Corporate disclosure

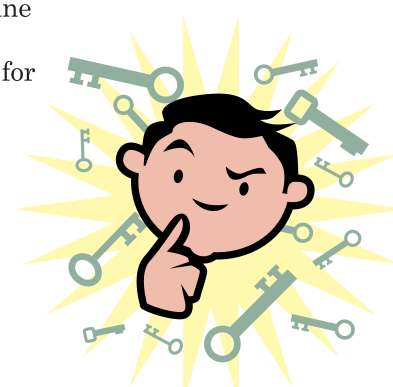
Problem: If corporations don't disclose their crimes, the public can't make good decisions

When you buy a can of Coca-Cola, chances are you don't think too hard about how Coca-Cola Inc. treats its workers. Likewise, your decision to purchase a General Electric light bulb probably does not involve thinking about how GE Co. has been repeatedly cited for pollution violations.

But if you were concerned about what kind of companies you were supporting, where would you go? Sadly, there is no central source where you can go to assess any corporation's record. That's because corporations are not required to disclose how much they pollute, how treat and pay their employees, how many tax loopholes they utilize, or even how often they've been sued. Sure, individuals can cobble some of this information together from a disparate array of sources, as some public interest groups have done. But most corporations do their best to keep their records out of the public scrutiny.

The only data that publicly-traded corporations have to disclose publicly are their finances, which the Securities and Exchange Commission is responsible for collecting for the benefit of investors. But as we learned from Enron and WorldCom, even this information is not always accurate. That's because corporations are increasingly finding ways to bypass securities laws, taking advantage of lax enforcement.

Without disclosure, it's very hard for socially responsible members of the public to determine which companies they should be supporting. It is equally difficult for socially responsible investors to asses which company's stock to buy. Even investors who don't care about social responsibility are harmed by only getting part of the picture. Had Enron been required to disclose a more detailed portrait of its activities, investors and analysts likely wouldn't have been deceived.



In order for capitalism to work, consumers and investors must have the ability to make good informed choices to reward honest, law-abiding corporations. Without the information, the market fails, as it did in the recent stock bubble.

Solution: Require full corporate disclosure of social, environmental, and financial behavior

Requiring corporations to disclosure more information will have two primary benefits:

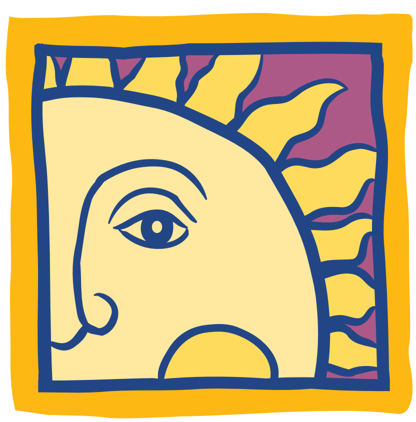
1) With better information available, both consumers and investors will be better able to reward honest corporations that make good products through safe and honest means and punish corporations that do not.

2) Corporations are more likely to pay attention to the activities that they report. As accounting professor Ralph Estes notes, "You manage want you measure. Or if you don't count it, it doesn't count." Requiring corporations to make their misbehavior public should also shame corporations into improving their behavior.

As U.S. Supreme Court Justice Louis Brandeis famously noted, "Sunlight is the best disinfectant."

Disclosure also has a strong history.

The Securities Act of 1933 and the Securities Exchange Act of 1934 required companies issuing stock to also issue thorough reports of their finances. This improved disclosure made U.S. stock markets the envy and model for the rest of the world. However, in recent years, these disclosure laws have been inadequately enforced, paving the way for corporations to produce false and misleading information that led investors to lose trillions of dollars.



The Emergency Planning and Community Right-to-Know Act of 1986 (ECPRA) required factories to publicize their toxic releases into the land, air, and water. As a result, industries reduced their toxic releases by 45.6% over the next decade, according to the EPA.

Increased disclosure will not cure everything that is wrong with the corporation. But it will force managers to pay attention to more than just financial profit and may alert them to problems they didn't even know existed. It will empower investors and consumers to make better choices. And it will give our entire society a better understanding of how corporations operate and the costs of their behavior.

Resources:

The Corporate Sunshine Working Group: www.corporatesunshine.org

The Stakeholder Alliance: www.stakeholderalliance.org

The Tyranny of the Bottom Line, by Ralph Estes

The Divine Right of Capital, by Marjorie Kelly

For more information, visit Citizen Works at http://www.citizenworks.org or call 202-265-6164.

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