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Opinion

Let the Sun Shine In

Corporations were first created to serve the common good. A little transparency might help make that ideal a reality--because sunshine is a powerful disinfectant.

BY RALPH ESTES 5 MIN READ Why you can trust us OCT 1, 2002

The purpose of the corporation has become perverted, from serving the public interest to serving private interests of financial investors. Our MBA programs fail to teach the history of the creation of corporations, and, even in the midst of a wave of corporate scandals, debate over reform addresses only the rights of investors.

The first corporations were chartered by the sovereign with the purpose of serving the public purpose; financial investors could seek a return but did not have a standing above the public interest.

Photo by Lynn Brofsky

Although this public purpose was sometimes abused, it was known and accepted for over 200 years, from Queen Elizabeth corporations publicly accountable to financial investors. Thus began the elevation of this special interest to dominance and primacy in corporate affairs.

Today, the purpose of corporations is taken to be maximizing the wealth of executives and stockholders at whatever cost to other stakeholders, the public interest, and the commonwealth.

The financial interests wrested the corporation away from us. It is right and appropriate that citizens now act to take it back. The ultimate goal is to make corporations responsible to those who charter them, who grant them life—the people. But the first step is to force corporations to be accountable to all who are affected by what they do, or who contribute to their success—the stakeholders.

Theodore Roosevelt called for corporate disclosure in his first message to Congress: “Great corporations exist only because they are created and safeguarded by our institutions; and it is our right and our duty to see that they work in harmony with these institutions. … The first requisite is knowledge, full and complete; knowledge which may be made public to the world.”

The corporate system, which has given us cooked books, sweatshops, Enron, clear-cutting, the Exxon Valdez, irradiated food, Tyco, WorldCom—along with NAFTA, GATT, the WTO, World Bank, and IMF —could use some sunshine.

A groundswell of activism is building against unchecked corporate abuse. But in every challenge to corporations, activists quickly discover that much of their work is invested in seeking information. Before we can confront a corporation on its pollution, safety, or diversity record, we first have to work to establish that record. Then when we do find the data, too much time and energy are spent arguing with innumerable corporate lawyers, engineers, and accountants over whether what we have uncovered is accurate—time and energy that divert activists from the real goal of changing corporate behavior.

Even though we’re experiencing a rash of accounting failures, financial investors are still favored enormously over other stakeholders. Corporations are required to provide frequent and detailed financial reports—which, with legislation currently in the mix, may once again become reasonably dependable. These reports must be independence.

Other stakeholders—workers, customers, communities, all those affected by corporate actions—should have an equal right to full and fair disclosure.

Citizens should have the information they need for decisions regarding public contracting, investing, taxpayer subsidies, corporate tax breaks, and other special benefits. Students should similarly have the information they need to assert their preferences with respect to their colleges' endowment fund investments, production of logo-bearing products, campus recruiting, and institutional purchasing and contracting. Drawing on codes of corporate conduct developed by activists, I have helped develop the Sunshine Standards for Corporate Reporting to Stakeholders. These standards could be adopted as requirements by cities, universities, even states for companies they do business with. Stakeholder right-to-know properly takes precedence over cost, inconvenience, or risk to the corporation. These standards would require companies to disclose information about:

- Workplace conditions, environmental impact, commitment to sustainability, and other areas of corporate social responsibility, so that customers, residents, and present and potential employees can make informed decisions.
- Environmental risk, including risks associated with the company's transportation, storage, processing, and disposal of radioactive, toxic, hazardous, and dangerous materials.
- Charitable and political contributions, to permit assessment of efforts to influence public policy.
- Tax abatements, industrial development bonds, zoning exemptions, and other special concessions and public subsidies to the corporation, as well as past performance in response to such benefits.

In the 1933/34 securities acts, Congress gave stockholders the right to disclosure . But they left stakeholders out. It is now up to us to demand that disclosure.

Disclosure will work. After the judge ruled in a CNN employee suit that CNN would have to disclose salary data and portions of an internal study on diversity, settlement talks suddenly accelerated.

effective and efficient than subsequently having to remediate environmental impacts." Manufacturing efficiencies can also lead to cost savings.

And The Washington Post's Stuart Auerbach, in assessing the effects of consumer 'report cards' that rate hospitals, health plans, doctors, and other medical services, notes that researchers have documented an unexpected benefit from these guides: "a significant improvement in the quality of care and range of services offered in hospitals that are publicly rated." The newspaper quoted University of Missouri School of Medicine Professor Daniel Longo: "I've been on both sides of the fence, and I know that there is something about public disclosure that makes a difference. Public reports are in the public interest. We have not seen many changes in the quality of care without public accountability."

The Economist magazine reports that 10 years after a federal toxic release reporting requirement was enacted in 1986 and California passed a ballot initiative requiring another layer of disclosure from state firms, emissions of chemicals covered in the legislation had fallen by 72 percent in California and by 45 percent in the US as a whole.

Making corporations accountable through public disclosure of information needed by stakeholders won't cure all that is wrong with the corporate system. It might appropriately be viewed as an 80 percent solution. Public disclosure will change managers' actions when they have to anticipate that their misdeeds will be exposed for all the world to see. And when the harm does occur, we as stakeholders will be empowered both to confront corporations in the public space, demanding reform, and to vote with our feet and our pocketbooks by taking our labor and our purchases elsewhere.

With corporate accountability, stakeholders win through a substantial reduction of the harm that corporations do. Corporations win by learning about and having the opportunity to fix problems before they grow into crises (and lawsuits). Society wins with a more equitable, and thus stronger, corporate system built on providing safe and effective products, produced under humane conditions, and sold at fair value. It's a win-win-win prescription.

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