

The Atkinson Letter

...a periodic newsletter promoting social and economic justice in the tradition of Joseph E. Atkinson.

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SHOULD CORPORATIONS BE MORE ACCOUNTABLE? TO WHOM? FOR WHAT?

With each passing day, corporations are becoming more and more powerful. Growing influence brings with it greater public scrutiny. Canadians are beginning to raise serious and significant questions about corporate accountability. While some argue that corporations should only be accountable to their shareholders for generating profit, most say that corporations have an impact on an array of stakeholders and must perform their functions in a socially-responsible way.

In order to promote a national debate leading to a consensus on corporate accountability, *The Atkinson Charitable Foundation* is funding a project called *Canadian Democracy and Corporate Accountability*. The project, which was officially launched on February 8, will function much like a Royal Commission with five Commissioners conducting public hearings and private discussions in cities across Canada. The project has already released a discussion paper, and will produce a final report by the end of the year. The final report will present recommendations for the federal and provincial governments, the corporate sector and the social/economic justice community. The Commissioners are The Honourable Ed Broadbent, former Leader of the federal New Democratic Party and former President of the International Centre for Human Rights; Avie Bennett, Chair of McLelland and Stewart Inc. and Chancellor of York University; Linda Crompton, CEO of Citizens Bank; Ken Georgetti, President of the Canadian Labour Congress; and, John LeBoutillier, former CEO and President of Iron Ore Company of Canada.

To get a sense of the importance, scope and range of questions related to corporate responsibility, in this issue of *The Atkinson Letter* we interview the Commission's co-chairs, Ed Broadbent and Avie Bennett.

Atkinson Letter (AL): Why is corporate accountability such an important issue?

Ed Broadbent: Well for one thing, corporations are such a big part of the modern world. In fact, in many respects, corporations have become a more immediate presence to many citizens in modern democracies than either governments or other organs of civil society. By 1995, for example, 51 of the largest economic entities in the world weren't nation-states, they were corporations. The largest 200 companies had sales that added up to more than a quarter of the world's economic activity. In fact, those firms had total sales that were larger than the combined economies of the smallest 182 countries. It's pretty staggering when corporations have more economic clout than entire groups of countries.

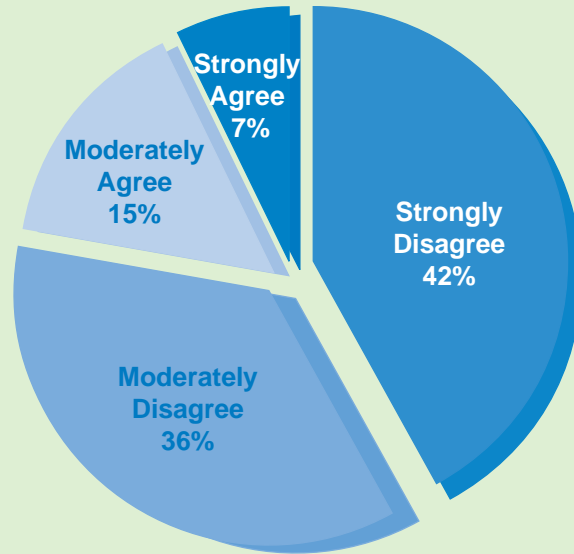


And because of that clout, and because of well-funded conservative think tanks and lobby groups, corporations are having a huge influence on both public opinion and government policy. It's no coincidence, for example, that as corporate influence has grown, their share of the tax burden has gone down significantly.

AL: What makes this the right time to look at this issue?

Avie Bennett: Because we've reached a stage in Canada where, like in a lot of OECD countries, corporate power is growing disproportionately vis-à-vis the power of the other two components in a modern democratic society—government, and the vibrant network of voluntary and non-profit groups that Ed referred to as "civil society." The idea of a society where both market and non-market

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Market Explorers Survey of Canadians
Commissioned by Conference Board, 2000

social goals are in balance, has been replaced by one where the corporate view is clearly the one that dominates.

At the same time, in the past five years we've started seeing an incredible amount of consumer, shareholder and street activism—as in Seattle—that is challenging this “corporate rule.” And we're not just talking about isolated pockets of people getting a lot of publicity. A few months ago, a Conference Board of Canada survey showed that 78 percent of Canadians disagreed with the statement “successful business should focus on money and profit rather than on social and community issues.”

So, the issue of corporate accountability is being pushed onto the public agenda from a number of directions and we ought to recognize it and deal with it in a constructive way.

AL: What exactly do you mean by “accountability”?

Bennett: Accountability means accepting that you have to explain your actions and take responsibility for them. All modern democracies require state institutions to be accountable precisely because they are centres of power that affect people's lives. There can be no democracy unless those who have power over people's lives are

actually accountable to them. Accountability is a core democratic value. These centres of power include government, civil servants, courts, police forces and the military.

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Broadbent: And the reality is that over the past few years, many of these important institutions **have** become more open and accountable. Our government was already democratic, and as a result of changes like access to information legislation, it has become more accountable in recent years. Schools have become more accountable. Hospitals are starting to bring in things like report cards and becoming more accountable to the public. The volunteer sector is becoming more accountable. Its leaders accepted virtually all of the accountability

regulations that came out of a national inquiry I chaired two years ago. So it's time to look at the issue of whether corporations are going to become more accountable.

AL: What kinds of questions do you see yourselves posing during your hearings and discussion?

Bennett: There are so many important questions if we're going to do this thing right and come up with some meaningful recommendations. Basically, we've tried to distill them into six major areas. First, besides their function in producing goods and services and generating profits, what is the proper role of corporations in a modern democracy? Secondly, how do we render corporations more responsive to their employees, consumers, shareholders and citizens at large? Thirdly, in a rights-based democracy, which rights should be available to corporations and which should be reserved for people? Fourthly, as collective entities, should corporations or other collective entities like unions be allowed to participate financially in elections? Fifthly, is there a conflict between corporate social responsibility and competitiveness? And, sixthly, does it even make sense to talk about corporate responsibility and accountability for Canadian companies competing globally against firms from countries where such issues are regarded by their governments as irrelevant?

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Broadbent: The questions that Avie mentions are all very complex. For example, in dealing with the second issue of making corporations more accountable to their various stakeholders, we have to ask a lot of things like: should corporations be expected to go beyond regulations protecting the rights of workers, or apply decent standards, where they are not now required to do so? Should corporations be expected to police the workplace standards—including the human rights and safety of



Should companies be allowed to price medicines out of reach of the world's poor?

workers—of the suppliers from whom they source? Should corporations meet high standards for goods and services where there are no legal apparatuses requiring these standards? Should corporations avoid sending dangerous, damaged or expired products to places that do not carefully regulate consumer safety?

Should corporations producing essential medicines price these products outside of the reach of the world's poor? Should they contemplate the impact of plant closures and relocations on local communities? Do they owe anything to a community when they decide to leave? And in answering these questions, if the response is affirmative, should the action be voluntary or legally binding? And there are many, more issues.

AL: If the answer to these kinds of questions is "yes," wouldn't that kind of social responsibility jeopardize a company's ability to make a profit and stay in business?

Broadbent: In fact, there's a growing body of evidence that suggests that the opposite is often the case. In today's environment, a number of companies have found that being "on side" with all of their stakeholders has improved their "position". Companies that can show that they are socially responsible can, over the long haul, gain recognition and a favourable reputation. It's what economists call "reputational capital". A good reputation can lead to all kinds of benefits such as better relations with employees, easier access to credit, and customer and supplier loyalty. Investors are more willing to trust their investments to firms that have better reputations because they perceive fewer risks. And indeed, there is even evidence showing a correlation between corporate social performance and stock prices. A study carried out by the

"...does it even make sense to talk about corporate responsibility and accountability for Canadian companies competing globally against firms from countries where such issues are regarded by their governments as irrelevant?"



U.S. Council on Economic Priorities found a clear link between a company's long-term profitability and its social performance in five categories: environment, advancement of women, advancement of minorities, charitable giving and community action. So principles and profits can go hand-in-hand.

Bennett: And if there is indeed that kind of direct link, then one of the things we have to think about is why isn't corporate social responsibility more commonplace? It may simply be that the pay-offs are long-term and far removed from the radar screens of businesses, which tend to operate in an economy and marketplace that are obsessed with short-term profits.

AL: But is it even legal for corporations to divert their efforts away from business and toward social responsibility? Aren't they required by law to focus on maximizing the benefits for shareholders?

Bennett: That's an interesting and key question, and one we hope to focus a good deal of attention on. It's true that much of corporate law is directed to rendering corporations—and specifically corporate directors—accountable only to shareholders. So we have to ask, "if directors manage corporations in a socially responsible fashion, do they run afoul of their 'fiduciary duties' to act in the best interest of the corporation?"

If there is a clear and direct link between success and corporate social responsibility, a director charting a socially responsible course for a corporation could not be said to be violating fiduciary duty obligations, even if these obligations were narrowly defined as simply maximizing profit for shareholders. On the other hand, where the link between responsible behaviour and profits is unclear, fiduciary duty—a concept very ambiguously defined in Canadian law—may inhibit socially responsible behaviour.

Unfortunately, Canada lags in this area behind countries such as the U.S. and U.K., which have brought in legislation to correct the ambiguities around what "fiduciary

responsibility" really means. In the U.S., 30 states have taken legal measures that explicitly permit directors to consider the effects of their decisions on a variety of non-shareholder interests. These laws usually extend to all operations of the corporations and define "constituency groups" as including employees, suppliers, customers, creditors and local communities in which the corporation operates. Mind you, these laws are only permissive, which means that directors **may** do this or that. They certainly do not require corporations to act in a socially responsible way, and some would argue that their impact has been disappointing.

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Broadbent: The much-touted voluntary codes of conduct that have been introduced by corporations have typically contained guarantees that reflect issues of importance to the profit interests of the corporation, and not necessarily those of other stakeholders.

AL: So, if permissive legislation and voluntary codes of conduct aren't the answer, what do you think it will take to get corporations to be more accountable and to act in a more socially responsible way?

Broadbent: I think that kind of shift will take a lot of vision and leadership on the part of business leaders, some of whom have already acted. However, we will also need changes in law and policy that acknowledge the importance of accountability and make it easier to create the "accountable corporation." Achieving corporate responsibility in Canada is our next major democratic challenge. Governments and civil society organizations are already there. Companies must be next.

AL: Any final thoughts on what you hope to accomplish with this project?

Broadbent: Above all, we want to bring forward some practical, credible recommendations that will be acted on and bring about real change.

At the moment, the corporate and social/economic justice sectors in Canada are far apart in their approaches and positions to corporate accountability and responsibility. On the one hand, the corporate sector is often oblivious to, or uninterested in, the positions taken by social/economic justice organizations. On the other, social/economic justice organizations are often unfamiliar with the competitive business realities confronted by companies. So, we need to find some ways of spanning that chasm.

Bennett: In short, our ultimate intention is to propose a series of changes to law and policy that will make companies more responsive to all of their stakeholders, while recognizing their legitimate need to stay profitable. And this is achievable because of the diverse participants who are working together on this commission.



Did You Know That... ?

- 67% of North Americans participating in the world-wide Millennium survey said that they have considered “punishing” companies not seen as socially responsible.
- 43% of Canadians in that study said that the role of corporations in society should be to set higher ethical standards and build a better society for all.
- 86% of people surveyed in France, Germany, Italy and the U.K. preferred to purchase products from socially-minded companies.
- In Canada, the new Jantzi Social Index—a socially-screened index of 60 Canadian companies—gained 17.32% from the time of its inception in January 2000 to July 2000, a performance far surpassing the 10.14% gains of the TSE 300.
- A 2000 KPMG survey of Canadian companies showed that 61% had no ethics training. The majority of companies that did, offered less than 4 hours per year.

HAVE YOUR SAY

The Commissioners of the *Canadian Democracy and Corporate Accountability* project will be conducting their first two hearings on the following dates:

- Ottawa, February 20-21; and
- Winnipeg, March 16-17.

To arrange a presentation to the Commissioners, or to find out about future hearing dates and times, please contact Susan McMurray by phone at 416-406-2116 and by e-mail at commission@corporate-accountability.ca

Speaking of Corporations and Accountability...

"Large Canadian corporations and transnational corporations (TNCs) are especially influential. Because of the sheer size of these corporations, the decisions of the relatively few people who control them exert great influence on the decision-making of local, provincial and national governments, and can have great impact on the communities in which these corporations are located. For these reasons, there is a need for a social responsibility framework for large corporations and TNCs especially, a framework that enables individual citizens and communities to hold corporations accountable to community interests."

—Duff Conacher
Co-ordinator of Democracy Watch

"Without losing sight of its basic economic role, or its need to make a profit, the modern corporation has concerns, ideals and responsibilities which go far beyond the economic. . . it must accept community responsibilities as well as private obligations."

—Allan Taylor
Then-Chairman of The Royal Bank, 1994

"As we move into the 21st Century, it is increasingly clear that the key elements of social responsibility—especially how we support our workers, their lives and their communities—will be key elements in a company's productivity and competitiveness."

—Michael Bonsignore
CEO, Honeywell

The Atkinson Letter is an occasional publication designed to disseminate research findings and ideas that contribute to full and reasoned public education on factors that may influence economic and social justice.

The opinions expressed are solely the views of those interviewed.

Other publications are welcome to reprint any part of this material. They are also invited to contact the interviewees or authors directly for further information or clarification.

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Would You Like To Know More?

We invite our readers to learn more about the *Canadian Democracy and Corporate Accountability* project. For more information please check out the project's Web site at: www.corporate-accountability.ca