

# [The body shop scrutinized](https://assignbuster.com/the-body-shop-scrutinized/)

By Joan Bavaria, Eric Becker and Simon Billenness Dear Reader…

e independently investigated, we verified some of Entine’s claims. As 1994 progressed, we also became concerned about the growth prospects of the Body Shop’s stock. In early June, Franklin’s Insight lowered its stock recommendation to a “ hold,” citing a rise in the stock’s price and expansion plans by a competitor. At an early June Social Investment conference in Toronto, Jon Entine discussed the results of his research on the firm.

On June 14, callers to Franklin’s Insight’s weekly hotline heard that Body Shop stock had been further downgraded from a “ hold” to a “ sell” recommendation.

On June 17 and on June 22, Franklin Research & Development Corporation sold all 45, 950 of its clients’ shares in the Body Shop. The following July 15 issue of Franklin’s Insight stated: “ Last month we lowered Body Shop to a hold based on concerns that its major competitor [Bath & Body Works] was accelerating its growth in the U. S.

and Europe. Given this concern and fears that a fairly negative upcoming magazine article may put some near-term price pressure on the stock, we are lowering our rating to a sell. ” For a while all was quiet.

Then on August 19, Financial Times reporter Andrew Jack wrote about Franklin Continues on page 2 In the twelve years of publishing this newsletter, the Insight staff has never been as troubled or overtaken by an issue. In the end, we were determined to print this story, to publish as much of the truth as we could uncover and verify ourselves, and to avoid the sensationalism and name calling that has characterized the “ Body Shop Affair. ” The question that is being asked now is whether the story will be permanently damaging to socially responsible investing or socially responsible businesses.

It doesn’t have to be if we in that community keep our wits about us. We can use this to grow stronger and better. This, from Insight’s vantage point, has definitely proved to be a learning experience. We have learned that we must be more diligent in checking company claims.

We have also learned that we have limitations in our research capacity, if we didn’t know that already. The fact was underscored that a stronger tradition (if not requirement) for honest disclosure on various social issues is needed. It is too easy to subtly construct images, whether deliberContinues on back cover

In the past few weeks the British press has focused on the Body Shop’s social record with an intensity normally reserved for the Royal Family. Since the story broke, Body Shop’s stock has fallen from almost 250 pence to a low of 205 pence. Recently, the stock has recovered to 216 pence. Two main questions emerge from this debate: • Why did this issue reach such a boiling point? • What is the Body Shop’s social record? How The Story Started.

.. In September 1991 Franklin’s Insight profiled the Body Shop, awarding the company our highest social ratings.

However, since then, we have received information that challenges our initial assessment of the company. A German newsletter noted that the Body Shop uses non-plant derived ingredients in its products. A British animal rights organization criticized the company’s animal testing policy.

Early this year, investigative reporter Jon Entine provided us with considerable information about apparent contradictions between the Body Shop’s image and its actual record on social issues. As INSIDE This full issue devoted to Body Shop Milt Moskowitz’s column returns next month 2 Body Shop Faces Critics (Cont. Continued from front cover Investing for a Better World 711 Atlantic Avenue Boston, MA 02111 617/423-6655 Publisher Elliott Sclar Editor Research’s decision to sell its Body Shop stock two months before. The London edition’s headline, somewhat inaccurately, read, “ US ethical fund turns against Body Shop. ” At that point, we had simply “ turned against” the Body Shop stock.

We had still not reached a conclusion on the company’s overall social performance. Then the British press seemed to declare open season on the Body Shop fueled in part by leaks from Entine’s story.

Journalists followed the gyration of the stock, probed into the background of Entine and speculated as to the contents of his forthcoming article for the U. S.

magazine Business Ethics, which was published September 1. The Body Shop has come to its own defense. The company has released a 32-page “ Memorandum of Response to the Allegations of Jon Entine. ” The Body Shop later released a strong reply to the Business Ethics article, which it labeled “ recycled rubbish. ” Anita Roddick was quoted calling one animal rights group which criticized the Body Shop “ a bunch of babies.

As the issue has died down a bit in the mainstream media, the debate has intensified within the progressive investment and business community. We hope that our following findings help to shed some light on the Body Shop’s social record and serve as another chapter in the emerging profile of the company. The Body Shop: As We See It Now Our view of the Body Shop’s social record has undergone considerable changes since our last profile. The issue is not necessarily just whether the Body Shop has a good or bad relative record of corporate responsibility. The Body Shop has clearly set for itself high standards.

However, the company has also enjoyed positive tangible benefits from those publicly espoused standards while, apparently, failing to meet many of them. Moreover, and perhaps more importantly, the company has compounded what otherwise might be isolated and curable difficulties by repeatedly failing to provide material information to back up its claims and by repeatedly taking a combative stance with its critics. This defensive and almost secretive posture violates what we consider to be cornerstones of social responsibility: openness and accessibility at the highest level of management.

We believe we should hold even the most well-intentioned company accountable to this standard. We hope that the following article fairly represents the record of the Body Shop in several key areas.

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Printed with soy-based inks on 100% post-consumer, non-deinked, hydrogen peroxide bleached paper. Franchises Since the Body Shop is largely a wholesaler and franchisor, the company’s dealings with its franchisees are an important part of the firm’s record of corporate responsibility.

We have no evidence of problems between the company and its British franchisees. However, there appear to be serious disputes between the Body Shop and some overseas franchisees. In June 1994, the Body Shop settled a breach of contract suit with its former Norwegian Continues on page 3 Limitations

The staff of Franklin Research & Development have spent an extraordinary amount of time verifying the information used in this article. We strive to avoid using inflammatory language or assuming the motives of others.