Corporation20/20
Designing for Social Purpose

PRINCIPLES OF CORPORATE REDESIGN

A Brief Explanation

These Principles are the distillation of two years' deliberation among participants in Corporation 20/20, a project to create the vision and chart the course for the future corporation. The initiative aims to design corporations that seamlessly integrate both social and financial goals. In this process, Corporation 20/20 includes leaders from business, civil society, finance, government, law, and labor. Beyond contributions from these participants, the Principles strive to embody the collective spirit of generations of work in defining the progressive corporate agenda.

Distilling the core aims of diverse efforts, Corporation 20/20 views them through a single lens: that of "corporate redesign." We ask: If we were to design future corporations with social purpose at their core, consistent with the financial needs of business, what would such corporations look like? These principles provide a foundation for meeting this critical 21st century challenge.

Corporation 20/20 begins with the premise that corporations have extraordinary potential to serve the public good, but are prevented from fully doing so by a design that leaves them tethered to demands for short-term returns. This mandate is built into all aspects of corporate design – from directors' duties to supply chain management to how CEOs are hired, fired, and compensated. Pressure to deliver short-term returns drives decisions that create high social costs to employees, suppliers, communities, and the environment. Many of the most pressing business issues – ethics crises, diminishing real wages, CEO pay, and environmental damage – trace their roots to this design. Such problems are systemic. They are rooted in the nature and purpose of the corporation. Tackling problems individually treats symptoms rather than causes, and is destined to fall short.

The challenge of corporate redesign calls upon us to critically assess the received wisdoms that currently define corporate purpose. By assessing the strengths and shortcomings of prevailing norms – and asserting a set of new norms – we hope to catalyze a broad movement for constructive change.

In this spirit, the principles that follow offer an overarching framework for guiding all parties -- business, investors, government, labor, and civil society — toward actions that will direct the creativity and resources of business toward addressing the great challenge of building a sustainable future.

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Preamble

In the course of human events, seminal moments arise when it becomes imperative to redesign major social institutions. We face such a moment in the case of the corporation. Conceived in the era of kings, refashioned in the industrial era, corporations now wield dominant power over the lives of people and the quality of the environment. We face a moment of both urgency and opportunity to begin a transformation of this powerful institution, redesigning it to stand on a foundation of service to the public interest

Principle 1. The purpose of the corporation is to harness private interests to serve the public interest.

Why does society create laws that allow corporations to exist? To serve the general welfare, which should be the purpose of all democratic law. Corporations have a unique role as private organizations, created by those motivated to create wealth and rewarding livelihoods for themselves through the production of goods and services. We must retain private interests as a major engine of economic prosperity. At the same time, we must insist that corporations concurrently serve society and protect the biosphere, which are the foundation of all future wealth creation. Thus, all corporate actions must be consistent with the public interest, and where private and public interests conflict, the public interest must prevail. Thus, Principle 1 positions the corporation in relation to the broader aims of society, to which it must contribute.

Principle 2. Corporations shall accrue fair returns for shareholders, but not at the expense of the legitimate interests of other stakeholders.

Principles 2 through 6 help explain the public interest. Principle 2 begins by acknowledging that profit and investment are vital to a well-managed company. Yet corporations may not pursue profit for shareholders by undermining the legitimate interests of other stakeholders. The word "legitimate" is critical, because companies cannot avoid all harms. Corporations must, however, incorporate legitimate stakeholder claims in their decision-making. The legitimacy of stakeholders' claims derives from their role as providers of human, natural, social, and financial capital to the corporation. Issues linked to this principle include, for example, how each corporation deals with consumer safety, workplace conditions, wage standards, pollution regulations, and community social impacts.

***Principle 3. Corporations shall operate sustainably, meeting the needs of the present generation without compromising the ability of future generations to meet their needs*.**

Vital to the public interest – vital to all life – is the stewardship of the biosphere through preservation of natural resources and protection of common assets such as clean air, water, and the earth's climate. As stewards, corporations must not abdicate their long-term public responsibility in pursuit of short-term private gain, as they have in the past.

Climate change is the most compelling example. The existence of most corporations has depended, directly or indirectly, on selling products and services that are unsustainable from a climate change perspective. Thus, operating sustainably in the future, consistent with Principle 3, implies for many corporations dramatic change in the nature of products and services, so as not to compromise future generations. Issues linked to this principle include, for example, concerns about privatizing the world's gene pool, decreasing fossil-energy use, reducing pollution, and designing sustainable products.

Principle 4. Corporations shall distribute their wealth equitably among those who contribute to the creation of that wealth.

Prevailing norms of corporate governance and fiduciary duty make shareholder wealth paramount. Gains to other stakeholders – wages for employees, payments to suppliers, and taxes to local and national governments – are perceived as costs to be minimized. In contrast, a corporation designed consistent with Principle 4 recognizes its obligation to distribute wealth equitably among parties who helped create that wealth. Issues linked to this principle include, for example, living wages, employee ownership, profit sharing, fair trade and procurement policies, tax payments based on consumption of public resources, and fair returns to shareholders.

Principle 5. Corporations shall be governed in a manner that is participatory, transparent, ethical, and accountable.

Participatory governance must empower stakeholders at all levels of corporate decision making in ways that seldom have occurred in the past. Through decision-making that is transparent, ethical, and accountable, affected parties can be informed, heard, and respected. Appropriate governance is a key mechanism for implementing all other principles. Issues linked to this principle include, for example, corporate board and committee composition, election and removal of board members, stakeholder councils, public reporting, management of ethics, and checks and balances on management power.

Principle 6. Corporations shall not infringe on the right of natural persons to govern themselves, nor infringe on other universal human rights.

While Principles 2 - 5 primarily concern the functioning of the corporation in relation to its internal and external stakeholders, Principle 6 speaks to how the corporation intersects with the broader political rights of citizens. It sets a limit that corporations must not transgress: the rights of natural persons to govern themselves. Corporations must not exceed their proper role in democratic political processes, and must respect norms that limit their influence in lawmaking. Issues linked to this principle include, for example, corporate constitutional rights, lobbying, ownership of the media, and campaign finance.