor**

NYT, June 6, 2004
By MICHAEL LEWIS

Plug into a Google search engine the words “investors” and “corporate corruption” and you could spend the rest of your life reading about the many ways in which the former have been abused by the latter. Plug the same words into the company Google and you’ll get a strikingly different result. In their recent letter to financial markets in which they lay out the ground rules for their public-share offering, the company’s founders, Larry Page and Sergey Brin, insist that Rule No. 1 will be “Don’t be evil.” This, they seem to think, will strike their audience as a radical idea. That is because the audience consists, mainly, of investors. Five long years in Silicon Valley have apparently taught the Google founders a great deal about the people who are about to make them billionaires. The rap sheet on the American investor is long, but it can be briefly summarized:

1. The investor cares about short-term gains in stock prices a lot more than he does about the long-term viability of a company. Indeed, he does not seem even to notice that the two goals often conflict. “Outside pressures” from investors, write the Google founders, “too often tempt companies to sacrifice long-term opportunities to meet quarterly market expectations.”
2. The American investor’s short-term greed leads him to be more interested in the appearance of a business than its substance. “Sometimes this pressure has caused companies to manipulate financial results in order to ‘make their quarter,’” the Google founders write. The investor, of course, likes to think of himself as a force for honesty and transparency, but he has proved, in recent years, that he prefers a lucrative lie to an expensive truth. And he’s very good at letting corporate management know it.
3. Investors, in their shortsightedness, encourage companies to neglect their social responsibility. Actually, the view emanating from the Google boardroom is harsher than that: the founders clearly believe that investors require corporate executives to sacrifice their souls. To save themselves, they’ve concocted an extraordinary plan to contribute 1% of their company’s profits to something called the Google Foundation. The investor who purchases Google’s shares will find himself the owner of not just future profits from the search engine but also a charity. “We believe strongly that in the long term we will be better served — as shareholders and in all other ways — by a company that does good things for the world even if we forgo some short-term gains,” the founders explain. To further prevent investors from subverting their idealism, the Google founders have created, unusually, two classes of shares: one, which investors will be allowed to buy, will come with one-tenth of a vote; the other, controlled by Google employees, will have full voting rights. To investors, Google is as much as saying, “We’ll take your money and give you even more back, but please keep your views and your values, such as they are, to yourselves.”

   This otherwise innocent letter to stock-market investors turns on its head the moral verdict of the Internet boom: in the world according to Google, investors aren’t victims but perps. The reader finishes the thing with a novel thought: pity the poor corporate C.E.O.! He may genuinely want to make the world a better place. He may genuinely dislike his moral climate. But the atmosphere created by investors for

> investors requires him continually to mollify these awful, greedy little people who have done nothing but put up some money and who care about nothing except next quarter's earnings.
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> This is new. Refreshing, even. The investor is usually treated like the lovable new house poodle. No one holds him responsible for the messes he leaves behind on the carpet. But why? The best thing to be said about the typical investor is that, without actually caring very much about anyone but himself, he helps to make us all rich. He pursues the highest return without worrying too much about the moral consequences of his actions.
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> Yet act he does; and he has options. There's an entire sector, called Socially Responsible Investing (S.R.I.), that exists to create pressure on businessmen to behave less like greedy automatons and more like responsible human beings. But by the most wildly generous calculation, only about 1 in 9 dollars is invested in S.R.I. funds, and the vast majority of those merely seek to avoid tobacco stocks. Of the roughly $19 trillion in American investment capital, in other words, $17 trillion or so is invested with the implicit instruction: "Just give me back as much money as possible. Gouge consumers, cheat employees, poison the environment, lie to the public markets — just do it all sufficiently artfully that it doesn't dent my portfolio." Then, when the market falls and one of the people on the receiving end of their beastly demands is caught behaving badly, investors collapse to the floor in disbelief and bay for their money back. It is at that moment — and not a minute before — that they discover the novel idea that businessmen in possession of other people's capital should be held to the highest ethical standards. But of course, now the idea pays.

This sort of hypocrisy is woven deeply into the fabric of American business life. But how deeply I didn't appreciate until I sat in on some classes in ethics at the Haas School of Business at the University of California, Berkeley.

The place is, you might think, the natural home for woolly headed business idealism. It is, after all, Berkeley. And the new dean, a former Republican congressman named Tom Campbell, has made the newly fashionable subject of business ethics something of a personal obsession. When we met he was trying — and failing — to gain entrance to a white-collar prison, so he could bring his students face-to-face with real-life business crooks. The point, he said, was "to show the students that the businesspeople who wind up in jail aren't really any different from them. They look like them, they talk like them; they just made bad decisions." In the meantime, to help keep his students out of jail, he had expanded the school's ethics curriculum.

The course I sat in on had been introduced shortly before Campbell's arrival. It was called Corporate Social Responsibility. As it happened, the name was a bit misleading. The class might better be titled How to Do Well by Doing Good. The professor, a 38-year-old woman named Kellie McElhaney, has little professional interest in goodness for goodness' sake. Corporate social responsibility, as taught in business schools, is apparently all about using your goodness to make more money. McElhaney's students don't just sit and listen but hook up with actual companies to investigate how they might increase their profits by improving their behavior. But the field is sufficiently new that business executives do not always understand what McElhaney, or her students, are up to. They assume that because the professor is sweet-natured, works in Berkeley and teaches something called corporate social responsibility, she must, like a priest or a therapist, intend to hold them to some new, vaguely high standard of behavior. “I tend to inspire guilt in businesspeople,” McElhaney says. “I don’t know what I like less about my job, the pats on the head or other people’s guilt.”

This spring McElhaney sent her students out to study a dozen or so enterprises, among them the pharmaceutical giant Pfizer, the computer company Hewlett-Packard and the Detroit Lions. In doing so she revisited an old dichotomy — boringly familiar to her but new to me. Public corporations understood that their investors would endorse good works only if they paid. The students who worked for them spent their time grappling with not a moral but a technical problem: how do we most efficiently use socially responsible behavior to increase our profits? It was the students who went to work for private companies who were far more likely to encounter the obvious moral question: Can you truly claim to be doing good when the only reason you’re doing it is to make more money? No doubt private companies have their share of executives uninterested in goodness for goodness’ sake. But their owners, lacking outside investors, were (like people!) more inclined to see altruism-for-profit as a hypocritical sham. “With many people,” McElhaney says, “it’s almost a religious thing. If you give to receive in return, it lessens its meaning. And my research tells me that family owned companies, especially, are the ones that have difficulty with the concept.”

To McElhaney — who, oddly enough, is not selfish at all but open and generous, or, at least, clever at seeming open and generous while in fact pursuing a strategy of intense self-interest — this points to a weakness in private companies. “I get very nervous when I hear people say, ‘We do it because it’s the right thing to do,’” she says. “At some point this feeling-good stuff burns out.” She is less interested in motives than in acts, and for a company to perform socially responsible acts it must survive. Any action its executives take that makes survival even a tiny bit less likely — like giving up something for nothing — is not good but bad. “I don’t think unprofitable corporate goodness is sustainable,” McElhaney says.

And she has a point. But her assumptions may also offer a clue to the origin of a certain kind of business villain — the kind who winds up on the front page of the newspaper every time the stock market collapses. Business executives acting on behalf of shareholders are expected to behave in such a self-interested fashion that even their good works — philanthropy, environmental sensitivity, greater-than-necessary concern for employees and so on — must generate profits. That’s what they teach in business schools, because that’s the convention of the financial marketplace. Extreme self-interest is what most investors demand from their corporations. But if goodness for goodness’ sake has no place in public corporations, is it any wonder that the people who work for them exhibit less-than-ideal ethical standards? For that matter, is it surprising, given their necessarily relentless selfishness, that they occasionally forget exactly for whom they are meant to act selfishly? The pressure applied to people who run public corporations almost requires them to forget how to be good.

One day this spring, two students from the Haas Business School, imbued with the values of public corporate life, traveled to a small private company to explain why it should reconsider its ways. The company was Birkenstock Footprint Sandals, or, as the employees like to call it, Birkenstock USA. Just to say the name, of course, is to hear the sound of granola crunching and the rustle of female underarm hair in the wind. The shoe company of choice for hippies is slightly more complicated than its reputation. It was founded in 1966 by a woman named Margot Fraser to sell orthopedic shoes manufactured by the German shoemaker Birkenstock. In the beginning the only retail outlets that would stock the sandals Fraser imported were health-food stores (then novel), and so the company’s first customers had a countercultural flavor. The American distributor now sells many different kinds of shoes, including a line for the striving office worker. It has a strain of hippie in it, but other strains too.

At any rate, Birkenstock U.S.A. is still a private company, subject to ordinary market forces but immune to pressures from outside investors. When the Haas Business School students went into the company's headquarters in Novato, Calif., they found something of a mess, at least by public corporate standards. Birkenstock had been doing good works, willy nilly, for 30 years. It paid employees to volunteer and gave away sacks of cash to worthy causes without telling a soul about it. The company was reluctant to disclose the recipients of its philanthropy; after all, wouldn't it violate the spirit of good works to publicize them? But the business-school students were able to uncover a few specifics. For instance, they discovered that Birkenstock gave money to the Elizabeth Glaser Pediatric AIDS Foundation. And that, from the investor-driven corporate point of view, was a problem: sick kids are nice and all, but what do they have to do with selling shoes, especially if you don't spend a lot of time explaining to them why they should be grateful to you?

The students recommended that Birkenstock ditch most of their good works and put all of their energy into a single very public act that connected up naturally to footwear. They shrewdly recommended that Birkenstock sponsor walks for causes. The cause did not matter so much as the fact that potential customers would be walking many miles on its behalf, and, somewhere along the line, encounter a giant sign that said birkenstock.

The C.E.O. of Birkenstock, Matt Endriss, listened politely to what the business-school students had to say. "I wrestle with the words and phrases they throw around," he said afterward. "'Formalize' . . . 'standardize' . . . 'best practices' . . . 'bang for your buck.' Those words don't live in this organization on a daily basis. A lot of them are words we try to abolish." He tells me, "There's a lot of discussion inside Birkenstock about 'authenticity.'" While that concept is notoriously hard to define, its opposite is not. It is inauthentic to seem not to care too much about making money in the interest of making even more of it. It is inauthentic to go bragging about corporate goodness, in hopes of selling more shoes. When you are honest only because honesty pays, says Birkenstock's C.E.O., you risk forgetting the meaning of honesty. When you are socially responsible only because social responsibility pays, you lose any real sense of what responsibility means.

Put another way: the instinct to give quietly to a pediatric AIDS foundation is second cousin to the instinct not to use slave labor to make your shoes, or not to manipulate your earnings. It is part of a struggle against the market's relentless pressure on the business executive to behave a bit too selfishly —to become one of those corporate villains whom investors can one day profitably sue. "The whole concept of marketing corporate social responsibility seems odd," Endriss says. "Hit folks over the head and tell them how good we are and, in exchange, there's a monetary return for us."

But the matter is clearly not so simple: the people on the receiving end of Birkenstock's social conscience may be grateful, and there's no law to prevent them from telling others what the company has done. Word spreads. And it's possible that the brand Birkenstock is actually strengthened by a less conventionally corporate approach — that is, that the company, in the long run, makes more money by doing its good works on the sly. "People subconsciously think that the company is doing the right thing," Endriss says. "But you ask them, 'Why do you think it's a good company?' And they can't tell you." If it somehow pays for Birkenstock not to publicize its good works — if stealth charity is just a clever strategy for marketing to hippies — then the company is simply strolling down a different path to the biggest pot of gold. But if so, the path is long and poorly marked. "We're not as profitable as we could be," Endriss says, and then goes on to say that if he wanted to maximize the company's earnings he would fire 60% of the workers (the ones who build long-term relationships with customers and vendors) and jack up the price of the shoes.

"Maximizing our profits is not our chief goal," Endriss says. "The exchange of goods and services for money — Birkenstock feels it's here for different reasons." Those reasons can be summarized in a sappy sentence: the happiness of employees and customers and a feeling that it is contributing to the general well-being of the world around it. Make money, yes, but don't make a fetish of it. "If the company were compelled to answer to shareholders," the C.E.O. says, "it would destroy us."

This kind of talk is daft to most investors. Birkenstock U.S.A. has existed for nearly 40 years, but it still has only about $120 million in annual sales. It has grown slowly, generating steady but modest profits and exhibiting no great ambition to grow a lot faster. Who'd want to invest in that? To the financial market these guys are a bunch of mediocrities. But that's the idea: when you make a point of behaving extremely well you are unlikely to make as much money as when you don't. A few highly desirable companies (Google?) might be able to dictate morality to investors, but most cannot. The highest moral standards have a price, and most investors do not wish to pay it. But businesspeople who don't have distant, amoral shareholders to answer to are able to pay whatever price they can afford, for the sake of some other goal. And these goals can include behavior so admirable as to make an investor weep.

Three years ago, the founder of Birkenstock, Margot Fraser, by then a septuagenarian, realized that for her company to survive her it would require another owner. She controlled 60% of the outstanding shares, and the question was what to do with them. Rather than take them into the public market and find the highest bidder — who would, of course, demand the fastest-rising share price — Fraser decided that she wanted to sell them all to the company's employees in a way that turned just about every employee into an owner. To calculate the price of her shares, the board, aware of the founder's desires, took the current fair-market value, then reduced it as much as they could without making the price so ridiculously low that it could be construed as a gift. But when they presented her with a price for her shares, Fraser's only question was, "Why can't you make it lower?"

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