Wissenschaftszentrum
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Institut
Wuppertal Institut für
Klima, Umwelt, Energie
GmbH

Michael Kuhndt, Burcu Tunçer,
Kristian Snorre Andersen, Christa Liedtke

Responsible Corporate Governance

An Overview of Trends, Initiatives and State-of-the-art Elements

What sort of globalisation is sustainable?

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Döppersberg 19
42103 Wuppertal

Authors:

Michael Kuhndt, Senior Consultant, Sustainable Production and Consumption Department; Director, Triple Innova, E-Mail: mkuhndt@cityweb.de

Burcu Tunçer, Consultant, Sustainable Production and Consumption Department, E-Mail: burcu.tuncer@wupperinst.org

Kristian Snorre Andersen, Thesis Candidate, Sustainable Production and Consumption Department

Christa Liedtke, Director, Sustainable Production and Consumption Department, E-Mail: christa.liedtke@wupperinst.org

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Contents

Abstract

Transnational corporations' (TNCs) economic operations cover numerous countries and can be diverted between several continents. These units have reached a level of significance, having not only economic, but also social and environmental implications. This justifies that they shall be treated separately as a social phenomenon, when considering strategies for the development towards sustainability.

This paper presents the concept of Responsible Corporate Governance (RCG), as a strategy to "govern" TNCs. RCG is suggested as a stakeholder based policy instrument, which aims at allocating responsibilities to societal actors aiming at corporate accountability. RCG recognises that the process of societal change is strongly based on what can be called as bottom up-processes. Learning processes take place through the interaction of the different societal members, which eventually leads to macro changes. Therefore, governing TNCs towards sustainability improvements is considered to be a collective process including all stakeholders. Firstly, the paper places the concept of RCG in the ongoing debate of political modernization based on the fact that society develops overtime and the political system must correspondingly modernize. In this context, political overload developed as a consequence of increased resource interdependencies is explained and as a resolution, network approach is discussed. Secondly, demands on the orientation of the TNCs in terms of accountability and innovative action are brought forward. Here, the paper also lists down corporate elements (stakeholder empowered corporate governance, management and performance evaluation systems, transparency enhancement and accountability verification), which need to be in place to attain an accountable orientation in the society. Following, using an analytical framework, the orientation and capabilities of each societal actor (environmental non-governmental organisations, financial institutions, intergovernmental organisations) to affect improvements in the corporate responsibility elements are investigated and recommendations for their effective orientation are listed.

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1 Introduction

Along with the liberalization of trade and broad diffusion of information and communication technologies, economic activities have extended beyond national borders. Due to this phenomenon commonly understood as globalisation, individual products can constitute large numbers of inputs deriving from numerous intermediate producers. Product chains increasingly extend beyond country borders and sometimes also beyond continents. Thus, product chains linking consumers to producers of products, have become complex, long and international (Moltke/Kuik 1998, p. 1).

Stemming from the liberalization of trade and financial markets, globalisation has also led to the growth of transnational corporations (TNCs), which have developed production, distribution and research operations in more than one country. This new market environment resulted in the merger of smaller business units and also an increase in size. Corporations have expanded from a mere agent of production to a major player for economic, political and social development around the globe (Cavanagh, J. et al. 2002). Their decisions and operations affect a wide range of communities and cultural backgrounds. Accordingly, the "balance between private actors and government agencies in international product chains has undergone dramatic shifts in the past few years" (Moltke/Kuik 1998, p. 11). As a result, boundaries between respective social and environmental responsibilities of government and business have relentlessly become ambiguous.

In this vein, demands on corporations have surged for them to contribute positively to environmental resource preservation and social development as well as economic development of a region, which used to be regarded purely as issues of public policy concern. (Korten 2001). Stakeholders' agenda for corporate responsibilities has extended as both their perception of corporate impacts widened and their capabilities are progressed in time. As the new economy and resource dependencies enhance the information sharing around the globe, outreach capabilities of non-governmental organisations (NGOs) and pressure groups extended and made them a major driver in the wave of change towards social accountability and equity (Zollinger 2001). Hence, it is now essential to extend the focus from internal business dynamics to externally induced multi-dimensional issues raised by a wide range of stakeholders.

In response, many corporations, particularly TNCs have gradually taken action and adapted various sustainability concepts to respond stakeholder expectations (Schmidt-Bleek 1994, Weizsäcker et al. 1997, Zadek et al. 1997, Elkington, J. 1998). However, it is a common belief that "corporate responsibility, as presently constituted, is fairly fragmented and uneven affair" (Utting 2000a). The potential role of corporations to support sustainable development(s) and to assume a meaningful role to support public policies still remains untapped.

In this Wuppertal Paper, we seek to answer the question: "*Could there be an innovative governance path, which would encourage corporate accountability in the global markets?"* We think that stakeholders of large corporations can play a significant role to drive corporate accountability by making effective use of resource interdependencies (See Chapter II for a theoretical description on resource interdependencies). In this vein, we introduce a novel stakeholder oriented policy instrument, namely "Responsible Corporate Governance (RCG)". However, RCG does not aim at substituting other policy mechanisms. Instead, we believe that it needs to have an increasing share among other policy instruments used for steering the TNCs, since some stakeholders still may not be exercising their full power for corporate change.

In this paper, the policy approach of "Responsible Corporate Governance" is introduced as a bottom-up strategy to "govern" TNCs. As stated in Principle 10 and Principle 22 of the Rio declaration on environment and development (UN, 1992), RCG sees the participation of all citizens at all levels and communities to be vital in the development of improvements. It is recognized that the process of societal change is strongly based on bottom up-processes, which take place through the interaction of different societal members and learning processes, eventually leading to macro changes. Therefore, governing TNCs towards sustainability improvements shall be considered as a collaborative process including all stakeholders instead of being the job of a sole institution. The cooperation on formulation and implementation of improvements shall occur at all levels and geographical areas of TNCs' operations, while at the same time, a democratic environment stays essential for the effective functioning of this policy instrument.

We argue that actors, who have stakes in corporations can realize RCG as a policy instrument by urging the practice of four major elements, namely stakeholder empowered corporate governance, management and performance evaluation systems, transparency enhancement and accountability verification. Hence, our focus stays on strengthening the interaction between the corporation and its stakeholders to drive corporate responsibility.

In this Wuppertal Paper, we firstly review the developments regarding the debate on political modernisation leading to cooperative problem solving mechanisms. Secondly, the orientation of transnational corporations (TNCs) is reviewed and the idea behind "Responsible Corporate Governance" is introduced. Then, we explain the four major elements of RCG. Thirdly, we look at the possible orientation of three major groups of actors, namely financial institutions, environmental non-governmental organisations and inter-governmental organisations and consider the effectiveness of their activities to enhance corporate implementation to the highest degree. Finally, we discuss the conclusions and short recommendations.

2 Theoretical Developments within Political Governance and the Analytical Approach

For the use of proposing a governance strategy, in this chapter, we will build upon the experiences of national policy making. We show the developments within implementation theory, here, with special focus on the top-down and bottom-up approaches. In short, the top-down theorists recommended improved top-steered policies to combat the implementation deficits of the policies of the 70's. The bottom-up approach was developed in the 80's as a reaction to the top-down approach. However, they saw the implementation deficits caused, not by too little control by the top, but by a failed understanding of the decentral policy networks involved in policy implementation. The argumentation of the bottom-up approach can be seen as a source of inspiration within environmental policy theory and in general for political theory development. Central within environmental policy theories is the acknowledgement of a requirement for cooperation between the societal actors.

Within the "network" approach, it is argued that cooperative structures and inclusion of actors has enabled governments to mobilise resources that are normally outside their hierarchical control. In this way, the use of cooperative structures has given governments the ability to solve policy problems that they would otherwise be unable to solve. Crucial to network cooperations is the existence of resource interdependencies among the network members. Therefore, coordination of policies through networks can be seen to be based on resource exchanges.

In the second section of this chapter, the theoretical framework will be described. It will be argued that the existence of resource interdependency is not only relevant at the national level, but also at the global level. We will argue that the mobilisation of resources in networks can also be seen as a strategy to steer global economic actors such as the TNCs.

The welfare states of the 60's and 70's, believed strongly that societal problems could be solved through the development of detailed programmes and policies by various ministries. In other words, it was thought that welfare states could be developed through the development of the top state hierarchy, i.e. through a top-down approach. However, as the policies evolve it became clear that they often did not deliver the intended policy goal (or the intended outcome). Within policy implementation theory, the top-down theorists saw the barriers within the implementation hierarchy as the main reason for policies not being implemented. Pressman and Wildawsky proposed a top-down system of control, communication and resources to keep track of the individuals and organisations involved in the performance of implementation tasks (1973, in: Enevoldsen 2001, p. 87). Within the environmental area, the policies developed were mainly characterised by what was called command-and-control policies, i.e. typically legally mandated standards enacted through a series of agency decisions and enforced by local authorities. However, as in other policy resorts, implementation deficits were revealed. Renata Mayntz (1978 in: Enevoldsen 2001, p. 86) carried out an analysis of German air and water pollution control and concluded that mandatory environmental standards do not automatically result in the prescribed target group behaviour. Mayntz saw that considerable enforcement efforts, namely control, monitoring activities, and prosecution of violators were needed, if regulations should be effective. However, since these control efforts by public agencies are subject to practical and economic limitations and since these limits are often reached before the sanction become sufficiently credible, many polluters choose to run the risk of not complying with the standards (Enevoldsen 2001, p. 86).

In this context, the top-down theorists' recommendations were criticised for their "implicit assumption that policy makers control the organisational, political, and technical processes that affect implementation" (Elmore 1979, in: Enevoldsen 2001, p. 603). Connected thereto, they were criticised for the fact that they failed to acknowledge the interaction between street-level bureaucrats, target groups, and other private associations with their interests in and better knowledge of the actual problems than those on the top of the hierarchy, who had actual decisive influence on the policy outcome (Enevoldsen 2001, p. 88).

As a reaction to the defiance of the top-down approach, the bottom-up approach was developed. "Confronted with what they saw as the myth of top-down control, the bottom-up scholars asserted that implementation studies should focus on the strategic interaction involved in the local networks of policy implementation" (Enevoldsen 2001, p. 88). All in all, the bottom up approach has contributed to an improved understanding of the policy implementation process and of the underlying clash of interests among members of the policy networks involved in policy implementation.

Central scholars within environmental political science, such as Jänicke and Weidner can be seen inspired by the bottom-up theories (Enevoldsen 2001). Environmental political science generally accepts that an ecologic modernisation cannot be developed by the state alone through top-down governance. Instead, such a transformation requires corporation among most societal actors. A central role of the state is to drive the development of institutional frameworks, which promote the co-operation between societal actors (Mol 1995, p. 58; Jänicke 1993), as well as to ensure a progressive relationship between industry and the environment as a means of providing an incentive to industrial innovation (Weal 1992, p. 78).

A strategy of increased importance of non-public and private actors in societal change can evoke sentiments of minimising state influence and power. However, Streeck and Schmitter (1985) argue that a state, which withdraws, does not necessarily become a weak state, in terms of the effectiveness of its policies, but that it may in fact gain in strength. Therefore, an improved understanding of the actual and potential role of associations may significantly increase the range of strategic alternatives for the solution of public policy problems (Streeck and Schmitter 1985). These traits of development, according to Jänicke (1993, p. 167), can already be seen, especially, within for-runner countries in the field of ecological modernisation (e.g. Sweden, Japan, Austria and Denmark) that move away from:

- bureaucratic detail regulation to increased steering through framework conditions;
- narrow problem solving within the different public administrations to a more societal problem solving, where the state is one among several actors;
- centralistic to decentralised problem solving;
- exclusive to inclusive and participative decision structures;
- imperative policy style to solutions based on negotiation;
- reactive to proactive policy patterns;
- steering through public directives to an increase in steering from public income (tax, tariffs and fees).

Hence, along traditional political hierarchy structures, new structures of co-operation have been developed (Jänicke 1993, p. 167). Kenis and Schneider (1991) argue that these development traits of co-operative structures and inclusion of actors have enabled governments to mobilise resources that would otherwise be outside their hierarchical control. In this way, the use of cooperative structures has enabled governments to solve policy problems that they otherwise would be unable to solve. Central to their analysis and other network theorists (e.g. Jordan, Mayntz, Scharpf) is that societies over the last decades have witnessed an increasing level of resources interdependency. What lies behind this increase of interdependency in policy making is a number of factors. First, the last decades' building and strengthening of organisational structures of various societal actors has resulted in that more resources have either come under their control or are produced by big organisations. As a result, these organisational structures increased in societal relevance (Kenis and Schenider 1991, p. 34). Another characteristic of the societal transformation is the increase in the number of new technologies, products and services, a development that is often marked by the term "functional differentiation" (e.g. Kenis and Schneider 1991) leading to a higher level of complexity. The growing functional differentiation and complexity have increased the importance of access to information and scientific experience for the coordination and control of political affairs. However, these information and expertises are often in the possession of other actors than the government.

Therefore, societal development has resulted in significant changes in the condition for political governance. As a consequence governments have become increasingly dependent upon cooperation and joint resource mobilisation of policy actors outside their hierarchical control (Börzel 1998, p. 260). These changes have favoured the emergence of policy networks as a new form of governance, which are different from the two conventional forms of governance (hierarchy and market), which allows governments to mobilize political resources in situations where these resources are widely dispersed between public and private actors (Börzel 1998). The exchange of resources can be seen central to the functioning of policy networks and their existence. Without mutual benefit from the exchange of resources, the members would loose interest in cooperation. The fact that members can realise common gains is what ensures stability of policy networks. Policy networks can be understood as webs of relatively stable and ongoing relationships, which mobilize, dispersed resources so that collective (or parallel) action can be orchestrated toward the solution of a common policy problem (Kenis and Schneider 1991, p. 36).

In the next section, the notion behind policy network will be moved up on a global level. It is proposed that the resources and capabilities of the different stakeholders of TNCs can be valuable in governing these global economic players.

The Analytical Framework

This section introduces the analytical framework used to study the potential of each actor to exert pressure on TNCs and to drive them towards accountable action (See Figure 1). We proceed from the assumption that social phenomena can be explained as the outcome of interactions among actors. As any other production organisation, we further assume that a TNC is an open organism, which survives in conducting exchanges with its environment. Governing TNCs towards sustainability improvements is seen as a collaborative process, which involves all stakeholders. A stakeholder is "any group or individual, who can affect or is affected by the achievement of the organisation's objectives (Freeman 1984, p. 46 in Utting 2000, p. 5)". Based on this definition stakeholders exist both internally and externally to the TNCs. Employees and workers are the internal stakeholders, while the communities, public authorities, shareholders, financial institutions, the media can be counted among external stakeholders.

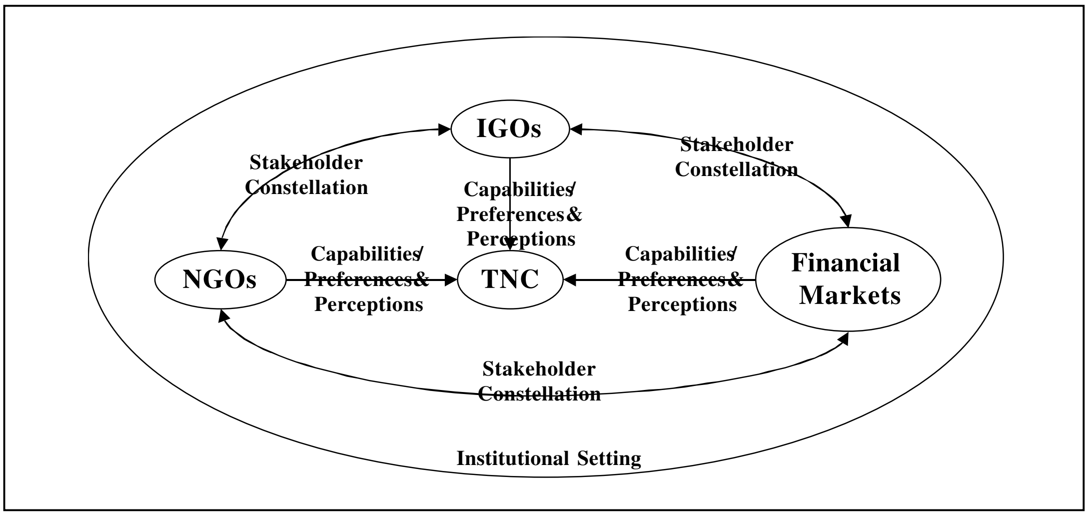


Figure 1: The analytical framework of the paper

Stakeholders can affect the development of the TNCs due to the existing resources interdependence. Hence, engaging actively in this development process can certainly be considered as the primary criterion in order to gain influence. However, whether stakeholders gain influence also depends on their resources. The term *"capabilities"* describes all action resources that allow a stakeholder to influence an outcome in a certain respect and to a certain degree (Scharpf, 1997: 43). These include personal properties like *physical strength, intelligence, or human and social capital* (Coleman 1990 in Scharpf 1997); *physical resources* such as money or land; *technological capabilities*; *privileged access to information* and so on (Coleman 1990 in Scharpf 1997). The capabilities of different stakeholders can be considered crucial in understanding the development of TNC. It is equally important how the different stakeholders use their resources and what goals they pursue.

Both, *preferences* and *perception* make up a stakeholders' orientation in this framework. It can be argued that all humans and also organisations are influenced by a basic interest in surviving. Connected thereto, it can be argued further that stakeholders' preferences are influenced by the individual's or organisation's role or function in relation to their environment. *Perception* as second element in stakeholder orientations can be seen crucial in how humans and organisations see their function and relations to their environments. Within institutionalism, the *preferences* and *perceptions* are considered relatively stable in the short term; however, in the long term they are changeable through learning and persuasion (Coleman 1990 in Scharpf 1997, p. 43).

The activities of a given stakeholder will also be influenced by other stakeholders' strategies and choices. In this context, it can be said that the actors interacting in a given stakeholder process constitute what can be termed the *stakeholder constellation.* The analytic concept of constellation is derived from the game theory and describes the players involved, their strategy options, the outcomes associated with strategy combinations and the preferences of the players for these outcomes (Coleman 1990 in Scharpf 1997, p. 44). The concept therefore emphasises the fact that the involved stakeholders are interdependent, to the effect that the strategy decision of one stakeholder, will influence the other stakeholders' strategy decisions and visa versa. Based on the expectation of the other stakeholders' strategies, each stakeholder will choose the strategy with the highest individual pay-off. Eventually, each stakeholder's strategy will affect the overall outcome of the stakeholder process. Applied on the topic of this paper, the managers of TNCs' strategy decisions will depend on what strategy they expect other stakeholders to take, i.e. the expected behaviour of public agencies, politicians, NGO's customers etc. Analytically it can therefore be argued, that a change in behaviour of these stakeholders will lead to a change in TNC managers' strategies.

When analysing the interaction of the different stakeholders and the development of TNCs, the concept of institutional setting is further valuable. The stakeholders of a TNC can be considered embedded in *institutional settings*, which influence the courses of action the different stakeholders may choose. The institutional setting consists of formal and informal institutions. Norms, ideas, traditions encompass informal institutions, where policies, constitutions, and other forms of laws encompass formal institutions. The institutional setting can be said to provide an incentive structure, which render the benefit from different choices. The institutional setting therefore contributes to defining competencies, granting or limiting rights of participation, of veto or of autonomous decision aspects (Scharpf 1997, p.43). The institutional setting therefore influences the orientation and capabilities of the different stakeholders.

What we are proposing is a change in the institutional setting around TNCs towards implementation of the elements of Responsible Corporate Governance. We argue that this institutional change will alter the relationship between societal stakeholders and contribute to integration of social and environmental interests in the development of TNCs. Hence, the elements of RCG can be seen as a complementary institutional development in an already existing institutional setting of norms, traditions, policies etc. Support of the elements of the RCG by the stakeholders means that the pay-off structure for the TNC will be modified.

3 Responsible Corporate Governance – A Novel Stakeholder-oriented Policy Approach

This chapter provides an introduction to the policy approach of "Responsible Corporate Governance". Before defining the concept of RCG we have a closer look at the orientation of TNCs in general. Under scrutiny are also the interdependencies of their operations, the increasing demand on TNCs for accountability, the demand for flexible routines and innovations. Then, we discuss four major elements of RCG, namely stakeholder empowered corporate governance, management and performance evaluation systems, transparency enhancement and accountability verification.

Setting the Linkage between Increasing Interdependencies and Demand for Corporate Responsibilities

Indisputably the responsibilities of TNCs are mounting, as their activities are becoming more and more linked to the societies and to the economies of a diverse range of countries. Corporations see themselves increasingly confronted with the demand to function with a positive contribution not only to the economic development of a region, but also its social development and environmental resource preservation.

Central for the economic development over the last decades has been the worldwide liberalization of trade and financial markets. This has led to free movement of goods, capital and labour over state borders more than ever before in modern history. TNCs can now acquire products from a diverse range of countries and supply products to a wide variety of countries. Along a single product chain — from the extraction of raw materials to the disposal phase — the number of actors involved with a corporation can cover a wide range of actors ranging from financial institutions to local communities. Hence, interdependencies between societal actors and the TNCs are increasing significantly. While the TNCs activities, like any other economic activity, are influenced by the societal structures in which their operations take place, they in turn affect the socio-economic developments.

Stakeholder Demand for Corporate Accountability
Due to the existing resource interdependencies, it has become more significant for consumers, shareholders and the political establishment how different products are being produced. Shareholders of TNCs, NGOs, media, public institutions and local communities (are said to) play a central role in rising awareness in this field.

For example, according to annual Corporate Social Responsibility Monitor survey of 25,000 people in developed and developing countries (Social Funds 2002) indicates that public expectations of large companies acting in a responsible way are both high and universal. Hence, the reputation of corporations has become a key managerial concern in many sectors as the public valuation of corporations can drastically change the return on their particular products. This is especially true for high impact sectors as in the Brent Spar Case of Shell in the North Sea or the ABN AMRO Bank's involvement in hazardous mining activities in West Papua New Guinea.

Shareholders have also become sensitive to corporate accountability following the recent corporate scandals. Especially, problems associated with the scale and structure of the TNCs are becoming more eminent, whereby trust has to be continually earned. In response to subsequent examples following the collapse of the multinational oil giant Enron at the end of 2001 or corporate scandals from World-Com to Halliburton, Tyco and other corporate giants, the general public and investors in corporate boards have dramatically lost confidence. These failures usually signify a crisis in the large "command and control" hierarchies dominating the organisational structure, most often in a top-down corporation with a single unitary board. Hence, corporations have to react to the strong call for accountability for their operations. In this respect, they are continuously asked to change from giant mechanical structures towards locally adaptive flexible organisms.

Increased Requirement for Flexible and Innovative Organisations

The drive for change and adaptability to the needs of the environment does not only stem from the actors, but also from the conditions of the so-called "New Economy". The New Economy is one of the leading trends, which drags organisations to be more involved with the needs of society and to make their actions more transparent. The most recognized characteristics of the New Economy are speed of change, increased importance of knowledge, innovation and communication and shifting proximity. A speed of change leads to fundamental challenges such as rapid developments in technologies, markets and products. New technologies such as ICT, Biotechnology and Nanotechnology offer further opportunities for complex product developments and new ways of satisfying needs. Speed of change forces companies to become innovation managers in order to catch up with fast recurring innovation cycles and shrinking innovation times. (Zadek 2001, p. 16)

With innovation becoming more important, economic wealth now seems to shift to the lower points in the life cycle, towards the image and social meaning of the product rather than its production or extraction of raw materials. Intangible assets such as accumulated knowledge and brand value gain particular importance. Hence, the agenda firstly lists management of products, which consists of multi-dimensional aspects of need identification, design, manufacturing, product stewardship and end-use services before the management of production or supply of raw materials. Preserving the brand value becomes the task of all actors along the product chain, since product managers collecting signals of consumer demand require continuous collaboration with suppliers for fast innovations. (Zadek 2001, p. 17–18) This also implies more interlinkages between sectors, which were previously disconnected. For example, inventions of the New Technologies (ICT, Biotechnology) are now being used as catalysers in almost all products from cars to food products.

All in all, companies have to face and be responsive to external dynamics and mimic them. In one way, the capacity to innovate has become dependent on the willingness to listen to experts, communities, consumers, industry associations and various other actors in society. Stakeholder engagement can influence the innovation routes such as new product or service developments or mobilization of resources. Interaction with many parties is seen as an interactive learning process, through which various stakeholders can contribute to a shared appreciation and understanding of the interdependent dimensions of confusing problems (Payne/ Calton 2002, p. 45.)

Hence, the following conclusion for the future development of economic activity can be drawn: Where the free movement of economic activity earlier was constrained by national borders, corporations will increasingly be constrained by social and environmental considerations beside economic ones.

In response to societal and market demands, some corporations carry out action to build up to communicate that they are in realization of their responsibilities for sustainable development. The term *corporate social responsibility (CSR)* used in the Anglo-Saxon world is getting high on the agenda of the TNCs (OECD 2001). Although there is no commonly accepted definition, “most definitions describe it as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (European Commission 2001, p. 8; see Appendix I for more information on the development of the CSR concept).

On the other hand, companies’ rhetoric on CSR communication is likely to outpace performance. Companies might tend to concentrate their CSR efforts on activities that have an external rather than internal focus i.e. producing reports, publicly issuing codes of conduct or signing up to external principles. Popular tactics also include striking partnerships with pressure groups and convening discussions with “stakeholders” (Financial Times 2003). Moreover, over half of the CSR professionals participating in the recent “Business of Business” survey conducted by an independent consultancy have responded that much of the corporate environmentalism is merely “Greenwash” (Nima Hunter Inc. 2003).

Thus, the result is that companies' attention might often be diverted from the internal task of actually implementing the policies set out in their codes of conduct to public relation activities. In fact, management difficulties in answering stakeholders' demands are immense. Companies are in need of practical tools that can reflect these external demands in their internal management structures. Overall, we anticipate the need for a policy approach, which would encourage the best available corporate practices and effectively utilize the interdependencies between societal actors and their capabilities.

Defining Responsible Corporate Governance

As the goal of RCG, corporate accountability, at its simplest definition refers to a process by which individuals or organisations are answerable for their actions and the consequences that follow from them (Kovach et al. 2003, p.3). Our assumption is that when all stakeholders of the TNCs can operationalize the same principles, then the behaviour of corporations can be altered towards sustainability.

Hence, our definition of RCG would be as follows:

RCG is a stakeholder-oriented policy approach allocating responsibilities to societal actors, who will drive corporate accountability.

According to our view, corporations, aiming at accountability to the societal actors in terms of their sustainability efforts, shall follow these principles:

- assume societal leadership for responsibility;
- identify clearly and specifically their social, environmental and economic values in accordance with the demands of their stakeholders;
- define their social, environmental and economic priority areas for action;
- adopt specific management practices to integrate these values into their operations and take measurable action;
- disclose comprehensive data on their social, environmental and economic impacts;
- involve in comprehensive review of their activities;
- strive for continuous learning.

However, RCG as a policy instrument can not aim at solving all problems of free trade related issues, human rights abuses, global environment debates, and so on. It can rather be seen as one of several possible routes to alter corporations. Companies are slowly realizing their responsibilities and begining to take minor action. The societal actors shall urgently assume responsibilities to alter these routes into instruments of change.

Explaining the Elements of Responsible Corporate Governance

Here, we suggest considerably concrete elements and a range of tools for putting RCG into action. In our view, driven from our definition of corporate responsibility, the core elements of RCG are:

1. Stakeholder empowered corporate governance;
2. Management and performance evaluation systems;
3. Transparency enhancement;
4. Stakeholder verification.

These elements have been deducted from the initiatives of environmental NGOs (ENGOs), Intergovernmental Organisations (IGOs), financial institutions, research institutions and multi-stakeholder organisations, which are discussed in Chapter IV. These actors support one or more of these principles for corporate accountability, while RCG, as a supportive policy instrument, aims at gathering all of these principles under one roof.

The following section takes on each element of RCG and seeks answers to the following questions:

- What is the aim of the element?
- What is the value of the element for triple bottom line corporate responsibility?
- Which tools are currently available to practice the element?
- How does it relate to other elements?

Stakeholder Empowered Corporate Governance
This is the most important element of RCG and can be seen as an umbrella item. Without establishing a stakeholder oriented governance structure, in our point of view, corporations cannot claim that they are responsible corporations and realize their triple bottom line responsibilities.

Defining Stakeholder Oriented Corporate Governance
In its narrowest sense, corporate governance can be viewed as a set of arrangements internal to the corporation that defines the relationships between managers and shareholders (Iskander/Chamlou 2000). At the center of this system is the board of directors. Its overriding responsibility is to ensure long-term viability of the firm and to provide oversight of management. In many countries, the board is responsible for approving the company's strategy and major decisions for hiring, monitoring and replacing management.

According to the traditional understanding, CG practices may be involved in societal activity given the condition that it stays fully voluntary and results in a positive contribution to profit. Only for this reason, directors are informed about environmental risks, liabilities and key environmental compliance issues facing the company. How the corporate owners can secure or motivate a competitive rate of return has been the focal point for such governance models and studies (Shapiro 1979, Mintzberg 1984, Henrik 2002). With this point of departure, the corporate boards are believed to be accountable only to their shareholders and to no other group in society. Hence, the board is answerable to shareholders and in some systems to employees and creditors. Milton Friedman's well-known argument illustrates such an idea of governance: "There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (Friedman 1970, p. 141).

However, as mentioned previously in this Chapter, the orientation of corporations is changing and corporations need to realize demands beyond their responsibilities to shareholders. CG shall also concern issues related to the actors on whom corporate actions can have an influence (Jeucken 2001, p. 39).

Hence, allocating resources among competing stakeholders rises as one of the most difficult challenges that corporate managers face. According to Lydenberg, (2002, p. 64) the problem of addressing the needs of all stakeholders is both theoretical and practical for the corporation. What is the theoretical justification for rewarding one stakeholder (e.g. a charitable contribution to a community group) at the expense of another (e.g. a salary raise forgone)? What are the practical considerations for choosing between competing stakeholder claims? How can stakeholders themselves be convinced of the fairness of management's allocation of awards? Besides, measuring risks and rewards for fair allocation of resources is a highly complicated task.

In spite of the realization of difficulties of corporate resource allocation, a handful of stakeholder oriented corporate governance codes of conduct have been issued reaching beyond shareholder responsibilities (See Table 1). These are symptomatic of the concern of not only governments, but also stock exchanges in enhancing governance practices. Information disclosure and communication can be seen as the most commonly mentioned issues. For example, the King Commission II report, which includes a code of conduct recently adopted by the Johannesburg Stock Exchange in South Africa, includes specific reference to sustainability reporting as a part of good governance. Moreover, it shall be mentioned that such codes are still developing and might face intense criticism for overlooking some stakeholder demands. For example, the UN Global Compact or the OECD Guidelines for Multinational Enterprises are rejected due to their lack of verification and enforcement mechanisms and/or weak sanctions, and seen as futile to empower citizens and stakeholders (Friends of the Earth International 2002b).

Routes for Stakeholder Involvement
Commitment to one of the codes of conduct mentioned in Table 1 or definition of an own, according to the agendas of stakeholders, can be considered as the first step. However, defining a stakeholder-oriented code of conduct is not enough to claim that a stakeholder empowered corporate governance structure is practiced. Corporations shall seek active involvement of stakeholders in their decision-making mechanisms.

Presently, the spectrum of stakeholder involvement can range from one-way communication to stakeholder coordination (See Figure 2). Forrest and Mays (1997) offer a typology on the level of interaction with the stakeholders, namely creation of an ongoing dialogue (collaboration), formation of a more interactive but ad hoc dialogue (ongoing consultation), limited two-way communication (occasional consultation) and finally absence of any communication. Additionally, one-way information exchange (communication) can be incorporated to this typology.

The highest level of stakeholder involvement, in a responsible corporate governance structure, would see shareholders ideally replaced with stakeholders, which would represent a major step towards the creation of genuinely self-governing corporations and democratisation of wealth (Turnbull 2002, p. 49). Advocating such network governance structures, Turnbull suggests that, command and control hierarchies must be replaced by "network governance" in order to reverse the tendency of centralised power corruption (Turnbull 2002, p. 2). *Mondragón Co-operatives of Spain Basque Country* is an example of network governance. A network of over 1,000 boards or control centres governs the *MCC*, providing a rich and inclusive web of stakeholder participation. The 53,000 people in the *MCC* are not organised in a hierarchy but in a self-governing network of firms (Turnbull 2002, p. 48). Another example is the *KF* supermarket chain in Sweden, which is governed by consumer cooperatives (for further information see www.anglamark.com).

A lower level of collaborative involvement would be a direct stakeholder involvement in the board such as establishing independent stakeholder advisory panels. At this level, it is tried to be ensured that decision-makers are enabled and encouraged to take stakeholder concerns into account and that systems and processes exist for those concerns to be articulated at appropriate levels and times within the organisation. Du Pont's Community Advisory Panel or regional governance structures such as Canada Advisory Council or topic based Biotechnology Advisory Panel can be counted as examples.

The next lower level of involvement can be the form of two-way communications to manage stakeholder demands. These are usually mentioned as voluntary commitments. Companies can gain considerable value from voluntary action such as brand reputation, consumer trust, confidence in the capital market, employee motivation. On the other hand, the credibility of voluntary commitments is continuously in question as they are widely criticized due to minor sustainability gains; hence, their effectiveness is doubtable (OECD 2003, WWF 2000).

A commonly mentioned conclusion is that credibility of stakeholder involvement schemes has to be improved. The Task Force on Business and Industry (ToBI) (1997) argues that accountability is required for voluntary agreements. Many NGOs believe voluntary codes and guidelines can be effective contributions to sustainable development only if they fulfil the following requirements:

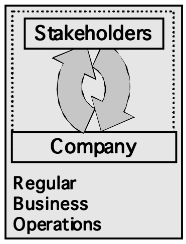
- *substance:* appropriate content and language (i.e. undiluted, unambiguous and watertight);
- *inclusiveness:* active participation of appropriate stakeholders, including opportunities and resources for participation of the wide range of affected persons and organizations;
- *motivation:* sufficient incentives to encourage voluntary compliance;
- *integration:* incorporation of social and environmental values into not only the policies and operations of companies, but also in the way they define and measure success and progress;
- *transparency:* independent monitoring of implementation;
- *credibility:* independent verification of compliance, involving participation and endorsement by the NGO sector in the choice and methods of verification; and
- *accountability:* regulatory and civic mechanisms enforcing responsible behaviour, including penalizing companies that consistently behave irresponsibly (ToBI 1997).

Table 1: Stakeholder oriented Corporate Governance — Codes of Conduct

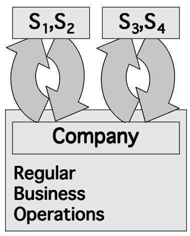
Leading organisation	Initiative Code of Conduct	Start-up	Stakeholder groups addressed	Stakeholder involvement procedures	Web address
Commonwealth Association for Corporate Governance	CACG Guidelines — Principles for Corporate Governance in the Commonwealth	April 1998	• Employees • Community • Bankers and other suppliers of finance such as international funding agencies • Regulators in fields of - Environment, health and safety; - Securities exchange; - Financial market.	• Board accountable to *shareho*lders • Communication to stakeholders - timely and accurate; - openness; - reliable, frank and robust. • Communicate long term strategic decisions to stakeholders relevant for successful implementation • Board shall identify stakeholders and processes for involvement • Reciprocal dialogue • Transparency	http://www.combinet.net/Governance/FinalVer/finlvndx.htm
OECD	The OECD Guidelines for Multinational Enterprises	1976. Revision 2000	• Local communities • Employees • Supply Chain • Customers • Public authorities	• Information disclosure: “Material issues” regarding stakeholders • Right-to-Bargain, Environmental Health and Safety, etc. • Adequate and timely communication and consultation with the communities directly affected by the EHS policies • Fair treatment of customers	www.oecd.org/daf/investment/guidelines/
OECD	OECD Corporate Governance Principles	May 1999	• Investors • Employees • Creditors • Suppliers.	• Compliance (e.g. with labour law) • Stakeholder should have effective redress for violation of their rights. • Transparent framework and process CG framework should permit performance-enhancing mechanisms for stakeholder participation, e.g. stakeholder in board, employ stock ownership plans • Stakeholders involved should have access to information	www.oecd.org

Leading organisation	Initiative Code of Conduct	Start-up	Stakeholder groups addressed	Stakeholder involvement procedures	Web address
King Committee on Corporate Governance	The King Report on Corporate Governance for South Africa 2002	King II 2002 King I 1994	• Community • Blacks • Women	• State code of conduct and communicate to employees • Consider black economic empowerment in purchasing • Diversity-enriching practices • Non-financial information should be reliable, relevant, clear, comparable, timeless and verifiable	http://www.mbendi.co.za/cliffedekker/literature/corpgov/index.htm
World Bank/OECD	The Global Corporate Governance Forum	May 2002	Not stated	• Businesses should balance the interests of capital providers with those of other stakeholders in order to achieve long term sustained commercial success. • The role of public policy is to protect the interests of stakeholders.	www.gcgf.org
UN	United Nations Global Compact (GC)	January 1999	• Trade unions • Labour organisations • NGOs • Investors • Business Associations • Governments • Academia	• Promote corporate social responsibility • Utilize the power of transparency and dialogue • Avocations, Reporting, Learning, UN partnership projects	www.unglobalcompact.org
International Corporate Governance Network (ICGN)	ICGN Statement on Global Corporate Governance Principles	March 1995	Not stated	• Board: Accountable to shareholders and responsible for managing successful and productive relationships with the corporation's stakeholders. • Compliance with Stakeholder Laws • Disclosure of Policies (e.g. workplace and environment) • Employee Participation.	www.icgn.org

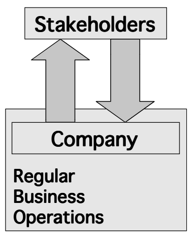
Figure 2: Typology of Stakeholder Involvement



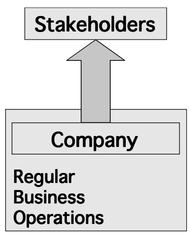
Collaboration
Creation of an ongoing dialogue with direct involvement in the decision-making mechanisms
• Network governance structure • Independent Advisory Panel • Community Advisory Committees (CAC) • Board Social Responsibility Committee (BSRC)
For example: • Mondragón Cooperatives (Network governance structure) • British Telecom (Stakeholder Advisory Panel) • Du Pont (Community Advisory Panel) • TransAlta Cooperation (CAC) • WestPac Bank (BSRC)



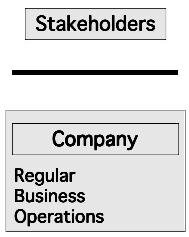
Ongoing Consultation
More interactive dialogue with groups of stakeholders to realize a common goal
• Improvement of Production Methods • Stakeholder oriented indicator development
For example: • Unilever Agricultural Scheme/Initiative • Aluminium Sector & Wuppertal Institute (indicator dev.)



Occasional Consultation
Limited two-way communication
• Verification of Sustainability Reports • Non-institutionalised information exchange
For example: • Shell report, verified by KPMG



One-way Communication
One-way information exchange
• Reporting • Use of communication mediums or media
For example: • GRI/WBCSD guidelines • TVX Gold in Snow Lake using local media to inform local residents



No interaction
Information exchange restricted to legally required information
For example: • Exxon Mobile failing to respond stakeholder demands.

We think that, apart from the stakeholder empowered corporate governance element, the three other elements of RCG have to be in place, in order to enhance the credibility of this stakeholder involvement. Hence, the forms of stakeholder involvement shall be formulated in line with the triple bottom line (TBL)[1] focus areas of the corporation and be integrated to the management systems, which would assign all business units for interaction, but not only the Public Relations (PR) department. The corporation shall be provided with appropriate monitoring tools and tools for communicating the performance of the initiative to a wider audience. Verification of the initiative performance is required to guarantee full credibility. Ultimately, stakeholders shall assume responsibility to provide the appropriate formal and informal institutional setting.

Leadership for Responsibility

Another aspect of stakeholder empowered corporate governance is to develop "Leadership for Responsibility". This means utilising the resources of corporations to bring about societal change. A leader in RCG sees the whole policy approach as an opportunity rather than a challenge.

Leadership requires the creation of a demand for sustainable action rather than answering demands for responsible action. For example, Hilton and Gibbons (2002, p. 108) illustrate this aggressive strategy as not being only environmentally responsible on the part of the company but as also encouraging and helping customers to be environmentally responsible as well. Urging consumers to practice sustainable consumption would be an illustration of such a strategy. For example, in a pilot project, Electrolux introduced functional sales of washing services instead of selling washing machines allowing resource efficiency gains beyond a single product (Mont 2001, p. 100).

Here, top management commitment to the company's vision and values is essential. Underlying this effort is the need to combine a sense of direction ("what business are we in?") with commitment to a sense of purpose or values ("what do we stand for?"). The board has to take the responsibility for the development of a moral culture leading to ethical actions in the workplace by distributing true responsibility and authority (Buono 1992, p. 232). When top management is involved with sustainability vision development and motivated in this vein, then the elements of RCG can be diffused from top-down (See Box 1 for an illustration of a management tool to drive top-level sustainability vision).

[1] Corporations are expected to pursue integrated management of their economic, environmental and social performances, which are often referred to as managing the "triple bottom line (TBL)" (Elkington, J. 1998).

Management & Performance Evaluation Systems

Commitment for stakeholder empowerment shall be followed up by the set-up of management systems, which is about integrating stakeholder demands to the daily business routines. Codes of conduct on stakeholder oriented corporate governance only provide general guidelines for corporations to comprehend the significant TBL aspects of their corporate governance practices and to develop policies. From there on, management systems are required to review the priority action areas, develop TBL goals, compile relevant tools or instruments to reach these goals, develop routines and action plans, assign responsibilities to business units, departments and personnel and finally, review the performance of these systems.

Management Systems

In comparison to the environmental management standards such as the ISO 14001 series, TBL management systems require a focus beyond the factory gates, which is an "outward-looking" approach. In this regard, management systems relate closely to stakeholder involvement typology (See Figure 2). The CSR management systems shall involve corporate stakeholders such as semi-product suppliers, infrastructure suppliers, consumers, sustainability consultants, public authorities, financial institutions, sector level initiatives or associations.

Box 1: The performance based executive pay scheme in the Australian *Westpac Banking Cooperation*.

As one of the leading Australian Banks, the Westpac Banking Cooperation is a major employer with about 20,000 employees. The company has considerable claims in sustainability issues, launches social responsible investment opportunities, publishes social as well as environmental reports on a regular basis and was one of the founding signatories for the UNEP statement on Financial Institutions and the Environment in 1992.

Regarding compensation of its employees, the company runs different programmes to reward strong performance that goes beyond shareholders' expectations, including superior shareholder return growth relative to a peer group of companies. These incentives focus on the executive director and senior executives, who are the decision-makers. A stock option plan was implemented to attract the managements' attention to the long-term shareholder value. If a certain share price is reached, the executives can exercise their options and receive ordinary shares. As an extension to this programme, Westpac tries to include sustainability performance into their compensation via a base pay plus a performance linked reward, which can be as high as 25%. This performance appraisal is based on a balance scorecard, including social, environmental and financial criteria, i.e. the Dow Jones Sustainability Index, which is used as an objective assessment of performance.

Source: Westpac, 2002, p. 51–53; Westpac, 2003, p. 17–18

Tools available to take up the elements of RCG can be allocated to three main categories, i.e. address of only the environmental aspect, address of both environmental and economic aspect and address of all TBL aspects (See Table 2). Among these management systems, the number of tools available to manage environmental aspects is quite diverse, while tools available for managing the social or ethical side stay quite limited[2].

Hence, lack of standards for management, reporting and verification of non-financial performance remains as one of the most significant challenges facing the business to carry out their responsibilities[3] (Nima Hunter Inc. 2003, p. 7). Absence of standards and internationally accepted benchmarks contributes to the perception that much of corporate responsibility is superficial window-dressing.

Another difficulty for the TNCs is setting up management systems that would function in several countries and cultural set-ups or be adaptive to local conditions. Differences in formal and informal institutions between the North and South stay as a major constraint even for applying environmental management tools, which are relatively common but require expert knowledge such as Life Cycle Assessment (LCA).

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2 In fact, a CSR Management System Standard is not yet available. ISO's Committee on Consumer Policy (COPOLCO) is carrying out a feasibility study on standards for corporate social responsibility. (ISO 2002)

3 When the CSR professionals participating in the recent “Business of Business” survey are asked about the tools and tactics that their companies are likely to adopt in order to manage CSR within the next 5 years, the most prevalent answer has been “I don’t know” (Nima Hunter Inc. 2003, p. 5), which implies that CSR professionals still do not know what type of strategies to use to realize their responsibilities.

Table 2: Tools for putting the elements of Responsible Corporate Governance in practice.

Elements of RCG / Aspect in focus		Environment	Economy and Environment	Social, Ethical, Environmental and Economic
Stakeholder Empowered Corporate Governance				
Stakeholder Involvement		Commitment to or Description of a Corporate Governance Code of Conduct, Formation of Strategies to Develop Stakeholder Involvement Mechanisms (from collaboration to one-way communication)		
Leadership for Responsibility		Sustainability Networks (e.g. TNS)		Sustainable Product-Service-Systems
Management & Performance Evaluation				
Management Systems	**Production level**	EMS (ISO 14000), EMAS	Full-Cost-Accounting, TQM, Sustainable EFQM, Six SIGMA (Quality management).	Social Accounting, Stakeholder Value Approach, COMPASS, Suppliers Accreditation.
	Product level/ Supply chain	Tools for LCD (Eco-design tools), Green Supply Chain Management	Life-Cycle-Costing, Resource Efficiency Accounting	SIGMA Project, COMPASS
Performance Evaluation	**Production level**	Environmental Performance Evaluation, Material Flow Analysis	C/B Analysis, Green Procurement, Efficient Entrepreneur Calendar	Sector Supplements of the GRI Initiative, Social Impact Assessment.
	Product level/ Supply chain	Ecological Footprint, LCA, MIPS		Social Impact Assessment
Continuous Learning		Training Tools Idea Centres	Balanced Score Card Community Involvement	SD Management Framework
Transparency Enhancement				
		Eco-Labels, Environmental Product Declarations, Environmental Reporting, Eco-benchmarking/rating	Environmental aspects in financial reporting, Eco-efficiency Benchmarking/ Rating	Sustainability Reporting, SAFE, TBL Benchmarking/rating, SIGMA
Accountability Verification				
		Environmental Auditing	Financial Auditing	SA 8000, AA 1000, Framework on Corporate Accountability, Internal Social Audits, Assurance Frameworks.

Performance Evaluation

Performance evaluation tools provide businesses with guidance in assessing extend and effectiveness of their engagement in CSR aspects. Performance evaluation is an ongoing process using indicators to measure selected TBL aspects of the company's operations and to track changes over time. Comparing this information with target values or previous results provides insight into the current situation and reveals further improvement potential. Performance evaluations are usually integrated to the management systems. For example, the Environmental Management Standard ISO 14001 has a supplement on "Environmental Performance Evaluation Guidelines" ISO 14031.

Similar to the management systems, tools for evaluating TBL performance are not well developed compared to the environmental performance indicators (See Table 2). Approving the fact, 55% of all respondents of the "Business of Business" survey believe that standards, tools or metrics for "Triple Bottom Line" performance assessment are limited (Nima Hunter Inc. 2003, p. 5).

Tools for TBL performance evaluation shall also be outward looking. In this regard, sector level supplements of the Global Reporting Initiative (GRI) are good examples. Another example is the stakeholder oriented TBL indicator development for the European Aluminium Industry using the COMPASS measurement system developed by the Eco-efficient and Sustainable Enterprises Team of the Wuppertal Institute (Kuhndt/Schäfer/Liedtke 2002).

As mentioned in the definition of stakeholder oriented corporate governance, the aspects related to the decision-making mechanisms on top management level and aspects related to the business functions shall be assessed for responsibility performance. For example, the indicator set shall have references to traditional corporate governance issues such as the board structure, executive pays, voting scheme, etc. Simultaneously, internal management aspects such as human resource practices need to be assessed via management performance indicators to make sure that they are in line with the core values and codes of conduct that have been defined by the company. On the other hand, supply chain issues need to be addressed.

Continuous Learning

Learning mechanisms provide managers with a guidance and structure that encourage responsible practices and provide an emphasis on continued organisational learning and development, pushing towards ever more responsible practice (Waddock/Bodwell 2002, p. 124). Learning systems strengthen the mechanism for an iterative process of improvement over time rather than a single initiative that is implemented and then ended.

Several aspects shall be in place for the learning process (Rohn/Baedeker/Liedtke 2001). Firstly, human resources management policies indicating personnel trainings, empowerment mechanisms shall be developed to encourage sustainable innovation (Chapman/Hyland 2003). Employees make RCG become a reality — that is why investment on human resources from the top of hierarchy to the bottom is essential. Secondly, adequate indicator systems shall be established giving feedback on the performance of the employees (See Box 1 for an example).

Transparency Enhancement

Transparency or in other words readiness of each business unit of the corporation to reveal information on their activities is a requisite for corporate accountability. The "Transparency Enhancement" element aims at a healthy set-up of informal institutions among the actors of society, hence establishment of trust. It is assumed that when openness of a corporation in terms of triple bottom line aspects is urged, a common understanding of economic, societal and economic problems can be established.

The value of external communications in terms of responsible corporate governance would be several such as inter-organisational or inter-sectoral comparisons, stakeholder engagement and evaluation of potential risks or opportunities. Disclosure of information would allow straightforward comparisons between organisations in the same sector and those in different sectors. Additionally, a continuous dialogue with public institutions, investors, customers, suppliers and employees can be facilitated. Moreover, this process might provide corporations with a self-check and warning for trouble spots or improvement opportunities.

TNCs can make use of a diverse range of information disclosure instruments, either voluntarily or in compliance with public regulation. Corporate reporting (e.g. so called environmental, social or sustainability reports beyond financial reporting), site reporting (pollutant release and transfer registries), environmental product declarations (e.g. Type I, II and II eco-labelling schemes), sustainability indices (e.g. Business in the Community) to internationally binding or voluntary transparency agreements [e.g. Aarhus Convention, EITI (See Box 2)] can be counted among the widely referred to transparency enhancement tools.

Box 2: A case of transparency enhancement: EITI — Extractive Industries Transparency Initiative.

The aim of the Extractive Industries Transparency Initiative is to increase transparency over payments by companies and revenues to governments in the extractive industries. It was launched by Prime Minister Tony Blair at the World Summit on Sustainable Development in Johannesburg, September 2002. Currently, binding guidelines are developed in a multi-stakeholder dialogue. The "Publish what you pay" Campaign also welcomed the initiative.
Resource-rich countries suffering from extreme poverty are a common phenomenon – resulting from misused resources due to bad governance and elite enrichment. Transparency of payments to Third-World governments is seen as a major step towards fighting corruption and establishing a chance for a development that would benefit the people.

Source: http://www.publishwhatyoupay.org/statements/eiti.shtml,
http://www.dfid.gov.uk/News/News/files/eiti_intro_a.htm

Since the mid 1990s, especially use of corporate reporting by public institutions or voluntarily by corporations is widely disseminating. In Europe, corporations of a certain size are already enforced to report on their environmental impacts such as the Green Accounts passed in 1996 in Denmark, the requirement for environmental information in the annual report passed in 1999 in Sweden, the Environmental Reporting Decree in the Netherlands and the Laws of Accounts and Companies Act in Norway. On the other hand, governments have developed voluntary initiatives such as the Social Reporting Guidelines of Denmark passed in 2002, the DEFRA environmental reporting guidelines of the UK passed in 2001 or the ranking of environmental performance of the top German companies by the German Federal Foundation for the Environment (DBU). (Emtariah 2002, p. 18)

Worldwide, it can be said that almost half of the "top" TNCs have experienced stand-alone corporate reporting[4], thus they are challenged to measure their corporate citizenship by performance, by developing indicator sets and standards. However, self-declarations of corporate activities often face external criticism, as the representations made are found poor or non-reflective of the actual situation or regarded as PR practices.

Thus, the challenging demand of establishing consistent, harmonized, commonly accepted guidelines by multi-stakeholders and accurate reflection of idiosyncrasies of national regulations, local norms, industry specific needs are

[4] Based on the survey results of the Forum's Global Corporate Citizenship Initiative (GCCI) of the World Economic Forum (2002, p. 27) published in January 2003, 48% of the survey's respondents produce a corporate social responsibility or sustainable development report. According to the most recent KPMG survey, 45% of the Global Fortune 250 companies produce reports on their environmental and social performance (CSRwire, 2002).

recognized to realize the aim of transparency enhancement, namely to build trust. Launched in 1997, in reaction to the need for harmonization, the Global Reporting Initiative (GRI) is currently the only guideline that is global, triple-bottom-line, and multi-stakeholder in nature. Recognized in the Final Implementation Plan of the World Summit on Sustainable Development, over 250 companies from more than 25 countries have cited use of the GRI in preparing their sustainability reports[5]. However, the GRI framework is still at an early stage of development.

Practising generally accepted guidelines, corporations often see reporting as an end in itself and fail to realize the big picture. Frequently mentioned as "wagging the tail", companies start from the wrong-end missing the link to other elements of RCG. Actually, disclosure of data is a latter step on the road to interpretation of corporations' relative performance in addressing social and environmental issues. Hence, prior to reporting, the other two elements of RCG shall be in place providing a sophisticated understanding of data and its relations to specific company operations. In this respect, corporations are in need of tools helping them to review their management systems and develop TBL performance evaluation systems [e.g. COMPASS Methodology (Kuhndt/Liedtke 1999), the Efficient Entrepreneur Calendar (Kuhndt/van der Lugt 2000)]. Without such analyses, increased disclosure will still not serve the aim of transparency enhancement.

Accountability Verification

The aim of accountability verification is to further enhance the informal institutions both inside corporations and in relation to their stakeholders. Transparency, as mentioned above, is not sufficient to build a credible environment, since it indicates a one-way process. Another requirement is that when corporations disclose information, they shall also be answerable in terms of its quality and sufficiency.

Accountability verification can be conducted either as independent environmental, social and ethical audits. These audits can be conducted by multi-jurisdictional authorities (e.g. *AccountAbility*, *Social Accountability International*), financial auditing companies (e.g. *PricewaterhouseCoopers*, *Ernst&Young*, *KPMG*), sustainability indexes (e.g. *Dow Jones Sustainability Indexes, FTSE4 Good U.K. Corporate Responsibility Investment Index Series, Oekom, Domini Social Index)* or local stakeholders, such as NGOs, trade unions (e.g. *Social Observatory* in Brazil).

5 Based on the survey results of the Forum's Global Corporate Citizenship Initiative (GCCI) of the World Economic Forum (2002, p. 27), 40% of the CEOs from companies that do produce a report use the GRI framework.

Third-party verification or social and ethical audits are usually based on verification of information disclosed in the corporate reports according to a pre-defined set of standards and information gathered from company managers. While third-party verifications or certifications of environmental performance such as ISO 14000 have been carried out by thousands of organisations worldwide, ethical or social certifications are still in development. For example, *AccountAbility*, labelled as the first assurance standard for independent verification of sustainability reports. The AA1000 standard aims at guiding verifiers in assessing whether reports are complete, meaningful and accurate (AccountAbility 2003). It further requires scrutiny of the extend to which they respond to stakeholder interests. Another example is the *Social Accountability International (SAI),* which is a charitable human rights organisation, aiming to improve labour conditions through a human workplace standard (SA 8000), verification system and public reporting. This guide is based on ISO 9000 and 14001 and also the aspects of working conditions addressed in the International Labour Organisation (ILO) standards, which refer to freedom of association, the right to organise and to collective bargaining, minimum age, freedom from discrimination, freedom from forced labour and avoidance of child labour (ISO Consumer Policy Committee, 2002, p. 42).

Critics of third-party verification systems usually emphasize the question of credibility of the verifier, cost burden, their limited focus on TBL aspects and lack of feedback for improvements. Even though, the third-party verifiers are "external" to the corporation, the stakeholders are dependent on the organisation in some way and professional interactions over time might lead to personal affinities (for example as in the case of the financial auditing scandal of Arthur Andersen). Hence, build of safeguards for abuses and to encourage impartiality is essential to realize the objective of this element. On the other hand, verification standards might not address all aspects of corporate governance. For example, although AA1000 standards (Accountability 2003) make a reference to stakeholder communication, they do not question the form of relationship (See Figure), for example, whether stakeholders are aware of management procedures and whether they are involved in decision-making. Another point of criticism often is the data collection methods for social and ethical verification. It is suggested that factory level monitoring depended on the information provided and when selected only by the top management excludes direct involvement of workers, which might lead to flawed information (O'Rourke 2000).

In contrast to conventional third party verification systems, for the customized verification of certain social and ethical aspects there may be a need for the involvement of firms' own stakeholders such as workers, NGOs, community members (See Box 3 for an example on stakeholder verification). With the assumption that each stakeholder holds an expertise on a certain aspect, the on-site activities of the corporations can be audited. Such an approach will divert from the assumption that one single third-party holds all the expertise concerning corporate operations. Even though stakeholder verifications could be much constructive to attain improvement options for the company, they could be much complicated to organize.

Box 3: A case for stakeholder verification:
The Observatório Social (Social Observatory)

The Observatório Social (Social Observatory) is by origin a Brazilian initiative initiated in 2000. It studies and analyses the behaviour of multinational, national and state companies in relation to the fundamental rights of workers. These rights are assured principally by the International Labour Organization (ILO) conventions that deal with freedom of association, collective bargaining, child labour, forced labour, discrimination against gender and race, the environment, health and occupational safety. In 2002 the Brazilian Observatório Social approached German DGB Bildungswerk Nord-Süd-Netz and Dutch FNV Mondiaal to join in by establishing the Social Observatory Europe. This European branch wants to achieve that European companies with branches in Brazil, respect the basic labour and environmental rights of their employees also there. To ensure this, activities will be developed involving employees, trade union leaders, national and European works councils, clients and consumers in both Europe and Brazil.
Information about whether companies respect internationally recognized rights is of public interest. Therefore, it is not enough for the companies themselves to present their reports. The Observatory's approach is to conduct inspections and publicize the information. The purpose of the Observatory is to establish a dialogue between unions, consumers and companies.
For the initial stage of the "tri-lateral" project three Dutch and three German companies (Ahold, Philips, Unilever, Bayer, Bosch and Thyssen Krupp) have been selected for investigation. The goals are:

- To research and uncover possible problems with regards to the labour circumstances in the European multinational in Brazil;
- To ensure that European companies assume responsibility for complying with basic labour rights and health safety and environmental standards in their Brazilian branches;
- To raise awareness of the differences and similarities within several branches of one company among the European and Brazilian employees and consumers;
- To increase the (international) solidarity for the strife for better labour circumstances and better environmental standards in Brazil.
- To support European employees and consumers, who want to start a dialogue with a company or who want to exert pressure on the management of companies with branches in Brazil.

The research methodology adopted by the Social Observatory starts with a review of publicly available information about the company such as articles, annual reviews and other publications. A report is made depending on the bottlenecks within the company. Further company research is done in co-operation with the trade union, the employees, the company management (if possible) and people from the neighbourhood, where the company is based in. In the same way the chain of production may be researched. The results are analysed considering compliance with ILO conventions and with the Social Letters, Social-Labour Declaration, Voluntary Codes of Conduct adopted by the companies, OECD guidelines about multinational companies and social policy, the Global Compact and United Nations and other norms defended by International Professional Organizations and by the International Confederation of Free Union Organizations. The analysed results are finally published in a database, in the Internet and in brochures.

Source: http://www.observatoriosocial.org.br and http://www.observatoriosocialeuropa.org

All in all, accountability verification is the fourth stage on the pipe for corporations to achieve corporate accountability. Corporations are then expected to incorporate the feedback from the verification process and strive for improvements in all elements of RCG.

4 Analysis of the Current Orientation of Actors for Corporate Responsibility

In accordance with the analytical framework (See Figure 1), this chapter aims at analysing major actors' orientation and capabilities in exerting influence on the practice of corporate responsibilities by the TNCs. The analyses focus on three major actor groups, namely financial institutions, Environmental Non-governmental Organisations (ENGOs) and the Inter-Governmental Organisations. Initially, the generic capabilities of these actors and their sustainability efforts are discussed. Then, the strengths and weaknesses of these listed activities and the implications on the elements of RCG are shortly analysed.

Having recognized the high potential of these three main groups of actors to influence the TNCs, we concentrate on these three, whilst capabilities of other stakeholders to change corporate behaviour shall not be disregarded. The supranational level organisations such as the World Trade Organisation, World Bank; organisations with a multi-stakeholder governance structure such as business associations (e.g. World Business Council for Sustainable Development), standards organisations (e.g. International Organisation for Standardisation), benchmarking indices (e.g. Business in the Community Benchmarking Index) or other multi-membership venues (e.g. Global Reporting Initiative) also deserve attention for investigation of their potential to drive corporate responsibility. Moreover, indisputably, the role of national governments and agencies is crucial as they define the legislative environment and have the power for execution.

This section does not present itself as a comprehensive list of actions taken by each group of actors. However, it is aimed at providing a wide-ranging overview of their positions and instruments by giving leading viewpoints and the forefront of cutting edge environmental and sustainability development initiatives.

Orientation of Financial Institutions

> *"…the primary thing that workers need for their retirement [is] money, but don't [workers] also need a safe, clean, decent world in which to spend it. These ends are not economically exclusive, institutional shareholders hold not only the proxy power but also the legal obligation to help deliver both."*
>
> Robert A. G. Monks, 2000
> (Well-known shareholder activist
> commenting on the fiduciary responsibilities of pension funds)

Today, the global capital market is a network of individual markets centred on activities of financial intermediaries in the principal hubs located in the West (Barton 2001 in Labatt/White 2002, p. 35). Financial markets have the major role of attracting savings, allocating new capital, restructuring existing capital and governing corporations, while the universal banking system offers a full range of services to capital and private consumers (Labatt/White 2002, p. 36) and transform money in terms of duration, scale, spatial location and risk. For example, the top ten banks in terms of their assets roughly amounted to the accumulated GDP of all 108 developing countries in 1999 (World Bank, 2000).

Integrated financial markets and institutions have considerable potential and capabilities to influence and, in some cases, exert control over corporate investment and management decisions (Delphi/Ecologic 1997). They can exercise their power to steer corporations by supplying capital and developing innovative financial products to encourage sustainable development, valuing triple bottom line risks of corporations, investing specifically in sustainable corporations as shareholders and striving for their own sustainable performance as role model responsible institutions. Hence, they may significantly influence the pace and direction of corporate and overall economic growth.

Even though it is not possible to draw sharp lines between the major industries of the financial sector, three major function categories, namely banking, insurance and investment, are often mentioned (Fabozzi et al. 1998, p. 18–19; Labatt/White 2002, p. 47; UNEP 2002). Some financial institutions can have the capacity to offer a full range of financial services to corporate and personal customers. However, a three-category differentiation is valuable to get a grasp of the differing abilities according to their perception of risk, their level of risk exposure and their capacity to influence corporations (Labatt/White 2002, p. 47–48).

The risk management in the *banking industry* concentrates on the risk profile of only the clients' assets. Their functioning is based on calculating the technical risk of borrowing and reflecting it on the credit rates (UNEP 2002, p. 67). Full trust can be established with the borrower when the purpose of the credit is well-known, full information about the borrower is available and the loan is short-term in nature. Otherwise, the lender needs to diversify the calculated risk back to the borrower or to the third parties. Similarly, risk is the central element for *insurers*, so the core competence of insurers and reinsures is to analyse and deal with different kinds of risks such as settlement of all sorts of environmental losses, man-made or natural catastrophes; risk management and claims handling by giving prevention advice to their customers and to the general public (UNEP 2002 p. 36). Additionally, the outcomes of environmental or social performance of corporations on the insurance and banking industries can be striking, leading to industry-wide crisis (Jeucken 2001).

On the other hand, the effect of such performance on *investors* occurs on the stocks of corporations, having a secondary effect on investors. Hence, internal capabilities of risk assessment of three different industries might differ. In order to conduct a detailed risk assessment, in theory, the banking or lending industry would have the ability to obtain first hand detailed information on sustainability practices of the TNCs and affect their decision-making mechanisms, while investors often rely on secondary data such as corporate reports (Labatt/White 2002, p. 47–48).

On the contrary, investors are seen as a more influential source of finance and influence for TNCs compared to the banking industry. Whereas the banking industry can have the capacity to influence small and medium sized enterprises (SMEs), for example, by imposing environmental conditions on financial transactions and acting as a major source of guidance in search for funds. (Delpi and Ecologic 1997)

Activities of Financial Institutions: Risk Management, Asset Management and Engagement Policy

Since the activities of the three major industries mentioned above are quite intertwined, in this section, instead of an actor-based approach, an activity-based approach is followed. Hence, the activities of financial institutions that are relevant for corporate accountability are discussed under the titles of *risk management*, *asset management* and *engagement policy* (Busch 2003). These activities can be said to occur in the spectrum from a passive engagement (risk management policy) to active engagement (stakeholder engagement policy).

As a part of their *risk management policy*, financial institutions can extend their definition of risk to foresee impacts on the environment in their lending, insurance and project finance decisions. According to a survey conducted by Jeucken (2001,

p. 184) on banks selected according to their asset size (at least 100 billion) from developed countries, environmental screening is practiced by 56% of the top selected banks, which pay close attention to environmental aspects when setting up credit and financing agreements (UNEP, 2002, p. 56). Most of these banks (63%) conduct environmental risk assessments in their financial decisions. These banks either make sector choices or use international guidelines of the World Bank and the OECD (UNEP, 2002, p. 56). In Europe, in some cases, banks may announce explicitly the sectors or activities that they would not finance. As an illustration, Rabobank do not invest in projects that are in controversial areas such as the code of conduct on genetic modification (Green et al. 2001, p. 7). Additionally, USB-affiliated ECOFACT (See www.ecofact.ch) specialises on the relationship between environmental risks and economic performance. The Social and Environmental Risk Management (SERM) published a risk rating of the UK companies as an orientation for investors (See www.serm.co.uk).

Socially Responsible Investment (SRI) is a major area of *asset management policy* that is often considered to drive corporate accountability. The concept of SRI is based on investing in corporations, which are selected according to analysis of their performance with respect to a set of sustainability criteria defined by the financial institute. Sustainable investment funds (for a recent listing of these funds see www.sustainable-investment.org) are accepted as one platform providing a bridge between companies implementing corporate sustainability and investors wishing to profit from corporations' assumed superior performance and favourable risk-return profiles[6]. The market size of SRI is quite small [for example the assets under management of SRI funds in Europe are just 0.40% of the total asset managed by UCITS[7] (SIRI 2002)], although it is in expansion.

Asset management companies and fund managers can adapt different screening methods promoted by a wide variety of screening companies[8]. The type of analysis done by the screening companies can take many forms ranging from ethical screening to developing criteria with respect to corporate governance practices or the analysis can be a blend of these strategies (See Table 3) for an overview of strategies).

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6 For example, a summary of academic studies on the links between CSR and financial performance has identified 80 studies treating CSR as an independent variable, of which 58% found a positive relationship to financial performance (Margolis/Walsh 2001 p. 10-11).

7 UCITS stands for "Undertaking for Collective Investment in Transferable Securities" which is a collective investment fund that can be marketed in all EU countries.

8 Busch and Orbach (2003 p. 51-52) list some of the main rating institutions as Sarasin, Oekom Research, Scoris, SAM, Imug Institut, Euronatur, MISTRA, ISIS Asset Management.

Table 3: Different types of analysis in Socially Responsible Investment (Adapted from UNEP 2002).

Type of Analysis	Sample Criteria and Company Examples
Negative Screening Criteria for elimination are based on past performance of companies. This type of investment is also named as ethical investing, where investors refuse to invest in companies that do not square with their benefits (Forum for the Future 2002, p.3).	Classical factors as defined by the religious communities such as avoiding manufacturers of armaments, alcohol, gambling, tobacco, and pornography. *e.g. FTSE4Good* *DJSI has sub-indices with an additional negative screening, e.g. DJSI EX TOBACCO*
Positive Screening Index is rather designed to reflect the future sustainability potential of industries and individual companies.	Issues include product and service innovation, corporate leadership and governance practices, shareholder and society commitments, industrial leadership, environmental and human rights records, community involvement and social well-being. *e.g. The Dow Jones Sustainability Indexes (DJSI), The Ethibel Sustainability Index.*
Environmental Risk Due Diligence Part of regular due-diligence by non-SRI companies in mergers and acquisitions, IPOs etc. Also considered by SRI community.	Contaminated land, sick buildings, out-dated technology. *e.g. SERM Environmental Risk Ratings*
Ethical and Social Responsibility Concerns about justice and human rights and the impact of globalisation drive this agenda.	Workplace issues such as profit-sharing, family benefits, women, minority and union rights and community issues such as sourcing, volunteering and giving. *e.g. Calvert Social Index* *Domini 400 Social Index*
Sustainable Strategy Driven by concerns about pollution and resource depletion arising from population growth, global industrialisation and increasing material consumption.	Eco-efficiency and re-engineering to eliminate toxics and emissions. Industries of the future. *e.g. UBS (Lux) Equity Fund — Eco Performance CHF*
Corporate Governance Application across asset management industry and standards rising.	Voting rights, independent directors, minority shareholder rights, democratic and accountable management. *e.g. CG issues are covered in the DJSI*

Thirdly, as a part of their *engagement policy*, financial institutions can develop environmental funds, environmental advice services, climate products or engage in shareholder activism. According to the previously mentioned survey conducted by Jeucken (2001), a small percentage of banks (29%) offer their customers to invest in environmental funds, while 50% of the banks are involved with publishing brochures about the realisation of energy saving, offering customized consultancy and/or on-site consultancy. On the other hand, only 15% of the European banks are active in preparing climate products, which are financial products or innovations related to international climate policy. These products can change from emissions trading permits to derivatives market instruments such as options or assessment of climate change risks carried by corporations. (UNEP FI 2002, p. 56)

Recently, development of an engagement policy by the financial institutions on the issue of climate change is gaining considerable importance following the acceptance of an agreement in June 2003 on the EU emissions trading scheme, which will be functional by the year 2005 or awareness raising activities such as the Carbon Disclosure Project, which was an initiative of 35 institutional investors demanding information from corporations regarding greenhouse gas mitigation (Innovest 2003). Hence, financial institutions are slowly realizing the importance of integrating climate change considerations into their credit-giving and investment policies to consider corporate risks linked to climate change, as they are being materialized via costs of greenhouse gas emissions and costs arising from damages and remediation due to climate change (Innovest 2002, Mansley/Dlugolecki 2001). Moreover, regional demonstration projects such as the Hesse-Tender in Germany, which simulated emission-trading procedures in the German Federal State of Hesse, demonstrate well the potential role of financial institutions in the approaching market of emissions trading (Hesse Tender 2003).

Furthermore, financial institutions engage with corporations through shareholder activism in quest of modifications in the policy or communication strategy of corporations concerning the environment or society. Involvement of financial institutions as shareholder activists may traditionally happen via corporate engagement or dialogue (communicating with management on particular issues), shareholder resolutions[9] (filling or supporting shareholder proposals on social and environmental issues), proxy voting (establishing policies for voting shares on social and environmental issues) or divestment (selling of shares) (O'Rourke 2002, p. 3). Involvement of financial institutions in shareholder resolutions often takes place via a number of groups organizing institutional investors. For

9 Once a shareholder resolution is submitted, three different routes can be taken: 1) the resolution can be either withdrawn by the shareholder; 2) the resolution can be omitted or excluded by the company; 3) the resolution is presented at the meeting, voted on and possibly be re-submitted the next year if it gets enough support (O'Rourke, 2002, p.11). Many shareholder advocates view withdrawal of their proposals as victories because they typically only withdraw when management shows sincerity and legitimate progress towards meeting the goal or demand made (Graves et al., 2001, p 296).

example, in the US, the Council of Institutional Investors, the Investor Responsibility Research Centre (IRRC), Institutional Shareholder Services (ISS) and public sector funds such as the Californian State Pension Fund (CalPERS) are active in this area (O'Rourke 2002, p.11).

Analysis of the Activities of Financial Institutions

Regarding *risk management*, firstly, it can be said that risk management activities have not yet realized the whole range of risk. Environmental risk assessment activities can exert a demand on some corporations for performance improvements; however, corporations would still not be pressurized for improving other CSR aspects such as labour practices, product responsibility. For example, insurers may still not be familiar with assessing risks of mal-practice of CSR. Insurers typically may not address issues of human rights or worker rights (Busch/Orbach 2003, 35–37) and may not communicate the significance of associated risks to the corporations (Busch/Orbach 2003; 39–41, 43). Hence, insurers could not exercise their capabilities to realize complete risks. Moreover, Jeucken (2001, p 69) mentions that financial institutions may inhibit sustainability focusing only on government environmental policy in judging financial risks, especially in case the public policy is actually weak or passive.

In fact, broader risk perceptions signal opportunities both for the financial sector and corporations. For example, offering lower risk premiums linked to high level of CSR performance, insurers would have a direct impact on the management and performance measurement of the corporations and may expand their customer outreach. Besides, the risk exposure of insurers and lenders will be lessened (Busch 2003).

Secondly, risk analysis usually stays weak in depicting the relation between stakeholder relations, management structures and performance measurements regarding sustainability aspects of corporations and their associated level of risk. Risk management may stand poor in grasping the efforts of corporations for sustainability or their misbehaviour missing the link between environmental/ social performance and financial performance. All in all, the potential of risk management activities to alter TNCs for responsible action is not fully utilized.

Considering SRI in the area of *asset management*, even though both private and institutional investors capability to affect TNCs sustainability decision-making or management systems in theory is quite high, as mentioned before, the instruments used for evaluation often stays weak compared to risk assessments. The communication between the corporations with the institutional investors is usually based on filling in questionnaires provided by the screening companies or submission of corporate reports. In fact, the current constellation is found quite cumbersome by the companies, so that they often address the problem of "questionnaire fatigue"[10] in discussion rounds (Arthur D. Little 2003). Moreover, even though screening institutions have accumulated enough skills on the relevant environmental and social aspects and impact levels of different sectors, this knowledge is not utilized for mitigation of impacts such as via provision of advice.

Additionally, the scope and content of the screening practices divert to a degree that there is usually no single coherent message provided to the corporations for change. For example, FTSE4Good eliminates tobacco producers from the index, but retains alcohol producers. How significantly do the social impacts of these two sectors differ? Proper explanation is often hard to find. In terms of the content, the corporations can be accepted for inclusion in the FTSE4Good just by adopting a code of ethics and including a commitment to equal opportunities in their web-site (Somekh 2002). Thus, one can find no requirements for change in management practices or verification of responsible practices.

The *engagement policy* can be considered to be potentially the most effective way among the three activity areas for steering the elements of RCG. For example, when employing shareholder activism, investors can exercise their right to take part in the firm's strategic management by participating in annual meetings, where the company's management proposes issues to be voted and shareholders have the right to place their own proposals on the ballot. These resolutions can be on a variety of issues, including executive compensation, diversity, environmental practices, sweatshop practices and a broad range of corporate matters (Domini Social Investments 2003). According to ICCR, socially conscious investors sponsored 104 resolutions to 92 American companies in 2003. However, a vast majority was withdrawn, not accepted by the shareholder meeting or omitted by companies with permission of Security Exchange Commission (SEC), which confines them to be more symbolic statements today.

Moreover, issues raised by the shareholders usually point at themes such as reporting and disclosure in the resolutions, which may not urge corporations to change their decision-making mechanisms, stakeholder engagement or management practices, but rather make them to focus on transparency such as gathering reports, which may in the end turn into a PR exercise. Thus, stakeholder resolutions may not become instrumental to the corporations. Besides the barriers for preparing stakeholder resolutions, potential impacts for shareholder activism under its current status can be counted as accountability, increased participation and engagement by shareholders in corporate business and decision-making (O'Rourke 2002, p. 22).

[10] SRI fund managers gather information through mass distribution of questionnaires sent to companies asking them about their environmental and social impacts, while company staff receiving these questionnaires becomes confused over the purpose, origin and background for organisations that send them out.

Consequently, considerable potential of financial institutions to challenge corporations is still untapped. Even though financial service industry is slowly realizing their direct and indirect sustainability impacts (See Appendix II), the mechanisms that would serve alteration of corporate governance and management practices in terms of sustainability are vaguely in place. Financial institutions at present can exert very little influence on sustainability improvements in corporations, since the policies they have developed on sustainability issues are limited and only affect a very limited number of financial transactions they conduct.

Orientation of Not-for-profit Organisations / Non-Governmental Organisations (NGOs)

> *"Through the politics of both pressure and engagement, NGOs are creating new agenda for business as much as companies are themselves.*
>
> *The political power of NGOs is not passing fad, but is now an expression of new form of consumer politics, which is the result of social, economic and cultural change."*
>
> Murphy and Bendell, 1999, p. vi

So-called Not-for-profit Organisations or Non-Governmental Organisations (NGOs) are created on the basis of civil initiatives and belong neither to the government nor to the business sector. They clearly encompass a broad range of organizations in terms of size, purpose, funding base and organizational structure and differ significantly from one another according to their activity spheres and scales. The term, NGO is now widely used in academia, media and international policy circles as a general term for third-sector or civil society organizations, while their primary purpose is often stated as "promotion of social and/or environmental goals rather than the achievement of economic power in the marketplace or political power through the electoral process" (Murph/Bendell 1999, p. 6; Bendell 2000, p. 16).

In this section, our focus remains on the orientation of the environmental NGOs (ENGOs), which have a global outreach with a focus on sustainable development. Even though, the importance of small local development groups in single countries has been genially recognized, the analysis focuses on the activities of international organisations. Since the paper deals with the orientation of transnational organisations functioning in more than one country, an international approach has been found appropriate.

However, even an international focus would indicate a huge number of ENGOs. As the total number of NGOs worldwide is unknown, an estimate specifically for the total number of ENGOs is also absent. The Union of International Associations estimated in the early 1990s that there were more than 20,000 international and transnational NGOs (Bendell 2000, p. 16). The "Corporate Accountability" site of the World Economy, Ecology and Development (WEED), which aims at strengthening the flow of information between the Southern and Northern NGOs, lists a wide array of civil society groups that are actively involved with pressurizing irresponsible corporate conduct. Among them, Corporate Watch, Friends of the Earth International, Greenpeace International, Oxfam International, Transparency International and the World Wide Fund (WWF) were found to be the most active ENGOs.

ENGOs can be considered as the linkage between the economic and production oriented world of business with the social and civil society (Brown 1993; Waddell 2000, p. 205). On the one hand, ENGOs provide insight into the sustainability implications of complex business operations for the society, on the other hand, they can make business aware of aspects that might be regarded as beyond mainstream business operations.

ENGOs possess many capabilities that can be passed on to the ordinary citizens or the TNCs. NGOs have the financial and human resources together with time to specialize in certain aspects of sustainability becoming sources of new ideas and critical thinking (Waddell 2000, p. 195) and induce learning. Similarly, NGOs possess the capacity to network in their area of expertise (O'Neill 1999) that they can bring together diverse range of actors together, which is another important factor for new knowledge creation. In this regard, NGOs can both be creators and facilitators of trust and credibility building in the society. All in all, NGOs have the capacity both to alter the informal institutions surrounding the TNCs, namely the relationships between the actors and to enhance dynamic capabilities of the TNC, i.e. the intellectual or human capital.

Activities of the ENGOs: The Spectrum from Confrontational Performance to Collaborative Engagement

A wide range of instruments is used by the ENGOs to urge corporate accountability (See Table 4). These activities of ENGOs are rather fragmented and uneven in nature, particularly geographically. This wide range of activities can be considered as scattered between conflict management and collaboration management. Even though over the past three decades, most relationships between the private sector and civil society have been found upon conflict, this pattern of business-NGO relations started to change in the early 1990s with the emergence of formal sustainable development partnerships between these long-standing opponents (Murphy/Bendell 1999).

Collaboration management usually take the form of voluntary engagements of which the major forms are: long-term partnerships to manage sector-wide impacts, project-based collaborative action to handle specific environmental or social impacts, consultations on management systems, shareholder activism and voluntary verifications (See Table 4).

Confrontational actions can be observed in the form of resolutions on “Binding Corporate Accountability” and activist campaigns. “Binding corporate accountability” aims at the enhancement of public enforcement to realize corporate responsibilities. The NGO Task Force on Business and Industry (ToBI) mentions that “widespread adherence by industry to responsible business principles and practice depends on the degree to which they are also accountable to society (and) corporate responsibility requires accountability” (ToBI 1997). ToBI's focus areas within the realm of Corporate Accountability are listed as

- Regulation and Compliance;
- Regulatory Approaches;
- Right to Know;
- Monitoring and Assessing;
- Corporate Practices;
- Reporting and Verification;
- Responsible Entrepreneurship (TOBI 1997).

The confrontational approach of the ENGOs is lately reflected in the resolution documents published at the World Summit on Sustainable Development in Johannesburg. In the eve of the summit, a wide coalition of environmental pressure groups agreed on the need for “binding rules for corporations (and) mechanisms for enforcement to secure compliance and penalise abuse” (Groundwork 2002). Specific briefings were made outlining the case for the establishment of a “binding and enforceable framework” till 2005 (Friends of the Earth International, 2002b) (See Box 4).

Table 4: Instruments used by ENGOs to urge responsible business conduct

Orientation	**Instrument**	**Examples**
Collaboration Management	Collaborative or Negotiated Initiatives	Long-term partnerships established to handle regional or global environmental impacts or sector-wide impacts. For example • WWF Partnership with Unilever Corporation leading to the Marine Stewardship Council • Responsible Care Initiative (Chemical Sector) • Partnership of the BGI (flower importers and wholesalers in Germany) and German florist's association) with the human rights organisation FIAN (FoodFirst Information and Action Network) and Bread for the World leading to the "Flower Labelling Programme" • "Partnership for Climate Action" between group of leading industrial companies and the US ENGOs to reduce greenhouse gas emissions
	Project-based Collaboration	Short breath engagement with the industry to handle a problem area. For example • Coastal zone management projects. • Some European companies (H&M, Migros) have collaborated with the Clean Clothes Campaign to develop an independent monitoring system in the textile branch in accordance to the CCC-Codex • McDonalds' collaboration with an environmental NGO to develop more efficient and more publicly acceptable packaging waste strategy
	Assisting Internal Operational Issues	Environmental NGOs can help corporations to draw up codes of conduct, systems of environmental reporting or carry out independent social audits. For example • Consultation Contracts (STOP, Canadian ENGO, consulting utility company Hydro-Quebec) • BP is involving a wide range of NGOs to develop asset of indicators for measuring and reporting annual contributions toward sustainability • The Fairtrade Foundation has launched a pilot project to work with British companies to develop codes of practice to guide relationships with their Southern suppliers

Orientation	Instrument	Examples
	Shareholder Activism	Shareholders can claim their power as company owners to influence a corporation's behaviour, generally by dialogue or formal shareholder proposals For example • shareholder concerns and activity played a part in dismantling apartheid in South Africa through divestment • 1999 Home Depot Resolution to Stop Sale of Old Growth Wood Products • in 1999, after years of shareholder dialogue and with new corporate leadership, Ford pulled out of the Global Climate Coalition • Friends of the Earth: Confronting Companies Using Shareholder Power.
	Voluntary Audits	Voluntary audits generally take the form of stakeholder verification realizing internal audits by independent verifying organisations For example • The Other Shell Report
	Resolutions on "Binding Corporate Accountability"	Corporate accountability is referring to government regulation of corporate social and environmental behaviour For example • Briefing in the Johannesburg Summit 2002 • Bhopal Principles of Greenpeace • OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, 1997 • WHO/UNICEF Code of Marketing of Breastmilk Substitutes
Confrontation Management	Activist Campaigns	For example • International Right to Know Campaign • Greenpeace against Monsanto • Brent-Spar Case

It is claimed that substitution of regulation with voluntary initiatives has failed to deliver sufficient progress in practice and a multilateral agreement is a must to balance corporate globalisation and accountability to stakeholders. Similarly, Greenpeace International campaigned for its "Bhopal Principles" as an "international instrument on corporate accountability and liability" (Greenpeace International 2002) (See Box 5) and WWF published a position paper, namely "A Framework for Corporate Accountability".

Box 4: Elements of Binding Corporate Accountability (Friends of the Earth 2002b)

A framework for binding corporate accountability would (directly or indirectly):

- Impose duties on publicly traded companies, their directors and board-level officers
- Extend legal liability to directors for corporate breaches of national environmental and social laws and to directors and corporations for breaches of international laws or agreements.
- Guarantee legal rights of redress for citizens and communities adversely affected by corporate activities,
- Establish human and community rights of access to and control over the resources needed to enjoy a healthy and sustainable life,
- Establish (and enforce) high minimum environmental, social, labour and human rights standards for corporate activities - based for example on existing international agreements and reflecting the desirability of special and differential treatment for developing countries.
- Establish national legal provision for suitable sanctions for companies in breach of these new duties, rights and liabilities (wherever the breaches occur)
- Extend the jurisdiction of the international criminal court to try directors and corporations for environmental, social and human rights crimes.
- Establish international controls over mergers and monopolistic behaviour by corporations.
- Establish a continuing structure and process to monitor and review the implementation and effectiveness of the convention.

Following the briefings, at the Johannesburg Summit 2002, governments agreed to "actively promote corporate responsibility and accountability, based on the Rio Principles, including through the full development and effective implementation of intergovernmental agreements and measures, international initiatives and public-private partnerships, appropriate national regulations and support continuous improvement in corporate practices in all countries." (United Nations 2002, p.44). This outcome is perceived by ENGOs "better than expected, but only a curtain-raiser for what is actually needed" (Friends of the Earth International 2002b) and further claims are made for the development of binding rules and an emphasis on governmental lead action.

Box 5: The Ten Bhopal Principles on Corporate Accountability (Greenpeace International 2002)

- Implement Rio Principle 13.
- Extend Corporate Liability.
- Ensure Corporate Liability for Damage beyond National Jurisdictions.
- Protect Human rights.
- Provide for Public Participation and the Right to Know.
- Adhere to the Highest Standards.
- Avoid Excessive Corporate Influence over Governance.
- Protect Food Sovereignty over Corporations.
- Implement the Precautionary Principle and Require Environmental Impact Assessments.
- Promote Clean and Sustainable Development.

Furthermore, activist campaigns focus on the scepticism towards the will and ability of corporations to introduce corporate accountability on their own. Radicalised environmental initiatives take claims for corporations to be "tamed, then dismantled and replaced by structures people can control" (Corporate Watch 2002a). Less radicalised counterparts call governments to action: "States are ultimately responsible for public welfare and they must not abdicate this responsibility to the private sector" (Greenpeace International 2002). Correspondingly, there is a claim for government action, in fields like coordination, prescription and enforcement. For example, reporting failures of corporations to act in a responsible manner, Friends of the Earth International (2002) favours wider networks like the International Right to Know campaign in the United States lobbying for public regulation of corporate behaviour, particularly outside their country of origin against the race-to-the-bottom (See the case study in Box 6).

Involvement of the individual person as an activist in society in order to counterbalance corporate power is also a common confrontational management instrument practiced by the ENGOs. Activist actions range from protest postcards and letters to concerted boycott of companies. The ENGO campaign on Exxon Mobil, the "DIY Guide: How to Research Companies" published by the CorpWatch UK (2002b), the successful campaign of Greenpeace over the disposal of the offshore oil platform Brent Spar can be counted as examples.

Box 6: Pushing for Transparency — International Right to Know Campaign

The „International Right to Know"-Campaign (IRTK) is a joint effort from main US environmental and human rights groups, comprising for example Amnesty International USA, Friends of the Earth, Oxfam America and the Sierra Club addressing the impacts of the US companies doing business abroad.

Whereas the US companies face quite strict disclosure requirements for their United States operations, efficient regulation for their international activities is missing — due to both bad governance and the currently observable "race to the bottom". This mismatch is most prominently illustrated by the Bhopal disaster, where a preventable accident in a plant owned by the US based company Union Carbide caused more than 16,000 casualties according to estimates cited by IRTK. Effective regulation is hindered by the competition for international investment often named the "race-to-the-bottom". Seven case studies illustrate the outcomes of US companies doing business abroad. Issues range from child labour by a McDonalds subcontractor producing toys provided with "Happy Meals" to forced relocations and cooperation with authoritarian governments by mining and drilling company ExxonMobile.

IRTK therefore seeks a regulation in the US that forces TNCs to disclose on their abroad operations to "empower communities with information"[11] and to hold companies accountable to the US citizens and customers as well as to local people being employed or neighbouring facilities. Voluntary agreements are rejected, because they "always failed to produce uniform and complete information"[12] — legal regulation is seen as a prerequisite to achieve real change. To provide an example how the "United States can provide leadership internationally by raising its own standards", IRTK cites the Foreign Corrupt Practices Act, which helped to reduce once widespread bribery of foreign officials through a mixture of reporting requirements and legal enforcement effectively.

Apart from the benefits for people in the developing countries involved, the campaign sees numerous opportunities for US companies and society: Closing the gap in CSR engagement between Europe and America, providing economic, long-term sustainability, reducing legal offences abroad, enabling consumer choice – presenting a win-win situation both for developed and developing countries.

Analysis of the Activities of the ENGOs

Voluntary actions by the ENGOs or *collaboration management* can face two extremes; fierce critics and devoted advocates. Critics for collaborative action are various. Murphy and Bendell (1999) state that aiming at modifying the way corporations operate in the South, partnerships fail to effectively involve Southern NGOs in their decision-making and consultation processes. NGOs, themselves criticize partnerships and state that without following the principles of

[11] All citations from International Right to Know Campaign, www.ikrt.org

[12] This is illustrated by the case of Mexico, where „reporting of toxic emissions has been voluntary", and therefore „only about five percent of companies release data". International Right to Know Campaign (2003): You Have a Right to Know, p. 21

transparency, independent verification, monitoring and local stakeholder participation and internationally binding standards in place, claims for "greenwash" (Corporate Watch, 2001) and non-compliance would be inevitable (ToBI 1997).

But, voluntary action is also considered as an effective instrument enhancing corporate accountability as it leads to information sharing activities (Turcotte 2000) and set-up of new routines in the corporations. Through partnerships and voluntary initiatives undertaken with NGOs, which are often entitled as "civil regulation", business comes under pressure to comply with norms and standards defined to some extend by civil society institutions (Murphy/Bendell 1999; Utting 2000a, p. 8).

Considering the *confrontational actions*, ENGOs effectively state the responsibilities of national and international public agencies for driving corporate accountability. A major strength is that they address infrastructure problems with regards to "foreign direct liability" and suggest possible sanction mechanisms in breach of minimum environmental, social, labour and human rights standards. For example, the need for access to justice by individual citizens, communities and parties, such as pressure groups representing environmental and social interests to pursue cases in a company's "home" country court, where necessary, is mentioned. Similarly, empowerment of local communities and granting rights for global commons are emphasized. Moreover, sanction mechanisms such as suspending stock-exchange listings, extending jurisdiction of the International Criminal Court for the breaches are suggested.

While ENGOs point at the significance of improving the formal institutions among stakeholders, confrontational action, however, seems not to serve the enhancement of informal institutions such as trust or establishment of common visions In this respect, allocating all responsibility to public institutions to pressurize corporations, neglects possible roles in 'binding corporate accountability' of other meso level stakeholders such as financial institutions, trade unions, consumer organisations, sector level associations or benchmarking instruments in distinguishing "best-cases" from "worst-cases" . It seems as if the allocation of responsibilities among stakeholders is assigned to the governmental agencies. That brings up the question: "Do public agencies have all required capabilities or resources to pressurize corporations?"

Moreover, confrontation management would rather suggest end-of-pipe solutions, meaning that the cause of responsible action would not necessarily be hindered. Therefore, confrontational action can be perceived as a reactive rather than a proactive approach. Although personal liabilities for the directors are requested, it is not mentioned how the internal capabilities of the organisations such as management systems can be improved. Hence, one can conclude that confrontational behaviour would rather expect over-night solutions than taking a step-by-step approach to irresponsible behaviour.

All in all, NGOs possess considerable power to go beyond setting the limits of corporation, instead changing the rules-of-the-game for the corporations. As confrontational actions often strive to limit corporate action, collaboration management may allow access to corporate routines and development of new mechanisms to manage TBL aspects, which would automatically change TNCs' area of impact. However, ENGOs still could not make "absolute" use of their capabilities for having access to different network of institutions such as their counterparts in the South.

Orientation of Inter-governmental Organisations

> *"Confrontation has been replaced by cooperation and joint ventures."*
>
> Kofi Annan
> (Referring to the Global Compact Initiative)

Inter-governmental organisations (IGOs) can be considered as supra-national organisations committed to realizing common economic, environmental or societal goals of nations. The Yearbook of IGOs present a definition as, "being based on a formal instrument of agreement between governments of nation states; including three or more nation states as parties to the agreement; possessing a permanent secretariat performing an on-going task" (Kovach et al. 2003, p.8). There are currently over 300 IGOs and 5,500 multilateral organisations (Union of International Associations 2002). UN, OECD, IMF, WTO, World Bank can be mentioned as some of the most important inter-governmental organisations. IGOs can further be characterised as important actors in co-ordinating political activities between sovereign states.

The capabilities of these institutions can be considered to be both powered and bounded by the physical resources, human capital and technological capabilities of their member countries. Some IGOs are capable of setting standards, which are not imposed, but which can be adopted by countries outside their memberships, because they actually become global standards in that area (Kovach et al. 2003, p. 8). On the other hand, some IGOs can create and enforce international laws giving them considerable power to impose their will even on nations of the world (e.g. World Trade Union, Bank of International Settlement). Another major capability of IGOs is their global reach and immense networking capabilities. For example, the Organisation of Economic Co-operation and Development (OECD) is in active relationship with governments, civil society, researchers, etc. with 70 countries.

In this section, our focus is on the activities of three main IGOs, namely the Organisation for Economic Co-operation and Development (OECD), the United Nations (UN) and the European Union (EU), all of which aim at enhancing corporate accountability. We believe that the institutions chosen represent a cross section of the sector and their activities are the mostly debated. In the last couple of years, they have initiated multi-stakeholder voluntary initiatives with the aim of introducing general frameworks to address one or more triple bottom line aspects of corporate action.

Activities of the IGOs: Initiatives to Urge Corporate Accountability

United Nations launched *The Global Compact (GC)* in July 2000 as a code of conduct intending to promote corporate social responsibility and citizenship in the global market place. The GC encompasses nine principles on human rights, labour and environment, drawn from the Universal Declaration of Human Rights, the International Labour Organisation's (ILO) Fundamental Principles on Rights at Work and the Rio Principles on Rights at Work. Having many participants from the business community, labour, environmental and human rights groups, accountancy and industry associations, the ILO, Office of the High Commissioner for Human Rights and the United Nations Environment Programme (UNEP) are the core UN partners, along with the United Nations Development Programme to manage the operational dimensions. The engagement of business with the guidelines happens by commitment to the principles through a letter of the Chief Executive Officer (Ruggie 2000).

Recently, the United Nations have released draft norms on the "Responsibilities of Transnational Corporations with regards to Human Rights". The draft norms bring together a range of legal obligations for companies drawn from human rights, labour and environmental standards stating, "transnational corporations […] shall be subject to periodic monitoring and verification by United Nations, other international and national mechanisms" (UN 2003).

The *OECD Guidelines for Multinational Enterprises (MNE),* which is gathered as one part of the OECD investment instrument — Declaration on International Investment and Multinational Enterprises, are another non-binding recommendations for enterprises. The aim is to encourage responsible business practices, enhance corporate contribution to sustainable business development and strengthen government-business relationships. In this respect, voluntary policies that promote corporate transparency and accountability worldwide covering human rights, labour standards, environment, corruption and information disclosure are developed. Although observance of the Guidelines through National Contact Points (NCP) is voluntary for businesses, adhering governments have stated their commitment to promote them and make them influential among companies operating in or from their territories.

Furthermore, the Commission of the European Union published a *Green Paper on Corporate Social Responsibility (CSR)* in July 2001 to initiate a wide debate on CSR at all levels, while stakeholders at all levels are invited to comment on it. This document actually reflects on the non-European initiatives such as the ILO Declarations, OECD Guidelines for MNEs and the UN Global Compact. As the Commission aims to develop a European Framework on CSR in the long run, the European Multi-Stakeholder Forum on Corporate Social Responsibility (CSR EMS Forum), chaired by the Commission, has been established.

The CSR EMS Forum brings together European representative organisations of employers, business networks trade unions and NGOs, to promote innovation, convergence, and transparency in existing CSR practices and tools. The mandate of the Forum was approved in October 2002 and stated as improving knowledge about the relationship between CSR and sustainable development by facilitating the exchange of experience and good practices and bringing together existing CSR instruments and initiatives, with a special emphasis on SME specific aspects and exploring the appropriateness of establishing common guiding principles for CSR practices and instruments. On 7 April, the EU Multi Stakeholder Forum on CSR held its last round table meeting in the first wave, focussing on the diversity and transparency of CSR practices and tools. That last round table meeting focussed on the practical application of available CSR tools, such as codes of conduct, management standards, labels, as well as socially responsible investments (SRI) and reporting. (Euractive.com 2003)

Analysis of the Activities of the IGOs

The IGO initiatives have received sharp criticisms, especially from the NGOs due to their voluntary nature, lacking transparency and the absence of monitoring of compliance mechanisms and were therefore often tagged as "bluewash" activities (CorpWatch 2000a; CorpWatch 2000b, Bruno/Karliner 2002). For example, Friends of the Earth stated that *Global Compact* failed to provide incentives for compliance, disregarding independent verification, relied on the "appearance of compliance" through self-regulation and could not empower citizens and stakeholders, where the stakeholders' dialogue was defined by the company (Friends of the Earth 2002a, p. 2).

In line with generic critics, the potential of these initiatives to change corporations and make them practice the elements of RCG, on their own, stays limited. On the one hand, they can be considered as well utilizations of the networking capacities of IGOs bringing a diverse range of actors under one umbrella for discussion. In this way, they comprise a network form of organisations, as opposed to the traditional hierarchic or bureaucratic form (Ruggie 2002, p. 28). For example, the Learning Forum of the Global Compact with the participation of an academic committee for evaluation of presented case studies, creates a trust-worthy atmosphere for information exchange (CorpWatch 2000). Such arenas might provide business with opportunities to take on best-in-class applications and improve their management procedures accordingly.

However, with a lack of an integrated monitoring mechanism, the extend to which the potential is made use of, stays in question. This argument would also be valid in terms of the adaptation of the principles as corporate conducts in TNCs. As mentioned in Chapter 3, principles introduced by IGOs can constitute guidance for stakeholder empowered corporate governance. Though, corporate accountability cannot only be attained by the practice of one element of RCG. Hence, it shall not be expected that IGOs possess the whole capability to achieve a total turnover in accountability performance in corporations.

Rather, the potential of the IGOs lies in the establishment of a forum for discussion and provision of an information hub, given the condition that they are well managed. For example, the recently established CSR EMS Forum allows parties from different sectors (SRI rating agencies, retailers, social NGOs, environmental labelling associations, etc.) to come together and exchange ideas on the issues of CSR.

In order to increase the effectiveness of these initiatives, beyond their capacity to serve as framework setters, it requires co-operation with other actors possessing know-how on relevant TBL aspects. This would facilitate the monitoring and verification of the corporate management by stakeholders beyond best-case applications (such as the forthcoming draft norms on “the Responsibilities of Transnational Corporations with regards to Human Rights”). In the end, this would also lead to the building of trust or enhancement of informal institutions.

5 Conclusions and General Recommendations

In this paper, we have introduced the concept of "Responsible Corporate Governance" as a *stakeholder-oriented policy approach allocating responsibilities to societal actors, who will drive corporate accountability.* Our approach advocates the assumption that resources interdependencies lead more and more to co-operative societal problem solving mechanisms beyond the traditional form of the state being the sole regulator. The difficulties in making corporations answerable for their actions and the ensuing consequences can also be accomplished via a network of actors rather than by a centralized authority.

However, RCG shall not be seen as a substitute for directive-based regulation. We more exactly suggest it as a complementary mechanism, which can utilize the capabilities of TNCs' stakeholders. Assuming that the behaviour of TNCs is directly affected by the orientation of the public, by private and civil organisations, together with formal and informal institutions in the surrounding environment, it is the more important to see how these institutions utilize their capabilities as they have significant implications on corporate accountability. Indeed, today, corporate orientation is influenced by an ever-increasing demand for accountability, the demand for flexible and innovative organisations and the differences in the institutional setting between the Northern and Southern markets.

It is proposed that stakeholders can exert collective pressure to steer corporate accountability by addressing the elements of RCG. Four major elements of RCG were listed as stakeholder empowered corporate governance, management and performance evaluation systems, transparency enhancement and accountability verification. While stakeholders address one or more of these elements or corporations utilize some to claim corporate responsibility, RCG aims at collecting all of them under one roof. Nevertheless, it is not proposed that these elements are complete or all their aspects have been introduced. Similar to the RCG concept itself, the elements are dynamic and prone to change.

Although the tools in service of the elements are inclining, depth of adoption, intensity of application, effectiveness and efficiency of them to achieve corporate accountability still needs to be assessed. The style of application varies considerably among corporations due to their divergent orientation in various sectors, countries and cultures. Moreover, depth of adoption stays relatively poor. For example, despite the image that corporate reporting is a tool swiftly adopted among TNCs, less than 0.2% of TNCs produce environmental and social reports[13]. Among those, only about half of them use GRI guidelines, which are still open for corporate interpretation (World Economic Forum 2002, p. 27). On the other hand, the intensity of tools can vary for each triple bottom line aspect area, while tools optimising all aspects simultaneously were found to be quite rare (See Table 2).

If there is such big diversity in depth and application of the elements among corporations, then how can corporate accountability be stimulated? We believe that stakeholders shall be responsible for filling in this void. Each stakeholder group possesses a different range of capabilities to fill this gap and exert power on corporations to change. As the elements of RCG are about how the daily business routines are managed, stakeholders need to develop an understanding of corporate governance practices and management procedures and their relation to TBL performance.

The focus in this paper has been on financial institutions, environmental NGOs (ENGOs) and inter-governmental organisations (IGOs), since their high potential to encourage corporate behaviour towards accountability has been foreseen. The orientation and capabilities of these major actors have been discussed and analysed to judge the extend of their influence on corporate responsibilities and specifically on the elements of RCG. Accordingly, relative shifts in the current orientations of stakeholders might be suggested.

We believe that financial institutions can be more effective in steering corporations towards accountability, if they exercise the following adaptations to their orientation:

- *From traditional risk assessment to TBL risk assessment:*
  Firstly, it is necessary to extend the traditional material issues to TBL issues, which would be material to the corporations. Secondly, development of advanced innovative tools going beyond traditional risk assessment would be essential to exert real pressure on corporations. While the investors' capability to affect TNCs decision-making or management systems in theory is higher than that of the banking or insurance sector, the instruments that they use for evaluation stay comparably poor. For example, lending institutions can analyse whether stakeholder management systems and stakeholder empowered corporate governance are in place and how performance in these areas relates to credit risks. However, the financial sector would require benchmarking mediums for environmental and social assessments. Climate change

[13] This figure is based on the following: There are approximately 60,000 TNCs (UNCTAD, 1999). According to the most recent KPMG survey, 45% of the Global Fortune 250 companies produce reports on their environmental and social performance (CSR Wire, 2003). Global Fortune 250 are the top 250 companies ranked by revenue in the Global Fortune 500 of Fortune Magazine in 19 countries and are assumed to be all TNCs.

Governance List prepared by CERES might be a good example of such benchmarks (CERES 2003).

- *From observers to drivers:*
  Financial institutions can exercise their power to demand detailed TBL information from innovative sources and urge corporations to develop innovative performance measures and to change their daily practices. For example, Graves et al. (2001) suggests that companies could actually use studies of the spread of shareholder activism over time as a leading indicator of stakeholder concerns, which they may have to deal with in the future. In this vein, financial institutions might seek corporate information by involving stakeholders that are competent in specific TBL aspects such as trade unions on worker rights aspects. However, to capture such information, in line with the above bullet, financial institutions shall firstly expend their risk definition.

- *From dispatched behaviour to a common industry message:*
  Materialization of CSR issues would mean demanding extensive corporate information. Yet, highly differentiated tools customized to the needs of each financial institution usually create confusion (for example the case of "questionnaire fatigue") and retention to change in corporations [for example to "switch off" the CSR debate (Arthur D. Little 2003)]. Development of industry-wide tools with a common performance assessment format and database would be more effective to challenge corporations. Hence, as a minimum, framework guidelines for each sector can be developed (for example GRI Sector Guidelines).

From self-pressure to co-operative stakeholder pressure: Banking and insurance sector can pass their know-how on to the investors and/or inform other stakeholders of corporations. For example, financial industry allocating capital and acting as intermediary institutions in the market can co-operate with the public institutions to create incentives for the TNCs and urge them to change their behaviour. Green Funds in the Netherlands (See Box 7) can be considered as an illustration of such a case. Another illustration is the involvement of NGOs in the SRI funds (Friends of the Earth n.d.).

Box 7: The Green Fund System (GFS), a joint operation between the Dutch government and the financial sector. (Bellegem 2001, p. 235)

The Green Fund System (GFS) was introduced in 1992 as a joint operation between the Dutch government and the financial sector. The combination of a tax incentive, a specially designed framework to designate green projects and the active involvement of the financial sector has contributed to its power and its public support. The system as operated in the Netherlands is quite different from any other known sustainable investment fund. The major differences are:

- The GFS is restricted to "green" projects (forestry, wind, energy, organic farming, nature conservation, etc.).
- Government is strongly involved in the system. The Dutch government initiated the GFS and continues to play an important role in the system. The GFS is incorporated into the income tax system, so that private *individuals* participating in a GFS receive tax exemption.
- Financial institutions such as banks and fund managers are also closely involved in GFS and can significantly benefit. For example, funds investing at least 70% in green projects are not subject to income tax any more. This is one of the driving forces behind the GFS. Financial institutions are responsible from the analysis and selection of green projects.
- The GFS offers financial benefits for *entrepreneurs*, who initiate own green projects. For example, as a result of GFS the rate for reduced interest loans for companies is usually about 2% less than commercial loans. This has boosted the number of environmental projects being undertaken, especially in the areas of wind and solar energy and organic farming.

In our opinion, NGOs can also enhance their influence on corporate behaviour by following the below listed moves:

- *From setting corporate limits to changing the rules-of-the-game or From indirect to direct involvement:*
  ENGOs can improve the performance of collaboration management tools, other than confrontational action, in order to better support the elements of RCG. Collaborative action would allow development of innovative instruments to change both the daily corporate practices and the informal institutions surrounding the corporation. For example, in the case of practice of leadership, ENGOs can develop structures resembling to "Independent Advisory Panels" (See Figure) and urge corporations to establish structures, which would consult the boards as in the case of stakeholder empowered corporate governance. Hence, rather than trying to indirectly affecting the corporations, direct routes of influence can be followed. This would mean that ENGOs could face the corporation and involve with their daily activities rather than tracking the results of their action.

- *From over-night change to step-by-step approach:*
  ENGOs can facilitate establishment of new institutions with well-defined road maps and objectives. Such institutions (for example the Climate Savers Programme of the WWF) can be more constructive to achieve corporate alterations in comparison to asking overnight elimination of unsustainable corporate investments. Well-established institutions would also establish legitimacy in the markets and eliminate confusions in society (transparency enhancement).

- *From global to local partners:*
  ENGOs can also consider allocating responsibilities to stakeholders of corporations beyond public institutions or supranational institutions. For example, involvement of Southern partners in setting up new institutions (local social or environmental NGOs, trade unions, financial institutions, etc.) can be seeked, as local institutions are assumed to hold specific capacities to realize the elements of RCG (for example for stakeholder verification (See Box 3). Hence, capacity building for their southern counterparts and better understanding of their relation to the corporations would be called for.

Finally, the capacity of IGOs to serve corporate behaviour change can be enhanced as follows:

- *From sole loose framework setters to challenging learning hubs:*
  IGOs possess considerable potential to gather a wide range of institutions under the umbrella of corporate responsibility frameworks. We suggest that they shall utilize this opportunity to exert pressure on corporations via stakeholders. However, this is not happening leading to free rider activities in some partnership initiatives as in the case of the UN Global Compact (Utting 2000b). IGOs may go further than gathering best-case practices and empower institutions such as ENGOs, financial institutions, human rights and labour organisations to impose certain management and corporate governance practices in line with the framework codes of conduct.

- *From absence of monitoring to facilitation of verification:*
  Similarly, the framework agreements often leave a void in the implementation side, disregarding the potential of stakeholder networks. IGOs may involve international and local institutions for verification purposes, which may make direct use of the RCG policy process. In this vein, recently released UN draft Norms on the Responsibilities of Transnational Corporations seems promising.

Having reviewed some proposals to boost the effectiveness of presumably main stakeholders of corporations, the role of governments in their effectiveness stays crucial. First of all, without the existence of governmental and inter-governmental regulation, the efforts for supporting the elements of RCG would remain subdued.

Secondly, public institutions assume a major role as leaders and facilitators of stakeholder networks, which all the above actors require. Governments can mobilize their own capabilities and provide the physical and financial infrastructure for the functioning of informal institutions and facilitate behavioural change of corporate stakeholders. For example, extension of risk definition by financial institutions cannot be expected to happen without incentives or unless other actors demonstrate the materiality for them. In this case, geared to develop a better understanding of interaction of financial institutions with corporations and other societal actors, governments would be exposed to new knowledge and networks allowing them to learn and change for better exposure.

In Chapter III of this Wuppertal Paper, we have also reviewed the current set of available tools and mechanisms to operationalize the elements of RCG. In fact, different tools would be required to manage the diverse range of activities regarding TBL aspects in each business unit of the corporation. The personnel would further be in need of developing capabilities to select the right set of tools. Moreover, for the success of implementation, adaptation to the cultural context and to the macro level conditions (national level) would be needed. The major conclusion is that the level and depth of implementation by corporations stay quite diverse. Hence, for the corporations having no previous experience, a phase implementation can be suggested.

In this paper, we have concentrated on the activities of organisations, which operate in more than one country or cluster of economic entities, while other levels of corporations shall also be considered in terms of “corporate responsibilities”. In this regard, SMEs constitute a major priority for action since they have significant contributions to the economic development[14]. However, the orientation of SMEs is significantly different compared to the TNCs, as they function with limited resources, namely restricted time, financial, capital, technical and human resources. Hence, it might take some time for the elements of RCG to be practiced at the SME level. Alternatively, different forms or lists of elements are required. On the other hand, SMEs still have a certain flexibility that MNCs do not have in that they may deploy resources at their own will, making it easier to respond to triple bottom line concerns. Public support could be provided to establish financial and physical infrastructure. Networks of SMEs having similar capacity problems can be established.

Additionally, above corporate level, sector-wide responsibilities can be addressed. Several sector level initiatives have been already established, specifically in the so-called high impact industry sectors, in order to manage their environmental, and occasionally their social responsibilities, often leading to commitments for continual improvement. The Responsible Care Initiative, which is an initiative of

[14] In the EU, for example, about 90% of all enterprises are SMEs and they account for 70% of all economic activities. (Geibler and Kuhndt, 2002)

the global chemical industry; the Euro Retailer Produce Working Group (EUREP) of the food retailers and suppliers, which leads an agricultural certification system; the International Council on Mining and Metals (ICMM), which has passed along a “Sustainable Development Charter”, the Marine Stewardship Council, which works on certification of sustainable fisheries, and the Forest Stewardship Council, which sets target performance levels for forest products and involves these in their certification, can be counted among such initiatives. However, the aim, scope and values of these initiatives, together with their routes of management for responsibility appraisal, their monitoring schemes, internal and external communication routes, all in all, their governance structure can significantly differ.

These co-operation focussed governance models or mixed public and private networks (Mayntz 1998) or civil regulation organisations (Murphy/Bendell 1999) possess potential for management of corporate accountability beyond firm level. Such institutions may enable the establishment of sector-wide governance, common management systems, transparency and verification routes. In this respect one question remains: “Can sector-wide responsibility systems be established?”

Consequently, Responsible Corporate Governance, as a stakeholder-oriented policy instrument, retains the potential to make corporations answerable for their action to the society. Neither being complete nor aiming at substituting public policy, its realization depends on the absolute utilization of stakeholder capabilities to pressurize corporations. Hence, the query of whether corporations can contribute to sustainable development is an endeavour of shared stakeholder responsibilities.

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Appendices

Appendix I
According to Swift and Zadek (Swift/Zadek 2002, p. 14), CSR developments are happening in four stages, where the third generation involves the highest level of stakeholder orientation (See Table 5).

Table 5: Generations of Corporate Responsibility (Swift/Zadek 2002, p. 14)

Trends in CSR	**Tools and Processes**
3rd Generation	Multi-stakeholder standards and partnerships, institution building, corporate responsibility oriented advocacy and public policy.
2nd Generation	Product and process innovation, new business and corporate governance models, long-term sustainability.
1st Generation	Philanthropy, short-term risk management, industry standards.
Legal Compliance	Regulation covering tax, health and safety, workers rights, consumer rights and environmental regulations.

Appendix II
There are also collective voluntary instruments offered by banking sector such as the United Nations Environment Programme (UNEP)'s Financial Institutions Initiative, development of Social and Environmental Performance Indicators for the Financial Industry, FORGE Guidelines or voluntary agreements among sector players such as the Equator Principles.

The *FORGE Guidance* seeks to progress understanding of CSR for the financial services sector, and share knowledge and thinking to assist organisations develop a response. It is based on FORGE I, which concentrated on environmental issues. The 'business case' of CSR, and insight and voluntary action of corporations are at the centre of the approach. The guidance was developed by UK financial services industry through stakeholder consultation (2002). *United Nations Environment Programme (UNEP)'s Financial Institutions Initiative* is a partnership, which has been established (1992) with the aim of identifying, promoting and realising the adoption of best sustainability practice at all levels of financial institution operations. In collaboration with UNEP FI, a group of leading insurance, reinsurance and pension fund companies, has developed a Statement of Environmental Commitment for the Insurance Industry. Signing up this voluntary commitment, companies pledge to achieve a balance between economic development, human welfare and the environment. On the other hand, the *Social Performance Indicators for the Financial Industry* (SPI-Finance 2002) and the Environmental *Performance Indicators for the Financial Industry* are developed in co-operation with the Global Reporting Initiative. SPI-Finance is an international project undertaken by a group of ten financial institutions such as banks, asset management and insurance companies. As one of the outcomes of this project, in November 2002, GRI published financial sector specific supplement guidelines for sustainability reporting. The performance indicators are organised under eight aspects; management systems, internal performance, suppliers, society, retail banking, investment banking, asset management and insurance. (SPI Finance 2002)

These guidelines still concentrate heavily on the direct impacts of financial institutions and fail to provide guidance on integrating CSR into their business units and instruments. The direct impacts of the financial institutions are the impacts from facility management such as water and energy use, while the indirect impacts stem from their financial services such as insurance, asset management, property portfolio management, retail banking, lending and debt recovery services. Even though FORGE Guidelines (2002) lists down such functions of financial institutions and tries to connect them to CSR issues, the guidelines concentrate on the implications for quality services and fails to take the issue in terms of the possible impacts that would occur on the environment, society and economy. Therefore, the perception of the CSR issues remains a quality service management issue rather than stakeholder management issue. Busch and Orbach (2003, p. 47) also mention that such internal processes are not relevant for sustainability improvements when compared to the potential hidden in the financial transactions.

On the other hand, the Equator Principles as a voluntary agreement suggest investment standards for projects with potential environmental or socially negative consequences (See Box 8). Although criticized heavily by the ENGOs, as all voluntary attempts, these principles can be perceived as the first step for the lending institutions to recognize risks of indirect impacts created via their investments. Such an action might have effects on corporate practices in the long run.

Box 8: The Equator Principles

"Equator Principles" aim at providing investment standards for projects with potential environmental or socially negative consequences. The principles drawn up are based on World Bank and International Finance Corporation standards. The co-operating banks cover approximately 30% of the project syndication loan markets in 2002.
The principles are a response to international lobbying against international investment practice by major banks; among the projects in focus of criticism are the Three Gorges Dam and the OCP oil-pipeline in Ecuador. The latter one was funded by WestLB and Citigroup — both are adopters of the code. "The industry seeks to live up to new challenges", states Andreas Seibert from WestLB — following a local leader of a community engaged in eco-tourism and affected by the OCP pipeline, the Principles will not even resolve the old ones, as the pipeline will still have to be financed under the newly adopted rules.

Correspondingly, an analysis by eight NGOs, comprising WWF and Friends of the Earth, lists eight points of criticism, addressing both content and lacking enforcement mechanisms. The principles are found to be "weak on social issues", contain vague language and "fall far short of the vision elaborated in the Collevechio Declaration", an investment-code worked out by 100 civil society groups, which puts stricter rules on investment schemes. Furthermore, implementation and accountability issues are not solved sufficiently, according to the NGO position.

"A huge step forward for the industry"? As the implementation of the principles depends solely on the individual banks and is not prescribed in the code, its effectiveness in preventing harmful projects has still to be proven in practice.