



“Summary of article by Ralph Estes: The Solution: A Better Scorecard and What the Scorecard Should Contain” in Frontier Issues in Economic Thought, Volume 5: The Political Economy of Inequality. Island Press: Washington DC, 2000. pp. 138-141

Social Science Library: Frontier Thinking in Sustainable Development and Human Well-being

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...corporate managers make their decisions against the yardstick of the present narrow and deficient definition of profit. Although other standards may from time to time be announced, the bottom line is the only continuous and consistent performance standard to which managers are held accountable...Change the performance evaluation system and you change behavior. (203)

Corporate abuses produce pressure for government regulation, but this alone cannot be the solution. Comprehensive regulation would cost too much, inordinately expand the federal bureaucracy, and restrict corporate flexibility and responsiveness. “In contrast, the approach proposed here would be simple, nonintrusive, and in comparison to the benefits to be gained, inexpensive indeed. It is directly modeled after the prescriptions adopted in the United States in the 1930s to curb abuses in the securities markets.” (204-5).

The Prescription

Financial fraud and abuse during the 1920s led Congress to create the SEC (Securities and Exchange Commission) to require firms to disclose the information needed by potential and actual investors. The need today is to go beyond disclosure to stockholders, giving all stakeholders the information they require in order to make informed choices about their relationships with individual businesses.

The most effective response to this need would be for Congress to enact a “Corporate Accountability Act” [a draft version is provided in Appendix 1 of Estes’ book] which would redesignate the SEC as the Corporate Accountability Commission, charged with requiring each corporation to provide an annual, comprehensive Corporate report.

The new Commission could simplify reporting requirements at the same time as it expands their impact. This would be achieved through a comprehensive review of the tangle of federal reporting requirements now in place, to improve their coherence and clarity and reduce redundancy. If most federal reporting requirements were consolidated into a single Corporate Report, filed with a single agency, this would actually reduce the reporting burden for corporations and the administration and oversight functions of government.

Compliance could be reasonably assured through the mechanisms now used to obtain fair

financial reporting –independent audits by certified public accountants... New laws would not be required to deal with every new corporate abuse; when full and relevant information is available, then customers, workers, and communities...will regulate the corporation by their choices. (211-2).

The government's role in ensuring that corporations produce the required information on their own activities would be assisted by actors in the "aftermarket" for corporate information. These are the independent enterprises that would arise to assemble, transmit, summarize and criticize information on pollution, workplace safety, and other indicators of social responsibility –entities like Dow Jones, Moody's, Standard and Poor's and Value Line, which already digest SED filings for public use.

The suggestions that follow build on a variety of earlier proposals, including several that have been taken seriously in the US Congress but have, so far, been defeated by corporate influence.

What the Scorecard Should Contain

The proposed Corporate Report should help customers decide what to purchase, from what company; it should help workers decide where to work, and once there, what rights to demand or what abuses to protest; it should help communities to balance the costs and benefits associated with attracting a given company, so that they will be better able to judge what concessions, if any are worth making; and it should give society at large the information necessary in order to make ongoing decisions about which corporations deserve to keep the corporate charter that permits them to exist, as contributors (at the very least, as neutral toward) the public weal.

The reporting system now required of corporations is designed, first and foremost, for the needs of owners; that is, stockholders. However they would benefit greatly from a Corporate Report that would not only address the moral concerns expressed by an increasing number of investors, but would also indicate which companies are more, and less, likely to thrive in an environment that holds firms accountable for their social and environmental impacts.

The next group whose information requirements have received some government attention is customers. A number of Acts of federal government have required labeling and other means of informing consumers about foods, toxic substances, and a variety of other products and services. These data and more could be built into a Corporate Report that would not replace labeling requirements but that (especially with increasing use of World Wide Web) would enable consumers to make safe and informed market choices. The additional information needs of customers include companies' past record of legal and regulatory actions, and claims brought against them; and enhanced product information, including information on environmental impact.

Employees need better information on which to make career and work choices, including data on a company's past history of layoff's, plant closings, employee grievances and employment stability; its health and safety record; its record in equal employment; the opportunities it offers for training and promotion; its pension program; how technology is affecting workers, and what plans it has for the future. Neither the Equal Employment Opportunity Commission nor OSHA

requires adequate transparency in these critical areas, and existing laws, such as that requiring 60 days notice for plant closings, are not being enforced. “The history of the plant-closing law shows how a weak, piecemeal approach to disclosure, with administration by agencies that lack the experience and the enforcement and audit capabilities of the SEC, holds only false promise.” (224)

Disclosure of relevant information to communities could have a large and immediate impact. “Corporations routinely seek special tax breaks, zoning exemptions, free utility line extensions, industrial development bonds, and anything else the community may be able to provide.” (226) Even without intending to provide special incentives, communities find themselves footing the bill for training the employees of large businesses imposed by the corporation on its neighbors often include pollution and wastes that must be disposed of. Yet communities are rarely equipped with enough information to know what risks they take, and what costs they will incur, to balance out the jobs and taxes they believe will come with a company. Elected officials generally lack the business, finance or accounting backgrounds that would enable them to ask the right questions, or to assess the information that is available. Research indicates, however, that officials and staff will pay attention to relevant information when it is available.