

Modernising Company Law



Meeting the Stakeholders Challenge

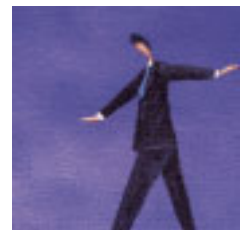
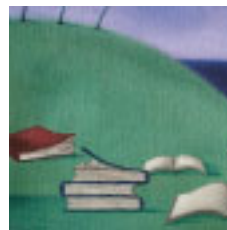
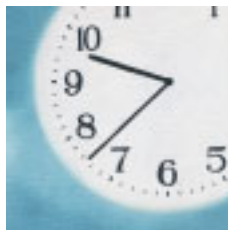
Issue 3 Autumn 2005

UK Company Law must reflect the interests of affected stakeholders, not just shareholders. The Corporate Responsibility Coalition (CORE) has set out proposals aimed at providing a balanced approach to business that will benefit us all. These include:

1. **Company Law should include a requirement for directors to consider, act and mitigate any negative impacts on affected stakeholders, such as employees, local communities and the environment.**
2. **Affected communities must have access to justice in the UK, when the behaviour of UK companies abroad causes harm.**
3. **Companies must be required to report on their social and environmental impacts and performance.**

A Victorian legacy in the modern business world

Everyone would agree that companies do contribute to people's prosperity and overall wellbeing. But, too often, companies also cause harm to communities, damage the environment, or violate workers' rights in the course of doing business. This is because company directors' desire to operate to high ethical and social standards are often outweighed by their obligations to their shareholders, whose interests take legal precedence over employees, communities and the environment.

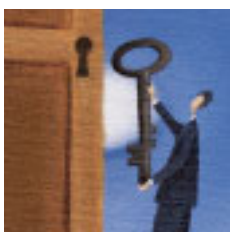


The reasons for this can be found in the statute books. In spite of the incredible pace of change in today's modern global economy and despite rising public expectations for ethical business behaviour, the current framework of UK Company Law dates back to the mid 19th century. It is often this 'accountability deficit' that prevents business from fulfilling its wider obligations to society.

Over the next year, the Government will be making the biggest changes to UK Company Law in decades, by taking the Companies Bill through Parliament. This presents a major opportunity to deliver a framework of company law to meet the needs of the 21st century by ensuring that business is accountable for its wider impacts on society and the environment.

Failing to meet the challenge

Over the past few years, the Government has made commitments to the international community and the British public to promote responsible business behaviour as a key part of its strategy to further sustainable development. But the Government's proposals for company law fall far short of meeting these commitments.



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Under the proposals, company directors would continue to have a primary responsibility to promote the success of their company on behalf of shareholders. This would essentially mean a continuation of the outmoded 19th century framework, giving directors little option but to work towards the bottom line, to the exclusion of other considerations. Thus, where a conflict arises between the short term benefit to shareholders (e.g. higher share prices or dividend payments) and the public good (e.g. controlling factory emissions or paying a living wage to employees), the former obligations will almost inevitably win out.

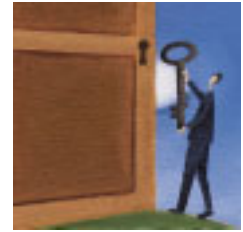
This problem has long been recognised by economists, civil society and company directors themselves. But in spite of this, the Government has opted to rely on a framework of “enlightened shareholder value” and a patchwork of voluntary approaches to deliver corporate social responsibility.

Yet market forces alone have consistently failed to deliver better outcomes for the public, particularly in the context of an increasingly competitive and short-term oriented business climate.

Even in countries where laws are in place to protect the environment or employees, a steady stream of examples continues to provide evidence of corporate negligence. In many places around the world, enforcement of such laws is weak and the penalties imposed too low compared to the financial benefits gained through not meeting legal obligations. This is why a new legal framework is needed here in the UK to ensure that companies work to the same high standards wherever they operate in the world.

The CORE Proposals:

CORE, along with the Trade Justice Movement (TJM), is calling on the UK Government to develop a framework of Company Law that reflects the interests of affected stakeholders, not just shareholders.



The proposals are simple:

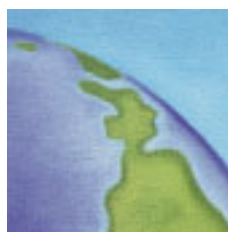
- 1. Company Law should include a requirement for company directors to consider, act and mitigate any negative impacts on affected stakeholders, such as employees, consumers, local communities and the environment.**

The best way to achieve the Government’s aims for sustainable development and corporate responsibility is through enhanced directors’ duties, instead of a reliance on “Enlightened Shareholder Value”. Such a change would help the UK meet its commitments to the Johannesburg Declaration (2002), the Millennium Development Goals, the UN Universal Declaration of Human Rights and the OECD Convention on Bribery and Corruption.

- 2. Affected communities must have access to justice in the UK, when the behaviour of UK companies abroad causes harm. The Government must address how best to create legislation to end the undesirable activities of UK companies overseas.**

If a company had a burst oil pipe in the UK, damaging the environment and people’s property and livelihoods, it would be held to account. The UK has stringent environmental regulations which would require the company to pay for a clean up operation and reimburse people for their loss. To most people this is common sense - you make a mess, you should clean it up. The knowledge you will be liable might even persuade you to improve standards and avoid making the mess in the first place. Unfortunately, UK companies don’t always have to clean up the mess they make, particularly if it occurs in the developing world or where environmental legislation is weak.

CORE and the TJM want communities abroad who are denied justice in their own country to be protected through the ability to seek compensation in UK courts for environmental or human rights abuses committed by UK companies or their subsidiaries and associates.



3. Companies must be required to report on their social and environmental impacts and performance.

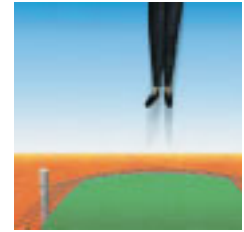
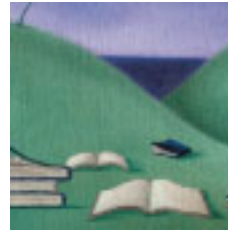
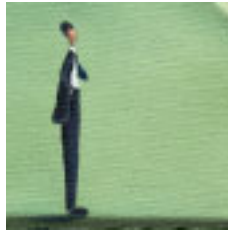
The UK Government has placed an obligation on UK listed companies - through the Operating and Financial Review (OFR) - to report on some social and environmental impacts only where it is in the interests of current and potential shareholders. In most cases, this means that meaningful and transparent reporting is unlikely to occur. The Government must require company directors to report in the interests of affected stakeholders, not just shareholders as part of the overall regime of Company Law.

Who is CORE?

The Corporate Responsibility Coalition (CORE) is the UK's most active voice on corporate accountability, supported by over 130 organisations ranging from human rights, environment and development organisations, to trades unions and faith based groups, several businesses and many others. In addition, CORE has attracted the support of over 300 MPs, members of the House of Lords and MEPs.

CORE was formed in 2001 to influence the Government's proposals for Company Law reform. It is directed by a Steering Group comprised of Action Aid, Amnesty International UK, Christian Aid, Friends of the Earth, War on Want, Traidcraft and WWF UK.

CORE is also part of a wider international movement campaigning for greater corporate accountability. We are a founding member of CORE Europe, a coalition of organisations representing 15 European Countries and 29 organisations across Europe.



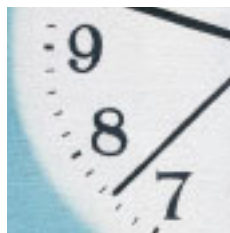
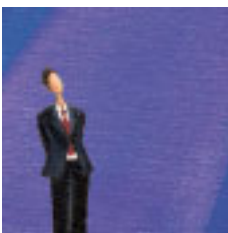
Who is TJM?

The Trade Justice Movement is a fast growing coalition of UK organisations including aid agencies, environment and human rights campaigns, fairtrade organisations, trade unions, faith and consumer groups. The movement is supported by more than 70 member organisations that have over 9 million members. Together we are campaigning for trade justice - not free trade - with the rules weighted to benefit poor people and the environment. It is calling for fundamental change of the unjust rules and institutions governing international trade, so that trade is made to work for all.

TJM is calling on the UK Government to:

- **Fight to ensure that governments, particularly in poor countries, can choose the best solutions to end poverty and protect the environment.**
- **End export subsidies that damage the livelihoods of poor communities around the world.**
- **Make laws that stop big business profiting at the expense of people and the environment.**

To find out more about its work, and to take part in its latest action Vote for Trade Justice, please visit the website at www.tjm.org.uk



Supporting CORE - what you can do

MPs:

1. Support related Early Day Motions and Adjournment Debates.
2. Lobby key Ministers such as Alun Michael and Secretary of State, Alan Johnson at the Department of Trade and Industry
3. Challenge the Government's draft UK Companies Bill by proposing and supporting key amendments to it.
4. Contact CORE for further support and follow-up actions

Members of the Public:

1. Send a letter to your MP asking them to sign Early Day Motions and support amendments to the Government's Bill.
2. Join CORE at www.corporate-responsibility.org and check the website for any follow-up actions you can do.
3. Write to the media in support of CORE's proposals.

Supporting Organisations:

1. Ensure you've signed up for the Campaign at www.corporate-responsibility.org
2. Encourage all your supporters, members, employees and activists to take action in support of the Campaign.
3. Create a link from your website to the CORE website.



Supporting Businesses:

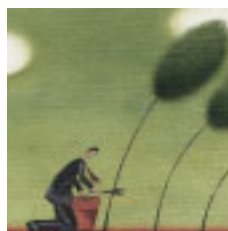
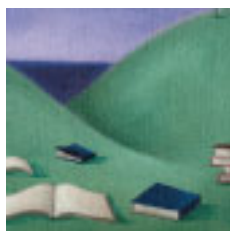
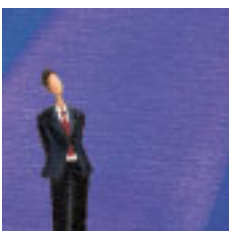
1. Sign up for the Campaign at www.corporate-responsibility.org
2. Contact us to help lobby Ministers in conjunction with CORE and participate in roundtable discussions with other businesses on the issue of 'corporate accountability'.
3. Lobby any business association you are a member of, in support of CORE's proposals.
4. Encourage your employees to support CORE.



Christian Aid



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