An excerpt from

Corporations and the Public Interest
Guiding the Invisible Hand

By Steven Lydenberg

Introduction

At the heart of this book is a series of recommendations about what can be done to create practical tools for investors, consumers, corporate managers, employees, regulators, and legislators to direct corporations toward the public interest. As governments around the world have cut back their ownership and regulation of business over the past three decades and increasingly relied on markets and private enterprise, the risks of corporate abuse have been heightened and new tools are needed to manage these risks.

Under the right circumstances, marketplace forces can help direct corporations to the public interest. Ensuring that those circumstances are in place, however, is crucial. In particular, there must be widespread availability of data on corporations' social and environmental records, analysis and debate about the significance of that data, and the mechanisms to allow the marketplace to reward and punish corporations appropriately when they succeed or fail in achieving societal purposes. Creating a system that can effectively accomplish these goals will take a concerted effort by government, investors, consumers, and corporations themselves.

Steering business toward wealth creation and societal benefit is a goal shared both by those who advocate market-based approaches—despite the risks of abuse and social disruption—and by those who advocate governmental control and regulation—despite the risks of waste, corruption, and stultification. Differing approaches to achieving this end have provoked political controversy over the past century. Many of the proposals I make in this book lie at the point where these differing approaches intersect.

The book is divided into two parts, the first dealing with theory and context and the second with practical implications. In part 1, I explain why concern about corporations and the public interest has grown recently, what public interest corporations can reasonably be expected to serve, and the general strategies taken to date by the socially responsible investing (SRI) and corporate social responsibility (CSR) movements to steer corporations toward those interests. In part 2, I focus on specific steps that will need to be taken to enable investors and consumers to influence corporate behavior, including those best taken by government.

Chapter 1 reminds readers of the tremendous shift away from government and toward markets that has occurred over the past three decades, including privatization, deregulation, and for-profit corporations providing services traditionally seen as the responsibility of the public sphere. Those advocating this shift have promised a richer, better world, but a surge in corporate scandals, financial crises, power struggles between government and business, and displays of management greed, along with daily reminders of widespread poverty and despair, have given critics powerful arguments for government oversight and control. The chapter also provides some historical context on the ongoing power struggle between government and business that has played out since the eighteenth century.

As corporations have gained power and influence while governments have trimmed back, the expectations that corporations will act in the public interest have increased. But there is a dilemma: How can government-like controls guide corporations to the public interest in an era when government is cutting back and markets are gaining greater sway? Chapter 2 begins by describing the public interest that corporations can serve. This public interest is the creation of societal value that can survive the corporation itself—what I call long-term wealth. Corporations create long-term wealth when, in addition to generating productivity gains, they preserve natural resources for future generations, create value in their relationships with their stakeholders, and do not externalize costs onto society. This concept is of increasing importance as the world begins a new century in which it will have a population that tests the earth's carrying capacity; transportation and communication systems that increase business's ability to efficiently and rapidly produce either profits or harm; and challenges that are global in scope that threaten the survival of the environmental, financial, and social networks of support on which we depend.

Chapter 3, the last chapter of part 1, reviews three strategies used by the SRI and CSR movements to steer companies toward the public good: the business case demonstrates to corporate managers where productivity and profitability coincide with the public interest; values-driven approaches direct those in the business world toward ethical behavior; and a system of measurement of long-term wealth creates indicators of corporations' ability to act in the public interest, allowing rewards to be assigned to those that succeed in doing so.

Although each approach has its strengths and limitations, a combination of all three will certainly be needed to take maximum advantage of their respective strengths and to compensate for their weaknesses. In this book, however, I focus primarily on the third approach because I believe it takes greatest advantage of the marketplace's ability to act in a new role as an invisible hand, one that guides corporations toward today's new conception of the public interest. To function effectively, however, this marketplace requires substantial commitments of time and resources by government and corporations and of effort by investors, consumers, and others in society. It also requires data, debate, and consequences.

Part 2 describes the progress made to date in transforming the current marketplace in ways that create this new system and envisions the next steps necessary for its full realization. Chapter 4 explains that social and environmental data on corporations' actual social and environmental records is key to the measurement of company performance. A handful of SRI research firms have already begun to identify and compile such data. Now the challenge is to ensure that corporations systematically disclose this information. Four systems of disclosure will ultimately be needed: international voluntary disclosure of company-wide data; nationally mandated disclosure of company-wide data; nationally mandated reporting of specific disaggregated data; and voluntary customized company reporting.
Chapter 5 examines what will be necessary to analyze and evaluate the data, and the open debate that will be needed to ensure a consensus on the wealth-creating potential of these corporations' initiatives. Two types of research organizations will be needed: those that process the raw data into usable formats, or what I call "infomediaries," and those that are experienced in using this processed data to compare the performance of corporations to each other—a class of organizations that I call "rating agencies."

Data collection and analysis will provide the basis for a broader, informed societal discussion on how companies relate to their employees, customers, communities, regulators, and the environment. To be effective, this debate needs to be based on widely disseminated data. It also needs to pierce the veil of technical vocabulary in which the financial and business worlds all too often have cloaked their activities. Debate will also help investors and consumers look to new ways of thinking about the fundamental concepts of price in the market, returns in investing, and corporations as citizens.

Chapter 6 looks at what it will take to create the consequences—that is, rewards and punishments. Without consequences, the data and debate will be meaningless. This crucial area is the least developed. However, some investors and consumers are defining a vision of societal wealth and communicating it to corporate management through what I call targeted engagement, reallocation of assets, and broad public discourse. These activities will need to grow and expand. To create systems that encourage such activities and allow the financial and consumer markets to send consistent signals to corporate management on these issues, government will need to take some critical steps to empower investors, consumers, and other stakeholders in the corporation.

Chapter 7 sketches out the steps that government and others might take to realize the creation of these systems and reminds the reader of the urgency of the task at hand.

By providing a broad view of the current relationship between corporations and society, I hope this book will contribute to the creation of a system that manages the challenges of the twenty-first century effectively. By mid-century, a technologically sophisticated world of nine billion people will have the potential to create tremendous good, but equal potential to create harm. Decisions made today about the relationships between corporations and society will have a crucial bearing on how successfully this potential is managed in the decades to come.