

# The Code for Corporate Responsibility



## **Problem: Corporations do bad things because the law tells them to**

Why do corporations focus on profit above all else? Because the law tells them to do so. The law says that corporate directors and officers should manage the corporation for the benefit of the shareholders — in other words, to make money. Should officers and directors do anything that benefits the public but interferes with making money, they could be sued by shareholders. This results in many corporations cutting costs in ways that damage the environment, workers, and our communities.



Many corporate directors and officers are good, decent people who sincerely want to do right. But their collective behavior is constrained by the legal requirement to continually make more money. This may mean marketing tobacco to children. This may mean selling sneakers made by Third World children making pennies a day. This may mean dumping chemicals in the river because paying a fine is cheaper than complying with an environmental regulation. All these decisions maximize profits for shareholders. All these decisions are the logical conclusion of a corporate culture and law that places corporate profit above all other concerns.

## **Solution: Change the law so that corporations will behave ethically**

Shareholders (mostly passive investors) represent only a slice of all the people who are affected by the actions of the corporation. What about employees who depend on corporations for jobs and benefits? What about consumers, whose lives can depend on the safety of the corporations' products? What about the people who eat fish from streams where toxic chemicals are dumped? None of these other stakeholders are currently considered in the corporate decision-making process, where profit is the sole focus.

The Code for Corporate Responsibility changes the law so that corporations would operate with a duty not just to make money for shareholders, but also to protect workers, communities, consumers, and other stakeholders who are equally affected by the day-to-day

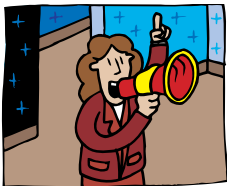
operations of corporations. The Code requires directors to ensure that profits do not come at the expense of five elements of the public interest: 1) the environment; 2) human rights; 3) public health and safety; 4) the welfare of communities; and 5) employee dignity. It allows for members of the public who have been damaged in any of these areas to sue the corporate directors in a private or class-action lawsuit. State attorneys general will also be able to bring suit on the public's behalf. The desired result: corporate directors will recognize their duty to the public interest and stop focusing solely on profit, to the exclusion of all other interests.



## **Action: Let's get the Code passed in all 50 states**

This is not as complicated as it may sound. States amend their corporate law all the time. The Code is simple and easy to understand. It is really a common-sense proposal.

Nor is it totally novel. In the 1980s, 35 states passed laws that allowed directors to consider the rights of other parties besides shareholders to justify the rejection of a hostile takeover. The Code advances this idea a few steps further, requiring directors to consider the public interest at all times, not just when their company is under threat.



Public support for the ideas behind the Code is widespread. A 2000 Business Week/Harris Poll showed that 95% of people surveyed thought that corporations should have more than the one purpose of making profit and "should sometimes sacrifice some profit for the sake of

making things better for their workers and communities."

So far, the Code for Corporate Responsibility has been introduced in California by State Senate Majority Whip Richard Alcaron. Groups have already formed to push the Code in Minnesota and Maine. Interest is also growing in other states.

### **Resources:**

**Citizen Works** has everything you need to know: <http://www.citizenworks.org/>

**The Minnesota Code for Corporate Responsibility group:** <http://www.c4cr.org/>

***The Divine Right of Capital***, by Marjorie Kelly  
***Tyranny of the Bottom Line***, by Ralph Estes



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

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